HILLGROVE RESOURCES

QUARTERLY REPORT

PERIOD ENDING 31 MARCH 2020

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

SUMMARY

Operations

Processing of the low grade stockpiles was completed on time and without injury. The Kanmantoo site has been placed into care and maintenance to preserve the assets in preparation for restart if the Kavanagh underground project proceeds.

Cash Flow

Cash flow from operations during the quarter has sustained the Company's working capital, where:

- cash and trade receivables balances increased from $10.5M to $17.0M (unaudited), inclusive of sales which occurred in the first week of April, and
- trade creditors, payroll liabilities, and accruals decreased from $12.0M to $8.9M (unaudited) after payment of entitlements to processing and other staff made redundant at the end of March.

COVID-19 Cash Preservation

The Company has implemented a range of measures to preserve its cash reserves and reduce the cash burn rate while funding is secured to complete the evaluation of the underground mine project, including:

- reducing ongoing labour costs by making staff redundant, decreasing the size of the Board, reducing director fees, and deferring non-essential expenditure, and
- agreeing additional cash reduction and deferral support measures with key stakeholders (including federal and state governments, suppliers and contractors).

With the available cash as well as these cash preservation initiatives, the Company now has sufficient funds until the second half of 2021 to meet its projected obligations, providing time for the Company to advance the Kavanagh underground project.

2020 Guidance Performance

Planned production for 2020 is complete with the production and cost performance either in line with or better than guidance.

Underground Exploration and Development

A parent diamond drill hole to enable a number of intersections of the depth extensions of the West Kavanagh underground lode below the Giant open pit was completed in March. The program has been temporarily postponed due to the COVID-19 pandemic's effects on staff, contractors, community and funding. The Company intends to resume the drilling program once it has secured third party funding to complete the underground study and continues to advance discussions with several funding parties.

South East Exploration Project

The Company holds 5,652 sq kms of exploration licences in the south-east of South Australia. This area is part of the Delamerian Porphyry province now being investigated by the Geological Survey of SA and MINEX-CRC for its porphyry copper-gold endowment as a consequence of the discoveries on the Stavely Belt in Victoria. Hillgrove is seeking funding partners to explore this highly prospective region.

Pumped Hydro Energy Storage Project

The agreement with AGL to sell the Pumped Hydro Energy Storage (PHES) project at Kanmantoo was terminated by mutual agreement. Since then, Hillgrove has been approached by other parties expressing an interest in the PHES project.

MANAGING DIRECTOR'S STATEMENT

Quarter in review

Hillgrove successfully completed the low grade stockpile processing and transition to a care and maintenance phase without injury. The rolling 12-month total recordable injury frequency rate (TRIFR) remains at historically low levels, (39% reduction since beginning of 2018), and in line with the previous quarter at TRIFR to 11.4 injuries per million worked hours.

Processing of the low grade stockpiles from the Giant Pit was completed as planned by the end of March 2020. No concentrate sales were made in March. Sales in the first week of April 2020, when the last container of concentrate was loaded onto the vessel, increased the cash and receivables balance to $17.0m while trade creditors, payroll liabilities and accruals were $8.9m at quarter's end.

Prior to the demobilisation of heavy earth moving equipment at the end of March, a further 45ha of waste landforms were profiled and seeded. This takes the total area under seed to 129ha.

Following the completion of processing, 45 employees were made redundant and paid out by 31 March 2020, reducing the workforce to 9 employees who will manage the exploration and development activities, rehabilitation obligations, as well as care and maintenance of the processing plant.

Copper production was within guidance, while gold production and C1 cost were better than guidance, refer to the guidance section below.

Looking ahead

The current focus of the business is on the evaluation of the underground project at Kanmantoo which if successful, will return the Company to cash generation as quickly as possible. 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 while Hillgrove tries to secure the funding required to complete the full underground study phase through to an investment decision.

Over the past 12 months, Hillgrove has advanced studies associated with developing an underground mine below the open pits of both Giant and Nugent. Drilling below the Giant open pit in 2019 demonstrated widths and grades suitable for underground mining and resulted in the announcement of the maiden Underground Mineral Resource Estimate. Importantly, the drilling results showed the mineralisation to be open both along strike to the north and south, as well as down dip. The drilling did not target the West Kavanagh lode, which was the orebody that drove the open pit optimisation to depth, leaving an opportunity to expand the underground resource through additional drilling.

