



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 March 2017

HIGHLIGHTS

Operations - the step change in operational performance which occurred from mid-December 2016 has been sustained to the end of March 2017.

The opening up of multiple working areas in the pit continued to facilitate mining efficiency with production increasing for the third consecutive quarter to the highest levels in two years – which resulted in the accumulation of ore stockpiles ahead of the processing plant.

Cash management - the Company's liquidity was improved through a number of cash management initiatives including:

Reducing mining contractor charge rates and improved payment terms with:

- All monies owing to Andy's Earthmovers (Asia Pacific) Pty Ltd (AEM) as at 31 March 2017 have been deferred, with monthly repayments occurring from November 2017 to June 2018;
- Charge rates for November 2016 through to September 2019 have been substantially discounted;
- The Company will be effectively treated as a new account with the April 2017 payment to AEM now due in mid-June 2017, improving the Company's cash position over that time.

PetroBond - the Company negotiated a \$2.7 million PetroBond which will allow it to return to normal creditor terms with its fuel supplier instead of paying cash up front.

Electranet bond - the Company replaced the \$1.64 million Electranet security bond with a bond from Swiss Re which, unlike the previous bond, does not require cash backing.

Hedging - the Company has hedged 4,000 tonnes of copper, locking in sales revenue until June 2017 at an average price after margins of A\$7,550.

LOOKING FORWARD

Improved liquidity - from mid-2017, there should be a steady improvement in the Company's liquidity with lower waste removal costs following the scheduled completion of the Giant Pit cutback, which will allow the Company to reduce its creditor and debt balances.

Growth - as the cash balance builds, the Board is determined to ensure that any future growth or mine life extensions must deliver value for shareholders over and above the base case of returning cash to shareholders.



MANAGING DIRECTOR'S STATEMENT

As announced on 23 March 2017, it is pleasing to see the completion of the cash management initiatives, which have significantly strengthened the financial position and liquidity of the Company. This has eased the cash constraints under which we have been operating and has resulted in improved operational and financial performance including:

- Improved mining efficiency as evident with the 33% increase in mining movements;
- Lower unit costs as a result of the more efficient mining practices; and
- The ability to access hedging, which in the past has allowed us to successfully lock in sales prices at the upper end of trading ranges.



We will continue to capitalise on our ingrained cost cutting culture and seek additional performance improvement initiatives as well as conduct a measured exploration programme to deliver maximum value for shareholders.

The Giant Pit Pre-strip is due to be completed in mid-2017, and we are currently on track to meet this target. Once completed:

- Waste to ore ratio is forecast to reduce from 4.6 to 2.1,
- Copper grade is forecast to increase from 0.47% to 0.65%,
- The operations will be significantly derisked, with multiple work areas as well as the ability to selectively feed higher grade material from stockpiles, and
- Both total and unit costs will decline as the benefits which accrue from the Emeco merger are realised.

With this improved outlook, we expect to see a steady improvement in liquidity over the remainder of 2017 which will result in reduced debt and creditor balances. Our full year guidance remains unchanged at 18,000 to 20,000 tonnes of copper and 5,500 to 7,500 ounces of gold in concentrate.

KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

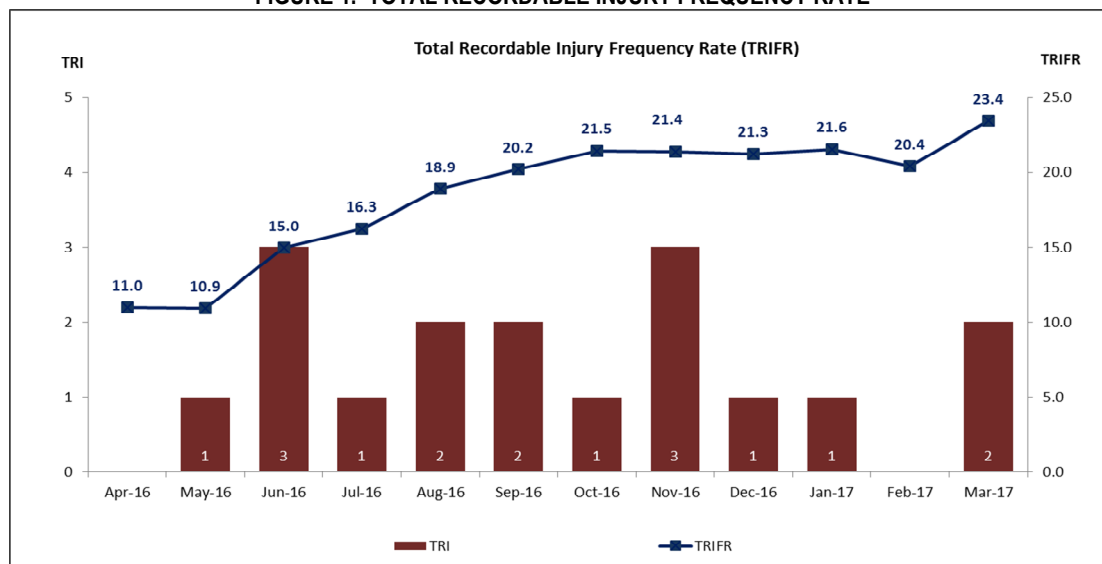
Overview

The open working areas in the pit continued to facilitate mining efficiency with production increasing for the third consecutive quarter to the highest levels in two years. The higher mining rate resulted in the development of longer term ore stockpiles as ore mining outstripped mill capacity. As the strip ratio continues to reduce, the long term stockpiles are expected to materially increase by the end of the year, enabling preferential treatment of higher grade ore and mitigating against risk of unplanned events adversely impacting mill feed and cash flow. The process plant continued the strong performance in the previous quarter at an annualised rate of 3.5Mtpa.

Safety and Community

The Total Recordable Injury Frequency Rate (TRIFR) increased to 23.4, following two hand injuries sustained during the quarter which were incurred while carrying out heavy vehicle maintenance.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



Note: injuries in September and November reclassified from reported TRIFR in Annual Report

Operations

The mined and milled grade has remained consistent during the quarter, and is in line with the recently updated geological model. Grades are expected to significantly increase from the third quarter, with the completion of the cutback remaining on track for the middle of this year, allowing access to the heart of the ore body.

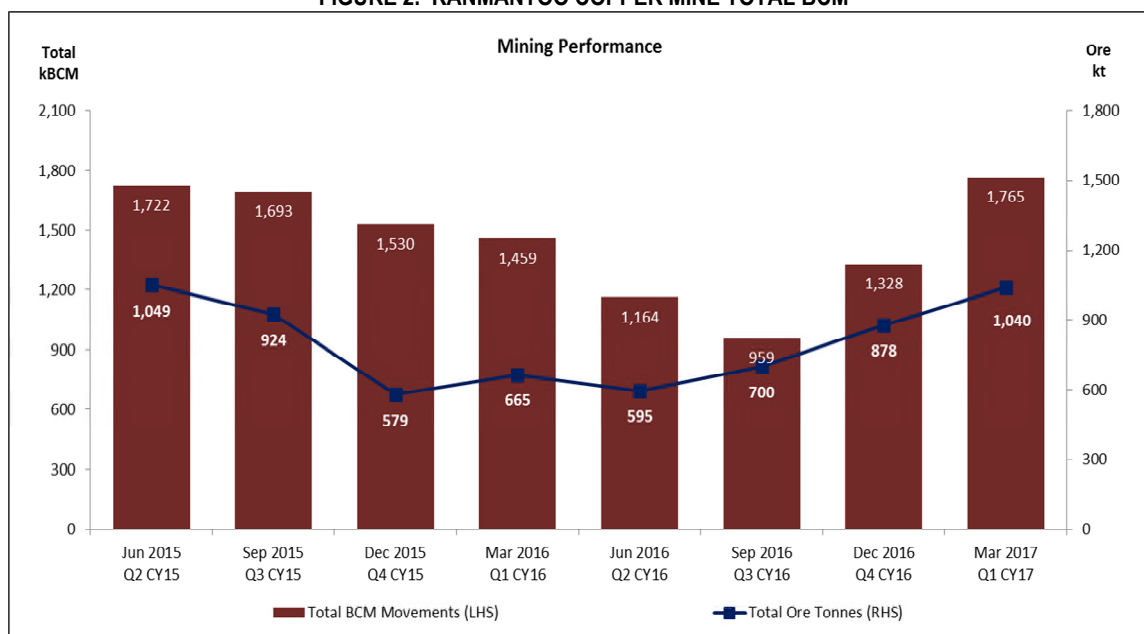
Despite the milled grade remaining consistent, the copper recoveries were slightly lower than the prior quarter as a result of the mineralogy. The gold recoveries were affected by the lower feed grade.

