

Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 31 December 2020

### SUMMARY

#### **Underground Exploration and Development**

Updated Mineral Resource Estimate released during the quarter, which increased the total estimated Cu metal in the Resources below the open pits by 110%. The copper and gold grades of the Resource estimates continue to support the Company's investigations of the economic viability for an underground operation at Kanmantoo.

#### **Successful Capital Raising**

Successful placement and entitlement offer, with the combined raising up to \$10.9 million at \$0.031 per share. Tranche 1 Placement proceeds of \$2.4 million were received by the Company prior to quarter end. The capital raise enables drilling to further increase the Kanmantoo Underground Mineral Resource Estimate and advance the feasibility assessment studies.

#### **Hillgrove Corporate**

Cash and receivables balance of \$6.0M, with trade creditors, payroll liabilities and accruals of \$1.7M at the end of the quarter (unaudited).

### MANAGING DIRECTOR'S STATEMENT

The Kanmantoo Underground Project ("Underground") presents an opportunity to return the Company to cash generation in the near future, with the existing infrastructure and permitted status expected to enable a relatively fast and low capital development. The release of the updated Mineral Resource Estimate during the quarter more than doubled the total estimated Cu metal in the Resources below the open pits. In addition, the successful placement and entitlement offer raising enables the Company to further increase the Underground Resource base and progress the feasibility studies towards a development investment decision.

Underground exploration drilling is expected to commence next week and a further two drill rigs expected to arrive in February. These rigs will be used for a Resource expansion and infill drilling program as well as test the depth extensions of the mineralisation which is already demonstrated to extend up to 200m below the base of the open pits and remains open at depth.

The Company will continue to be prudent with cost saving initiatives in order to minimise cash burn, however there are unavoidable costs associated with maintaining the permitted site status and existing infrastructure to enable a quick low-cost restart.

## DEVELOPMENT PROJECTS

Hillgrove is executing a staged strategy for the evaluation of the Kanmantoo Underground which is designed to efficiently drill test the dominant Cu-Au lodes to confirm depth, width and grade continuity.

The completed Stage 1 drilling was aimed at confirming that the key Cu-Au 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. The drilling completed in August clearly demonstrates that the mineralisation extends to these levels. A maiden Mineral Resource Estimate (MRE) for West Kavanagh and Nugent, and an updated MRE for Central and East Kavanagh were released during the December Quarter, resulting in a 110% increase in the total estimated Cu metal from 16.2kt to 34.4kt in the Resources below the open pits.

Following the capital raise in December 2020, the 2021 underground drilling program is scheduled to commence next week, focussed predominantly on Kavanagh. The drilling program seeks to expand the Underground MRE and infill drill to improve the geological confidence such that an initial Ore Reserve Estimate may be prepared. The aim is to define sufficient Ore Reserves to support the capital investment required to develop the Underground mining areas. In addition, the 2021 drill program will drill test the depth extensions of the mineralisation below the MRE target area.

If the underground is developed, cash flows from the underground operation will drill test the depth extensions and proximal lodes, which were mined during the open pits. These lodes have potential value uplift for relatively low incremental cost as they utilise the sunk development infrastructure from the mine development.

## EXPLORATION

Hillgrove has a strong pipeline of exploration opportunities over more than 6,100km<sup>2</sup> of tenements.

These tenements comprise of two project areas, the Near Mine area (within 10 kms of Hillgrove's processing plant) and the Regional tenements within the south-east Delamerian Porphyry Cu-Au province.

The Near Mine projects include the Stella and the NorthWest Kanmantoo Cu-Au targets.



The Regional area comprises 5,652 sq kms of exploration licences in the south-east of South Australia, within the Delamerian orogen. The Delamerian orogen is now being investigated by the Geological Survey of South Australia and MINEX-CRC for its porphyry copper-gold endowment as a consequence of the discoveries on the Stavely Belt, which is also within the Delamerian orogen in western Victoria.

