

Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 30 September 2021

SUMMARY

Underground Exploration and Development

The diamond drilling program targeting the underground depth extensions at Kanmantoo continued. Key intercepts during the quarter included 166.3m @ 0.9% Cu, 0.13 g/t Au from 332m downhole¹. This intersection occurs approximately 70m south of the previously announced 170m @ 1% Cu².

A total of 17.2km of drilling has been completed this year and confirms:

1. The continuation of the mineralisation to ~500m below the open pit and still open to depth,
2. Expanded the lateral footprint of the mineralisation to the south by ~150m, confirming the Spitfire and South West Kavanagh zones extend at depth, and
3. Confirmed the tenor of the key Kavanagh Cu-Au lodes.

Drilling in 2021 has focussed primarily on the main Kavanagh lode system below the Giant Pit. An oversubscribed placement completed in September provides the necessary funding to undertake a further 16km drill program that is focussing on bringing the Nugent, South West and Spitfire lodes into the initial mine design, and to demonstrate the depth continuity of the North Kavanagh lode system.

Underground Portal

Hillgrove entered into a contract with Komatsu to establish a portal, exploration decline and underground drill platforms using the Komatsu MC51 continuous miner³. All contract fees incurred by Hillgrove during the trial are accrued and become payable only following the receipt of project financing and commencement of the capital development of the Kanmantoo Underground.

The Company also received a \$2,000,000 grant under the South Australian Government's Jobs and Economic Growth Fund (JEGF)⁴ to trial the MC51. The combination of the grant along with the deferred and contingent nature of the payment terms with Komatsu, enables Hillgrove to construct the underground infrastructure with minimal cash outflow.

Stella

The first drill hole into Stella resulted in a new gold discovery⁵. Four separate mineralised zones of varying chemistry and alteration were intersected, three of which are copper-gold endowed, with the highlight being:

- **0.6m @ 16.86g/t Au, 10.1 Cu, 44.8 g/t Ag from 344m downhole**

Stella benefits from close proximity to the Kamamoto processing plant and tailing storage facility. The drilling program was co-funded via a South Australian Government Accelerated Discovery Initiative grant.

¹ ASX release 1 September 2021

² ASX release 6 May 2021

³ ASX release 22 September 2021

⁴ ASX release 31 August 2021

⁵ ASX release 26 August 2021

MANAGING DIRECTOR'S STATEMENT

“Drilling continues to expand the mineralised copper / gold footprint for the Kanmantoo Underground Project (“Underground”) in the main Kavanagh lode. Funds from the successful capital raise during the quarter will be deployed to bring Nugent, South West and Spitfire into the initial mine plan, which provides opportunities to create additional work areas to increase annual copper production. In turn, this higher productivity will increase utilisation of the hungry processing plant at Kanmantoo without additional capital expenditure or permitting, which is an enviable position to be in as the copper price approaches records in both USD and AUD terms.

I am also excited to be commencing the underground decline using the Komatsu MC51 continuous miner which has the potential to transform the mine development process – making it safer, faster, more cost efficient and greener. The development of the underground decline and establishment of underground drilling platforms is a key milestone in the Kanmantoo Underground development program – with the underground drill platforms accelerating and reducing the cost of the upcoming drilling program, and the decline bringing forward the potential restart of copper production and further reducing what is already a low-cost mine development.

In addition, the multiple Au-Cu alteration zones at Stella are an exciting new discovery which provide an opportunity to add significant value to the invested infrastructure at Kanmantoo over and above the Kanmantoo Underground.”

UNDERGROUND EXPLORATION & DEVELOPMENT

Kanmantoo Underground Exploration Program

Over 17km of drilling in the first half of 2021 focussed predominately on the Kavanagh lodes below the base of the main Giant Pit, as shown in red in Figure 1 below. This drilling demonstrated that the mineral lodes extend up to 500m below the base of the pit and remain open at depth. Key intersections below the base of the pit (Figure 2) also show that mineralisation extends outside of the extent of the current Mineral Resource Estimate (MRE). The 2021 drill results have been incorporated into an updated MRE that is expected to be completed in November.

