HILLGROVE RESOURCES

ASX RELEASE

Wednesday, 26 August 2020

RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2020

HIGHLIGHTS

- The completion of processing of the low grade stockpiles was completed on time and without injury.
- Production and cost performance for 2020 was either in line with or better than guidance.
- Successful implementation of the care and maintenance program whilst the Kanmantoo Underground Project is being developed.
- Pumped Hydro Energy Storage – the agreement with AGL to sell the project at Kanmantoo was terminated by mutual agreement. The agreement was terminated without any further obligations on either party.
- Kanmantoo Underground – advancement of the project, with the restart of the drilling program as well as progression of the funding discussions, thereby enabling a potential path forward to return the Company to cash generation as quickly as possible.
- Progressive rehabilitation with a further 45 hectares planted with native vegetation prior to the demobilisation of heavy equipment at the end of March.

HALF YEAR FINANCIAL PERFORMANCE

- The completion of processing copper concentrate from the low grade stockpiles in March 2020 resulted in a reduction of Revenues and EBITDA.
- Despite cash flow from operations being positive $1.2 million, net loss after tax for the half year was $4.9 million compared to a net profit of $4.7 million in the comparative period.
- Cash and receivables less payables increased by 37% to $5.2m.
- Total liabilities have decreased by $8.5 million since 31 December 2019.

Results for the period ($ million)	6 months to 30 June 2020	6 months to 30 June 2019	Change
Cash and receivables less payables	**5.2**	**3.8**	1.4
Revenue	**20.4**	**74.9**	(54.5)
Statutory profit / (loss)	**(4.9)**	**4.7**	(9.6)
EBITDA	**(2.9)**	**17.2**	(20.1)
Underlying profit / (loss)	**(4.9)**	**4.7**	(9.6)

OUTLOOK

The current focus of the business is on the evaluation of the Kanmantoo Underground Project which if successful, will return the Company to positive cash generation. It presents the best opportunity to resume production in the near-term for relatively low capital investment due to the existing open pit haul road to 360m depth to act as a decline for access to the underground resource, the availability of the low cost processing facility, the approved expansion of the tailing storage facility and the other infrastructure and utilities at the mine site.

The Stage 1 drilling program that was temporarily suspended due to COVID-19 recommenced in early June. This program was designed to expand the Underground Resource base and validate the orebodies that were mined in the open pit to continue at depth with sufficient grade, width and tenor to support underground mining. This drilling program was completed in August and results will be announced once all assays have been received, and updated mineral resource estimates released thereafter. The program included a hole to advance the gold recovery test work to determine the viability of installing a gravity concentration circuit as previously reported on 11 August 2020.

Subject to securing funding, the Stage 2 drill program will continue to expand and upgrade the classification of the underground Resource with further drilling, with a view to convert to a Reserve, prior to an investment decision to commence development.

In the meantime, all non-essential expenditure has been cut or deferred, and a number of cash preservation measures have been implemented to reduce the cash burn rate. Whilst the company continues to be prudent with cost saving initiatives in order to minimise this cash burn, there are however unavoidable costs associated with maintaining the permitted site status and existing infrastructure to enable a quick low-cost restart. Additional funding is required to complete the Stage 2 drill program through to an investment decision and discussions with multiple parties regarding funding continue.

For more information contact:

Mr Lachlan Wallace
CEO & Managing Director
Tel: +61 8 7070 1698

Appendix 4D
Interim Report
Half year ended 30 June 2020

Name of entity	Hillgrove Resources Limited
ABN	73 004 297 116
Half year ended	30 June 2020
Previous corresponding reporting period	30 June 2019

Results for announcement to the market

Revenue from ordinary activities	down	73%	to	$20,383,000
Loss from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	down	N/A[1]	to	$4,932,000
Loss for the period attributable to the owners of Hillgrove Resources Limited	down	N/A[1]	to	$4,932,000

Dividends

No dividends were paid or proposed to members during the half year ended 30 June 2020.

Brief explanation of results

A net loss after tax of $4,932,000 is reported by the Group for the half year (30 June 2019: profit of $4,747,000).

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2020 for additional detail.

Statements

The following statements are included in the attached Interim Report for the half year ended 30 June 2020:

- Consolidated statement of profit or loss and other comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows.

Dividend reinvestment plans

There are no dividend reinvestment plans in operation.