A drilling program commenced in March 2020 aimed at the West Kavanagh lode. The parent hole has been completed, however the program has been temporarily postponed in order to secure the health of our staff, contractors and community, and to preserve cash amid uncertainty within the broader investment community created by COVID-19. This uncertainty may delay the time it takes to secure the requisite funding to complete the study phase. The casing of the parent hole from the collar to the first wedge location has been left in-situ such that the parent hole can be reused when the program resumes.

Hillgrove is in active discussions with a number of parties regarding funding for the underground project through a variety of funding mechanisms.

Despite the deferral of the drilling program, the underground project remains Hillgrove's primary focus. 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.

Hillgrove continues to engage with parties interested in the nearby copper gold exploration opportunities such as Stella and North West, and the broader porphyry prospectivity in the South East exploration tenements.

The Company has announced a number of Board changes, refer Board changes section below. On behalf of the Company, I would like to thank John, Tony and Phil for their leadership and guidance, and wish each the very best in their respective futures. I would also like to welcome Derek Carter to the Company.

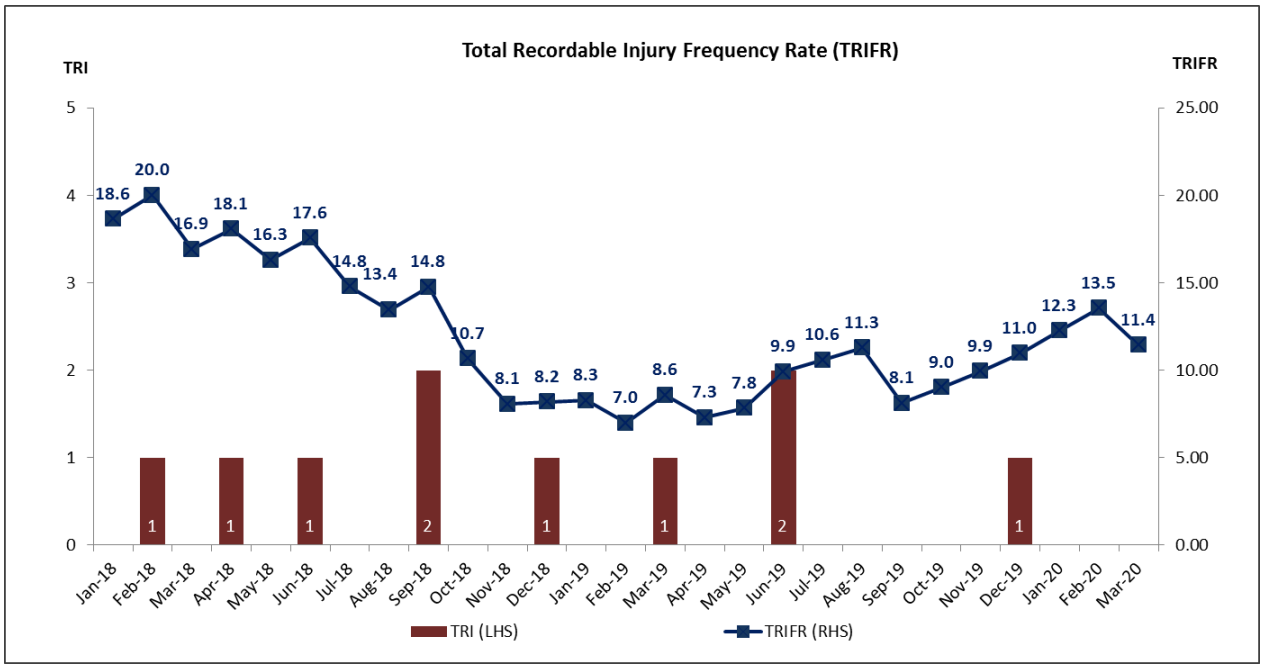
CURRENT OPERATIONS
Kanmantoo Open Pit (Hillgrove 100%)

Safety

Hillgrove has implemented protocols to minimise the potential transmission of COVID-19 in line with the advice of the WHO, Fair Work Australia and the Australian Government Department of Health. The completion of processing has drastically reduced Hillgrove's workforce on site which further assists in mitigating risk of potential transmission.