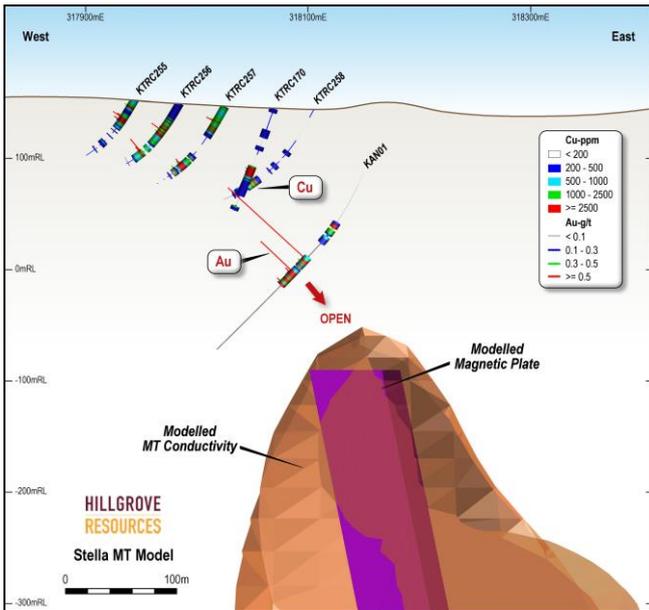
### Near Mine (Kanmantoo Surrounds)

The Company continues to advance the exploration of its Cu-Au targets within 10 kms of the Kanmantoo processing plant. These include the previously announced Stella and North West Kanmantoo geochemical and geophysical targets of 29 April 2019.

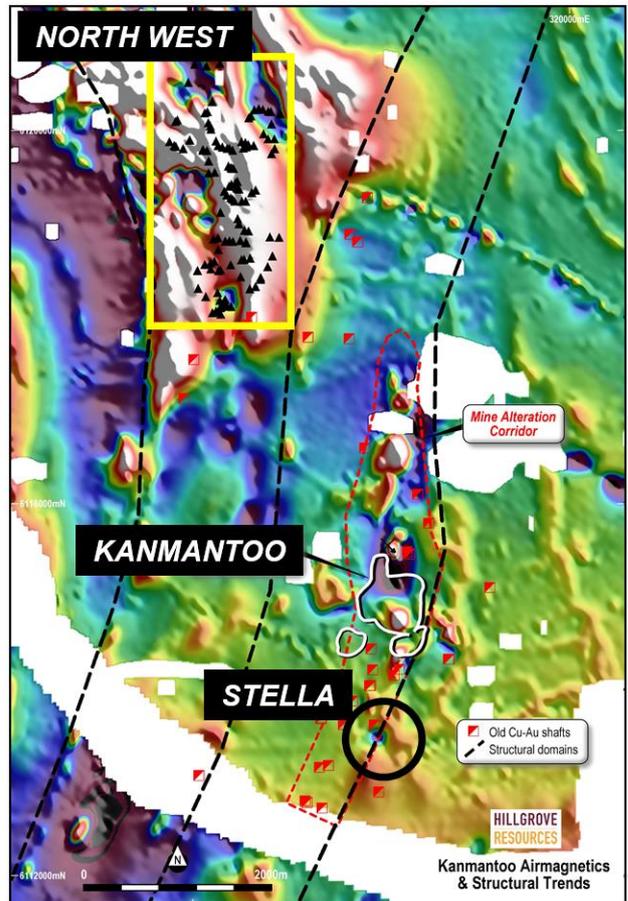
**Stella**

The 2019 3D MT (magneto-telluric) geophysical survey has identified the Stella zone as a coincident magnetic high, resistivity low and gravity low target commencing at around 200m below surface. Nearby drilling has intersected a 60m wide zone of chlorite-pyrrhotite-garnet alteration with attendant Cu-Au mineralisation (ASX release of 29 April 2019).

