

Hillgrove Resources Limited

When Value Is Clear

We initiate on HGO with a BUY rating and an \$0.11 price target, a potential return of 176%. HGO has successfully restarted the Kanmantoo Copper Mine in South Australia, via mining of the underground extensions of deposits previously mined via open pits. In July 24, HGO declared commercial production at Kanmantoo Underground, which has now reached critical mass (1.3Mtpa annualised, Dec24 quarter) with ramp up to 1.5Mtpa continuing. HGO has significant upside due to its strong leverage to: (i) copper prices, (ii) growing production rates and under-utilised process plant (3.6Mtpa), operating at <40% capacity, (iii) extensions to mine life and (iv) operational efficiencies.

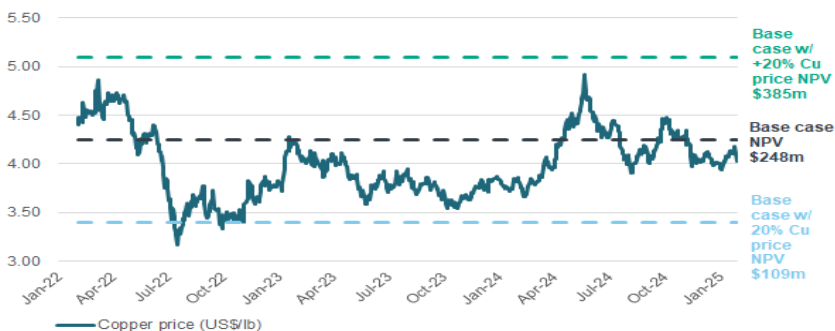
Strong operating leverage in a rising price environment...

We like Kanmantoo's operating leverage profile, combined with no financial leverage (debt free, undrawn \$10m working capital facility) and believe that under Bob Fulker's leadership, an experienced operator who's track record includes over the last 6 years integrating and improving the performance of major acquisitions into EVN.ASX (Red Lake, Ernest Henry and North Parkes) and with OZL.ASX before, delivery of optimised steady state operations at Kanmantoo Underground under a rising Cu environment is highly likely.

HGO has bottomed, risk to the upside...

Mine development is rarely delivered without challenges. HGO has been successful in restarting Kanmantoo Underground, declaring commercial production and ramping up to circa 1.3Mtpa. However, last quarter's results included an unexpected reduction in mined grades, which notwithstanding higher volumes of ore and lower total costs had an impact on unit costs and free cash flow. We expect this to be a short-term hiccup as the mine transitions to higher grade zones and ultimately to higher production volumes as multiple mining fronts and levels are opened up. We see HGO's current depressed share price as a great entry point to gain exposure to one of the most leveraged copper producers on the ASX, which under seasoned management points to attractive potential returns! In addition, HGO is in an advantageous fiscal position by carrying \$269m in tax losses and \$18m in franking credits.

Figure 1. Kanmantoo's leverage: 10% increase in Cu price = 32% increase in NPV



Source: Blue Ocean Equities.

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Date	30 Jan 2025
Stock rating	BUY
Price target	\$0.11
Ticker	ASX:HGO
Closing price	\$0.04
Implied return (%)	176%
Diluted Market cap (\$m)	90
Enterprise value (m)	87
FD Shares (m)	2,205.1
Avg daily vol (m)	0.380
52 week high	0.10
52 week low	0.04
GICS Sector	Materials

Y/E 31 Dec	FY23A	FY24E	FY25E	FY26E
Copper production (kt)	-	7.3	12.8	13.2
Gold production (koz)	-	1.4	3.4	3.7
Silver production (koz)	-	59.5	77.5	85.8
Revenue (A\$m)	-	108.8	204.7	203.4
Copper %	-	93%	92%	91%
Gold %	-	5%	7%	7%
Silver %	-	2%	2%	2%
AISC (A\$m)	9.5	98.4	135.0	145.5
EBITDA (A\$m)	- 14.6	22.9	84.9	73.1
NPAT (A\$m)	- 16.3	5.8	59.5	47.7
FCF (A\$m)	- 9.5	4.6	60.9	49.1

Valuation				
P/E (x)	n.m.	14.1	0.0	0.0
P/FCF (x)	n.m.	0.0	0.0	0.0
EV/EBITDA (x)	n.m.	3.8	1.0	1.2
Dividend yield (%)	-	-	-	-

Top Shareholders		%
Freemint Metals and Concentrates		20%
Ariadne Australia Limited		10%
Board and management		1%

Share price



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Hillgrove Resources (HGO)
Code: HGO
Stock Details

Recommendation:	BUY		
Target	\$0.11	Share Price	\$0.04
NAV	\$0.11	52 Week High	\$0.10
Implied Return	176%	52 Week Low	\$0.04

Enterprise Value	\$87m
Diluted MCap	\$90m
Diluted Shares	2205m
Free Float	98%
Avg Daily Value	\$0.38m

Macro Assumptions	FY23A	FY24E	FY25F	FY26E	FY27E
Exchange Rate (A\$/US\$)	0.66	0.66	0.64	0.67	0.70
Copper price (US\$/lb)	3.85	4.15	4.25	4.25	4.25
Gold price (US\$/oz)	1,957	2,404	2,600	2,600	2,600
Silver price (US\$/oz)	23.58	28.47	30.00	30.00	30.00
Profit & Loss (A\$m)	FY23A	FY24E	FY25E	FY26E	FY27E
Revenue	-	109	205	203	203
Operating Costs	(11)	(82)	(116)	(126)	(137)
Operating Profit	(11)	27	89	77	66
Corporate & Other	(3)	(4)	(4)	(4)	(4)
Exploration Expense	-	-	-	-	-
EBITDA	(15)	23	85	73	62
D&A	(1)	(21)	(26)	(26)	(27)
EBIT	(15)	2	59	47	35
Net Interest Expense	(1)	(2)	0	1	1
Pre-Tax Profit	(16)	(1)	59	48	37
Tax Expense	(1)	-	-	-	-
Underlying Profit	(16)	6	59	48	37
Significant Items (post tax)	-	-	-	-	-
NPAT	(16)	6	59	48	37

Cash Flow (A\$m)	FY23A	FY24E	FY25E	FY26E	FY27E
Operating Cashflow	(10)	23	85	73	62
Tax	-	-	-	-	-
Net Interest	1	0	0	1	1
Net Operating Cash Flow	(9)	23	85	74	64
Exploration	(1)	(2)	(3)	(3)	(3)
Capex	-	(18)	(24)	(24)	(24)
Acquisitions / Disposals	0	0	-	-	-
Other	(22)	(15)	-	-	-
Net Investing Cash Flow	(22)	(36)	(27)	(27)	(27)
Equity Issue	-	10	-	-	-
Borrowing / Repayments	-	-	-	-	-
Dividends	-	-	-	-	-
Other	(2)	(5)	6	4	1
Net Financing Cash Flow	(2)	6	6	4	1
Change in Cash Position	(25)	(7)	64	51	37
FX Adjustments	-	-	-	-	-
Cash Balance	10	3	67	118	155

