

Friday, 27 August 2021

RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2021

HALF YEAR FINANCIAL PERFORMANCE

Results for the period (\$ million)	6 months to 30 June 2021	6 months to 30 June 2020	Change
Cash and receivables less payables	5.6	5.3	0.3
Revenue	-	20.4	(20.4)
Statutory profit / (loss)	(2.8)	(4.9)	2.1
EBITDA	(2.7)	(2.9)	0.2
Underlying profit / (loss)	(2.8)	(4.9)	2.1

OUTLOOK

Drilling during the first half of 2021 has delivered excellent results which is expected to both increase the size and geological confidence of the existing Mineral Resource Estimate. Drilling has demonstrated the potential to continue to grow the mineable inventory in a number of areas, including:

- Kavanagh – which is open along strike and at depth. Drilling has confirmed many intersections well beyond the extents of the 2020 Mineral Resource Estimate, particularly down dip and to the South.
- SW Kavanagh and Spitfire – which were mined during the open pit and now demonstrated to continue up to 130m below the pit and open at depth. Drilling continued in the second half on these areas with view to bring them into the initial mine plan as they would be mined from the same development decline as the primary Kavanagh lodes, and as such, have potential to increase minable inventory for low incremental cost.
- Nugent – which contains the highest gold content and remains open at depth.
- North Kavanagh – an area of significant interest where historical exploration drilling and grade control from the pit highlight potential for another lode system.

The Company plans to continue drilling to bring some of these areas into the initial mine plan ahead of a planned restart in 2022.

For more information contact:

Mr Lachlan Wallace
CEO & Managing Director
Tel: +61 8 7070 1698



Appendix 4D
Interim Report
Half year ended 30 June 2021

Name of entity	Hillgrove Resources Limited
ABN	73 004 297 116
Half year ended	30 June 2021
Previous corresponding reporting period	30 June 2020

Results for announcement to the market

Revenue from ordinary activities	down	N/A ¹	to	\$Nil
Loss from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	down	N/A ¹	to	\$2,805,000
Loss for the period attributable to the owners of Hillgrove Resources Limited	down	N/A ¹	to	\$2,805,000

Dividends

No dividends were paid or proposed to members during the half year ended 30 June 2021.

Brief explanation of results

A net loss after tax of \$2,805,000 is reported by the Group for the half year (30 June 2020: net loss of \$4,932,000).

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2021 for additional detail.

Statements

The following statements are included in the attached Interim Report for the half year ended 30 June 2021:

- Consolidated statement of profit or loss and other comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows.

Dividend reinvestment plans

There are no dividend reinvestment plans in operation.

¹ Revenue for previous corresponding period was \$20,383,000. Loss from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited for previous corresponding period was \$4,932,000.

Net tangible assets per security

NTA backing	Current period 30 June 2021	Previous period 31 December 2020
Net tangible asset backing per ordinary security (undiluted)	3.1 cents	3.5 cents

Control gained or lost during the period

There were no transactions entered into by the Group during the half year ended 30 June 2021 that resulted in control being gained or lost over any entities.

Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the following subsidiaries.

Name of entity	Country of incorporation	Class of Share	Equity Holding 2021	Equity Holding 2020
Controlled entity			%	%
Hillgrove Copper Pty Ltd	Australia	Ordinary	100	100
Hillgrove Copper Holdings Pty Ltd	Australia	Ordinary	100	100
Hillgrove Exploration Pty Ltd	Australia	Ordinary	100	100
Hillgrove Mining Pty Ltd	Australia	Ordinary	100	100
Hillgrove Operations Pty Ltd	Australia	Ordinary	100	100
Hillgrove Wheal Ellen Pty Ltd	Australia	Ordinary	100	100
Kanmantoo Properties Pty Ltd	Australia	Ordinary	100	100
Mt Torrens Properties Pty Ltd	Australia	Ordinary	100	100
SA Mining Resources Pty Ltd	Australia	Ordinary	100	100
Hillgrove Indonesia Pty Ltd	Australia	Ordinary	100	100
Hillgrove Singapore Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 3 Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 4 Pte Ltd	Singapore	Ordinary	100	100
PT Hillgrove Indonesia Pte Ltd	Indonesia	Ordinary	100	100

The proportion of ownership interest is equal to the proportion of voting power held.

Commentary on results for the period

Review of operations

Refer to the directors' report, financial statements and supporting notes in the attached Interim Report for the half year ended 30 June 2021.

Foreign entities

Australian Accounting standards have been used in compiling the report.

Report based on audited accounts

This report has been based on the attached accounts which have been reviewed by the Group's auditors.

Interim review of accounts

The interim financial statements have been reviewed by the Group's independent auditor. The review report is included within the interim financial report which accompanies this Appendix 4D. The independent auditor's review report contains a material uncertainty in relation to going concern. The emphasis of matter draws attention to Note 1(a) of the interim financial report and states that the factors described in that going concern note to the interim financial statements indicate the existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. In Note 1(a), the Directors confirm that discussions on funding alternatives are progressing well and, as such, the accounts have been prepared on a going concern basis.



**Interim Report
for the Half Year Ended
30 June 2021**

**Hillgrove Resources Limited
and its Controlled Entities**

ACN 004 297 116

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Note: All dollars in this report are Australian unless otherwise noted.

Directors' Report

The Directors present their report on the consolidated entity consisting of Hillgrove Resources Limited ("Hillgrove" or the "Company") and its controlled entities (the "Group" or the "Consolidated Entity") for the six-month period to 30 June 2021.

Directors

The Directors of the Company during this period were:

- Derek Carter;
- Murray Boyte; and
- Lachlan Wallace.

Principal Activities

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) and focused on the development of the Kanmantoo Underground (Underground) Copper Mine in South Australia and mineral exploration in the south-east of South Australia.

Kanmantoo Copper Mine

The Kanmantoo Copper Mine in South Australia is located 55 kilometres from Adelaide. A main highway passes close to the project and being approximately 90 kilometres by road to Port Adelaide, enables the trucking of copper concentrate to the port. The mine site is connected to the electricity grid and has water supplied by the District Council of Mount Barker's treated wastewater facility with additional water capacity from the Murray River which provides 100% redundancy for the project. Open cut mining was completed in May 2019 and the processing of ore stockpiles completed in March 2020.

