HILLGROVE RESOURCES

ANNUAL REPORT

for the year ended 31 December **2017**

HILLGROVE RESOURCES LIMITED

ACN 004 297 116

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CHAIRMAN AND MANAGING DIRECTOR'S STATEMENT

In the 2017 calendar year, Hillgrove completed the investment phase of the Giant Pit cutback and has now entered a cash generative phase. By late 2018 this should enable our creditors who have supported us through this period to be returned to normal trading terms, employees to be repaid their salary deferments and debt to be repaid. In the second half of 2018, this should have a material impact on the balance sheet and will position the company to pursue growth options and consider returning some of the value to shareholders in the form of fully franked dividends.

Mr John Gooding
Independent Non-Executive Chairman

Mr Steven McClare - Chief Executive Officer and Managing Director

We have come a long way since the first quarter of 2016, when Hillgrove critically assessed the past performance of Kanmantoo. The depressed copper prices at the time and the deferred copper production associated with the new Mineral Resource Estimate (announced in May 2016), when factored into mine plans and financial projections, were combining to cause a looming cash shortfall throughout 2016 and 2017. Facing this challenge as a real and imminent threat led to an extraordinary effort to successfully implement a wide range of initiatives.

To put our operations on a sounder footing, a number of measures were undertaken. These included negotiation of lower charges (and deferred payment terms) with our main contractors, introduction of a 10% wages deferment (now being repaid) for our workforce, deferring price participation with our offtake buyer, completing an infill drilling programme and targeting gold production during a high price period.

An important financing initiative was the unwinding of the forward sold copper hedges to realise substantial cash surpluses. This enabled the Company to fully repay the USD debt early without breaching covenants or defaulting on that debt. It should be noted that, had these positions not been closed, the subsequent copper price increase would have led to a negative monetary hedge book value of a similar amount.

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

All of this notwithstanding, 2017 threw up challenges for the Company that delayed the timing of positive cashflows until December 2017. These included remedial geotechnical measures predominantly associated with the east wall slippage, availability challenges with contracted mining equipment, adverse weather and high workforce turnover. On the other hand the exercise of the options issued with the Convertible Notes contributed funds to the Company and the early redemption of those Convertible Notes, virtually all of which were converted to equity, reduced debt improving the balance sheet.

In early 2018 we have repaid the South Australian Government Loan and also successfully negotiated a copper pre-pay facility that has provided a further $4 million dollars for working capital and allowed us to fix the pricing of an additional 5,000 tonnes of copper at an Australian Dollar price of $8,885 per tonne. As a result at 28 February 2018 we have fixed pricing for 13,400 tonnes of 2018 copper production at an average price of $8,896 per tonne after margins.

When looking at the 2017 financial report, many of the initiatives that have assisted the company through 2016 and 2017 calendar years have led to liabilities that will become payable in 2018. They have therefore been recognised as current liabilities, causing current liabilities to significantly outweigh current assets at the end of 2017.

CHAIRMAN AND MANAGING DIRECTOR'S STATEMENT *(CONT.)*

We remain confident, however, that the company can generate sufficient cashflow from operations to meet the Company's obligations throughout 2018 and beyond.

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

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

There has also been a significant focus on evaluating growth opportunities in 2017.

These efforts have validated several projects which are able to utilise the existing processing facility and/or site infrastructure. These include Kanmantoo Underground, exploration targets at Kanappa and Mt Rhine, as well as Kanmantoo Pumped Hydro. Successful development of an underground mining proof of concept at Kanmantoo, and significant exploration soil sampling and technical studies at Kanappa/Mt Rhine have been announced progressively throughout 2017. With Hillgrove now in the cash generation phase, this work can progress and accelerate albeit with modest investment requirements during 2018.

The Board is determined to ensure that any future growth or life extensions must have a reasonable potential of delivering a return for shareholders over and above the base case of returning otherwise invested cash to shareholders. To this end, the Company intends to undertake a measured exploration programme and project feasibility assessment, which will aim to extend mine life through near mine extensions, regional exploration targets or revenue generating projects.

On behalf of the Board we sincerely thank all shareholders for your patience and continued support.

With the cutback complete and Kanmantoo in a cash generative phase, the Company is now in a much stronger financial position. The aim is to now return creditors to normal terms, clear debt and, with a much-improved cash position and balance sheet, reward shareholders.

We would like to also express our gratitude to our fellow directors who have worked closely with our hard-working management team, to ensure that the interests of our shareholders and stakeholders have been always in the forefront of any initiatives that we have undertaken. We would also like to thank our past Chairman, Hon Dean Brown, AO for his dedicated and energetic contribution in the past and until his retirement in the first half of 2017.

Finally, we would like to acknowledge the South Australian Government, our wonderful staff, our offtake partner, contractors and suppliers who have worked so closely with the management team to overcome the challenges of the past few years and to ready the company for much stronger profitability and cash generation during 2018.

KANMANTOO COPPER MINE, *SOUTH AUSTRALIA*

Completed Giant Cutback which concludes capital investment phase of the current open pit

The future Strip Ratio[1] of 1.1 waste tonnes for every tonne of ore, positions the business to increase copper production from below 15,000t in CY17 to 22,000t to 24,000t copper in CY18

KANMANTOO HIGHLIGHTS

- OPERATIONAL CHALLENGES ADVERSELY IMPACTED PRODUCTION, INCLUDING POOR EQUIPMENT AVAILABILITY, WET WEATHER AND GEOTECHNICAL ISSUES
- FLATTENED THE PIT WHICH ENABLED RETURN TO EFFICIENT MINING PRACTICES
- 67,265T OF COPPER CONCENTRATE PRODUCED, RESULTING IN 14,802T OF CONTAINED COPPER IN CONCENTRATE
- SUCCESSFULLY COMPLETED OBLIGATION TO BACKFILL ALL SATELLITE PITS
- ESTABLISHED GROWTH PIPELINE INCLUDING STAGED UNDERGROUND DEVELOPMENT AT KANMANTOO, REGIONAL EXPLORATION OPPORTUNITIES AND PUMPED HYDRO ENERGY STORAGE

1 *Strip Ratio = Tonnes Waste / Tonnes Resource (including inferred)*

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 and close to road, rail, power and Port Adelaide. The exploration and mining lease is dotted 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. In partnership with the South Australian Government, additional water capacity was installed in CY2016 from the Murray River which provides 100% redundancy to the Mount Barker supply if required and enhances Hillgrove's active dust suppression programme.

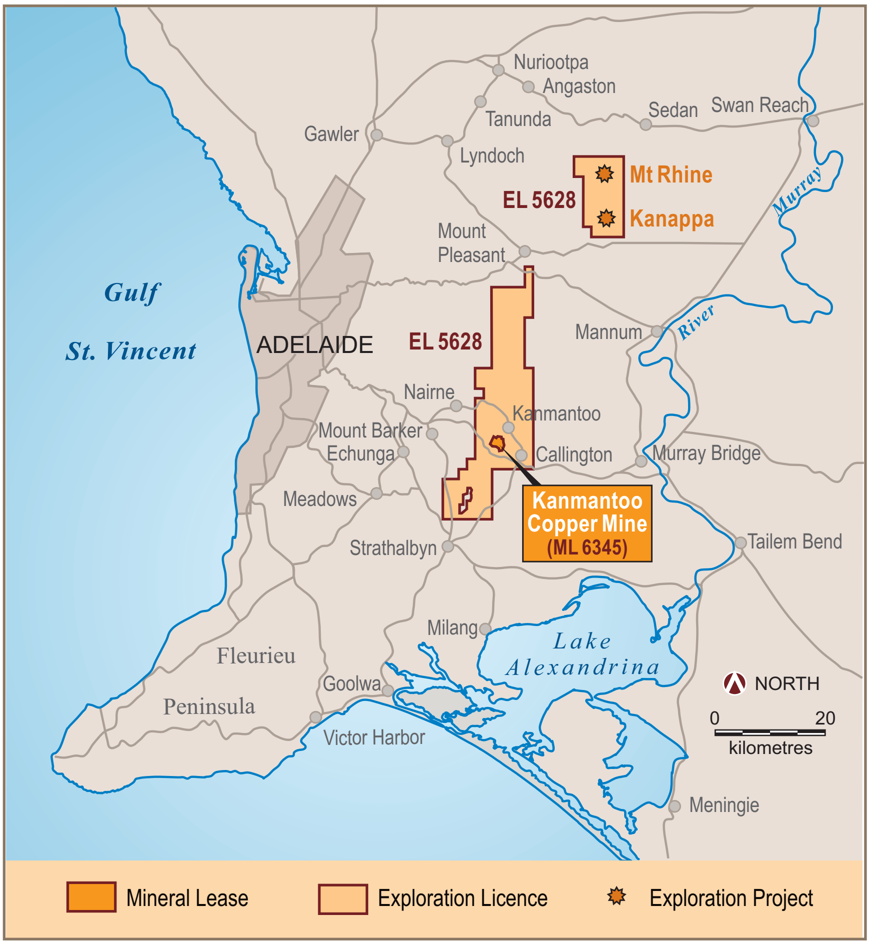
Approximately 220 Hillgrove personnel currently staff the mine. Due to Kanmantoo's location close to the outer-Adelaide regional centres of Mt Barker and Murray Bridge there is no requirement to provide fly in/fly out facilities. The resulting mix of staff comprises about 12% from the local area, 72% from the nearby regional area and the remainder from greater Adelaide.

KANMANTOO COPPER MINE, *SOUTH AUSTRALIA (CONT.)*

Along with Hillgrove's direct employment, specialist contract services are being undertaken by its three main mining contractors which have a combined permanent workforce of some 55 employees on site. The combination of specialised contract skills and experienced Hillgrove employees has allowed a high level of quality control in the critical areas of drilling, blasting, production and dilution control during mining and milling operations.

The safety performance in CY17 improved slightly with Total Reportable Injury Frequency Rate (TRIFR) down to 20.3 injuries per million work hours (CY16 21.3), however, this remains well short of Hillgrove's expectations. The majority of injuries sustained were hand injuries and sprains from walking on uneven ground. Hand injuries were arrested following the introduction of mandatory wearing of gloves in operational areas.Injury prevention in CY18 will continue to focus on manual handling and reducing soft muscle injuries in static roles which reduced markedly in CY17 following targeted training and changed work practices.

Mining production in CY17 was 17% higher than the previous year, due to an investment (funded by the capital raised in December 2016), which enabled the pit to flatten out, creating larger working areas, which improved mining efficiency. Backfilling of the Emily Pit was completed in CY17, finishing the environmental commitments made to backfill all satellite pits after mining. Rehabilitation of a further 18ha commenced in early CY17 and shaping of the final waste rock landforms continued ahead of further planned seasonal planting in CY18.



Kanmantoo Tenement Map

The processing plant crushed and milled 3.4M tonnes, 7% above the previous year. Mining costs were $13.15/BCM, and processing costs $7.41/tonne milled. The unit mining costs decreased (CY16 $14.01/BCM) due to the increased production efficiency afforded by the wider working areas.

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

Hillgrove continued its engagement during the year with the local Kanmantoo Callington Community Consultative Committee (KCCCC). There was particular focus 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

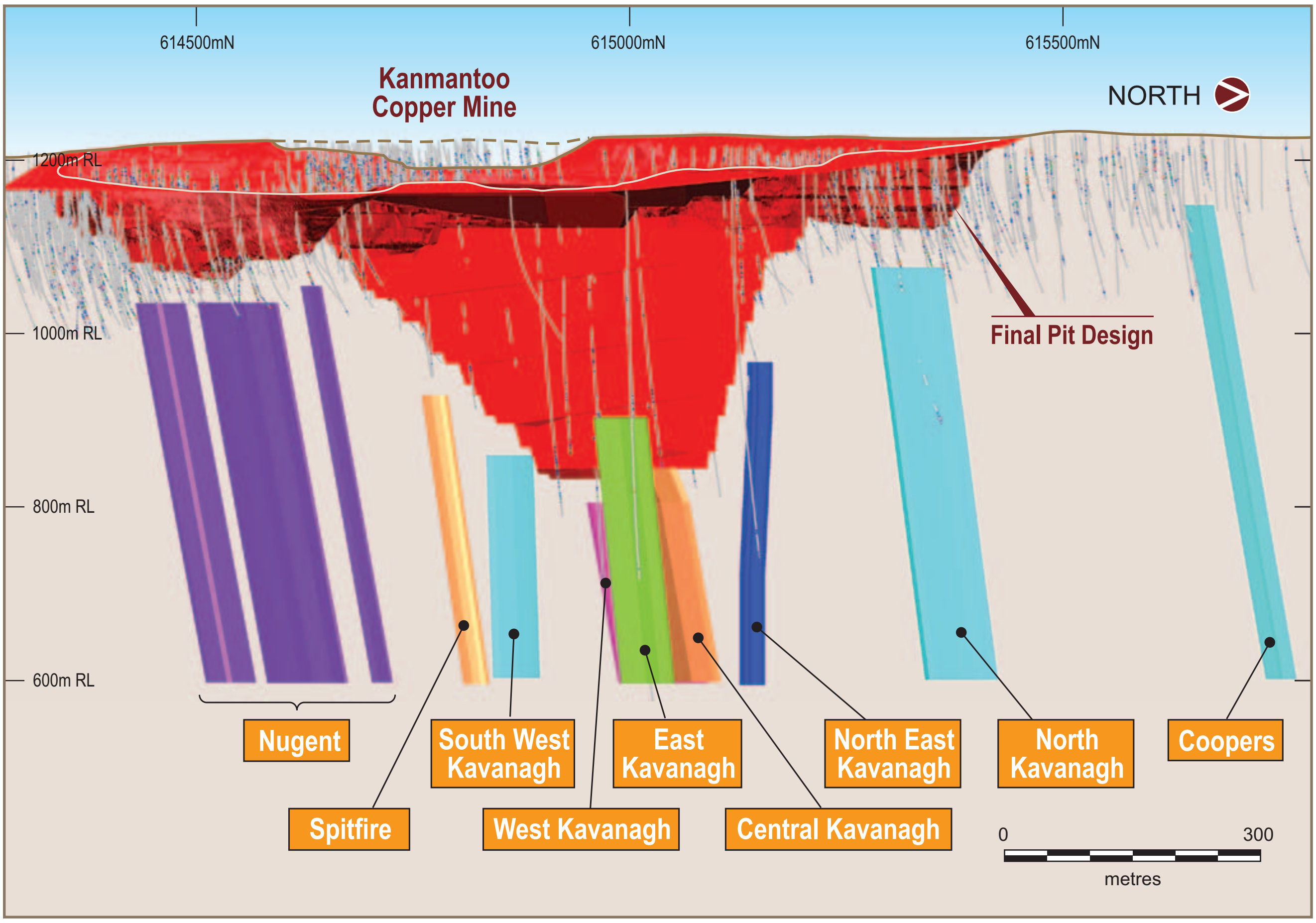
NEAR MINE AND REGIONAL EXPLORATION

In 2016 the Company identified a number of opportunities for organic growth around the Kanmantoo infrastructure, namely the Kanmantoo Underground Exploration Targets, the Kanappa copper-gold exploration project and the Mt Rhine copper-gold exploration project.

The development of these opportunities continued in 2017 resulting in several announcements on their progress.

Kanmantoo Underground Exploration Targets [1]

The Company demonstrated the extension of several high grade copper-gold zones beyond the final open pit design. This resulted in the announcement (25 May 2017) of an Exploration Target [2] of: **5-10Mt @ 1.7-2.2% Cu, 0.4-1.0g/t Au**



Kanmantoo Copper Mine Longitudinal Section - Exploration Target Zones

In summary, the Exploration Targets;

- suggest the potential for a very significant underground resource opportunity at Kanmantoo, beneath and in the wall of the existing final pit
- suggest that a significant increase in mine life may be possible at Kanmantoo
- are based on utilising the existing processing plant and utilising the final in-pit haul road that will extend from surface down to 350m depth
- are based on several higher grade copper-gold ore zones that have already been mined in the open pit, and projecting these to depth
- commence within 250m of the existing in-pit haul road and therefore if these zones are confirmed by drilling, will require minimal capital to develop, and
- will benefit from the existing copper-gold processing plant at Kanmantoo that operates at a very efficient $7.41/tonne milled

1 *ASX Release of 25 May 2017.*

2 *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.*

NEAR MINE AND REGIONAL EXPLORATION *(CONT.)*

Underground mining at Kanmantoo is not a new venture for the orebody. The previous mining operators at Kanmantoo in 1970-1976 also commenced underground mining on the copper-gold orebodies before the copper price collapse of 1976 closed the operation.