Balance Sheet (A\$m)	FY23A	FY24E	FY25E	FY26E	FY27E
Cash	10	3	70	121	159
Other Current Assets	5	14	11	11	11
PP&E	69	88	86	84	81
Exploration & Development	5	9	12	15	18
Other Non Current Assets	12	15	15	15	15
Total Assets	101	129	194	246	284
Debt	-	-	-	-	-
Other Liabilities	46	59	59	59	59
Net Assets	55	71	136	188	225

Ratio Analysis		FY23A	FY24E	FY25E	FY26E	FY27E
Diluted Shares	m	1,912	2,096	2,096	2,096	2,096
EPS - Diluted	Ac	(1.7)	0.3	2.8	2.3	1.7
P/E	x	n.m.	14	0	0.0	0.0
CFPS - Diluted	Ac	(0.5)	1.1	4.1	3.5	3.0
P/CF	x	n.m.	0.0	0.0	0.0	0.0
FCF - Diluted	Ac	(0.5)	0.2	2.9	2.3	1.8
P/FCF	x	n.m.	19	1	1.8	2.2

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

EV/EBITDA	x	n.m.	3.8	1.0	1.2	1.4
ROE	%	(30%)	8%	44%	25%	16%
ROA	%	(16%)	4%	31%	19%	13%

Net Debt / (Cash)		(10)	(3)	(70)	(121)	(159)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	(182%)	(239%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	(65%)	(70%)

Resource (incl. Reserve)		Cu	Au	Ag	Cu	Au	Ag
	Mt	(%)	(g/t)	(g/t)	kt	koz	koz
Measured	3.2	0.9	0.0	2.9	30	4	298
Indicated	5.9	0.8	0.2	2.2	45	39	410
Inferred	10.1	0.7	0.1	2.1	73	42	688
Total Resource	19.3	0.8	0.1	2.3	148	85	1397

Ore Reserve		Cu	Au	Ag	Cu	Au	Ag
		kt	koz	koz	kt	koz	koz
Proved	1.2	1.0	0.0	2.8	12	2	109
Probable	1.7	0.8	0.2	2.2	14	12	121
Total Ore Reserve	2.8	0.9	0.2	2.6	26	14	230

Earnings Sensitivity		FY25E	FY26E	FY25E	FY26E
		A\$m	A\$m	%	%
Copper	US\$/lb +10%	11.2	18	28%	40%
Gold	US\$/oz +10%	2.6	3	7%	7%
Silver	US\$/oz +10%	0.7	1	2%	2%
Exchange Rate	A\$/US\$ -10%	13.7	21	34%	47%

Valuation	Discount	Stake	A\$m	A\$/sh	P/NAV
Kanmantoo- unrisked	-	100%	248	0.11	
Kanmantoo- risked	-	100%	248	0.11	
Exploration			20	0.01	
Corporate & Other			(21)	(0.01)	
Debt			-	-	
Cash			3	0.00	
Option Strikes			-	-	
Risk adjusted NAV			250	0.11	0.36

Source: Company, Blue Ocean Equities

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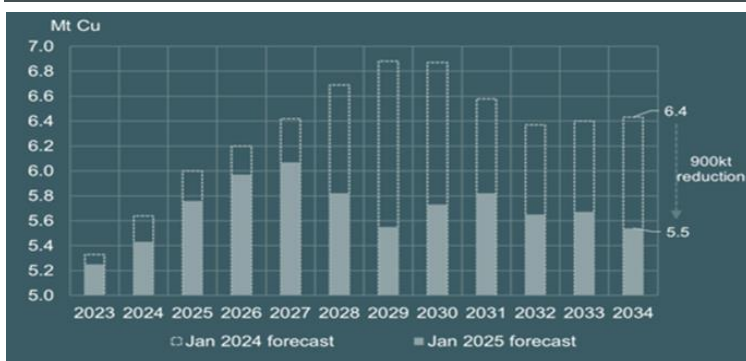
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Investment Thesis

Macro – Why Copper

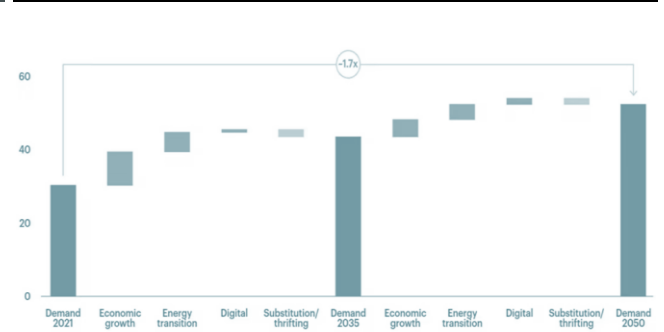
- We see improving supply/demand dynamics for copper over the short term, particularly for concentrate producers, and stronger over the longer term.
- Copper supply appears to remain constrained, due to marginal growth in mine production from projects and expansions coming online (DRC, Peru and Chile) being mostly offset by declining ore grades and operational challenges at key mines. In addition, it is becoming evident that over the longer horizon, supply is unlikely to materially grow from the largest producing countries in South America as illustrated by Cochilco’s recent re-forecast implying marginally lower production in 2025 (by 200kt Cu) vs expected in 2024 and materially lower production in 2034 (900kt Cu) vs expected in 2024.

Figure 2. Chilean mine production re-forecast (Jan 2025)



Source: Cochilco, Benchmark

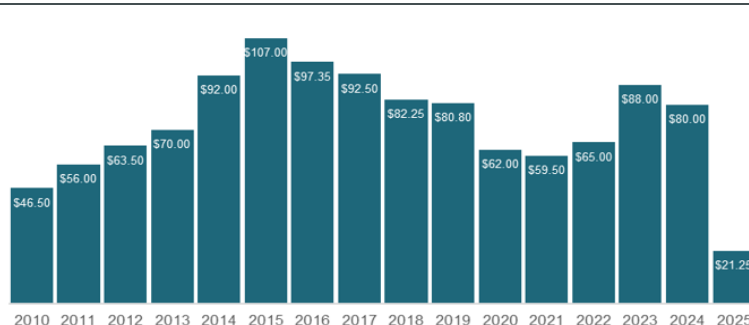
Figure 3. Copper demand growth by key thematic (Mt)



Source: BHP Insights: How Copper will shape our future, Sept 2024

- Demand has remained relatively strong during the recent inflationary period and is expected to strengthen on the back of accelerating economic activity driven by a lower interest rate environment, particularly with China’s improving economic activity (Q4CY24 better vs expectations) supported via further stimulus and material investment in electrification. While the OECD expects GDP growth in 2025 of 3.3%, growth across Asia (India 6.9%, Indonesia 5.2% and China 4.7%) will continue to be the growth driver for copper consumption.
- While de-carbonisation and EV growth may be less prominent in the US under Trump, China is likely to remain the key driver across EVs and green energy. Electricity demand from other sources, such as data centres (copper wire to support 1,000TWh by 2026, IEA), representing Japan’s total consumption.
- The material decline in TC/RCs (73% from 2024) due to increasingly constrained concentrate availability and new smelting capacity ramping up this year across SE Asia (Indonesia’s Manyar smelter at 400kt and Ammam smelter at 220kt, India’s Adani smelter at 500kt and DRC’s Kamo-a-Kakula smelter at 500kt) illustrate the tight dynamics across the copper supply chain favouring concentrate producers.