Due to the reduced hours worked on site following the cessation of mining, each injury has a much greater impact on the TRIFR than what has occurred in the past. As a result, despite there being no recordable injuries in the quarter, the TRIFR increased from 11.0 to 11.4, please refer to **Figure 1** below.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)



Note to Figure 1: TRIFR is calculated per million hours worked

Operations Overview

With the last stockpiled ore processed, mill throughput for the quarter was 764k tonnes at a 93.9% mill run-time, with copper feed grade of 0.28% and a copper recovery rate of 87.3% (refer **Figure 4**). These figures were in line with expectations for the remaining stockpiled ore. The vast majority of processing personnel were made redundant at the end of the quarter upon the completion of processing the stockpiled ore. Many of these had been employed since the start of the operation and we thank them for their efforts.

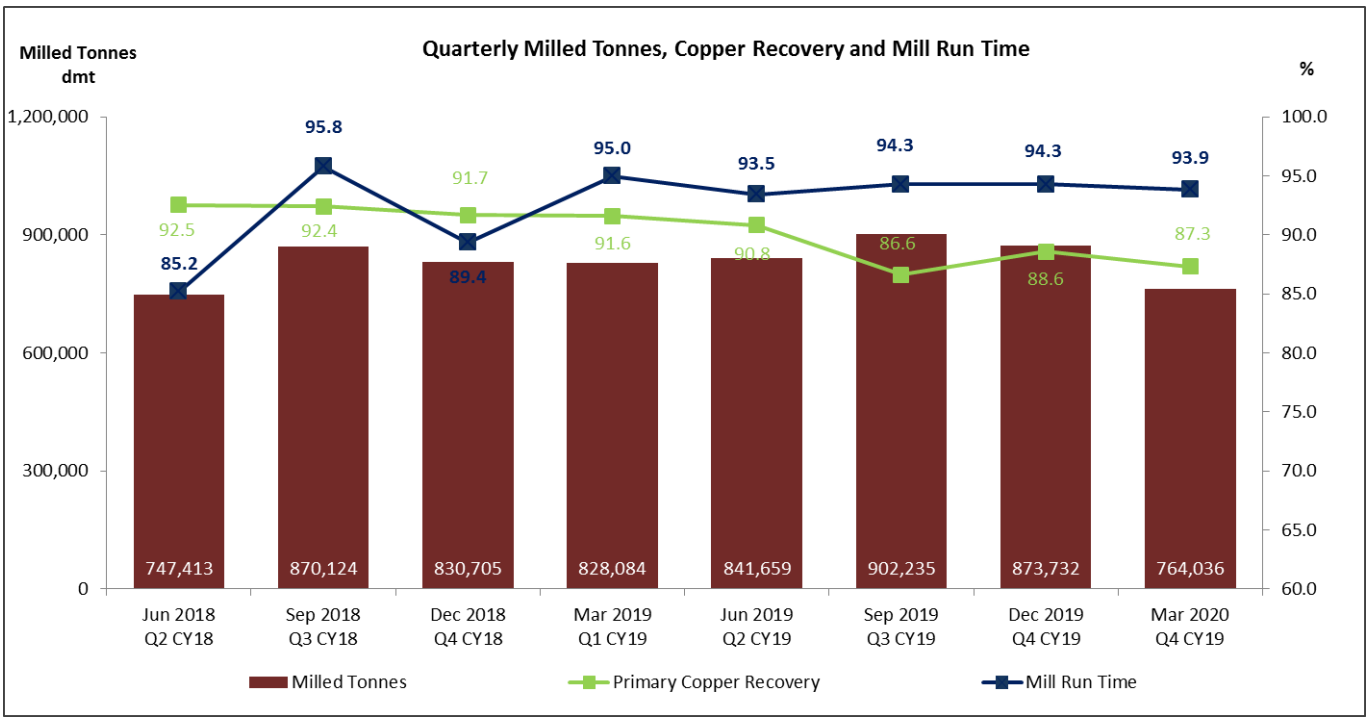
Site rehabilitation activities continued to be undertaken prior to the demobilisation of heavy equipment at the end of the quarter. This resulted in a total of 45 ha of mine site rehabilitation and seeding for the quarter. This program completed the planned civil and revegetation works for 2020. Statutory environmental monitoring for the site will continue during the care and maintenance phase of the operation.

Figure 2 shows the final ore being processed through the crushing circuit whilst **Figure 3** shows the process of seeding the stockpile area after being backfilled with waste rock and topsoil.

FIGURE 2. FINAL ORE BEING PROCESSED THROUGH THE CRUSHING CIRCUIT

FIGURE 3. SEEDING OF THE REHABILITATED STOCKPILE AREA

FIGURE 4. KANMANTOO QUARTERLY PROCESSING PERFORMANCE



Total production for the quarter was 8,340 DMT of concentrate, containing 1,885 tonnes of copper metal and 776 ounces of gold (refer **Table 1**).