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		MAR-16 QTR	JUN-16 QTR	SEP-16 QTR	DEC-16 QTR	MAR-17 QTR
Ore to ROM from Pit	kt	665	595	700	878	1,040
Ore to long term stockpiles	kt	1	0	0	0	0
Mined Waste	kt	3,843	3,000	2,265	3,224	4,413
Total Tonnes Mined	kt	4,509	3,595	2,965	4,102	5,453
To ROM from LT Stockpiles	kt	427	0	0	0	0
Mining Grade to ROM	%	0.58	0.52	0.47	0.44	0.45
Ore Milled	kt	865	759	675	898	875
Milled Grade - Cu	%	0.54	0.56	0.51	0.46	0.47
- Au	g/t	0.32	0.20	0.19	0.14	0.08
Recovery - Cu	%	72.6	78.8	91.0	91.4	90.5
- Au	%	51.2	49.7	52.1	59.4	48.7
Cu Concentrate Produced	Dry mt	16,148	14,221	13,134	16,339	16,223
Concentrate Grade - Cu	%	21.0	23.6	23.6	23.0	23.0
- Au	g/t	8.8	5.3	5.2	4.4	2.0
Contained Metal in Con. - Cu	t	3,397	3,359	3,103	3,765	3,727
- Au	oz	4,587	2,428	2,187	2,316	1,060
- Ag	oz	29,828	23,569	22,598	28,047	27,254
Total Concentrate Sold	Dry mt	15,382	15,765	12,829	16,237	15,939

Mining production improved by 33%, increasing to 5,453kt (1,765k BCM) for the March 2017 quarter, of which 1,040kt was ore. The past financial constraints continue to ease, with the capital raising completed in December 2016 improving liquidity and thereby allowing more efficient mining practices to be used. As a result, mining levels were at the highest they have been in two years.