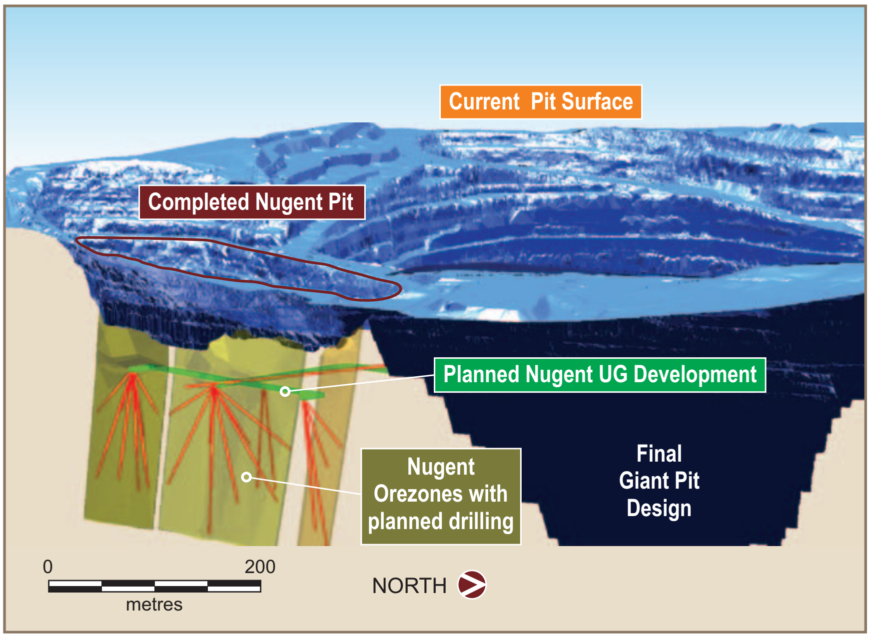
The first stage of the underground feasibility study focuses on the exploration of the high grade copper-gold area in Nugent (12m @ 2.2% Cu, 7.9g/t Au) at the south-east end of the Giant open pit. The plan is to establish a short development drive of 180m from the existing open pit ramp to establish underground exploration drilling platforms and stoping configurations to test the Nugent Exploration Target of 0.8-2.0Mt @ 1.5-2.0% Cu, 1.5-2.5 g/t Au.

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

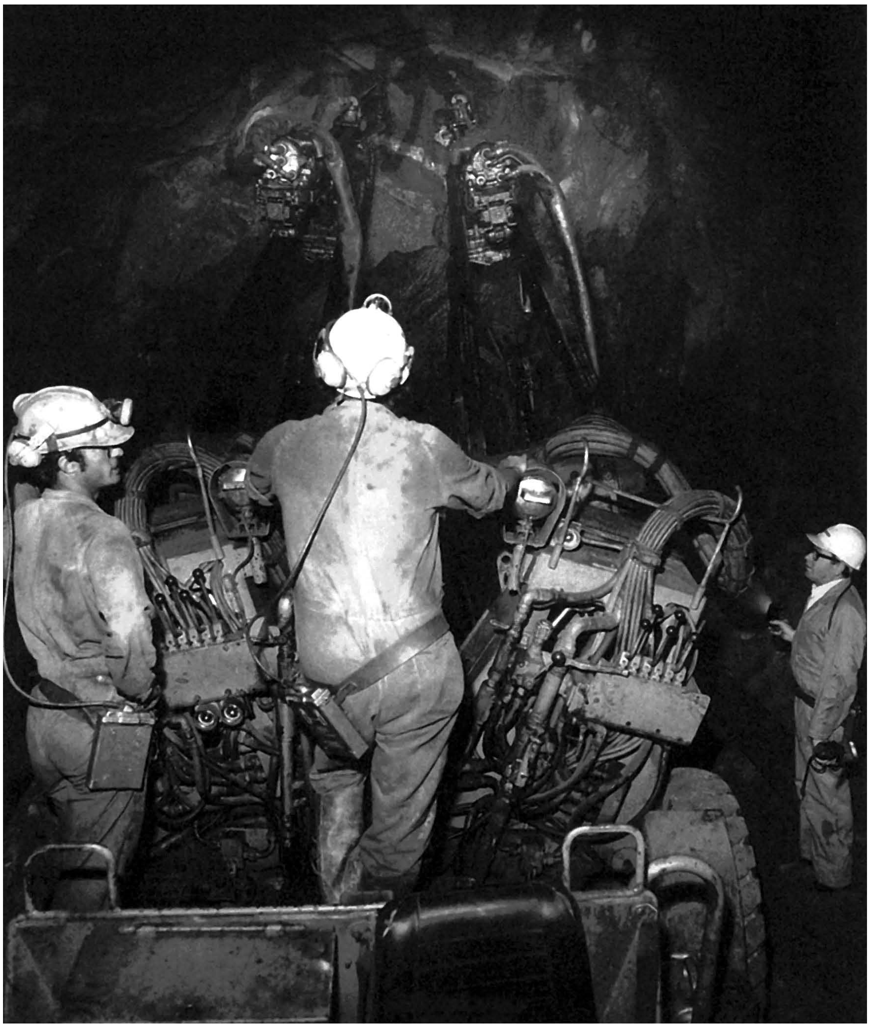
In addition, a series of deep diamond drill holes into the East, Central and West Kavanagh Exploration Targets are planned to be undertaken in 2018. These holes intend to follow up the previously reported KTDD027 of 21m @ 2.2% CuEq and 7m @ 3.1% CuEq, and KTDD149 24m @ 2.4% CuEq [3], which are open downdip and along strike. These previous drill holes are not only high grade copper intercepts but also contain significant gold mineralisation.

These deep drill holes will enable the depth continuation of the main Kavanagh orebodies to be affirmed and resource estimates to be released.

3 *ASX Release 25 May 2017 Underground growth opportunity.*



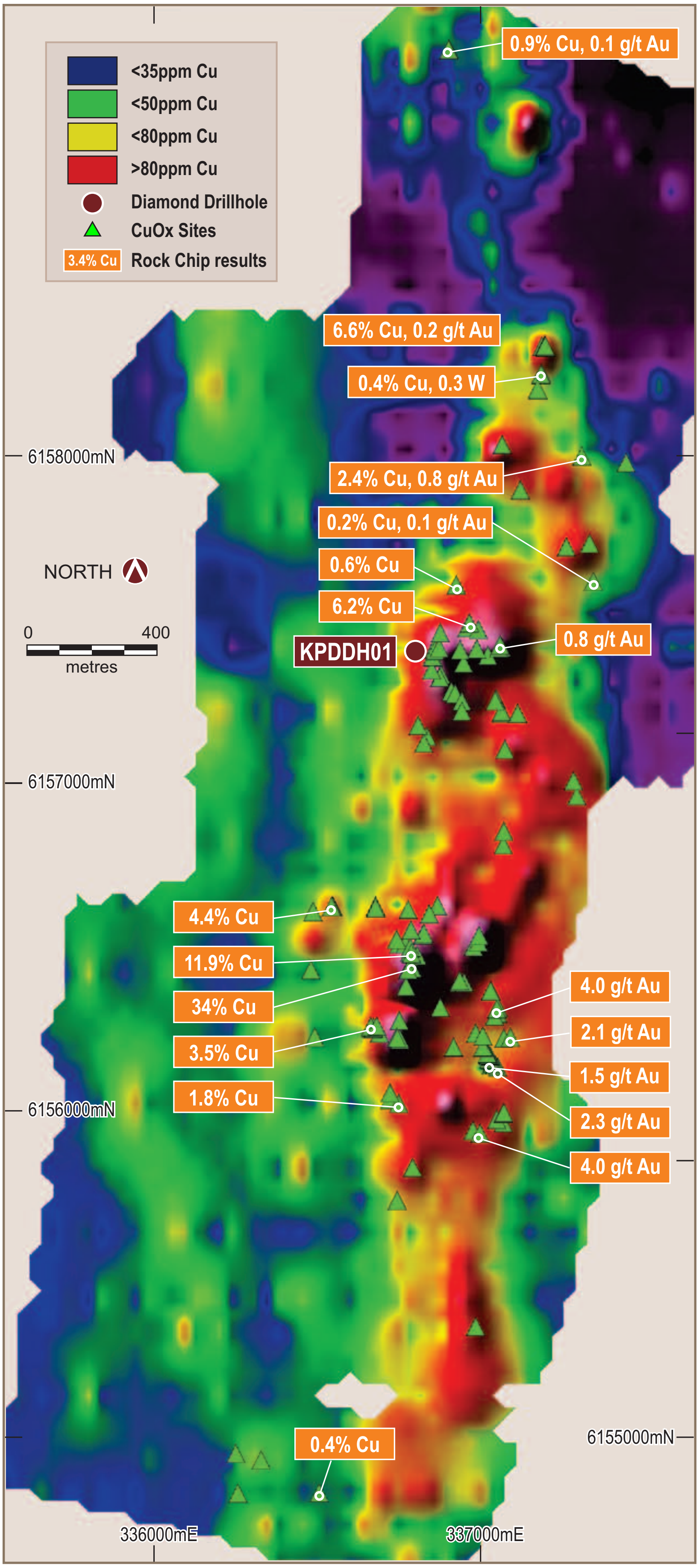
Isometric view of the Giant Open Pit to the north-west and the proposed Nugent underground development to the south-east



Underground mining at Kanmantoo in 1976

EXPLORATION *(CONT.)*

NEAR MINE AND REGIONAL EXPLORATION *(CONT.)*



Kanappa Copper-Gold Exploration [4]

Hillgrove has identified a copper-gold mineralised zone at Kanappa over 4.8km long, confirmed with soil and rock chip sampling. Highlights include:

- Sampling of mineralised outcrops along the Kanappa zone, has shown up to 34.8% Cu and 4.0g/t Au (different samples)
- The soil geochemical sampling has identified an area with very high grade copper results up to 2,300ppm Cu in soils
- Mapping has identified in excess of 120 sites of outcropping copper and copper-gold mineralisation
- The Kanappa Project is 60kms via existing roads from the Kanmantoo processing plant

Various geophysical programs will be undertaken in early 2018 to enable drill targets to be prioritised.

Mt Rhine Copper-Gold Exploration Project [5]

The Company has identified two significant zones of copper-gold at Mt Rhine through a systematic soil and rock chip sampling program. Selective rock chip sampling and channel samples along Zone A have resulted in intervals of 6m @ 15.9g/t Au.

Along Zone B, selective rock chip sampling by Hillgrove has resulted in the discovery of surface outcrops of high grade copper and gold zones to 13.1% Cu and 49.8g/t Au (different samples).

Both zones are over 1.0km in length. The Mt Rhine Project is 80kms via existing roads from the Kanmantoo processing plant and 12kms from the Kanappa copper-gold project.

4 *ASX Releases 25 May 2017 and 20 October 2017.*

5 *ASX Release 25 October 2017.*

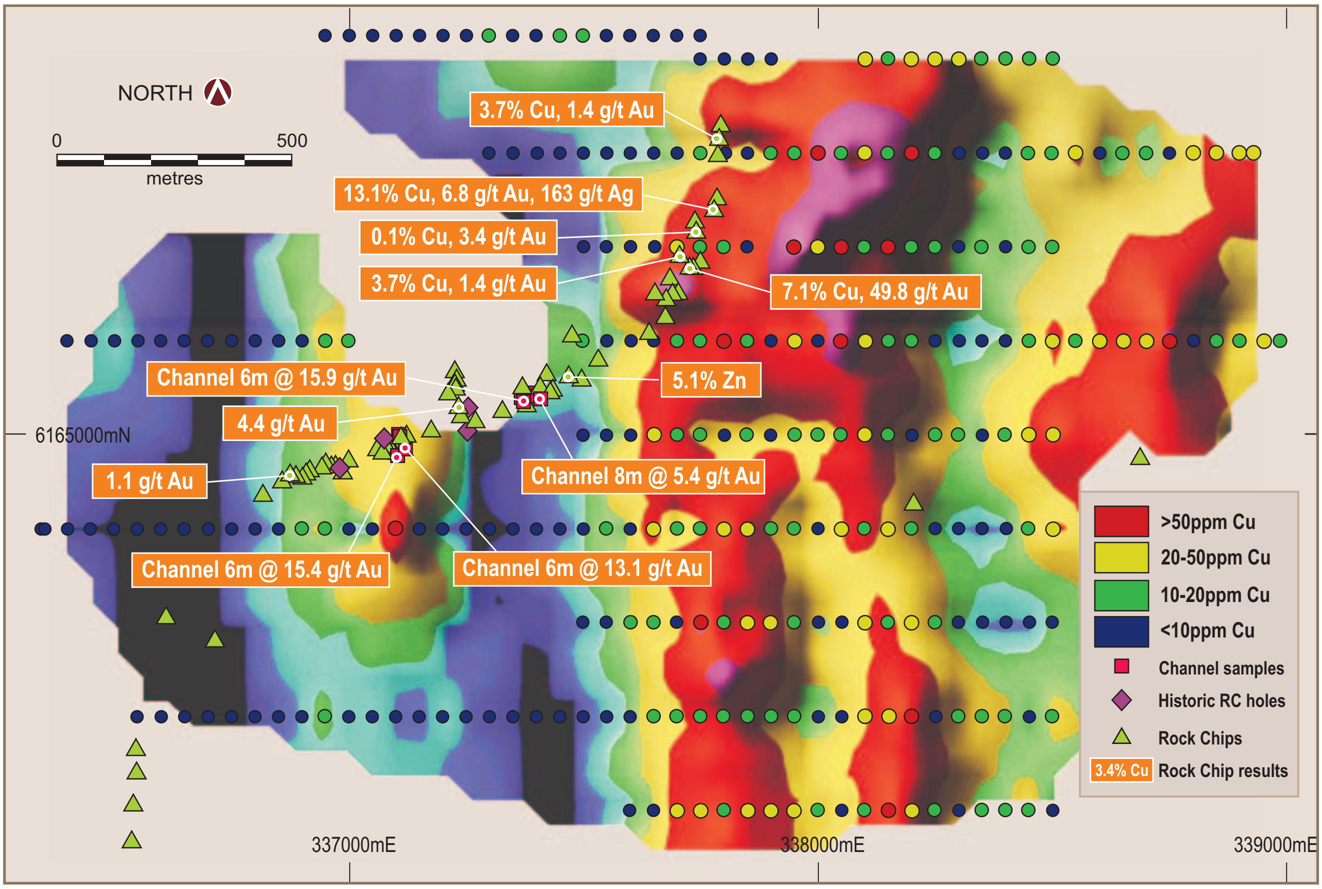
Contoured 2017 soil geochemistry with selected rock chip results at Kanappa

EXPLORATION *(CONT.)*

NEAR MINE AND REGIONAL EXPLORATION *(CONT.)*

Mt Rhine Copper-Gold Exploration Project *(cont.)*

Due to this projects' proximity to Kanappa, geophysical programs planned to be undertaken in 2018 to identify drill targets will be able to be undertaken in a cost and time effective manner.