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

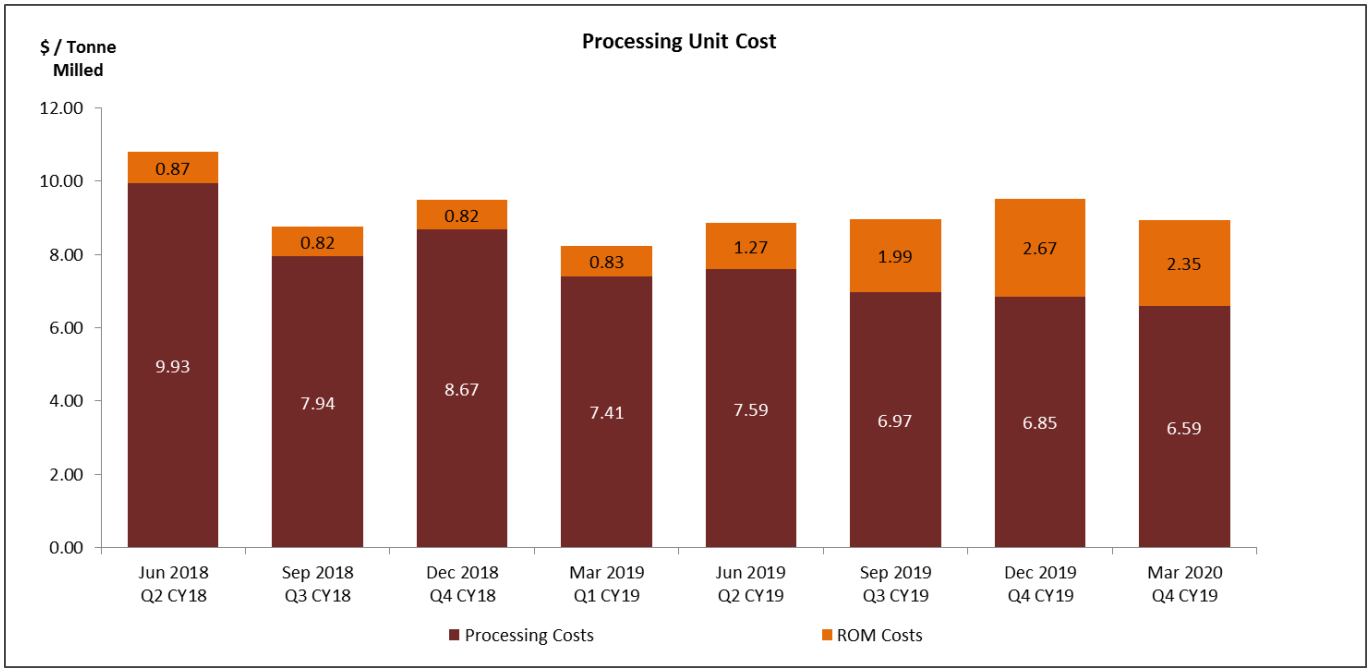
		MAR-19 QTR 3 MTHS	JUN-19 QTR 3 MTHS	SEP-19 QTR 3 MTHS	DEC-19 QTR 3 MTHS	MAR-20 QTR 3 MTHS
Ore to ROM from Pit	kt	1,059	515	-	-	**-**
Mined Waste	kt	739	116	-	-	**-**
Total Tonnes Mined	kt	1,797	631	-	-	**-**
Strip Ratio	W:O	0.7:1	0.2:1	-	-	**-**
Closing Ore Stocks[1]	kt	3,128	2,846	1,673	782	**-**
Mining Grade	%	0.60	0.61	-	-	**-**
Ore Milled	kt	828	842	902	874	**764**
Milled Grade - Cu	%	0.65	0.55	0.29	0.30	**0.28**
- Au	g/t	0.06	0.06	0.06	0.07	**0.06**
Recovery - Cu	%	91.6	90.8	86.6	88.6	**87.3**
- Au	%	56.3	53.1	51.5	49.5	**55.9**
Cu Concentrate Produced	Dry mt	20,821	17,701	10,268	10,347	**8,340**
Concentrate Grade - Cu	%	23.8	23.9	22.1	22.5	**22.6**
- Au	g/t	1.4	1.4	2.6	3.1	**2.9**
Contained Metal in Con. - Cu	t	4,963	4,223	2,272	2,324	**1,885**
- Au	oz	961	801	858	1,032	**776**
- Ag	oz	37,034	30,140	17,828	17,793	**14,932**
Total Concentrate Sold	Dry mt	20,189	18,536	10,565	9,882	**4,056**

[1] Stockpile estimate from Sep-19 quarter based on loose density of 2.30 t/m^3 derived from a study carried out during the September 2019 quarter. The previous quarters in Table 1 have not been changed for consistency and used a density of 2.53 t/m^3.