With the completion of the open cut operations, focus is on the development of the Kavanagh Underground project, which presents an opportunity to resume production in the near term for relatively low capital investment due to the existing processing and tailings storage facility, and short distance from the base of the open pit to the mineralised lodes. Drilling demonstrates that the copper mineralisation mined in the open pit extends up to 500m below the base of the pit and remains open at depth and along strike. Drilling continues into the second half of 2021 to grow the mine life and annual production potential ahead of planned recommencement of production in 2022. The mine is fully permitted and has strong community support in an excellent mining jurisdiction, with exploration upside both on the mining lease and nearby areas which provides an opportunity to further increase the mining inventory to take advantage of rising copper prices as the world decarbonises.

Environment and Community

Hillgrove continues to maintain the rehabilitated areas on the Kanmantoo Mining Lease and it's established high-quality native vegetation on surrounding properties to meet its environmental offset obligations. These areas in total amount to 122 hectares of vegetation. Statutory environmental monitoring activities for the site continue to be undertaken during the care and maintenance phase of the operation.

Hillgrove continues to actively engage with local communities and landowners around the Kanmantoo mine, through regular meetings of the Kanmantoo Callington Community Consultative Committee and the Master Planning Committee, which has the ongoing amenity of the mine site and surrounds post-closure as an objective.

Directors' Report (continued)

Development Activities

Hillgrove is aiming to maximise the value from the mining lease through continued use of the existing infrastructure at Kanmantoo including the processing plant and permitted tailings storage facility. This will be undertaken through a staged approach, whereby the Kanmantoo Underground will also seek to leverage the existing 360m deep open pit to access ore zones below the pit and nearby satellite pits for relatively low development capital, subject to continuing positive exploration and drilling results. The Underground is fully permitted and has the opportunity to restart quickly and for low capital owing to the existing processing and tailings infrastructure which is maintained on care and maintenance for a ready restart.

The previous drilling in 2019 and 2020 resulted in a Mineral Resource Estimate (MRE) for the Kavanagh and Nugent lodes with a total estimated resource of 34.4kt of Cu metal below the open pits¹. Since the MRE was released in 2020, the Company has undertaken an extensive drilling program, which demonstrates that these lodes extend up to 500m below the open pits and are open at depth as well as along strike, evidenced by the results in the ASX releases of 3 May, 6 May and 24 June 2021. In addition to this, the Company has also successfully intersected the down-dip continuation of the Spitfire and SW Kavanagh Cu-Au lodes. These intersections demonstrate that the Cu-Au lodes extend for an additional 150m south of the previous extents of the 2020 MRE.

The outstanding drill intersections realised during the half year² include:

- 170.65m @ 1.01% Cu, 0.11 g/t Au in KTDD205 from 339m downhole;
- 19.53m @ 1.93% Cu, 0.36 g/t Au in KTDD198_W4 from 463m downhole;
- 19.5m @ 1.64% Cu, 0.07 g/t Au in KTDD202 from 539.5m downhole;
- 20.0m @ 1.53% Cu, 0.36 g/t Au in KTDD202_W3 from 624m downhole; and
- 14.2m @ 2.16% Cu, 0.5 g/t Au in KTDD204_W1 from 377m downhole.

These results are expected to increase the size of the existing MRE and further increases the scale of the potential Underground development and the additional lodes (Spitfire and SW Kavanagh) have the potential to add significant value to the Underground proposition, for relatively low incremental cost as they would be accessed from any mine development centred on the Kavanagh lodes.

Exploration Activities

Regionally, the Company continues to advance the exploration in its extensive pipeline of opportunities, with over more than 6,100km² of tenements. These include copper-gold targets within 10 kilometres of the Kanmantoo processing plant (Stella and North West Kanmantoo) as well as the South East of South Australia (which partly covers the Delamerian orogeny, which is being investigated by the Geological Survey of South Australia and MINEX-CRC for its porphyry copper-gold endowment). Hillgrove was granted funds totalling up to \$303,800 under the South Australian Government's Accelerated Discovery Initiative (ADI) scheme to further advance these projects. Funds are expected to be received in early 2022. Drilling of Stella under the ADI scheme commenced post the end of the half year.

¹ ASX Release 7 December 2020

² ASX releases of 3 May 2021, 6 May 2021, and 24 June 2021

Directors' Report (continued)

Operating and Financial Review

Review of Consolidated Financial Results

The underlying EBITDA for the half year was a loss of \$2,749k compared to a loss of \$2,961k in the corresponding period.

The cash balance at 30 June 2021 was \$6,659k compared to \$5,601k at 31 December 2020.

Income Statement Overview

\$000's	Half Year June 2021	Half Year June 2020	Change
Copper revenue	-	19,791	(19,791)
Gold revenue	-	1,777	(1,777)
Silver revenue	-	378	(378)
Less: Treatment and refining costs	-	(1,563)	1,563
NET REVENUE FROM SALE OF CONCENTRATE	-	20,383	(20,383)
Mining costs	-	-	-
Pre-strip and deferral	-	-	-
Processing costs	-	(6,601)	6,601
Transport and shipping costs	-	(1,565)	1,565
Care and maintenance costs	(549)	(657)	108
Other direct costs	(625)	(1,976)	1,351
Inventory movements	-	(9,211)	9,211
Royalties	-	(914)	914
Corporate costs	(1,631)	(2,213)	582
Net realised gains/(losses)	-	(226)	226
Other income	56	19	37
TOTAL COSTS	(2,749)	(23,344)	20,595
EBITDA	(2,749)	(2,961)	212
Depreciation and amortisation	(41)	(1,855)	1,814
Exploration and feasibility costs written off	-	(45)	45
EBIT	(2,790)	(4,861)	2,071
Net interest and financing charges	(15)	(71)	57
Income tax benefit/(expense)	-	-	-
NET LOSS AFTER TAX	(2,805)	(4,932)	2,128

With the completion of processing operations in the comparative period there is no revenue to be reported in the current period. Costs for the 6 months to 30th June 2021 relate to processing plant care and maintenance, other site overheads and corporate costs. Refer to note 4 for additional information.

