



Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 31 March 2021

SUMMARY

Successful Capital Raising

In December 2020 the Company announced a two-tranche placement and pro-rata non-renounceable entitlement offer (Offer). Tranche 1 of the placement (\$2.4M) was concluded in December 2020, with the remaining Tranche 2 funds (\$5.3M) received in February 2021 following the EGM. In addition, the \$2.8M Offer closed more than 20% oversubscribed, highlighting strong support for the Underground project. In total, \$10.9M was raised at \$0.031 per share. All Directors participated in the capital raise.

Underground Exploration and Development

Following the successful capital raise, drilling commenced during the quarter to expand and infill the Kavanagh and West Kavanagh Mineral Resource Estimate ("MRE") announced in December 2020. The drilling is focussed on:

1. Increasing the geological confidence such that updated Mineral Resource Estimates for Kavanagh and West Kavanagh may be prepared to support mining evaluations and investment;
2. Expanding the size of the existing MRE to extend the potential mine life; and
3. Testing the depth extension of the Kavanagh mineralisation which is already demonstrated to extend up to 200m below the base of the open pits and remains open at depth.

MANAGING DIRECTOR'S STATEMENT

The Kanmantoo Underground Project ("Underground") presents an opportunity to return the Company to cash generation, with the existing infrastructure and permitted status expected to enable a relatively fast and low capital development.

The Resource expansion and infill drilling program commenced in January 2021 and is on schedule and within budget. The Company will announce the interim drilling results ahead of the AGM that will be held on 7 May 2021. In addition, the Company continues to progress technical and economic studies associated with the Underground.



DEVELOPMENT PROJECTS

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

The first stage drilling program in 2020 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 2020 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 was released during the December 2020 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.

The second stage commenced in late January 2021, focussed on Kavanagh and West Kavanagh. The drilling program seeks to expand the Underground MRE for Kavanagh and infill drill to improve the geological confidence in Kavanagh and West Kavanagh 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 Kavanagh MRE target area.

In the Quarter, three diamond drill rigs were mobilised to site as scheduled and commenced drilling. By the end of the quarter 5,740 metres have been drilled across 11 holes and assays are awaited. There have been no safety or environmental incidents and drilling is continuing as planned.

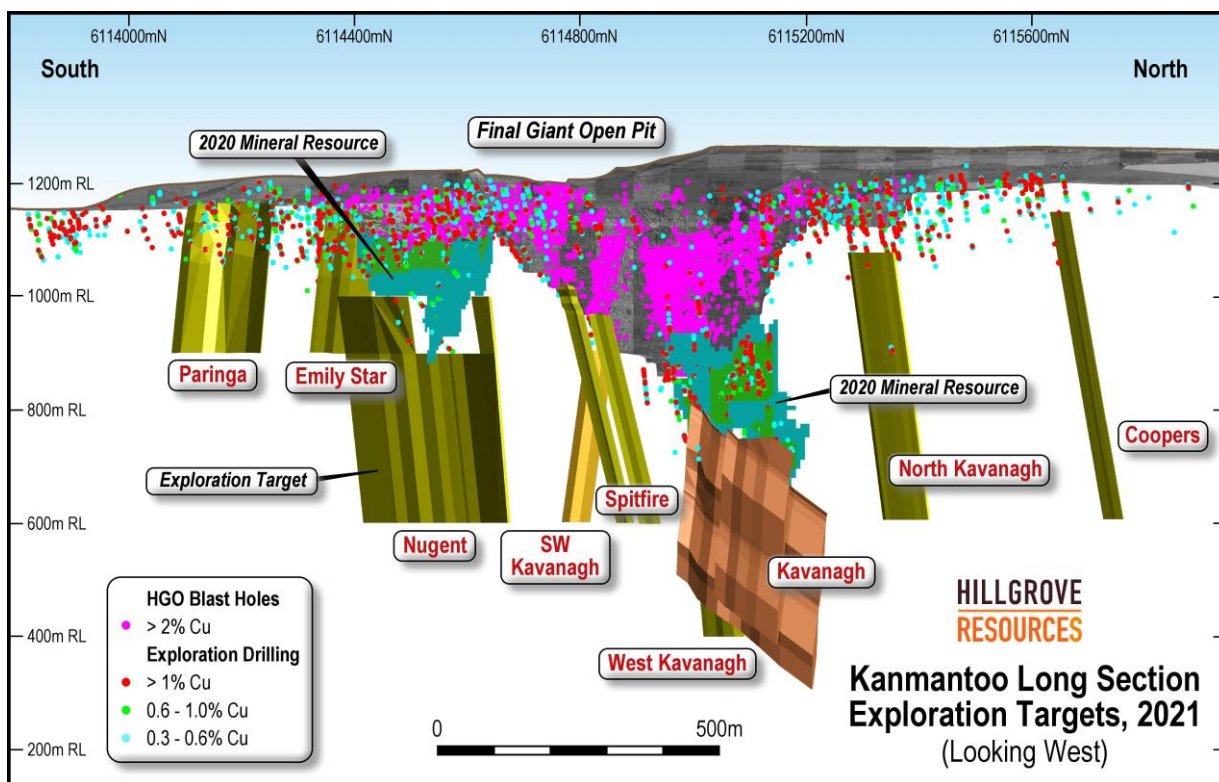
Figure 1 shows the three drill rigs in operation at the north-eastern end of the open pit, with the image looking south-west across the Giant Pit and towards Hillgrove’s copper processing facility.