Costs

Processing unit costs decreased during the quarter to $6.59 per tonne (refer **Figure 5**). This was largely due to reduced maintenance costs (with the majority of the remaining major shutdown works being completed in previous quarters) and reduced staff costs as employee numbers reduced through natural attrition and were not replaced due to the impending cessation of processing activities.

FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



C1 unit cost for the March quarter was US$2.52/lb (refer **Table 2**). With the completion of mining and the consumption of stockpiles, there are no longer any mining costs. Ore Inventory Adjustments however captures past expenditure incurred in mining and stockpiling the ore, with these past costs now booked as an expense when that ore was processed into saleable product. These charges are not cash costs for the current quarter.

TABLE 2. KANMANTOO COPPER MINE COSTS (USc/lb at AUD/USD of 0.6584 for the Mar-20 Quarter)

US cents per lb	MAR-19 QTR	JUN-19 QTR	SEP-19 QTR	DEC-19 QTR	MAR-20 QTR
	3 MTHS	3 MTHS	3 MTHS	3 MTHS	**3 MTHS**
Total Mining Cost	107	50	-	-	**-**
Deferred Mining[2]	45	11	-	-	**-**
Ore Inventory Adjustment[3]	-19	30	125	150	**121**
Mining Costs	133	91	125	150	**121**
Processing Costs	42	55	116	112	**112**
Other Direct Cash Costs	8	9	15	19	**16**
Total Onsite Costs	183	155	256	281	**249**
Transport & Shipping	13	13	15	15	**14**
Treatment, Refining & Smelter Charges	26	27	27	27	**22**
Total Offsite Costs	39	40	42	42	**36**
Precious Metals Credits	-16	-15	-29	-33	**-33**
Total Direct Operating Costs (C1 Costs)	206	180	269	290	**252**
Royalties	13	13	13	13	**6**
D&A	28	36	30	40	**28**
TOTAL COSTS	247	229	312	343	**286**

[2] 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

[3] Mining costs per tonne of ore added to (-'ve) or processed from (+'ve) long term stockpiles.

DEVELOPMENT PROJECTS

Hillgrove has held discussions with a number of interested parties seeking to jointly develop or explore projects or ground located on or near the mining lease with the aim to utilise and maximise the value from the existing Kanmantoo Open Pit and other infrastructure (including the low cost 3.6Mtpa processing plant and permitted tailings storage facility).

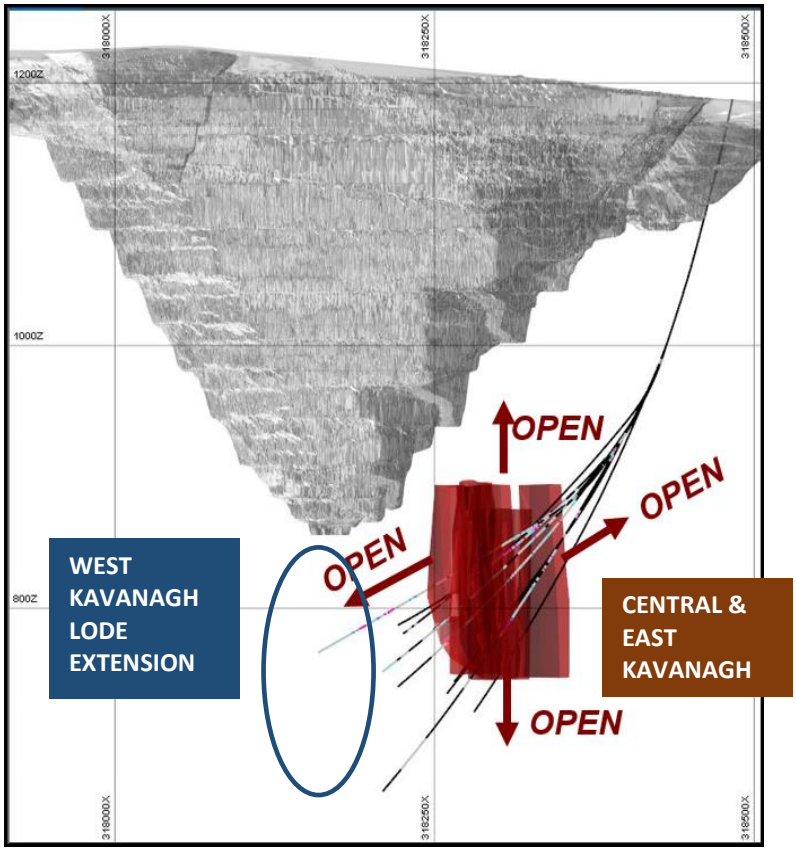
During the quarter, $0.6m was spent on development and exploration activities.