Directors' Report (continued)
Operating and Financial Review (continued)

Cash Flow Overview

\$000's	Half Year June 2021	Half Year June 2020	Change
Net cash inflows / (outflows) from operating activities	(2,224)	1,155	(3,379)
Net cash used in investing activities	(4,726)	(1,172)	(3,554)
Net cash inflows/ (outflows) from financing activities	8,008	(197)	8,205
Net increase/(decrease) in cash held	1,058	(214)	1,272
Cash and cash equivalents at the end of half year	6,659	9,115	(2,456)

Operating Activities Cash Flow

The net cash outflow of \$2,224k in the current period related to payments for site care and maintenance and overheads together with corporate overheads. Outflows in the comparative period were offset by cash received from the sale of copper concentrate.

With the completion of processing operations in 2020 the Group is not currently generating revenue. However, operating cash outflows continue during plant care and maintenance and underground development investigations. Note 1a (page 18) draws attention to the Group's ability to continue as a going concern without further funding and a material uncertainty relating to going concern is included in the Auditors Review Report (page 28).

Investing Activities Cash Flow

The Group's transition to developer / explorer resulted in the majority of cash outflows for the half year ended 30 June 2021 relating to investing activities. During the period there were outflows of \$4,505k on the Underground development and \$221k on the various exploration leases held by the Group.

Financing Activities Cash Flow

During the current period there was \$7,999k of net capital raise proceeds received together with \$9k of interest received.

Directors' Report (continued) Operating and Financial Review (continued)

Statement of Financial Position Overview

	30 June 2021	31 Dec 2020
	\$'000	\$'000
Cash and cash equivalents	6,659	5,601
Receivables and inventories	2,388	2,664
Property, plant and equipment	29,503	24,390
Exploration	3,525	3,236
Total assets	42,075	35,891
Trade and other payables	1,565	1,122
Provisions	10,381	10,511
Employee Benefits	994	1,035
Total liabilities	12,940	12,668
Net Assets / Equity	29,135	23,223

Total equity increased by \$5,912k from 31 December 2020. This was the result of an increase in contributed equity due to the completion of the capital raise in the period, together with an increase in the share option reserve less the loss for the year.

Assets

The increase in total assets primarily related to additions to the carrying value of property, plant and equipment of \$5,154k offset by \$41k of depreciation. These additions relate to capital expenditure incurred on the Underground project. The increase in closing cash of \$1,058k is the result of the capital raise in the period.

Liabilities

Trade and other payables increased from \$1,122k at 31 December 2020 to \$1,565k at 30 June 2021 with the increase reflecting the increased expenditure on Underground drilling and exploration. Trade creditors continue to be on normal trading terms.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded in accordance with that Class Order to the nearest thousand dollars.

Directors' Report (continued) Operating and Financial Review (continued)

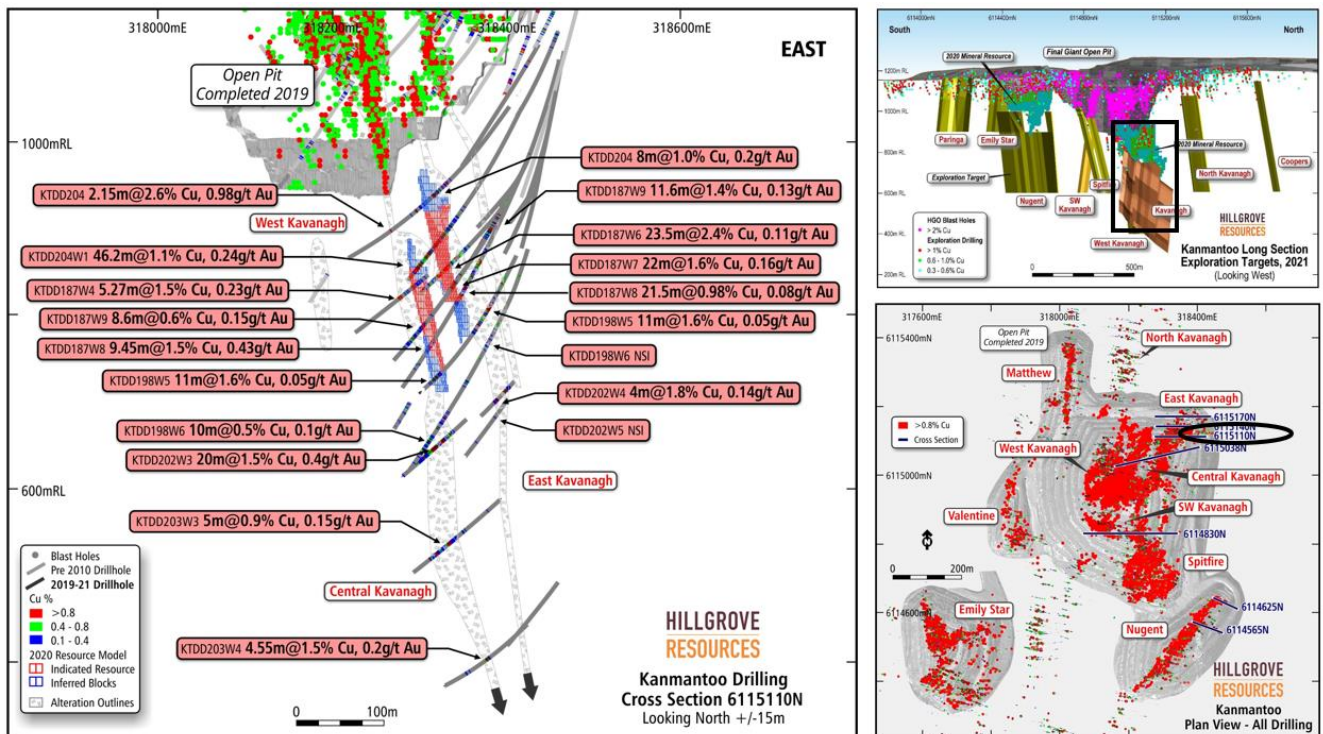
Outlook

Drilling during the first half of 2021 has delivered excellent results which is expected to both increase the size and geological confidence of the existing Mineral Resource Estimate. Drilling has demonstrated the potential to continue to grow the mineable inventory in a number of areas, including:

