HILLGROVE RESOURCES

ASX RELEASE

Friday, 28 February 2020

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 2019

Please find attached the Preliminary Final Report – 31 December 2019 (Appendix 4E) under Listing Rule 4.3A relating to Hillgrove Resources Limited's results for the 12-month period from 1 January 2019 to 31 December 2019 ("CY19").

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 2019 and the auditors' report are also attached as per ASX Guidelines.

Yours Faithfully

Paul Kiley
Company Secretary

Appendix 4E: Preliminary final report for period ending 31 December 2019

Name of entity	Hillgrove Resources Limited
ABN	73 004 297 116
Financial year ended	12 Months to 31 December 2019 (CY19)
Previous corresponding reporting period	12 Months to 31 December 2018 (CY18)

Results for announcement to the market	**31 Dec 2019**	**31 Dec 2018**	**Change**	
			$	**%**
Revenue from ordinary activities	**$113.5m**	**$180.1m**	($66.6m)	(37%)
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	(**$10.0m)**	**$29.5m**	($39.5m)	(134%)
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	(**$10.0m)**	**$29.5m**	($39.5m)	(134%)

Dividends

The Company paid an $8.8 million fully franked (1.5 cents per share) dividend out of its 2018 profit reserve in June 2019. No dividend was paid in the previous period.

NTA backing	**31 Dec 2019**	**31 Dec 2018**
Net tangible asset backing per ordinary security (undiluted)	**4.5 cents**	7.7 cents

Earnings per share	**31 Dec 2019**	**31 Dec 2018**
Basic eps	**(1.7) cents**	5.1 cents
Diluted eps	**(1.7) cents**	4.9 cents

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. There were no transactions entered into by the group during the period ended 31 December 2019 that resulted in control being gained or control being lost over any entities.

Additional Appendix 4E disclosure requirements

Refer to the attached Directors Report and Financial Statements at the following page references;

Review of results (Directors Report) - page 17, Consolidated Statement of Profit or Loss and Other Comprehensive Income – page 39, Consolidated Balance Sheet – page 40, Consolidated Statement of Changes in Equity – page 41, Consolidated Statement of Cash Flows – page 42, Independent Auditors Report – page 67.

This report is based on the consolidated financial statements for the year ended 31 December 2019, which have been audited by PricewaterhouseCoopers.

HILLGROVE
RESOURCES

Annual Report

for the year ended 31 December

2019

Hillgrove Resources Limited *ACN 004 297 116*

ANNUAL REPORT 2019

HILLGROVE RESOURCES LIMITED

Corporate Directory

Corporate and Registered Office

5-7 King William Road,
Unley S.A. 5061, Australia

Tel: +61 8 7070 1698

Kanmantoo Copper Mine

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Kanmantoo S.A. 5252, Australia

Tel: + 61 8 8538 6800
Fax: + 61 8 8538 5255

Share Registry

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney N.S.W. 2000, Australia

Tel: + 61 2 9290 9600
Fax: + 61 2 9279 0664

Bankers

Westpac Banking Corporation
31 Willoughby Road
Crows Nest N.S.W. 2065, Australia

Auditors

PricewaterhouseCoopers
70 Franklin Street
Adelaide S.A. 5000, Australia

Web Site

www.hillgroveresources.com.au

General Enquiries

Info@hillgroveresources.com.au

Contents

Chairman and Managing Director's Statement

Dear Shareholders,

The year in review

Safety is a fundamental consideration in everything we do at Hillgrove. Although any injury is one too many, we are pleased to report that 2019 saw the lowest number of injuries recorded in a year since operations at Kanmantoo commenced in late 2011. The rolling 12-month total recordable injury frequency rate (TRIFR) remains at historically low levels, (46% reduction over the past 2 years).

The past 12 months marked the commencement of the transition from producer to explorer / developer with the completion of the open pit mining activities in May and commencement of processing of the low grade ore stockpiles which is expected to continue through until the end of March 2020. Open pit mining was stopped prior to reaching the ultimate pit depth due to rockfalls in December 2018, and in February and May 2019. The cessation of mining ahead of the final design prevented all copper metal from being recovered, and increased unit mining costs due to delays as the pit was remediated and engineering controls implemented to ensure worker safety prior to recommencing mining.

In addition, based on actual results the assumed loose stockpile density was reduced during the year by 9%, which in turn reduced the estimated copper content of the stockpile and further reduced the forward looking metal production forecast.

Notwithstanding the geotechnical challenges in the pit, the 2019 copper and gold production guidance, as well as the C1 and capital cost guidance was met or bettered.

Exploration expenditure overran cost guidance by $0.2m due to the acceleration of technical and regulatory approval studies which were brought forward to position Hillgrove to take advantage of any future underground mining opportunity.

The cessation of mining resulted in the workforce downsizing from 185 employees at the beginning of the year to 55 by year end.

The reduced cash cost structure since the completion of mining in May 2019 helped in operating cash flow generation of $21.8m. In 2019 the Company repaid the final $0.5 million owed in debt finance, reduced creditors from $26.6 million to $8.6 million, paid a fully franked cash dividend to shareholders of $8.8 million and ended the year with $9.3 million cash on hand.

Empowering our community

Over the past 4 years Hillgrove has assisted the local communities of Kanmantoo and Callington to create a clear and comprehensive Master Plan for the future management and development of the region. The Master Plan is a community led process supported by Hillgrove, designed to build community capability in the areas of Callington and Kanmantoo for a future after mining. This highly commended approach empowers the community to collectively strive for the betterment of the local region.

Rehabilitation activities continued, with over 80 ha planted with native vegetation at year end, and the anticipated preparation of an additional ~40 ha that will be planted in 2020.

Mr John Gooding
Independent Non-Executive Chairman

Mr Lachlan Wallace
Chief Executive Officer and Managing Director

Actively improving the site and surrounds by establishing high quality native vegetation fulfils a promise made to the local community over a decade ago when the restart of Kanmantoo was permitted. This, coupled with the launch of the Master Plan, are real world examples that can demonstrate how mining can leave a positive impact on the host community long after operations cease, which is increasingly important as we ramp up exploration activities in the local region and south east of South Australia.

Chairman and Managing Director's Statement *(cont.)*

Pumped Hydro Terminated

In April 2019, Hillgrove announced it had entered into binding agreements with AGL Energy Limited (AGL), to sell the right to develop, own and operate the Pumped Hydro Energy Storage (PHES) project at the Kanmantoo mine site. The sale was subject to the satisfaction of a number of conditions which needed to be satisfied within specified timeframes. Ultimately the parties mutually agreed to terminate the agreement.

Since signing the project agreements Hillgrove has conducted work on an underground mining project below the Giant Pit and continued to evaluate and explore the prospectivity of its tenements near the minesite and in south east of South Australia. Termination of the PHES agreement will enable Hillgrove to advance the evaluation of the Kavanagh Underground project.

Outlook

Hillgrove will continue to advance projects in close proximity to Kanmantoo that can come into operation relatively quickly, for a low capital investment, maximising the use of its existing infrastructure, including the low cost 3.6Mtpa processing plant and permitted tailings storage facility.

When processing of the open pit stockpiles is completed, the workforce will downsize further. The Kanmantoo site will be placed on to care and maintenance to preserve the processing assets, and a small core group retained to focus on growth through the advancement of the Kavanagh underground studies and the continuation of a measured exploration and development programme.

In addition, the Board will be reduced to conserve cash and Board renewal will consider the skills and experience that are necessary to guide the Company as it transitions to an explorer / developer.

Kavanagh Underground

The next phase of this strategy will focus on the evaluation of the Kavanagh Underground project which aims to access the depth extensions of the Kavanagh orebodies below the pit, using the 350m deep Giant Pit as a "quasi decline" to significantly reduce the capital investment requirements. A drilling program of a portion of the Central and East Kavanagh Cu-Au lode systems was completed in October 2019 with promising drilling results[(1)] and resulting in the release of the maiden underground Mineral Resource Estimate[(2)]. Importantly, the drilling showed the mineralisation to be open both along strike to the north and south, as well as down dip. The drilling did not target the Western Kavanagh lode, which was the orebody that drove the open pit optimisation to depth, leaving an opportunity to expand the underground resource through additional drilling. In December 2019, Hillgrove received regulatory approval to commence the Kavanagh underground and expand the TSF.

The termination of the PHES project agreement in February 2020 removes all encumbrances on the Kavanagh Underground, enabling Hillgrove to advance the project with certainty over tenure. In 2020 Hillgrove plans to advance the project through further drilling and progressing of the underground study.

Hillgrove will also progress the advanced discussions it is having with multiple parties seeking a suitable funding partner in the event that the Kavanagh Underground project should proceed.

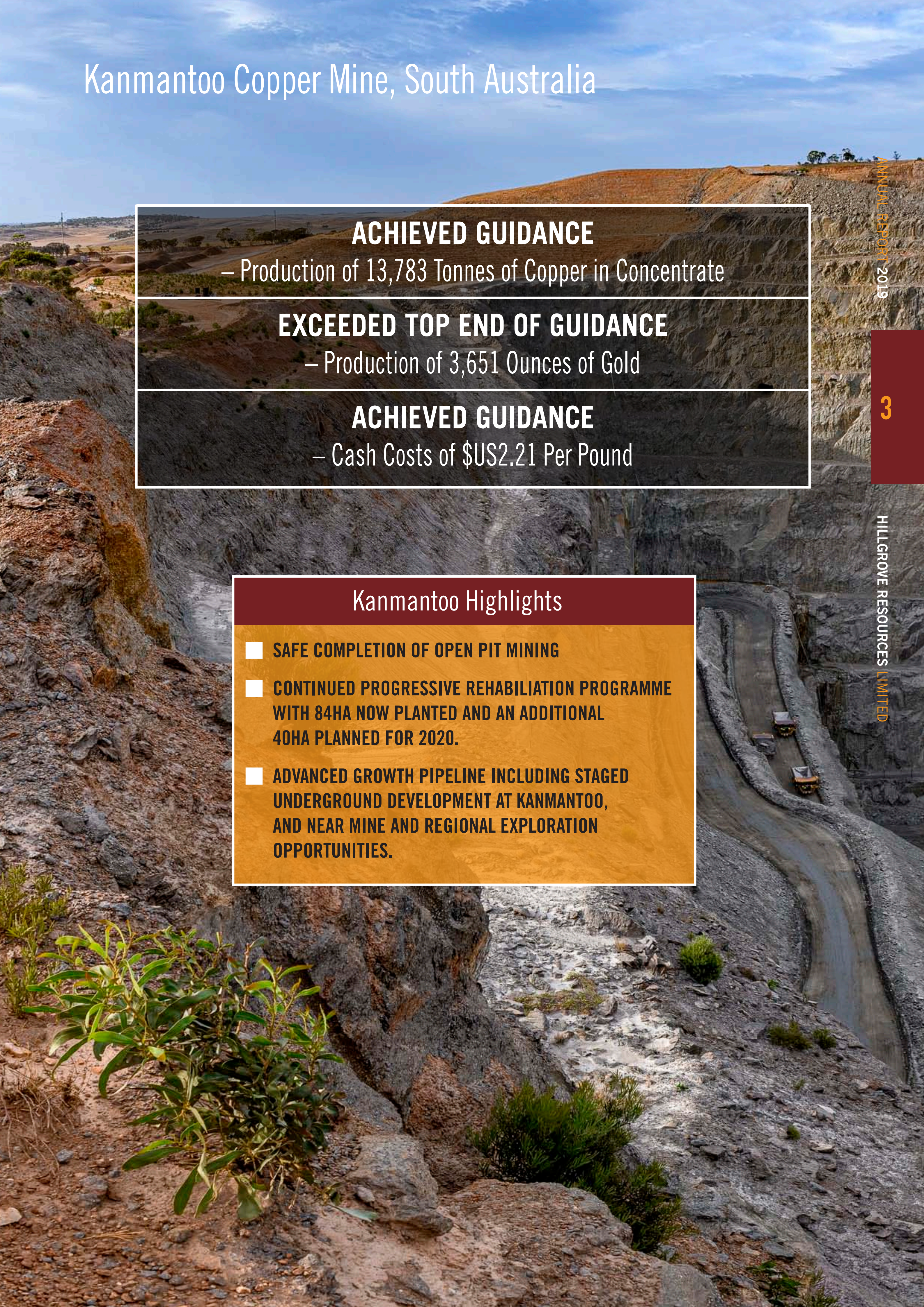
Other Growth Projects

In addition, Hillgrove will continue to identify opportunities to increase shareholder value through exploration, including the South Hub mineralisation[(3)], nearby exploration opportunities such as Stella and North West[(4)], and the broader south east exploration tenements, on which Hillgrove will continue to undertake low cost exploration to further demonstrate the iron oxide copper gold (IOCG) / porphyry prospectivity of the region.

Financial and Operational Results

	2019	2018	2017
Ending cash balance	**$9.3M**	$2.5M	$0.5M
Debt reduction	**$0.5M**	$8.6M	$3.5M
Creditor reduction / (addition)	**$18.0M**	$21.7M	($11.9M)
Cash flow from operating activities	**$21.8M**	$18.0M	$0.7M
Dividend Paid	**$8.8M**	-	-

(1) ASX Release, 10-Oct-19, Excellent Drill Results from Kanmantoo Cu-Au Deposit.
(2) ASX Release, 30-Oct-19, Maiden Kavanagh Underground Mineral Resource Estimate.
(3) ASX Release, 27-Sep-19, Kanmantoo South Hub Cu-Au Growth Opportunity.
(4) ASX Release, 29-Apr-19, Cu-Au and Cu-Mo Zones Uncovered by Exploration.



Kanmantoo Copper Mine, South Australia

ACHIEVED GUIDANCE
– Production of 13,783 Tonnes of Copper in Concentrate

EXCEEDED TOP END OF GUIDANCE
– Production of 3,651 Ounces of Gold

ACHIEVED GUIDANCE
– Cash Costs of $US2.21 Per Pound

Kanmantoo Highlights

- SAFE COMPLETION OF OPEN PIT MINING
- CONTINUED PROGRESSIVE REHABILIATION PROGRAMME WITH 84HA NOW PLANTED AND AN ADDITIONAL 40HA PLANNED FOR 2020.
- ADVANCED GROWTH PIPELINE INCLUDING STAGED UNDERGROUND DEVELOPMENT AT KANMANTOO, AND NEAR MINE AND REGIONAL EXPLORATION OPPORTUNITIES.

Kanmantoo Copper Mine, *South Australia (cont.)*

Hillgrove's flagship development is the open pit Kanmantoo Copper Mine in South Australia, located 55 kilometres from Adelaide. The site is in an enviable position - close to road, rail, power and Port Adelaide. The exploration and mining lease is scattered with historical copper and base metal operations and includes the former Kanmantoo Mine, a medium sized copper operation that operated from 1971 to 1976. The location of the Kanmantoo Copper Mine offers many operational and logistical advantages, with a main highway passing close to the project and being approximately 90km by road to Port Adelaide, permitting the trucking of copper concentrate. The mine site is connected to the electricity grid and has mains water available, although most of the process water is supplied by the District Council of Mount Barker's treated waste water programme with a supplementary (untreated) supply from SA Water, providing 100% redundancy to the Mount Barker supply.

Completion of the Giant open pit in May 2019 saw the cessation of mining operations and a reduction of around 130 employees. Approximately 55 Hillgrove employees remain at the operation as stockpiled ore is processed, exploration and evaluation activities are conducted and site rehabilitation works are undertaken. Due to Kanmantoo's location close to the outer-Adelaide regional centres of Mt Barker and Murray Bridge, there is no requirement to provide fly in/fly out facilities. The resulting mix of staff comprises about 18% from the local area, 61% from the nearby regional area and the remaining 21% from the Adelaide metropolitan area.

Calendar year 2019 (CY19) safety performance remained positive with the number of recordable injuries decreasing to 4 (CY18: 6). However, the Total Reportable Injury Frequency Rate (TRIFR) increased to 11.0 injuries per million work hours (CY19: 8.2) due to the lower number of hours worked as a result of less employees and contractors at the operation. The Company is focussed on an injury free transition from producer to explorer / developer.

Copper production during 2019 was 13,783 tonnes of copper in concentrate and gold production was 3,651 ounces of gold in concentrate. C1 costs were within guidance at US$2.21/lb of copper produced (guidance US$2.00/lb to US$2.30/lb). Processing of high grade ore was completed in June 2019 with low grade stockpiled ore processed for the remainder of the year.

Mining costs were $26.94/BCM with mine production ceasing in May 2019. The increase in unit mining costs (CY18: $18.28/BCM) was expected due to the slower advance as the pit became deeper and more exposed to geotechnical issues. The December 2018 rock fall resulted in a "step-in" to the pit wall design, and subsequent rockfalls in February and May 2019 resulted in the final pit planned depth not being achieved due to safety concerns. In addition to reducing the amount of recoverable ore, these rockfalls delayed the rate of advance as the pit was continually inspected and remediated to ensure the safety of our employees, which was the primary driver of the mining unit cost increase. Ore production from the pit for the year was 1.6M tonnes (CY18: 5.7M tonnes).

ROM costs increased to $1.71 per tonne milled (CY18: $0.80) due to the commencment of reclaiming of low grade ore from the stockpile using a small fleet of haul trucks and a production excavator.

Ore processed through the mill was 3.45M tonnes, an increase from the previous year (CY18: 3.32M tonnes). Processing costs were $7.12 per tonne milled which was a reduction from the previous year (CY18: $8.43/tonne milled) due to lower electricity costs and improved plant availability resulting in lower maintenance costs.

Hillgrove continued its engagement during the year with the local Kanmantoo Callington Community Consultative Committee (K4C). CY19 saw the K4C launch the K4C regional master plan which focusses on how the mine can have a lasting positive effect on the local area, through shared infrastructure and enhancing the local environment by linking onsite rehabilitation works with offsite vegetation.

Along with direct employment opportunities and the significant use of local suppliers and businesses, Hillgrove continues to support local township community events and sporting groups, and engages with local Councils on support and provision of services. The Company also supports the awareness of and education in the mining industry through its support of mining training, induction programmes and scholarships for study in the resources industry.

Exploration

Near Site, Near Mine and Regional Exploration

In 2019, the Company continued to advance a number of opportunities for organic growth around the Kanmantoo infrastructure, principally the Kavanagh Underground project and South Hub Cu-Au mineralisation. In addition the Company progressed its exploration for large scale magmatic Cu-Au targets at the Kanappa and Mt Rhine Cu-Au projects, and upon its regional south-east Porphyry Cu-Au tenements.

The progress of these opportunities has been reported in several announcements during 2019 on 30 January, 9 April, 29 April, 30 April, 20 June, 27 September, 10 October, 30 October and 29 November 2019.

The Company has prioritised its exploration and development activities to optimise its operational infrastructure and capability at Kanmantoo (Figure 2) and a summary of the status of these projects are as follows.

Figure 1: South Australia tenement & project map.

Kanmantoo Underground

The Kavanagh Underground project is the most attractive investment opportunity for Hillgrove given its likely short development timeframe and low capital cost. The recent termination of the PHES agreement with AGL removes all restrictions to the Kavanagh Underground project.

In 2017, the Company demonstrated the extension of several high grade copper-gold zones beyond the final open pit design.

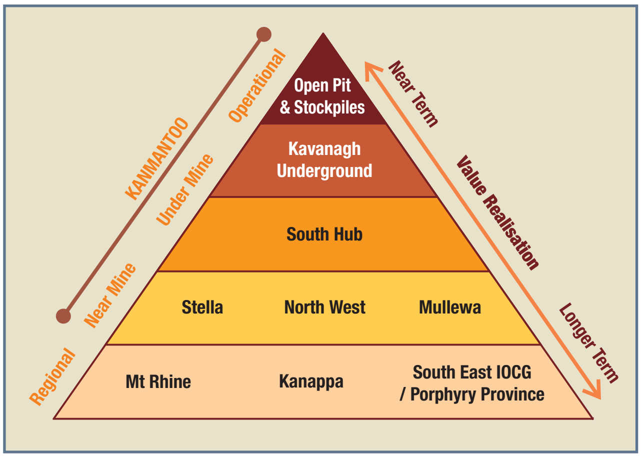


Figure 2 : Project status chart.

In 2019 the Company drill tested a portion of the down-dip extension of the Kavanagh mineralisation beneath the Giant Pit to estimate an Indicated and Inferred Mineral Resource (Figure 3) for the Central and East Kavanagh lodes.

Results of the 2019 Kavanagh drilling(1) include:

- KTDD187-Parent 6.0m @ 0.80% Cu, 0.04 g/t Au, 2.0 g/t Ag from 429m downhole
- KTDD187_W1 14.55m @ 1.9% Cu, 0.08 g/t Au, 4.4 g/t Ag from 442.45m downhole
- KTDD187_W2 16.37m @ 3.0% Cu, 0.21 g/t Au, 7.8 g/t Ag from 434.73m downhole
- KTDD187_W3 20.0m @ 2.1% Cu, 0.26 g/t Au, 6.8g/t Ag from 421m downhole
- KTDD187_W4 no significant intersection at these criteria
- KTDD187_W5 20.15m @ 1.5% Cu, 0.1 g/t Au, 4.1 g/t Ag from 393.25m downhole
- KTDD187_W5 14.0m @ 2.4% Cu, 0.3 g/t Au, 6.7 g/t Ag from 420m downhole

(1) *Intersections at a 0.6% Cu cut-off grade over a minimum of 5m horizontal width.*

Exploration *(cont.)*

Near Mine and Regional Exploration *(cont.)*

- KTDD187_W6 22.5m @ 2.5% Cu, 0.11 g/t Au, 6.9 g/t Ag from 372m downhole
- KTDD187_W7 10.3m @ 2.7% Cu, 0.27 g/t Au, 8.1 g/t Ag from 390.7m downhole
- KTDD187_W8 7.5m @ 1.9% Cu, 0.53 g/t Au, 5.6 g/t Ag from 461m downhole
- KTDD187_W9 11.6m @ 1.2% Cu, 0.10 g/t Au, 1.8 g/t Ag from 319m downhole
- KTDD187_W10 18m @ 2.3% Cu, 0.16 g/t Au, 7.8 g/t Ag from 367m downhole
- KTDD187_W11 6.1m @ 1.7% Cu, 0.10 g/t Au, 4.3 g/t Ag from 382m downhole.