Contoured 2017 soil geochemistry with selected rock chip results at Mt Rhine

EXPLORATION *(CONT.)*

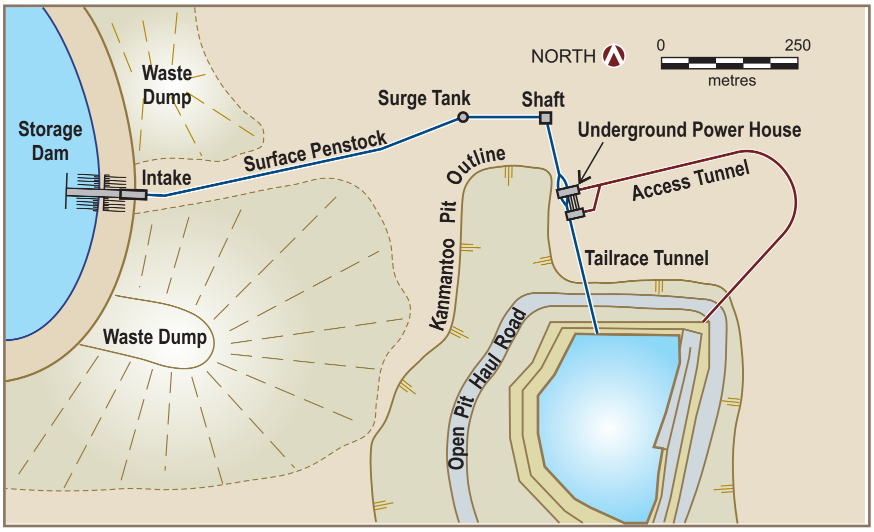
NEAR MINE AND REGIONAL EXPLORATION *(CONT.)*

Pumped Hydro Energy Storage

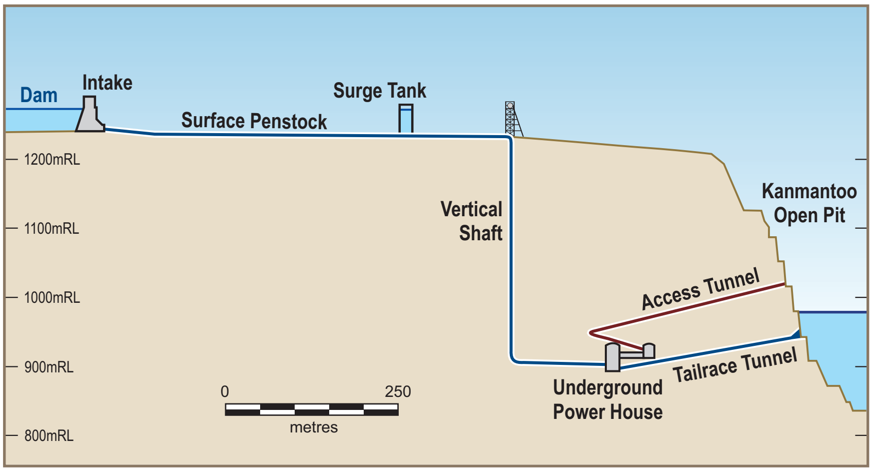
Hillgrove is compiling a prefeasibility study of a Pumped Hydro Energy Storage facility at the Kanmantoo site. The Company has entered commercial discussions with parties regarding the potential to take advantage of the infrastructure being developed at Kanmantoo as part of the open pit mining operation to establish a Pumped Hydro Energy Storage facility. Pumped Hydro enables South Australian renewable energy growth by adding system stability and storage to the electrical network.

The mine site is well suited for this project due to:

- Upper and lower ponds approximately 1km apart providing an effective head of up to 250m, sufficient to generate 220MW for up to 6 hours which is considered the upper limit for commercial maximization in the South Australian context.
- Advanced understanding of the site's geological, geotechnical, hydrological and environmental conditions from the existing mining operation that is directly applicable to Pumped Hydro, including a complete array of ground water monitoring stations, structural mapping of pit faces (lower pond) and over 145 km of exploration drilling.
- Estimated capital of less than $1M per installed MW, roughly half the industry average and competitive with any other project in SA owing largely to the ability of the mining operation to construct the upper (tailings storage facility) and lower (final open pit) ponds for very little additional cost as part of the mining operation, which effectively subsidises the Pumped Hydro capital expenditure.



Kanmantoo Pumped Storage Project generalised plan



Kanmantoo Pumped Storage Project gerneralised longitudinal projection

- Close proximity to the main 275kV electricity network.
- Access to water via existing pipelines (>2.5GLpa).
- Excellent community and government relationships, as well as a site which is already used for heavy industry.

Benchmarking against other announced pumped hydro projects indicates that the Kanmantoo Pumped Hydro would be one of the earliest to market with a low capital spend.

Initial studies indicate the Pumped Hydro facility can be developed and operate concurrently with underground mining. However, the value of the underground mining would reduce due to ore left in the larger crown pillar required and increased mine development costs. Further studies will be carried out to optimise the combination of projects that returns the best value to shareholders.

INDONESIAN PROJECTS

On 28 February 2018 Hillgrove received notices from the Indonesian Department of Mines, which state the tenements for its two Indonesian assets at Bird's Head in West Papua and Sumba Island have been terminated due to the non-performance of obligations, including the non-payment of dead rents.

Hillgrove is taking advice to review its position and decide whether it will appeal the decision.

The projects were on a care and maintenance and the carrying value of both projects was fully impaired in 2015.

MINERAL RESOURCE AND ORE RESERVE ESTIMATES

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

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

KANMANTOO GLOBAL MINERAL RESOURCE ESTIMATE AT 31 DECEMBER 2017

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

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

GIANT OPEN PIT MINERAL RESOURCE ESTIMATE AT 31 DECEMBER 2017

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

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

KANMANTOO OPEN PIT ORE RESERVE ESTIMATE AT 31 DECEMBER 2017

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

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

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

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

MINERAL RESOURCE AND ORE RESERVE ESTIMATES *(CONT.)*

KANMANTOO UNDERGROUND COPPER-GOLD EXPLORATION TARGET

The Kanmantoo Exploration Target in this report is based on currently available data and was reported on 25 May 2017. The Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource under the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, the JORC Code" (JORC 2012). The Exploration Target is in addition to the Mineral Resource Estimates tabulated above.

Exploration Target

	DH Width Range (m)	Tonnage Range (Mt)	Grade Range (Cu%)	Grade Range (Au g/t)	Grade Range (CuEq%)
Coopers	6-10	0.1-0.3	1.5-2.0	0.4-0.8	1.8-2.5
North Kavanagh	6-10	0.1-0.7	1.5-2.0	0.4-0.8	1.8-2.5
North East Zone	12-33	0.4-0.7	2.0-2.5	0.4-0.8	2.2-3.0
East Kavanagh	10-24	0.4-0.8	2.0-2.5	0.05-0.2	2.0-2.6
Central Kavanagh	13-30	1.2-2.2	1.5-2.0	0.1-0.4	1.6-2.2
West Kavanagh	11-28	0.8-1.6	2.0-2.5	0.01-0.05	2.0-2.5
South West Kavanagh	7-22	0.8-1.0	1.8-2.2	0.1-0.4	1.8-2.4
Spitfire	16-37	0.4-0.7	1.5-2.0	1.5-3.0	2.5-4.0
Nugent	8-15	0.8-2.0	1.5-2.0	1.5-2.5	2.5-3.5
Total	**6-37**	**5.0-10.0**	**1.7-2.2**	**0.4-1.0**	**2.0-2.8**

Competent Person's Statement

The information in this release that relates to Ore Reserve and Mineral Resource estimates were prepared by Competent Persons in accordance with the JORC Code 2012. Further information on the Kanmantoo Mineral Resources and Ore Reserves is available in the Hillgrove Updated Mineral Resource and Ore Reserve Estimate released to the ASX on 18 October 2016, which is also available on the Hillgrove Resources website at www.hillgroveresources.com.au. Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in that market announcement and, in the case of estimates of Mineral Resources and Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Hillgrove Resources confirms that the form and context in which the findings of the Competent Persons (Peter Rolley and Michaela Wright in relation to the Mineral Resource Estimates and Lachlan Wallace in relation to the Ore Reserve estimates) are presented, have not been materially modified from the original market announcement apart from mining depletion. Peter Rolley, Michaela Wright and Lachlan Wallace consent to the inclusion in this report of the matters based on their information in the form and context in which they appear.

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 commenced 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 is being 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 (2009). 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 and action and the blasting notification SMS system. 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.

HILLGROVE RESOURCES

FINANCIAL STATEMENTS

for the year ended 31 December 2017

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 14 March 2018. 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 2017.

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 regional exploration targets, located less than 55km from Adelaide in South Australia.

The Kanmantoo Mine has been mined at the rate of up to 20 million tonnes per annum and has produced up to 20,000 tonnes of copper per annum. Annual export earnings are in a range of $110 million to $170 million per annum. 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 or since the end of 31 December 2017 are:

Name/Qualifications	Experience and special responsibilities
Mr John Gooding	**Independent Non-Executive Chairman / Chairman Nomination and Remuneration Committees**
Qualifications	*Assoc Dip. Mining Eng., FIE Aust., F. Aus. IMM, 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 for nine and a half years until November 2016, and was a Board member of the PNG Chamber of Mines and Petroleum from 2009. He is also the Non-Executive Chairman of the Board for Kasbah Resources Ltd. John is a member of the Audit and Risk Committee. Appointed 31 May 2007.
Mr Maurice Loomes	**Non-Executive Director**
Qualifications	*B.Comm (Econ Hons), F.Fin.*
Experience 	Maurice has a Bachelor of Commerce (Econ Hons) and over 40 years' experience in investment analysis and strategy gained across many industries, including roles at Bain and Company, Industrial Equity Limited, Westmex Limited, Guinness Peat Group PLC and many others. He has also held numerous directorships of public companies including CIC Australia Limited (1994-2013), Guinness Peat Group PLC (1996-2000) and Tower Limited (2003-2005). Maurice is currently a Non-Executive Director of Ariadne Australia Limited (2004-) (a significant shareholder of Hillgrove Resources) and was formerly a Non-Executive Director of Calliden Group Ltd from 2000- 2014. Maurice is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 25 November 2013.
Mr Philip Baker	**Independent Non-Executive Director**
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 Remuneration and Nomination Committees and Chairs the Audit and Risk Committee. Appointed 29 October 2014.

DIRECTORS' REPORT *(CONT.)*

DIRECTORS AND OFFICERS *(CONT.)*

Name/Qualifications	Experience and special responsibilities
Mr Anthony (Tony) Breuer	**Independent Non-Executive Director**
Qualifications	*BCom/LLB*
Experience 	Tony has over thirty years of experience at investment bank, Gresham Partners Limited and is currently Managing Director of Gresham Funds Management Group and Deputy Chairman of Gresham Partners Capital Limited, and is 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.
Mr Steven McClare	**Chief Executive Officer and Managing Director**
Qualifications	*BEng (Mining Hons), M.Aus.IMM*
Experience 	Steve joined Hillgrove in September 2012 as the General Manager Operations at the Kanmantoo Copper Mine and in May 2015 he was promoted to Chief Executive Officer and Managing Director. Previously the Deputy General Manager, then Head of Mining Operations for Newcrest Mining's Cadia Valley Operations, Steve has spent a significant portion of his career constructing, ramping up and optimising mining operations, including Telfer, Cadia Hill, Ridgeway Deeps and Cadia East for Newcrest, and Callie for Newmont. With a background that includes management of Normandy's White Devil Mine, and also various roles within Mount Isa Mines and a work/study Mining Engineering Cadetship with Western Collieries when he joined the industry in 1989. Steve boasts significant experience within industry ranging from underground operations to 150ktpa to 26mtpa, to open pit operations of 2mtpa to 24mtpa. Steve is a member of the Treasury Committee. Appointed 27 May 2015.
Mr Paul Kiley	**Chief Financial Officer & Company Secretary**
Qualifications	*B.Ec, CPA*
Experience 	Paul has over thirty 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.

DIRECTORS' REPORT *(CONT.)*

DIRECTORS AND OFFICERS *(CONT.)*

RETIRED DIRECTORS AND OFFICERS

Name/Qualifications	Experience and special responsibilities
The Hon. Dean Brown, AO	**Independent Non-Executive Chairman / Chairman Nomination Committee**
Qualifications	*B.Rur.Sc.,Grad.Dip. Bus.Admin.,M.Rur.Sc., D.Sc.(Hon), FAICD*
Experience 	Former Premier and Minister of the South Australian Government and Member of South Australian Parliament from 1973-1985 and 1992-2006. Dean was also Deputy Premier and Leader of the Opposition during that time. He was a Director of AACM International Pty Ltd (1986-92), a Senior Agricultural Scientist, the Premier's Special Advisor on Drought (2007-11), a Director of the National Youth Mental Health Advisory Board (Headspace) (between 2006-09) and Chairman of InterMet Resources Limited between (2008-13). Dean undertakes corporate advisory consulting to a variety of companies and is also a Director of Scantech Limited (2007-), Chairman of the Playford Memorial Trust (member since 2008 and Chairman since 2011), a Director of Foodbank SA (2006-), a Director of Mission Australia (2012-), Chairman of Skills IQ and a member of several advisory Boards. Dean Chaired the Nomination and the Remuneration Committees and was a member of the Audit and Risk Committee. Resigned 31 May 2017.

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	6	6	7	7	2	2	-	-
Mr M W Loomes	18	18	6	6	7	7	2	2	-	-
Mr P Baker	18	18	6	6	7	7	2	2	2	2
Mr A Breuer	8	8	2	2	2	2	-	-	-	-
Mr S P McClare	18	18	6	4	7	7	2	2	2	2
Hon. D C Brown, AO	10	10	4	4	5	5	1	1	-	-

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

B – Number of meetings attended

The number of Audit Committee meetings increased from three in 2016 to seven in 2017 as a result of a decision to tender the Company's audit services, and the subsequent appointment of PwC as the Company's new auditor.

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

RESULTS

Revenue from ordinary activities	$127.1m	CY16: $113.1m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	($14.1m)	CY16: ($109.2m) restated [1]
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	($14.1m)	CY16: ($109.2m) restated [1]

1 *Restatement: the financial statements for CY16 have been restated to include adjustments relating to rehabilitation provision and depreciation. Further details are in note 2 (f) to the consolidated financial statements.*

OVERVIEW OF CONSOLIDATED FINANCIAL RESULTS

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

For the year ended 31 December 2017, the net loss after tax was $14.1 million compared to a net loss after tax of $109.2 million for the year ended 31 December 2016 which included non-cash asset impairment charges from the first half of 2016. At 30 June 2016 there was an impairment charge of $68.5 million after tax reducing the carrying value of the Kanmantoo mine assets and which is shown as a non-underlying item. The underlying net loss after tax during the year was $8.4 million compared with $40.7 million loss in 2016. (Refer page 22 for further details including a reconciliation of statutory results to underlying results).

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

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

REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK

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

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

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

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

The exercise of the options issued with the Convertible Notes contributed funds to the Company and the early redemption of those Convertible Notes, virtually all of which were converted to equity, reduced debt and improved the balance sheet by the end of 2017.

DIRECTORS' REPORT *(CONT.)*

REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK *(CONT.)*

In early 2018 the Company has repaid the $4 million South Australian Government Loan along with accumulated interest of $0.3 million and also successfully negotiated a copper pre-pay facility that has provided a further $4 million for working capital and allowed Hillgrove to fix the pricing of an additional 5,000 tonnes of copper to be sold in 2018 at an Australian Dollar price of $8,885 per tonne. As at 28 February 2018, there is fixed pricing for 13,400 tonnes of copper production over the next 12 months at an average price of $8,896/tonne after margins.

