



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 30 June 2016

HIGHLIGHTS

- Proud winner of South Australian Premier's Award for Excellence in Supporting Communities.
- Release of new Mineral Resource Estimate (MRE) for Kanmantoo Copper Mine, which contains an additional 11,080t of copper compared to the 2013 Resource Model.
- Production against the MRE reconciles positively by 16% for first six months of this year.
- C1 cost for the quarter of USD1.37/lb, driven by the high proportion of capitalised pre-strip.
- Significant progress to address previously announced cash shortfall:
 - A 10% reduction and deferral in wage rates accepted by employees,
 - SA Government concessions, and
 - A secured \$4.0 million working capital loan from the SA Government.
- Agreement reached with financiers and SA Government to restructure balance sheet:
 - Macquarie Bank guarantee to be released and secured directly to SA Government,
 - Circa A\$14-15m hedge book (subject to prevailing market prices) will be realised,
 - US\$13.65m senior debt repaid from the hedge proceeds and restricted cash, and
 - Closing out of the hedge book has commenced (11% complete) while drafting of the documentation to implement the restructure is near completion.
- 3,359t of copper and 2,428oz of gold (in concentrate) produced, guidance remains unchanged.
- Revenue of \$29.8 million at an average realised price of \$3.04/lb (USD2.25/lb).
- The last of the transitional and oxide material was processed.
- Cash on hand was \$6.6 million with total debt increasing from \$17.8 million to \$22.4 million (increase in debt due to the SA Government Loan and movement in the foreign exchange rate).
- The 15% fall in consensus copper price forecasts over the last six months is anticipated to reduce the carrying value of the Kanmantoo operations to approximately \$60 million as at 30 June 2016.



EXECUTIVE SUMMARY

The Total Recordable Injury Frequency Rate was 15.0, a 22% reduction over the last 12 months despite being impacted by a poor month of June. In addition, the Kanmantoo Callington Community Consultative Committee and Hillgrove Resources were the proud recipients of the SA Premiers Award for Excellence in Supporting Communities. Production was 3,359t of copper and 2,428oz of gold in concentrate for the quarter, at a C1 cash cost of USD1.37/lb. Revenue for the quarter was \$29.8 million at an average realised price for copper of \$3.04/lb (USD2.25/lb), with cash on hand at quarter end of \$6.6 million.



The Giant pit cut back and mining performance in general was lower as activity has been constrained by the cash generated from the lower spot price of copper sales. The original plan for the first six months of 2016 was to accelerate hedging to deliver 92% into the hedge book to offset the lower copper price during this period, but neither the acceleration nor the access to hedge proceeds was allowed by financiers. Instead, only 667 tonnes of hedges have been settled in the quarter and the resulting proceeds have been retained as restricted cash.

The successful negotiations with our financiers and the SA Government (refer Corporate section below for more detail) have led to an agreement to restructure the Hillgrove balance sheet by repaying the outstanding debt and for Hillgrove to provide assets as security for its obligations to the SA Government. A key element of this restructure is the closing out of its 11,999 tonne hedge book at a value close to the senior debt.

This is being done on a progressive basis at appropriate Australian dollar copper prices determined by the Board. Hillgrove can close the remaining 10,665 tonnes at its discretion (noting the first 11.1% have already been closed). The current mark to market is approximately \$14 million to \$15 million and is being closely monitored. Further updates will be provided as the close out progresses.

KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

Overview

Mining continued in the Giant cutback, focussing on the development of the ore bearing benches in the southern end of the pit and waste stripping on the western wall. All mining activity is now in primary sulphide material, with no further oxide/transitional material to be mined or processed. The previous twelve month stripping ratio was 5.4 tonnes of waste for every tonne of ore, with the remaining three stages of the Giant Pit being:

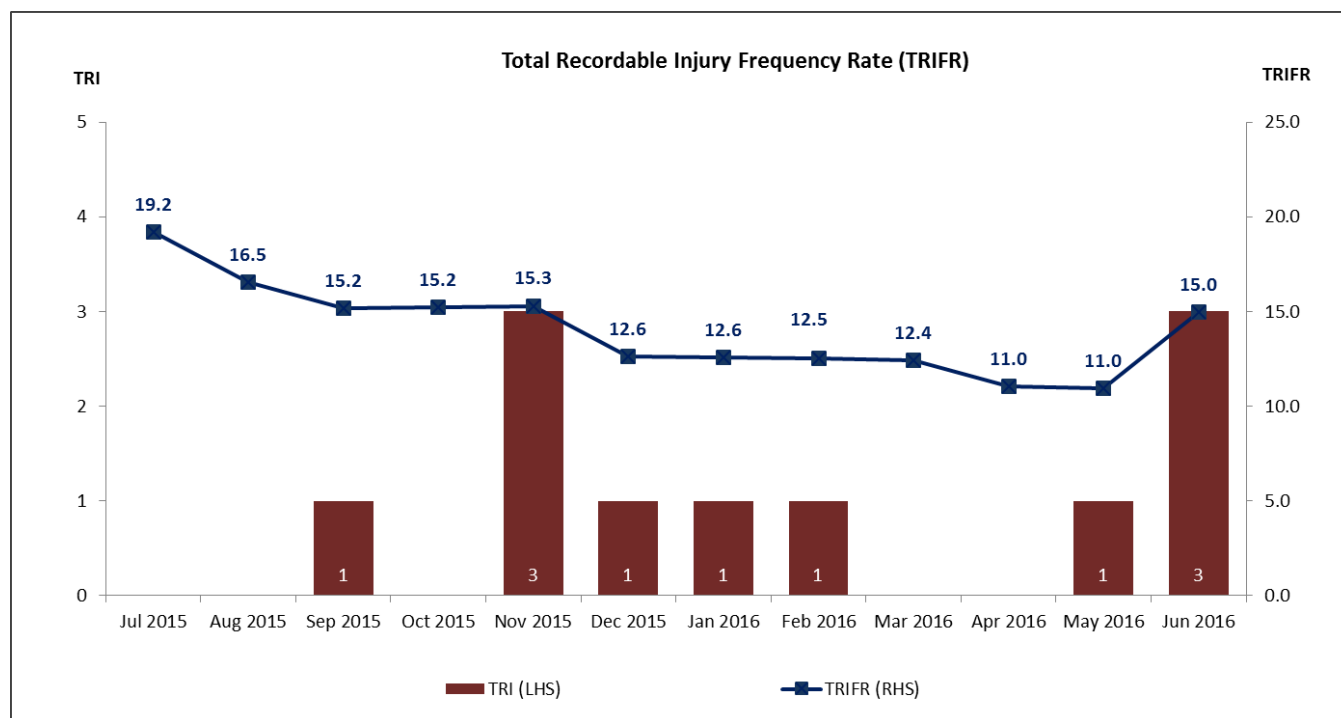
- Remainder 2016 – relatively high strip ratio (4.3:1)
- FY2017 – reduced strip ratio (2.6:1) improves cash generation
- FY2018 and beyond – very low strip ratio (1.2:1) and reduced mining costs drive rapid cash generation

Since the introduction of the Mineral Resource Estimate, the areas mined during the quarter returned more ore tonnes at higher grade than predicted in this updated estimate. The first quarter of the year reconciled positively by 13%, and the second quarter has lifted the outperformance to 16% for the full half year. Backfilling of the Nugent pit continued to provide a short haul option for the waste, and this assisted in managing cash flow constraints during the quarter. The processing plant performed well, completing the treatment of the transitional and oxide stockpiles in April which had reduced the quarterly recovery performance. However, it is pleasing to note that recovery from primary (sulphide) ore averaged over 91% for the quarter despite the low feed grade. This is the highest since the Giant/Kavanagh orebody was last processed in Q3 2014.