1 Profit from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited for previous corresponding period was $4,747,000.

Net tangible assets per security

NTA backing	Current period 30 June 2020	Previous period 31 December 2019
Net tangible asset backing per ordinary security (undiluted)	3.7 cents	4.5 cents

Control gained or lost during the period

Control gained

There were no transactions entered into by the Group during the half year ended 30 June 2020 that resulted in control being gained over any entities.

Control lost

There were no transactions entered into by the Group during the half year ended 30 June 2020 that resulted in control being lost over any entities.

Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the following subsidiaries.

Name of entity	Country of incorporation	Class of Share	Equity Holding 2020	Equity Holding 2019
Controlled entity			**%**	**%**
Hillgrove Copper Pty Ltd	Australia	Ordinary	100	100
Hillgrove Copper Holdings Pty Ltd	Australia	Ordinary	100	100
Hillgrove Exploration Pty Ltd	Australia	Ordinary	100	100
Hillgrove Mining Pty Ltd	Australia	Ordinary	100	100
Hillgrove Operations Pty Ltd	Australia	Ordinary	100	100
Hillgrove Wheal Ellen Pty Ltd	Australia	Ordinary	100	100
Kanmantoo Properties Pty Ltd	Australia	Ordinary	100	100
Mt Torrens Properties Pty Ltd	Australia	Ordinary	100	100
SA Mining Resources Pty Ltd	Australia	Ordinary	100	100
Hillgrove Indonesia Pty Ltd	Australia	Ordinary	100	100
Hillgrove Singapore Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 3 Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 4 Pte Ltd	Singapore	Ordinary	100	100
PT Akram Resources Pte Ltd	Indonesia	Ordinary	80	80
PT Fathi Resources Pte Ltd	Indonesia	Ordinary	80	80
PT Hillgrove Indonesia Pte Ltd	Indonesia	Ordinary	100	100

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

Associates and joint venture entities

PT Akram Resources and PT Fathi Resources are Joint Ventures with Indonesian partners in accordance with the terms of the Joint Venture agreement.

Commentary on results for the period

Review of operations

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2020.

Foreign entities

Australian Accounting standards have been used in compiling the report.

Report based on audited accounts

This report has been based on the attached accounts which have been reviewed by the Group's auditors.

Interim review of accounts

The interim financial statements have been reviewed by the Group's independent auditor. The review report is included within the interim financial report which accompanies this Appendix 4D. The independent auditor's review report contains an emphasis of matter in relation to going concern. The emphasis of matter draws attention to Note 1(a) of the interim financial report and states that the factors described in that going concern note to the interim financial statements indicate the existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. In Note 1(a), the Directors confirm that discussions on funding alternatives are progressing well and, as such, the accounts have been prepared on a going concern basis.

Interim Report
for the Half Year Ended
30 June 2020

Hillgrove Resources Limited
and its Controlled Entities

ACN 004 297 116

Contents

Note: All dollars in this report are Australian unless otherwise noted.

Directors' Report

The Directors present their report on the consolidated entity consisting of Hillgrove Resources Limited ("Hillgrove" or the "Company") and its controlled entities (the "Group" or the "Consolidated Entity") for the six month period to 30 June 2020.

Directors

The Directors of the Company during this period were:

- Murray Boyte
- Lachlan Wallace
- Derek Carter (appointed 24 April 2020)
- John Gooding (resigned 24 April 2020)
- Anthony Breuer (resigned 24 April 2020)
- Philip Baker (resigned 20 May 2020)

Principal Activities

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on copper production and development of its Kanmantoo Copper Mine in South Australia and creating value from its exploration tenements in South Australia.

Kanmantoo Copper Mine

The Kanmantoo Copper Mine in South Australia is located 55 kilometres from Adelaide. A main highway passes close to the project and being approximately 90 kilometres by road to Port Adelaide enables the trucking of copper concentrate to the port. The mine site is connected to the electricity grid and has process water supplied by the District Council of Mount Barker's treated waste water programme with additional water capacity from the Murray River which provides 100% redundancy if required. Open cut mining was completed in May 2019 and the processing of ore stockpiles completed in March 2020.

With the completion of the open cut operations, focus is on the development of the Kavanagh Underground project, which presents Hillgrove the best opportunity to resume production in the near term for relatively low capital investment – with the existing open pit haul road to 360 metres depth to act as a decline for access to the underground resource, the availability of the low cost processing facility, the approved expansion of the tailing storage facility, and other infrastructure and utilities at the mine site.