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

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

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

Kanmantoo Copper Mine Production Statistics

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

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

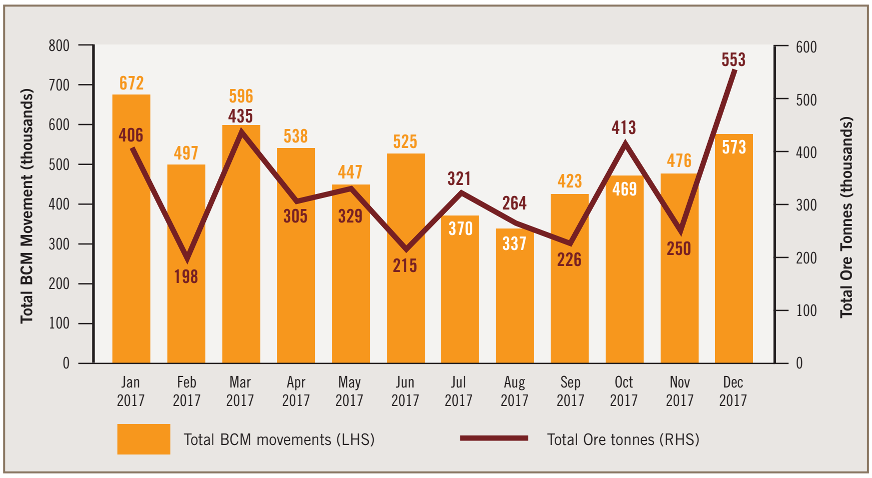
REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK *(CONT.)*

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

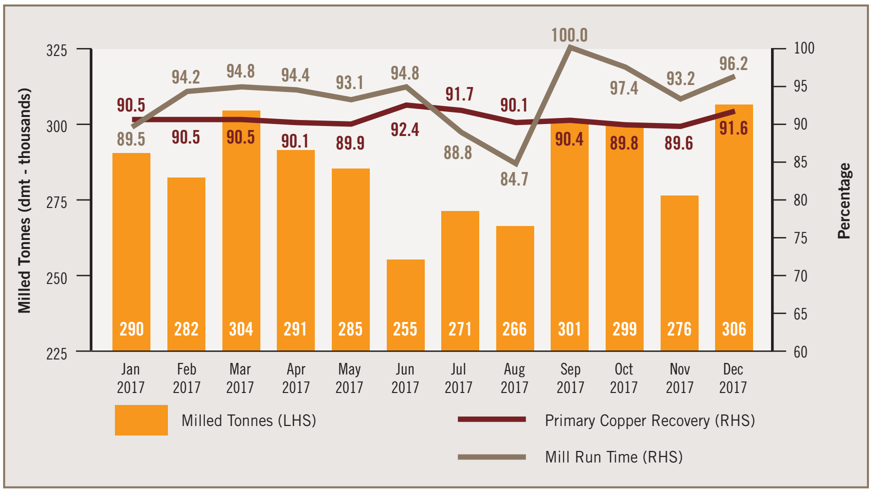
Mining costs were $13.15/BCM, and processing costs $7.41/tonne milled. The unit mining costs decreased from the previous year (CY16 $14.01/BCM) due to the increased production efficiency afforded by the wider working areas.

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

Kanmantoo Monthly Mining Performance



Kanmantoo Monthly Milled Tonnes, Copper Recovery (%) and Mill Run Time (%) Performance



1 *The Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.*

2 *ASX Releases 25 May 2017 and 20 October 2017.*

EXPLORATION PROGRAMME

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

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

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

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

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

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

DIRECTORS' REPORT *(CONT.)*

REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK *(CONT.)*

EXPLORATION PROGRAMME *(CONT.)*

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

Kanappa and Mt Rhine are approximately 60kms and 80kms respectively by road from the Kanmantoo infrastructure and offer significant opportunities to discover new copper-gold resources on wholly owned Company assets. Various geophysical programs are underway with a view to developing drill targets in 2018.

STATEMENT OF PROFIT OR LOSS

$million	12 months to 31 Dec 2017	12 months to 31 Dec 2016 (restated)	Change
TOTAL REVENUE	**127.1**	**113.1**	**14.0**
Cash costs of production			
Mining	**(73.8)**	(71.1)	(2.7)
Pre-strip and deferral	**15.9**	32.8	(16.9)
Processing	**(27.7)**	(24.8)	(2.9)
Transport and shipping	**(6.0)**	(5.0)	(1.0)
Treatment and refining	**(12.9)**	(12.4)	(0.5)
Other direct costs	**(5.1)**	(5.8)	0.7
Inventory movements	**7.8**	(1.0)	8.8
Royalties	**(4.6)**	(1.3)	(3.3)
Corporate costs	**(4.4)**	(4.1)	(0.3)
Gain/(loss) on disposal of assets	**(0.1)**	0.1	(0.2)
Other income	**0.2**	0.5	0.3
Net foreign exchange gain/(loss) realised	**(0.2)**	1.2	(1.4)
TOTAL CASH COSTS OF PRODUCTION	**(110.9)**	**(90.9)**	**(20.0)**
UNDERLYING EBITDA	**16.2**	**22.2**	**(6.0)**
Depreciation and amortisation	**(11.8)**	(44.7)	32.9
UNDERLYING EBIT	**4.4**	**(22.5)**	**26.9**
Net interest and financing charges	**(4.6)**	(4.3)	(0.3)
Income tax (expense)/benefit	**(8.2)**	(13.9)	5.7
UNDERLYING NPAT	**(8.4)**	**(40.7)**	**32.3**
Non-underlying items, net of tax	**(5.7)**	(68.5)	62.8
Reported net profit/(loss) after tax	**(14.1)**	**(109.2)**	**95.1**
Non-underlying Items			
Fair value movement – Convertible Notes	**(5.5)**	-	(5.5)
Impairment - Australian exploration write down	**(0.2)**	-	(0.2)
Impairment - Kanmantoo assets write down	**-**	(68.5)	68.5
Total Non-underlying Items	**(5.7)**	**(68.5)**	**62.8**

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

Cash costs of production were also higher in 2017 rising from $90.9 million to $110.9 million in 2017. Even though gross mining costs stayed level, the proportion of mining costs capitalised to the balance sheet for pre-strip and deferred mining costs decreased by $16.9 million as waste removal ratios declined as expected toward the end of the cut-back. In addition, processing costs increased by $2.9 million due to higher volume and electricity prices. Royalties increased by $3.3 million to $4.6 million in 2017 reflecting the change in royalty rate to 5% early in the year following the 5th anniversary of production.

3 *ASX Release 25 October 2017.*

REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK *(CONT.)*

CASH FLOW OVERVIEW

Operating activities cash flow

$ million	12 months to 31 Dec 2017	12 months to 31 Dec 2016	Change
Receipts from customers	**101.5**	97.3	4.2
Payment to suppliers, employees and contractors	**(100.9)**	(76.3)	(24.6)
Net cash inflows from operating activities	**0.6**	**21.0**	**(20.4)**

Net cash inflows from operating activities for the 12 months ended 31 December 2017 were $0.6m reflecting that monthly copper metal production for most of the year was at or around the cash breakeven level until the step-up in copper production which occurred in December 2017. This includes the expenditure on deferred mining costs of $14.5 million (2016: $9.1 million).

The $24.6 million increase in payments to suppliers, employees and contractors is exacerbated by the classification of capitalised pre-strip costs as investing in PPE. In 2016 the investment in pre-strip was $23.7 million, whereas in 2017 it reduced to $4.5 million. On a combined basis, total cash payments for all mining activity in 2017 increased by only $2.7 million or about 2.6%.

Investing activities cash flow

$ million	12 months to 31 Dec 2017	12 months to 31 Dec 2016	Change
Payments for exploration activities	**(0.1)**	(0.4)	0.3
Payments for property, plant and equipment	**(6.8)**	(28.3)	21.5
Proceeds on sale of plant and equipment	**-**	0.6	(0.6)
Net cash (outflows) from investing activities	**(6.9)**	**(28.1)**	**(21.2)**

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

Financing activities cash flow

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

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

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

STATEMENT OF FINANCIAL POSITION

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

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

Property, plant and equipment increased by $9.0 million to $77.7 million. Taking into account depreciation of $11.8 million, this means additions to PP&E of about $21 million during 2017.

DIRECTORS' REPORT *(CONT.)*

REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK *(CONT.)*

STATEMENT OF FINANCIAL POSITION *(CONT.)*

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

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

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

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

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

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

For the year ended 31 December 2017 total equity decreased by $4.4 million reflecting the loss for the year of $14.1 million and a $7.1 million decrease in reserves mainly relating to the recycling through profit and loss of deferred hedging gains offset by a $16.8 million increase in share capital from conversion of the convertible notes and exercise of related options.

As was the case at 31 December 2016, by applying impairment testing methodology consistent with that used in previous years, the calculated recoverable amount as at 31 December 2017 exceeds the carrying value. However, past impairment charges have not been written back until such time as the Group has demonstrated a sustained period of positive cashflows following the completion of the Giant Pit cutback in late 2017.

Summary Balance Sheet

$ million	31 Dec 2017	31 Dec 2016 (restated)	Change
Cash	**0.5**	1.9	(1.4)
Receivables	**4.3**	4.0	0.4
Inventories	**12.7**	5.0	7.7
Property, Plant & Equipment	**77.7**	68.7	9.0
Exploration	**0.9**	0.8	0.1
Deferred Tax Assets	**-**	4.9	(4.9)
Total Assets	**96.2**	**85.3**	**10.9**
Payables	**48.3**	36.4	(11.9)
Provisions	**16.8**	13.3	(3.5)
Borrowings	**9.5**	13.0	3.5
Employee Benefits	**7.3**	3.7	(3.6)
Deferred Income	**0.5**	0.7	0.2
Total Liabilities	**82.4**	**67.1**	**(15.3)**
Net Assets / Equity	**13.8**	**18.2**	**(4.4)**

REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK *(CONT.)*

GUIDANCE

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

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

1 *At 0.75 exchange rate*

2 *In addition to the capital projects, $15.9 million of pre-strip was completed.*

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

Life of mine plan and outlook for 2018

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

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

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

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

RISKS

The Company currently has a single operation asset, the Kanmantoo Copper Mine in South Australia. The operation provides the Company with all of its income. The operation consists of an open pit mine and processing plant located close to regional communities. Concentrate 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 financial result could be impacted.

The Company's annual budget and related mine plans and production and operation 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. The 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 future shipments. As at 28 February 2018 the Company now had fixed pricing for 13,400 tonnes of copper at an average copper price of $8,896 per tonne after margins.

CAPITAL RAISINGS

Prior to the expiry of its listed Options on 22 September 2017, the Company raised approximately $5.6 million (with no transaction costs), through the exercise of the 187.8m Options at an exercise price of $0.03.

DIRECTORS' REPORT *(CONT.)*

REVIEW OF OPERATIONS FOR THE CY17 YEAR AND OUTLOOK *(CONT.)*

EARLY REDEMPTION OF CONVERTIBLE NOTES

On 11 October 2017, the Company announced its intention to redeem its listed convertible notes (Notes) on the redemption date of 22 December 2017. This followed a decision from the Board that it was in the best interests of Hillgrove to use the proceeds raised from the September 2017 exercise of its listed options to redeem the Notes as this would simplify its capital structure, reduce a layer of administration, and, to the extent Noteholders elected to convert their Notes to shares, strengthen its balance sheet.

At the request of Ariadne Capital Pty Ltd (Ariadne), which underwrote the issue of the Notes, the Company called a shareholder meeting at which Ariadne sought shareholder approval to convert all of its Notes. Approval was granted at the shareholder meeting held on 8 December 2017, and as a result, Ariadne converted all of its Notes into ordinary shares, increasing its ownership in the Company to 26.1%.

As a result of this Note conversion and earlier conversions during 2017, 4.95 million of the 5.0 million Notes were converted into fully paid shares, and the remaining 0.05 million Notes were redeemed.

During 2017, the Company issued 164,963,630 shares as a result of Note conversions.

DIVIDENDS

There were no dividends declared or paid during the current period or in the prior year.

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

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

$4m Copper Pre-pay Facility

On 16 February 2018, the Company agreed a fully secured $4m copper pre-pay Facility with Freepoint Metals & Concentrates LLC. The Facility provided the Company with general working capital enabling it to:

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

The key terms of the Facility were:

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

Repayment of SAG $4m Loan

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

Buy out of a mining contractor deferred liability

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

Indonesian Projects

On 28 February 2018, Hillgrove received notices from the Indonesian Department of Mines, which state the tenements for its two Indonesian assets at Bird's Head in West Papua and Sumba Island have been terminated due to the non-performance of obligations including the non-payment of dead rents.

Hillgrove is taking advice to review its position and decide whether it will appeal the decision.

The projects were on care and maintenance and the carrying value of both projects was fully impaired in 2015.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to significant environmental and other regulations. 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.

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 (Price Waterhouse Coopers and Deloitte Touche Tohmatsu) for audit and non-audit services provided during the period are set out in Note 6.

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, as set out below, 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 39.

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 2017, which forms part of the director's report and has been audited in accordance with section 308 (3C) of the *Corporations Act 2001*.

During the year a number of remuneration related, cost reduction decisions were implemented to assist the Company to address the cash constraints it faced, including:

- Continuing the pay freeze which was instituted in 2014, with salaries remaining at 2013 levels.
- The 10% salary deferral for all staff (which commenced in May 2016) continued until November 2017,
- Not granting any Short Term Incentives (STI's) during 2017, and:
- Reducing staff through natural attrition and absorbing their roles into remaining roles where possible.

Repayment of the 10% salary deferrals commenced in December 2017.

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 2017 Financial Year
Mr J E Gooding	Chairman Chairman Remuneration Committee Member Audit and Risk Committee Chairman Nomination Committee	Appointed Chairman of the Board, the Remuneration Committee and the Nomination Committee on 31 May 2017
Mr M W Loomes (Non-independent)	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Full Year
Mr P Baker	Director Chairman Audit and Risk Committee Member Remuneration Committee Member Nomination Committee	Full Year
Mr T Breuer	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Part Year Appointed 1 June 2017
Executive Directors		
Mr S P McClare	CEO and Managing Director Member Treasury Committee	Full Year
KMP Executives		
Mr P Kiley	Chief Financial Officer and Company Secretary Member Treasury Committee	Full Year
Mr L Wallace	General Manager, Kanmantoo	Full Year

Key Management departures during the 2017 Financial Year

Non-executive Directors	Title (at year end)	Change in 2017 Financial Year
The Hon. Dean Brown, AO	Chairman Chairman Remuneration Committee Member Audit and Risk Committee Chairman Nomination Committee	Resigned 31 May 2017

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 2017 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 (1).	
Board/Committee fees per annum*	Board Chairman Fee	$120,000 (1)
	Audit Committee Chairman	$10,000 (2)
	Board NED Base Fee	$60,000 (1)
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 base 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 2017 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) Effective 1 December 2015, the Board agreed to a temporary 20% fee reduction in the light of the economic conditions and low commodity price environment, which reduced the Chairman's fee from $150,000 to $120,000 and the NED fee from $75,000 to $60,000. The fee reduction was a voluntary initiative put in place by the directors. Director's fees will revert to the pre-reduction fees once the Giant Pit cutback is completed and production returns to pre-cut back levels (expected to be in early 2018).

(2) Effective 1 January 2017, the Board agreed to pay the chairman of the Audit & Risk Committee an annual fee of $10,000 in recognition of the increased time commitment which comes with this role.