Safety and Community

The Total Recordable Injury Frequency Rate (TRIFR) is 15, a 22% reduction over the last 12 months. The quarter saw the twelve month TRIFR reduce to 11 in May, the lowest since operations began in 2011, before three injuries in June pushed the rolling average back up to 15.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



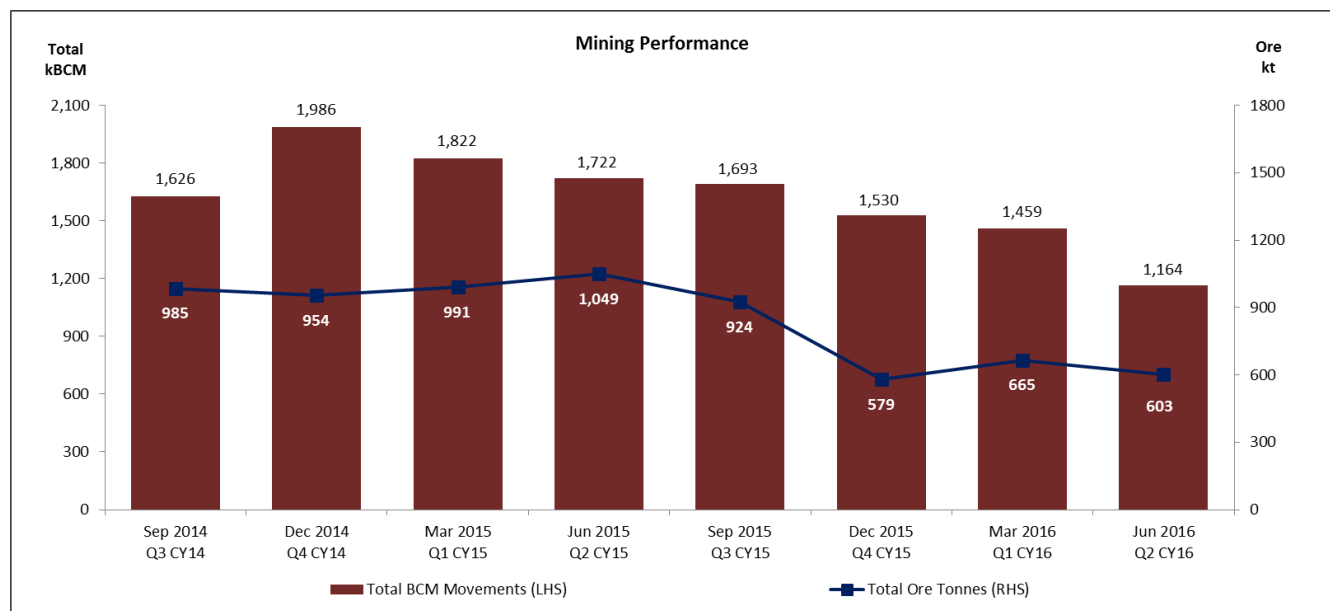
Operations

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		FY15	MAR-16 QTR	JUN-16 QTR
		12 MTHS	3 MTHS	3 MTHS
Ore to ROM from Pit	kt	3,290	665	595
Ore to long term stockpiles	kt	252	1	0
Mined Waste	kt	17,350	3,843	3,000
Total Tonnes Mined	kt	20,892	4,509	3,595
To ROM from LT Stockpiles	kt	784	427	0
Mining Grade to ROM	%	0.59	0.58	0.52
Ore Milled	kt	4,104	865	759
Milled Grade - Cu	%	0.52	0.54	0.56
- Au	g/t	0.11	0.32	0.20
Recovery - Cu	%	80.3	72.6	78.8
- Au	%	47.1	51.2	49.7
Cu Concentrate Produced	Dry mt	74,971	16,148	14,221
Concentrate Grade - Cu	%	23.1	21.0	23.6
- Au	g/t	2.8	8.8	5.3
Contained Metal in Con. - Cu	t	17,306	3,397	3,359
- Au	oz	6,790	4,587	2,428
- Ag	oz	114,399	29,828	23,569
Total Concentrate Sold	Dry mt	75,028	15,382	15,765