Figure 4. Annual benchmark copper concentrate smelting terms (\$/t)



Source: Thomson Reuters

Stock Specific: Why Hillgrove Resources

Hillgrove Resources (ASX:HGO) is a ~A\$90m market cap copper producer focused on its flagship 100%-owned Kanmantoo Copper Mine, located in a Tier-1 jurisdiction, 55km South East of Adelaide in South Australia. Kanmantoo is an established copper mine, now focusing on mining the underground extension to the deposits previously mined via open pit. It has an advantageous position next to road, rail, grid power, water and port facilities. Mine operations are ramping up to ~1.5Mtpa and the plant has significant installed processing capacity at 3.6Mtpa, to produce a sought-after copper-gold concentrate. Due to its close proximity to Adelaide and its recent history as an operating mine, Kanmantoo also counts with a residential work force of experienced operators. Following FID to restart mining operations, management leadership has now transitioned to Bob Fulker, an experienced operator, seeking to deliver optimised mine operations and profitability over an extended mine life. HGO declared commercial operations at Kanmantoo in July 2024. The mine is currently operating at 1.3Mtpa and is supported by an Ore Reserve of 2.8Mt @ 0.9% Cu and a Mineral Resource of 19.3Mt @ 0.8% Cu (9.1Mt in M&I). Management is seeking to increase the Reserve to support 3-4 years of mine life in the near term as well as expand the Resource to provide runway for a 10-year operation. We believe that an experienced operator focusing on development ahead of production across multiple levels and deposits could achieve those targets consistently and potentially up to 1.7-1.8Mtpa as a stretch target. Due to the nature of the mineralisation, we also expect resource to reserve conversion combined with resource growth to support a mine life of +8 years under the current copper price environment. The company recently secured a working capital facility of ~A\$10.0m and at 31 December 2024 reported cash of ~A\$3.3m.

Summary of Investment Thesis for HGO

Established producer - Kanmantoo is an established copper mine:

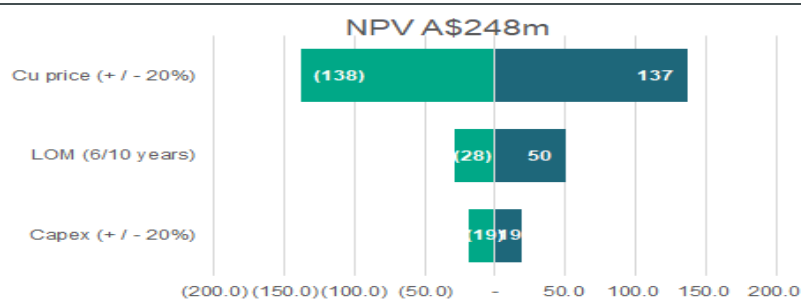
- Kanmantoo comprises two granted MLs (6345, 6436) within 4.4km², as well as EML 6340 and EL 6526
- JORC Resource of 19.3Mt at 0.77% Cu (150kt Cu) with potential to grow via extensional drilling at Kavanagh and Nugent loads, as well as via exploration drilling at Emily Star and North Kavanagh.
- Ore Reserve of 2.8Mt @ 0.91% Cu (26kt Cu) with potential to double in the near term through infill drilling of Inferred Resource. We note recent production figures have resulted in an overcall vs the resource model of +5%.
- Exploration upside through in-mine exploration (Kavanagh and Nugent along strike and at depth, Emily Star down dip as well as Valentine, Critchley, Paringa and Coopers) and near mine exploration at South Kanmantoo, Stella, Mullewa and North Kanmantoo.
- Operational processing plant with 3.6Mtpa capacity and mine infrastructure with approximately \$225m sunk since 2010 represent strong potential to reduce unit costs via higher production levels.
- Recently achieved mining rates of 1.3Mtpa, from Kavanagh and Spitfire, are likely to improve further and consistently reach ~1.5Mtpa in the near term by opening a third mining front at Nugent (decline and development well advanced) and as underground mine operations are optimised (development and production drilling move to different levels and movement is less constrained). We believe there is ultimately potential to run underground mining operations at up to 1.7Mtpa.

Mine production ramp up being optimised to be consistently profitable due to residential workforce, extensive infrastructure in place and quality concentrate – Kanmantoo underground has been commercially re-started, with a nearly completed ramp-up and improving project economics:

- The mine an established residential workforce (no FIFO) and positive engagement with stakeholders
- Production of Cu-Au concentrate through underground bulk mining methods, established infrastructure and route to market:
 - Plant capacity of 3.6Mtpa, TSF permitted for 7.0Mt and low-cost power and water supply

- Copper-gold concentrate trucked 75km to Port Adelaide
- Life of mine offtake with Freepoint Metals and Concentrates LLC
- Carried forward tax losses of \$269m with franking credits of \$18m imply low tax leakage in the near term
- No major ramp up issues beyond the Dec24 quarter drop in grade (vs previous two quarters) illustrating the need to operate development at multiple levels and mining fronts in advance of production to smooth copper production, unit costs and cash flows
- Strong leverage to copper prices and increase in mine life:
 - BOEQ's case (US\$4.25/lb Cu, 8-year LOM) NPV@8% \$248
 - BOEQ's upside case1 (US\$4.25/lb Cu, 10-year LOM) NPV@8% \$298m
 - BOEQ's upside case2 (+20% Cu price, 8-year LOM) NPV@8% \$385m

Figure 5. Kanmantoo's leverage to Cu price, LOM and Capex



Source: Blue Ocean Equities

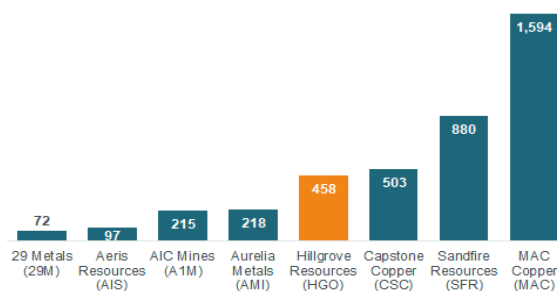
Catalyst rich – we expect news flow to include: (i) a materially stronger March 25 quarterly report with higher copper production driven by higher grade (vs Dec24 qtr) as well as lower unit AISCs and AICs, (ii) we believe there is potential for Board renewal to reflect HGO's mid-tier copper producer status and if this were to occur it would likely happen around HGO's AGM in April 2025, (iii) updated Resource and Reserve estimates to provide higher certainty of potential for material mine life extension, (iv) completion of decline to Nugent deposit and commencement of mining on this third front which would increase mined ore tonnes and (iv) production and cost figures within CY25 guidance of 12-14kt Cu and US\$3.4-US\$3.9/lb.