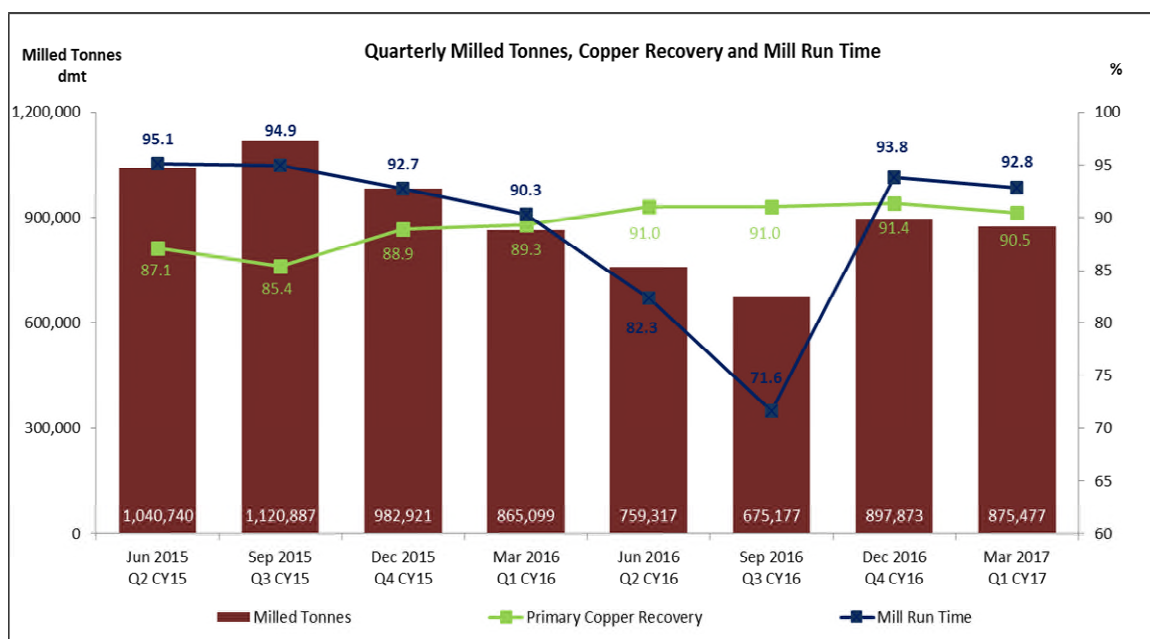
FIGURE 2. KANMANTOO COPPER MINE TOTAL BCM





As a result of the improved mining movements, ore availability continues to remain high, which has led to plant throughput being at levels higher than that experienced during mid-2016 and in line with the previous quarter.

FIGURE 3. KANMANTOO QUARTERLY MILL TONNES, COPPER RECOVERY AND MILL RUN TIME



Costs

Quarterly mining unit costs sharply decreased to \$12.32/bcm this quarter as a result of the increased efficiencies resulting from the opening up of multiple working areas. Processing unit costs increased slightly to \$6.91/tonne, largely driven by the increased cost of electricity.