Operations Overview

The last of the stockpiled ore from the open cut was processed during the half, with 764,000 tonnes of ore processed to produce 1,855 tonnes of copper and 776 ounces of gold at a C1 cost of US$2.52 per pound.

Copper production was in line with 2020 guidance, while gold production was above the guidance. Moreover, C1 costs were better than guidance, in part due to the lower AUD/USD exchange rate.

Environment and Community

Hillgrove continues to progressively rehabilitate the Kanmantoo Mining Lease and convert former pasture areas into high quality native vegetation to meet its environmental offset obligations. During the half year, site rehabilitation activities continued to be undertaken prior to the demobilisation of heavy equipment at the end of March. This resulted in a total of 45 hectares of mine site rehabilitation and seeding. This program completed the planned civil and revegetation works for 2020. Statutory environmental monitoring for the site will continue during the care and maintenance phase of the operation.

Hillgrove continues to actively engage with local communities and landowners around the Kanmantoo mine, through regular meetings of the Kanmantoo Callington Community Consultative Committee and the Master Planning Committee which has the ongoing amenity of the mine site and surrounds post-closure as an objective.

Exploration and Development

Hillgrove is aiming to maximise the value from the mining lease through continued use of the existing infrastructure at Kanmantoo including the processing plant and permitted tailings storage facility. This will be undertaken through a staged approach, whereby the Kanmantoo Underground will also seek to leverage the existing 360m deep open pit to access ore zones below the pit and nearby satellite pits for relatively low development capital, subject to continuing positive exploration and drilling results.

This exploration and development will be undertaken in the following stages:

- Stage 1 drilling is aimed at confirming that the key ore lodes of Kavanagh and Nugent extend at least 150m below the extent of the respective pits with adequate grade and width to support underground mining. This program has been completed, with results anticipated in late August 2020.
- Stage 2 seeks to expand Mineral Resource Estimates within Kavanagh and Nugent, and infill drill to improve the geological confidence such that Ore Reserves may be prepared. The aim is to define sufficient Ore Reserves to support the capital investment required to develop the Kavanagh and Nugent underground mining areas.
- If the underground is developed, Stage 3 will use cash flows from the initial underground to drill test depth extensions and proximal lodes which were mined during the open pits such as SW Kavanagh and Spitfire. These lodes have potential value uplift for relatively low incremental cost as they utilise the sunk development infrastructure from the mine development.

Regionally, the Company continues to advance the exploration in its extensive pipeline of opportunities over more than 6,100km2 of tenements. These include copper-gold targets within 10 kilometres of the Kanmantoo processing plant (Stella and North West Kanmantoo) as well as the South East of South Australia (which partly covers the Delamerian orogeny, which is being investigated by the Geological Survey of South Australia and MINEX-CRC for its porphyry copper-gold endowment).

Pumped Hydro Energy Storage (PHES) project

In February 2020, after a period of extensive negotiations, Hillgrove and AGL mutually agreed to terminate the PHES Project Agreement. The PHES agreement was terminated without any residual obligations on either party. The full financial impact of the decision was reflected in the 31 December 2019 financial statements.

Directors' Report (continued)

Operating and Financial Review (continued)

Review of Consolidated Financial Results

The underlying EBITDA for the half year was a loss of $2.9 million, down $20.1 million on the corresponding period. The main driver of this was the completion of processing activities, coupled with lower average feed grades as all processing in the period was from low grade stockpiles.

Despite cash flow from operations being positive $1.2 million, net loss after tax for the half year was $4.9 million compared to a net profit of $4.7 million in the comparative period.

Income Statement

$ million	Half Year June 2020	Half Year June 2019	Change
Copper revenue	19.8	78.2	(58.4)
Gold revenue	1.8	2.8	(1.0)
Silver revenue	0.4	1.2	(0.8)
Less: Treatment and refining costs	(1.6)	(7.3)	5.7
NET REVENUE FROM SALE OF CONCENTRATE	**20.4**	**74.9**	**(54.5)**
Mining costs	-	(21.2)	21.2
Pre-strip and deferral	-	(7.9)	7.9
Processing costs	(6.6)	(14.3)	7.7
Transport and shipping costs	(1.6)	(4.6)	3.0
Care and maintenance costs	(0.6)	-	(0.6)
Other direct costs	(2.0)	(2.3)	0.3
Inventory movements	(9.2)	(1.7)	(7.5)
Royalties	(0.9)	(3.5)	2.6
Corporate costs	(2.2)	(2.7)	0.5
Net realised gains/(losses)	(0.2)	0.1	(0.3)
Other income	-	0.4	(0.4)
TOTAL COSTS	**(23.3)**	**(57.7)**	**34.4**
EBITDA	**(2.9)**	**17.2**	**(20.1)**
Depreciation and amortisation	(1.9)	(9.5)	7.6
Exploration and feasibility costs	-	(0.1)	0.1
EBIT	**(4.8)**	**7.6**	**(12.4)**
Net interest and financing charges	(0.1)	(0.5)	0.4
Income tax benefit/(expense)	-	(2.4)	2.4
NET PROFIT AFTER TAX	**(4.9)**	**4.7**	**(9.6)**