Corporate capability – Chaired by Derek Carter, an experienced geologist, prospector and mining executive, and led by Bob Fulker, a well-known mining engineer with 40 years of experience and a strong track record as COO of Evolution Mining and Oz Minerals, seeking to establish Hillgrove as a mid-tier copper producer.

Attractively priced - HGO is trading at a material discount as illustrated by:

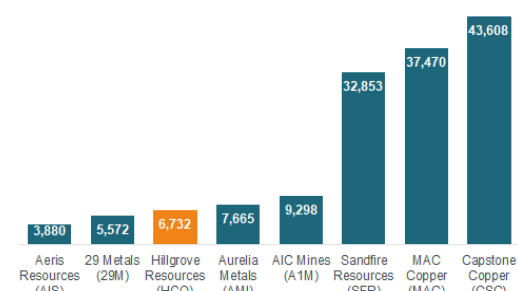
- P/NAV of 0.38x
- Peer group based on:
 - EV / Resource: HGO A\$458/ t CuEq Resource vs average peer group of A\$505/t Cu
 - EV / Production: HGO A\$6,732/t CuEq vs average peer group of A\$18,385/t Cu

Figure 6. EV / Resource multiple



Source: Blue Ocean Equities

Figure 7. EV / Production multiple



Company Overview

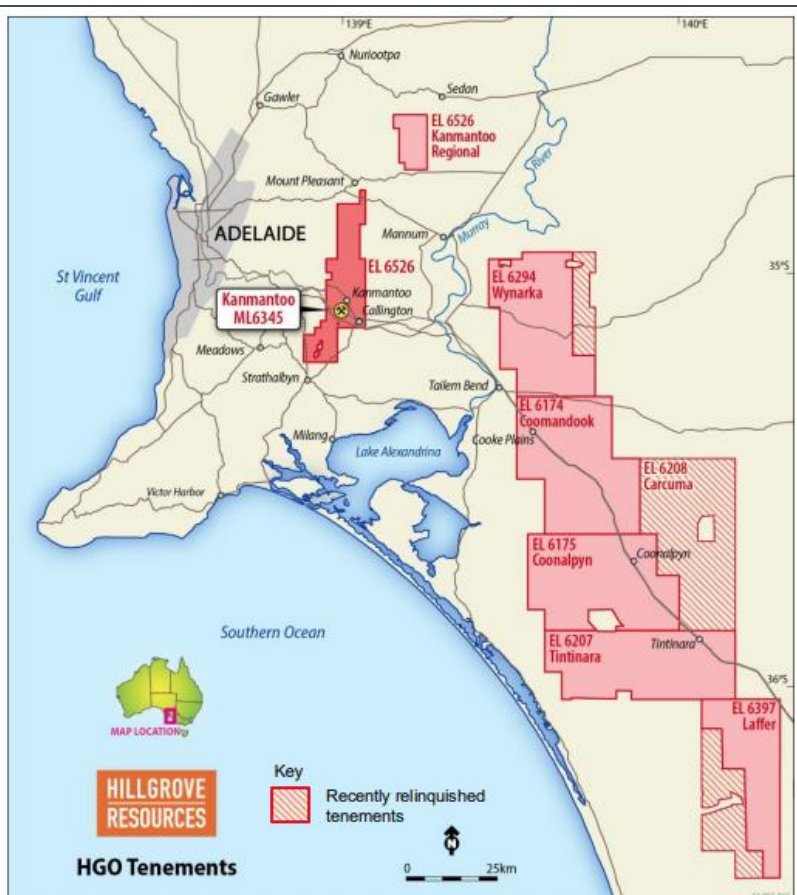
Background

HGO is a ~A\$90m market cap copper and gold producer focused on its flagship 100%-owned Kanmantoo Copper and Gold Mine in South Australia. Kanmantoo is an established copper mine with significant installed processing capacity and u/g mine development located in a Tier-1 jurisdiction, 55km Southeast of Adelaide in South Australia.

It is strategically located adjacent to existing road infrastructure linking it to Adelaide. The area has been an active mining centre for over 150 years. Kanmantoo operated as a series of open pits from 2010 to 2020, producing around 137kt of copper and over 55k oz of gold. Underground mining commenced in May 2023, with commercial production declared in July 2024. Kanmantoo's operations currently comprise an underground development into the Kavanah and Spitfire deposits with an incline into the Nugent deposit nearly completed, significant processing infrastructure in place (plant capacity 3.6Mt, TSF, power and water supply) and an established route to market via a life of mine offtake with Freepoint Commodities.

Kanmantoo operates with predominantly a residential workforce of 150 employees and 60 contractors.

Figure 8. Location of Kanmantoo



Source: Company

HGO's current focus is on reaching consistent production at Kanmantoo and providing a solid resource/reserve base to support an extended mine life. While HGO has additional exploration leases, we expect exploration to primarily be undertaken in mine or near mine and do not expect material regional exploration in the near term.

A Brief History of Hillgrove Resources

HGO listed on the ASX in 1994 and raised \$4.5m @ \$0.20 per share. Kanmantoo was initially developed in 1970 as an open pit (copper was discovered in 1846 and mining of ore with 25-30% grades was done in 1848 when the Kanmantoo town was established) with mining operations until 1976 when it was closed due to low copper prices. HGO acquired the Kanmantoo leases and recommenced exploration in 2004, undertook resource development 2005-2008 and developed the Kanmantoo mine after completion of its definitive feasibility study, managed by Lycopodium, in December 2007. Production at the mine re-commenced in November 2011, extracted in the order of 20Mt of ore and following depletion at the different open pits closed in 2020.

In April 2019, HGO sold the rights to AGL to build, own and operate a pumped hydroelectric energy storage facility in the open pit of Kanmantoo. However, the project did not proceed further and was dropped by mutual agreement in 2020.

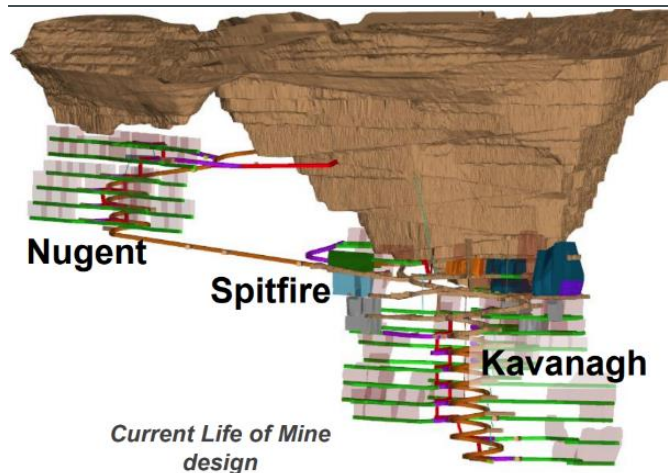
In February 2022, HGO completed an economic assessment to develop the initial stage of the Hillgrove Underground mine and in June 2023, its Board approved developing Stage 1, targeting 43.5kt of copper in concentrate over the initial 4-year schedule. The initial mine plan focused on two of the nine known mineral lodes on the mining lease that were mined as part of the open pit and remain open at depth and along strike. Kanmantoo Underground reached commercial production in July 2024 with ore being sourced from the Kavanagh and Spitfire deposits and is ramping up to 1.5 Mtpa with the Nugent deposit expected to support the production profile by the middle of CY25.