To date, the Company has drilled and received assays for 68 drill holes into the Kavanagh, Nugent, Spitfire and South-West Kavanagh Cu-Au mineralisation. These 68 drill holes have yielded 92 Cu-Au intersections greater than 3m in width at >0.6% Cu, and only six (6) holes with sub-grade copper. This is a very high strike rate and illustrates the Company's high level of understanding of the controls on the mineralisation and provides a high degree of confidence that the next phase of drilling will also be successful.

The upcoming drilling program will focus on Nugent (blue in Figure 1), SW Kavanagh and Spitfire (orange) and North Kavanagh (green), with the intent to increase the resource base ahead of a planned commencement of underground mining at Kanmantoo in 2022. Increasing the number of potential Underground working areas, and thus expand the annual copper production opportunity, will provide additional project value through more efficient utilisation of the existing processing capacity at Kanmantoo.



Figure 1 Indicative Drilling Program

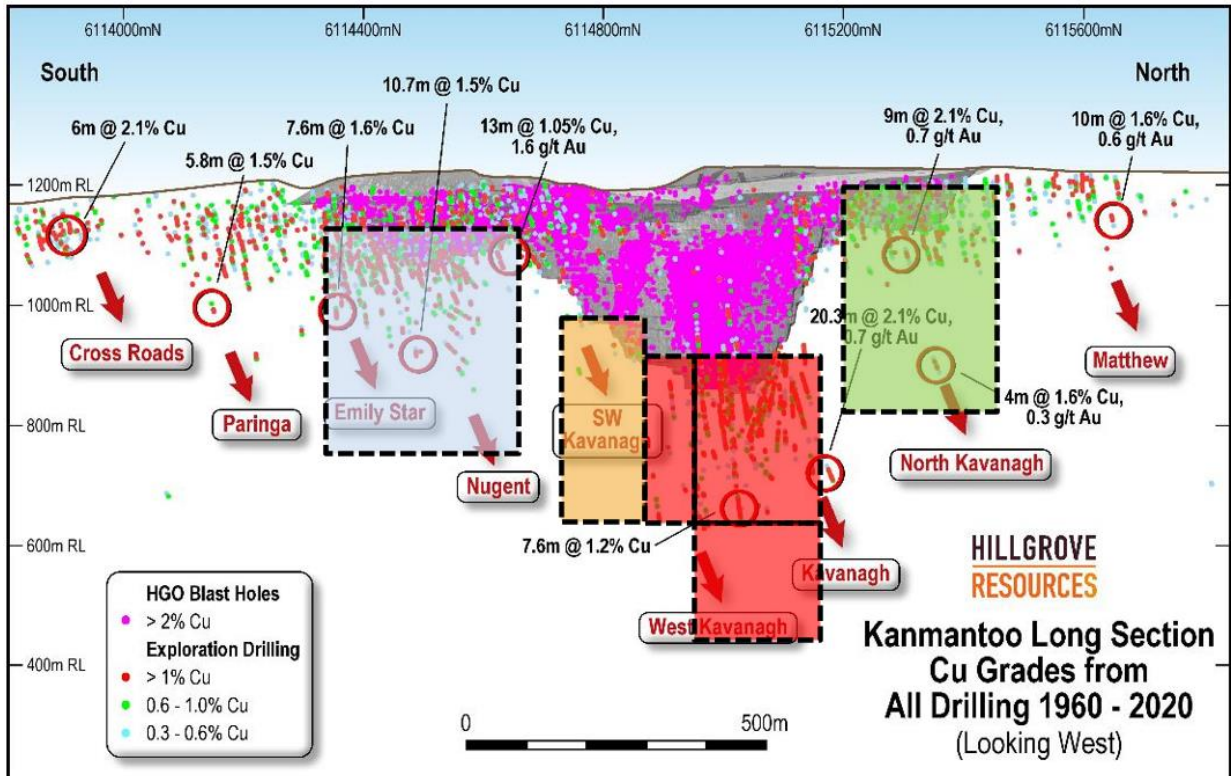
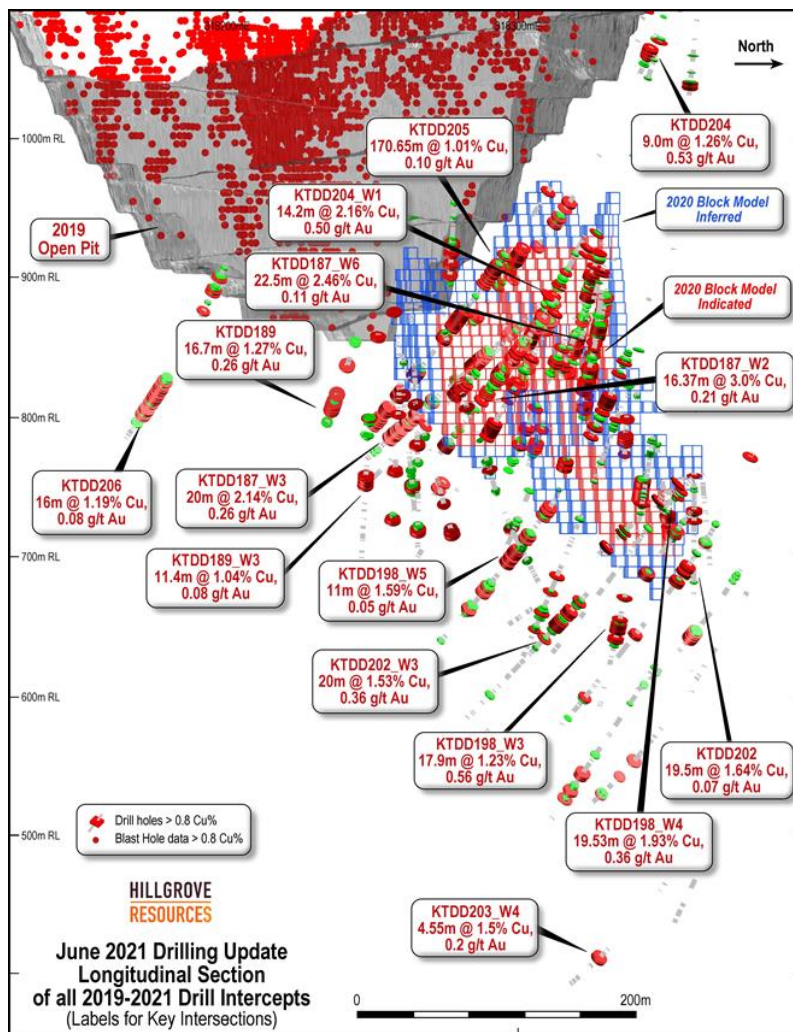