Kavanagh Underground

Diamond drilling to confirm the grade and tonnes of the Central and East Kavanagh targets to 100m below the Giant open pit concluded during the previous quarter. This work has demonstrated the vertical continuation of the Central and East Kavanagh mineralisation, and due to the limited extent of the drilling, the resource estimate is open north, south, and to depth. Due to these successful results, a program of diamond drilling was planned to drill test the depth extensions of the West Kavanagh mineralisation. The West Kavanagh lodes were strongly mineralised in the open pit and were responsible for the pit being mined to over 350m depth. **Figure 6** below shows the relative positions of the Kavanagh Lodes and the completed Giant open pit.

In March 2020, the parent hole for a program of drill intersections through the West Kavanagh mineralisation was completed. The intervention of the COVID-19 pandemic has resulted in the temporary suspension of the diamond drilling program to ensure the safety of our team and the local community.

FIGURE 6. CROSS SECTION LOOKING NORTH OF THE COMPLETED GIANT PIT AND THE DRILLING COMPLETED IN 2019



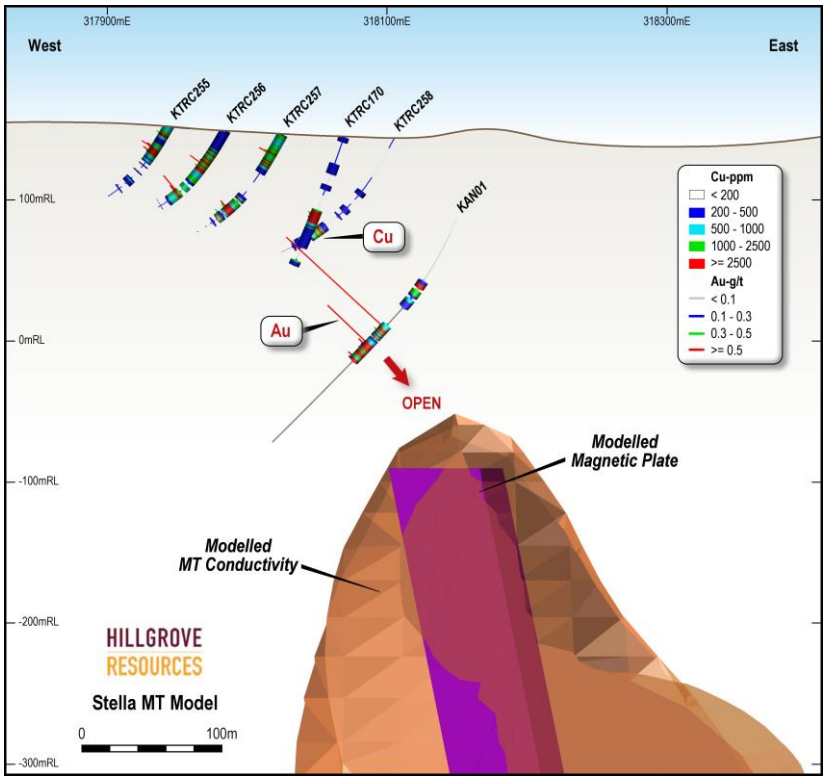
EXPLORATION

Kanmantoo Regional

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.

At Stella, the 3D MT (magneto-telluric) geophysical survey completed and reported in 2019 has been modelled. This has identified the Stella zone as a coincident magnetic high, resistivity low and gravity low target commencing at around 200m below surface. Nearby, but not overlying, drilling geochemistry has intersected a 60m wide zone of chlorite-pyrrhotite-garnet alteration with attendant Cu-Au mineralisation (ASX release of 29 April 2019).