- *Kavanagh* – which is open along strike and at depth. Drilling has confirmed many intersections well beyond the extents of the 2020 Mineral Resource Estimate, particularly down dip and to the South. Refer figure 1.
- *SW Kavanagh and Spitfire* – which were mined during the open pit and now demonstrated to continue up to 130m below the pit and open at depth. Drilling continued in the second half on these areas, with a view to bring them into the initial mine plan as they would be mined from the same development decline as the primary Kavanagh lodes, and as such, have potential to increase mineable inventory for low incremental cost. Refer figures 2 and 3.
- *Nugent* – which contains the highest gold content and remains open at depth. Refer figures 4 and 5.
- *North Kavanagh* – an area of significant interest where historical exploration drilling and grade control from the pit highlight potential for another lode system. Refer figure 6.

The Company plans to continue drilling to bring some of these areas into the initial mine plan ahead of a planned restart in 2022.

Figure 1: Kavanagh section showing mineralisation continues well beyond the 2020 Resource Model



Directors' Report (continued)
Operating and Financial Review (continued)
Outlook (continued)

Figure 2: SW Kavanagh & Spitfire showing open pit lodes continue at depth.

SW Kavanagh and Spitfire are not included in the 2020 Resource Model

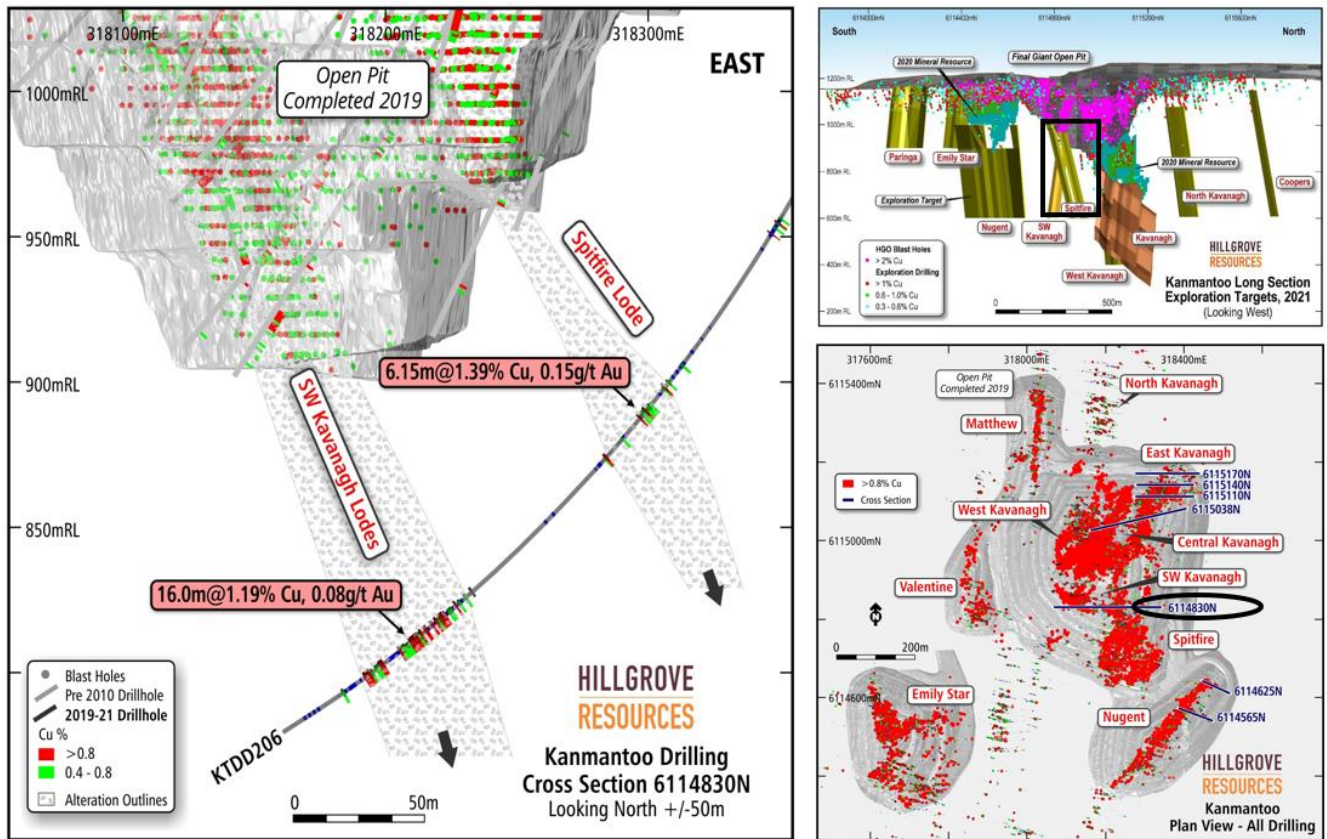
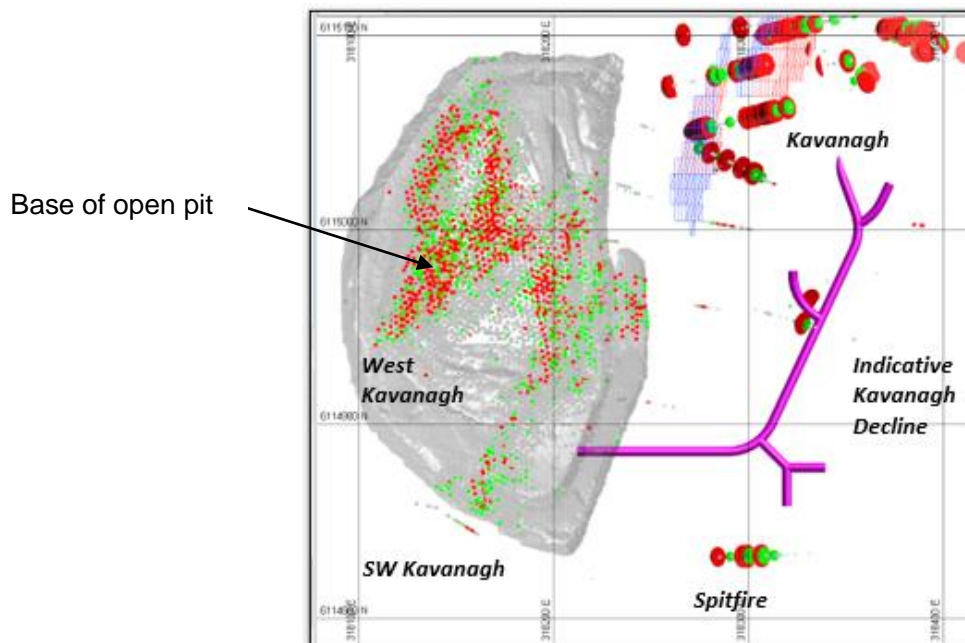