The Kanmantoo Copper and Gold Mine

Overview

The Kanmantoo Copper and Gold Mine comprises an established mine site with a 360m deep open pit enabling access to the multiple mineral loads previously mined which extend underground. As the plant has nameplate capacity for 3.6Mtpa and the likely limit to the proposed underground operations is within 1.5-1.8Mtpa, the plant operates on a 7 day on, 7 day off basis. The combined infrastructure at Kanmantoo is estimated to have costed \$200m in 2010 which combined with underground development and plant re-start capex of \$25m in 2023 represent \$225m of sunk capital.

Figure 9. Kanmantoo underground mine



Source: Company

Geology

Kanmantoo is located in the Adelaide Fold Belt, in early Cambrian Kanmantoo Group metasediments. These sediments underwent significant deformation and metamorphism during the Delamerian Orogeny, reaching upper amphibolite facies conditions. The regional structure is characterized by north-south trending folds and associated fault systems. The regional structure is characterized by north-south trending folds and associated fault systems.

The deposit is hosted in the Tapanappa Formation, which is the longest formation in the Kanmantoo Group. The copper mineralization occurs predominantly as chalcopyrite within a series of structurally controlled lenses and shoots. The ore bodies are characterized by disseminated and stringer-style sulphide mineralization, with additional minerals including pyrrhotite, magnetite and minor gold. The mineralization shows strong structural controls and appears to have been remobilized during metamorphism. The deposit exhibits a complex structural history with multiple deformation events. The main ore zones are associated with fold hinges and high-strain zones developed during the Delamerian Orogeny. These structures provided pathways for mineralizing fluids and sites for ore concentration during metamorphic and deformational events.

Mineral Resource and Ore Reserve

The current Mineral Resource Estimate (JORC 2012) for Kanmantoo Underground is illustrated below. HGO is seeking to grow its Mineral Resource through extensional drilling at Kavanagh and Nugent as well as exploration at Emily Star and North Kavanagh.

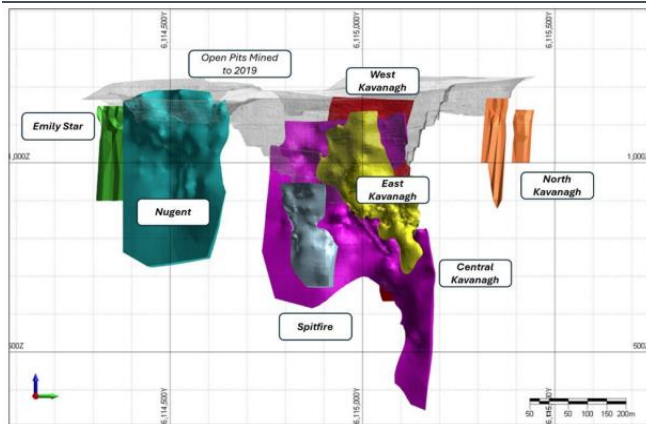
Figure 10. Hillgrove Mineral Resource

Mine Area	JORC Classification	Tonnage (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Bi (ppm)	Cu Metal (kt)	Au Metal (koz)
Kavanagh (Including Spitfire)	Measured	3,200	0.94	0.04	2.9	190	30	4
	Indicated	3,400	0.77	0.10	2.4	97	26	11
	Inferred	6,300	0.70	0.11	2.4	110	44	22
	Sub-Total	13,000	0.78	0.09	2.5	130	100	37
North Kavanagh	Measured	-	-	-	-	-	-	-
	Indicated	230	0.78	0.17	3.0	140	2	1
	Inferred	110	0.77	0.21	3.3	130	1	1
	Sub-Total	340	0.78	0.18	3.1	140	3	2
Nugent	Measured	-	-	-	-	-	-	-
	Indicated	2,300	0.74	0.36	1.7	66	17	26
	Inferred	1,100	0.71	0.35	1.6	40	8	13
	Sub-Total	3,400	0.73	0.36	1.6	57	25	39
Emily Star	Measured	-	-	-	-	-	-	-
	Indicated	-	-	-	-	-	-	-
	Inferred	2,600	0.77	0.08	1.6	110	20	7
	Sub-Total	2,600	0.77	0.08	1.6	110	20	7
TOTAL		19,300	0.77	0.14	2.2	110	150	82

Source: Company

The Ore Reserve estimate is based on resource block models and the mine design illustrated on Figure 9.

Figure 11. Cross section of key deposits



Source: Company

Figure 12. Kanmantoo JORC Ore Reserve Estimate

Mine Area	JORC Classification	Tonnes (kt)	Cu (%)	Au (ppm)	Ag (ppm)	Bi (ppm)	Cu Metal (kt)	Au Metal (koz)
Kavanagh	Proved	1,100	1.01	0.04	2.82	220	12	1
	Probable	1,000	0.88	0.15	2.7	140	9	5
	Proved + Probable Kavanagh Total	2,100	0.95	0.09	2.76	180	21	6
Nugent	Proved	-	-	-	-	-	-	-
	Probable	670	0.76	0.33	1.44	79	5	7
	Proved + Probable Nugent Total	670	0.76	0.33	1.44	79	5	7
Total Ore Reserve (Kavanagh + Nugent)	Proved	1,200	1.01	0.04	2.82	220	12	1
	Probable	1,700	0.83	0.22	2.21	110	14	12
	Proved + Probable	2,800	0.91	0.15	2.45	160	26	14

Source: Company

The current Resource and Reserve estimates have significant upside.

Mine Operations

Mining is primarily done by open stoping and HGO runs an owner operator model with engagement of contractors for specialised activities including raiseboring, slotting, production drilling and some ancillary services (road maintenance, dust suppression). Development is mined with three standard jumbos and production is mined with horseshoe production drill rigs. Backfilling is not required for geotechnical purposes but is done for waste disposal purposes and is carried out by HGO personnel.