The conclusion of the phase 1 drilling has enabled an Indicated and Inferred Resource to be estimated. Table 1 on page 10 summarises the Mineral Resource Estimate ("MRE") for the Central and East Kavanagh underground areas between 900 and 750 mRL at 0.6% Cu cut-off grade. Figure 3 shows the location of the drilling and MRE area.

The Kavanagh Underground project has received regulatory approval, including the increase in tailings storage capacity by 7.5M tonnes. Hillgrove plans to advance the Kavanagh Underground through further drilling and finalisation of a feasibility study. Hillgrove will have a modest budget to advance the underground and will continue advanced discussions regarding the Kavanagh Underground funding with several interested parties should the project proceed.

South Hub Underground Targets

During 2019 the Company approximated an Exploration Target[(2)] at the Kanmantoo South Hub area (Table 3 on page 11) of between four and nine million tonnes with a target grade of between 1.2% and 2.2% Cu and 0.1 g/t to 0.3 g/t Au.

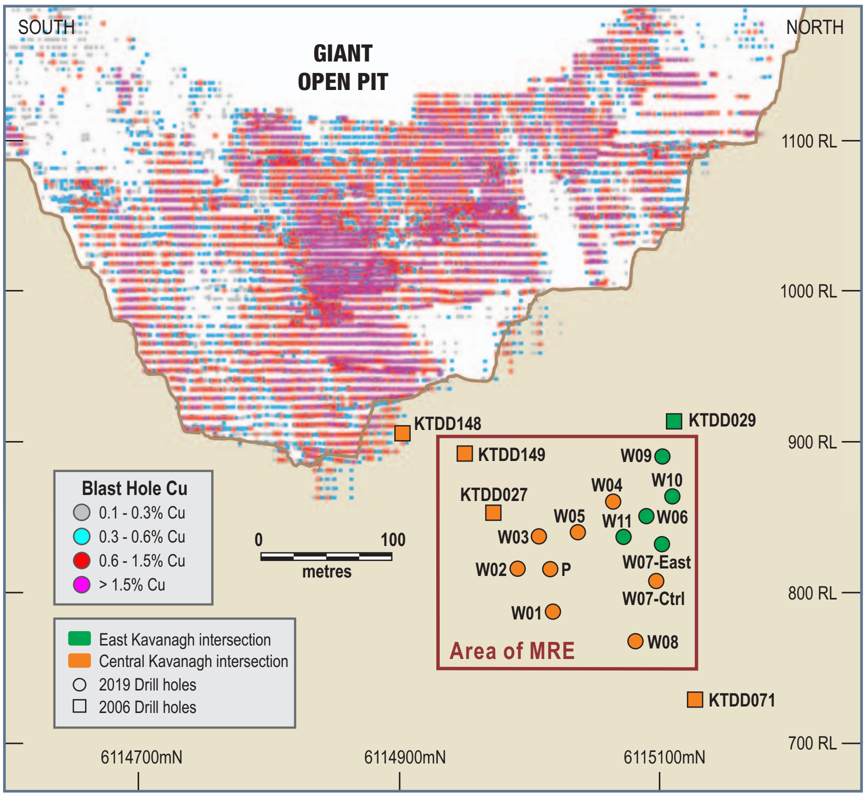


Figure 3 : Kavanagh longitudinal section.

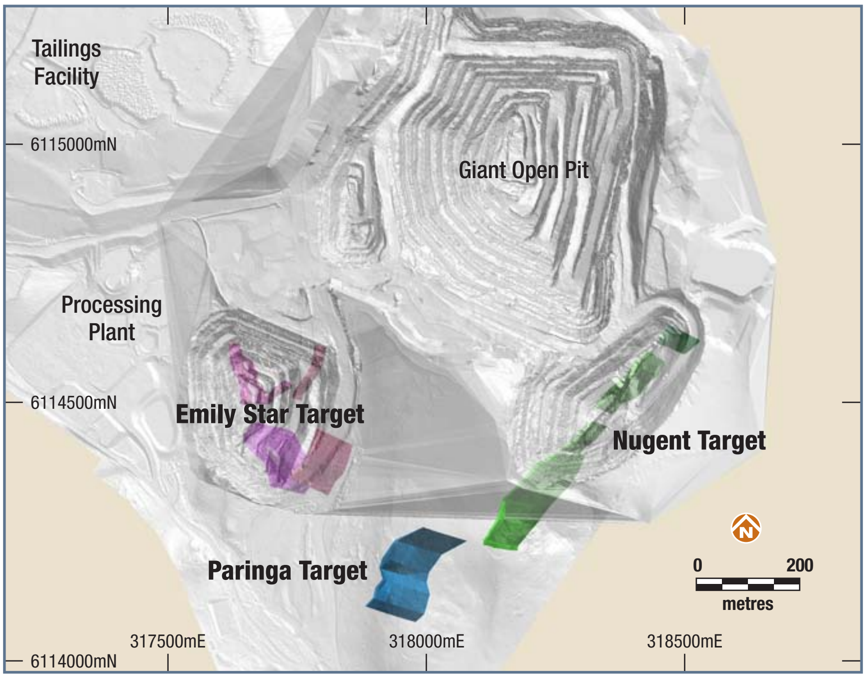


Figure 4 : South Hub Exploration Targets.

(2) *The South Hub Exploration Target in this Annual Report is based on currently available data and was reported on 27 September 2019. 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).*

Exploration *(cont.)*

Near Mine and Regional Exploration *(cont.)*

South Hub Underground Targets *(cont.)*

The main target areas are Nugent and Emily (both previously mined as small open pits), and Paringa (not previously mined).

The South Hub Exploration Targets are within 900 metres of the Kanmantoo processing facility. Figure 4 shows the location of the South Hub targets.

The South Hub Exploration Target suggests the potential for a significant underground opportunity beneath and/or along strike of the recently mined Emily Star and Nugent open pits. Further work is planned to assess the economic importance of this target.

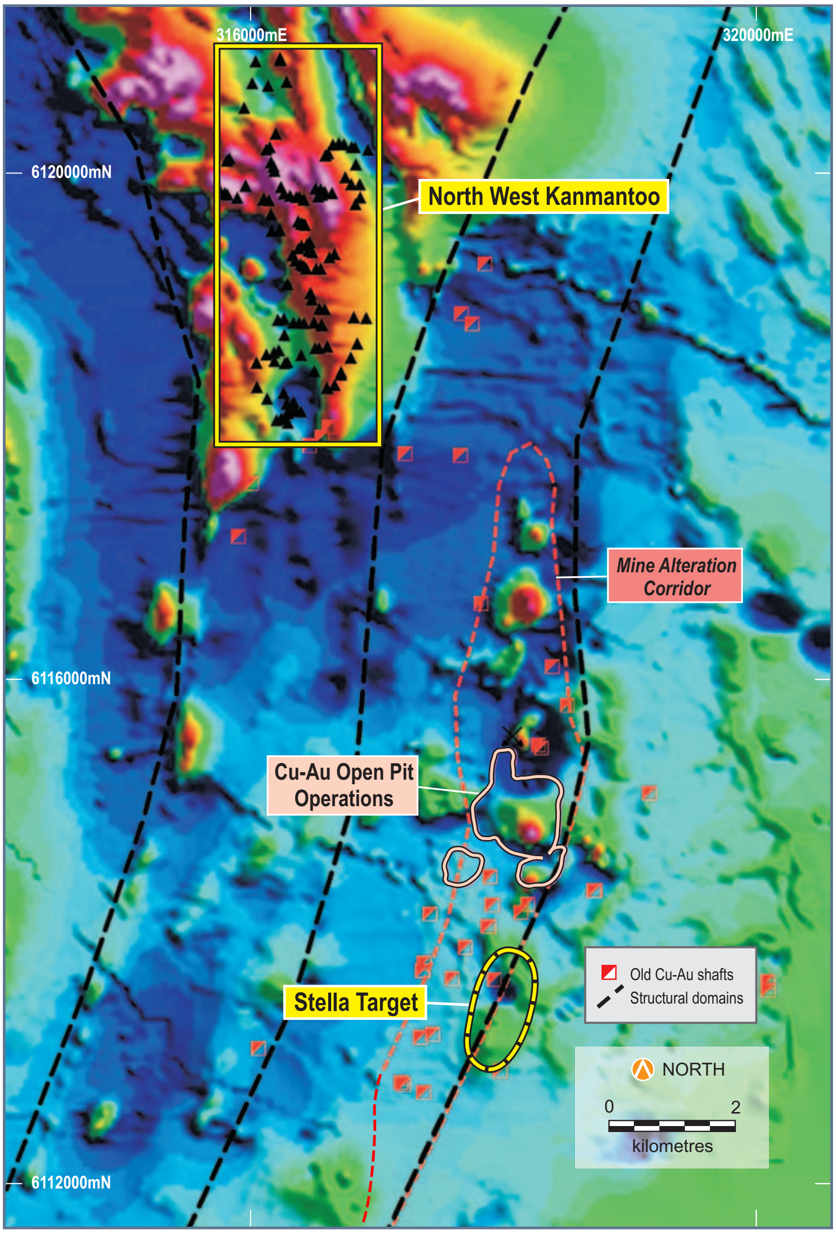


Figure 5 : Kanmantoo airmagnetics and structural trends.

Kanmantoo Near Mine Exploration

Exploration activities within EL 5628 and within 5 kms of the Kanmantoo mine site have continued to advance a number of geochemical and geophysical targets towards drill testing including Stella and North West Kanmantoo. Figure 5 shows the location of these targets in proximity to the Kanmantoo Operations on a magnetic TMI image.

Stella

In 2019 the Magneto-Telluric (MT) survey undertaken at Stella in 2018 was infilled and a 3D inversion modelled. This model confirms the previous 2D conductivity zone with a coincident magnetic high and gravity low. Figure 6 is a cross section of the modelled conductivity zone and modelled magnetic high.

Aberfoyle completed one diamond drill hole near Stella in 1999[3]. This drill hole is located approximately 300m north of the 2019 modelled conductivity zone. As reported by Aberfoyle, KAN001 intersected a 60m wide zone of chlorite-pyrrhotite-Fe-garnet altered sediments (128-188m downhole), within which:

- 3.6m @ 0.39% Cu, 2.43 g/t Au, from 156.4m downhole, including
  - 0.9m @ 9.28 g/t Au, 0.18% Cu from 156.4m downhole; and
- 6.56m @ 0.77% Cu, 0.84 g/t Au from 173m downhole

This drill hole is considered to indicate that the Stella area is prospective for significant Cu-Au mineralisation.

This target is now ready for drill testing.

(3) Aberfoyle Ltd reported the results of drill hole KAN001 in 1999 in SARIG envelope 8183. The results herein are reported by Peter Rolley, a Competent Person as defined by the JORC Code for Reporting Exploration Results, who has inspected the drill core and the original assay sheets.

Exploration *(cont.)*

Near Mine and Regional Exploration *(cont.)*

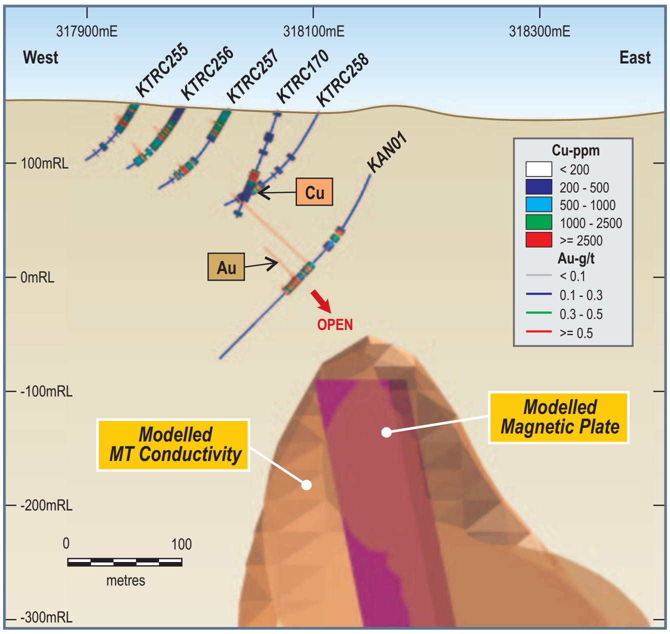


Figure 6 : Sectional view of Stella conductive zone and nearest drilling.

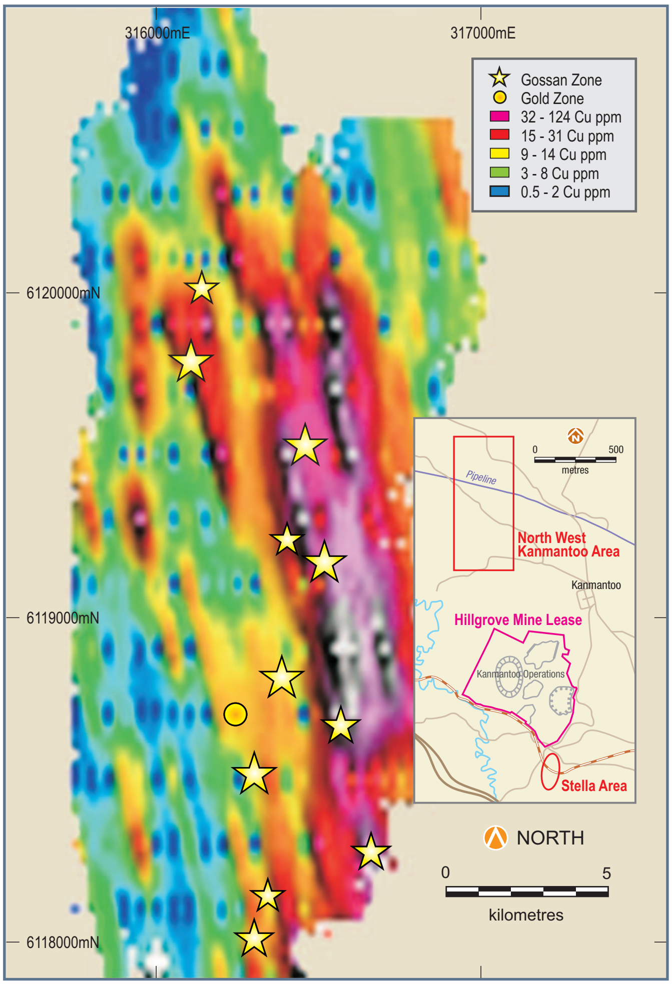


Figure 7 : Plan view of copper soil geochemistry at North West Kanmantoo.

North West Kanmantoo

Mapping and sampling has identified a 4km long zone of Cu-Au anomalism (see figure 7) coincident with a strong magnetic high and broad widths of FeOx alteration and FeOx brecciation at surface, within 4.5kms of the Kanmantoo processing plant. Further geophysical and geochemical surveys are in progress.

The rock chip sampling, where possible, across the North West Kanmantoo area has identified mineralisation with a strong magmatic association including:

- Rock chip samples to 2.2 g/t Au, 0.1% Cu
- Elevated Mo, Bi, Co, Sn, U, La, Ce

The area has not previously been drilled by Hillgrove or its predecessors. A series of three BX holes drilled in 1962 by the Department of Mines are not able to be spatially located, although somewhere in the area. These intersected strong copper mineralisation with attendant specular haematite, magnetite and chalcopyrite.

Further work is in progress by Hillgrove, to define drill targets.

Regional Exploration

Kanappa Copper-Gold Exploration

Hillgrove has previously reported the results of the diamond drilling at Kanappa that intersected copper-gold mineralisation within a skarn mineralising system. Kanappa is approximately 65 kms by road from the Kanmantoo operation.

The petrology work on a suite of samples from all drill holes by internationally respected alteration petrologist, Dr Roger Taylor, has clearly identified the mineralisation as an overprinting Cu rich skarn with attendant alteration stages including:

- Garnet-pyroxene
- Amphibole-magnetite
- Cu and Fe Sulphides

A review of the whole rock geochemistry of the monzonites intersected by the drill holes shows that the magmatic system is classified as a Volcanic Arc Granite and classified within the Loucks (2014) porphyry fertility field.

These drill results confirm the Company's view that the Kanappa area is prospective for large scale magmatic related copper-gold mineral deposits and further work is continuing in the area.

Exploration *(cont.)*

Near Mine and Regional Exploration *(cont.)*

Mt Rhine Copper-Gold Exploration Project

The Company has previously identified two significant zones of copper-gold at Mt Rhine through a systematic soil and rock chip sampling program. In 2018, the stronger copper-gold zone was covered with a program of ground magnetics and pole-dipole IP which indicated a 1.7km long anomaly for drill targeting.

Field inspection of the copper-gold and conductivity anomaly has located a series of north-south striking carbonate Cu-Fe skarns over a strike length of 1km. These have never been drilled and present as a large scale Cu-Au magmatic target similar to the Kanappa style mineralisation.

The Mt Rhine Project is 80kms via existing roads from the Kanmantoo processing plant and 12kms from the Kanappa copper-gold exploration project.

South-East Exploration Project

Hillgrove holds 5,652 sq kms of tenements in the south-east of South Australia within part of the Delamerian Orogen. The Delamerian Orogen is now being investigated by the Geological Survey of South Australia and MINEX-CRC for its porphyry copper-gold endowment as a consequence of the discoveries on the Stavely Belt also on the Delamerian Orogen in western Victoria. As a result of the government funding the geological investigations and ensuing drilling programs, the whole of the Delamerian in eastern South Australia, under cover of the Murray Basin, has been placed under a Section 15 tenement moratorium. The moratorium allows HGO to continue all its exploration activities, but does not permit any other Exploration Licences to be granted until the GSSA complete their geologic investigations.

Hillgrove have implemented a program of passive-seismic data acquisition to model the depth of the Murray Valley Sediments over the prospective Cambrian basement to prioritise its exploration activities. This is proving to work very successfully and showing that large areas of the Company's exploration area have cover of less than 100m.

Colebatch Prospect

A significant discovery to date has been the re-location of the Colebatch molybdenum occurrences. Figure 8 below shows a face of one of the vein sets "spackled" with molybdenite. The molybdenite is associated with fluorite, chalcopyrite, and quartz veining and alteration selvedges through a chloritized, pyritic Quartz Monzonite. Petrology of the monzonite and attendant alteration by an international petrologist has classified it as a "classic Porphyry Cu-Mo system". Two Cu-Mo occurrences were located, approximately 1.6 kms apart. There is no report of this area having been drilled or investigated for its copper molybdenum endowment.

Figure 8 : Molybdenite, chalcopyrite, quartz and flourite vein.

Alamil Prospect

The Alamil prospect was discovered by Red Metal with drill hole KMD-07-01 in 2007. This drill hole intersected chlorite/epidote/adularia/carbonate zones with chalcopyrite and sulphides over 267m, from 86m to 353m downhole (vertical drill hole). Figure 9 is an example of one of these zones. Petrology has interpreted this low temperature mineral assemblage as epithermal in character.

Figure 9 : Mineralised portion of NQ drill hole KMD-07-01 at 326.6m downhole.

Exploration *(cont.)*

Near Mine and Regional Exploration *(cont.)*

Sherlock Prospect

The Sherlock prospect was discovered in 1994 by the State Government and partly drilled by Pasminco.

As reported by Pasminco in SARIG Envelope 9015, SHR08 intersected a 38m long drill intercept of chlorite-biotite-pyrrhotite altered volcanics-sediments, carbonates and cherts, within which Pasminco reported an intersection of:

- SHR08 0.5m @ 11.6% Cu, 1.1% Zn from 102m in basalts and volcaniclastics.

The Company is continuing to compile the geology and geochemistry of this area.

Summary

Overall, the large exploration holding is very prospective for large scale copper gold mineralisation and Hillgrove is continuing to prudently advance a number of exploration targets within the tenement packages in alignment with its stated objective of focusing on those with near term realisation.

Indonesian Projects

The Company is continuing to progress its withdrawal from Indonesia.

The Indonesian projects have been on care and maintenance since 2013 and the carrying values of both projects were fully impaired in 2015.

Pumped Hydro Energy Storage

In April 2019, Hillgrove announced it had entered into binding agreements with AGL Energy Limited (AGL), to sell the right to develop, own and operate the Pumped Hydro Energy Storage (PHES) project at the Kanmantoo mine site. The sale was subject to the satisfaction of a number of conditions which needed to be satisfied within specified timeframes. Several of those conditions remained unsatisfied. After a period of extensive negotiations, Hillgrove and AGL have mutually agreed to terminate the PHES Project Agreement and associated project documents and effect a clean break without any further obligations on either party.