Figure 3: SW Kavanagh & Spitfire are close to the indicative Kavanagh decline infrastructure which provides opportunity to add to mining inventory with low capital costs



Directors' Report (continued)
Operating and Financial Review (continued)
Outlook (continued)

Figure 4: Nugent showing mineralisation is open at depth

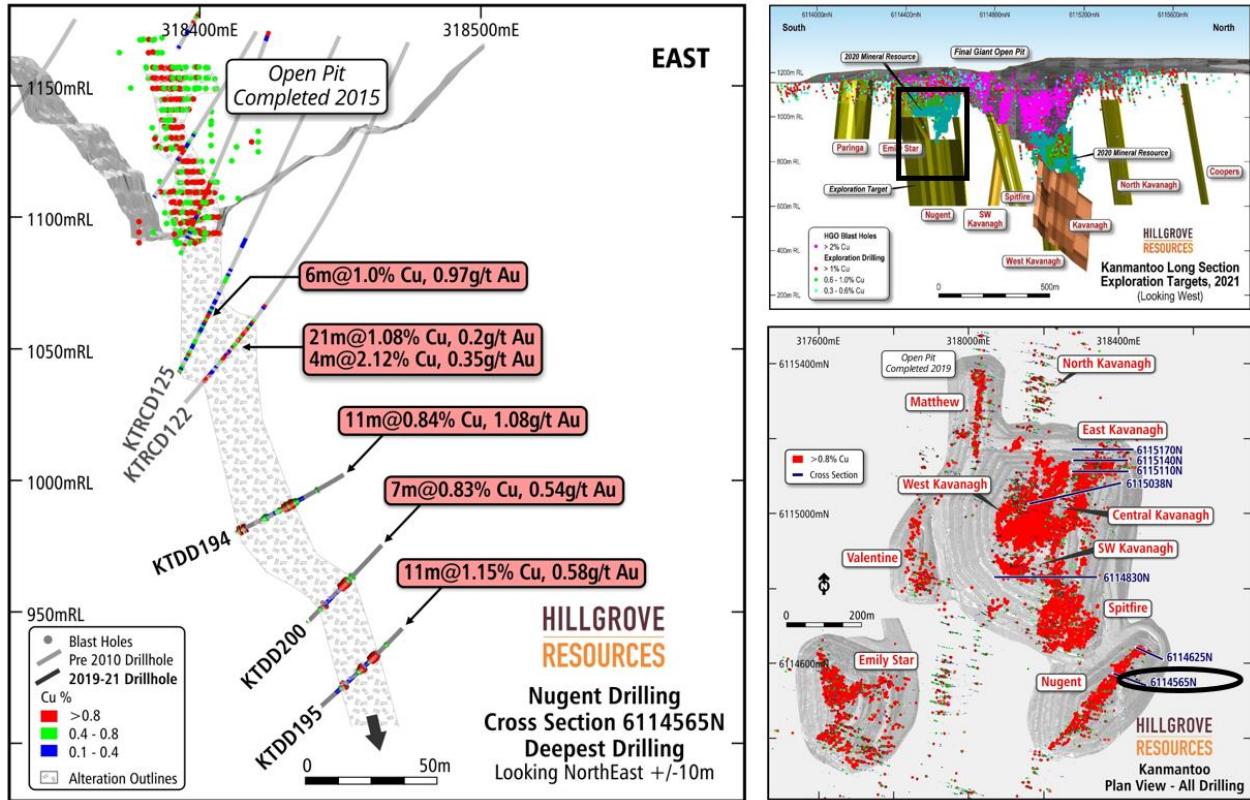
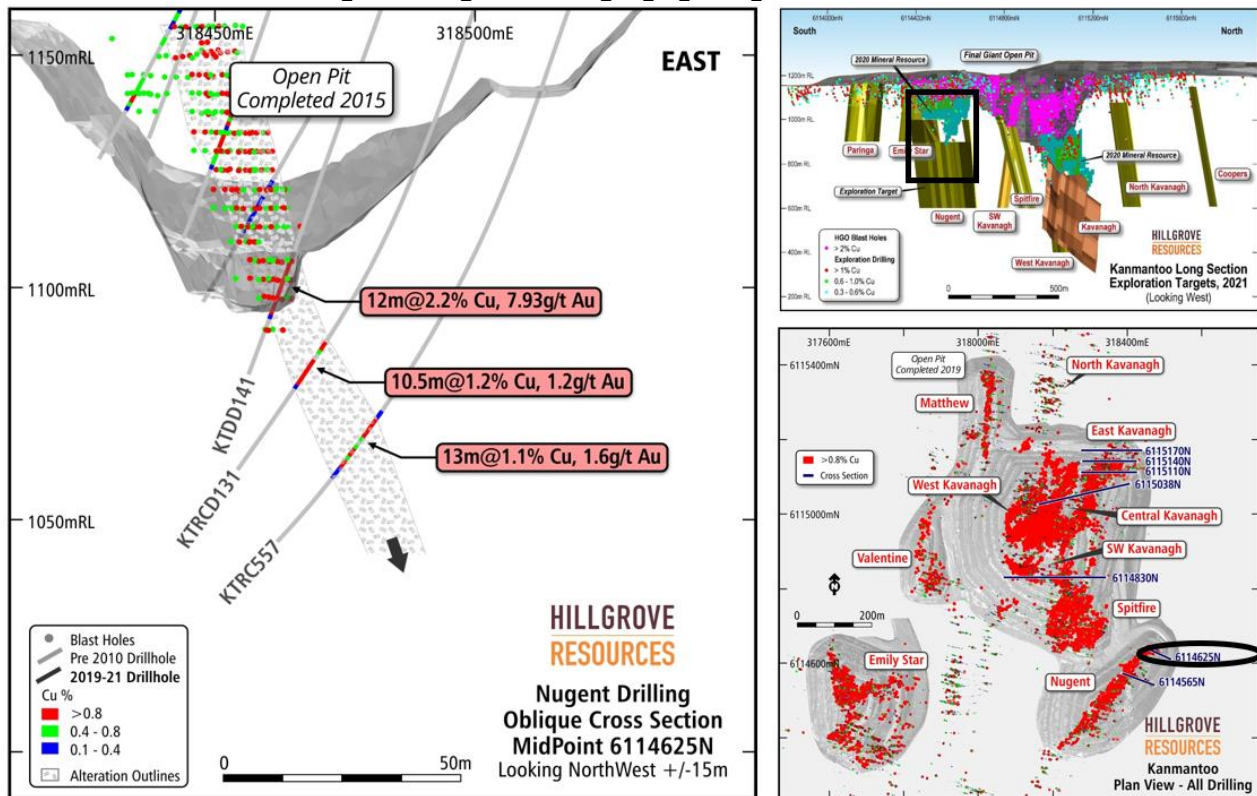
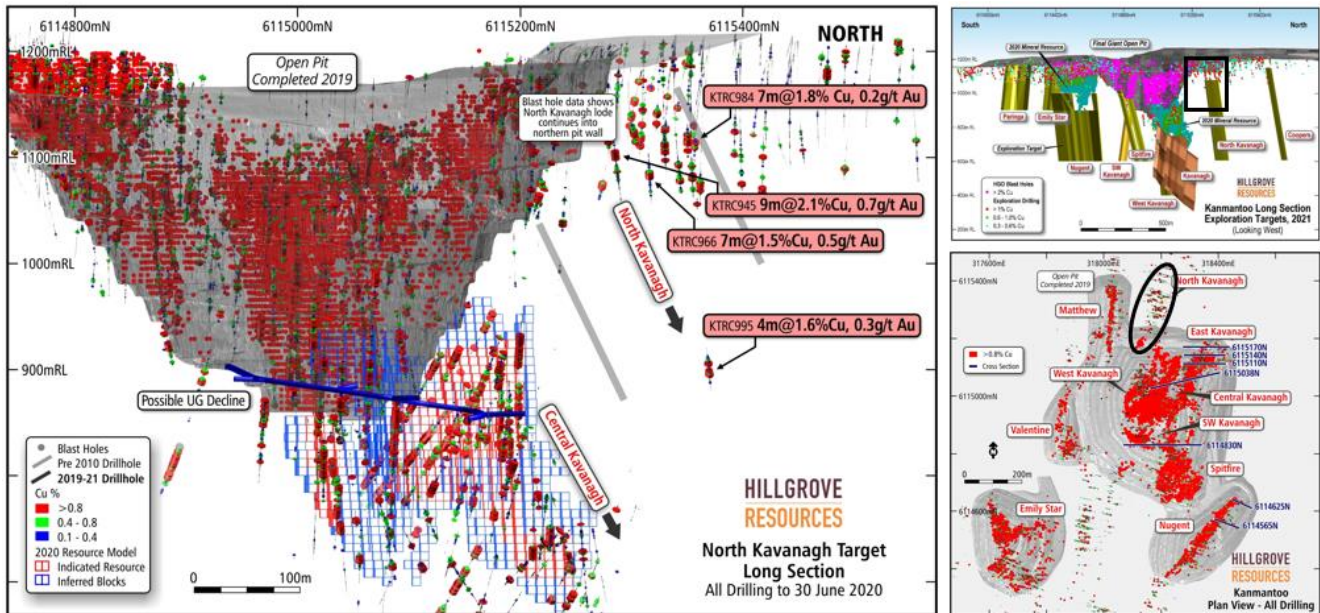


Figure 5: Nugent showing high grade gold intersections



Directors' Report (continued)
Operating and Financial Review (continued)
Outlook (continued)

Figure 6: North Kavanagh



Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

This report is made in accordance with a resolution of the Directors:

Dated at Adelaide this 27th day of August 2021



Mr Derek Carter
Chairman



Mr Lachlan Wallace
Managing Director



Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half-year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hillgrove Resources Limited and the entities it controlled during the period.