** Fees include all committee memberships with no extra payments for committee memberships, except as noted at (2) above.*

DIRECTORS' REPORT *(CONT.)*

REMUNERATION REPORT (AUDITED) *(CONT.)*

4.0 EXECUTIVE REMUNERATION

4.1 KMP Executive Remuneration Tables – Audited

		Fixed Remuneration					
		Short-term		Long-term			
	Year	Salary and Fees	Non-monetary benefits	Superannuation Benefits	Termination Benefits	Long Service Leave	Total
Non-Executive Directors							
Mr J E Gooding	**CY17**	**88,059**	**-**	**6941**	**-**	**-**	**95,000**
	CY16	60,000	-	-	-	-	60,000
Mr M W Loomes	**CY17**	**54,795**	**-**	**5205**	**-**	**-**	**60,000**
	CY16	55,191	-	5,243	-	-	60,434
Mr P Baker	**CY17**	**63,927**	**-**	**6,073**	**-**	**-**	**70,000**
	CY16	54,795	-	5,205	-	-	60,000
Mr A Breuer	**CY17**	**31,963**	**-**	**3,037**	**-**	**-**	**35,000**
	CY16	-	-	-	-	-	0
The Hon. D C Brown	**CY17**	**50,000**	**-**	**-**	**-**	**-**	**50,000**
	CY16	100,000	-	20,000	-	-	120,000
Total	**CY17**	**288,744**	**-**	**21,256**	**-**	**-**	**310,000**
	CY16	269,986	-	30,448	-	-	300,434
Executive Directors							
Mr S McClare	**CY17**	**472,634**	**-**	**25,830**	**-**	**-**	**498,464**
	CY16	430,436	-	12,306	-	-	442,742
Total	**CY17**	**472,634**	**-**	**25,830**	**-**	**-**	**498,464**
	CY16	430,436	-	12,306	-	-	442,742
Other key management personnel							
Mr P G Kiley	**CY17**	**337,000**	**-**	**31,599**	**-**	**-**	**368,599**
	CY16	342,770	-	32,010	-	-	374,780
Mr L A Wallace	**CY17**	**277,697**	**-**	**26,034**	**-**	**-**	**303,731**
	CY16	288,696	-	26,931	-	-	315,627
Total	**CY17**	**614,697**	**-**	**57,633**	**-**	**-**	**672,330**
	CY16	631,466	-	58,941	-	-	690,407
KMP Total	**CY17**	**1,376,075**	**-**	**104,719**	**-**	**-**	**1,480,794**
	CY16	1,331,888	-	101,695	-	-	1,433,583

DIRECTORS' REPORT *(CONT.)*

REMUNERATION REPORT (AUDITED) *(CONT.)*

4.0 EXECUTIVE REMUNERATION *(CONT.)*

4.1 KMP Executive Remuneration Tables – Audited *(cont.)*

		Variable Remuneration			Total	Proportion of Total Remuneration	
		Short-term	Equity Compensation	Total		Performance Related	Equity Related
	Year	Bonus	Value of Performance Rights			%	%
Non-Executive Directors							
Mr J E Gooding	**CY17**	**-**	**-**	**-**	**95,000**	**0%**	**0%**
	CY16	-	-	-	60,000	0%	0%
Mr M W Loomes	**CY17**	**-**	**-**	**-**	**60,000**	**0%**	**0%**
	CY16	-	-	-	60,434	0%	0%
Mr P Baker	**CY17**	**-**	**-**	**-**	**70,000**	**0%**	**0%**
	CY16	-	-	-	60,000	0%	0%
Mr A Breuer	**CY17**	**-**	**-**	**-**	**35,000**	**0%**	**0%**
	CY16	-	-	-	-	0%	0%
The Hon. D C Brown	**CY17**	**-**	**-**	**-**	**50,000**	**0%**	**0%**
	CY16	-	-	-	120,000	0%	0%
Total	**CY17**	**-**	**-**	**-**	**310,000**	**-**	**-**
	CY16	-	-	-	300,434	-	-
Executive Directors							
Mr S P McClare	**CY17**	**-**	**126,566**	**126,566**	**625,030**	**0%**	**20%**
	CY16	-	83,799	83,799	526,541	0%	16%
Total	**CY17**	**-**	**126,566**	**126,566**	**625,030**	**-**	**-**
	CY16	-	83,799	83,799	526,541	-	-
Other key management personnel							
Mr P G Kiley	**CY17**	**-**	**100,667**	**100,667**	**469,266**	**0%**	**21%**
	CY16	-	29,813	29,813	404,593	0%	7%
Mr L A Wallace	**CY17**	**-**	**86,413**	**86,413**	**390,144**	**0%**	**22%**
	CY16	-	46,454	46,454	362,081	0%	13%
Total	**CY17**	**-**	**187,080**	**187,080**	**859,410**	**-**	**-**
	CY16	-	76,267	76,267	766,674	-	-
KMP Total	**CY17**	**-**	**313,646**	**313,646**	**1,794,440**	**-**	**-**
	CY16	-	160,066	160,066	1,593,649	-	-

DIRECTORS' REPORT *(CONT.)*

REMUNERATION REPORT (AUDITED) *(CONT.)*

4.0 EXECUTIVE REMUNERATION *(CONT.)*

4.2 Executive KMP remuneration framework

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

4.3 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.

There has been no increases in TFR during the last three years and salaries have remained at 2013 levels. In May 2016, given the Company's cashflow position was forecast to be very tight throughout the remainder of 2016 and continue into 2017, all Hillgrove employees agreed to defer 10% of salaries from 19 May 2016 until 30 November 2017. In December 2017, the Company began repaying these deferred amounts over a fourteen month period up until January 2019.

4.4 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:

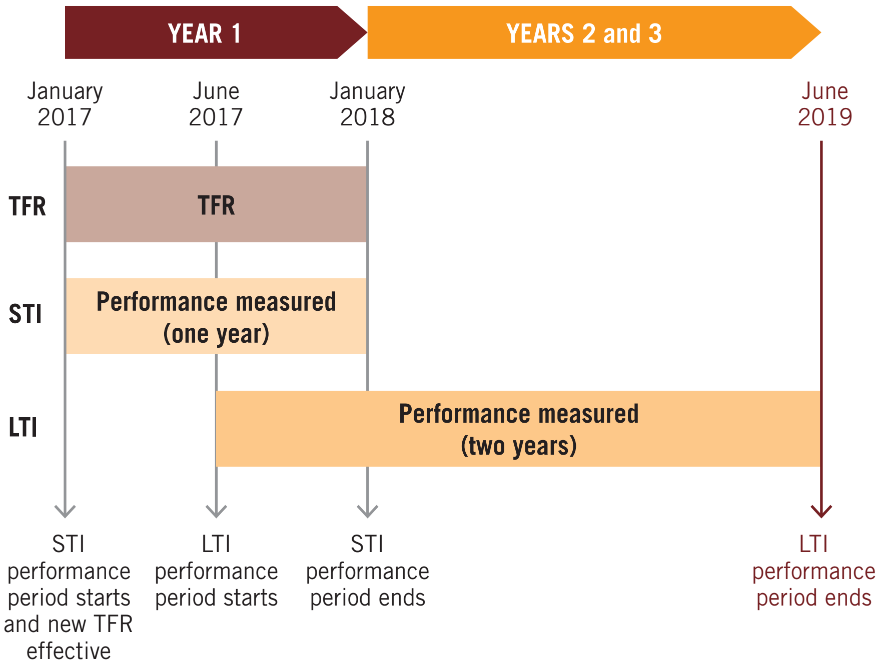
Remuneration mix (actual) CY 2017

Position	TFR (Cash)	STI (Cash) (1)	LTI (Equity)
CEO/MD	100%	Up to 60% of TFR	Up to 60% of TFR
Senior Executives (KMP)	100%	Up to 50% of TFR	Up to 50% of TFR

(1) Note no STI's were offered or paid in 2016 or 2017.

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.



4.5 Variable 'at risk' remuneration

As set out in the Section 4.4, 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 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.)

4.5 Variable 'at risk' remuneration (cont.)

4.5.1 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.

4.5.2 Long Term Incentives (LTI)

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 TSR performance hurdles over the vesting period, along with other performance criteria.

Long Term Incentives (LTI)			
Purpose	To retain key executives and align their remuneration with shareholder value.		
Types of equity awarded	LTI has been provided under the Company's Executive Long Term Incentive Plan. See Section 5.1 for further details. Under the LTI, executives and key staff are offered performance rights (to acquire ordinary shares of Hillgrove Resources Limited).		
Time of grant	In 2018 equity grants will be made after the 2018 AGM.		
Time restrictions	Equity grants awarded to the CEO/MD and other KMPs are tested against the performance hurdle at the vesting date which is two years [1] after the grant date. If the performance hurdle is not met at the vesting date, performance rights lapse, subject to Board evaluation. A service and performance requirement is imposed on all equity grants.		
Performance hurdles and vesting schedule	Equity grants were made in 2017 and were 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%	
	Performance rights vest as shares if the time restrictions and relevant performance hurdle is met. Special provisions, in accordance with company policies, may apply in the event of termination of employment or a change of control.		
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 4.4. 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 2016 and 2017 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.)*

4.5 Variable 'at risk' remuneration *(cont.)*

4.5.3 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	Based on the performance target areas set out above, a number of targets are set for each area which generally includes a Threshold, Target and Stretch target. An STI measure can only start to be accumulated provided the Threshold level is achieved. A "gate opener" principle applies whereby an STI will only start to be awarded to the CEO and KMPs if a threshold level of EBITDA is achieved. All targets are set having regard to prior year performance, market conditions and Board approved budgets. Specific targets are not provided in detail due to commercial sensitivity. Validation of performance against the 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.

The Remuneration Committee determined that given the Company's tight cashflow position no STI awards would be granted for the 2017 year.

4.6 Relationship between Performance and Executive KMP Remuneration

4.6.1 Hillgrove Resources Financial Performance (31 January 2014 to 31 December 2017)

	12 Months to 31 January	11 Months to 31 December	12 Months to 31 December		
	2014	**2014**	**2015 (restated)**	**2016 (restated)**	**2017**
Sales Revenue ($M)	139.2	166.8	139.5	113.1	127.1
Underlying EBITDA ($M)	37.8	52.3	16.1	22.2	16.2
Reported net profit / (loss) ($M)	1.5	3.8	(130.1) [(1)]	(109.2) [(4)]	(14.1) [(4)]
Return on equity (ROE) % [(2)]	0.7%	1.6%	(69.1%) [(1)]	(144.3%) [(4)]	(88.3%) [(4)]
Basic earnings per share (EPS) (cents)	1.1	2.6	(77.0) [(1)]	(57.8) [(4)]	(4.8) [(4)]
Diluted EPS (cents)	1.1	2.5	(77.0) [(1)]	(57.8) [(4)]	(4.8) [(4)]
Share price as at 31 December (cents) [(3)]	70	45	16	4	9
Total shareholder return (TSR) % (Annual)	(30.4%)	(35.3%)	(64.4%)	(75.0%)	125.0%

(1) Includes impairment charge of $112.9m.

(2) Based on average total equity

(3) After 8 for 1 share consolidation effective on 17 September 2014.

(4) Includes impairment charge of $68.5m.

4.5.2 Dividend History

No dividends have been declared or paid (interim or final) over the five years from 2014 to 2017.

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 4.5.2	To provide equity 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 31/12/16	Granted	Number vested	% vested	Number forfeited	% lapsed	Balance held at 31/12/17
Mr S P McClare	Jun 17	-	3,800,000	-	0%	-	-	3,800,000
	Jul 16	2,500,000	-	-	0%	-	-	2,500,000
	Jul 14	300,000	-	-	-	(300,000)	100%	-
TOTAL		**2,800,000**	**3,800,000**	**-**	**-**	**(300,000)**	**-**	**6,300,000**
Mr P Kiley	Jun 17	-	2,600,000	-	0%	-	-	2,600,000
	Jul 16	1,500,000	-	-	0%	-	-	1,500,000
TOTAL		**1,500,000**	**2,600,000**	**-**	**-**	**-**	**-**	**4,100,000**
Mr L A Wallace	Jun 17	-	2,100,000	-	0%	-	-	2,100,000
	Jul 16	1,200,000	-	-	0%	-	-	1,200,000
	Jul 14	112,500	-	-	-	(112,500)	100%	-
TOTAL		**1,312,500**	**2,100,000**	**-**	**-**	**(112,500)**	**-**	**3,300,000**

5.3 Exercise of Performance Rights granted as remuneration

No performance rights held by executive KMP were exercised during the financial year.

5.4 Value of performance rights granted to Executive KMP, and on foot as at 31 December 2017

Key Executives	Grant Date	Number Granted	Vesting Date	Face Value per right	Fair Value (1)	Intrinsic Value (2)	Total Fair Value
Mr S P McClare	Jun 17	3,800,000	Jun 19	$0.086	(3) $0.0644	$326,800	$244,870
	Jul 16	2,500,000	Jun 18	$0.086	(4) $0.0321	$215,000	$80,250
TOTAL		**6,300,000**				**$541,800**	**$325,120**
Mr P Kiley	Jun 17	2,600,000	Jun 19	$0.086	(5) $0.0654	$223,600	$169,940
	Jul 16	1,500,000	Jun 18	$0.086	(6) $0.0678	$129,000	$101,700
TOTAL		**4,100,000**				**$352,600**	**$271,640**
Mr L A Wallace	Jun 17	2,100,000	Jun 19	$0.086	(5) $0.0654	$180,600	$137,260
	Jul 16	1,200,000	Jun 18	$0.086	(6) $0.0678	$103,200	$81,360
TOTAL		**3,300,000**				**$283,200**	**$218,620**

(1) 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.

(2) Intrinsic value at year end is the difference between the exercise price and the share price ($0.086) on 31 December 2017.

(3) Valued at 25 May 2017 when approved by shareholders at the AGM.

(4) Valued at 26 May 2016 when approved by shareholders at the AGM

(5) Valued at Grant Date on 1 June 2017.

(6) Valued at Grant Date on 11 July 2016.

DIRECTORS' REPORT *(CONT.)*

REMUNERATION REPORT (AUDITED) *(CONT.)*

5.5 Movement in equity held

The movement during the reporting period in the number of ordinary shares, convertible notes and options over 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 31/12/16	Net Other Changes	Convertible Notes (1)	Exercise Options (2)	Exercise of Rights	Held as at 31/12/17
Directors							
Mr J E Gooding	Shares	23,490	-	33,333	37,621		**94,444**
	Notes	1,000	-	(1,000)	-		**-**
	Options	37,621	-	-	(37,621)		**-**
Mr M W Loomes	Shares	1,050,569	-	4,264,200	4,812,577		**10,127,346**
	Notes	127,926	-	(127,926)	-		**-**
	Options	4,812,577	-	-	(4,812,577)		**-**
Mr P Baker	Shares	100,000	-	266,666	300,960		**667,626**
	Notes	8,000	-	(8,000)	-		**-**
	Options	300,960	-	-	(300,960)		**-**
Mr A Breuer	Shares	-	(3) 1,546,000	5,224,466	13,396,334		**20,166,800**
	Notes	-	(3) 156,734	(156,734)	-		**-**
	Options	-	(4) 13,396,334	-	(13,396,334)		**-**
Mr S P McClare	Shares	477,273	-	1,833,333	4,569,100		**6,879,706**
	Notes	55,000	-	(55,000)	-		**-**
	Options	2,069,100	(5) 2,500,000	-	(4,569,100)		**-**
Other KMP							
Mr P Kiley	Shares	10,000	-	1,666,666	1,881,000		**3,557,666**
	Notes	50,000	-	(50,000)	-		**-**
	Options	1,881,000	-	-	1,881,000		**-**
Mr L A Wallace	Shares	23,864	-	3,333,333	6,262,000		**9,619,197**
	Notes	100,000	-	(100,000)	-		**-**
	Options	3,762,000	(6) 2,500.000	-	(6,262,000)		**-**

(1) Convertible Notes were converted into ordinary shares on or before the Redemption date of 22 December 2017.
(2) Options were exercised on or before their Expiry date of 22 September 2017.
(3) Shares and Notes held by Mr Breuer at the time of his appointment.
(4) Includes 5,896,334 Options held by Mr Breuer and 7,500,000 Options acquired off market.
(5) Options acquired by Mr McClare acquired off market.
(6) Options acquired by Mr Wallace acquired off market.

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 2017.

Employee	Mr S P McClare	Mr P G Kiley	Mr L A Wallace
Position	Chief Executive Officer and Managing Director	Chief Financial Officer and Company Secretary	General Manager, Kanmantoo Copper Mine
Commencement	25 May 2015	12 June 2015	1 August 2015
Fixed Remuneration (1)	$500,000 p.a. (2) reviewed periodically	$400,000 p.a. (3) reviewed periodically	$330,000 p.a. (4) reviewed periodically
Short-term Incentive	Up to 60% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Long-term Incentive	Up to 60% 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	3 months
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 interfere in Company business, recruit employees, or make adverse comments or actions by either party.	No adverse comments or actions by either party	No 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 1 December 2017. From 1 December 2017, the total salary deferral for each employee will be repaid over a 14 month period up until January 2019.

(2) Mr McClare's annual fixed remuneration excludes $64,632 attributable to the 2016 and 2017 salary deferral amounts, which will be paid during CY18.

(3) Mr Kiley's annual fixed remuneration excludes $52,571 attributable to the 2016 and 2017 salary deferral amounts, which will be paid during CY18.