Mineral Resource and Ore Reserve Estimates

Statement of Mineral Resource and Ore Reserve Estimates and Exploration Targets *as at 31 December 2019*

The Company has taken the view that, with the closure of the open pit mining operations, it is unlikely that further open pit mining will be able to be economically undertaken within the Kanmantoo Mining Lease area. As a result, the Companies' Mineral Resource Estimate ("MRE") is limited to the underground MRE as reported in October 2019.

Table 1 summarises the Mineral Resource Estimate ("MRE") for the Central and East Kavanagh underground areas between 900 and 750 mRL at 0.6% Cu cut-off grade.

Table 1 – Mineral Resource Estimate for Central and East Kavanagh underground area

Mine	JORC 2012 Classification	Tonnage (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kavanagh UG	Indicated	646	1.63	0.13	3.6	10.5
	Inferred	310	1.8	0.2	4.0	6.0
Total		**957**	**1.7**	**0.14**	**3.8**	**16.2**

Note: Copper Cut Off Grade is 0.60% Cu. Due to appropriate rounding, numbers may not sum.

As a result of the cessation of open pit mining operations at Kanmantoo in May 2019 there is no longer an Ore Reserve reported for the Kanmantoo District, other than the remaining ore stockpiles which are still being processed.

Mineral Resource and Ore Reserve Estimates *(cont.)*

Table 2 – Kanmantoo Stockpile Ore Reserve Estimate as at 31 December 2019

Mine	JORC 2012 Classification	Tonnage (mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Stockpiles	**Proved**	**0.8**	**0.3**			**2.3**

Note: The stockpiles are not assayed for gold or silver so no estimate for gold or silver grades are provided, however gold and silver are expected to be recovered from the stockpiles.

The figures included in the Mineral Resource and Ore Reserve statements are estimates only and not precise calculations, therefore appropriate rounding according to JORC guidelines has been applied. Discrepancies in totals may occur due to rounding.

South Hub underground copper-gold Exploration Target

The South Hub Exploration Target in this Annual Report is based on currently available data and was reported on 19 September 2019. 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.

Hillgrove has approximated an Exploration Target at the Kanmantoo South Hub area (Table 2) of between four and nine million tonnes with a target grade of between 1.2% and 2.2% Cu and 0.1 g/t to 0.3 g/t Au.

Table 3 – Summary of the South Hub Exploration Target by zone

	Tonnage Range (Mt)	Grade Range (Cu%)	Grade Range (Au g/t)
Nugent	1.5-2.5	1.3-2.2	0.4-0.8
Paringa	0.5-1.5	1.1-2.2	0.4-0.8
Emily Star	2.0-4.5	1.2-2.2	0.4-0.8
Totals	**4.0-9.0**	**1.2-2.2**	**0.1-0.3**

Competent Person's Statement

The information in this release that relates to Exploration Results, Exploration Targets, Mineral Resource Estimates and to Ore Reserve Estimates were prepared by Competent Persons in accordance with the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code). The information in this release that relates to the Exploration Results, the Exploration Target at the South Hub, and the Mineral Resource Estimate at Kavanagh are based on information compiled by Mr Peter Rolley, who is a Member of The Australian Institute of Geoscientists. Mr Rolley is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code. Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in the relevant 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 the Exploration Results and the Mineral Resource Estimates and Lachlan Wallace in relation to the Ore Reserve Estimates) have been presented, have not been materially modified from the original market announcement apart from completion of all open pit mining and depletion of the ore stockpiles. Peter Rolley (MAIG) and Lachlan Wallace (MAusIMM) consent to the inclusion in this report of the matters based on their information in the form and context in which they appear.

Sustainability: Environment, Safety and Community

Hillgrove's Sustainability and Work Health & Safety Policies provide a strong, ethical foundation for our approach to health, safety, environment and community (HSEC) responsibilities. Supporting these policies, Hillgrove has implemented an Integrated Risk Management System (Kan-do) across our operations. The system incorporates a prioritised risk based approach and continual improvement framework, ensuring our HSEC policy objectives and legislative compliance are achieved.

To reduce the risks as low as reasonably practicable, the Kan-do system provides the appropriate safe systems of work, clearly outlined responsibilities and accountabilities, and a strong audit framework. Hillgrove has identified its Principal HSEC risks and implemented the appropriate control measures.

The Kan-do system is driven by effective leadership, the acceptance of individual responsibility and the promotion of a risk aware culture across its operations through the implementation of a Due Diligence Model. The Kan-do system is audited regularly, and improvements are monitored through Hillgrove's Senior Leadership Team and the Audit and Risk Committee.

Prudent and environmentally responsible operational management at Kanmantoo has helped reduce our overall rehabilitation expenditure, while building our reputation with the community as a good neighbour and an ethical mining operator.

Progressive rehabilitation of the site has continued and the Integrated Waste Landform (IWL) comprised of our waste rock and the tailings storage facility has seen considerable progress. The continued revegetation of the Mining Lease has seen further linkages of remnant woodland areas and enhancement of conserved remnant vegetation.

KAN-DO
Our attitude at Kanmantoo

The establishment of high quality native vegetation on adjacent land is assisting Hillgrove to return up to 10 hectares of high quality rehabilitated land to the community for every hectare of native vegetation we have disturbed. The establishment of this vegetation as a community asset has been integrated into a "Community Master Plan" to ensure real benefit back to the impacted community and the natural environment. We continue to produce and harvest native seed as well as conduct wild seed collection to ensure there are sufficient propagules to enable this important work.

Strategic community engagement continues utilising the long established Community Engagement Plan. Regular reviews and modifications to the plan continue to ensure engagement of the community remains effective and productive.

We remain pro-active in meeting the ongoing challenges and impacts of our site through the use of real-time monitoring and alert systems focused on dust prevention. There is however always room for improvement and as such we utilise working groups made up of community and committee members and regulators to drive actions and ideas to improve performance.

Master Plan

During the year Hillgrove was pleased to support the development and launch of the K4C Master Plan. Over 4 years in the making, the Master Plan is a community led process supported by Hillgrove which is designed to build community capability in the areas of Callington and Kanmantoo for a future after mining. By design, Hillgrove's financial assistance is limited to helping community groups identify and develop their own projects which meet the objectives of the Master Plan to a point that they can successfully raise their own funds. This building of capability ensures that the Master Plan endures well beyond the presence of mining at Kanmantoo.

The Master Plan incorporates input gathered from the broader community at various forums including; the Callington Show, public meetings and surveys. Over 100 different projects have been identified and broadly distilled into four pillars; heritage, environment; economic development and arts & culture. The Master Plan brings these together in a cohesive narrative that represents the broader community's long-term regional development aspirations.

Financial Report

for the year ended 31 December 2019

HILLGROVE RESOURCES

Contents

These financial statements are the consolidated financial statements for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Hillgrove Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hillgrove Resources Limited
Ground Floor, 5-7 King William Road,
Unley, South Australia 5061

The financial statements were authorised for issue by the Directors on 27 February 2020. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investors' Centre on our website www.hillgroveresources.com.au

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Hillgrove Resources Limited (Hillgrove or the Company) and the entities it controlled during the 12 months ended 31 December 2019.

Principal Activities

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

The Kanmantoo Mine in 2019 produced 13,783 tonnes of copper. Copper concentrate production from the Kanmantoo Copper Mine is sold to Freepoint Metals & Concentrates LLC under a 100% off take agreement.

Directors and Officers

The Directors and Officers of the Company at any time during the 12 month period to 31 December 2019 are:

Name/Qualifications	Experience and special responsibilities
Mr John Gooding	**Independent Non-Executive Chairman / Chairman Nomination Committee**
Qualifications	*Assoc Dip. Mining Eng., FIE Aust., FAusIMM, MAICD*
Experience 	John is a Mining Engineer with over 40 years experience in the resources industry. He has held executive management positions with CRA, Normandy Mining, MIM, Xstrata (CEO Xstrata Copper Australia), Ok Tedi Mining and Roche Mining. John has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia and internationally. He was the Managing Director and CEO of Highlands Pacific (2007-2016), and was a Board member of the PNG Chamber of Mines and Petroleum from 2009. He was also the Non-Executive Chairman of the Board for Kasbah Resources Ltd and is a Non- Executive Director of KGL Resources Ltd. John is a member of the Audit and Risk and Remuneration Committees. Appointed 31 May 2007.
Mr Philip Baker	**Independent Non-Executive Director / Chairman Remuneration, Audit and Risk and Treasury Committees**
Qualifications	*CPA, MAICD, BBus, PGDipBA*
Experience 	Phil is a Certified Practising Accountant with over 37 years in the mining industry. He started with MIM Holdings in 1980 undertaking various roles before leading the development and construction of the Ernest Henry copper/gold mine from 1995-97, and then was responsible for the copper refinery and other operations in north Queensland. He became Group Treasurer and later EGM - Strategy, Planning and Development, before leaving MIM in 2003. Phil was then CFO and Company Secretary at Peplin Limited and later QMAG Limited before joining Lihir Gold Limited in 2007 as CFO, serving as CEO for three months in 2010 before the takeover by Newcrest Ltd. After a period consulting to the resources industry, Phil joined Rio Tinto in 2012 as CFO of Pacific Aluminium to help prepare it for divestment, leaving in late 2013 when it was reintegrated into Rio Tinto Alcan. Phil is a member of the Nomination Committee. Appointed 29 October 2014.
Mr Anthony (Tony) Breuer	**Independent Non-Executive Director**
Qualifications	*BCom/LLB*
Experience 	Tony had over 33 years of experience at investment bank Gresham Partners Limited and was the Managing Director of Gresham Funds Management Group, Deputy Chairman of Gresham Partners Capital Limited, and was a Board member of various Gresham group companies and committees. He was formerly, Director of National Gallery Australia Foundation. He was admitted as a Barrister to the Supreme Court of NSW. Tony is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 1 June 2017.

Directors' Report *(cont.)*

Directors and Officers *(cont.)*

Name/Qualifications	Experience and special responsibilities
Mr Murray Boyte	**Non-Executive Director**
Qualifications	*B CA, CA, MAICD*
Experience 	Murray has over 35 years experience in merchant banking and finance, undertaking company reconstructions, mergers and acquisitions in Australia, New Zealand, North America and Hong Kong. Murray holds a Bachelor of Commerce and Administration from the Victoria University in Wellington and is a member of the Australian Institute of Company Directors, the Institute of Directors of New Zealand and Chartered Accountants Australia & New Zealand. In addition, Murray has held executive positions and directorships in the transport, horticulture, finance service, investment, health services and property industries. Murray is currently the Chairman of Eureka Group Holdings (ASX: EGH) and National Tyre & Wheel Limited (ASX: NTD) and a director of Abano Healthcare Group Limited (NZX: ABA). Murray is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 10 May 2019.
Mr Lachlan Wallace	**Chief Executive Officer and Managing Director**
Qualifications	*BEng (Mining Hons), MSc (Mineral & Energy Economics), MBA, M.Aus.IMM, MAICD*
Experience 	Lachlan joined Hillgrove in 2011 initially as the Mine Manager, then in 2015 the General Manager at the Kanmantoo Copper Mine and in May 2019 he was promoted to Chief Executive Officer and Managing Director. Previously Lachlan was responsible for Stemcor's global mining assets, developing their iron ore and manganese portfolio in India and nickel project in Indonesia at a time when Stemcor's annual turnover exceeded £6Bn. In addition, Lachlan chaired a JV between Stemcor and an Indonesian partner to facilitate thermal coal trade ex-Indonesia. Prior to Stemcor, Lachlan held technical, managerial and consulting roles in Africa and Australia, including Anglo Gold Ashanti's Siguiri gold project in Guinea, the Lumwana copper mine in Zambia, and the Savage River iron ore mine in Tasmania. Lachlan is a member of the Treasury Committee. Appointed 24 May 2019.
Mr Paul Kiley	**Chief Financial Officer & Company Secretary**
Qualifications	*B.Ec, CPA*
Experience 	Paul has over 30 years of experience in the mining, oil and gas industries. He spent 13 years with Newmont (and previously Normandy) in a number of executive roles including Director for Corporate Development for Newmont's Asia Pacific region and the Group Risk Manager. He also spent six years in senior roles with Occidental Oil & Gas, working in both Australia and the United States of America. Paul is a member of the Treasury Committee. Appointed 12 June 2015.

Retired Directors and Officers

Mr Maurice Loomes	**Non-Executive Director**
	Resigned 10 May 2019.
Mr Steven McClare	**Chief Executive Officer and Managing Director**
	Resigned 2 May 2019.

Directors' Report *(cont.)*

Directors and Officers *(cont.)*

Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the twelve month period are:

Meetings Held	Board		Remuneration Committee		Audit Committee		Nomination Committee		Treasury Committee	
Director	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*
Mr J E Gooding	18	18	7	7	4	4	1	1	-	-
Mr P Baker	18	18	7	7	4	4	1	1	1	1
Mr A Breuer	17	17	7	7	4	4	1	1	-	-
Mr M Boyte	9	9	4	4	3	3	-	-	-	-
Mr L Wallace	8	8	4	4	3	3	-	-	1	1
Mr M W Loomes	9	9	3	3	1	1	1	1	-	-
Mr S P McClare	9	8	3	3	1	1	1	1	-	-

A – Number of meetings held during the Directors time in office
B – Number of meetings attended

The Treasury Committee members are Mr P Baker, Mr L Wallace, Mr P Kiley and Mr J Sutanto (Group Finance & Planning Manager).

Results

	CY19	CY18
Revenue from ordinary activities	**$113.5m**	$180.1m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	**($10.0m)**	$29.5m
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	**($10.0m)**	$29.5m

Overview of consolidated financial results

For the year ended 31 December 2019, the net loss after tax was $10.0 million compared to a net profit after tax of $29.5 million for the year ended 31 December 2018. The underlying operating result for 2019 was earnings before interest, tax, depreciation and impairment (EBITDA) of $12.1 million compared to an EBITDA of $44.3 million in 2018.

In CY18 the Company achieved its highest annual copper production on record of 22,584 tonnes of copper metal. From mid-2019, open pit mining in the Giant Pit was completed and previously mined low-grade stockpiles became the source of ore feed for the processing plant. Revenue in CY19 therefore decreased to $113.5 million from the peak of $180.1 million in CY18.

Review of operations for the CY19 year and outlook

The Company has been generating surplus cash from operations consistently for the past two years. From 2018 and into the first half of 2019, the low waste to ore strip ratio from mining the final benches in the Giant Pit meant that mining costs per unit of copper were relatively low and the highest-grade material could be preferentially processed through the plant. The average milled grade for first half of 2019 was 0.60% (vs 0.74% for CY18). In the second half of 2019 the average grade of ore recovered from stockpiles was 0.30% but this was still cash-generative due to the absence of cash mining costs.

For the past two years, the free cashflow from production has been used by the Company to improve its balance sheet through the repayment of debt and reducing trade creditors balances. In CY19 the Company repaid the final $0.5 million owed in debt finance, reduced creditors from $26.6 million to $8.6 million, paid a cash dividend to shareholders of $8.8 million and ended the year with $9.3 million cash on hand.

During 2019, Hillgrove achieved production of 59,137 tonnes of dry concentrate containing 13,783 tonnes of copper metal which was sold at an average price of A$8,795 per tonne. At the end of December 2019, the Company had fixed pricing agreements in place for future sales of 1,500 tonnes of copper at an average price of A$8,797 per tonne representing about 78% of expected production from the remaining stockpile.

In 2019 the Company also produced 3,651 ounces of gold and 102,795 ounces of silver as by-products for additional revenues of $6.3 million and $2.0 million respectively.

Processing of stockpiled ore is expected to be completed by the end of March 2020. Based on the projected cashflows plus cash on hand, the Company will have sufficient cash to cover forecast expenditure for the next twelve months including its ongoing rehabilitation and compliance requirements and to meet expenditure commitments under exploration leases. Hillgrove will continue to advance projects in close proximity to Kanmantoo that can come into operation relatively quickly, for a low capital investment, and maximise the existing infrastructure, including the low cost 3.6Mtpa processing plant and permitted tailings storage facility. These projects include Kavanagh Underground, South Hub, North West and Stella.

Directors' Report *(cont.)*

Review of operations for the CY19 year and outlook *(cont.)*

Kanmantoo Copper Mine Production Statistics

			MAR-19 QTR	JUN-19 QTR	SEP-19 QTR	DEC-19 QTR	CY19	CY18
Ore to ROM from Pit		kt	1,059	515	-	-	**1,574**	5,728
Mined Waste		kt	739	116	-	-	**855**	7,557
Total Tonnes Mined		kt	1,797	631	-	-	**2,428**	13,285
Closing Ore Stocks		kt	3,128	2,846	1,673	782	**782**	2,893
Mining Grade to ROM		%	0.60	0.61	-	-	**0.60**	0.53
Ore Milled		kt	828	842	902	874	**3,446**	3,324
Milled Grade	- Cu	%	0.65	0.55	0.29	0.30	**0.44**	0.74
	- Au	g/t	0.06	0.06	0.06	0.07	**0.06**	0.10
Recovery	- Cu	%	91.6	90.8	86.6	88.6	**90.0**	92.0
	- Au	%	56.3	53.1	51.5	49.5	**52.4**	55.6
Cu Concentrate Produced		Dry mt	20,821	17,701	10,268	10,347	**59,137**	94,576
Concentrate Grade	- Cu	%	23.8	23.9	22.1	22.5	**23.3**	23.9
	- Au	g/t	1.4	1.4	2.6	3.1	**1.9**	2.0
Contained Metal in Concentrate								
- Cu		t	4,963	4,223	2,272	2,324	**13,783**	22,584
- Au		oz	961	801	858	1,032	**3,651**	6,003
- Ag		oz	37,034	30,140	17,828	17,793	**102,795**	161,592
Total Concentrate Sold		Dry mt	20,189	18,536	10,565	9,882	**59,172**	96,102

Overview of consolidated financial results

The underlying EBITDA for the year was $12.1 million, however this was not sufficient to offset the depreciation and amortisation charge which would have delivered an expected near-breakeven net result, given that ore stockpiles had been written down to net realisable value at the start of the year. Depreciation and amortisation expense was relatively higher in 2019 due to adjustments necessary to take into account copper tonnes that were unable to be mined following pit wall geotechnical issues near the completion of the Giant Pit. The full year net EBIT was a loss of $5.6 million after depreciation and the $3.0 million combined writedown of the PHES project and exploration licence capitalised costs.

The lower level of EBITDA profitability compared to the previous year reflected the necessary transition to processing entirely from low grade ore stockpiles shortly after mining from the open pit ceased as planned in May 2019.

The run-down of stockpiles is reflected by the $20.9 million non-cash expense for inventory movement as opposed to the build-up of inventory and deferral costs which occurred in 2018.

A consequence of the cessation of mining was a significant reduction in cash operating costs which meant cash generation remained strong despite lower reported net earnings.

Cash generated from operations was $21.8 million in 2019 compared to $18.0 million in 2018 and this enabled the Company to pay a dividend of $8.8 million to shareholders while improving the closing cash balance from $2.5 million to $9.3 million at 31 December 2019 and paying down creditors by $18.0 million.

Directors' Report *(cont.)*

Review of operations for the CY19 year and outlook *(cont.)*

Overview of consolidated financial results *(cont.)*

Income Statement overview

	12 months to 31 December 2019 $ million	12 months to 31 December 2018 $ million	Change $ million
Copper revenue	**116.1**	191.3	(75.2)
Gold revenue	**6.3**	8.2	(1.9)
Silver revenue	**2.0**	2.9	(0.9)
Less: Treatment and refining costs	**(10.9)**	(22.3)	11.4
NET REVENUE FROM SALE OF CONCENTRATE	**113.5**	180.1	(66.6)
Mining costs	**(21.2)**	(78.5)	57.3
Pre-strip and deferral	**(7.9)**	(19.4)	11.5
Processing costs	**(31.4)**	(30.6)	(0.8)
Transport and shipping costs	**(7.0)**	(9.6)	2.6
Other direct costs	**(4.4)**	(5.1)	0.7
Inventory movements	**(20.9)**	20.6	(41.5)
Royalties	**(5.4)**	(8.6)	3.2
Corporate costs	**(4.9)**	(4.9)	-
TOTAL COSTS	**(103.1)**	(136.1)	33.0
Net realised gains/(losses)	**-**	0.1	(0.1)
Other income	**1.7**	0.2	1.5
EBITDA	**12.1**	44.3	(32.2)
Depreciation and amortisation	**(14.7)**	(16.7)	2.0
Impairment charges	**(3.0)**	(0.2)	(2.8)
EBIT	**(5.6)**	27.4	(33.0)
Net interest and financing charges	**(0.7)**	(1.6)	0.9
Income tax benefit/(expense)	**(3.7)**	3.7	(7.4)
NET PROFIT AFTER TAX	**(10.0)**	29.5	(39.5)

Revenue

Revenue for the year to 31 December 2019 was from the sale of 59,172 dmt of copper concentrate containing 13,073 payable copper tonnes (year to 31 December 2018: 96,102 dmt and 21,075 tonnes payable copper). Since June 2019, the plant has been processing low-grade ore stockpiles. Gross metal revenue before treatment and refining deductions was $124.4 million compared to $202.4 million for the same period last year.