Julian McCarthy
Partner

Adelaide
27 August 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2021

	Note	Half Year	
		June 2021 \$'000	June 2020 \$'000
Concentrate revenue	2	-	20,383
Other income	3	56	19
Expenses	4	(2,840)	(25,226)
Interest and finance charges	5	(21)	(108)
Profit before income tax		(2,805)	(4,932)
Income tax benefit/(expense)		-	-
Profit for the half year attributable to owners		(2,805)	(4,932)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>		-	-
Total comprehensive income for the period attributable to equity holders of Hillgrove Resources Limited		(2,805)	(4,932)
Earnings per share for income attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share		(0.32)	(0.84)
Diluted earnings per share		(0.32)	(0.84)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	30 June 2021 \$'000	31 Dec 2020 \$'000
Current assets			
Cash and cash equivalents	6	6,659	5,601
Trade and other receivables		533	832
Inventories	7	50	50
Total current assets		7,242	6,483
Non-current assets			
Property, plant and equipment	8	29,503	24,390
Exploration and evaluation expenditure		3,525	3,236
Inventories	7	1,805	1,782
Total non-current assets		34,833	29,408
Total assets		42,075	35,891
Current liabilities			
Trade and other payables	9	1,565	1,122
Provisions	10	1,245	775
Employee benefits payable		973	1,035
Total current liabilities		3,783	2,932
Non-current liabilities			
Provisions	10	9,136	9,736
Employee benefits payable		21	-
Total non-current liabilities		9,157	9,736
Total liabilities		12,940	12,668
Net assets		29,135	23,223
Equity			
Contributed equity	11	244,634	236,550
Reserves		28,388	27,755
Retained earnings / (accumulated losses)		(243,887)	(241,082)
Total equity		29,135	23,223

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2021

Consolidated	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance 1 January 2020	234,322	27,113	(235,138)	26,297
Loss for the period	-	-	(4,932)	(4,932)
Other comprehensive income	-	-	-	-
Transactions with owners:				
Share-based compensation	-	289	-	289
Dividend paid	-	-	-	-
Options exercised	-	-	-	-
Balance 30 June 2020	234,322	27,402	(240,070)	21,654
Balance 1 January 2021	236,550	27,755	(241,082)	23,223
Loss for the period	-	-	(2,805)	(2,805)
Other comprehensive income	-	-	-	-
Transactions with owners:				
Share-based compensation	-	633	-	633
Contributions of equity, net of transaction costs	8,084	-	-	8,084
Balance 30 June 2021	244,634	28,388	(243,887)	29,135

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half year ended 30 June 2021

	Half-year	
	June 2021	June 2020
	\$'000	\$'000
Cash flows from operating activities		
Cash receipts in the course of operations	38	20,558
Cash payments in the course of operations	(2,262)	(19,403)
Net cash generated from operating activities	(2,224)	1,155
Cash flows from investing activities		
Payments for exploration, evaluation and development	(221)	(486)
Payments for property, plant and equipment and project costs	(4,505)	(686)
Proceeds on disposal of property, plant & equipment	-	-
Net cash used in investing activities	(4,726)	(1,172)
Cash flows from financing activities		
Proceeds from issue of shares (net of transaction costs)	7,999	-
Repayment of finance leases	-	(197)
Interest received	9	-
Net cash provided / (used) in financing activities	8,008	(197)
Net increase / (decrease) in cash held	1,058	(214)
Cash at beginning of the half year	5,601	9,329
Cash at end of the half year	6,659	9,115

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021

1. Basis of Preparation

This consolidated interim financial report for the half year reporting period ended 30 June 2021 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by Hillgrove Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

a. Going Concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business.

Whilst the Group has \$6.7 million in cash and cash equivalents at 30 June 2021, it recorded an operating loss of \$2.8 million and had net cash outflows from operating activities of \$2.2 million and there are no expected cash inflows from operating activities for the next 12 months. The Group continues to have ongoing expenditure including care and maintenance costs, rehabilitation activities, corporate costs, exploration, and development of the Underground project. Whilst the Group has the option to reduce discretionary expenditure to manage cashflow, the Board does not expect to pursue this option and expects further funding will need to be obtained to progress development of the Underground project.

In light of these circumstances, particularly the fact that additional funding is required over the next twelve months, there is a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address this uncertainty, the Group is assessing funding alternatives to optimise shareholders' returns. Whilst these funding alternatives are yet to be confirmed, they are progressing well and, therefore, the financial report has been prepared on a going concern basis.

As such, the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

b. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Recoverability of non-current assets

The carrying value of non-current assets such as property, plant and equipment is assessed for impairment whenever there is an indicator that the asset may be impaired. Determining whether property plant and equipment is impaired requires an estimation of the recoverable value of the Cash Generating Unit ("CGU") to which property plant and equipment has been allocated. Impairment is recognised when the carrying amount exceeds the recoverable amount.

In its impairment assessment, the Company determined the recoverable amount based on a fair value less cost of disposal ("FVL COD") calculation. The FVL COD assessment was undertaken using a discounted cash flow approach. Cash flow projections are based on the CGU's life of mine plan. In assessing the FVL COD, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessment of the time value of money and business risk. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. Assets that have undergone an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021 (continued)

1. Basis of preparation (continued)

b. Critical accounting judgements and key sources of estimation uncertainty (continued)

Restoration, rehabilitation and environmental obligations

Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in Note 10.

The provision represents management's best estimate of the costs that will be incurred, but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine.

c. Changes in Accounting Policy

The accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting periods.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021 (continued)

2. Revenue

	Half Year	
	June 2021	June 2020
	\$'000	\$'000
Copper in concentrate	-	19,791
Gold in concentrate	-	1,777
Silver in concentrate	-	377
Treatment and refining deductions	-	(1,562)
Concentrate revenue	-	20,383

3. Other Income

	Half Year	
	June 2021	June 2020
	\$'000	\$'000
Interest	8	8
Other	48	11
Total other income	56	19

Other income of \$48k relates to the sale of excess seed that was produced as part of the Group's rehabilitation obligations.

Notes to the Consolidated Financial Statements
For the half year ended 30 June 2021 (continued)

4. Expenses

	Half Year	
	June 2021	June 2020
	\$'000	\$'000
Production costs	-	18,290
Care and maintenance and other site costs	1,168	2,597
Corporate costs	1,631	2,213
Depreciation and amortisation	41	1,855
Exploration and feasibility costs written off	-	45
Net (gain) / loss on sale of assets	-	(8)
Net realised foreign exchange (gains) / losses	-	234
Total expenses per Profit or Loss	2,840	25,226

Care and Maintenance

During the period of care and maintenance, depreciation of the processing plant has ceased based on the assumption that the activities performed during the period of care and maintenance will preserve the current value of these assets. Costs incurred in relation to care and maintenance have been expensed.