FIGURE 7. CROSS SECTION LOOKING NORTH OF MODELLED MAGNETO-TELLURIC TARGET AT STELLA

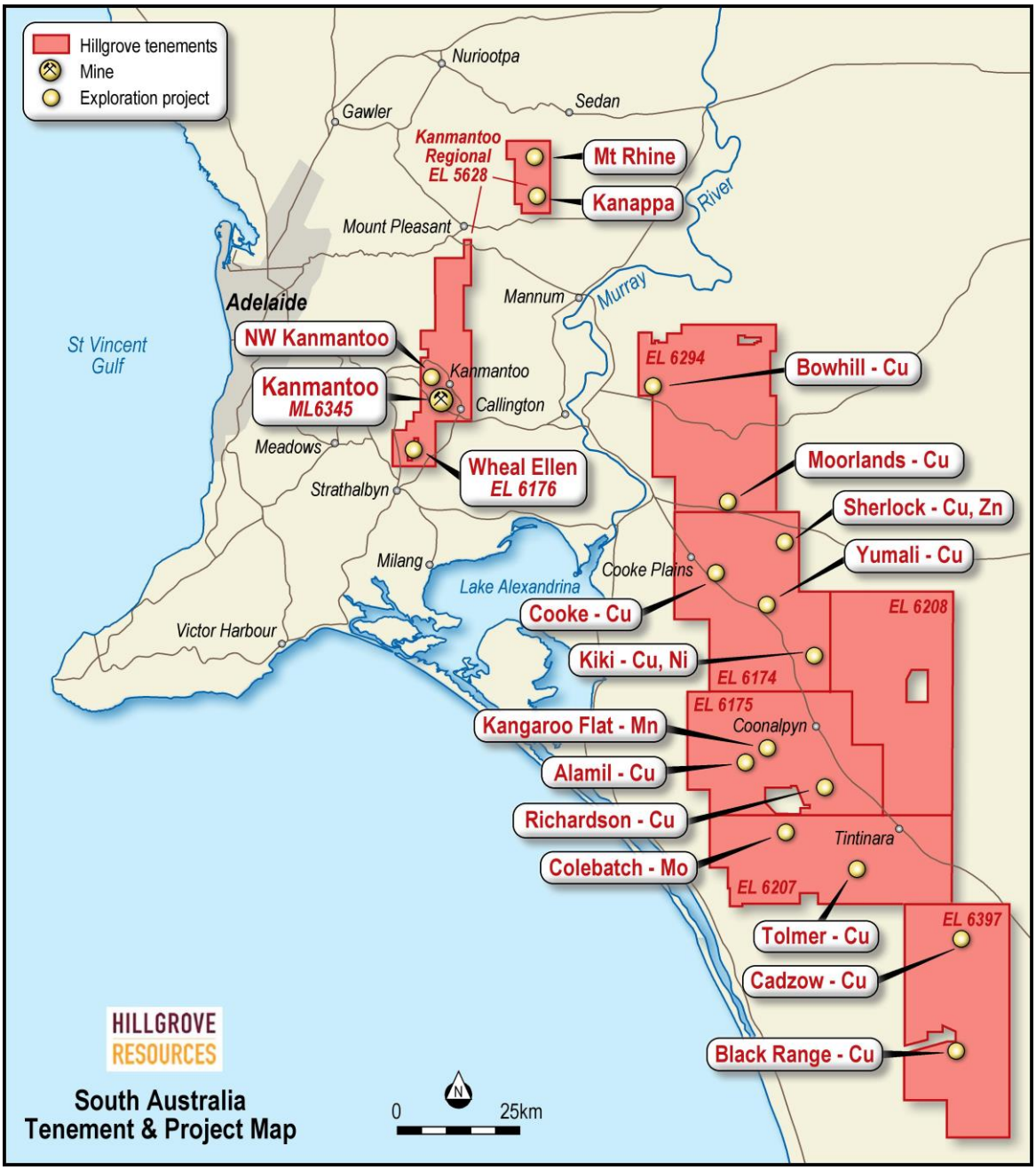


South East Delamerian

Hillgrove holds 5,652 sq kms of exploration licences in the south-east of South Australia (refer **Figure 8**), partly covering 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. As a result of the government funding the geological investigations and ensuing drilling programs, a large portion of the Delamerian in eastern South Australia has been placed under a Section 15 tenement moratorium. The moratorium does not impact on Hillgrove's ability to progress its exploration activities on its licences, however, the moratorium does mean no further licences will be issued whilst the moratorium is in force.