For the year to 31 December 2019, the average realised cash price was A$8,795 per tonne or A$3.99/lb (vs A$8,833 per tonne in the previous corresponding period). The average realised price has continued to reflect the benefit of the majority of sales being conducted at contracted fixed prices as prevailing spot prices in 2019 were generally lower than the previous period.

Treatment and refining charges were $10.9 million for 2019 at an average cost of $185 per dmt which was less than last year's average of $232 per dmt due to lower global benchmark rates and the completion of the production target subject to price participation charge under the offtake agreement.

Directors' Report *(cont.)*

Review of operations for the CY19 year and outlook *(cont.)*

Overview of consolidated financial results *(cont.)*

Costs

Total costs were $103.1 million compared to $136.1 million for the previous year. The decrease of $33.0 million is explained below:

- Mining costs of $21.2 million were incurred in the first half of 2019 prior to the last ore being extracted from the pit in May.
- Pre-strip and deferral – with the completion of the Giant Pit cutback in late 2017, the Company switched from deferring mining costs to the balance sheet, to taking deferred mining costs back from the balance sheet and expensing these to profit and loss. Operating costs in 2019 include $7.9 million of this current year non-cash costs representing the last of these deferred costs to be expensed.
- With the completion of mining in 2019 and the transition to 100% of mill feed coming from previously stockpiled lower-grade ore, the value of inventory on the balance sheet began to decline with the cost of ore being expensed to the P&L as it was processed. This explains why there was a net $20.9 million inventory movement cost in 2019 compared to a deferral of net $20.6 million in 2018 when stockpiles were increasing.
- Processing costs in 2019 were only $0.8 million higher than the previous year even though throughput was higher, costs were incurred for hauling ore from the stockpile to the ROM and a $1.0 million redundancy provision was recognised at year end. The level of throughput for the twelve-month period increased by 3.6% from 3.32 million tonnes to 3.44 million tonnes, mainly as a result of higher run-time availability.
- SA Government royalty costs declined by $3.2 million in 2019 in line with the lower volume of metal sold.
- Shipping and transport costs were $7.0 million and also declined in gross terms due to the lower volume. However, on a unit basis this cost was about 19% higher than 2018 principally due to increased ship freight rates.
- Corporate costs ($4.9 million) were at the level as the previous year, while administration costs incurred directly at mine site ($4.4 million) were lower mainly from the benefit of a reduced rehabilitation provision estimate.

Net Result

In 2019 the Company generated other income of $1.7 million of which $1.0 million was the non-refundable receipt from AGL in respect of the discontinued PHES project and most of the remainder was from the utilisation of earthmoving equipment on work for third parties.

While depreciation rates were accelerated in the first half of 2019 to reflect a reduced reserve in the pit as a result of the mine design changes to remediate rock falls experienced during the period, overall depreciation and amortisation expense for the full year was $2.0 million lower than 2018 in line with the reduced metal output.

Net interest and finance charges reduced significantly in 2019 to $0.7 million following the repayment of borrowings and the Company was less reliant on early sales drawdowns (on which interest was charged) from the offtake partner for cashflow management.

Tax expense of $3.7 million in 2019 reflects the derecognition of deferred tax assets on the balance sheet, effectively reversing the benefit recognised in 2018.

Cash flow overview

	12 months to 31 Dec 2019 $million	12 months to 31 Dec 2018 $million	Change $ million
Net cash inflows from operating activities	**21.8**	18.0	3.8
Net cash used in investing activities	**(5.4)**	(6.9)	1.5
Net cash inflows/ (outflows) from financing activities	**(9.5)**	(9.1)	(0.4)
Net increase/(decrease) in cash held	**6.9**	2.0	4.9
Cash and cash equivalents at the end of the year	**9.3**	2.5	6.8

Operating activities cash flow

Cash received in the course of operations of $116.8 million primarily relates to the sale of copper concentrate in 2019 which aligns to reported concentrate revenue net of treatment costs plus the reduction in receivables. This was 35% lower than the previous year due to the depletion of high-grade ore from the open pit in May 2019.

Net cash inflows from operating activities were $3.8 million higher than the previous corresponding period despite the reduction in revenue mainly because a higher proportion of operating cashflow was being used to repay and reduce trade creditors during 2018. Cash paid in the course of operations to contractors, suppliers and employees was $95.0 million in 2019 which was substantially less than the $161.6 million paid in the corresponding period, reflecting the cessation of mining in May 2019. Trade creditors and other payables continued to be paid down during 2019 and are now on normal commercial terms.

Review of operations for the CY19 year and outlook *(cont.)*

Overview of consolidated financial results *(cont.)*

Investing activities cash flow

Net cash outflow from investing activities was $5.4 million compared to an outflow of $6.9 million in the previous corresponding period. Capital expenditure in 2019 includes over $1.3 million spent on advancing the PHES project (2018: $1.5 million) and $2.0 million on Kavanagh Underground (2018: $1.5 million) currently classified as mine development. Exploration and underground evaluation activity increased with cash expenditure of approximately $0.9 million on regional exploration licences. The major investment activity in the previous year was expenditure on geotechnical measures to help safeguard the pit walls from rockfalls.

Financing activities cash flow

In 2019 there was a net cash outflow of $9.5 million for financing activities of which $8.8 million was the dividend paid to shareholders in late June.
In 2018 the net cash outflow from financing activities was mainly due to the repayment of the $4 million debt in full to Freepoint.

Balance sheet overview

	31 Dec 2019 $ million	31 Dec 2018 $ million	Change $ million
Cash	**9.3**	2.5	6.8
Receivables	**3.1**	5.4	(2.3)
Inventories	**12.1**	33.6	(21.5)
Property, Plant & Equipment	**24.2**	44.0	(19.8)
Exploration	**2.6**	2.0	0.6
Project Costs	**-**	1.5	(1.5)
Deferred Tax Assets	**-**	3.7	(3.7)
Total Assets	**51.3**	**92.7**	**(41.4)**
Trade Payables	**8.6**	26.6	18.0
Provisions	**12.3**	15.7	3.4
Borrowings	**0.3**	1.0	0.7
Employee Benefits	**3.3**	3.8	0.5
Deferred Income	**0.5**	1.4	0.9
Total Liabilities	**25.0**	**48.5**	**23.5**
Net Assets / Equity	**26.3**	**44.2**	**(17.9)**

Equity

Total equity has decreased by $17.9 million from 31 December 2018 due to the dividend paid to shareholders of $8.8 million and the net loss result for the year of $10.0 million. This was partly offset by the $0.9 million increase in employee share options reserve to reflect the value of performance rights granted during previous years.

Assets

Cash at 31 December 2019 was $9.3 million, an increase of $6.8 million from the previous year end. As expected, the Kanmantoo copper mine generated strong positive cashflows during the year which enabled the further paydown of creditors and payment of a 1.5 cents per share dividend totalling $8.8 million.

Inventories includes the cost of stockpiled ore, copper concentrate on hand, store consumables and plant spares. Inventories decreased by $21.5 million which mainly reflects the consumption of the low-grade ore stockpile throughout 2019. At its peak in May 2019 the ore stockpile was 3.1M tonnes and became the sole ore source for the plant from that time. At 31 December 2019 the ore stockpile was 0.8Mt valued at $7.3 million and is expected to be fully depleted by the end of March 2020.

The decrease in property, plant and equipment (PPE) is mainly due to $14.7 million of depreciation and the transfer of the final $7.9 million of deferred mining costs to the P&L. Additions to PPE during 2019 were $2.6 million of which $2.1 million was related to assessment of Kavanagh underground.

Exploration expenditure capitalised to the balance sheet has increased since December 2018 due to the ongoing work to progress surface exploration of regional exploration licences. Project costs capitalised in respect of the PHES project have been impaired in full subsequent to the decision by AGL and Hillgrove in February 2020 to terminate the project agreement.

Deferred tax assets were $3.7 million at 31 December 2018, but this balance has been derecognised given the net loss result for 2019 and the uncertain timing of future taxable income after the expected cessation of processing in the first quarter of 2020. Tax losses not brought to account at 31 December 2019 were approximately $152.5 million. Also, franking credits of $17.5 million are available to the Company.

Review of operations for the CY19 year and outlook *(cont.)*

Liabilities

Total liabilities have decreased by $23.5 million to $25.0 million as at 31 December 2019. The decrease is mainly due to the pay down of trade creditors, payment of leave entitlements to terminated employees, performance of rehabilitation civil works and the repayment of debt.

Creditors have returned to normal trading terms and are also lower in value due to the cessation of mining-related activities. Borrowings now only comprises vehicle finance lease obligations and no other lease commitments require inclusion on the balance sheet.

At the end of 2018 year there was a small working capital deficit as the Group's current liabilities exceeded current assets by $2.1 million. As at 31 December 2019 the value of current assets exceeded current liabilities by $5.8 million and there is sufficient cash funds to maintain liquidity whilst employee entitlements and trade creditors are likely to be substantially extinguished throughout 2020.

Rehabilitation provisions for Kanmantoo and Comet Vale were $11.4 million and $0.3 million respectively as at 31 December 2019. This has decreased by $2.9 million with rehabilitation expenditure made during the year and some cost improvements.

Outlook

Looking forward, the immediate focus is to maximise the accumulation of cash from the treatment of the remaining low grade stockpiles with the majority of copper to be sold at fixed pricing. Processing is expected to continue until the end of March 2020.

As processing is completed, the workforce will downsize and the Kanmantoo site will be placed on to care and maintenance to preserve the processing assets. A small core group will be retained to focus on growth through exploration and development. In addition, the Board will be reduced to conserve cash and the Board will consider the skills and experience that are appropriate to guide the Company as it transitions to an explorer / developer.

Modest exploration expenditure will be deployed to advance projects in close proximity to Kanmantoo that can come into operation relatively quickly, for a low capital investment, and maximise the existing infrastructure, including the low cost 3.6Mtpa processing plant and permitted tailings storage facility. These projects include Kavanagh Underground, South Hub, Northwest and Stella. Negotiations have been advanced to arrange funding for underground mine development.

In parallel, Hillgrove is employing low cost exploration techniques not used before in south east South Australia to establish this region as a highly prospective porphyry / IOCG (iron oxide copper gold) province. With a number of encouraging targets identified, Hillgrove is considering exploration funding options which may include the introduction of JV partners or farm-ins.

2020 Guidance

The Company provides the following guidance for 2020 for the Kanmantoo Copper Mine Open Pit:

- Copper produced — 1,650t to 2,150t copper contained in concentrates
- Gold produced — 450oz to 700oz gold contained in concentrates
- C1 Costs — US$2.55 to US$2.75 per lb (at a 0.68 exchange rate)
- Exploration — $1.0 million to $1.5 million
- Capital projects — $0.5 million to $0.8 million

C1 costs for the remaining production should remain relatively high because they include a non cash ore inventory adjustment (consumption of stockpiles that have been built up), which will be reallocated from the balance sheet to operating costs. Excluding the adjustments to ore inventory, the C1 cost would be in the order of US$1.40 to US$1.60 (at a 0.68 exchange rate), and this would be more reflective of cash costs.

Review of operations for the CY19 year and outlook *(cont.)*

Risks

The Company currently has a single operating asset, the Kanmantoo Copper Mine in South Australia. The operation provides the Company with all of its income. Open pit mining ceased in May 2019 and the operations now involve the processing of low grade stockpiles, which are due to be depleted by the end of March 2020. The Kanmantoo mine is located close to regional communities and concentrate produced from the stockpiles is transported by road in containers to the Port of Adelaide and then loaded onto ship via the port rotainer operation. The concentrate is then shipped to the receiver, typically located in China. Should any of these elements be subject to failure, the Company's expected cashflows and financial result could be impacted.

The Company's annual budget and related mine plans and production and operating outcomes are subject to a range of assumptions and expectations, all of which contain a level of uncertainty and therefore risk. The Company adopts a risk management framework in order to identify, analyse, treat and monitor the risks applicable to the Group. These risks are formally reported and discussed by the Executive on a regular basis and with the Board and Audit and Risk Committee twice a year.

The prices received for the Company's commodities (copper, gold and silver) are dictated by global markets over which Hillgrove and its offtake partner, Freepoint Commodities LLC, have no influence. The Company has taken active steps to mitigate copper price and exchange rate risk on revenues by fixing the AUD copper price for a portion of future shipments. As at the end of December 2019, the Company had fixed pricing for 1,500 tonnes of copper at an average copper price of $8,797 per tonne after margins.

Once the processing of stockpiles ceases the end of March 2020, Hillgrove will transition from a copper producer to an explorer / developer and as a result many of the operating risks will fall away.

In addition, the rehabilitation of the site remains a major focus to ensure risks associated with the cost of the rehabilitation, the Company's obligations under the approved program for environment protection and rehabilitation (PEPR), and its responsibilities to the local community are managed. The Company has actively ramped up the rehabilitation earthworks to ensure the majority of the final land form shaping is completed prior to demobilisation of the mining fleet and personnel. Progressive rehabilitation of this nature is cost effective, progressively reduces its rehabilitation liability and demonstrates to surrounding communities that Hillgrove is a socially and environmentally responsible company.

Capital Raisings

There were no equity capital raisings during the current period.

Dividends

On the 28 June 2019, the Company paid an $8.8 million fully franked dividend out of its 2018 profit reserve. This represented a 5% payout of the 2018 revenue and a 30% payout of the 2018 profit after tax.

Significant Changes in the State of Affairs

Other than those matters listed in this report there have been no significant changes in the affairs of the Group during the period.

Events Subsequent to Reporting Date

On 21 February 2020 the Group and AGL Energy Limited announced they had mutually agreed to terminate the Pumped Hydro Energy Storage project agreement. The full financial impact of this decision has been reflected in these financial statements for the period ended 31 December 2019.

Likely Developments and Expected Results of Operations

Likely developments in the operations of the group in the short to medium term include the cessation of the processing of stockpiles at the end of March 2020, and looking at the optimal future use of all of the Company's assets and exploration potential. For further details on each of these, refer to the review of operations section of this report.

Environmental Regulation

Closure of an operation brings with it potential significant financial, environment, and social impacts. Recognising this, a closure management plan for Kanmantoo has been prepared, which includes long term monitoring to verify that controls are effective and standards are maintained. The closure management plan was independently reviewed and verified during 2019.

The consolidated entity has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration and development activities. There have been no reports of material breaches of environmental regulations in the financial period and at the date of this report.

Indemnification and Insurance of Officers

Officers' Indemnity

Article 7.3(a) of the Company's Constitution provides that "To the extent permitted by law, the Company must indemnify each Relevant Officer against: (i) a Liability of that person; and (ii) Legal Costs of that person". The Company indemnifies every officer against any liability or costs and expenses incurred by the person in his or her capacity as officer of the Company:

- in defending any proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or
- in connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Law.

Indemnity of auditors

Hillgrove Resources Limited has agreed to indemnify their auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from Hillgrove Resources Limited's breach of their agreement. The indemnity stipulates that Hillgrove Resources Limited will meet the full amount of any such liabilities including a reasonable amount of legal costs.

Directors' and Officers' Insurance

During the financial year, the Company paid a premium in respect of a contract for directors' and officers' liability insurance. It is a condition of this Policy that each Insured and/or any persons at their direction or on their behalf shall not disclose the existence of any Coverage Section, its Limits of Liability, the nature of the liability indemnified, or the premium payable.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the period are set out in Note 7(e).

The Audit and Risk Committee has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001*.

None of the services provided undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards. A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 38.

The Board is committed to following ASX Corporate Governance Council *Corporate Governance Principles and Recommendations*. The Company adopts these best practice recommendations in its policies and procedures where it is appropriate to do so, given the size and type of Company and its operations.

The Board has a process of reviewing all policies and corporate governance processes. Charters are reviewed and updated periodically. These charters provide the framework and roles of respective committees for the appointment of Non-Executive Directors to undertake specific responsibilities on behalf of the Board.

Details of the corporate governance policies adopted by the Company and referred to in this statement are available on the Company's website at www.hillgroveresources.com.au.

Remuneration Report (audited)

The Directors of Hillgrove Resources and its Consolidated Entities present the Remuneration Report for the Company for the year ended 31 December 2019, which forms part of the director's report and has been audited in accordance with section 308 (3C) of the *Corporations Act 2001*.

During 2019 the following remuneration initiatives took effect to reward employees for their considerable efforts over the difficult period dating back to 2016:

- A Short Term Incentive (STI) was paid in July 2019; and
- In July 2019 employees remaining after the cessation of mining received a 2.15% CPI increase, the first increase in Total Fixed Remuneration (TFR) since 2013.

In addition, the repayment of the 10% salary deferral for all staff (not including directors) was completed in January 2019 (all staff had agreed to defer 10% of salaries from May 2016 to November 2017).

Staff numbers were reduced considerably in 2019, principally as a result of the cessation of mining in May 2019, but also through natural attrition and consolidating roles, where possible.

In addition, the Board put in place a Key Employee Plan during the year.

1.0 Key Management Personnel

Key management personnel comprise the Non-Executive Directors, the Executive Director and Executives (KMP). Details of the KMP are set out in the table below.

Non-executive Directors	Title (at year end)	Change in 2019 Financial Year
Mr J E Gooding	Chairman Member Remuneration Committee Member Audit and Risk Committee Chairman Nomination Committee	Full Year
Mr M Boyte (Non-independent)	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Part Year Appointed 10 May 2019
Mr P Baker	Director Chairman Audit and Risk Committee Chairman Treasury Committee Chairman Remuneration Committee Member Nomination Committee	Full Year
Mr T Breuer	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Full Year
Executive Directors		
Mr L Wallace	CEO and Managing Director Member Treasury Committee	Part Year Appointed 23 May 2019
KMP Executives		
Mr P Kiley	Chief Financial Officer and Company Secretary Member Treasury Committee	Full Year
Mr G K Norris	General Manager, Kanmantoo	Part Year Appointed 23 May 2019

Key Management Departures during the 2019 Financial Year

Non-executive Directors	Title (at year end)	Change in 2019 Financial Year
Mr M W Loomes (Non-independent)	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Part Year Resigned 10 May 2019
Mr S P McClare	CEO and Managing Director Member Treasury Committee	Part Year Resigned 2 May 2019

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

2.0 Role of the Board and the Remuneration Committee

The Board is responsible for the Company's remuneration strategy and policy. Consistent with this responsibility, the Board has established a Remuneration Committee which comprises a majority of independent non-executive directors.

The role of the Remuneration Committee is set out in its Charter and in summary is to:

- Review and approve the Company's remuneration strategy and policy;
- Consider and propose to the Board the remuneration of the CEO and consider and approve the remuneration of all designated senior executives;
- Review and approve Hillgrove Resources' short term incentive (STI) and long term incentive (LTI) schemes, including amounts, terms and offer processes and procedures;
- Determine and approve equity awards in accordance with policy and shareholder approvals, including testing of vesting and termination provisions; and
- Review and make recommendations to the Board regarding remuneration of non-executive directors.

Further information on the Remuneration Committee's role, responsibilities and membership is contained in the Corporate Governance Statement which is available on the Company's website www.hillgroveresources.com.au.

2.1 Remuneration and Benefits Policy

The Company's approach to remuneration is outlined in the Remuneration and Benefits Policy and is based on providing competitive rewards that motivate talented employees to deliver superior results.

The Remuneration and Benefits policy aims to:

- Align employee remuneration to the principles and measurement of Total Shareholder Return (TSR);
- Present progressive incentive structures to encourage outstanding performance, and hence improved TSR; and
- Mitigate the business risks associated with poor performance, market movements and employee turnover.

The Remuneration Committee Charter and Remuneration and Benefits Policy can be viewed in the Corporate Governance section of the Company's website www.hillgroveresources.com.au.

2.2 Use of remuneration consultants

During the year no remuneration consultancy contracts were entered into by the Company and no disclosure is required under section 300A (1) (h) of the *Corporations Act 2001*.

3.0 Non-executive Director Remuneration

Elements	Details	
Aggregate Board and Committee Fees	The total amount of fees paid to non-executive directors in the year ended 31 December 2019 is within the aggregate amount approved by shareholders at the AGM in 2009 of $450,000 a year. The individual amounts paid to directors have not increased since January 2011.	
Board/Committee fees per annum (1)	Board Chairman Fee	$150,000
	Audit Committee Chairman	$10,000
	Board NED Base Fee	$75,000
Post-employment Benefits	**Details**	
Superannuation	Superannuation contributions are made at a rate of 9.5% of base fee (but only up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. Contributions are included in the total fee.	
Other Benefits	**Details**	
Equity Instruments	Non-Executive directors do not receive any performance related remuneration or performance rights.	
Other fees/benefits	No payments were made to non-executive directors during the 2019 financial year for extra services or special exertions. Directors are entitled to be reimbursed for approved Company related expenditure e.g. flights and expenses to attend Board meetings.	

(1) Fees include all committee memberships with no extra payments for committee memberships, except as noted at (1) above.

4.0 Executive Remuneration

4.1 Executive KMP remuneration framework

Hillgrove Resources' executive remuneration strategy is designed to attract, retain and motivate a highly qualified and experienced group of executives.

4.2 Total fixed remuneration

Total Fixed Remuneration (TFR) includes all remuneration and benefits paid to an Executive KMP calculated on a Total Employment Cost (TEC) basis and includes base salary and superannuation benefits paid in line with the prevailing statutory Superannuation Guarantee legislation.

In July 2019 employees received a 2.15% CPI increase. Other than for award and anomaly changes, this was the first increase in TFR since 2013.