**CROSS SECTION LOOKING NORTH OF MODELLLED MAGNETO-TELLURIC TARGET AT STELLA**



**PLAN VIEW OF THE LOCATION OF PROJECTS WITHIN 10KM OF PLAN VIEW OF THE LOCATION OF PROJECTS WITHIN**



**North West**

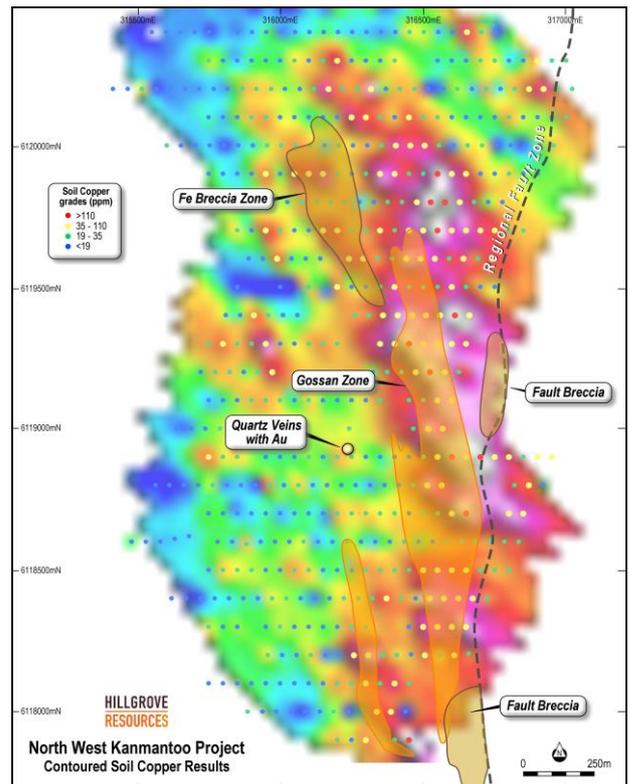
Mapping and sampling has identified a 2.4km long zone of Cu-Au anomalism coincident with a strong magnetic high and broad widths of iron-oxide alteration and iron-oxide brecciation at surface, within 4.5kms of the Kanmantoo processing plant.

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

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

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

**PLAN VIEW OF COPPER SOIL GEOCHEMISTRY AT NORTH WEST KANMANTOO**



## Regional (South East Delamerian)

The Regional area comprises 5,652 sq kms of exploration licences in the south-east of South Australia, within the Delamerian orogen. In a recent publication by the Geological Survey of South Australia<sup>1</sup>, the Survey notes the similarities between the Delamerian Orogen tectonic setting and its high-level granitic to dioritic intrusives in South Australia, with the geology of the large Porphyry Cu-Mo-Au deposits in south-east China (e.g. Dexing, 9.7Mt of Cu metal, 265 t Au).

These observations support Hillgrove's exploration activities in this Orogen for large scale Cu-Au deposits.

The information in this report that relates to the Exploration Results is based on and fairly represents information and supporting documentation compiled by Peter Rolley, a Competent Person, a full time employee of Hillgrove Resources Limited, and a member of the Australian Institute of Geoscientists. Mr Rolley has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the 'Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Mr Rolley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The Company is not aware of any new information or data that materially affects the information included in the original announcement. 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.

## HILLGROVE CORPORATE

Cash and receivables balance of \$6.0M, with trade creditors, payroll liabilities and accruals of \$1.7M at the end of the quarter ("Working Capital") (unaudited). This Working Capital significantly improved during the quarter as a result of:

- Increased cash balance due to the receipt of funds from the Tranche 1 Placement (refer next section for further information); and
- Reduced accruals as a result of the successful withdrawal from Indonesia, which improved the balance sheet (through a reduction in liabilities) by \$2.2M.

The Company continues to be prudent with cash burn, through cost reduction initiatives. However, in order to maintain the processing plant for quick restart and meet the regulatory requirements of the mine site, relatively high cash burn is incurred for site care and maintenance, water recirculation, and regulatory obligations.