Figure 13. Mining fleet at Kanmantoo

- 3 x Development Drills
 - 1 x Sandvik 421
 - 1 x Sandvik 422
 - 1 x Sandvik 422i
- 2 x Production Drills
 - 2 x Epiroc E7C
- 2 x Diamond Drills
 - 2 x Boart Longyear LM90
- 5 x Cat 2900 Loaders
 - 3 x Tele-remote capable
 - 2 x Conventional
- 6 x Haul Trucks
 - 4 x Sandvik TH663
 - 1 x Epiroc MT65
 - 1 x Atlas MT6020
- Ancillary Fleet
 - 4 x Volvo Integrated Toolcarriers
 - 1 x Volvo Watercart
 - 1 x Komatsu 0555 grader
 - 1 x Normet Charge Unit



Source: Company

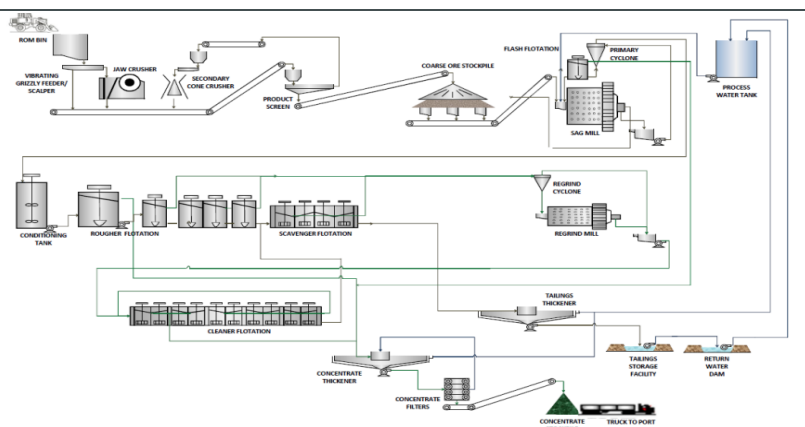
Kanmantoo's existing infrastructure includes:

- processing plant – current capacity 3.6Mtpa
- ROM pad
- 10MVA 66/11kV main transformer (connected to grid)
- mechanical and electrical workshops
- metallurgical laboratory
- administration offices and ablutions/changerooms
- tailings storage facility with capacity for 7Mt
- surface water management dams and treatment plant
- access, services (power/water/dewatering) and vent for underground mine

Processing

Kanmantoo's plant includes conventional crushing, grinding and flotation circuits to produce a Cu con.

Figure 14. Process flowsheet



Source: Company

Marketing

HGO sells a clean copper and gold concentrate via a LOM offtake with Freepoint Commodities and Trading. The key factor determining concentrate quality and payability is metal grade. Concentrate grades vary depending on feed grade. The grades for Kanmantoo's concentrate are:

- Copper grade: 22-26%
- Gold grade: 1.5-3.0 g/t
- Silver grade: 30.0-60.0 g/t

Bismuth is a deleterious element penalised by some smelters treating copper-gold concentrates. We understand that penalties to Kanmantoo copper-gold concentrate may not be material within the specified range of 400-800ppm. The quality is comparable to that of the concentrate produced between 2011-20 and is trucked to Port Adelaide in containers which are stacked at port where the concentrate is loaded onto ships.

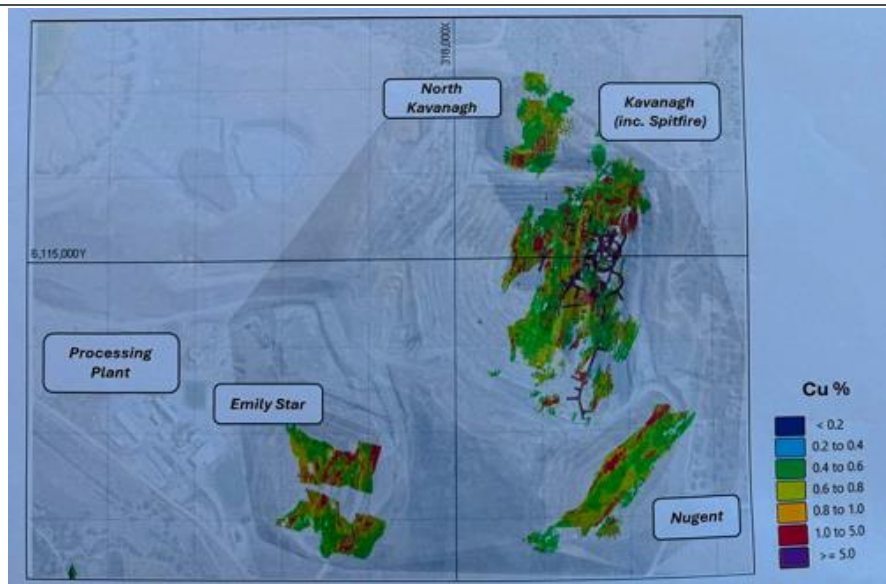
Site Visit Notes

In November 2024, we undertook a site visit to Kanmantoo to gain a deeper understanding of the mine and plant, ramp up and production profile as well as exploration upside. We believe that management's plans for a ramp up of mining throughput to 1.5 Mtpa are conservative and we see further upside as operations are optimised.

Access, infrastructure and mine

We drove to site from Adelaide in under 1 hour and access is excellent via the M1 Motorway, Old Princess Highway and Mine Road. Following the induction, we drove underground through the portal established at the historic Nugent open pit. Mine conditions and support across the different levels of the mine are in good condition. After driving back to surface, we walked through the plant, ROM pad and finished concentrated shed.

Figure 15. Location of underground deposit extensions from open pits



Source: Blue Ocean Equities

Geology and drill core

We sighted core from a range of holes at Kavanagh and Nugent. The core illustrates the visible nature of the mineralisation. The various Kavanagh Cu-Au mineralised zones are hosted within Biotite Chlorite Garnet Schist (BCGS) and/or Garnet Andalusite Biotite Schist (GABS). The sulphide mineralisation is dominated by coarse grained pyrrhotite and chalcopyrite with minor bismuthinite and pyrite. The Kavanagh Cu-Au mineral

zones of intense sulphide veining and sulphides vary between 3 to +20m wide with haloes of lower density sulphide veining up to 10 to 20m wide.

The Nugent Cu-Au mineral zone strikes NE-SW and dips towards the S-E, with the mineralisation following the shear corridor and hosted within a silicified BCGS zone. The Nugent alteration system shows a significant increase in silica in comparison to the Kavanagh systems, both as a pervasive overprint and as defined quartz veins, with sulphide and gold mineralisation generally confined to zones of structurally complex quartz veining in a silica rich variety of the BCGS.

The Kavanagh mineralised lodes are generally within a broad sulphide alteration zone, within which there is localised variation in the concentration of copper sulphides. In contrast, the Nugent zone is generally a single zone of sulphide alteration of varying width and intensity of copper-gold. While both mineral systems have generally a consistent overall geometry, within the mineral zone the higher-grade portions can vary in length along strike and plunge.

Figure 16. Drill core: Kavenagh's chalcopryite



Source: Blue Ocean Equities

Figure 17. Access to Katmantoo underground



Source: Blue Ocean Equities

Figure 18. ROM ore, plant, TSF and 500t stockpile of concentrate



Source: Blue Ocean Equities

Key takeaways

- The Kanmantoo mine, plant and infrastructure are in good condition.
- Mine site has great access and proximity to Adelaide and local townships supports a residential workforce.
- While Resource and Reserves have Cu grades of circa 0.9-1%, the mineralisation is highly visible and reserves, resource and mine life have clear upside.
- Plant capacity is nearly twice what the underground operation could sustainably handle so near mine exploration could be quite valuable.
- Developing a decline to Nugent will open an additional mining front, will reduce mining bottlenecks and enable higher volumes which in turn also reduce unit costs (fixed plant costs).