4.3 Remuneration composition mix and timing of receipt

The Company endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and 'at risk'. The broad remuneration composition mix of the Company's Executive KMP can be illustrated as follows:

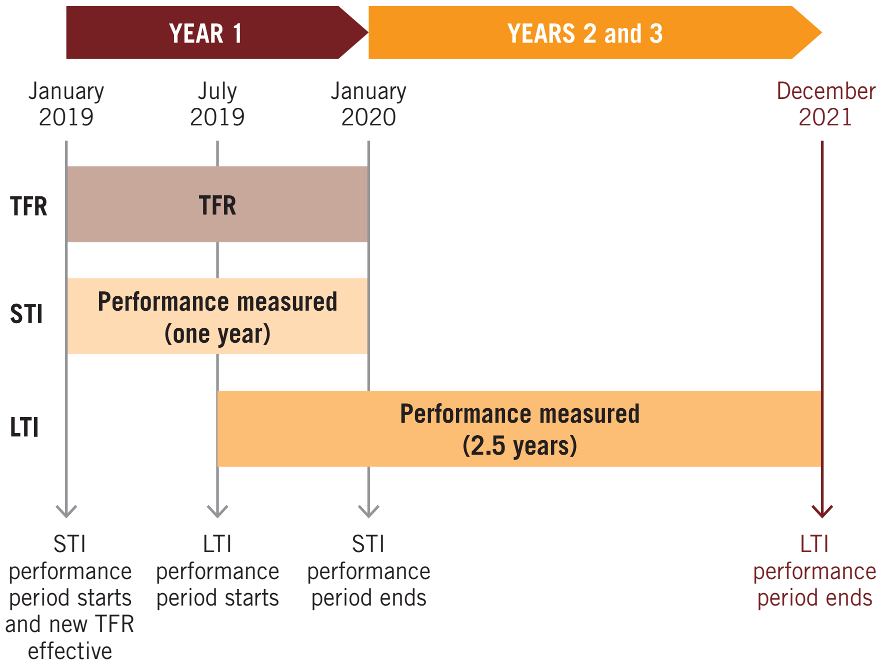
Remuneration mix (actual) CY 2019

Position	TFR (Cash)	STI (Cash)	LTI (Equity) [(1)]
CEO/MD	100%	Up to 50% of TFR	Up to 50% of TFR
Senior Executives (KMP)	100%	Up to 50% of TFR	Up to 50% of TFR

(1) During 2019, the Board adopted an interim cash based LTI scheme – refer section 4.4.3.2 for details.

Note KMPs are classified as Executives for the purposes of remuneration disclosures under the Corporations Act.

The three complementary components of Executive KMP remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart.



4.4 Variable 'at risk' remuneration

As set out in the Section 4.3, variable remuneration forms a portion of the CEO/MD and other Executive KMP remuneration. Apart from being market competitive, the purpose of variable remuneration is to direct executive's behaviours towards maximising Hillgrove Resources' value and return value to shareholders, by targeting short, medium and long term performance measures. The key aspects are summarised below.

Remuneration Report (audited) *(cont.)*

4.0 Executive Remuneration *(cont.)*

4.4.1 Short Term Incentives (STI)

STI Programme	
Purpose	The STI arrangements are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI programme is reviewed annually by the Remuneration Committee and approved by the Board. All STI awards to the CEO/MD and other KMP are approved by the Remuneration Committee and the Board.
Performance Target Areas	The key performance objectives of the Company vary by level but are currently directed to achieving ambitious targets, complemented by the achievement of individual performance goals and Company performance.
Rewarding Performance	The Board adopted a Balanced Scorecard approach to determine 2019 STI performance. The Balanced Scorecard measures performance against the Company's internal goals and published key market guidance metrics each year and includes safety, production, cost control, financial performance and growth measures. The Balanced Scorecard also includes an individual performance component which is a subjective assessment that gives the ability to recognise individuals that have performed above expectations to deliver value for shareholders. A threshold and target is set for each STI outcome. Specific targets are not provided in detail due to commercial sensitivity. Validation of performance against the Balanced Scorecard measures set for the CEO/MD and KMPs involves a review calculation and recommendation by the CEO, reviewed and approved by the Remuneration Committee with final Board sign-off.

4.4.2 Performance based remuneration granted and forfeited during the year

As the Company was still recovering from a cash constrained period the 2019 STI (for the Company's 2018 performance) was capped at 25% of staff's contracted rate and was not paid to staff until July 2019.

The following shows for each KMP how much of their STI cash bonus was awarded and how much was forfeited.

2018	Total Opportunity ($)	Awarded (%)	Forfeited (%)
Mr L A Wallace	210,000	25%	75%
Mr P G Kiley	204,300	25%	75%
Mr G K Norris	150,000	25%	75%

4.4.3 Long Term Incentives (LTI)

In 2019 the Board decided that an equity based LTI scheme may no longer be an appropriate LTI scheme, given 2020 will be a period of change for the Company and create uncertainty for employees as the Company transitions from a copper producer to an exploration and development company.

As an interim scheme the Board approved a LTI cash payment scheme (the 2019 Key Employee Plan) which was adopted in 2019, in principle, to replace the Option & Performance Rights Plan (OPRP) for 2019.

As LTI schemes are by their nature long term schemes this means the Company had two LTI schemes on foot at the end of December 2019, namely:

- The OPRP, and
- The 2019 Key Employees Plan (KEP), which is effective from 1 July 2019.

Details of the two schemes are outlined in more detail below.

Remuneration Report (audited) *(cont.)*

4.0 Executive Remuneration *(cont.)*

4.4.3.1 OPRP Status

No OPRP performance rights were granted in 2019.

During 2019, 66% of the OPRP performance rights granted in 2017 vested and were converted into shares.

At the end of 2019, the OPRP performance rights granted in 2018 remain on foot with a vesting date of 31 May 2020.

4.4.3.1.1 OPRP Description

The LTI provides an annual opportunity for executives and key staff to receive an equity award with a two year vesting period and that is intended to align a significant portion of an executive's overall remuneration to shareholder value over the longer term. All LTI awards remain at risk and subject to clawback (forfeiture or lapse) until vesting and must meet or exceed relative Total Shareholder Return (TSR) performance hurdles over the vesting period, along with other performance criteria.

Long Term Incentives (OPRP)	
Purpose	To retain key executives and align their remuneration with shareholder value.
Equity award	Under the LTI, executives and key staff are offered performance rights (to acquire ordinary shares of Hillgrove Resources Limited).
Time restrictions	Equity grants awarded to the CEO/MD and other KMPs are tested against the performance hurdle over the vesting period, which is two years [(1)] from the grant date. A service and performance requirement is imposed on all equity grants.
Performance hurdles and vesting schedule	The equity grants which were made in 2018 (at a share price of $0.093) are subject to the Company's Total Shareholder Return (TSR) ranked against the S&P/ASX Small Resources Index as follows:

Ranking of TSR Against S&P/ASX Small Resources Index (2 Years) [(1)]	
Performance	**% of equity to vest**
Below the 50th percentile	0%
At the 50th percentile	50% vest
Between the 50th to 75th percentile	2% vesting on a straight line interpolation for each percentile ranking above the 50th percentile
At or above 75th percentile	100% vest

	Performance rights vest as shares if the time restrictions and relevant performance hurdle are met. Special provisions, in accordance with company policies, may apply in the event of termination of employment or a change of control. If the TSR performance hurdle is not met at the vesting date, performance rights lapse, subject to Board discretion.
Exercise Price	Exercise price of nil in the event performance hurdles are met.
Voting rights	There are no voting rights attached to performance rights.
LTI Allocation	The size of individual LTI grants for the CEO/MD and other KMPs is determined in accordance with the Board approved remuneration strategy mix. See Section 4.3. The target LTI $ value for each executive is then converted into a number of performance rights based on a valuation methodology determined at the grant date, as follows: Performance right allocation = LTI $ value determined / Hillgrove Resources share price at grant date.

(1) The vesting period for the 2018 LTI's was reduced to two years to reflect the current approved PEPR mine life.

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

4.0 Executive Remuneration *(cont.)*

4.4.3.2 KEP Description

As with the OPRP, the KEP provides an opportunity for executives and key staff to receive a long term incentive which remains at risk and subject to clawback (in this case lapse) until vesting. Generally KEP payments will only be made where the TSR performance hurdle is met or exceeded over the vesting period of 2.5 years from 1 July 2019.

Unlike the OPRP scheme, the KEP is a cash payment scheme rather than an equity securities based scheme but because the benchmark is TSR, the KEP is accounted for as a share based compensation. Key details of the KEP are summarised in the table below.

Long Term Incentives (KEP)	
Purpose	To retain key executives and align their remuneration with shareholder value.
KEP Allocation	The size of individual KEP entitlements for the CEO/MD and other KMPs was determined in accordance with the Board approved remuneration strategy mix. See Section 4.3.
Type of entitlement	The right to earn a future KEP cash payment (KEP Payment).
TSR Target Value Hurdle	KEP Payments will be subject to the Company meeting or exceeding a TSR Target Value over the vesting period. The TSR Target Value has been calculated as a 27% increase on the Company's market capitalisation at the Grant Date (1 July 2019). If the TSR Target Value is not met at the Vesting Date, the entitlement to a KEP Payment lapses (subject to limited exceptions). A continuous service requirement is also imposed on all eligible KEP employees (subject to limited exceptions in the case of good leavers).
Key dates and periods	Grant Date was 1 July 2019. Vesting Date is 31 December 2021. Vesting Period is the two and a half year period between 1 July 2019 and 31 December 2021.
KEP Payment Amount Payable	Key employees qualify for a target % of their TFR (LTI %) to be used to calculate their KEP Payment. In the event the Company's actual TSR performance reaches the TSR Target Value, eligible employees will qualify for a KEP Payment. The KEP Payment will be equal to that employees LTI % multiplied by the employees TFR, calculated for the two and a half year vesting period. In the event of a change of control, the usual vesting arrangements may be adjusted, and a KEP Payment (including an Uplift Entitlement if applicable) made, having regard to whether the adjusted TSR Target Value is met.
KEP Uplift	Eligible employees will qualify for an increase in their KEP payment if the Company's actual TSR performance exceeds the TSR Target Value (Uplift Amount). The Uplift Entitlement which may be paid under the KEP to all participants in total, will be equal to 10% of the Uplift Amount, capped to a combined maximum for all participants of $3,300,000. The Uplift Entitlement will be apportioned between all eligible KEP employees at the Vesting Date, on the basis of each employees specified Uplift Entitlement % as at the Vesting Date.
Good/Bad Leavers	A good leaver will remain an eligible employee and qualify for a pro rata share of the KEP Payment, based on the period from Grant Date up until their cessation of employment. A bad leaver will lose any rights to a KEP Payment.
Board Discretion	The Board has discretion to administer the KEP and in limited cases to determine payments under the rules (e.g. good leaver allocation, change of control, special circumstances) and to vary the KEP rules in some circumstances.

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

4.0 Executive Remuneration *(cont.)*

4.4.4 Hedging and Margin Lending Prohibition

Under the Company's Share Trading Policy and in accordance with the *Corporations Act 2001*, equity granted under the Company's equity incentive schemes must remain at risk until vested, or exercised. It is a specific condition of the policy that no schemes are entered into, by an individual or their associates, that specifically protects the unvested value of shares, options or performance rights allocated.

The Company, as required under the ASX Listing Rules, has a formal policy outlining how and when employees may deal in Hillgrove Resources securities.

Hillgrove Resources Limited's Share Trading Policy is available on the Company's website www.hillgroveresources.com under Investor Centre, Corporate Governance.

4.5 Relationship between Performance and Executive KMP Remuneration

4.5.1 Hillgrove Resources Financial Performance (31 January 2015 to 31 December 2019)

	12 Months to 31 December				
	2015	2016	2017 (restated)	2018	2019
Sales Revenue ($M)	139.5	113.1	113.3 [1]	180.1	**113.5**
Underlying EBITDA ($M)	16.1	22.2	16.2	44.3	**12.1**
Reported net profit / (loss) ($M)	(130.1) [2]	(109.1) [4]	(14.1)	29.5	**(10.0)**
Return on equity (ROE) % [3]	(69.1%) [2]	(144.3%) [4]	(88.3%)	101.7%	**(28.4%)**
Basic earnings per share (EPS) (cents)	(77.0) [2]	(57.8) [4]	(4.8)	5.1	**(1.7)**
Diluted EPS (cents)	(77.0) [2]	(57.8) [4]	(4.8)	4.9	**(1.7)**
Dividends paid (cents per share)	-	-	-	-	**1.5**
Share price as at 31 December (cents)	16	4	9	9	**6**
Total shareholder return (TSR) % (Annual)	(64.4%)	(75.0%)	125.0%	0% [5]	**(16.7%)** [6]

(1) Restatement for changes in accounting policies.
(2) Includes one off impairment charge of $112.9m.
(3) Based on average total equity.
(4) Includes impairment charge of $68.5m.
(5) Share price as at 31 December was 9c in 2017 and 2018, which results in a 0% TSR.
(6) Hillgrove's TSR performance includes the $0.015 cent dividend.

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

4.0 Executive Remuneration *(cont.)*

4.6 KMP Remuneration Tables – Audited

		Fixed Remuneration				
		Short-term		Long-term		
	Year	Salary and Fees	Non-monetary benefits	Superannuation Benefits	Long Service Leave	Total
Non-Executive Directors						
Mr J E Gooding	**CY19**	**136,986**	**-**	**13,014**	**-**	**150,000**
	CY18 (1)	132,420	-	12,601	-	145,021
Mr M Boyte (2)	**CY19**	**44,169**	**-**	**4,196**	**-**	**48,365**
	CY18	-	-	-	-	-
Mr P Baker	**CY19**	**77,626**	**-**	**7,374**	**-**	**85,000**
	CY18 (1)	75,342	-	7,158	-	82,500
Mr A Breuer	**CY19**	**68,493**	**-**	**6,507**	**-**	**75,000**
	CY18 (1)	66,210	-	6,290	-	72,500
Mr M W Loomes (3)	**CY19**	**24,675**	**-**	**2,344**	**-**	**27,019**
	CY18	66,210	-	6,290	-	72,500
Total	**CY19**	**351,949**	**-**	**33,435**	**-**	**385,384**
	CY18	340,182	-	32,339	-	372,521
Executive Directors						
Mr L A Wallace	**CY19 (4)**	**368,953**	**-**	**29,484**	**25,662**	**424,099**
	CY18 (4)	348,806	-	28,975	14,869	392,650
Mr S McClare	**CY19 (4)**	**662,377 (5)**	**-**	**7,500**	**21,693**	**691,570**
	CY18 (4)	539,632	-	30,301	23,157	593,090
Total	**CY19**	**1,031,330**	**-**	**36,984**	**47,355**	**1,155,669**
	CY18	888,438	-	59,276	38,026	985,740
Other key management personnel						
Mr P G Kiley	**CY19 (4)**	**383,681**	**-**	**24,998**	**-**	**408,679**
	CY18 (4)	437,988	-	15,469	-	453,457
Mr G K Norris (6)	**CY19 (4)**	**163,547**	**-**	**15,067**	**13,447**	**192,061**
	CY18 (4)	n/a	-	n/a	n/a	-
Total	**CY19**	**547,228**	**-**	**40,065**	**13,447**	**600,740**
	CY18	437,988	-	15,469	-	453,457
KMP Total	**CY19**	**1,930,507**	**-**	**110,484**	**60,802**	**2,101,793**
	CY18	1,666,608	-	107,084	38,026	1,811,718

(1) The CY18 non-executive director's fees are lower than CY19 because the 20% director voluntary fee reduction which was in place from January to March 2018. The fee reduction was not repaid unlike the 10% staff salary deferral (see note 4).

(2) Mr M Boyte was appointed on 10 May 2019.

(3) Mr M Loomes resigned on 10 May 2019.

(4) In May 2016 all Hillgrove management and staff, as part of a cost reduction initiative, agreed to defer 10% of their salary from 19 May 2016 until 30 November 2017. Beginning from 1 December 2017, the total salary deferral for each employee was repaid over a 14 month period. The 2019 salaries include 1 month of deferred salary repayments and the 2018 salaries include 12 months.

(5) Includes $496,574 termination pay of which $89,381 was LSL and $76,612 was an STI for 2018 performance.

(6) The table shows Mr G Norris's remuneration since 23 May 2019 when he was promoted to a KMP role.

Remuneration Report (audited) *(cont.)*

4.0 Executive Remuneration *(cont.)*

4.6 KMP Remuneration Tables – Audited *(cont.)*

		Variable Remuneration				Total	Proportion of Total Remuneration	
		Short-term	LTI Compensation		Total		Performance Related	Equity Related
	Year	Bonus	Value of Performance Rights	Value of KEP Entitlement		Fixed and Variable	%	%
Non-Executive Directors								
Mr J E Gooding	**CY19**	**-**	**-**	**-**	**-**	**150,000**	**0%**	**0%**
	CY18	-	-	-	-	145,021	0%	0%
Mr M Boyte	**CY19**	**-**	**-**	**-**	**-**	**48,365**	**0%**	**0%**
	CY18	-	-	-	-	0	0%	0%
Mr P Baker	**CY19**	**-**	**-**	**-**	**-**	**85,000**	**0%**	**0%**
	CY18	-	-	-	-	82,500	0%	0%
Mr A Breuer	**CY19**	**-**	**-**	**-**	**-**	**75,000**	**0%**	**0%**
	CY18	-	-	-	-	72,500	0%	0%
Mr M W Loomes	**CY19**	**-**	**-**	**-**	**-**	**27,019**	**0%**	**0%**
	CY18	-	-	-	-	72,500	0%	0%
Total	**CY19**	**-**	**-**	**-**	**-**	**385,384**	**-**	**-**
	CY18	-	-	-	-	372,521	-	-
Executive Directors								
Mr L A Wallace	**CY19**	**52,500**	**114,728** (7)	**3,238** (9)	**170,466**	**594,565**	**9%**	**19%**
	CY18	81,303	130,832	-	212,135	604,785	13%	22%
Mr S P McClare	**CY19**	**89,381**	**101,184** (7)(8)	**-**	**190,565**	**882,135**	**10%**	**11%**
	CY18	131,400	227,676	-	359,076	952,166	14%	24%
Total	**CY19**	**141,881**	**215,912**	**3,238**	**361,031**	**1,476,700**	**-**	**-**
	CY18	212,703	358,508	-	571,211	1,556,951	-	-
Other key management personnel								
Mr P G Kiley	**CY19**	**51,075**	**139,783** (7)	**3,146** (9)	**194,004**	**602,683**	**8%**	**23%**
	CY18	87,600	160,859	-	248,459	701,916	12%	23%
Mr G K Norris	**CY19**	**37,500**	**68,793** (7)	**2,313** (9)	**108,606**	**300,667**	**12%**	**23%**
	CY18	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	**CY19**	**88,575**	**208,576**	**5,459**	**302,610**	**903,350**	**-**	**-**
	CY18	87,600	160,859	-	248,459	701,916	-	-
Total	**CY19**	**230,456**	**424,488**	**8,697**	**663,641**	**2,765,434**	**-**	**-**
	CY18	300,303	519,367	-	819,670	2,631,388	-	-

(7) Includes the value of forfeited 2017 performance rights.

(8) Includes the value of 2018 performance rights forfeited on termination. The 2018 performance rights were granted on condition that a good leaver would remain eligible for a pro rata share of the LTI's up to the date he/she left employment.

(9) KEP entitlement (including Uplift) valued at 31 December 2019.

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

5.0 Equity plan disclosures

5.1 Employee Share Schemes (ESS) operated by the Group

Plan Details	Type of Instruments	Details	Purpose
Employee share plan and share issues	General Employee Share Plan (GESP)		To incentivise and align part of employee remuneration to shareholder value
Hillgrove Resources Option and Performance Rights Plan	Option and Performance Rights Plan (OPRP)	Refer 4.4.3.1	To provide equity incentive subject to meeting predetermined service and performance conditions.
Key Employee Plan	Cash payment linked to TSR performance (KEP)	Refer 4.4.3.2	To provide a cash incentive subject to meeting predetermined service and performance conditions.

5.2 Analysis of share-based payments granted as remuneration to KMP

Details of the vesting profile of the performance rights granted as remuneration to each Key Management Personnel, and the movements during the period are set out below:

Key Executives	Grant Date	Balance held at 31/12/18	Granted	Number vested	% vested	Number forfeited	% lapsed	Balance held at 31/12/19 (1)(2)
Executive Directors								
Mr L A Wallace	Jun 18	1,900,000	-	-	0%	-		1,900,000
	Jul 17	2,100,000	-	1,386,000	66%	714,000		-
TOTAL		**4,000,000**	**-**	**1,386,000**		**714,000**		**1,900,000**
Other Key Management Personnel								
Mr P Kiley	Jun 18	2,300,000	-	-	0%	-		2,300,000
	Jun 17	2,600,000	-	1,716,000	66%	884,000		-
TOTAL		**4,900,000**	**-**	**1,716,000**		**884,000**		**2,300,000**
Mr GK Norris	Jun 18	1,350,000	-	-	0%	-		1,350,000
	Jun 17	675,000	-	445,000	66%	230,000		-
TOTAL		**2,025,000**	**-**	**445,000**		**230,000**		**1,350,000**
Former Key Executives								
Mr S P McClare	Jun 18	3,500,000	-	-	0%	1,891,245(3)		1,608,755
	Jun 17	3,800,000	-	2,508,000	66%	1,292,000		-
TOTAL		**7,300,000**	**-**	**2,508,000**		**3,183,245**		**1,608,755**

(1) None of the 2018 performance rights are exercisable and will not vest until 31 May 2020.