## SUCCESSFUL CAPITAL RAISING

As announced to the market on 17 December 2020, the Company undertook a successful placement and entitlement offer, with the combined raising up to \$10.9 million at \$0.031 per share. This comprised of the following:

- Tranche 1 Placement (\$2.4 million) – issued pursuant to the Company's available placement capacity under ASX Listing Rule 7.1, these funds have been received and the shares were issued on 29 December 2020.
- Tranche 2 Placement (\$5.7 million) – is subject to Shareholder approval, with the Company holding a General Meeting of Shareholders on Friday, 5 February 2021.
- Entitlement Offer (Up To \$2.8 million) – eligible shareholders will be entitled to apply for shares on a 1 for 6.5 ratio based on their shareholding and will also be entitled to apply for additional shares if they have taken up their entitlement in full. Whilst the offer is not underwritten, a key shareholder has committed to take at least \$600,000 of their entitlement.

---

<sup>1</sup> Mesa Journal 93, 2020, p47-53

The proceeds from this capital raising will be used for:

- Infill and expansion drilling and engineering studies for the first stage of the Kanmantoo Underground project to reach a final investment decision;
- Exploration targeted at depth extensions below the current Mineral Resource Estimate;
- Care and maintenance costs on the existing processing plant and tailings dam to keep these assets production ready for a fast restart; and
- General working capital purposes.

## MINERAL RESOURCE & ORE RESERVE

### Mineral Resources for Kanmantoo as at 31 December 2020

On 7 December 2020, the Company released an updated 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 Kavanagh, West Kavanagh and Nugent underground areas at 0.8% Cu cut-off grade.

MINERAL RESOURCE ESTIMATE FOR THE KANMANTOO UNDERGROUND AREA

| Mine          | JORC 2012 Classification | Tonnage (kt) | Cu (%)      | Au (g/t)    | Ag (g/t)   | Cu Metal (kt) |
|---------------|--------------------------|--------------|-------------|-------------|------------|---------------|
| Kavanagh      | Indicated                | 583          | 1.97        | 0.24        | 6.0        | 11.5          |
|               | Inferred                 | 560          | 1.7         | 0.2         | 5          | 9             |
|               | <b>Sub-Total</b>         | <b>1,143</b> | <b>1.83</b> | <b>0.24</b> | <b>5.6</b> | <b>20.9</b>   |
| West Kavanagh | Indicated                | 105          | 1.42        | 0.06        | 2.0        | 1.5           |
|               | Inferred                 | 300          | 1.1         | 0.06        | 2.0        | 3             |
|               | <b>Sub-Total</b>         | <b>406</b>   | <b>1.18</b> | <b>0.06</b> | <b>2.0</b> | <b>4.8</b>    |
| Nugent        | Indicated                | 202          | 1.40        | 0.47        | 3.2        | 2.8           |
|               | Inferred                 | 457          | 1.3         | 0.7         | 2.7        | 6             |
|               | <b>Sub-Total</b>         | <b>659</b>   | <b>1.32</b> | <b>0.61</b> | <b>2.8</b> | <b>8.7</b>    |
| <b>Totals</b> | <b>Indicated</b>         | <b>890</b>   | <b>1.77</b> | <b>0.27</b> | <b>4.9</b> | <b>15.8</b>   |
|               | <b>Inferred</b>          | <b>1,318</b> | <b>1.4</b>  | <b>0.4</b>  | <b>3.5</b> | <b>19</b>     |
|               | <b>Total</b>             | <b>2,208</b> | <b>1.56</b> | <b>0.32</b> | <b>4.1</b> | <b>34.4</b>   |

The information in this report that relates to the Mineral Resources on the Kavanagh underground project were initially reported by the Company to ASX on 7 December 2020. 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.

### Competent Person's Statement for Mineral Resource Estimates

The information in this release that relates to the 2020 Mineral Resource Estimate for the Nugent, West Kavanagh and Kavanagh underground area is based upon information compiled by Mr Peter Rolley, who is a Member of The Australian Institute of Geoscientists. Mr Rolley is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for

Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mr Rolley has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.

**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.

**Statement of Exploration Targets As At 31 December 2020**

The Kanmantoo Exploration Target was reported on 25 May 2017 and the South Hub Exploration Target was reported on 27 September 2019. These Exploration Targets are all located within Hillgrove’s Kanmantoo Mining Lease and are all extensions of along strike or down dip Cu-Au lodes mined by the Company’s open pits. The South Hub Exploration Target includes the Nugent Exploration Target which was also included in the May 2017 Kanmantoo Exploration Target.