Investment proposition

Valuation

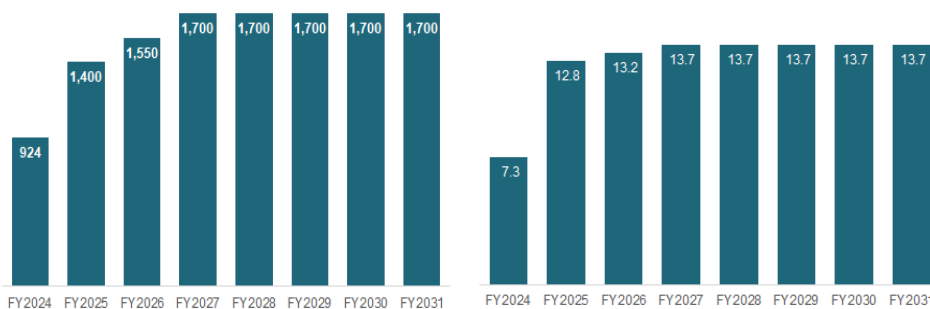
To assess the value of HGO, we put together a financial model for Hillgrove based on ramp up to 1.4Mt FY25, 1.55Mt FY26 and up to 1.7Mt once underground mining operations are fully optimised with a total mine life of 8 years. We assume the Ore Reserve grows through infill drilling and MRE continues to expand through drilling at depth and along strike to support the 8-year base case mine life. We have adopted conservative price assumptions as well as opex / sustaining capex parameters broadly in line with those guided by HGO and of comparable operations.

We acknowledge the mining inventory could ultimately be higher due to the potential to extend the MRE at depth and along strike across the different deposits. We also consider near mine exploration to be prospective and have attributed some value to exploration beyond the metrics from our base case.

Key Assumptions:

- Underground operations 1.4Mt in CY25, 1.55Mt in CY26 and 1.7Mt in CY27-31
- With 3.6Mtpa of plant capacity, operation is mine constrained
- Average head grade of 0.91% Cu
- Copper recoveries of 93.5%, gold recoveries of 55% and silver recoveries of 83.5%
- Payability in the range of 96% on Cu, 97% on gold and 94% on silver
- Copper price of US\$4.25/lb, gold price of US\$2,600, silver price of US\$30/oz and FX of 0.70 LT
- Average AISC of ~A\$5.2/lb Cu, based on:
 - Average mining costs of A\$50/t ore
 - Processing costs of A\$15/t ore
 - G&A of A\$4/t ore
 - South Australia Royalties of 5.0%
 - Sustaining capex averaging A\$20m p.a.
 - TC&RCs based on benchmark
- HGO has carry forward tax losses of \$269m so under current assumptions would not pay tax unless the mine life is extended beyond 8 years
- DCF done on a post-tax basis (corporate tax of 30%) with an 8% real discount rate

Figure 19. Indicative Production Profile: Ore Mined (Mt) and Cu Produced (kt)



Source: Company, Blue Ocean Equities

Under these assumptions Hillgrove has a risked NPV@8%, real, post-tax of ~A\$248M, representing significant potential upside from HGO's fully diluted EV of ~A\$87M.

Hillgrove's key upside could be expected to materialise as management delivers on key milestones, including: completion of ramp up and upgrades to Ore Reserve and MRE to support an +8 year mine life.

Sensitivities

The tables below illustrate key sensitivities to Kanmantoo's NPV.

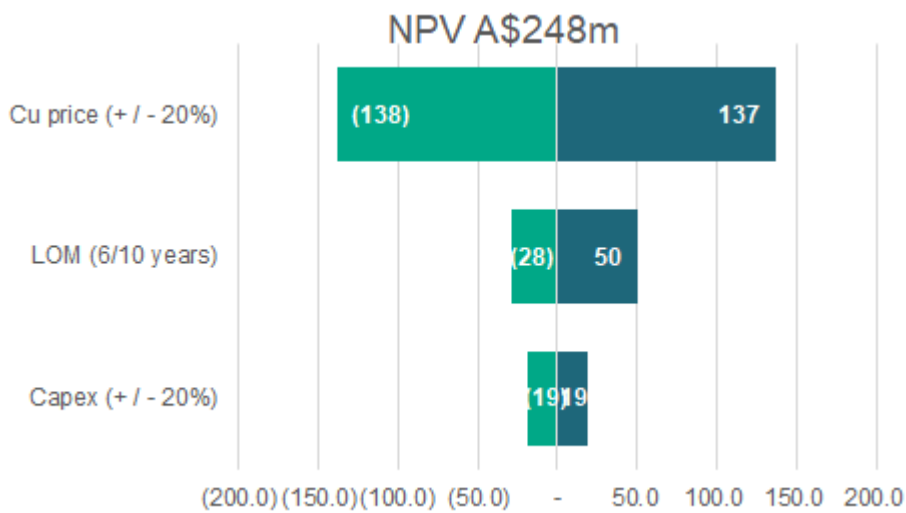
Figure 20. NPV sensitivity to Copper price and discount rate

NPV, A\$m post-tax		Copper Price (US\$/lb)				
		3.25	3.75	4.25	4.75	5.25
Discount rate	6%	60.8	166.1	262.8	339.4	414.6
real	7%	60.8	162.4	256.1	330.4	403.2
Post-tax	8%	60.8	159.0	249.6	321.8	392.5
	9%	60.7	155.6	243.5	313.7	382.2

Source: Blue Ocean Equities

The following tornado chart illustrates that Kanmantoo's key sensitivity is to copper price.

Figure 21. Magnitude of NPV sensitivities to copper price vs mine life and capex



Source: Blue Ocean Equities

Financial Model: Operating Summary

Hillgrove Resources (HGO)