(2) There were no performance rights granted in 2019.

(3) Mr McClare left the company on 2 May 2019. The 2018 performance rights were granted on condition that a good leaver would remain eligible for a pro rata share of the LTI's up to the date he/she left employment.

5.3 Exercise of Performance Rights granted as remuneration

During the financial year, the following shares were issued on the exercise of performance rights previously granted as part of remuneration:

Key Executives	Number of shares	Amount paid $/share	Total Amount paid	Intrinsic value of benefit based on year end value of HGO shares (1)
Executive Directors				
Mr L A Wallace	1,386,000	$0.00	$0.00	$83,160
Other Key Management Personnel				
Mr P Kiley	1,716,000	$0.00	$0.00	$102,960
Mr G K Norris	445,000	$0.00	$0.00	$26,700
Former Key Executives				
Mr S P McClare	2,508,000	$0.00	$0.00	$150,480
TOTAL	**6,055,000**	**$0.00**	**$0.00**	**$363,300**

(1) Intrinsic value at year end is the difference between the exercise price ($0.00) and the share price ($0.06) on 31 December 2019.

Remuneration Report (audited) *(cont.)*

5.0 Equity plan disclosures *(cont.)*

5.4 Value of performance rights granted to Executive KMP, and on foot as at 31 December 2019

Key Executives	Grant Date	Number Granted	Vesting Date	Face Value per right (1)	Fair Value (2)	Intrinsic Value (3)	Total Fair Value
Executive Directors							
Mr L A Wallace	Jun 18	1,900,000	Jun 20	$0.06	(4) $0.0904	$114,000	$171,760
TOTAL		**1,900,000**				**$114,000**	**$171,760**
Other Key Management Personnel							
Mr P Kiley	Jun 18	2,300,000	Jun 20	$0.06	(4) $0.0904	$138,000	$207,920
TOTAL		**2,300,000**				**$138,000**	**$207,920**
Mr G K Norris	Jun 18	1,350,000	Jun 20	$0.06	(4) $0.0904	$81,000	$122,040
TOTAL		**1,350,000**				**$81,000**	**$122,040**
Former Key Executives							
Mr S McClare	Jun 18	(5) 1,608,755	Jun 20	$0.06	(6) $0.0865	$96,525	$139,157
TOTAL		**1,608,755**				**$96,525**	**$139,157**

(1) *The Face Value ($0.06) is the closing share price on 31 December 2019.*

(2) *The Fair Value at grant date has been based on a valuation in accordance with accounting standard AASB 2 "Share Based Payments". The fair values are used for accounting purposes only.*

(3) *Intrinsic value is the difference between the Face Value ($0.06) and the exercise price ($0.00).*

(4) *Valued at Grant Date on 1 June 2018.*

(5) *Original grant 3,500,000 rights less 1,891,245 rights forfeited on termination.*

(6) *Valued at 24 May 2018 when approved by shareholders at the AGM.*

5.5 Movement in equity held

The movement during the reporting period in the number of ordinary shares of Hillgrove Resources Limited held, directly, indirectly or beneficially, by each specified Director and executive KMP, including their personally-related entities:

		Held as at 31/12/18	Exercise of Rights (1)	Net Other Changes	Held as at 31/12/19
Directors					
Mr J E Gooding	Shares	94,444	-	-	**94,444**
Mr M Boyte	Shares	-	-	-	**-**
Mr P Baker	Shares	667,626	-	-	**667,626**
Mr A Breuer	Shares	20,166,800	-	-	**20,166,800**
Mr L A Wallace	Shares	10,819,197	1,386,000	-	**12,205,197**
Other KMP					
Mr P Kiley	Shares	5,057,666	1,716,000	-746,000	**6,027,666**
Mr G K Norris	Shares	4,841,519	445,500	-	**5,287,019**

(1) *Rights were exercised on or before their expiry date of 31 July 2019.*

(2) *Mr McClare left the Company on 2 May 2019. As at 31/12/18 Mr McClare held 9,379,706 shares and during 2019 exercised 2,508,000 performance rights increasing his shareholding to 11,887,706 shares.*

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

6.0 Service Contracts and Employment Agreements

The Company does not enter into service contracts for KMP Executives. The following sets out details of the employment contracts for Executive KMPs as at 31 December 2019.

Employee	Mr L A Wallace	Mr P G Kiley	Mr G K Norris
Position	Chief Executive Officer and Managing Director	Chief Financial Officer and Company Secretary	General Manager, Kanmantoo Copper Mine
Commencement	24 May 2019	12 June 2015	24 May 2019
Fixed Remuneration (1)	$420,000 p.a. (2) reviewed periodically	$408,600 p.a. (3) reviewed periodically	$300,000 p.a. (4) reviewed periodically
Short-term Incentive	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Long-term Incentive	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Contract Length	Indefinite	Indefinite	Indefinite
Notice periods for resignation or termination	6 months	3 months	1 month
Redundancy Benefit	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy
Death or Total and Permanent Disability Benefit	No specific benefit	No specific benefit	No specific benefit
Change of Control	No effect	No effect	No effect
Termination for serious misconduct	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI
Statutory entitlements	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards
Post-Employment restraints	For 6 months: Must not recruit employees or make adverse comments or actions by either party	For 6 months: Must not recruit employees or make adverse comments or actions by either party	For 6 months: Must not recruit employees or make adverse comments or actions by either party

(1) On 19 May 2016 all Hillgrove employees, as part of a cost reduction initiative, agreed to defer 10% of their salary from 19 May 2016 until 30 November 2017. From 1 December 2017, the total salary deferral for each employee was repaid over a 14 month period up until January 2019.

(2) Mr Wallace's annual fixed remuneration excludes $3,651 which was paid in January 2019 and which was attributable to the 2016 and 2017 salary deferral amounts.

(3) Mr Kiley's annual fixed remuneration excludes $4,381 which was paid in January 2019, and which was attributable to the 2016 and 2017 salary deferral amounts.

(4) Mr Norris's annual fixed remuneration excludes $2,415 which was paid in January 2019, and which was attributable to the 2016 and 2017 salary deferral amounts.

Directors' Report *(cont.)*

Corporate Governance Statement

The Company's Board is committed to achieving the highest standards of corporate governance.

The Company's Corporate Governance Statement for the year ended 31 December 2019 may be accessed from the Company's website at www.hillgroveresources.com.au/article/Corporate_Governance/Corporate_Governance.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

Auditors 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 38.

Signed in accordance with a resolution of the Directors:

Dated at Adelaide this 27th day of February 2020

Mr John Gooding
Chairman

Mr Lachlan Wallace
Managing Director

Auditor's Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Hillgrove Resources Limited for the year ended 31 December 2019, 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hillgrove Resources Limited and the entities it controlled during the period.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
27 February 2020

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Concentrate revenue	*5*	**113,537**	180,080
Other income	*6*	**1,703**	225
Expenses	*7(a)*	**(117,746)**	(152,665)
Interest and finance charges	*7(b)*	**(788)**	(1,646)
Impairment charges	*7(c)*	**(3,048)**	(214)
Profit / (Loss) before income tax		**(6,342)**	25,780
Income tax (expense) / benefit	*8*	**(3,685)**	3,685
Profit / (Loss) for the year attributable to owners		**(10,027)**	29,465
Comprehensive income			
Items that may be reclassified to profit or loss:		**-**	-
Total comprehensive income for the period attributable to equity holders of Hillgrove Resources Limited		**(10,027)**	29,465
Earnings per share for profit attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic earnings per share	*9*	**(1.7)**	5.1
Diluted earnings per share	*9*	**(1.7)**	4.9

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 43 to 65.

Consolidated Balance Sheet

As at 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Current assets			
Cash and cash equivalents	*10*	**9,329**	2,451
Trade and other receivables	*11*	**3,075**	5,421
Inventories	*12*	**10,182**	25,616
		22,586	33,488
Non-current assets			
Inventories	*12*	**1,899**	8,000
Property, plant and equipment	*13*	**24,163**	44,008
Exploration and evaluation expenditure	*14*	**2,616**	2,034
Project costs	*15*	**-**	1,515
Deferred tax asset	*16*	**-**	3,685
		28,678	59,242
Total assets		**51,264**	92,730
Current liabilities			
Trade and other payables	*17*	**8,640**	26,647
Provisions	*18*	**4,132**	3,277
Borrowings and lease liabilities	*19*	**253**	836
Employee benefits payable	*20*	**3,322**	3,448
Deferred income	*21*	**479**	1,383
		16,826	35,591
Non-current liabilities			
Provisions	*22*	**8,140**	12,402
Borrowings and lease liabilities	*19*	**-**	145
Employee benefits payable	*23*	**-**	331
Deferred income	*21*	**-**	58
		8,140	12,936
Total liabilities		**24,966**	48,527
Net assets		**26,298**	44,203
Equity			
Contributed equity	*24*	**234,322**	234,327
Reserves	*25*	**27,113**	34,986
Accumulated losses	*26*	**(235,137)**	(225,110)
Total equity		**26,298**	44,203

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 43 to 65.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance 1 January 2018		234,334	3,128	(223,709)	13,753
Profit/(Loss) for the period		-	30,866	(1,401)	29,465
Other comprehensive income		-	-	-	-
Transactions with owners:					
Options exercised	*24*	(7)	-	-	(7)
Share-based compensation	*35*	-	992	-	992
Balance 31 December 2018		**234,327**	**34,986**	**(225,110)**	**44,203**
Profit/(Loss) for the period		-	-	(10,027)	(10,027)
Other comprehensive income		-	-	-	-
Transactions with owners:					
Options exercised	*24*	(5)	-	-	(5)
Dividend paid	*3*	-	(8,784)	-	(8,784)
Share-based compensation	*35*	-	911	-	911
Balance 31 December 2019		**234,322**	**27,113**	**(235,137)**	**26,298**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 43 to 65.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash flows from operating activities			
Cash receipts in the course of operations (inclusive of GST)		**116,772**	179,601
Cash payments in the course of operations (inclusive of GST)		**(94,957)**	(161,651)
Net cash generated by operating activities	*30*	**21,815**	17,950
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		**(950)**	(1,446)
Payments for property, plant and equipment		**(4,574)**	(5,422)
Proceeds on disposal of plant and equipment		**96**	9
Net cash used in investing activities		**(5,428)**	(6,859)
Cash flows from financing activities			
Dividends paid		**(8,784)**	-
Proceeds from borrowings		**-**	4,000
Transaction costs of borrowings / convertible notes		**-**	(135)
Repayment of borrowings		**(430)**	(12,000)
Repayment of finance leases		**(225)**	(326)
Interest received		**4**	-
Interest paid		**(76)**	(650)
Net cash from/(used) in financing activities		**(9,509)**	(9,111)
Net increase / (decrease) in cash and cash equivalents		**6,878**	1,980
Cash and cash equivalents at the beginning of financial period		**2,451**	471
Cash and cash equivalents at the end of the financial period	*10*	**9,329**	2,451

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 43 to 65.

1. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. The financial statements are for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, Hillgrove Resources Limited is a for-profit entity.

(i) Working capital

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. Cash generating activities from the processing of copper ore are likely to cease in March 2020. Based on projected cashflows, the directors consider that cash on hand at the date of the report plus cash generated from other activities will be sufficient for the Group to cover forecast expenditure for the next twelve months including its ongoing rehabilitation and compliance requirements and to meet expenditure commitments under exploration leases.

(ii) Compliance with International Financial Reporting Standards

Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of Hillgrove Resources Limited comply with International Financial Reporting Standards (IFRSs).

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified when necessary by the revaluation of certain financial assets and liabilities to fair value through other comprehensive income or through profit or loss.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Hillgrove Resources Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

For the purpose of presenting consolidated financial statements, the assets and liabilities of Hillgrove Resources Limited's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange rate differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

1. Statement of Significant Accounting Policies *(cont.)*

(c) Impairment of assets

The carrying value of property, plant and equipment 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.

The specific methods and assumptions used to estimate the discounted future cash flows of the Group's CGU are outlined in more detail in Note 2 "Critical accounting estimates and judgements".

(d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(e) Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

2. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Recoverability of non-current assets

The Group has a single Cash Generating Unit (CGU) being the Kanmantoo copper mine. The estimates of discounted future cash flows for the Kanmantoo CGU are based on significant assumptions including:

- Estimates of the quantities of ore reserves and the timing of access to those reserves;
- Future production levels based on plant throughput and recoveries;
- Future copper, gold and silver prices based on broker consensus pricing;
- Future exchange rates for the Australian dollar to US dollar based on forward curve data;
- Future operating costs of production including capital expenditure;
- The discount rate most appropriate to the CGU; and
- The timing and amounts to be received from the sale of processing equipment and land following completion of mining and processing activities.

Annual assessments of the discounted future cash flows for the Kanmantoo CGU have resulted in no adjustments to the carrying values. Separate to the CGU there have been impairments of carrying values of some exploration licences and impairment of the current and carried forward costs for the Pumped Hydro Energy Storage (PHES) project.

The ultimate recoupment of costs capitalised and carried forward for exploration and evaluation activities is dependent on successful development and commercial exploitation, or sale of the respective areas.

2. Critical Accounting Estimates and Judgements *(cont.)*

(b) 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. Provisions are recognised at the net present value of future expected costs as outlined in Notes 18 and 22.

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.

(c) Pumped Hydro Energy Storage (PHES) project income recognition

The Hillgrove Group sold the rights to develop, own and operate a PHES project at its Kanmantoo mine site to AGL Energy Limited. Consideration was payable by AGL in instalments which were linked to the achievement of conditions precedent forming agreed project milestones. Completion of all project milestones was estimated to take between 18-36 months and would result in total consideration of $31 million. The first receipt for Hillgrove was $1 million on signing of the project agreements in March 2019. In the June 2019 half year accounts the $1m received by Hillgrove was accounted for as deferred income on the balance sheet under non-current liabilities and not recorded as revenue in the Profit & Loss. Costs incurred which were associated with this contract were capitalised onto the balance sheet under "Project Costs".

In February 2020 the timeline for satisfaction of conditions had lapsed and both parties mutually agreed to terminate the PHES project agreement. As a consequence the capitalised project costs have been impaired and expensed to the Profit & Loss. At the same time, the $1 million deferred income receipt has been recognised as other income in the Profit & Loss.

3. Dividends

	31 Dec 2019 $'000	31 Dec 2018 $'000
Franked dividend paid for 2019: 1.5 cents per share	**8,784**	-
Amount of franking credits available to shareholders for subsequent financial years	**17,556**	21,320

4. 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. The Group also has exploration tenement interests overseas, but these tenements are fully written down, incurring minimal care and maintenance costs and therefore are considered to be immaterial, not requiring separate segment disclosure.

5. Concentrate Revenue

	31 Dec 2019 $'000	31 Dec 2018 $'000
Copper in concentrate	**116,152**	191,339
Gold in concentrate	**6,325**	8,169
Silver in concentrate	**2,011**	2,868
Treatment and refining deductions	**(10,951)**	(22,296)
Concentrate revenue	**113,537**	180,080

Revenue is measured at the fair value of the consideration received or receivable.

The Group sells copper concentrate under an offtake contract and the Group trades using CIF terms (i.e. Seller's cost, insurance and freight) for vessel chartering. Under AASB 15, the Company has three performance obligations relating to the sale of concentrate which include delivery and transfer of title of concentrate at the port of loading, loading of concentrate onto the ship and transporting the shipment to the port of destination. The transaction price applied to the delivery of concentrate to the port is value of the concentrate delivered adjusted for treatment and refining charges, the transaction price allocated to the final two performance obligations are cost of loading and chartering a vessel for shipment to destination at cost recovery.

The price can be declared as either one of: one month before the month of shipment or synthetically spread adjusted to five months after the month of arrival at the discharge port.

The group has recognised the following assets and liabilities related to contracts with customers;

	31 Dec 2019 $'000	31 Dec 2018 $'000
Deferred income (contract liability)	**(479)**	(1,166)
Trade and other receivables (contract asset)	**479**	1,166

6. Other Income

	31 Dec 2019 $'000	31 Dec 2018 $'000
Interest	**12**	4
Grant income	**275**	221
PHES project initial receipt	**1,000**	-
Other – services provided to third parties	**416**	-
Total other income	**1,703**	225

7. Expenses

Profit or loss before income tax includes the following expenses:

(a) Expenses per profit or loss

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Costs of production	*(i)*	**72,583**	143,322
Depreciation and amortisation		**14,664**	16,713
Inventory movement		**20,859**	(20,661)
Cost of goods sold		**108,106**	139,374
Government royalties		**5,388**	8,552
Corporate and other costs	*(ii)*	**4,945**	4,880
Rehabilitation adjustment	*(iii)*	**(702)**	-
(Gain)/Loss on sale of fixed assets		**(47)**	4
Foreign exchange loss / (gain)		**56**	(145)
Total Expenses per Profit or Loss		**117,746**	152,665

(i) Costs of production represent costs for mining, processing, transport of concentrate to port, and site overheads.

(ii) Corporate and other costs reflect the costs incurred in running the corporate head office, together with Indonesian care and maintenance costs.

(iii) The estimated decrease in the required rehabilitation provision was first applied to reduce the carrying amount of the rehabilitation asset in Mine Development to zero and the remaining amount was recorded as other income.

7. Expenses *(cont.)*

(b) Interest and finance charges

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Discount on unwind of rehabilitation provision		**257**	350
Borrowing costs, bank fees and charges		**6**	200
Interest on borrowings		**3**	286
Other interest payable	*(i)*	**522**	809
Convertible Note interest		**-**	1
Total Interest and finance charges		**788**	1,646

(i) Includes interest charged on sales proceeds received in advance of ship loading. The cost is netted-off against revenue as it is received and therefore is not dislcosed as a financing activity cashflow in the Statement of Cashflows.

(c) Impairment charges

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Exploration assets	*(i)*	**232**	214
PHES project costs	*(ii)*	**2,816**	-
		3,048	214

(i) Expenditure on exploration areas of interest where the prospect of recoupment of costs capitalised through successful development and commercial exploitation is no longer considered likely, is charged to the profit or loss as an impairment charge.

(ii) Costs accumulated in connection with the PHES project development by AGL were impaired at 31 December due to mutual agreement to terminate the contract by both parties in February 2020.

(d) Other required disclosures

	31 Dec 2019 $'000	31 Dec 2018 $'000
Employee benefits (excluding share-based payments)	**19,023**	27,349
Share based payments (see note 35)	**911**	992

(e) Assurance services

The following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	31 Dec 2019 $	31 Dec 2018 $
(i) Audit Services		
Fees paid to PricewaterhouseCoopers:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**226,355**	257,459
Fees paid to other firms:		
Audit and review of Singapore financial reports (Crowe Horwath)	**19,900**	15,470
	246,255	272,929
(ii) Taxation Services		
Services by Deloitte Touche Tohmatsu:		
Tax compliance services, including review of income tax returns	**11,450**	9,000
Services by PricewaterhouseCoopers:		
Tax compliance services, including review of income tax returns	**24,299**	35,677
Services by other firms:		
Singapore tax compliance services, including income tax returns (Crowe Horwath)	**-**	8,330
	35,749	53,007

8. Income Tax Expense

	31 Dec 2019 $'000	31 Dec 2018 $'000
(a) Income tax expense		
Income tax expense comprises:		
- Current tax expense	-	-
- Deferred tax expense / (benefit)	3,685	(3,685)
Income tax expense / (benefit)	3,685	(3,685)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense/(benefit)	(6,342)	25,780
Tax at the Australian tax rate of 30%	(1,903)	7,734
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	273	297
- Non-deductible expenses	10	212
- Non-assessable income	(172)	-
- Losses from non-resident foreign operations	225	267
- Prior year tax losses utilised and temporary differences	-	(8,510)
- Tax temporary differences (recognised) / not recognised	5,252	(3,685)
Income tax expense/(benefit)	3,685	(3,685)
(c) Amounts recognised directly in equity		
Deferred tax – (credited)/ debited directly in equity	-	-

(d) Tax consolidation legislation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Hillgrove Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Hillgrove Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The entities in the tax-consolidated group entered into a tax sharing agreement and a tax funding agreement. On adoption of the legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity. The entities have also entered a tax funding agreement under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to it under the tax consolidation legislation. Refer to Note 16.

9. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Classification of securities as ordinary shares

Ordinary shares have been classified as ordinary shares and included in basic earnings per share.

Classification of securities as potential shares

Outstanding performance rights have been classified as potential ordinary shares and included in diluted earnings per share.

9. Earnings Per Share *(cont.)*

	31 Dec 2019 $'000	31 Dec 2018 $'000
(a) Basic earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**(10,027)**	29,465
(b) Diluted earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**(10,027)**	29,465

	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	**581,988,390**	573,567,811
Number for diluted earnings per share		
Diluted ordinary shares	**604,903,137**	601,376,365

	Cents	Cents
(a) Basic earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(1.7)**	5.1
(b) Diluted earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(1.7)**	4.9

10. Cash and cash equivalents

	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash at bank and on hand	**8,971**	2,058
Restricted cash	**358**	393
	9,329	2,451

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash cannot be accessed without consent and comprises deposits to cash back environmental bonds, office rental security deposits, foreign exchange pre settlement risk.