The following Table combines the Exploration Targets of 2017 and 2019 with the Nugent Exploration Target of 2019 replacing the Nugent Exploration target of 2017. In summary, Hillgrove has approximated an Exploration Target for the Kanmantoo Mine Lease area of between eight and sixteen million tonnes with a target grade of between 1.4% and 2.2% Cu and 0.1 g/t to 0.4 g/t Au.

| Kanmantoo Exploration Target |               |                  |                  |
|------------------------------|---------------|------------------|------------------|
| Zone                         | Tonnage Range | Grade Range      | Grade Range      |
|                              | Mt            | Cu%              | Au g/t           |
| Coopers                      | 0.1 - 0.3     | 1.5 – 2.0        | 0.4 – 0.8        |
| North Kavanagh               | 0.1 0.7       | 1.5 – 2.0        | 0.4 – 0.8        |
| North-East Zone              | 0.4 - 0.7     | 2.0 – 2.5        | 0.4 – 0.8        |
| East Kavanagh                | 0.4 - 0.8     | 2.0 – 2.5        | 0.05 – 0.2       |
| Central Kavanagh             | 1.2 - 2.2     | 1.5 – 2.0        | 0.1 – 0.4        |
| West Kavanagh                | 0.8 - 1.6     | 2.0 – 2.5        | 0.01 – 0.05      |
| South-West Kavanagh          | 0.8 - 1       | 1.8 – 2.2        | 0.1 – 0.4        |
| Spitfire                     | 0.4 - 0.7     | 1.5 – 2.0        | 1.5 - 3          |
| Nugent                       | 1.5 - 2.5     | 1.3 - 2.2        | 0.2 - 0.6        |
| Paringa                      | 0.5 - 1.5     | 1.1 - 2.2        | 0.1 - 0.2        |
| Emily Star                   | 2.0 - 4.5     | 1.2 - 2.2        | 0.1 - 0.3        |
| <b>TOTAL</b>                 | <b>8 - 16</b> | <b>1.4 – 2.2</b> | <b>0.1 – 0.4</b> |

The information contained in this announcement that relates to the Exploration Targets was first reported by the Company to the ASX on 25 May 2017 and 27 September 2019. The Exploration Targets do not include areas of existing Mineral Resource and the potential quantity and grade reported are conceptual only in nature. Insufficient exploration has been conducted to estimate a Mineral Resource and it is uncertain whether future exploration will lead to the estimation of a Mineral Resource in the defined areas. The information in this report that relates to the Exploration Target is based on and fairly represents information and supporting documentation compiled by Peter Rolley, a Competent Person, a full time employee of Hillgrove Resources Limited, and a member of the Australian Institute of Geoscientists. Mr Rolley has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the 'Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Mr Rolley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The Company is not aware of any new information or data that materially affects the information included in the original announcement. 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.

| CORPORATE INFORMATION                           |             |
|---|-------------|
| <b>Issued Share Capital at 31 December 2020</b> |             |
| Ordinary shares                                 | 661,798,194 |
| Employee Performance Rights                     | 10,351,660  |
| <b>Share price activity for the Quarter</b>     |             |
| High  | 0.042       |
| Low   | 0.032       |
| Last (31 December 2020)                         | 0.032       |

| SHARE REGISTRY  | REGISTERED OFFICE  |
|---|--|
| Boardroom Limited<br>GPO Box 3993<br>Sydney NSW 2001, Australia<br>F: +61 2 9290 9655<br>T: (within Australia) 1300 737 760<br>T: (outside Australia) +61 2 9290 9600 | Hillgrove Resources Limited<br>Ground Floor<br>5-7 King William Road<br>Unley, South Australia, Australia<br>E: info@hillgroveresources.com.au<br>T: +61 8 7070 1698 |

**For more information contact:**  
Lachlan Wallace, Managing Director, Tel: +61 8 7070 1698