FIGURE 4. KANMANTOO QUARTERLY MINING UNIT COSTS

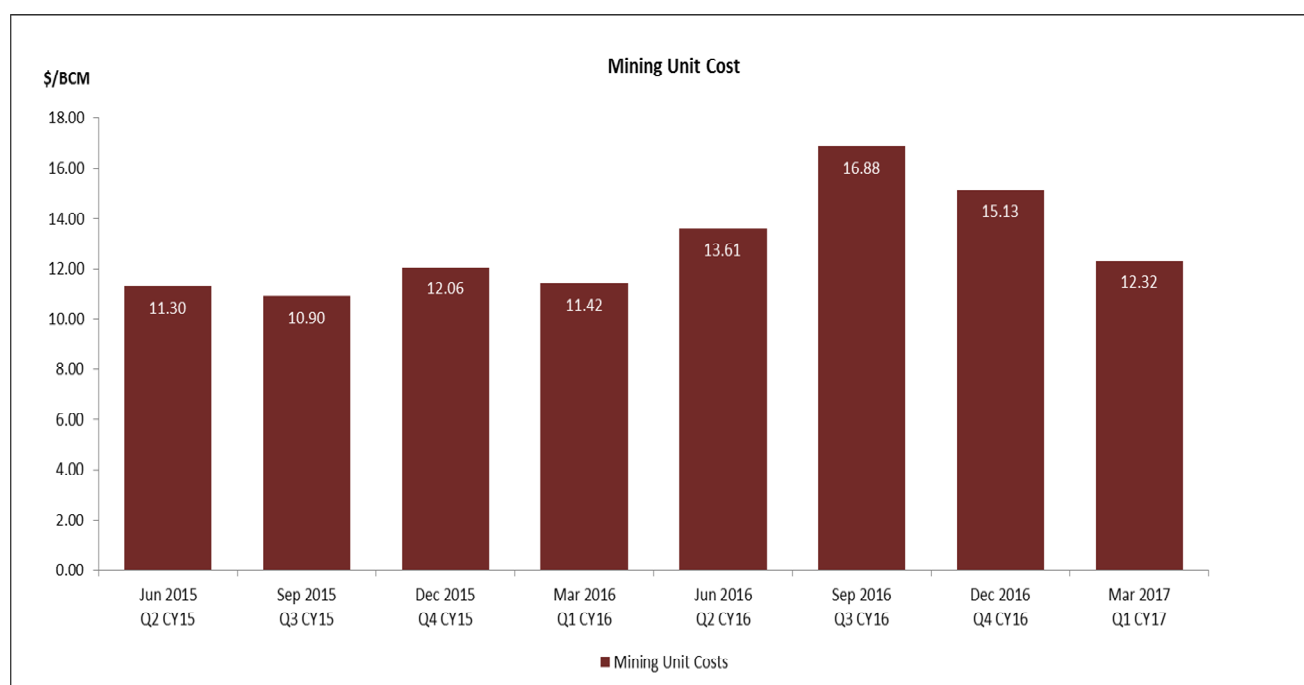
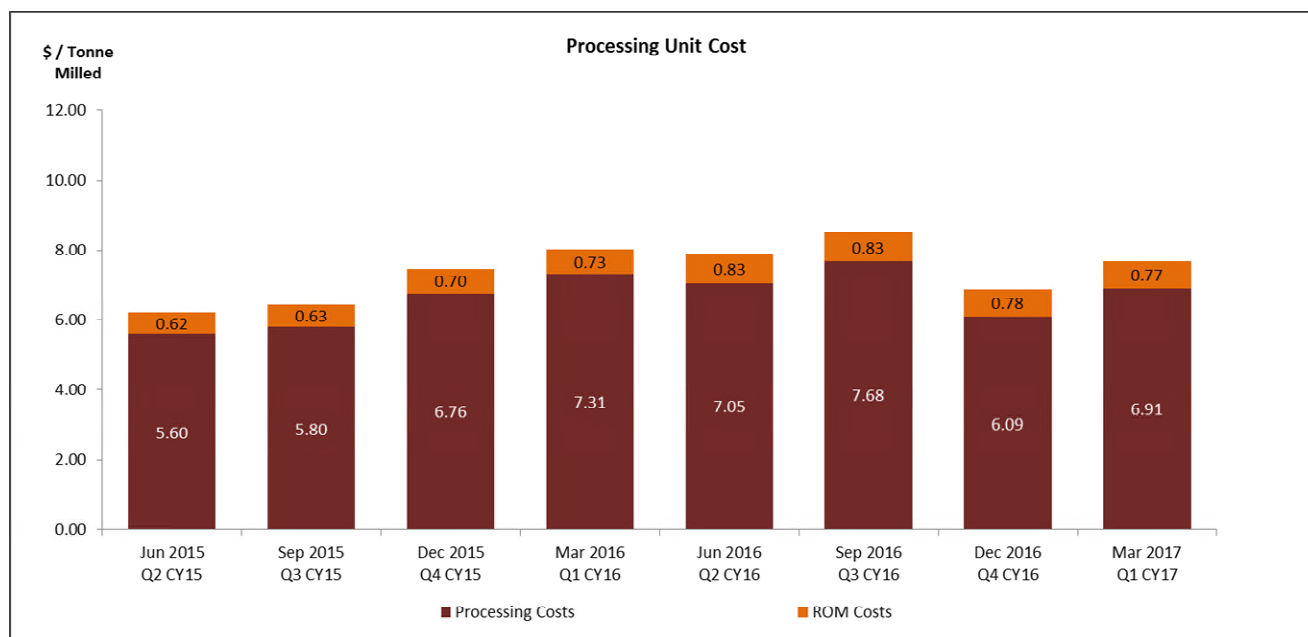


FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



C1 cost for the quarter increased from US\$2.20/lb last quarter to USD2.41/lb, largely as a result of the increased electricity costs (\$0.06/lb) for processing as well as the lower precious metal credits (\$0.11/lb):

TABLE 2. KANMANTOO COPPER MINE COSTS (USC/lb)

US cents per lb	MAR-16 QTR	JUN-16 QTR	SEP-16 QTR	DEC-16 QTR	MAR-17 QTR
	3 MTHS	3 MTHS	3 MTHS	3 MTHS	3 MTHS
Total Mining Cost	174	173	194	196	197
Deferred Mining	-36	-16	-19	-22	-14
Pre-strip	-64	-110	-48	-26	-11
Ore Inventory Adjustment	2	15	-6	0	-22
Mining Costs	76	62	121	148	150
Processing Costs	63	56	60	52	58
Other Direct Cash Costs	16	15	18	11	12
Total Onsite Costs	155	133	199	211	220
Transport & Shipping	11	11	11	12	12
Treatment, Refining & Smelter Charges	39	35	31	31	32
Total Offsite Costs	50	46	42	43	44
Precious Metals Credits	-64	-42	-51	-34	-23
Total Direct Operating Costs (C1 Cash Costs)	141	137	190	220	241
Royalties	3	4	3	3	9
D&A	201	211	24	27	38
TOTAL COSTS	345	352	217	250	288

NOTES TO TABLE 2:

Deferred Mining: Within each pit, the cost of higher waste benches, proportional to the copper contained in the ore, is normalised for the impact of strip ratios and copper grades over the life of specific pits.

Pre-Strip: Upper levels of pits where the strip ratio is greater than 10:1 (waste:ore) are capitalised and amortised over the life of the mine based on metal.

Ore Inventory Adjustment: Mining costs per tonne of ore added to (-ve) or processed from (+ve) long term stockpiles.

Shipping

During the quarter, Hillgrove despatched its 38th and 39th shipments of copper concentrate of 11,349WMT (10,477DMT) and 11,044WMT (10,204DMT) respectively.

Revenue

Revenue for the quarter was \$32.2 million at an average realised price for copper of \$3.47/lb (USD2.63/lb). The prices realised were significantly higher than the previous quarter of \$3.00/lb (USD2.25/lb), in line with the continued increase in copper prices during the quarter.

Exploration Programme

There was minimal exploration expenditure during the quarter. However, with the upcoming completion of the cutback and the forecast free cash flow generation, the Company will assess future growth and mine life extensions, with a focus on Kanmantoo and nearby exploration tenements. The Board is determined to ensure that this is completed in a measured manner, with exploration only undertaken when there is sufficient liquidity.

INDONESIAN GOLD AND GOLD/COPPER ASSETS

The focus on its Kanmantoo operations means the Indonesian assets are no longer considered core assets. Hillgrove believes there is inherent value in Bird's Head Copper/Gold Project and the Sumba Gold Project.

HILLGROVE CORPORATE

During the quarter, the Company was pleased to announce the completion of additional cash management initiatives. These additional initiatives when combined with those completed over the last 12 months have placed the Company on a significantly stronger financial footing with the Giant pre-strip now nearing completion and higher grade ore remaining on track to be available by the middle of the year. The additional initiatives included:

Reduced Mining Contractor Charges

On 16 March 2017, lodgement of the Federal Court approved documentation made the third-party merger with the Company's mining fleet contractor Andy's Earthmovers (Asia Pacific) Pty Ltd (AEM) legally binding and effective. As a result, the revised contract terms with AEM and the Company come into effect and include:

- All monies owing to AEM as at 31 March 2017 will be deferred and paid on the previously agreed and advised payment plan, with first repayment occurring in November 2017 and last payment in June 2018;
- The Company will now receive substantially discounted charge rates for the period commencing November 2016 through to September 2019, lowering future cash costs;
- An amount of \$5.3 million recognised as a liability as at 31 December 2016, as noted in the 2016 financial statements released by the Company on 28 February 2017, will be reduced by an estimated \$4.1 million being the discount earned from November 2016 to March 2017; and
- The Company will be effectively treated as a new account with the next payment by the Company being that of the AEM April 2017 invoice which will be due in mid-June 2017, with the payment holiday improving the Company's cash position over that time.