11. Trade and other receivables

	31 Dec 2019 $'000	31 Dec 2018 $'000
Trade receivables	1,135	1,890
Prepayments	1,230	2,267
Other receivables	424	414
GST receivable	286	850
	3,075	5,421

Trade receivables are for concentrate sales and the Group has a single customer under the terms of an offtake agreement. Sales are denominated in US dollars. Revenue is recognised in accordance with the policy described in Note 5 using spot exchange rates on the date of the sale, with trade receivables subsequently being translated at the exchange rate applicable on the date when settled. Unsettled balances at period end are revalued using the appropriate end of period exchange rate.

First progress payment is received three business days after concentrate is delivered to port in minimum tonnage lots. First provisional payment covering 95% of the value is received three business days after ship loading. Second provisional payment for the remaining 5% is received 45 days after ship loading. Refer to note 5 for additional information. Prepayments include contract assets recognised under AASB 15 of $479,000 (CY18: $1,166,000).

The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in note 27(c).

12. Inventories

	31 Dec 2019 $'000	31 Dec 2018 $'000
Current Assets		
Concentrates	**1,976**	1,803
Run-of-mine (ROM) stockpile	**7,313**	20,756
Stores and consumables	**893**	3,057
Total current inventory	**10,182**	25,616
Non-Current Assets		
ROM stockpile	**-**	8,000
Stores inventory	**1,899**	-
Total non-current inventory	**1,899**	8,000

Inventory is recognised at the lower of cost and net realisable value.

The cost of inventory is determined using the allocation of costs between production and development activities. Costs and activities are monitored at each stage of the production process and allocated to physical units.

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 inventories involves judgements about the quantity of metal that can be recovered, future commodity prices, production costs and selling costs.

Due to the probability of the processing plant entering a phase of care and maintenance, an assessment has been made of the estimated cost or net realisable value of stores inventory which is unlikely to be consumed in the next financial year but still has future economic value in conjunction with the plant itself. This has been reclassified to non-current stores inventory on the balance sheet at 31 December 2019.

In the previous year the value for ROM stockpiles was split between current and non-current assets based on estimated judgement of the timing for when this material was expected to be processed.

13. Property, Plant and Equipment

	31 Dec 2019 $'000	31 Dec 2018 $'000
Land and buildings		
At cost	**5,524**	5,524
Accumulated depreciation	**(379)**	(379)
	5,145	5,145
Plant and equipment		
At cost	**73,370**	73,264
Accumulated depreciation and impairment	**(59,621)**	(58,112)
	13,749	15,152
Motor vehicles		
At cost	**763**	1,281
Accumulated depreciation	**(640)**	(761)
	123	520
Mine development		
At cost	**163,313**	161,054
Accumulated depreciation and impairment	**(158,167)**	(145,768)
	5,146	15,286
Deferred mining costs		
At cost	**-**	7,905
	-	7,905
Total property, plant and equipment	**24,163**	44,008

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and costs incurred in bringing assets into use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred. The units of production basis is used when depreciating mine specific assets which results in a depreciation charge proportional to the depletion of the forecast remaining life of mine production. Changes in factors such as estimates of proven and probable reserves that affect the unit of production calculations are applied on a prospective basis.

13. Property, Plant and Equipment *(cont.)*

The straight line method of depreciation to allocate cost, net of residual values, is used for all remaining assets over estimated useful lives between 3-10 years from inception, the duration reflects the specific nature of the assets. Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Mine development includes the Kanmantoo mine rehabilitation asset (see Note 2(b)) as well as costs incurred to estimate the quantum of the Kavanagh underground resource. Deferred mining costs on the balance sheet in 2018 represented mining costs which were normalised for the impact of strip ratios and copper grades over the life of specific pits. These were fully amortised to the profit or loss during 2019.

AASB 16 "Leases" became operative from 1 January 2019. As forecast in the 2018 financial statements, the Group has applied the simplified transition approach and comparative amounts have not been restated upon first adoption.

As at 31 December 2018, the Group was a lessee under finance leases for 23 motor vehicles and a multi-stream analyser ("MSA") in the processing plant. Of these lease arrangements, only 12 vehicle leases remain open at 31 December 2019 with all due to expire before July 2020 and the MSA has been purchased. As a consequence, asset values relating to remaining lease contracts have not been separately disclosed as "right-to-use" assets under AASB 16 as they are short term and immaterial.

For more information on the Group's revised lease accounting policy and its application to current leasing arrangements, refer to Note 19 "Lease Liabilities".

In accordance with the Group's accounting policies, regular impairment testing is carried out to ensure assets are not carried at more than their recoverable amount. The value in use methodology is used to estimate the recoverable amount, rather than the fair value less cost of disposal method. This is because the value in use methodology more closely portrays Kanmantoo's current life of mine plan which envisages completion of mining and closure in the near-term and does not assume any future expansion of the mineral resource beyond the Kavanagh Ore Zone. As the recoverable amount can vary with market conditions particularly the future estimated price of copper, impairment testing is done at a point in time to reflect those market conditions.

No impairment charges were taken against the Group's Kanmantoo assets in the current year. Costs capitalised in connection with the PHES project and certain exploration areas of interest were written down as impairment charges, refer to Note 7(c).

Reconciliations of the carrying amounts for each class of asset are set out below:

	31 Dec 2019 $'000	31 Dec 2018 $'000
Land and buildings		
Carrying amount at beginning of period	**5,145**	5,145
Disposals	**-**	-
Depreciation	**-**	-
Carrying amount at end of period	**5,145**	5,145
Plant and equipment		
Carrying amount at beginning of period	**15,152**	16,754
Additions	**106**	196
Disposals	**-**	-
Depreciation	**(1,509)**	(1,798)
Carrying amount at end of period	**13,749**	15,152
Motor vehicles		
Carrying amount at beginning of period	**520**	542
Additions	**-**	136
Disposals	**(39)**	(12)
Depreciation	**(358)**	(146)
Carrying amount at end of period	**123**	520
Mine development		
Carrying amount at beginning of period	**15,286**	27,992
Additions	**2,488**	2,620
Transfers from exploration and evaluation expenditure	**-**	246
Depreciation	**(12,399)**	(14,990)
(Decrease) / Increase provision for rehabilitation	**(229)**	(582)
Carrying amount at end of period	**5,146**	15,286
Deferred mining Costs		
Carrying amount at beginning of period	**7,905**	27,258
(Reductions) / Additions	**(7,905)**	(19,353)
Carrying amount at end of period	**-**	7,905
Total property, plant and equipment	**24,163**	44,008

14. Exploration and Evaluation Expenditure

The Group accumulates certain costs associated with exploration activities on specific areas of interest where the Group has rights of tenure and where exploration and evaluation activities in the area of interest have not reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves.

Expenditure on exploration areas of interest where the prospect of recoupment of costs capitalised through successful development and commercial exploitation is no longer considered likely, is charged to the profit or loss as an impairment charge.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Exploration and evaluation expenditure	**2,616**	2,034
Carrying at beginning of period	**2,034**	889
Additions	**814**	1,605
Transfers to mine development	**-**	(246)
Impairment loss	**(232)**	(214)
Carrying amount at end of period	**2,616**	2,034

15. Project Costs

The Group accumulated certain costs associated with meeting its commitments towards the progress of AGL's Pumped Hydro Energy Storage project. These costs were to be carried forward until the performance obligations were satisfied.

Costs accumulated in connection with the PHES project were impaired at 31 December due to mutual agreement to terminate the contract by both parties in February 2020.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Project costs	**-**	1,515
Carrying at beginning of period	**1,515**	-
Additions	**1,301**	1,515
Amortisation	**-**	-
Impairment losses	**(2,816)**	-
Carrying amount at end of period	**-**	1,515

16. Deferred Tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Deferred tax asset (DTA)		
DTA amounts recognised in profit or loss		
Employee benefits	**893**	997
Rehabilitation provisions	**-**	4,291
Tax revenue losses	**-**	-
Property, plant & equipment	**-**	-
Other	**4**	1,599
	897	6,887
DTA/(DTL) amounts recognised directly in equity		
Share issue expenses	**32**	121
Other	**-**	9
Set-off deferred tax liabilities pursuant to set-off provision	**(929)**	(3,332)
Net deferred tax assets	**-**	3,685

16. Deferred Tax *(cont.)*

	31 Dec 2019 $'000	31 Dec 2018 $'000
Deferred tax liability		
DTL amounts recognised in profit or loss		
Deferred mining costs	-	2,372
Other	**929**	960
	929	3,332
Amount offset to deferred tax assets pursuant to set-off	**(929)**	(3,332)
Net deferred tax liabilities	-	-
Movements in net deferred tax balance		
Opening balance	**3,685**	-
Credited/(charged) to profit or loss	**(3,685)**	3,685
Over/(under) provision in prior years	-	-
Closing balance	-	3,685

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable future taxable amounts will be available to utilise those temporary differences and losses. Unused tax losses and offsets for which no deferred tax asset has been recognised are approximately $152.5 million (tax benefit at the Australian tax rate of 30%: $45.7 million). In addition, the total value of unrecognised temporary differences is $92.1 million (tax benefit at the Australian tax rate of 30%: $27.6 million) of which the unrecognised temporary difference on plant and equipment is approximately $74.5 million (tax benefit at the Australian tax rate of 30%: $22.3 million).

Deferred tax assets of $nil (2018: $1,562,000) and deferred tax liabilities of $144,000 (2018: $2,715,000) are expected to be recovered in less than 12 months of the balance sheet date.

17. Trade and Other Payables

	31 Dec 2019 $'000	31 Dec 2018 $'000
Trade payables	**2,608**	18,209
Other payables and accruals	**6,032**	8,438
	8,640	26,647

Information about the Group's exposure to liquidity risk is provided in Note 27(d).

18. Provisions – Current

	31 Dec 2019 $'000	31 Dec 2018 $'000
Rehabilitation provision	**3,588**	2,200
Make good provision	**420**	549
Unsettled ship provision	**124**	528
	4,132	3,277
Movement in provisions		
Carrying value at the beginning of the period	**3,277**	2,896
Payments charged against provisions:		
Rehabilitation provision	**(2,200)**	(1,179)
Make good provision	**(402)**	-
Unsettled ship provision	**(528)**	-
Increase / (reduce) provision recognised:		
Make good provision	**273**	50
Unsettled ship provision	**124**	(68)
Transfer from / (to) non-current provisions:		
Rehabilitation provision	**3,588**	1,578
Balance at end of period	**4,132**	3,277

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration and mining activities. The current balance is in respect of the Kanmantoo mine and Comet Vale tenement, which are expected to occur over the next 12 months.

The make good provision is in respect of the contractual requirement to make repairs necessary for mobile equipment including vehicles to be returned to their original state, subject to fair wear and tear.

The unsettled ship provision represents estimated outflows for shipments of concentrate that have been invoiced using provisional pricing. Settlement is expected to occur in the first half of 2020.

19. Borrowings and lease liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption amount is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost in relation to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities. Where the Group has an unconditional right to defer settlement of the liability at least 12 months after the reporting period, that part of the deferred settlement is classified as a non-current liability.

Lease Liabilities

As detailed in Note 13, the Group leases motor vehicles and equipment at Kanmantoo mine site and leases office premises in Adelaide. The Group has also hired earthmoving equipment which is used in processing and rehabilitation activities. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. Rental payments made under operating leases were charged completely to the profit or loss. Finance leases were capitalised at inception and the corresponding liability for rental obligations, net of finance charges, was included in current and non-current liabilities. Each subsequent lease payment was allocated between the liability and finance charges which were charged to the profit or loss over the lease period. The lease liabilities disclosed in this Note 19 “Borrowings” reflect the obligations for previously contracted finance leases, all of which are due to expire before July 2020. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of; fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option, and payments of penalties for terminating the lease, if the lease term reflects the group exercising that option. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group’s incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising; the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Right-of-use assets are depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

Payments associated with new short-term leases of equipment and vehicles and all leases of low-value assets are to be recognised on a straight-line basis as an expense in profit or loss. As a majority of all the Group’s leases are due to expire in mid-2020, management have treated these contracts as exempt as they are deemed to be short term leases under AASB 16. The Group’s lease for hire of earthmoving equipment contains an extension option which is not expected to be exercised. The Group has completed an assessment over all other leases, and the amount of right of use assets and lease liabilities to be recognised on 1 January 2019 is not material.

	31 Dec 2019 $’000	31 Dec 2018 $’000
Current - unsecured		
Lease liabilities	**253**	333
Promissory note (a)	**-**	503
Total current borrowings	**253**	836
Non-current - unsecured		
Lease liabilities	**-**	145
Total non-current borrowings	**-**	145

(a) A contractor creditor of the Company agreed to convert a portion of the amount owed for past services into an unsecured interest-bearing liability. The liability was fully repaid in February 2019.

20. Employee Benefits Payable – Current

	31 Dec 2019 $'000	31 Dec 2018 $'000
Employee benefits payable	**3,322**	3,448

The current provision for employee benefits includes accrued annual leave, long service leave, redundancies and other accrued remuneration.

The entire amount of employee benefits payable of $3.3 million (2018: $3.4 million) is presented as current since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Leave obligations expected to settle after 12 months	**276**	1,015

21. Deferred Income

		31 Dec 2019 $'000	31 Dec 2018 $'000
Current Liabilities			
Deferred pipeline grant	(i)	**-**	217
Deferred revenue (contract liability)	(ii)	**479**	1,166
		479	1,383
Non-Current Liabilities			
Deferred pipeline grant	(i)	**-**	58
		-	58

(i) Deferred pipeline grant relates to a grant received to assist with construction of a water pipeline.

(ii) Deferred revenue relates to the delivery of concentrate to the local port and transfer of title being completed, however loading of concentrate onto vessels and the shipping of concentrate to the destination port had not yet been performed. Refer to Note 5 for additional information.

22. Provisions – Non-Current

	31 Dec 2019 $'000	31 Dec 2018 $'000
Rehabilitation provision	**8,140**	12,402
Movement in provisions		
Carrying value at the beginning of the period	**12,402**	13,826
Discount on unwind of rehabilitation provision	**257**	350
Transfer (to)/from current provisions	**(3,588)**	(1,578)
(Reduce)/increase provision recognised	**(931)**	(196)
Balance at end of period	**8,140**	12,402

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to remediate land disturbed by exploration and mining activities. Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs.

The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the statement of profit or loss and shown as a financial cost.

23. Employee Benefits Payable – Non current

	31 Dec 2019 $'000	31 Dec 2018 $'000
Long service leave	-	331
	-	331

24. Contributed Equity

Share capital

	31 Dec 2019 $'000	31 Dec 2018 $'000
Issued and paid up capital for 585,588,518 fully paid shares (31 December 2018: 577,477,118)	234,322	234,327

Ordinary Shares Issued – movements during the period

	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	No. of shares	No. of shares	$'000	$'000
Opening balance	577,477,118	568,929,118	234,327	234,334
Employee option schemes / issues	8,111,400	8,548,000	-	-
Shares issued to creditor	-	-	-	-
Exercise of options	-	-	-	-
Conversion of notes	-	-	-	-
Less – transaction costs	-	-	(5)	(7)
Balance at end of period	585,588,518	577,477,118	234,322	234,327

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings. In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any net proceeds of liquidation.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

25. Reserves

	31 Dec 2019 $'000	31 Dec 2018 $'000
Employee share options reserve	**5,208**	4,297
Profit reserve	**22,082**	30,866
Foreign currency translation	**(177)**	(177)
	27,113	34,986
Movements:		
Employee share options reserve		
Opening balance	**4,297**	3,305
Share based compensation expense	**911**	992
Closing balance	**5,208**	4,297
Profit reserve		
Opening balance	**30,866**	-
Transfer of current year profit	**-**	30,866
Dividend paid	**(8,784)**	-
Closing balance	**22,082**	30,866

Nature and purpose of reserves

(i) Employee share option reserve

The employee share option reserve is used to recognise the fair value of share performance rights issued to employees but not exercised.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in Other Comprehensive Income as described in Note 1(b)(ii) and accumulated in the foreign currency translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(iii) Profit reserve

The profit reserve is used to accumulate distributable profits, preserving the characteristics of profit by not appropriating against prior year accumulated losses. The reserve can be used to pay taxable dividends.

26. Accumulated Losses

	31 Dec 2019 $'000	31 Dec 2018 $'000
At beginning of the period	**(225,110)**	(223,709)
Net loss not carried forward to profit reserve	**(10,027)**	(1,401)
Accumulated losses at end of the period	**(235,137)**	(225,110)

27. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by senior management under direction of the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas.

(a) Market risk

(i) Copper and Gold – Commodity price and foreign exchange risk management

The Group has exposure to copper and gold commodity prices arising from sales contracts that commit the Group to supply copper concentrate in 2020. The prices for copper concentrate supplied under these contracts will be determined at the time of delivery with respect to the price of copper, gold and silver which is quoted in US dollars. The copper price component represents approximately 95% of the copper concentrate sales value and gold represents approximately 5%.

During 2018 and 2019, the Group's metal offtaker Freepoint Metals LLC provided short term fixed A$ copper pricing to the Group on market competitive cost margin terms. These arrangements protected the Group from downside price risk, however they are not tradeable instruments nor able to be cancelled or settled/converted into cash. As a consequence, hedge accounting is not applicable to the fixed price arrangements.

As at 31 December 2019, the Group had a total of 1,500 tonnes of copper metal at agreed fixed prices ranging from A$8,569 per tonne up to A$8,918 per tonne (average price of A$8,797).

27. Financial Risk Management *(cont.)*

b) Foreign exchange risk

The Group sells copper concentrate and sales invoices are denominated in US$.

The current fixed pricing arrangements on a ship by ship basis with Freepoint include conversion from US$ into A$ to the extent of the aggregate of the early drawdown values for each ship. Provisional and final invoicing is settled at spot foreign exchange rates.

At 31 December 2019, the Group has US$-denominated trade receivables of US$749,281 (31 December 2018: US$1,333,665). Offsetting this, the Group has unsettled ship provisions for final invoices which are also recorded in US$. At 31 December 2019 the Group has US$ denominated ship provisions of US$86,650 (31 December 2018: US$372,500). The table below details the Group's foreign exchange sensitivity on its net USD-denominated trade receivables and final invoice ship provisions:

	Impact on profit or loss			
	31 December 2019		31 December 2018	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Impact of 10% increase/decrease in A$/US$ exchange rate on US$ denominated trade receivables	**(97)**	**107**	(124)	136

The Group and parent entity also hold bank accounts denominated in US$ and IDR (Indonesian Rupiah) which had carrying values of $866,645 and $945 respectively at 31 December 2019 (31 December 2018: $NIL and $397 respectively). The risk is not material.

(c) Credit risk

Credit risk is managed on a group basis. Credit risk can arise from cash and cash equivalents, deposits with banks and financial institutions, derivative financial instruments and receivables. The Group holds its cash with Westpac Banking Corporation which is considered to be an appropriate financial institution.

The Group has trade receivables of $1,135,058 (31 December 2018: $1,889,580). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Applying the principles of the expected credit loss model and historical recovery rates, the Consolidated entity has not recognised a provision against trade receivables and contract assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments.

GST refunds are receivable from a government agency and are deemed to have no significant credit risk.

For banks, financial institutions and third party debtors, management assesses the credit quality of the counterparty, taking into account its financial position, past experience and other relevant factors.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity risk is managed on a Group basis. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group monitors its cash flow on a weekly basis to ensure adequate funds are in place to maintain uninterrupted production and to meet its payment obligations when they fall due. The Group and the parent entity had no undrawn borrowing facilities at the reporting date.

27. Financial Risk Management *(cont.)*

(d) Liquidity risk *(cont.)*

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes future interest on borrowings.

	Less than 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
31 December 2019 ($'000)						
Trade and other payables	8,640	-	-	-	-	-
Borrowings	253	-	-	-	-	-
Total	**8,893**	**-**	**-**	**-**	**-**	**-**
31 December 2018 ($'000)						
Trade and other payables	26,647	-	-	-	-	-
Borrowings	836	145	-	-	-	-
Total	27,483	145	-	-	-	-

28. Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited (the "parent entity") as at 31 December 2019 and the results of all subsidiaries for the period then ended. Hillgrove Resources Limited and its subsidiaries together are referred to in this financial report as the Group. Subsidiaries are all entities controlled by the Group. Control is achieved when the Group has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and each component of other comprehensive income are attributed to owners of Hillgrove Resources Limited and to the non-controlling interests where applicable.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The proportion of ownership interest is equal to the proportion of voting power held. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries detailed on the next page.

28. Subsidiaries *(cont.)*

Name of controlled entity	Country of incorporation	Class of share	Equity holding 31 Dec 2019 (%)	Equity holding 31 Dec 2018 (%)
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 Holdings 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	Indonesia	Ordinary	**80**	80
PT Fathi Resources	Indonesia	Ordinary	**80**	80
PT Hillgrove Indonesia	Indonesia	Ordinary	**100**	100

There were no transactions with non-controlling interests during the period.

29. Commitments

(a) Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

	31 Dec 2019 $'000	31 Dec 2018 $'000
Within one year	**22**	34
One year or later and no later than five years	**-**	23
	22	57

The Group leases corporate offices under a non-cancellable operating lease expiring August 2020. The lease has varying CPI escalation clauses and renewal rights. The Group has not recognised this lease as a right-of-use asset under AASB 16 Leases as it is low value. If renewed, the terms of the lease will be renegotiated.