Figure 2 Key Intersections below the Giant Pit



Underground Decline

In parallel to the drilling program, Hillgrove also entered contracts with Komatsu and PYBAR to develop the Kavanagh portal, approximately 500m of decline, and a number of drill platforms to facilitate underground drilling to infill and expand the resource, and, subject to Final Investment Decision (FID), will later serve as part of the broader underground mine infrastructure.

The portal, decline and drill platforms will be created using the Komatsu MC51 continuous miner. There are two MC51 units in the world, which are being deployed into operations under trial conditions to demonstrate their capability to industry and trial adaptations including continuous ground support.

Decline Funding

To assist with funding of the trial, Hillgrove secured a \$2m grant from the South Australian Government and favourable payment terms from Komatsu, which sees no payment until funding for the mine development is secured post FID. The deferred and contingent nature of the agreement and grant funding result in minimal cash outflow to Hillgrove whilst the Company focuses on the drilling program.

Benefits of the trial to Hillgrove

The Komatsu MC51 continuous miner will create a portal near the base of the Giant Pit and develop a decline to establish a number of underground drill platforms from which the Kavanagh and Spitfire lodes can be drilled. Drilling has demonstrated that the Kavanagh lodes extend for up to 500m below the base of the pit (~900m below surface). The underground drilling platforms reduce the length of drill holes and thereby will lead to a faster and lower cost drill out of the Kavanagh mineral resource. In addition, the underground drill platforms will enable areas directly below the base of the pit, particularly South West Kavanagh and Spitfire, which are otherwise difficult to target from surface, to be drilled and brought into future mineral resource estimates.

The decline not only assists in the resource definition and expansion, but also enables close spaced stope definition drilling to be brought forward, potentially removing this work from the critical path to first copper production. Being able to undertake this Underground decline either prior to Final Investment Decision (FID) and project financing, or in parallel with the remaining development works after FID, will bring forward copper production, which ultimately reduces the working capital required.