(4) Mr Wallace's annual fixed remuneration excludes $43,806 attributable to the 2016 and 2017 salary deferral amounts, which will be paid during CY18.

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 2017 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 39.

Signed in accordance with a resolution of the Directors:

Dated at Adelaide this 14th day of March 2018

Mr John Gooding
Chairman

Mr Steve McClare
Managing Director

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Hillgrove Resources Limited for the year ended 31 December 2017, 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
14 March 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000 restated
Revenue	4	**127,078**	113,127
Other income	5	**212**	565
Expenses	6(a)	**(122,914)**	(136,201)
Impairment charges	6(c)	**(153)**	(68,475)
Interest and finance charges	6(b)	**(4,561)**	(4,354)
Fair value movement in convertible notes	20(a)	**(5,569)**	-
Profit/(Loss) before income tax		**(5,907)**	(95,338)
Income tax (expense) / benefit	7	**(8,167)**	(13,859)
Profit/(Loss) for the year attributable to owners		**(14,074)**	(109,197)
Items that may be reclassified to profit or loss			
Recycle of cash flow hedge reserve	23	**(10,946)**	(10,550)
Income tax relating to components of other comprehensive income	23	**3,284**	3,165
Other comprehensive income for the period (net of income tax)		**(7,662)**	(7,385)
Total comprehensive income for the period		**(21,736)**	(116,582)
Total comprehensive income for the period is attributed to:			
Equity holders of Hillgrove Resources Limited		**(21,736)**	(116,582)
Non-controlling interests		**-**	-
Total comprehensive income		**(21,736)**	(116,582)
Earnings per share for profit attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic and diluted earnings per share	8	**(4.8)**	(57.8)

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 44 to 67.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000 restated
Current assets			
Cash and cash equivalents	*9*	**471**	1,942
Trade and other receivables	*10*	**4,367**	3,994
Inventories	*11*	**12,734**	4,991
Total current assets		**17,572**	10,927
Non-current assets			
Property, plant and equipment	*12*	**77,691**	68,660
Exploration and evaluation expenditure	*13*	**889**	803
Deferred tax assets	*14*	**-**	4,883
Total non-current assets		**78,580**	74,346
Total assets		**96,152**	85,273
Current liabilities			
Trade and other payables	*15*	**48,317**	36,425
Provisions	*16*	**2,896**	3,027
Borrowings	*17*	**8,151**	2,834
Employee benefits payable	*18*	**6,716**	2,768
Deferred income		**306**	229
Total current liabilities		**66,386**	45,283
Non-current liabilities			
Provisions	*19*	**13,826**	10,219
Borrowings	*20*	**1,388**	10,193
Employee benefits payable	*21*	**609**	927
Deferred income		**190**	468
Total non-current liabilities		**16,013**	21,807
Total liabilities		**82,399**	67,090
Net assets		**13,753**	18,183
Equity			
Contributed equity	*22*	**234,334**	217,538
Reserves	*23*	**3,128**	10,280
Retained earnings / (accumulated losses)	*24*	**(223,709)**	(209,635)
Total equity		**13,753**	18,183

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 44 to 67.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Contributed equity $'000	Reserves $'000	Retained earnings $'000 restated	Total equity $'000 restated
Balance 31 December 2015		216,272	16,122	(99,200)	133,194
Loss for the period		-	-	(109,197)	(109,197)
Other comprehensive income		-	(7,385)	-	(7,385)
Transactions with owners:					
Shares issued to creditors	*22*	1,266	-	-	1,266
Share based compensation	*33*	-	305	-	305
Transfer	*23*	-	1,238	(1,238)	-
Balance 31 December 2016		217,538	10,280	(209,635)	18,183
Loss for the period		-	-	(14,074)	(14,074)
Other comprehensive income		-	(7,662)	-	(7,662)
Transactions with owners:					
Contributions of equity	*22*	16,796	-	-	16,796
Share based compensation	*33*	-	510	-	510
Balance 31 December 2017		**234,334**	**3,128**	**(223,709)**	**13,753**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 44 to 67.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**101,547**	97,302
Cash payments in the course of operations		**(100,905)**	(76,270)
Net cash generated by operating activities	*28*	**642**	21,032
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		**(107)**	(383)
Payments for property, plant and equipment		**(6,788)**	(28,319)
Proceeds on disposal of plant and equipment		**1**	611
Net cash used in investing activities		**(6,894)**	(28,091)
Cash flows from financing activities			
Proceeds from early termination of derivatives		**-**	14,434
Proceeds from issue of shares	*22*	**5,635**	-
Transaction costs on issue of shares		**-**	(30)
Proceeds from borrowings		**300**	8,930
Transaction costs of borrowings / convertible notes		**(276)**	(526)
Repayment of borrowings		**(300)**	(18,354)
Interest received		**5**	80
Interest paid		**(583)**	(1,663)
Net cash from/(used) in financing activities		**4,781**	2,901
Net decrease in cash and cash equivalents		**(1,471)**	(4,158)
Cash and cash equivalents at the beginning of financial period		**1,942**	6,100
Cash and cash equivalents at the end of the financial period	*9*	**471**	1,942

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 44 to 67.

NOTES TO THE FINANCIAL STATEMENTS *FOR THE YEAR ENDED 31 DECEMBER 2017*

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) Going concern

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

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

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

In addition to continuing creditor support, in 2017 the Group executed a number of initiatives to manage its cash flows, including raising $5.6 million through the exercise of options attached to the convertible notes, negotiating a $2.7 million PetroBond allowing it to return to normal creditor terms with its fuel supplier instead of paying cash up front and replacing the $1.6 million Electranet security bond with a bond which did not require cash backing.

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

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

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

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

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

(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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

(a) Basis of preparation *(cont.)*

(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.

(v) Restatement of prior period

Certain amounts reported in the previous period have been restated to correct errors impacting depreciation and provision for rehabilitation which are not considered material to the prior year financial statements. Details on the adjustments can be found in Note 2.

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited (the ''parent entity") as at 31 December 2017 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.

(ii) Parent Entity

The financial information for the parent entity, Hillgrove Resources Limited, disclosed in Note 34 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.

(c) 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 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.)*

(d) 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".

(e) Financial Instruments

The Group measures financial instruments, such as over-the-counter derivatives, at fair value at each balance sheet date.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular cash flow risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

(f) 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 statement of financial position.

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 flow.

(g) 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;

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONT.)*

(a) Recoverability of non-current assets *(cont.)*

- Future exchange rates for the Australian dollar to US dollar based on forward curve data;
- Future operating costs of production including capital expenditure and rehabilitation;
- The discount rate most appropriate to the CG.

An impairment charge of $67.1 million against the Kanmantoo CGU was recorded at half year 30 June 2016 in light of weaker consensus commodity prices which prevailed at the time. At each subsequent year end, further assessments of the discounted future cash flows for the Kanmantoo CGU have resulted in no further adjustments to the carrying values.

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.

(b) Pre-strip mine development and deferred mining costs

The Group capitalises pre-strip mining costs associated with the development of pit structures prior to normal production. The amount deferred is calculated according to the waste removal ratio when that ratio is significantly higher than the normal waste removal ratio expected to be experienced during ore production, as indicated by the mine plan. Capitalised pre-strip mining costs are classified under Mine Development within Property Plant and Equipment in the balance sheet and are being amortised to the Income Statement over the remaining life of the Kanmantoo mine.

Deferred mining costs represent the mining costs which are normalised for the impact of waste removal ratios and copper grades over the productive life of specific pits. Costs are usually deferred in the upper benches of the pit when the waste removal ratio is generally higher and the copper grade is generally lower than the average of all the ore-producing benches in the pit. The deferred costs are returned to the cost of production as the relevant pit reaches its floor depth.

(c) Ore reserve estimates

The Group's disclosed reserves are its best estimate of product that can be economically and legally extracted from the relevant mining properties. Estimates are developed after taking into account a range of factors including quantities, ore grades, production techniques and recovery rates, exchange rates, forecast commodity prices and production costs.

The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each ore body. Significant judgement is required to generate an estimate based on the geological data available.

Changes in reported reserves can impact the carrying value of property, plant and equipment including deferred mining expenditure, provision for mine rehabilitation, recognition of deferred tax assets and the amount of depreciation and amortisation charged to the profit or loss.

In October 2016 a revised Mineral Resource Estimate and Ore Reserve Estimate was announced for the Kanmantoo Copper Mine. The 2016 Ore Reserve Estimate increased by 5.4kt of copper metal (about 10%), net of depletion from mining since 30 June 2016.

(d) 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 Note 16 and 19.

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.

(e) Accounting for Convertible Notes

In December 2016 the Company issued $5.0 million of convertible notes with a maturity date of December 2019. In September 2017 the Company announced its intention to redeem all unexercised convertible notes in December 2017. The Group was required to measure the fair value of the embedded derivative relating to the noteholders conversion option being the noteholder's option to convert notes into shares at a discount to the listed share price of the Company at the time of conversion. The overall fair value expense estimate for the upward movement in the value of the embedded derivative was recognised as an expense of $5,569k in the statement of profit or loss.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT.)

(f) Restatement of prior period

In 2017, an error was identified within the depreciation calculation caused by the incorrect application of residual values for various items of plant and equipment. An error was also identified within the financial model used to estimate the rehabilitation provision. Both errors, whilst not considered material, impacted the prior year financial statements. The errors have been corrected by restating each of the affected financial statement line items for the 2016 financial year as presented (note; there is no impact on prior year cashflows and basic/diluted earnings per share):

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

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

3. 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, under minimal care and maintenance and therefore are considered to be immaterial, not requiring separate segment disclosure.

4. REVENUE FROM SALE OF CONCENTRATES

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Revenue from sale of concentrates	**127,078**	113,127
Total revenue	**127,078**	113,127

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

The Group sells copper concentrate and sales of the metals contained in the product are recognised when a group entity has delivered the concentrate to the customer. Delivery does not occur until the product has either been sold at the port to the customer or has been loaded onto a ship on the basis of a CIF sale.

The market price of the copper metal in the concentrate is declared by the customer one calendar month prior to the month of shipment. 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.

Concentrate sales revenue represents gross proceeds receivable from the customer. Buyer deductions such as treatment charges, refining charges, price participation and bismuth penalty charges are classified as costs of production.

Revenue for 2017 also includes the net value realised from the early close out in 2016 of commodity forward sale contracts designated as cash flow hedges. All of the value realised from this close out has now been brought to account.

5. OTHER INCOME

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Interest	11	76
Other income	-	13
Gain on embedded derivative (a)	-	324
Grant income (b)	201	152
Total other income	**212**	565

(a) The Group has an embedded derivative associated with a liability to a contractor for face value of $1,350k where the future amount repayable is dependent on the average AUD copper price after July 2017. Using forecast consensus pricing at 31 December 2016 to value the embedded derivative component, an unrealised gain was recognised as other income and the value of the liability was reduced. At December 2017, the derivative component of the liability was estimated using actual average copper prices which added $580k to the face value of the liability. The change in value from the turnaround since December 2016 has been shown as a finance expense in Note 6 (b).

(b) Grant income received to assist with construction of a water pipeline was deferred to the balance sheet and is recognised in the profit or loss on the same basis as amortisation of the underlying asset.

6. EXPENSES

Profit or loss before income tax includes the following expenses:

(a) Expenses per Profit or Loss

		31 Dec 2017	31 Dec 2016
	Note	$'000	$'000
Costs of production	*(i)*	109,691	86,590
Depreciation and amortisation		11,814	44,694
Inventory movement		(7,794)	968
Cost of goods sold		**113,711**	**132,252**
Government royalties		4,596	1,250
Corporate and other costs	*(ii)*	4,352	3,976
Loss / (gain) on sale of fixed assets		18	(32)
Foreign exchange loss / (gain)		237	(1,245)
Total Expenses per Profit or Loss		**122,914**	**136,201**

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

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

(b) Interest and finance charges

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Discount on unwind of rehabilitation provision	1,189	1,181
Bank fees and charges	16	1,538
Interest on borrowings	292	1,181
Interest payable on financial liabilities	561	454
Convertible Note interest	295	-
Convertible Note costs	645	-
Shares in lieu of interest to mining contractor	658	-
Loss on embedded derivative (see note 5(a))	905	-
Total Interest and finance charges	**4,561**	4,354

6. EXPENSES *(CONT.)*

(c) Impairment charges

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Property, plant and equipment (Kanmantoo CGU)	-	68,441
Exploration assets	**153**	34
	153	68,475

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. 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. At 30 June 2016 the consensus range of future copper prices had decreased significantly from the last time the recoverable amount was estimated at 31 December 2015. After applying these lower copper prices to the recoverable amount, an impairment charge of $68.4 million was taken against the Group's Kanmantoo assets.

An impairment is not a write off but a provision which can be reversed in the event of improvements in market outlook or operational performance including mine life extensions. As was the case at 31 December 2016, by applying methodology consistent with that used in previous years, the calculated recoverable amount as at 31 December 2017 exceeds the carrying value. However, past impairment charges have not been written back until such time as the Group has demonstrated a sustained period of positive cashflows following the completion of the Giant Pit cutback in late 2017.

Expenditure in exploration areas of interest where the prospect of recoupment of costs capitalised through successful development and commercial exploitation is no longer considered likely, is written off to the profit or loss.

(d) Other required disclosures

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Employee benefits (excluding share-based payments)	**25,113**	22,897
Share based payments (see note 33)	**510**	305

(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 2017	31 Dec 2016
	$	$
(i) Audit Services		
Fees paid to PricewaterhouseCoopers:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**203,060**	-
Fees paid to Deloitte Touche Tohmatsu:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**63,490**	260,000
Review of prospectus for convertible note issue	**-**	20,000
Fees paid to other firms:		
Audit and review of Singapore financial reports (Crowe Horwath)	**14,624**	15,902
	281,174	295,902
(ii) Taxation Services		
Services by Deloitte Touche Tohmatsu:		
Tax compliance services, including review of income tax returns	**12,477**	20,107
Tax advice for inclusion in convertible note prospectus	**-**	12,777
Services by other firms:		
Singapore tax compliance services, including income tax returns (Crowe Horwath)	**8,348**	8,563
Research and development concession claims (Shinewing)	**10,335**	-
	31,160	41,447

7. INCOME TAX EXPENSE

	31 Dec 2017	31 Dec 2016
	$'000	$'000
(a) Income tax expense		
Income tax expense comprises:		
- Current tax expense	**3,284**	3,165
- Deferred tax expense	**4,883**	10,694
Income tax expense / (benefit)	**8,167**	13,859
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) from continuing operations before income tax expense / (benefit)	**(5,907)**	(95,338)
Tax at the Australian tax rate of 30%	**(1,772)**	(28,601)
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	**153**	91
- Non-assessable income	**-**	(242)
- Non-deductible expenses	**45**	3
- Losses from non-resident foreign operations	**261**	246
- Tax temporary differences not recognised	**7,809**	42,362
- Fair value movement in convertible notes	**1,671**	-
Income tax expense / (benefit)	**8,167**	13,859
(c) Amounts recognised directly in equity		
Deferred tax – (credited) / debited directly in equity	**(3,284)**	(3,165)

(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.

8. 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.

8. EARNINGS PER SHARE *(CONT.)*

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.

	31 Dec 2017	31 Dec 2016
	$'000	$'000
(a) Basic earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**(14,074)**	(109,197)
(b) Diluted earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company.	**(14,074)**	(109,197)

	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	**294,649,666**	188,874,010
Number for diluted earnings per share		
Ordinary shares	**294,649,666**	188,874,010

	Cents	Cents
(a) Basic earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(4.8)**	(57.8)
(b) Diluted earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(4.8)**	(57.8)

9. CASH AND CASH EQUIVALENTS

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Cash at bank and on hand	**188**	88
Restricted cash	**283**	1,854
	471	1,942

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 and unclaimed dividends. At 31 December 2016 restricted cash included $1.6 million cash backing of a bond required as part of the completion of the electricity sub-station at Kanmantoo built by Electranet. In 2017 the Electranet Bond was replaced by an insurance bond which did not require cash backing.