(b) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform exploration work to meet the minimum expenditure requirements under the various exploration licences which are held. These obligations are expected to be fulfilled in the normal course of operations. Mining interests may be relinquished or joint ventured to reduce this amount. The SA State Government has the authority to defer, waive or amend the minimum expenditure requirements. Eligible exploration expenditure includes an appropriate allocation of overhead costs.

Commitments have increased from the prior year as a result of the tenements that have been granted during 2019.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Within one year	**1,365**	820
One year or later and no later than five years	**1,965**	520
	3,330	1,340

(c) Capital commitments

At 31 December 2019 there were no contracted capital commitments (31 December 2018: Nil).

30. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Balance Sheet as set out in Note 10.

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

	31 Dec 2019 $'000	31 Dec 2018 $'000
Operating profit/(loss) after income tax	**(10,027)**	29,465
Add/(less) items classified as investing/financing activities		
Net (gain)/loss on sale of fixed assets	**(47)**	4
Net interest expense	**531**	1,300
Finance lease payments	**225**	326
Add/(less) non-cash items		
Depreciation and amortisation	**14,664**	16,713
Impairment asset write downs	**3,048**	214
Employee share options	**911**	992
Discount on unwind of rehabilitation provision	**257**	350
Deferred income amortisation	**(275)**	(221)
Rehabilitation adjustment	**(702)**	300
Net cash generated by operating activities before change in assets and liabilities	**8,585**	49,443
Changes in operating assets and liabilities		
Increase / (decrease) in deferred revenue	**(687)**	317
(Increase) / decrease in receivables, prepayments and inventories	**23,881**	(21,087)
Increase / (decrease) in trade creditors and accruals	**(18,140)**	(22,827)
(Increase) / decrease in net deferred tax assets	**3,685**	(3,685)
Increase / (decrease) in provisions and employee benefits	**(3,414)**	(3,564)
(Increase) / decrease in deferred mining costs	**7,905**	19,353
Net cash generated by operating activities	**21,815**	17,950

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash and cash equivalents	**9,329**	2,451
Borrowings – repayable within one year	**(253)**	(836)
Borrowings – repayable after one year	**-**	(145)
Net funds / (debt)	**9,076**	1,470

30. Notes to the Statement of Cash Flows *(cont.)*

(c) Net debt reconciliation *(cont.)*

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Other Assets		Liabilities from Financing activities				
	Cash & Bank $'000	Liquid Investments $'000	Finance leases due within 1 year $'000	Finance leases due after 1 year $'000	Borrowings due within 1 year $'000	Borrowings due after 1 year $'000	Total $'000
Net debt as at 1 January 2018	471	-	(544)	(128)	(7,607)	(1,260)	(9,068)
Cash flows	1,980	-	328	-	8,650	-	10,957
Other non cash movements	-	-	(86)	86	(1,546)	1,260	(286)
Acquisitions – finance leases	-	-	(30)	(103)	-	-	(133)
Net funds/(debt) as at 31 December 2018	**2,451**	**-**	**(333)**	**(145)**	**(503)**	**-**	**1,470**
Cash flows	6,878	-	225	-	506	-	7,609
Acquisitions – finance leases	-	-	-	-	-	-	-
Other non-cash movements	-	-	(145)	145	(3)	-	(3)
Net funds/(debt) as at 31 December 2019	**9,329**	**-**	**(253)**	**-**	**-**	**-**	**9,076**

Non-cash movements represent accrued interest, repayment timing movements between current and non-current and revaluations.

31. Key Management Personnel Disclosures

Key management personnel compensation

	31 Dec 2019 $	31 Dec 2018 $
Short-term employee benefits	**1,930,507**	1,666,608
Post-employment benefits	**171,286**	145,110
Cash bonus	**230,456**	300,303
Share based payments	**433,185**	519,367
	2,765,434	2,631,388

Further detail regarding key management personnel compensation can be found in the Remuneration Report.

32. Related Party Transactions

(a) Parent entities

The parent entity within the Group is Hillgrove Resources Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 28.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 31.

(d) Related parties

Loans to controlled entities are eliminated on consolidation.

Hillgrove Copper Pty Ltd is the banker for the Group and re-allocates via loan account all costs that relate to the Group. Some assets and liabilities previously recognised in the parent Company, mainly consisting of property, plant, equipment and exploration related assets, have been transferred to the controlled entities via loan account. All these transactions were recorded at carrying value.

33. Events After the Reporting Period

On 21 February 2020 the Group and AGL Energy Limited announced they had mutually agreed to terminate the Pumped Hydro Energy Storage project agreement. The full financial impact of this decision has been reflected in these financial statements for the period ended 31 December 2019.

34. Contingent Liabilities

Guarantees

	31 Dec 2019 $'000	31 Dec 2018 $'000
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	**333**	620
Security bonds on rental properties	**16**	16
	349	636

The consolidated entity has obligations to restore land disturbed under exploration and mining licences. The maximum obligation to the SA State 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 Directors are of the opinion that further provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The consolidated entity had no other contingent liabilities at 31 December 2019.

35. Share-based Payments

In 2019 the Board decided that an equity based LTI scheme may no longer be an appropriate LTI scheme, given 2020 will be a period of change for the Company and uncertainty for employees as the Company transitioned from a copper producer to an exploration / development company.

As an interim scheme the Board introduced a LTI cash payment scheme (Key Employees Plan or KEP) with effect from 1 July 2019 to replace the Options and Performance Rights Plan (OPRP).

Options and Performance Rights Plan (OPRP)

There were no performance rights granted in 2019 (refer Remuneration Report). As at 31 December 2019 18,875,000 of the 2018 performance rights remained on foot, with a vesting date of 31 May 2020.

On 11 January 2020, 1,891,245 of the 2018 Performance Rights were lapsed so that at the time of writing this report 16,983,755 rights remained on foot.

Share based compensation benefits have in prior years been provided by the OPRP. The securities issued under this plan are referred to as performance rights throughout the financial statements.

The OPRP was designed to provide long-term incentives for senior managers and above (including Executive Directors) to deliver ongoing improvements in shareholder returns.

Under the plan, participants were granted rights which vest and can be exercised two years after offer (for the most recent offer which was in 2018), subject to the achievement of certain pre-set performance measures and service conditions. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Rights granted under the plan carry no voting rights. When exercisable, each performance right is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The granting and exercise price of the rights is nil. The ability for rights to vest and be automatically exercised under the OPRP is dependent on the following:

a) The satisfaction of all the Performance Conditions (KPI's);

b) The invitee complying with all Company policy and procedures (e.g. no disciplinary action against the invitee between offer and vesting); and

c) The invitee meeting the Service Condition (continued employment) for the rights.

Collectively the above conditions are referred to as the Vesting Conditions.

Fair value of performance rights granted in the year

The assessed fair value at grant date of performance rights granted to individuals are allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Binominal Approximation or Monte Carlo simulation model (as appropriate). Both models take into account the exercise price, the term, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights. Expected volatility is based on the Group's three year rolling daily standard deviation using Hillgrove's closing share price for the six years prior to the grant.

35. Share-based payments *(cont.)*

Movements in performance rights during the year

	31 December 2019		31 December 2018	
	Number of performance rights	Weighted average exercise price ($)	Number of performance rights	Weighted average exercise price ($)
Balance at beginning of year	**31,165,000**	**-**	21,188,000	-
Granted during the year	**-**	**-**	19,575,000	-
Forfeited during the year	**(4,178,600)**	**-**	(1,050,000)	-
Exercised during the year	**(8,111,400)**	**-**	(8,548,000)	-
Expired during the year	**-**	**-**	-	-
Balance at end of year	**18,875,000**	**-**	31,165,000	-
Exercisable at end of year	**-**	**-**	-	-

Performance rights outstanding at the end of the year

At the end of the year there are 18,875,000 performance rights outstanding that have been offered under the OPRP. The exercise price of these performance rights are Nil (31 December 2018: Nil), and the weighted average remaining contractual life at the end of the period was 0.41 years (31 December 2018: 1.02 years).

On 11 January 2020, 1,891,245 of the 2018 Performance Rights were lapsed so that at the time of writing this report 16,983,755 rights remained on foot.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	31 Dec 2019 $'000	31 Dec 2018 $'000
Performance rights issued under the OPRP	**911**	992

The expense arising from share based payment transactions are determined using an adjusted form of the Black Scholes Model, with the key model inputs including the following:

	2018 Rights	2017 Rights
Grant date	1 June 2018	5 June 2017
Expiration date	31 July 2020	31 July 2019
Share price at grant date	$0.093	$0.071
Risk free rate	1.85%	1.89%
Expected price volatility of the company's shares	29%	60%

Key Employees Plan (KEP)

The expense arising from share-based payment transactions related to KEP was not material in the current year.

The KEP is a cash payment scheme rather than an equity securities based scheme. Under the scheme key employees are granted a right to be paid a cash payment at the end of a two and a half year measurement/vesting period ending on 31 December 2021. The payment is subject to the Company's Total Shareholder Return (TSR) exceeding the TSR Target hurdle over that period. The TSR Target hurdle is a 27% increase on the Company's market capitalisation from the grant date of 1 July 2019.

Please refer section 4.4.3.2 of the Remuneration Report for more detail.

36. Parent Entity Information

The financial information for the parent entity, Hillgrove Resources Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates are accounted for at cost in the financial statements of Hillgrove Resources Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Set out below is the supplementary information about the parent entity.

	Parent	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Profit / (loss) after income tax	**(5,671)**	5,150
Total comprehensive income	**(5,671)**	5,150
Balance Sheet		
Total current assets	**1,101**	316
Total assets	**17,467**	20,677
Total current liabilities	**629**	667
Total liabilities	**629**	790
Net assets	**16,838**	19,887
Shareholder's Equity		
Contributed equity	**234,322**	234,327
Reserves	**12,074**	9,447
Accumulated losses	**(229,558)**	(223,887)
Total equity	**16,838**	19,887

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, disclosed throughout the report and notes. Investments in subsidiaries are accounted for at cost, less any impairment.

Contingent liabilities

	31 Dec 2019 $'000	31 Dec 2018 $'000
Security bond on rental properties	16	16

37. Standards and interpretations in issue

(a) Mandatory standards adopted in the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The adoption of these mandatory standards has not had a significant impact on the Group's accounting policies or the amounts reported during the year.

AASB 16 Leases

AASB 16 "Leases" became operative from 1 January 2019. As forecast in the 2018 financial statements, the Group has applied the simplified transition approach and comparative amounts have not been restated upon first adoption. As at 31 December 2018, the Group was a lessee under finance leases for 23 motor vehicles and a multi-stream analyser ("MSA") in the processing plant. Of these lease arrangements, only 12 vehicle leases remain open at 31 December 2019 with all due to expire before July 2020 and the MSA has been purchased. As a consequence, asset values relating to remaining lease contracts have not been separately disclosed as "right-to-use" assets under AASB 16 as they are short term and immaterial.

For more information on the Group's revised lease accounting policy and its application to current leasing arrangements, refer to Note 19 "Borrowings and Lease Liabilities".

(b) Early adoption of standards

There were no standards adopted early.

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 39 to 65 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 31 December 2019 and of its performance for the financial period ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Dated at Adelaide this 27th day of February 2020

Mr John Gooding
Chairman

Mr Lachlan Wallace
Managing Director

Independent auditor's report

To the members of Hillgrove Resources Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Hillgrove Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	*Audit scope*
• For the purpose of our audit we used overall Group materiality of $0.8 million, which represents approximately 0.7% of the Group's total concentrate revenue. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group total concentrate revenue given it is the benchmark against which the performance of the Group is commonly measured. • We utilised a 0.7% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group's accounting records are held and managed at their operating mine in Kanmantoo and the corporate head office, located in Adelaide. We performed audit procedures at both locations. • The Kanmantoo mining operation was the focus of the audit as it is the Group's only operating mine site. The Group has overseas subsidiaries in Indonesia and Singapore which are not material to the Group. We have performed limited audit procedures over these subsidiaries from the corporate head office.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	*How our audit addressed the key audit matter*
Basis of preparation of the financial report *(Refer to note 1(a))* As described in Note 1 (a) to the financial report, the financial statements have been prepared by the Group on a going concern basis, which contemplates that the Group will continue to meet its commitments, realise its assets and settle its liabilities in the normal course of business. Assessing the appropriateness of the Group's basis of preparation for the financial report was a key audit matter due to its importance to the financial report and the level of judgement involved with respect to the Group forecasting future cash flows for a period of at least 12 months from the date of the financial report (cash flow forecasts), particularly given the processing of copper ore from the open pit is expected to cease in March 2020.	In assessing the appropriateness of the Group's going concern basis of preparation for the financial report, we performed the following procedures amongst others: • Evaluated the appropriateness of the Group's assessment of their ability to continue as a going concern, including whether the assessment is appropriate given the nature of the Group, the period covered is at least 12 months from the date of our auditor's report and relevant information of which we are aware as a result of the audit has been included. • Enquired of management and the board of directors as to their knowledge of events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. • Evaluated the Group's plans for future actions and whether these are feasible in the circumstances. • Evaluated selected data and assumptions in the Group's cash flow forecasts for at least 12 months from the date of signing the auditor's report. We performed the following procedures, amongst others: o Assessed the reasonableness of the forecast ore processing volumes by comparing these volumes to stockpiles at balance date; o Assessed the reasonableness of the forecast ore production by comparing this to historical recovery levels; o Compared copper pricing data used to independent industry forecasts; o Compared foreign exchange rates to current market information; and o Assessed the reasonableness of forecast costs by comparing forecast operating costs to actual costs incurred. • Considered the liquidity of existing assets on the consolidated balance sheet as at 31 December 2019. • Requested written representations from management and the board of directors regarding their plans for future action and the feasibility of these plans.

Key audit matter	*How our audit addressed the key audit matter*
	• Evaluated whether, in view of the requirements of Australian Accounting Standards, the financial report provides adequate disclosures about these events or conditions.
Carrying value of assets of Kanmantoo cash generating unit *(Refer to note 13)* The assessment of the carrying value of the Kanmantoo cash generating unit ('CGU') was considered a key audit matter due to the financial significance of property, plant and equipment ($24.2 million) and the judgemental assumptions included in the Group's discounted cash flow models for the Kanmantoo mine, particularly: • long term copper prices; • resource and reserve estimates; • processing volumes; • ore production; • operating costs; • expected proceeds from sale of property, plant & equipment and land; • foreign exchange rates; and • discount rate.	We performed the following procedures, amongst others: • Assessed the appropriateness of the CGU identification in accordance with the requirements of Australian Accounting Standards. • Compared the cash flow forecasts used in the discounted cash flow model to those in the latest Board approved budgets and evaluated the Group's ability to forecast future results by comparing budgets with reported actual results for the previous financial year. • Tested the mathematical accuracy of the discounted cash flow model. • Assessed the completeness of cash flows included within the model based on our understanding of operations from the audit. • Compared copper pricing data used to independent industry forecasts. • Compared foreign exchange rates to current market information. • Assessed the reasonableness of the forecast ore processing volumes by comparing these volumes to stockpiles at balance date. • Assessed the reasonableness of the forecast ore production by comparing this to historical recovery levels • Assessed the reasonableness of forecast costs by comparing forecast operating costs to actual costs incurred. • Evaluated the Group's plans for the Kanmantoo mine and considered whether these are feasible. This included an assessment of resource and reserve estimates and of the competence of the Group's expert;

Key audit matter	*How our audit addressed the key audit matter*
	• Assessed the timing and amounts to be received from the sale of property, plant & equipment and land following completion of mining and processing activities by comparing these amounts to external valuation reports. This included an assessment of the competence of the external firms who prepared the valuations; • Evaluated the sensitivity of the CGU value to changes in the discount rate by varying the discount rate used in the discounted cash flow model. • Requested written representations from management and the board of directors regarding their plans for the Kanmantoo mine. • Evaluated the adequacy of disclosures made in the financial report, including those regarding key assumptions, in light of the requirements of Australian Accounting Standards.
Rehabilitation provision *(Refer to notes 18 and 22)* As a result of its mining and processing operations, the Group is obligated to restore and rehabilitate the environment disturbed by these operations. Rehabilitation activities are governed by a combination of legislative requirements and Group policies. At 31 December 2019 the consolidated balance sheet included provisions for such obligations of $11.7m. This was a key audit matter due to the judgement applied by the Group in assessing the nature and extent of the rehabilitation work to be performed, estimating the future cost and timing of performing this work and applying assumptions such as the discount rate and inflation to future cash outflows associated with rehabilitation activities.	We performed the following procedures, amongst others: • Compared the actual rehabilitation costs incurred against the Group's forecasts to check that rehabilitation estimates take into account current experience. • Assessed the nature, timing and extent of rehabilitation work to be performed by inspecting mine and rehabilitation plans. • Tested the mathematical accuracy of the Group's rehabilitation estimate. • Assessed the completeness of cash flows based on our understanding of rehabilitation obligations. • Evaluated the appropriateness of the discount rates and inflation rates utilised in calculating the closing provision by comparing them to current market information. • Evaluated the adequacy of disclosures made in the financial statements, in light of the requirements of Australian Accounting Standards.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

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Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 25 to 36 of the directors' report for the year ended 31 December 2019.

In our opinion, the remuneration report of Hillgrove Resources Limited for the year ended 31 December 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
27 February 2020

Shareholder Information

Shareholder Information for Listed Public Companies

The following additional information is required by the Australia Securities Exchange Limited in respect of listed public companies only.

As at the reporting date the most recent Shareholder information available for disclosure is as follows:

(a) Voting rights and classes of equity securities

As at 31 January 2020, the Company has 585,588,518 listed fully paid ordinary shares. Each fully paid share carries on a poll one vote.

The company also has 16,983,755 unquoted performance rights on issue which are held by 13 holders which do not carry voting rights.

(b) Unmarketable parcels

The number of shareholdings holding less than a marketable parcel of ordinary shares was 2,070 as at 31 January 2020.

(c) Distribution schedule of Fully Paid Ordinary Shares as at 31 January 2020

Size of holding	Number of shareholders
1 - 1,000	467
1,001 - 5,000	1,294
5,001 - 10,000	390
10,001 - 100,000	804
100,001 and over	245
	3,200

(d) Securities exchange listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited. The ASX code is HGO.

(e) Company Secretary

Mr Paul Kiley is the Company Secretary.

(f) On-market buy-back

There is no current on-market buy-back.

(g) Substantial shareholders as at 31 January 2020

An extract of the Company's register of Substantial Shareholders (who hold 5.0% or more of the issued capital) in accordance with Form 604 Notices is set out below:

Name	Issued capital
Ariadne Australia Limited	25.3%
Munro Family Super Fund	9.5%

Shareholder Information *(cont.)*

Twenty largest listed shareholders

The twenty largest shareholders hold 67.6% of the total ordinary shares issued. The 20 largest shareholdings as at 31 January 2020 are listed below:

	Shareholder	No. of ordinary shares held	% of issued shares
1	Portfolio Services Pty Ltd	64,837,374	11.1%
2	Mr Raymond Edward Munro	52,505,162	9.0%
3	J P Morgan Nominees Australia	44,650,596	7.6%
4	Portfolio Services Pty Ltd	36,692,125	6.3%
5	Portfolio Services Pty Ltd	27,482,196	4.7%
6	BNP Paribas Nominees Pty Ltd	25,714,373	4.4%
7	Bell Potter Nominees Pty Ltd	23,071,761	3.9%
8	Portfolio Services Pty Ltd	17,546,894	3.0%
9	Cosell Pty Ltd	15,000,000	2.6%
10	Mr Malcolm Neil Nichols	13,074,700	2.2%
11	WeyitinTrading Pty Ltd	10,127,346	1.7%
12	Mr Antony Gordon Breuer	10,005,559	1.7%
13	Emeco Pty Ltd	9,405,467	1.6%
14	Mr Simon Robert Evans	7,200,000	1.2%
15	Mr Lachlan Wallace	7,119,197	1.2%
16	W Donnelly Services Pty Ltd	7,006,667	1.2%
17	Sighet Pty Ltd	6,975,241	1.2%
18	Rossdale Superannuation Pty Ltd	6,470,069	1.1%
19	Proco Pty Ltd	6,010,000	1.0%
20	McClare Pty Ltd	5,235,000	0.9%
		396,129,727	**67.6%**

(h) Interests in mining tenements

Tenement	Location	Percentage
ML 6345	Kanmantoo, South Australia	100%
ML 6436	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
EL 5628	Kanmantoo, South Australia	100%
EL 6174	Coomandook, South Australia	100%
EL 6175	Coonalpyn, South Australia	100%
EL 6176	Wheal Ellen, South Australia	100%
EL 6207	Tintinara, South Australia	100%
EL 6208	Carcuma, South Australia	100%
EL 6294	Wynarka, South Australia	100%
EL 6397	Laffer, South Australia	100%
ML 755	Armidale, New South Wales	100%
IUP 322/2009 (1)	Sumba, Indonesia	80%
IUP 40/2010 (1)	Bird's Head, Indonesia	80%

(1) the Company is continuing to progress its withdrawal from Indonesia.

(i) Other information

Hillgrove Resources Limited, incorporated and domiciled in Australia, is a publicly listed Company limited by shares.

HILLGROVE
RESOURCES

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