Code: HGO

Operational Summary							FCF Contribution						
		FY23A	FY24E	FY25E	FY26E	FY27E	A\$m	FY23A	FY24E	FY25E	FY26E	FY27E	
Kanmantoo (100% basis)							Kanmantoo (100% basis)						
Ore Milled	mt	-	0.9	1.4	1.6	1.7	Revenue - Copper	A\$m	-	101	187	185	184
Copper - head grade	%	-	1.1%	1.0%	1.0%	0.9%	Revenue - Gold	A\$m	-	5	14	15	15
Gold - head grade	g/t	-	0.1	0.1	0.1	0.1	Revenue - Silver	A\$m	-	3	4	4	4
Silver - head grade	g/t	-	3.3	2.2	2.2	2.2	Revenue - Total	A\$m	-	109	205	203	203
Recovery	%	-	92.7%	93.5%	93.5%	93.5%	Operating Costs	A\$m	9	82	116	126	137
Payability	%	-	78.5%	94.0%	95.1%	96.0%	Sustaining Capex	A\$m	-	16	19	19	19
Payable Copper	mlb	-	16.1	28.2	29.2	30.3	All-in Sustaining Cost	A\$m	9	98	135	146	156
Recovery	%	-	55.0%	55.0%	55.0%	55.0%	AISC Margin	A\$m	(9)	10	70	58	47
Payability	%	-	76.2%	97.6%	97.6%	97.6%	Other Capex	A\$m	-	2	5	5	5
Payable Gold	koz	-	1.4	3.4	3.7	4.1	Exploration	A\$m	0	2	3	3	3
Recovery	%	-	83.5%	83.5%	83.5%	83.5%	Corporate	A\$m	4	3	4	4	4
Payability	%	-	72.0%	93.7%	93.7%	93.7%	Corporate	A\$m	FY23A	FY24E	FY25E	FY26E	FY27E
Payable Silver	mlb	-	59.5	77.5	85.8	94.1	Cash Tax	A\$m	-	-	-	-	-
Mining Costs	A\$/mlb Cu	-	3.03	2.48	2.66	2.81	Other Items	A\$m	11	18	-	-	-
Processing Costs	A\$/mlb Cu	-	1.35	0.74	0.80	0.84	FCF pre Debt Service	A\$m	(25)	(15)	58	46	35
G&A	A\$/mlb Cu	-	0.34	0.20	0.21	0.22	Net Interest	A\$m	0	2	(0)	(1)	(1)
C1 Cash Costs	A\$/mlb Cu	-	5.31	3.74	3.98	4.19	Debt Drawdown / (Rpmt)	A\$m	-	-	-	-	-
Royalties	A\$/mlb Cu	-	0.34	0.36	0.35	0.34	FCF post Debt Service	A\$m	(25)	(17)	58	47	37
Operating Cost	A\$/mlb Cu	-	5.65	4.11	4.33	4.52	New Equity/Dividends	A\$m	FY23A	FY24E	FY25E	FY26E	FY27E
Sustaining Capex	A\$/mlb Cu	-	1.01	0.68	0.66	0.63	Proceeds Shares/Options	A\$m	-	10	6	4	1
All-in Sustaining Cost	A\$/mlb Cu	-	6.66	4.79	4.99	5.16	Dividends Paid	A\$m	-	-	-	-	-
% AISC Margin	%	-	10%	34%	28%	23%	Change in Cash	A\$m	(25)	(7)	64	51	37
Capex	A\$/mlb Cu	-	1.23	0.17	0.16	0.16	Cash Balance	A\$m	10	3	67	118	155
Exploration	A\$/mlb Cu	-	0.14	0.11	0.10	0.10							
Corporate	A\$/mlb Cu	-	0.21	0.14	0.14	0.13							
All-in Cost	A\$/mlb Cu	-	8.25	5.20	5.39	5.54							

Source: Company, Blue Ocean Equities

Price Target and Rating

We initiate on HGO with a BUY rating and a \$0.11 Price Target, an implied potential return of 176%. We expect HGO to re-rate as management hits key milestones comprising ramp up to 1.5Mtpa mine production, Resource/Reserve upgrades to support longer mine life and CY25 production within guidance of 12-14kt Cu at US\$3.4-3.9/lb Cu. We also expect copper prices to remain at current levels near term and see material leverage if copper prices increase to recent high levels.

Key Risks

HGO is exposed to all the normal risks associated with underground mining operations, including geological, metallurgical and ramp up risks.

HGO's revenues are derived from the sale of copper-gold concentrate. Fluctuations in the prices of copper (and gold) as well as the Australian dollar could impact HGO's reported cash flow (in A\$), profitability and share price.

As the Hillgrove Project is based in South Australia, an investment in HGO also carries Australian sovereign risk, which we regard as a relatively stable and safe jurisdiction compared to many other copper mining jurisdictions around the world.

Board and Management

Qualified board and management driven by an experienced operator.

Derek Carter – Independent Non-Executive Chairman, BSc, MSc, FAusIMM

Derek has over 50 years' experience in exploration and mining geology and management. He held senior positions in Burmine Ltd and the Shell Group of Companies where he was responsible for discovering the Los Santos tungsten deposit in Spain, before founding Minotaur Gold NL in 1993. He resigned as Chairman of Minotaur Exploration Ltd in November 2016. Derek was awarded AMEC's Prospector of the Year Award (jointly) in 2003 for the discovery of the Prominent Hill copper-gold deposit, the AusIMM President's Award and is a Centenary Medallist. Derek is currently the Chairman of Petrathem Limited (ASX:PTR).



Bob Fulker, Managing Director

Bob is a highly experienced Mining Engineer with 39 years of experience in the minerals industry. He has held Senior Executive positions at Evolution Mining and OZ Minerals, where he was responsible for leading the safe and efficient delivery of significant operations.

Bob's extensive experience spans Australia, Africa, and Canada where he consistently achieved outstanding results. His strategic leadership in corporate roles and operational excellence through innovative solutions have significantly enhanced safety, operations, and profitability. Throughout his career, Bob has worked with industry leaders such as Rio Tinto, Normandy Mining, BHP, OZ Minerals, and Evolution Mining.



Murray Boyte, Non-Executive Director, BCA, CA, MAICD

Murray has over 35 years' experience in merchant banking and finance, undertaking company reconstructions, mergers and acquisitions in Australia, New Zealand, North America and Hong Kong. Murray holds a Bachelor of Commerce and Administration from the Victoria University in Wellington and is a member of the Australian Institute of Company Directors, the Institute of Directors of New Zealand and Chartered Accountants Australia & New Zealand. In addition, Murray has held executive positions and directorships in the transport, horticulture, finance service, investment, health services and property industries. Murray is currently the Chairman of Eureka Group Holdings (ASX:EGH), Chairman of National Tyre & Wheel Limited (ASX:NTD), and a Non-Executive Director of Eumundi Group (ASX:EBG).



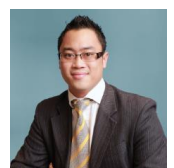
Roger Higgins, Non-Executive Director, BE (Hons), MSc, PhD, FAusIMM, FIEAust

Roger has over 50 years of experience in the resources industries, including being a former Managing Director of Ok Tedi Mining Limited in Papua New Guinea and Senior Vice President Copper at Canadian metals and mining company Teck Resources Limited. He was also Vice President and Chief Operating Officer with BHP Base Metals (Australia) and held senior operations and project positions with BHP in Chile. He is an Adjunct Professor with the Sustainable Minerals Institute, University of Queensland. Roger is currently a Non-Executive Director of Worley Limited. He was also recently the Chairman of both Minotaur and Demetallica Limited and a Non-Executive Director of Newcrest Mining Limited.



Joe Sutanto, Chief Financial Officer, BCom, MBA, CPA

Joe joined Hillgrove in 2011 and has held a number of roles within the finance team, which spanned commercial and planning to financial control before becoming the Company Secretary and CFO in 2023. Prior to Hillgrove, Joe held a number of roles which included as a corporate finance executive at PwC Corporate Finance, commodities trader at Glencore, and as an auditor at KPMG. A CPA qualified accountant, Joe completed his MBA at HKUST and London Business School.



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