This trial accelerates and reduces an already very low cost and near-term copper mining development which is permitted and benefits from having all existing infrastructure in place, including an operational 3.6Mtpa processing facility and tailings storage facility.

Benefits of the trial to industry

The objective of the trial is to demonstrate the commercial viability and trial materials handling and ground support solutions. Successful deployment of commercial machines in the future has the potential to remove blasting from mining development, improving safety and community outcomes, as well as reducing blast related operational delays. In addition, the increased accuracy of mechanical cutting over traditional drill and blast techniques reduces rework and wastage, and has the potential to change industry's approach to mining processes and designs. As a fully electric powered machine, the Komatsu MC51 reduces the carbon footprint of mining development and is a key step towards zero emission mining.

Hillgrove is very pleased to be at the forefront of this technology development towards zero emission mining which the Company considers as inevitable as the world continues to decarbonise.

Figure 3 shows the planned decline and Figure 4 the Komatsu MC51 Continuous Miner at Kanmantoo.

Figure 3 Underground Decline

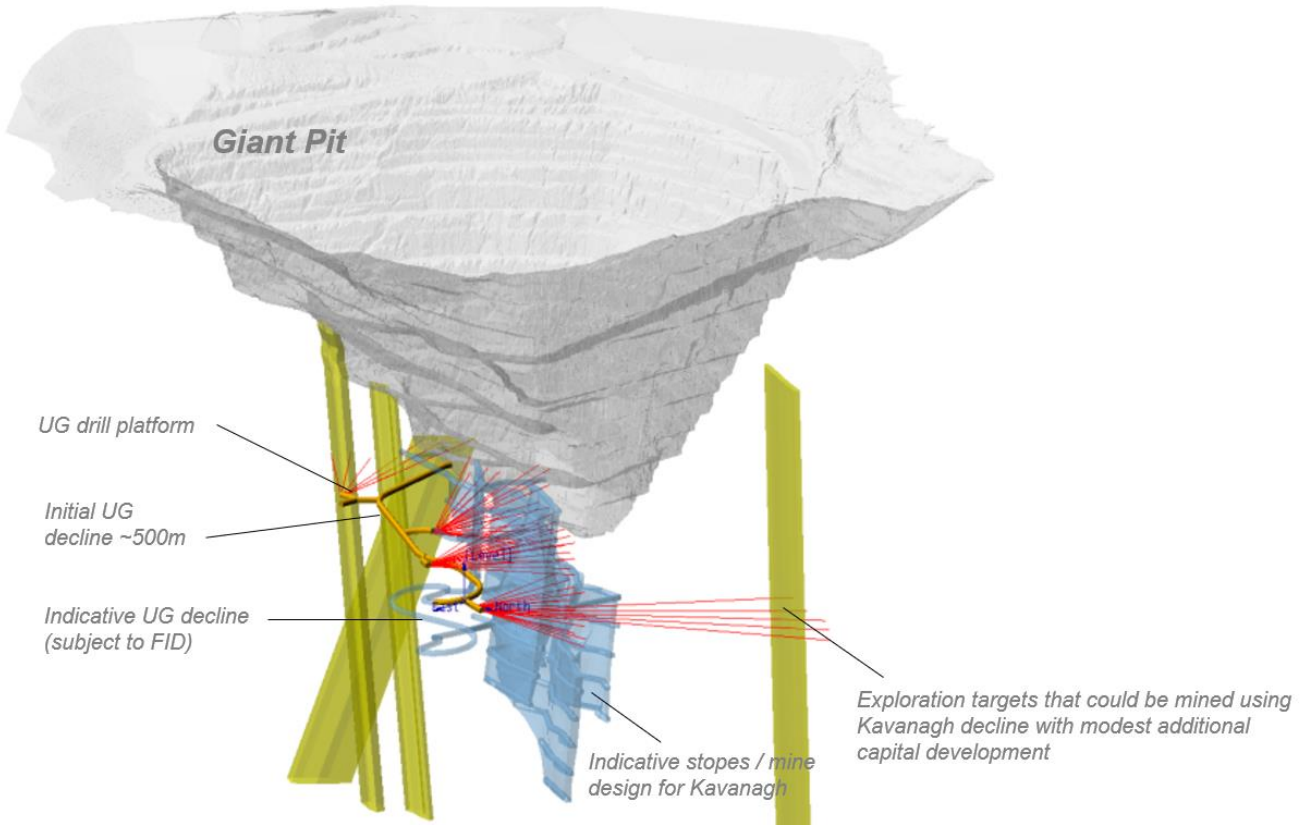


Figure 4 Komatsu MC51



During the quarter Hillgrove prepared the site for the commencement of the underground portal and decline development. This included establishing the following:

- remedial works on pit walls, bunding and ramp to establish safe access,
- re-establishing pit wall and rockfall monitoring,
- portal face preparations including ground support and the MC51 launch slab, and
- establishing power, ventilation, fuel, communications, emergency response facilities.

Figure 5 Preparing for the commencement of the underground portal and decline



EXPLORATION

Hillgrove has a strong pipeline of exploration opportunities over more than 6,100km² of tenements.

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

Near Mine Exploration

The Cu-Au targets within 10 kms of the Kanmantoo processing plant includes the Stella and North West Kanmantoo geochemical and geophysical targets.

Stella

The Company drilled two holes into Stella which were co-funded by a South Australian Government grant under its Accelerated Drilling Initiative (ADI). In August the Company announced a **New Gold Discovery at Stella**.

The first Stella diamond drill hole (SLDD001) intersected an 82.35m wide copper-gold enhanced alteration zone from 315m downhole (Figure 6). In total, four separate mineralised zones of varying chemistry and alteration were intersected, three of which are copper-gold endowed.

Highlight of SLDD001 is:

- **0.6m @ 16.86 g/t Au, 10.1% Cu, 44.8 g/t Ag from 344m downhole**

The Au-Cu intersections in hole SLDD001 are down-dip and along strike from previous drill intersections that have not previously been linked, including a 1994 drill hole from Aberfoyle Resources (KAN01) that is 190m up-dip from SLDD001 and assayed 0.9m @ 9.28 g/t Au, 0.18% Cu from 156.4m downhole⁶, within a 36m wide copper-gold enhanced alteration zone from 154m downhole.

The gold intersection at 344m downhole in drill hole SLDD001 is over 300m below surface and demonstrates that the gold mineralisation continues and is open to depth.

The geophysical modelling indicates that the mineralised alteration zones intersected in SLDD001 are open for over 700m strike length.

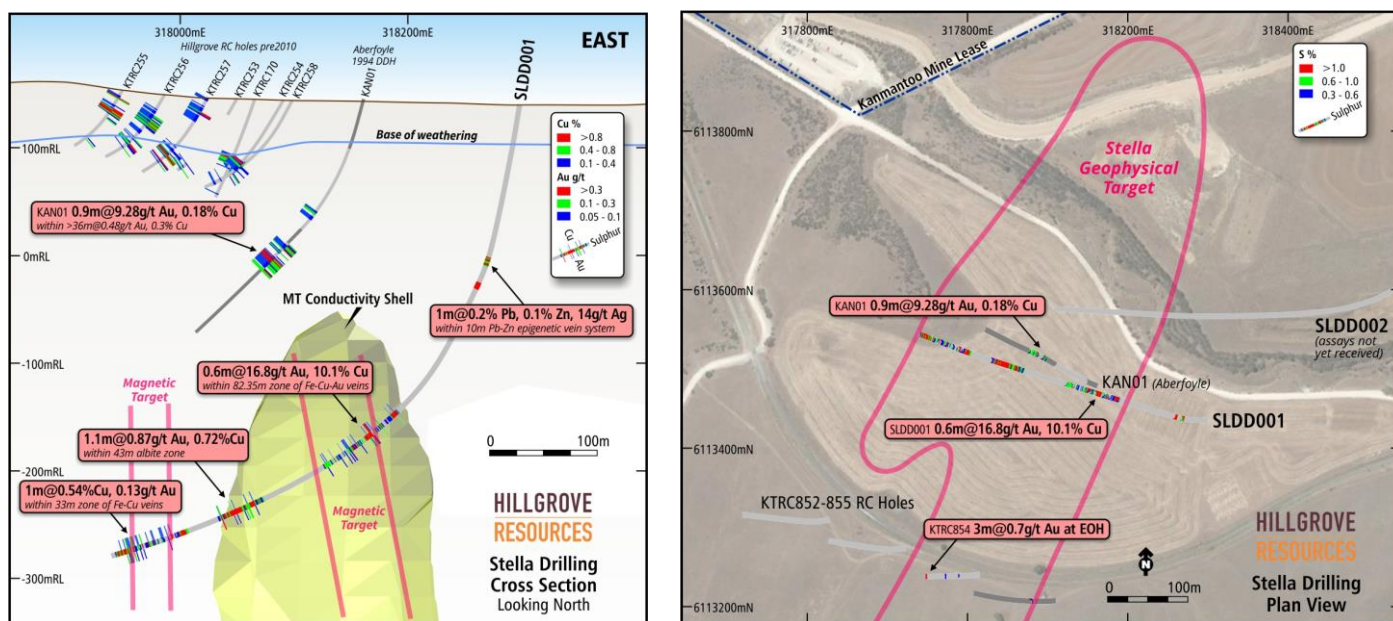
Within the geophysical target area there is a shallow RC percussion hole drilled by HGO in 2010 (KTRC854) located 350m to the south of SLDD001, which assayed 3m @ 0.71 g/t Au from 168m downhole before the hole collapsed within the gold zone. This hole also confirms the validity of the geophysical extent of the Au-Cu alteration systems.