10. TRADE AND OTHER RECEIVABLES

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Trade receivables	**1,384**	585
Prepayments	**1,181**	1,593
Other receivables	**776**	813
GST receivable	**1,026**	1,003
	4,367	3,994

Trade receivables are for concentrate sales and the Group has a single customer under the terms of an offtake agreement. Sales are generally denominated in US dollars. Revenue is recognised in accordance with the policy described in Note 4 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 days after concentrate is delivered to port in minimum tonnage lots. First provisional payment covering 95% of the value is received three days after ship loading. Second provisional payment for the remaining 5% is received 45 days after ship loading.

11. INVENTORIES

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Concentrates	**2,662**	807
ROM stockpile	**7,020**	808
Stores and consumables	**3,052**	3,376
	12,734	4,991

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.

12. PROPERTY, PLANT AND EQUIPMENT

	31 Dec 2017	31 Dec 2016
	$'000	$'000 restated
Land and building		
At cost	**5,524**	5,524
Accumulated depreciation	**(379)**	(379)
	5,145	5,145
Plant and equipment		
At cost	**73,068**	72,896
Accumulated depreciation and impairment	**(56,314)**	(55,280)
	16,754	17,616
Motor vehicles		
At cost	**1,253**	1,261
Accumulated depreciation	**(711)**	(633)
	542	628
Mine development		
At cost	**158,770**	152,456
Accumulated depreciation and impairment	**(130,778)**	(119,856)
	27,992	32,600
Deferred mining costs		
At cost	**27,258**	12,671
	27,258	12,671
Total property, plant and equipment	**77,691**	68,660

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. 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, 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(d)).

Deferred mining costs represent the mining costs which are normalised for the impact of strip ratios and copper grades over the life of specific pits.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(d)).

12. PROPERTY, PLANT AND EQUIPMENT *(CONT.)*

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

	31 Dec 2017	31 Dec 2016
	$'000	$'000 restated
Land and Buildings		
Carrying amount at beginning of period	**5,145**	9,096
Disposals	**-**	-
Depreciation	**-**	(105)
Impairment losses	**-**	(3,846)
Carrying amount at end of period	**5,145**	5,145
Plant and equipment		
Carrying amount at beginning of period	**17,616**	35,487
Additions	**172**	351
Disposals	**-**	(2,310)
Depreciation	**(1,034)**	(5,247)
Impairment losses	**-**	(10,665)
Carrying amount at end of period	**16,754**	17,616
Motor vehicles		
Carrying amount at beginning of period	**628**	562
Additions	**77**	401
Disposals	**(31)**	(161)
Depreciation	**(132)**	(174)
Carrying amount at end of period	**542**	628
Mine development		
Carrying amount at beginning of period	**32,600**	83,474
Additions	**3,918**	26,755
Transfers from exploration	**-**	97
Depreciation	**(10,921)**	(38,730)
Impairment losses	**-**	(40,496)
Increase provision for rehabilitation	**2,395**	1,500
Carrying amount at end of period	**27,992**	32,600
Deferred Mining Costs		
Carrying amount at beginning of period	**12,671**	17,014
Additions	**14,587**	9,091
Impairment losses	**-**	(13,434)
Carrying amount at end of period	**27,258**	12,671
Total property, plant and equipment	**77,691**	68,660

13. EXPLORATION AND EVALUATION EXPENDITURE

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Exploration, evaluation and expenditure	**889**	803
Balance at beginning of the period	**803**	792
Additions	**239**	142
Transfers to mine development	**-**	(97)
Impairment losses	**(153)**	(34)
Carrying amount at end of period	**889**	803

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.

14. 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 2017 $'000	31 Dec 2016 $'000 restated
Deferred tax asset (DTA)		
DTA amounts recognised in profit or loss		
Employee benefits	**1,496**	915
Rehabilitation provisions	**4,688**	1,462
Tax revenue losses	**-**	2,758
Property, plant & equipment	**1,667**	5,539
Other	**495**	1,141
	8,346	11,815
DTA/(DTL) amounts recognised directly in equity		
Derivatives	**-**	(3,212)
Share issue expenses	**210**	356
Set-off deferred tax liabilities pursuant to set-off provision	**(8,556)**	(4,076)
Net deferred tax assets	**-**	4,883

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 $154.4 million (tax benefit at the Australian tax rate of 30%: $46.3 million). In addition there is an unrecognised temporary difference on plant and equipment amounting to approximately $107.1 million (tax benefit at the Australian tax rate of 30%: $32.1 million).

Deferred tax assets of $2,036,000 (2016: $2,933,000) and deferred tax liabilities of $8,289,000 (2016: $7,013,000) are expected to be recovered in less than 12 months of the balance sheet date.

	31 Dec 2017 $'000	31 Dec 2016 $'000
Deferred tax liability (DTL)		
DTL amounts recognised in profit or loss		
Deferred mining costs	**8,177**	3,801
Other	**379**	275
	8,556	4,076
Amount offset to deferred tax assets pursuant to set-off	**(8,556)**	(4,076)
Net deferred tax liabilities	**-**	-
Movements in net deferred tax balance		
Opening balance	**4,883**	15,577
Credited/(charged) to profit or loss	**(8,525)**	(13,895)
Credited/(charged) directly in equity for cash flow hedges	**3,284**	3,165
Over/(under) provision in prior years	**358**	36
Closing balance	**-**	4,883

15. TRADE AND OTHER PAYABLES

	31 Dec 2017 $'000	31 Dec 2016 $'000
Trade payables	**30,092**	26,904
Other payables and accruals	**18,225**	9,521
	48,317	36,425

Information about the Group's exposure to liquidity risk is provided in Note 25.

16. PROVISIONS – CURRENT

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Rehabilitation provision	**1,801**	1,302
Make good provision	**499**	708
Unsettled ship provision	**596**	1,017
	2,896	3,027
Movement in provisions		
Carrying value at the beginning of the period	**3,027**	2,504
(Reduce) / increase provision recognised;		
Rehabilitation provision	**-**	-
Make good provision	**(209)**	148
Unsettled ship provision	**(421)**	1,017
Transfer from/(to) non-current provisions;		
Rehabilitation provision	**499**	(642)
Balance at end of period	**2,896**	3,027

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.

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 quarter of 2018.

17. BORROWINGS – CURRENT

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.

Leases of property, plant and equipment where the Group substantially holds all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the liability balance outstanding. The interest element of the finance cost is charged to the 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.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight line basis over the lease period.

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Secured		
Loan - South Australian Government (a)	**4,259**	-
Unsecured		
Lease liabilities	**544**	443
Promissory note (b)	**1,417**	1,365
Deferred payment (c)	**1,931**	1,026
	3,892	2,834
Total current borrowings	**8,151**	2,834

(a) In June 2016 the Company obtained a medium term secured loan facility of $4.0 million provided by the South Australian Government Financing Authority. The loan has an interest rate of 4.2% and the accumulating balance is repayable at maturity in February 2018 (see Note 31 "Subsequent Events").

(b) A contractor creditor of the Company has agreed to convert a portion of the amount owed for past services into an unsecured interest-bearing liability.

(c) A contractor creditor of the Company has agreed to receive a deferred payment in lieu of a portion of an amount owed for past services. Under the terms of the deferral, the face value of the obligation is scaled up or down according to the future copper price giving rise to an embedded derivative which is measured at fair value based on consensus forecast copper pricing.

18. EMPLOYEE BENEFITS PAYABLE – CURRENT

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Employee benefits payable	**6,716**	2,768

The current provision for employee benefits includes:

(a) Accrued annual leave and long service leave.

(b) Deferred salaries (now all current) plus unpaid liabilities for payroll related on-costs.

The entire amount of employee benefits payable of $6.7 million (2016: $2.8 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 2017	31 Dec 2016
	$'000	$'000
Current leave obligations expected to settle after 12 months	**1,820**	1,449

19. PROVISIONS – NON CURRENT

	31 Dec 2017	31 Dec 2016
	$'000	$'000 restated
Rehabilitation provision	**13,826**	10,219
Movement in provisions		
Carrying value at the beginning of the period	**10,219**	6,660
Discount on unwind of rehabilitation provision	**1,189**	1,180
Transfer (to)/from current provisions	**(499)**	642
Expenditure charged to provision	**(543)**	(226)
(Reduce)/increase provision recognised	**3,460**	1,963
Balance at end of period	**13,826**	10,219

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 in and shown as a financial cost.

20. BORROWINGS – NON-CURRENT

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Secured		
South Australian Government loan (see Note 17)	-	4,086
Convertible notes (a)	-	5,000
Less: transaction costs on convertible notes	-	(621)
	-	8,465
Unsecured		
Lease liabilities	**128**	515
Promissory note (see Note 17)	**1,260**	1,213
	1,388	1,728
Total non-current borrowings	**1,388**	10,193

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.

(a) In December 2016 $5.0 million of convertible notes were issued with a maturity date of December 2019. Accounting standards require the conversion feature of the instrument to be periodically measured at fair market value as affected by future changes in the Hillgrove share price. Since issuing the notes, the Hillgrove share price rose from 4.2 cents to 8.2 cents at 30 June 2017 and remained around this level when all of the notes were converted or redeemed in their entirety in December 2017. The fair value revaluation of the convertible notes, which were trading above the redemption price, resulted in a net $5,569k increase in the liability before its final transfer into equity, which was recognised as an expense in the profit or loss during 2017.

20. BORROWINGS – NON-CURRENT *(CONT.)*

Convertible Notes - movement schedule	2017 $'000
Opening balance – 1 January 2017	5,000
Fair value revaluation (see Statement of Profit & Loss)	5,569
Conversion to equity (see note 22)	(10,508)
Payment for redemptions	(61)
Closing balance – 31 December 2017	-

21. EMPLOYEE BENEFITS PAYABLE – NON CURRENT

	31 Dec 2017 $'000	31 Dec 2016 $'000
Long service leave	**609**	331
Deferred Salaries	**-**	596
	609	927

22. SHARE CAPITAL

	31 Dec 2017 $'000	31 Dec 2016 $'000
Issued and paid up capital for 568,929,118 fully paid shares (31 December 2016: 206,767,2471)	**234,334**	217,538

Ordinary Shares Issued – movements during the period

	31 Dec 2017 No. of shares	31 Dec 2016 No. of shares	31 Dec 2017 $'000	31 Dec 2016 $'000
Opening balance	**206,767,247**	188,109,342	**217,538**	216,272
Shares issued to creditor	**9,405,467**	18,657,905	**658**	1,271
Exercise of options	**187,792,770**	-	**5,634**	-
Conversion of notes	**164,963,634**	-	**10,508**	-
Less – transaction costs	**-**	-	**(4)**	(5)
Balance at end of period	**568,929,118**	206,767,247	**234,334**	217,538

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.

23. RESERVES

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Employee share options reserve	**3,305**	2,795
Other financial assets revaluation reserve	**-**	-
Cash flow hedges	**-**	7,662
Foreign currency translation	**(177)**	(177)
	3,128	10,280
Movements:		
Employee share options reserve		
Balance 31 December 2016	**2,795**	2,490
Share based compensation expense	**510**	305
Balance 31 December 2017	**3,305**	2,795
Other financial assets revaluation reserve		
Balance 31 December 2016	**-**	(1,238)
Transfer to retained earnings	**-**	1,238
Balance 31 December 2017	**-**	-
Cash flow hedge reserve		
Balance 31 December 2016	**7,662**	15,047
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges	**-**	(1,994)
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	**(10,946)**	(8,556)
Deferred tax (Note 14)	**3,284**	3,165
Balance 31 December 2017	**-**	7,662

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) Cash flow hedge reserve

The cash flow hedge reserve represents the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges, net of taxes. The amounts are recognised in the profit or loss in the same periods the hedged item is recognised in the profit or loss.

(iii) 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(c)(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.

24. RETAINED EARNINGS

	31 Dec 2017	31 Dec 2016
	$'000	$'000
At beginning of the period	**(209,635)**	(99,200)
Profit attributable to members of the parent entity	**(14,074)**	(109,197)
Transfer from reserves	**-**	(1,238)
Retained profits at end of the period	**(223,709)**	(209,635)

No dividend was paid during the current period (31 December 2016: Nil). The Company has $21.3 million of franking credits available for future periods (31 December 2016: $21.3 million).

25. 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 future years. 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 greater than 90% of the copper concentrate sales value and gold represents about 9%.

In the past, the Group has entered into copper commodity swaps contracted in Australian dollars to hedge both the US dollar copper price risk and AUD/USD exchange rate risk. The Group has used these derivative financial instruments to provide more predictable cash flows from sales revenues during times when the Group had significant third party secured debt.

In August 2016, the Board made a decision to close out all of its remaining derivative positions yielding cash proceeds which, in combination with restricted cash balances, allowed the Group to retire its secured debt at the time. Since this early close out, the Group has managed commodity price and foreign exchange risk on a ship-by-ship basis. The gains realised from the close out of the cash flow hedges were allocated to a reserve account and were being allocated to profit and loss over the originally designated hedge time periods as specified by the contract maturity dates. By 31 December 2017 all of the deferred gains have been allocated to profit and loss.

During 2017, the Group's metal offtaker Freepoint Metals LLC agreed to vary the normal offtake terms and provide short term fixed 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 2017, the Group had a total of 12,000 tonnes of copper metal at agreed fixed prices ranging from AUD 8,204 per tonne up to AUD 9,094 per tonne (average price of AUD 8,740).

As shown in Note 17 "Current Borrowings", at reporting date the Group has an interest-free liability to a mine contractor. The underlying face value of the liability is $1,350,000 and during 2016 the final amount payable was subject to a discount/premium referable to spot AUD copper prices. As at 31 December 2017 the final value of the liability has been determined and is no longer subject to variation from movement in the copper price.

(b) Interest rate risk management

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following borrowings:

	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	Weighted average interest rate		Book value $'000	
Borrowings	**4.3%**	4.9%	**7,608**	13,531

The percentage of total borrowings which are at variable rates is 35% (31 December 2016: 22%).

An analysis by maturities is provided in (c) below.

Details of borrowings have been provided in Note 17 and 20. At 31 December 2017, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been decreased/increased by $27,000 (31 December 2016: $25,000).

25. FINANCIAL RISK MANAGEMENT *(CONT.)*

(c) Foreign exchange risk

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

The Group previously entered into AUD-denominated copper commodity derivatives to hedge both the USD copper price risk and the AUD/USD exchange rate risk, with the foreign exchange exposure being the USD of the unhedged portion of future sales. From August 2016 when the derivatives were closed out, copper concentrate sales were unhedged, but the potential impact of foreign exchange risk on the unhedged revenue stream was not material. During 2017, the fixed pricing arrangements implemented with Freepoint on a ship by ship basis include conversion from USD into AUD 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 2017 the Group has USD-denominated trade receivables of US$1,079,157 (31 December 2016: US$423,649). Offsetting this, the Group has unsettled ship provisions for final invoices which are also recorded in USD. At 31 December 2017 the Group has USD-denominated ship provisions of US$465,000 (31 December 2016: US$735,889). The table below details the Group's foreign exchange sensitivity on its net USD-denominated trade receivables and final invoice ship provisions.

	31 December 2017		31 December 2016	
	Impact on profit or loss		Impact on profit or loss	
	Increase ($'000)	Decrease ($'000)	Increase ($'000)	Decrease ($'000)
Impact of 10% increase/decrease in A$/US$ exchange rate on US$ denominated trade receivables	**(72)**	**79**	39	(43)

The Group and parent entity also hold bank accounts denominated in US$ and IDR (Indonesian Rupiah) which had carrying values of $NIL and $8,102 respectively at 31 December 2017 (31 December 2016: $200 and $522 respectively). The foreign exchange risk on these cash balances is not material.

(d) 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 and Macquarie Bank which are considered to be appropriate financial institutions.

The Group has trade receivables of A$1,383,535 (31 December 2016: A$585,336). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

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.

(e) 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 . The Group and the parent entity had no undrawn borrowing facilities at the reporting date.