Corporate Costs

Corporate costs reflect the costs of running the Group's head office and include \$805k of non-cash costs in relation to the Group's share-based payments plan. Refer to note 15 for further information.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021 (continued)

5. Interest and finance charges

	Half Year	
	June 2021	June 2020
	\$'000	\$'000
Discount on unwind of rehabilitation provision	17	57
Bank fees and other borrowing costs	4	1
Interest on financial liabilities	-	50
Total interest and finance charges	21	108

6. Cash and cash equivalents

	30 Jun 2021	31 Dec 2020
	\$'000	\$'000
Cash at bank	6,101	5,042
Restricted cash	558	559
	6,659	5,601

7. Inventories

	30 Jun 2021	31 Dec 2020
	\$'000	\$'000
Current Assets		
Stores inventory and consumables	50	50
Non-Current Assets		
Stores inventory	1,805	1,782
Total inventories	1,855	1,832

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021 (continued)

8. Non-current assets – Property, plant and equipment

	30 Jun 2021	31 Dec 2020
	\$'000	\$'000
Land and buildings		
At cost	5,277	5,277
Accumulated depreciation	(379)	(379)
	<u>4,898</u>	<u>4,898</u>
Plant & equipment		
At cost	73,503	73,490
Accumulated depreciation	(59,848)	(59,817)
	<u>13,655</u>	<u>13,673</u>
Motor vehicles		
At cost	477	477
Accumulated depreciation	(410)	(399)
	<u>67</u>	<u>78</u>
Mine development		
At cost	170,593	165,451
Accumulated depreciation	(159,710)	(159,710)
	<u>10,883</u>	<u>5,741</u>
Total property, plant and equipment	<u>29,503</u>	<u>24,390</u>

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021 (continued)

9. Trade and Other Payables

	30 Jun 2021	31 Dec 2020
	\$'000	\$'000
Trade payables	83	218
Other payables and accruals	1,482	904
	<u>1,565</u>	<u>1,122</u>

Financing arrangements

The Group had no undrawn borrowing facilities as at 30 June 2021.

10. Provisions

	30 Jun 2021	31 Dec 2020
	\$'000	\$'000
Current Liability		
Rehabilitation provision	<u>1,245</u>	<u>775</u>
Non-Current Liability		
Rehabilitation provision	<u>9,136</u>	<u>9,736</u>
Total Provisions	<u>10,381</u>	<u>10,511</u>

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021 (continued)

11. Contributed equity

	30 Jun 2021	31 Dec 2020
	\$'000	\$'000
Share capital		
Issued and paid up capital 936,969,381 shares (2020: 661,798,194) fully paid	244,635	236,550
Ordinary Shares - movements during the year		
Balance as at beginning of year	236,550	234,322
Shares Issued		
Capital raise	8,530	2,362
Transaction costs arising from share issues	(446)	(134)
Balance at end of year	244,634	236,550

12. Financial reporting by segment

Through its ownership of the Kanmantoo copper mine, the Group continues to have one operating segment being in the resources industry, in Australia.

13. Contingent liabilities

	30 Jun 2021	31 Dec 2020
	\$'000	\$'000
Guarantees		
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	338	338
Security bonds on rental properties and tenements	16	16
	354	354

The Group has obligations to restore land disturbed under exploration and mining licences for which a rehabilitation provision is already on the balance sheet. The maximum obligation to the South Australian Government in respect of the Kanmantoo copper mine has been assessed at a value of \$9.2 million and is secured by the SA Government on a first ranking basis against the assets of the consolidated entity.

Included in the rehabilitation provision is a payment of approximately \$1.7 million to the Native Vegetation Fund. With permission from the State Government, the Group has delayed the timing of this payment and, whilst the intention is for the payment to be made at a later date, it should be noted that non-payment would

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2021 (continued)

13. Contingent liabilities (continued)

increase the Group's rehabilitation provision by approximately \$1.5 million. This circumstance is not expected to eventuate.

The Group had no other contingent liabilities at 30 June 2021.

14. Events subsequent to balance date

On 5 July 2021 notification was received from the NSW Government that the Company's request to cancel the Comet Vale lease near Armidale NSW (ML755) had been granted, subject to the completion of minor reporting requirements. The impact of this will not be material and removes any uncertainty surrounding future rehabilitation obligations on this lease.

15. Share based payments

Total expenses arising from share-based payment transactions recognised during the period as part of corporate costs were as follows:

	June 2021	June 2020
	\$'000	\$'000
<u>Performance rights issued under the OPRP</u>		
Equity based	113	289
Cash based (plan revaluation at reporting date)	172	-
	285	289
 <u>Non executive directors options issued under the OPRP</u>		
Equity based*	520	-
	805	289
Total expense relating to OPRP	805	289

*The options granted to the non-executive directors do not contain service conditions and as such the full value of the options has been expensed in the current period as required under AASB 2 – Share-based payments.

Additional information on the plans granted in the period can be found in the Notice of Annual General Meeting released to the ASX on 6 Apr 2021.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 14 to 26 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the half year ended on that date.
- (b) there are reasonable grounds to believe that Hillgrove Resources Limited will be able to pay its debts as and when they become due and payable.

This report is made in accordance with a resolution of the directors:

Dated at Adelaide this 27th day of August 2021



Mr Derek Carter
Chairman



Mr Lachlan Wallace
Managing Director



Independent auditor's review report to the members of Hillgrove Resources Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Hillgrove Resources Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Hillgrove Resources Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty relating to going concern

We draw attention to Note 1(a) in the half-year financial report, which indicates that Group recorded an operating loss of \$2.8 million and had net cash outflows from operating activities of \$2.2 million during the year ended 30 June 2021, and that there are no expected cash inflows from operating activities for twelve months from the date of this report. As a result, the Group will require additional funding over the next twelve months. These conditions, along with other matters set forth in Note 1(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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Independent auditor's review report to the members of Hillgrove Resources Limited (continued)

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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A handwritten signature in black ink, appearing to read 'Julian McCarthy', is written over a printed name and title. The signature is stylized and somewhat cursive.

Julian McCarthy
Partner

Adelaide
27 August 2021