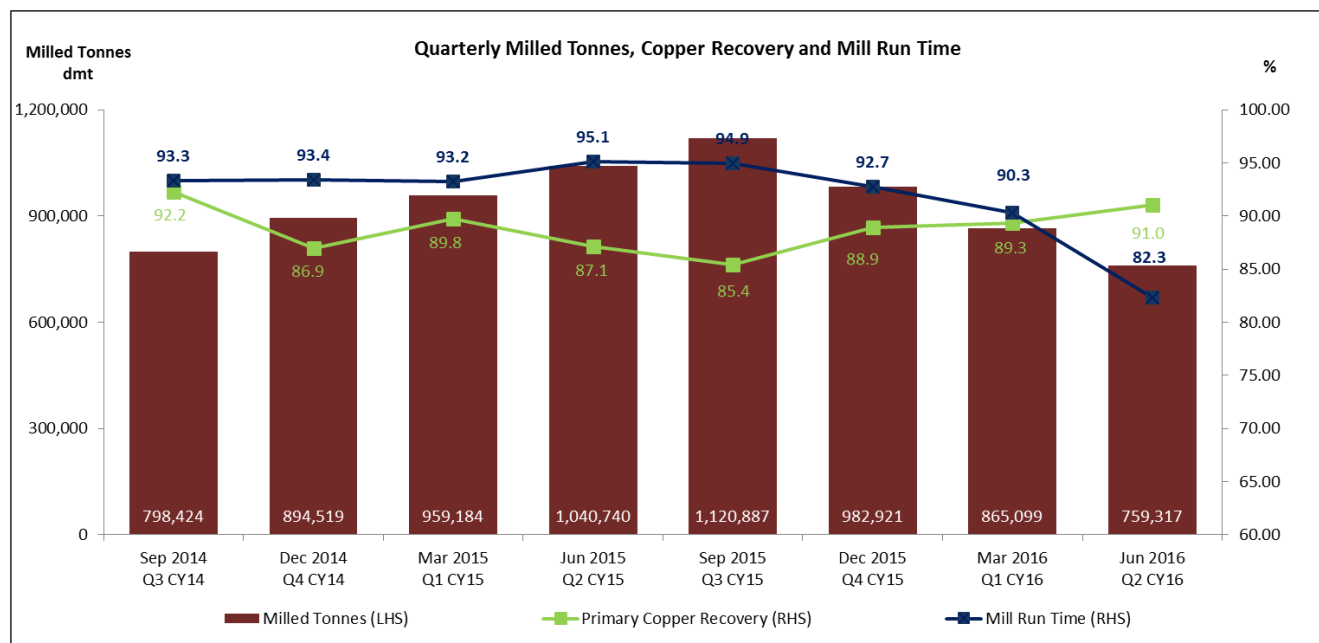
Mining production was 3,595kt (1,164k BCM) for the June 2016 quarter, of which 595kt was ore. The decrease in mining movements over recent quarters have been a result of a number of factors, including confined mining areas, prioritising ore bearing zones, one of the wettest winters recorded in Adelaide but mostly managing cash constraints due to the reduced revenue resulting from not being able to access the hedge proceeds to offset the lower copper prices.

FIGURE 2. KANMANTOO COPPER MINE TOTAL BCM



The treatment of oxide ore requires greater mill time and leads to lower recoveries. Notwithstanding this, mill throughput and reliability continued to be high, despite a significant portion of oxide ore processed.

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



The combined CPS and Primary copper recovery was 78.8%. The copper recovery in areas of primary sulphide remained in line with expectations for those primary ores at 91.0%, with the tailings grade in line with plan.

CPS

A total of 142kt transitional and oxide material was processed during the quarter, with a feed grade of 0.63% and a recovery of 32.2%, to produce 282 tonnes of copper in concentrate. This was the last remaining oxide and transitional ore and as anticipated was the most difficult to treat. The oxide ore processed contained a high clay content, which had a detrimental effect on copper recovery rate compared to previous CPS campaigns.

Costs

Quarterly mining unit costs increased to \$13.61/bcm, driven by the lower mining movements, which impacts the economies of scale. Quarterly processing unit costs decreased this quarter to \$7.05/tonne, despite the lower throughput rates, predominantly associated with the treatment of recently mined primary ore.