Directors' Report (continued)
Operating and Financial Review (continued)

Income Statement (continued)

Revenue

Revenue in the six months to 30 June 2020 was from the sale of 9,738 dmt of copper concentrate containing 2,042 payable copper tonnes (six months to 30 June 2019: 38,725 dmt and 8,720 tonnes payable copper). Gross metal revenue before treatment and refining deductions was $22.0 million compared to $82.2 million for the same period last year. The final copper concentrate was produced in March 2020 and sold in April 2020.

For the half year to June 2020, the average realised cash price was AU$8,880 per tonne or AU$4.03/lb (vs AU$8,806 per tonne in the previous corresponding period). All fixed price contracts were fully delivered into during the six month period.

Treatment and refining charges were $1.6 million for the half year to June 2020 which was $5.7 million less than for the same period last year. The variance is in line with the reduced production and sales.

Costs

Total cost of sales was $23.3 million compared to $57.7 million for the previous corresponding half year. The decrease of $34.4 million is explained below:

- Mining activities were finalised in May 2019 and as such there were no mining costs in the six months to 30 June 2020 compared to $21.2 million for the same period last year.
- There were no pre-strip and deferral charges in the period as these were fully expensed in 2019 at the completion of mining.
- Processing costs of $6.6 million were 54% lower than in 2019 which is directly related to the reduction in milled tonnes which also reduced by 54% (six months to 30 June 2020: 764kt; six months to 30 June 2019: 1,670kt).
- Transport and shipping costs and SA Government royalty costs reduced in line with the lower copper production and associated revenue.
- During 2019 the Company commenced drawing-down from the low grade stockpiles to provide mill feed post-mine closure. $9.2 million of costs associated with those stockpiles were released from the balance sheet inventory to costs of production during the six months to 30 June 2020 compared with $1.7 million in 2019. All costs associated with the low grade stockpiles have now been fully recognised in costs of production.
- Processing plant care and maintenance commenced in the 2nd quarter of 2020, with no comparable 2019 cost. $0.6 million of costs were incurred by 30th June 2020 which included some initial plant configuration costs which could not be capitalised.

Directors' Report (continued)
Operating and Financial Review (continued)

Cash Flow Overview

$ million	Half Year June 2020	Half Year June 2019	Change
Net cash inflows from operating activities	1.2	12.7	(11.5)
Net cash used in investing activities	(1.2)	(3.0)	1.8
Net cash inflows/ (outflows) from financing activities	(0.2)	(9.5)	9.3
Net increase/(decrease) in cash held	(0.2)	0.2	(0.4)
Cash and cash equivalents at the end of half year	**9.1**	**2.7**	**6.4**

Operating Activities Cash Flow

Net cash inflows from operating activities for the six months ended 30 June 2020 were $11.5 million lower than the previous corresponding period. The main driver for the change is there only being three months of revenue generating activities in the current period compared to a full six months in the corresponding period, and the lower grade of the processed ore yielding lower copper production. Cash paid in the course of operations to contractors, suppliers and employees were $19.4 million which was substantially less than the $66.2 million paid in the same period last year.

Cash received in the course of operations from the sale of copper concentrate in the first half of 2020 was $20.6 million, which aligns to reported revenue plus the reduction in receivables.

Investing Activities Cash Flow

Net cash used in investing activities was $1.2 million in the current six months compared to an outflow of $3.0 million in the previous corresponding period. Expenditure on the various exploration leases held by the group totalled $0.5m and $0.4m was invested in underground development works (included in PPE). $0.2 million was invested in site perimeter security to protect the Company's assets during care and maintenance. Capital expenditure in 2019 included over $1.3 million spent on the now terminated and fully impaired PHES project.

Financing Activities Cash Flow

In the six months to 30 June 2020 there was a net cash outflow of $0.2 million for finance lease repayments.