Hillgrove has continued its low-cost program of passive seismic, gravity and geochemical data acquisition. The passive-seismic data will be used to model the depth of the Murray Valley Sediments over the prospective Cambrian basement to prioritise its exploration activities. This has proven to work successfully, showing large areas of the Company's exploration area having cover of less than 100 metres. In addition, small programs continue for soil sampling in areas of minimal cover, re-assaying and petrology of historic drill core stored within the Tonsley core library, gravity data acquisition and data compilation.

FIGURE 8. PLAN VIEW OF THE LOCATION OF HILLGROVE EXPLORATION PROJECTS IN SOUTH AUSTRALIA



The information contained in this announcement that relates to the Exploration Results was first reported by the Company to the ASX on 29 April 2019. 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.

PUMPED HYDRO ENERGY STORAGE

In April 2019, Hillgrove announced it had entered into binding agreements with AGL Energy Limited, to sell the right to develop, own and operate the Pumped Hydro Energy Storage (PHES) project at the Kanmantoo mine site. The sale was subject to the satisfaction of a number of conditions which needed to be satisfied within specified timeframes. Several of those conditions remain unsatisfied and after a period of extensive negotiations, Hillgrove and AGL mutually agreed to terminate the PHES Project Agreement and associated project documents and effect a clean break without any further obligations on either party.

HILLGROVE CORPORATE

Board Renewal

With the Company completing copper production from the open pit, as announced on 6 April 2020, the Board will be restructured as follows to focus on developing the underground project and extracting value from exploration assets:

- John Gooding will step down effective from the AGM, and will be replaced by Derek Carter,
- Tony Breuer will also step down effective from the AGM, and in addition
- Phil Baker has advised of his intention to step down, once the new Board is in place.

Cash

Cash and trade receivables balances increased from $10.5M to $17.0M (unaudited), inclusive of sales which occurred in the first week of April, and trade creditors, payroll liabilities and accruals decreased from $12.0M to $8.9M (unaudited) after payment of entitlements to processing and other staff made redundant at the end of the March quarter.

Fixed Pricing

With the completion of processing, the Company has fulfilled all its fixed pricing obligations.

Revenue

Net revenue from the sale of concentrate for the quarter was $9.0M, with the average realised price for copper metal sold being $8,880 per tonne. An additional $12.3M was monetised in the first week of April.

Performance Against 2020 Guidance

The Company's actual performance against its 2020 guidance is summarised in the table below.

TABLE 3. 2020 GUIDANCE

CY20	2020 Guidance	Actuals
Copper produced	1,650 to 2,150 tonnes	1,855 tonnes
Gold produced	450 to 700 ounces	776 ounces
C1 costs	US$2.55 to US$2.75 per lb	US$2.52 per lb

Copper production was in line with 2020 guidance, while gold production was above the guidance.

C1 costs were better than guidance. The C1 costs are favourable in part due to lower AUD/USD (0.68 in guidance, 0.6584 actual) which improves C1 costs by approximately US$0.08 per lb. Removing the foreign exchange variance increases C1 costs to US$2.60 per lb which is in line with guidance.

INDONESIAN GOLD AND GOLD/COPPER ASSETS

The Company is continuing to progress its withdrawal from Indonesia.

The Indonesian projects have been on care and maintenance since 2013 and the carrying value of both projects were fully impaired in 2015.

MINERAL RESOURCE & ORE RESERVE

Update to 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 were 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.

Statement of Exploration Targets As At 31 December 2019

The South Hub Exploration Target in this Quarterly Report was reported on 27 September 2019 and is centred around the mineralisation south of the AGL agreement area down to 900m RL.

Hillgrove has approximated an Exploration Target at the Kanmantoo South Hub area of between four and nine million tonnes with a target grade of between 1.2% and 2.2% Cu and 0.1 g/t to 0.3 g/t Au.

South Hub Exploration Target			
Zone	Tonnage Range Mt	Grade Range Cu%	Grade Range Au g/t
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
TOTAL	**4 - 9**	**1.2 - 2.2**	**0.1 - 0.3**

The information contained in this announcement that relates to the South Hub Exploration Target was first reported by the Company to the ASX on 27 September 2019. The Exploration Target does 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	
Issued Share Capital at 31 March 2020	
Ordinary shares	585,588,518
Employee Performance Rights	18,875,000
Share price activity for the Quarter	
High	0.066
Low	0.037
Last (31 March 2020)	0.037

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