FIGURE 4. KANMANTOO QUARTERLY MINING UNIT COSTS

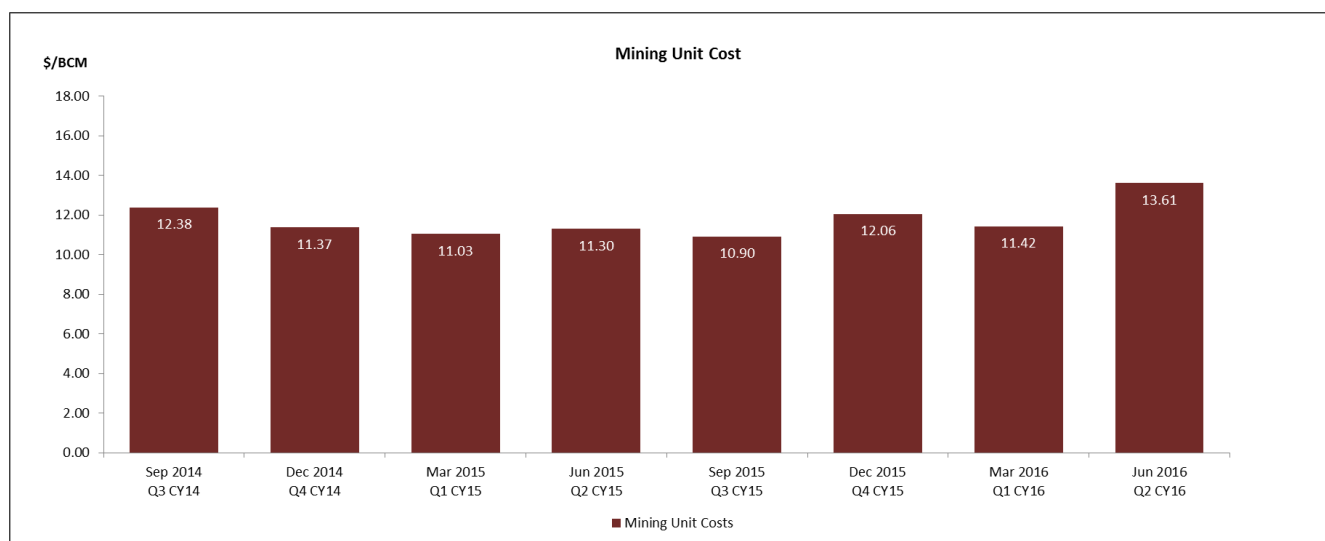
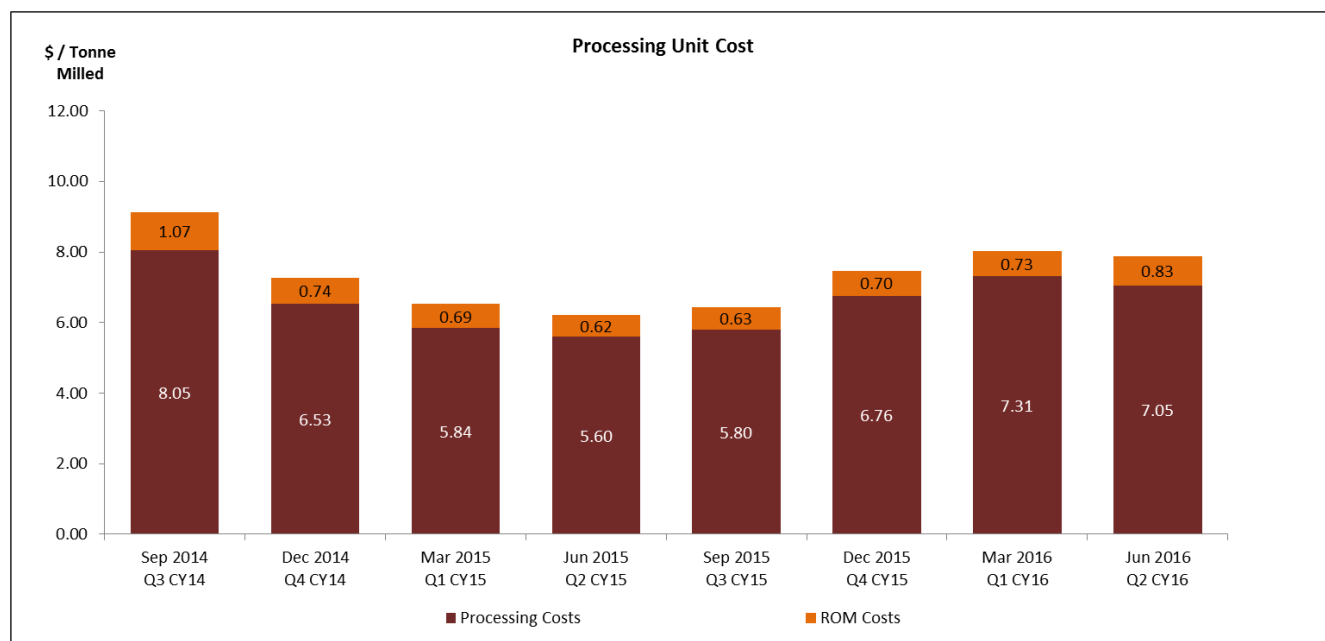


FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



The C1 cash cost of USD1.37/lb has remained low, which has been driven by the high proportion of capitalised pre-strip. The mining cost was also lower as there were no mining costs associated with the marginal oxide & transitional material treated.

The D&A costs reflect a change in the useful life estimation of the Tailings Storage Facility (TSF). Prior to January 2016, successive TSF lifts were amortised on a life of mine basis. Commencing 1 January 2016, each lift will be fully amortised as it becomes full.

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

US cents per lb	CY15	MAR-16 QTR	JUN-16 QTR
	12 MTHS	3 MTHS	3 MTHS
Total Mining Cost	163	174	173
Deferred Mining	-29	-36	-16
Pre-strip	-37	-64	-110
Ore Inventory Adjustment	18	2	15
Mining Costs	115	76	62
Processing Costs	51	63	56
Other Direct Cash Costs	16	16	15
Total Onsite Costs	182	155	133
Transport & Shipping	12	11	11
Treatment, Refining & Smelter Charges	41	39	35
Total Offsite Costs	53	50	46
Precious Metals Credits	-24	-64	-42
Total Direct Operating Costs (C1 Cash Costs)	211	141	137
Royalties	3	3	4
D&A	71	201	211
TOTAL COSTS	285	345	352

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 33rd and 34th shipments of copper concentrate of 10,318WMT (9,454DMT) and 10,592WMT (9,603DMT) respectively.

Revenue

Revenue for the quarter was \$29.8 million at an average realised price of \$3.04/lb (USD2.25/lb). The average realised price has been materially impacted by minimal hedging during a prolonged low price period.

Exploration Programme

There was no exploration expenditure during the quarter.

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 the exploration tenements and continues discussions with potential interested parties on these projects.

BIRD'S HEAD COPPER/GOLD PROJECT, WEST PAPUA, INDONESIA

IUP40/2010 (Hillgrove 80%)

Hillgrove is an 80% shareholder in PT. Akram Resources which holds IUP40/2010 in the Bird's Head region of West Papua. Hillgrove is responsible for the management of exploration and development activities up to a decision to mine.



SUMBA GOLD PROJECT, INDONESIA

IUP 322/KEP/HK/2009 (Hillgrove 80%)

Hillgrove is an 80% shareholder in PT Fathi Resources which holds IUP 322 on the island of Sumba. Hillgrove is responsible for the management of exploration and development activities, up to a decision to mine.

HILLGROVE CORPORATE

Balance Sheet Restructure

On 31 March 2016, Hillgrove Resources Limited announced cash shortfalls were likely in 2016 and 2017 as a result of the revised Life of Mine plan, and it had begun negotiations with its key stakeholders to seek their assistance to bridge this cash shortfall.