Figure 1: three drill rigs in operation



In addition to the primary Kavanagh targets, proximal lodes that were mined during the open pits, such as Spitfire and SW Kavanagh as shown in Figure 2, have potential value uplift for relatively low incremental cost as they would utilise the sunk development infrastructure from any mine development centred on the Kavanagh lodes.

Figure 2: drilling targets for the Kanmantoo UG project



EXPLORATION

Hillgrove has a strong pipeline of exploration opportunities over more than 6,100km² 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 Cu-Au targets within 10 kms of the Kanmantoo processing plant includes the Stella and North West Kanmantoo geochemical and geophysical targets which were announced on 29 April 2019.

The regional area comprises 5,652km² 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.





HILLGROVE CORPORATE

Cash and receivables balance of \$11.7M, with trade creditors, payroll liabilities and accruals of \$2.7M at the end of the quarter (“Working Capital”) (unaudited). The Working Capital position significantly improved during the quarter as a result of an increased cash balance due to the receipt of funds from the Tranche 2 Placement and the Entitlement Offer (refer next section for further information).

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, 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) – was approved following Shareholder approval at the General Meeting of Shareholders held on 5 February 2021.
- Entitlement Offer (\$2.8 million) – the entitlement offer concluded in February 2021 and was more than 20% oversubscribed.

The proceeds from this capital raising will be used for:

- Infill and expansion drilling and engineering studies for Kavanagh Cu-Au lodes which is the first stage of the Kanmantoo Underground project to reach a final investment decision;
- Exploration targeted at depth extensions below the current Kavanagh 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 RESOURCES & EXPLORATION TARGETS

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
	Sub-Total	1,143	1.83	0.24	5.6	20.9
West Kavanagh	Indicated	105	1.42	0.06	2.0	1.5
	Inferred	300	1.1	0.06	2.0	3
	Sub-Total	406	1.18	0.06	2.0	4.8
Nugent	Indicated	202	1.40	0.47	3.2	2.8
	Inferred	457	1.3	0.7	2.7	6
	Sub-Total	659	1.32	0.61	2.8	8.7
Totals	Indicated	890	1.77	0.27	4.9	15.8
	Inferred	1,318	1.4	0.4	3.5	19
	Total	2,208	1.56	0.32	4.1	34.4

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 Exploration Targets As At 31 March 2021

The Kanmantoo Exploration Target was reported on 23 February. 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. 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 1.0% and 2.0% Cu and 0.2g/t to 0.4g/t Au, containing approximately 90,000 tonnes to 300,000 tonnes of copper metal and 55,000 ozs to 250,000 ozs gold.

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
Kavanagh	2.0 – 3.5	1.0 – 2.0	0.2 – 0.4
West Kavanagh	1.0 – 2.0	0.8 – 1.5	0.02 – 0.05
South West Kavanagh	0.8 – 1.0	1.8 – 2.2	0.1 – 0.4
Spitfire	0.4 – 0.7	1.5 – 2.0	1.5 – 3.0
Nugent	1.5 – 2.5	0.8 – 1.5	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
TOTAL	8 – 16	1.0 – 2.0	0.2 – 0.4

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.

Competent Person's Statement for Exploration Target

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	
Issued Share Capital at 31 March 2021	
Ordinary shares	936,969,381
Employee Performance Rights	10,351,660
Share price activity for the Quarter	
High	0.055
Low	0.031
Last (31 March 2021)	0.041

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