The Stella gold zone is located 350m southeast of Hillgrove’s Kanmantoo Mine Lease on land owned by the Company.



⁶ ASX Release 26 August 2021

Figure 6 Cross section showing the Stella drill hole intersections (LHS) and plan view showing the extent of the geophysical target and close proximity of the Kanmantoo Mine Lease (RHS)



Regional Exploration

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 in western Victoria, which is also within the Delamerian Orogen.

The Company was also successful in being granted funds under the South Australian Government’s ADI scheme to empirically test various soil geochemical sampling/analyses techniques that have showed some great promise in early trials in the South-East.

HILLGROVE CORPORATE

The Company continues to be prudent with cash burn, through cost reduction initiatives. However, to maintain the processing plant for a quick restart, costs are incurred for site care and maintenance, water recirculation, and regulatory obligations.

SUCCESSFUL CAPITAL RAISING

As announced to the market on 22 September 2021, the Company undertook a successful Placement of \$10.0 million to new and existing institutional and sophisticated investors during the quarter. This was conducted through the issue of 192.3 million shares at an issue price of \$0.052 per share.

In addition to the Placement, Hillgrove also offered eligible shareholders to purchase up to \$30,000 worth of shares under a non-underwritten Share Purchase Plan at an offer price of \$0.052 per share. Hillgrove was seeking to raise up to \$2.0 million under the Share Purchase Plan offer, with the right to increase this amount based on overall applications received. Subsequent to quarter end, Hillgrove announced the results of the Offer with the Company receiving 335 applications from eligible Shareholders, totalling approximately \$4.2m (\$2.2 million of oversubscriptions). This strong demand necessitated a scaling back of applications in accordance with the SPP Terms, which raised approximately \$2.0 million, with a total of 38.9 million new fully paid ordinary Hillgrove shares issued.

The proceeds from this \$12.0m capital raising will be used to:

- Complete a drilling program targeting Resource extensions at the Kavanagh, North Kavanagh, South West Kavanagh, Nugent, and Spitfire lodes. The program will also undertake infill drilling, which will improve the geological confidence to support a maiden Reserve, prior to a Final Investment Decision to recommence mining;
- Complete a study in the December 2021 quarter, which will examine the preliminary capital expenditure and operating expense forecasts for mine recommencement;
- Complete the Kanmantoo Mineral Resource Estimate upgrade based on drilling to date, and then again upon the conclusion of the upcoming drilling program (subject to drilling results); and
- The establishment of a portal, underground drill platforms, as well as the commencement of the exploration decline beginning in October 2021 – which subject to a positive Final Investment Decision, will be used as the future mine access.

CORPORATE INFORMATION	
Issued Share Capital at 30 September 2021	
Ordinary shares	1,129,277,074
Unlisted Options	14,000,000
Employee Performance Rights	37,241,841
Share price activity for the Quarter	
High	0.073
Low	0.044
Last (30 September 2021)	0.052
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