Statement of financial position

Total equity decreased by $4.6 million from 31 December 2019 due to the net loss result for the current period of $4.9 million. In addition, there was a $0.3 million increase in employee share options reserve to reflect the current period impact of performance rights granted in a prior period.

As at 30 June 2020, the Group's current assets exceeded current liabilities by $3.7 million compared to an excess of $5.8 million at 31 December 2019. During the 6 months to 30 June 2020, all remaining stockpiled ore inventory was processed and associated revenues received. Pay down of trade and other payables, redundancy payments and the commencement of care and maintenance resulted in the overall decrease in working capital.

Directors' Report (continued)
Operating and Financial Review (continued)

Assets

Total assets were $38.2 million as at 30 June 2020 which was a $13.1 million decrease from December 2019. This was primarily due to the remaining low grade ore stockpiles held in inventory being processed in the period, releasing $9.2 million of associated costs to the profit and loss.

Trade and other receivables reduced by $2.4 million to $0.7 million reflecting all sales proceeds being received at 30 June 2020, lower GST receivables and the time related reduction in prepayment balances.

Property, plant and equipment costs reduced by $1.0 million in the period being capitalised costs of $1.1 million less depreciation charges of $1.9 million and a reclassification of land valued at $0.2 million to current assets to reflect it being available for sale. The processing plant has now been depreciated down to its residual value, which is not expected to decline during the care and maintenance period.

Liabilities

Total liabilities decreased by $8.5 million to $16.5 million as at 30 June 2020. The decrease is mainly due to the pay down of trade creditors, payment of entitlements to terminated employees and the performance of rehabilitation civil works.

Trade creditors continue to be on normal trading terms and are lower in value due to the completion of processing activities.

Rehabilitation provisions for Kanmantoo and Comet Vale were $10.5 million and $0.3 million respectively as at 30 June 2020. This has decreased by $0.9 million reflecting the cost of the rehabilitation works performed at Kanmantoo during the period.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded in accordance with that Class Order to the nearest thousand dollars.

Directors' Report (continued)
Operating and Financial Review (continued)

Outlook

The current focus of the business is on the evaluation of the Kanmantoo Underground Project which if successful, will return the Company to cash positive generation. It presents the best opportunity to resume production in the near-term for relatively low capital investment due to the existing open pit haul road to 360m depth to act as a decline for access to the underground resource, the availability of the low cost processing facility, the approved expansion of the tailing storage facility and the other infrastructure and utilities at the mine site.

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Subject to securing funding, the Stage 2 drill program will continue to expand and upgrade the classification of the underground Resource with further drilling, with a view to convert to a Reserve, prior to an investment decision to commence development.

In the meantime, all non-essential expenditure has been cut or deferred, and a number of cash preservation measures have been implemented to reduce the cash burn rate. Whilst the company continues to be prudent with cost saving initiatives in order to minimise this cash burn, there are however unavoidable costs associated with maintaining the permitted site status and existing infrastructure to enable a quick low-cost restart. Additional funding is required to complete the Stage 2 Drill Program through to an investment decision and discussions with multiple parties regarding funding continue.

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 11.

This report is made in accordance with a resolution of the Directors:

Dated at Adelaide this 26th day of August 2020

Mr Derek Carter
Chairman

Mr Lachlan Wallace
Managing Director

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Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half-year ended 30 June 2020, 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 review; and

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

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

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
26 August 2020

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2020

		Half Year	
		June 2020	June 2019
	Note	$'000	$'000
Concentrate revenue	2	**20,383**	74,969
Other income	3	**19**	373
Expenses	4	**(25,226)**	(67,762)
Interest and finance charges	5	**(108)**	(464)
Profit before income tax		**(4,932)**	7,116
Income tax benefit/(expense)		**-**	(2,369)
Profit for the half year attributable to owners		**(4,932)**	4,747
Other comprehensive income			
Items that may be reclassified to profit or loss:			
		-	-
Total comprehensive income for the period attributable to equity holders of Hillgrove Resources Limited		**(4,932)**	4,747
Earnings per share for income attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic earnings per share		**(0.84)**	0.82
Diluted earnings per share		**(0.84)**	0.78