Hedging

As a result of the Company's improving financial position and credit worthiness, and to allow the Company to capitalise on the prevailing higher copper prices as outlined in the realised copper prices section earlier, the Company has been able to resume hedging for future sales of copper. A total of 4,000 tonnes of copper hedging has been undertaken to eliminate copper price and exchange rate risk on revenues until the end of June 2017, with an average price after margins of A\$7,550 locked in. The Company will continue to explore further hedging to capitalise on copper price movements when it is trading at the higher end of historical ranges.



Electranet Bond

In February, the Company replaced the \$1.64m Electranet security bond, for electricity infrastructure and transmission services, with a bond from Swiss Re, which unlike the previous bond does not require cash backing by the Company. This has improved the Company's available cash by \$1.64 million.

Petrobond

The Company has negotiated a \$2.7 million PetroBond which will allow it to return to normal creditor terms with its fuel supplier instead of paying cash up front for fuel, which it has been doing since May 2016. The bond is secured and constitutes a 'Permitted New Debt' under Note Terms included in the Prospectus.

Cash and Investments

Cash as at 31 March 2017 was \$0.3 million, with debt at \$13.6 million.

CORPORATE INFORMATION

Issued Share Capital at 31 March 2016

Ordinary shares	217,399,327
Employee Performance Rights	9,410,500
Convertible Notes	4,958,222
Options	178,878,216

Share price activity for the Quarter

High	0.09
Low	0.04
Last 31 March 2017	0.09

SHARE REGISTRY

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ABOUT HILLGROVE

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

The Company has approximately 245 site based employees and contractors at Kanmantoo and at its small Adelaide corporate office.

Presently the Company is mining at the rate of more than 20 million tonnes per annum and produces up to 20,000 tonnes of copper per annum.

Annual export earnings are in a range of \$140 to \$170 million per annum.

With over \$60 million invested in the cutback of the Giant Pit, the Company will complete the final stripping in the next three months and expects to generate significant free cash-flows at very low stripping ratios.

The Company's growth will come from the Kanmantoo Copper Mine operation in South Australia and exploration discoveries from its highly prospective near mine and greenfield exploration projects.

Mineral Resource Estimate for All Deposits at 30 September 2016

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Measured	10.3	0.6	0.1	1.2	66
Copper Mine,	Indicated	10.8	0.6	0.1	1.4	70
All Deposits	Inferred	13.4	0.6	0.1	1.0	75
	Total	34.5	0.6	0.1	1.2	211

Ore Reserve Estimate at 30 September 2016

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo	Proved	7.1	0.6	0.08	1.1	44
Copper Mine	Probable	2.3	0.5	0.05	0.8	12
	Total	9.5	0.6	0.07	1.0	57

Competent Person's Statement

The Ore Reserve and Mineral Resource estimates were prepared by Competent Persons in accordance with the JORC Code 2012.

Further information on the Kanmantoo Mineral Resources and Ore Reserves is available in the Hillgrove Updated Mineral Resource and Ore Reserve Estimate released to the ASX on 18 October 2016, which is also available on the Hillgrove Resources website at www.hillgroveresources.com.au.

Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in that market announcement and, in the case of estimates of Mineral Resources and Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Hillgrove Resources confirms that the form and context in which the findings of the Competent Persons (Peter Rolley and Michaela Wright in relation to the Mineral Resource estimates and Lachlan Wallace in relation to the Ore Reserve estimates) are presented, have not been materially modified from the original market announcement.