Throughout the quarter, the Company announced a number of cost reduction initiatives including a 10% reduction in wages (with the 10% to be recouped from 2018), concessions from the SA Government and the continued support of major service providers.

On 28 June 2016, the Company announced an in principle restructure agreement with its financiers and the SA Government which will allow the Company to restructure its debt as follows:

- Macquarie Bank guarantee to be released and the company's obligations are to be directly secured on a first ranking basis to the SA Government,
- The hedge book with a value of circa A\$18m (at the time) will be realised [the current mark to market of the hedge book is \$14m to \$15m].
- Senior debt of US\$13.65m will be repaid to Ventures Australia LLC from the hedge proceeds and a portion of restricted cash, and
- A medium term secured loan facility of \$4m to be provided by the SA Government for working capital purposes [received on 29 June 2016].

Since 30 June 2016:

- The documents to allow Hillgrove to close out the hedge book have been executed,
- The close out of the hedge book has commenced with 1,334 tonnes closed out, and
- Drafting of the documentation to implement the restructure is in the final stages of completion.

Kanmantoo Asset Impairment

In accordance with the Company's accounting policies and processes, regular impairment testing is carried out to ensure assets are not carried at more than their recoverable amount. As the recoverable amount can vary with market conditions, impairment testing is done at a point in time to reflect those market conditions. An impairment is not a write off but a provision which can be reversed in the event of improvements in market outlook or operational performance including mine life extensions.

Primarily due to the continued fall in the copper price (A\$1,000 or 15% since December 2015), we expect the recoverable amount for the Kanmantoo operations will be reduced from \$146m as at 31 December 2015 to approximately \$60m as at 30 June 2016, subject to any 30 June 2016 audit adjustments.

This \$86m reduction is in line with the sensitivity provided in note 6 (i) (A) of the 2015 Annual Report in which a 5% drop in the copper price would reduce the carrying value by approximately \$30m.

Cash and Investments

Cash as at 30 June 2016 was \$6.6 million, with debt at \$22.4 million. The increase in debt from \$17.8m reflects the inclusion of the recent loan from the SA Government and movement in the foreign exchange rate.

**CORPORATE INFORMATION****Issued Share Capital at 30 June 2016**

Ordinary shares	188,109,342
Employee Performance Rights	1,593,750
Unlisted options	-

Share price activity for the Quarter

High	0.06
Low	0.03
Last 30 June 2016	0.06

SHARE REGISTRY

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ABOUT HILLGROVE

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on the operation of the Kanmantoo Copper Mine in South Australia, and with exploration projects on its Indonesian tenements. The Kanmantoo Copper Mine is located less than 55 kilometres from Adelaide in South Australia. With construction completed in late 2011, Kanmantoo is an open-cut mine with a throughput of 3.0 - 3.5Mt p.a., to produce up to 100,000 dry metric tonnes of copper concentrate per annum, containing approximately 20,000t copper and associated gold and silver per annum over the current life of mine.

Kanmantoo Global Mineral Resource Estimate at End February 2016

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Resource	Measured	10.6	0.6	0.1	1.4
	Indicated	10.9	0.7	0.1	1.2
	Inferred	13.7	0.5	0.1	1.0
	Total	35.2	0.6	0.1	1.2

Note: In Situ Resource >0.20% Cu

Kanmantoo Global Ore Reserve Estimate at End February 2013

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Reserve	Proven	2.5	0.77	0.08	1.7
	Probable	18.2	0.72	0.20	2.0
		20.7	0.73	0.18	1.9
Long Term Stockpiles	Proven	1.4	0.46	N/A	N/A
		1.4	0.46	-	-
	Total	22.1	0.71	0.18	1.9

Note: In Situ Reserve >0.20% Cu. Long Term Stockpiles >0.15% Cu.

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 2016 Mineral Resource Statement released on 26 May 2016 and the Kanmantoo Copper Mine Ore Reserve 25% Increase in Contained Copper released to the ASX on 1 November 2013, both of which are 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 announcements 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 Steve McClare in relation to the Ore Reserve estimates) are presented, have not been materially modified from the original market announcement.