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	30 June 2020 $'000	31 Dec 2019 $'000
Current assets			
Cash and cash equivalents		**9,115**	9,329
Trade and other receivables		**725**	3,075
Inventories	6	**100**	10,182
Land held for resale	8	**247**	-
Total current assets		**10,187**	22,586
Non-current assets			
Inventories	7	**1,725**	1,899
Property, plant and equipment	8	**23,193**	24,163
Exploration and evaluation expenditure		**3,049**	2,616
Total non-current assets		**27,967**	28,678
Total assets		**38,154**	51,264
Current liabilities			
Trade and other payables		**4,668**	8,640
Provisions	9	**1,031**	4,132
Borrowings	10	**48**	253
Employee benefits payable		**711**	3,322
Deferred income		**-**	479
Total current liabilities		**6,458**	16,826
Non-current liabilities			
Provisions	11	**10,042**	8,140
Total non-current liabilities		**10,042**	8,140
Total liabilities		**16,500**	24,966
Net assets		**21,654**	26,298
Equity			
Contributed equity	12	**234,322**	234,322
Reserves		**27,402**	27,113
Retained earnings / (accumulated losses)		**(240,070)**	(235,137)
Total equity		**21,654**	26,298

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2020

Consolidated	Contributed equity	Reserves	(Accumulated losses) / retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance 1 January 2019	234,327	34,986	(225,110)	44,203
Profit for the period	-	-	4,747	4,747
Other comprehensive income	-	-	-	-
Transactions with owners:				
Share-based compensation	-	585	-	585
Dividend paid	-	(8,784)	-	(8,784)
Options exercised	(5)	-	-	(5)
Balance 30 June 2019	234,322	26,787	(220,363)	40,746
Balance 1 January 2020	234,322	27,113	(235,138)	26,297
Loss for the period	-	-	(4,932)	(4,932)
Other comprehensive income	-	-	-	-
Transactions with owners:				
Share-based compensation	-	289	-	289
Dividend paid	-	-	-	-
Options exercised	-	-	-	-
Balance 30 June 2020	**234,322**	**27,402**	**(240,070)**	**21,654**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half year ended 30 June 2020

	Half-year June 2020 $'000	Half-year June 2019 $'000
Cash flows from operating activities		
Cash receipts in the course of operations	**20,558**	78,886
Cash payments in the course of operations	**(19,403)**	(66,173)
Net cash generated from operating activities	**1,155**	12,713
Cash flows from investing activities		
Payments for exploration, evaluation and development	**(486)**	(583)
Payments for property, plant and equipment and project costs	**(686)**	(2,481)
Proceeds on disposal of property, plant & equipment	**-**	95
Net cash used in investing activities	**(1,172)**	(2,969)
Cash flows from financing activities		
Repayment of borrowings	**-**	(430)
Repayment of finance leases	**(197)**	(195)
Interest paid	**-**	(75)
Interest received	**-**	3
Dividends paid	**-**	(8,783)
Net cash used in financing activities	**(197)**	(9,480)
Net increase in cash held	**(214)**	264
Cash at beginning of the half year	**9,329**	2,451
Cash at end of the half year	**9,115**	2,715

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020

1. Basis of Preparation

This consolidated interim financial report for the half year reporting period ended 30 June 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by Hillgrove Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

a. 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 30 June 2020, the Group's current assets exceeded its current liabilities by $3.7 million compared with an excess of $5.8 million at 30 December 2019.

During the 6 months to 30 June 2020 all remaining stockpiled ore inventory was processed and associated revenues received. Whilst the Group has $9.1 million in cash and cash equivalents at 30 June 2020, there are no expected cash inflows from operating activities for the next 12 months. The Group continues to have ongoing expenditure including pay down of trade and other payables, redundancy payments, care and maintenance costs, rehabilitation activities, corporate costs, continued exploration commitments, and development of the underground. Further funding will be required for these activities.

In light of these circumstances, particularly the fact that additional funding is required over the next twelve months, there is 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 funding alternatives.

Whilst these funding alternatives are yet to be confirmed, they are progressing well and the Board reasonably expects that the funding will be obtained and therefore the financial report has been prepared on a going concern basis. As such, the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

b. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Recoverability of non-current assets

The carrying value of non-current assets such as 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.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020 (continued)

1. Basis of preparation (continued)

b. Critical accounting judgements and key sources of estimation uncertainty (continued)

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 Ore 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.

Inventory valuation
Inventory is recognised at the lower of cost and net realisable value. 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 ore stockpiles involves judgements about the quantity of metal that can be recovered, future commodity prices, production costs and selling costs.