25. FINANCIAL RISK MANAGEMENT *(CONT.)*

(e) 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 2017 ($'000)						
Trade and other payables	**48,317**	**-**	**-**	**-**	**-**	**-**
Borrowings	**8,151**	**1,388**	**-**	**-**	**-**	**-**
Total	**56,468**	**1,388**	**-**	**-**	**-**	**-**
31 December 2016 ($'000)						
Trade and other payables	36,425	-	-	-	-	-
Borrowings	3,304	6,339	5,328	-	-	-
Total	39,729	6,339	5,328	-	-	-

26. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b)(i).

Name of controlled entity	Country of incorporation	Class of share	Equity holding 31 Dec 2017 (%)	Equity holding 31 Dec 2016 (%)
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

The proportion of ownership interest is equal to the proportion of voting power held.

Transactions with non-controlling interests

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

27. COMMITMENTS

(a) Non-cancellable operating lease expense commitments

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

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Within one year	34	33
One year or later and no later than five years	56	-
	90	33

The group leases its Unley offices under non-cancellable operating leases expiring within five years of the reporting date. The lease has been extended to 2020. The lease has varying CPI escalation clauses and renewal rights. On renewal, the terms of the lease are 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.

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Within one year	300	641
One year or later and no later than five years	300	-
	600	641

(c) Capital commitments

At 31 December 2017 there were no contracted capital commitments (31 December 2016: Nil).

28. 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 Statement of Financial Position as set out in Note 9.

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

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Operating profit after income tax	**(14,074)**	(109,197)
Add / (less) items classified as investing / financing activities		
Net loss on sale of fixed assets	**18**	(32)
Net interest expense	**1,817**	3,174
Add / (less) non-cash items		
Depreciation and amortisation	**11,814**	44,694
Impairment asset write downs	**153**	68,475
Fair value adjustment – convertible notes	**5,569**	-
Employee share options	**511**	305
Unrealised FX (gains) / losses	**-**	(808)
Unrealised (gain) / losses on financial derivatives	**(7,662)**	(3,648)
Discount on unwind of rehabilitation provision	**1,189**	1,180
Movement in deferred liability to contractor	**905**	(324)
Shares in lieu of interest	**654**	-
Deferred income amortisation	**(201)**	(152)
Net cash generated by operating activities before change in assets and liabilities	**693**	3,667
Changes in operating assets and liabilities		
(Increase) / decrease in receivables, prepayments and inventories	**(8,116)**	1,045
Increase / (decrease) in trade creditors and accruals	**14,484**	11,736
(Increase) / decrease in net deferred tax assets	**4,883**	10,748
Increase / (decrease) in provisions and employee benefits	**3,285**	2,927
(Increase) / decrease in deferred mining costs	**(14,587)**	(9,091)
Net cash generated by operating activities	**642**	21,032

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Short-term employee benefits	**1,376,075**	1,331,888
Post-employment benefits	**104,719**	101,695
Share based payments	**313,646**	160,066
	1,794,440	1,593,649

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

30. 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 26.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 29.

(d) Related parties

Loans to controlled entities are eliminated on consolidation.

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

31. EVENTS AFTER THE REPORTING PERIOD

Since the balance date the Company has successfully completed the following initiatives:

(a) $4m copper pre-pay facility

On 16 February 2018, the Company agreed a fully secured $4m copper pre-pay facility with Freepoint Metals & Concentrates LLC. The facility provided the Company with general working capital enabling it to:

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

The key terms of the facility were:

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

(b) Repayment of SA Government $4m Loan

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

(c) Buy out of a mining contractor deferred liability

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

31. EVENTS AFTER THE REPORTING PERIOD *(CONT.)*

(d) Indonesian Projects

On 28 February 2018, Hillgrove received notices from the Indonesian Department of Mines, which state the tenements for its two Indonesian assets at Bird's Head in West Papua and Sumba Island have been terminated due to the non-performance
of obligations including the non-payment of dead rents.

Hillgrove is taking advice to review its position and decide whether it will appeal the decision.

The projects were on care and maintenance and the carrying value of both projects was fully impaired in 2015.

32. CONTINGENT LIABILITIES

Guarantees

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	**1,162**	1,641
Security bonds on rental properties	**16**	16
	1,178	1,657

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 milion 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 2017.

33. SHARE-BASED PAYMENTS

Options and Performance Rights Plan (OPRP)

Share based compensation benefits are provided by the Options and Performance Rights Plan (OPRP). The securities issued under this plan are referred to as performance rights throughout the financial statements.

The Options and Performance Rights Plan (OPRP) is 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 are granted rights which vest and can be exercised three years after offer (for the 2014 offer) and two years after offer (for the 2016 and 2017 offers), 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 dividend or 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 achieving an Annual Performance Appraisal Rating of 50% of more;
c) The invitee complying with all Company policy and procedures (e.g. no disciplinary action against the invitee between offer and vesting); and
d) 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 is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Binominal Approximation or Black-Scholes (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.

33. SHARE-BASED PAYMENTS *(CONT.)*

Movements in performance rights during the year

	31 December 2017		31 December 2016	
	Number of performance rights	Weighted average exercise price ($)	Number of performance rights	Weighted average exercise price ($)
Balance at beginning of year	**9,410,500**	**-**	1,813,750	-
Granted during the year	**12,640,000**	**-**	8,548,000	-
Forfeited during the year	**(30,000)**	**-**	(220,000)	-
Exercised during the year	**-**	**-**	-	-
Expired during the year	**(832,500)**	**-**	(731,250)	-
Balance at end of year	**21,188,000**	**-**	9,410,500	-
Exercisable at end of year	**-**	**-**	-	-

Performance rights outstanding at the end of the year

At the end of the year there are 21,188,000 performance rights outstanding that have been offered under the OPRP. The exercise price of these performance rights are Nil (31 December 2016: Nil), and the weighted average remaining contractual life at the end of the period was 1.5 years (31 December 2016: 1.4 years).

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 2017	31 Dec 2016
	$'000	$'000
Performance rights issued under the OPRP	**510**	305

34. PARENT ENTITY INFORMATION

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

	Parent	
	31 Dec 2017	31 Dec 2016
	$'000	$'000
Loss after income tax	**(21,735)**	(116,582)
Total comprehensive income	**(21,735)**	(119,746)
Balance Sheet		
Total current assets	**335**	854
Total assets	**19,031**	28,769
Total current liabilities	**5,020**	924
Total liabilities	**5,278**	10,586
Net assets	**13,753**	18,183
Shareholders Equity		
Contributed equity	**234,333**	217,538
Employee share options reserve	**3,305**	2,795
Retained profits	**(223,885)**	(202,150)
Total equity	**13,753**	18,183

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1. Investments in subsidiaries are accounted for at cost, less any impairment.

Contingent liabilities

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Security bond on rental properties	**16**	16

35. STANDARDS AND INTERPRETATIONS IN ISSUE

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.

Early adoption of standards

There were no standards adopted early.

Standards and interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 (2014) 'Financial Instruments', and the relevant amending standards.	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2018	31 December 2018
AASB 16 'Leases'	1 January 2019	31 December 2019

AASB 15 Revenue from Contracts with Customers

The Australian Accounting Standards Board has issued AASB 15, Revenue from Contracts with Customers, which has a mandatory application date of 1 January 2018. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer. Control is deemed to have been transferred when contractual performance obligations have been fulfilled. This potentially changes the timing and quantum of revenue recognition.

The offtake agreement requires the Group to deliver copper concentrate to port of shipping and to organise and pay for shipping to the final destination port. Under AASB 15, the Group has assessed these to be the performance obligations in the offtake agreement.

Revenue is currently recognised when concentrates have been delivered to port and sold to the offtake customer at which point control and ownership are transferred. Under AASB 15, the Group will continue to recognise revenue at this point as the first performance obligation will have been satisfied. The second performance obligation will be met when concentrates are delivered to the destination port and at this point associated revenue will be recognised. The revenue associated with the second performance obligation would be recognised at a later point than is currently recognised. However, this is not expected to have a material impact on the results of the Group.

Revenue is currently recorded on a gross basis, with treatment charges recorded as an expense (as disclosed in note 6). The Group is currently assessing whether this remains the most appropriate treatment, or whether revenue should be recorded on a net basis (i.e. excluding treatment charges). This assessment would effect the amount of revenue but not effect recorded profit.

The Group has provisional pricing arrangements which are finalised on final assay and weights. The treatment under AASB 118 is expected to be materially consistent under AASB 15.

On the basis of the above, the new standard is not expected to materially impact the Group's net profit after tax. The Group will adopt the standard effective 1 January 2018.

AASB 9 Financial Instruments

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The majority of the Group financial assets are in the form of cash and cash equivalents, trade and other receivables. Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and liabilities, its offtake pricing arrangements or its results on adoption of the new impairment model.

AASB 16 Leases

AASB 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. Information on the undiscounted amount of the Group's operating lease commitments at 31 December 2017 under AASB 117 is disclosed in note 27. The Group has not yet determined to what extent its operating lease commitments will result in the recognition of an asset and a liability for future payments although the commitments, which are not substantial, may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB16.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 40 to 67 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 2017 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 14th day of March 2018

Mr John Gooding
Chairman

Mr Steve McClare
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 2017 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 statement of financial position as at 31 December 2017
- 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 consolidated 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* (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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Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that as at 31 December 2017 the Group's current liabilities exceeded its current assets by $48.9 million and it is reliant on the ongoing support of its major creditors. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

- For the purpose of our audit we used overall Group materiality of $890,000, which represents approximately 0.7% of the Group's 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 revenue as the materiality benchmark rather than profit before tax due to the recent volatility in profit before tax. Revenues are reflective of the Group's operating activities in continued challenging market conditions, are relatively stable and provide a level of materiality which, in our view, is appropriate for the audit having regard to the expected requirements of users of the Group's financial report.

- We utilised a 0.7% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

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Audit Scope

- Our audit focused on subjective judgements made by the Group; 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 which hold its two Indonesian assets at Bird's Head in West Papua and Sumba Island which are both on care and maintenance. As the Indonesian entities have no operational assets and 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.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	*How our audit addressed the key audit matter*
Carrying value of Kanmantoo Cash Generating Unit *(Refer to note 12)* Large impairment charges were recorded in the consolidated statement of profit and loss and other comprehensive income for the financial years ended 31 December 2016 ($68.5 million) and 31 December 2015 ($112.9 million), the majority of which related to the Kanmantoo Cash Generating Unit ("CGU"). In the current year, given the existence of impairment indicators the Group assessed the recoverability of the carrying value of its Kanmantoo CGU. The Group also considered whether there was objective evidence that the conditions leading to the asset impairment were no longer present and whether the Group should consider	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, and assessed the completeness of cash flows included within the model based on our understanding of operations

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Key audit matter	*How our audit addressed the key audit matter*
a reversal of prior impairment charges. The assessment of the carrying value of the Kanmantoo CGU was considered a key audit matter due to the financial significance of the balance ($77.7 million) and the judgemental assumptions included in the Group's discounted cash flow model, particularly: • long term copper and gold prices • reserve estimates and production and processing volumes • operating costs, foreign exchange rates and inflation rates; and • discount rate.	from the audit. • Compared long term copper and gold pricing data used in the discounted cash flow model to independent industry forecasts. • Compared foreign exchange and inflation rate assumptions in the discounted cash flow model to independent economic forecasts. • Evaluated the sensitivity of the CGU carrying value to changes in the discount rate by varying the rate used in the discounted cash flow model. • Assessed the reasonableness of the production and processing volumes generating the cash inflows by comparing these volumes to the overall mine reserve estimates. • In relation to reserve estimates we assessed the competence of the Group's expert and considered the movements in reserves over the year. • Assessed the Group's judgement that there was not sufficient objective evidence to consider reversing previous impairment charges in line with the requirements of Australian Accounting Standards. • Evaluated the accuracy and adequacy of the disclosures made in the financial report, including those regarding the key assumptions in light of the requirements of Australian Accounting Standards.
Rehabilitation provision *(Refer to note 16 and 19)* 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 2017 the balance sheet included provisions for such obligations of $15.6m.	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.

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Key audit matter	*How our audit addressed the key audit matter*
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 for future cash outflows associated with rehabilitation activities. We also focused on this matter because a prior period error was identified and adjusted in the comparative financial information.	• Tested the mathematical accuracy of the Group's rehabilitation estimate, and assessed the completeness of cash flows based on our understanding of rehabilitation obligations. • Considered the appropriateness of the discount rates and inflation rates utilised in calculating the closing provision by comparing them to market information. • Assessed the Group's determination of the prior period error, including appropriateness of recorded adjustments. • Considered the adequacy of disclosures made in the financial statements and their appropriateness under Australian Accounting Standards, including disclosure of the prior period error.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, including the Chairman and Managing Director's Statement, Kanmantoo Copper Mine, Exploration, Mineral Resource and Ore Reserves, Sustainability: Environment, Safety and Community, and Director's Report 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 identified above 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, 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 *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.

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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.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 28 to 37 of the directors' report for the year ended 31 December 2017.

In our opinion, the remuneration report of Hillgrove Resources Limited for the year ended 31 December 2017 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
14 March 2018

SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION FOR LISTED PUBLIC COMPANIES

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 26 February 2018, the Company has 568,929,118 listed fully paid ordinary shares. Each fully paid share carries on a poll, one vote.

The company also has 22,188,000 unquoted performance rights on issue which are held by 14 holders which do not carry voting rights.

(b) The number of shareholders holding less than a marketable parcel of ordinary shares was 1,972 as at 26 February 2018.

(c) Distribution schedule of Fully Paid Ordinary Shares as at 26 February 2018

Size of holding	Number of shareholders
1 - 1,000	**488**
1,001 - 5,000	**1,471**
5,001 - 10,000	**436**
10,001 - 100,000	**880**
100,001 and over	**238**
	3,513

(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 26 February 2018

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	26.1%
Munro Family Super Fund	6.1%
Supervised Investments Australia	5.1%

SHAREHOLDER INFORMATION *(CONT.)*

(g) Substantial shareholders as at 26 February 2018 *(cont.)*

Twenty largest listed shareholders

The twenty largest shareholders hold 66.7% of the total ordinary shares issued and Key Management Personnel hold 9.0% of the total ordinary shares. The names of the 20 largest shareholders as at 26 February 2018 are listed below:

Shareholder		No. of ordinary shares held	% of issued shares
1	Ariadne Capital Pty Ltd	64,837,374	11.4%
2	J P Morgan Nominees Australia	60,098,850	10.6%
3	Mr Raymond Edward Munro	31,250,000	5.5%
4	Portfolio Services Pty Ltd 1	27,482,196	4.8%
5	BNP Paribas Nominees Pty Ltd	25,759,373	4.5%
6	Bell Potter Nominees Pty Ltd	23,071,761	4.1%
7	Portfolio Services Pty Ltd 2	17,546,894	3.1%
8	Portfolio Services Pty Ltd 3	16,369,055	2.9%
9	Portfolio Services Pty Ltd 4	16,169,704	2.8%
10	Cosell Pty Ltd	14,000,000	2.5%
11	Mr Malcolm Neil Nichols	11,719,616	2.1%
12	WeyitinTrading Pty Ltd	10,127,346	1.8%
13	Mr Anthony Gordon Breuer	10,005,559	1.8%
14	Emeco Pty Ltd	9,405,467	1.7%
15	Rossdale Superannuation Pty Ltd	8,364,400	1.5%
16	HSBC Custody Nominees	7,218,156	1.3%
17	Mr Lachlan Wallace	7,119,197	1.3%
18	W Donnelly Services Pty Ltd	7,076,667	1.2%
18	Sighet Pty Ltd	6,975,241	1.2%
20	Helen Ma Pty Ltd	5,079,775	0.9%
		379,676,631	**66.7%**

(h) Interests in mining tenements

Tenement	Location	Percentage
ML 6345	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
EL 5628	Kanmantoo, South Australia	100%
ELA 86/11	Aclare 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) Refer Events Subsequent to Reporting Date - the Company has received notices advising its Indonesian tenements have been terminated, and is considering appealing these notices.

(n) Other information

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

HILLGROVE
RESOURCES

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