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 operating cost. 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. The provision represents management's best estimate of the costs that will be incurred, but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine.

c. Changes in Accounting Policy
The accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting periods.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020 (continued)

2. Revenue

	Half Year	
	June 2020	June 2019
	$'000	$'000
Copper in concentrate	**19,791**	78,209
Gold in concentrate	**1,777**	2,820
Silver in concentrate	**377**	1,204
Treatment and refining deductions	**(1,562)**	(7,264)
Concentrate revenue	**20,383**	74,969

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

3. Other Income

	Half Year	
	June 2020	June 2019
	$'000	$'000
Interest	**8**	8
Grant income	**-**	144
Other	**11**	221
Total other income	**19**	373

Notes to the Consolidated Financial Statements
For the half year ended 30 June 2020 (continued)

4. Expenses

	Half Year	
	June 2020	**June 2019**
	$'000	**$'000**
Total production costs	**23,100**	58,174
Depreciation and amortisation	**1,855**	9,519
Exploration and feasibility costs	**45**	140
Net (gain)/loss on sale of assets	**(8)**	(47)
Net realised foreign exchange (gains)/losses	**234**	(24)
Total expenses per Profit or Loss	**25,226**	67,762

<u>Care and Maintenance</u>
During the period of care and maintenance, depreciation of the processing plant has ceased based on the assumption that the activities performed during the period of care and maintenance will preserve the current value of these assets. Costs incurred in relation to care and maintenance have been expensed.

<u>Government grants</u>
The Group was eligible for the Australian Government's JobKeeper wage subsidy scheme. Receipts from the JobKeeper Program are accounted for as government grants under AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*.

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Where the grant relates to an expense item, it is recognised as a reduction of the expense to which it relates. Where the grant relates to capitalised expenses, it is recognised as a reduction to the carrying amount of the related asset.

5. Interest and finance charges

	Half Year	
	June 2020	**June 2019**
	$'000	**$'000**
Discount on unwind of rehabilitation provision	**57**	137
Bank fees and other borrowing costs	**1**	68
Interest on financial liabilities	**50**	259
Total interest and finance charges	**108**	464

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020 (continued)

6. Current assets – Inventories

	30 Jun 2020 $'000	31 Dec 2019 $'000
Concentrates	**-**	1,976
Ore stockpiles	**-**	7,313
Stores and consumables	**100**	893
	100	10,182

7. Non-current assets – Inventories

	30 Jun 2020 $'000	31 Dec 2019 $'000
Stores and consumables (at net realisable value)	**1,725**	1,899

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020 (continued)

8. Non-current assets – Property, plant and equipment

	30 Jun 2020	31 Dec 2019
	$'000	**$'000**
Land and buildings		
At cost	**5,277**	5,524
Accumulated depreciation	**(379)**	(379)
	4,898	5,145
Plant & equipment		
At cost	**73,544**	73,370
Accumulated depreciation	**(59,848)**	(59,621)
	13,696	13,749
Motor vehicles		
At cost	**735**	763
Accumulated depreciation	**(633)**	(640)
	102	123
Mine development		
At cost	**164,200**	163,313
Accumulated depreciation	**(159,703)**	(158,167)
	4,497	5,146
Total property, plant and equipment	**23,193**	24,163

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. At 30th June 2020 a parcel of land that was no longer required by the Group was available for sale and was reclassified to land held for resale.

9. Provisions - Current

	30 Jun 2020	31 Dec 2019
	$'000	**$'000**
Rehabilitation provision	**761**	3,588
Make good provision	**20**	420
Unsettled ship provision	**250**	124
	1,031	4,132

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020 (continued)

10. Current liabilities – Borrowings

	30 Jun 2020 $'000	31 Dec 2019 $'000
Unsecured		
Lease liabilities	**48**	253
	48	253

Contractual maturities of financial liabilities (non-derivatives)

($'000)	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Total contractual cash flows
At 30 June 2020						
Trade and other payables	4,668		-	-	-	4,668
Borrowings and interest	48	-	-	-	-	48
	4,716	-	-	-	-	4,716
At 31 December 2019						
Trade and other payables	8,640	-	-	-	-	8,640
Borrowings and interest	253	-	-	-	-	253
	8,893	-	-	-	-	8,893

Financing arrangements

The Group had no undrawn borrowing facilities as at 30 June 2020.

11. Provisions – Non-Current

	30 Jun 2020 $'000	31 Dec 2019 $'000
Rehabilitation provision	**10,042**	8,140
	10,042	8,140

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020 (continued)

12. Contributed equity

	30 Jun 2020 $'000	31 Dec 2019 $'000
Share capital		
Issued and paid up capital 585,588,518 shares (2019: 585,588,518) fully paid	**234,322**	234,322
Ordinary Shares - movements during the year		
Balance as at beginning of year	**234,322**	234,327
Shares Issued		
Transaction costs arising from share issues	**-**	(5)
Balance at end of year	**234,322**	234,322

13. Financial reporting by segment

Through its ownership of the Kanmantoo copper mine, the Group continues to have one operating segment being in the resources industry, in Australia.

14. Contingent liabilities

	30 Jun 2020 $'000	31 Dec 2019 $'000
Guarantees		
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site (1)	**338**	333
Security bonds on rental properties and tenements	**16**	16
	354	349

(1) In September 2019 the cash-backed Electranet performance bond was reduced from $620k to $333k. A 5k CPI increase in May-20 increased the balance to $338k.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2020 (continued)

14. Contingent liabilities (continued)

The Group has obligations to restore land disturbed under exploration and mining licences for which a rehabilitation provision is already on the balance sheet. The maximum obligation to the South Australian Government in respect of the Kanmantoo copper mine has been assessed at a value of $9.2 million and is secured by the SA Government on a first ranking basis against the assets of the consolidated entity.

Included in the rehabilitation provision is a payment of approximately $1.7 million to the Native Vegetation Fund. With permission from the State Government, the Group has delayed the timing of this payment and, whilst the intention is for the payment to be made at a later date, it should be noted that non-payment would increase the Group's rehabilitation provision by approximately $1.5 million. This circumstance is not expected to eventuate.

The Group had no other contingent liabilities at 30 June 2020.

15. Events subsequent to balance date

On 6 August 2020 the group entered into a contract to sell land, shown on the balance sheet as land held for resale, for $320,000. On 13th August 2020 the sale was settled and proceeds, net of selling costs, were received.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 12 to 24 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 30 June 2020 and of its performance for the half year ended on that date.

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

This report is made in accordance with a resolution of the directors:

Dated at Adelaide this 26th day of August 2020

Mr Derek Carter	**Mr Lachlan Wallace**
Chairman	Managing Director

Independent auditor's review report to the members of Hillgrove Resources Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Hillgrove Resources Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hillgrove Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hillgrove Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1 (a) in the half-year financial report, which indicates that as at 30 June 2020 the Group is reliant on additional funding within the next twelve months. This condition, 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 review conclusion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
26 August 2020

MINERAL RESOURCE & ORE RESERVE

Mineral Resources for Kanmantoo as at 31 December 2019

On 30 October 2019 the Company released a new Mineral Resource Estimate for the first of its underground opportunities on a portion of the deeper Kavanagh mineralisation beneath the Giant Open Pit. The Mineral Resource Estimate does not include any Ore Reserve, and is estimated at a cut-off grade and geologic continuity suitable for eventual underground studies for its exploitation.

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

MINERAL RESOURCE ESTIMATE FOR CENTRAL AND EAST KAVANAGH UNDERGROUND AREA

Mine	JORC 2012 Classification	Tonnage (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kavanagh UG	Indicated	646	1.63	0.13	3.6	10.5
	Inferred	310	1.8	0.2	4	6
	Total	**957**	**1.7**	**0.14**	**3.8**	**16.2**

The information in this report that relates to the Mineral Resources on the Kavanagh underground project was initially reported by the Company to ASX on 30 October 2019. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimate in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Statement of Ore Reserves as At 31 March 2020

As a result of the cessation of open pit mining operations at Kanmantoo in May 2019 resulting from the depletion of all Ore Reserves within the Giant Open Pit, and the completion of milling of all stockpiles in March 2020, there is no longer an Ore Reserve reported for the Kanmantoo District.

The information in this release that relates to the Ore Reserve is prepared by a Competent Person in accordance with the JORC Code 2012. Further information on the Kanmantoo Ore Reserves is available in the Hillgrove Updated Ore Reserve Estimate released to the ASX on 18 October 2016. 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 Ore Reserves for open pit mining that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed except for open pit mining and processing depletion. Hillgrove Resources confirms that the form and context in which the findings of the Competent Person Lachlan Wallace in relation to the Ore Reserve estimates are presented, have not been materially modified from the original market announcement apart from mining and processing depletion. Lachlan Wallace (MAusIMM) consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.