

Initiation: Copper Reborn

Hillgrove Resources is an ASX-listed company focused on the operation and further development of its flagship copper-gold asset, Kanmantoo, located in South Australia. Kanmantoo has a long (and somewhat patchy) operating history, with HGO more recently operating the asset as an open cut operation which produced for ~10 years, ceasing operations in 2020. The company has now 'reborn' Kanmantoo as a smaller-scale underground operation, which this year has recommenced commercial copper production. As Australia's newest listed copper producer, we believe Hillgrove's 'rebirth' as an incumbent copper producer has largely flown under the radar amongst the investment community. We believe therein lies the opportunity for investors to enter a copper leveraged stock, which (in our view) has banished the causes of past disappointments, has compelling near-term positive cashflow, and significant mine-life/resource upside potential. We initiate on HGO with an Overweight rating and a conservative 8cps Target price (based on a blend of Earnings growth and DCF).

Key Points

Compelling near-term free cashflow: While we would not classify Kanmantoo as a low-cost operation, our estimates suggest that material cashflow generation in the near-term is likely. We see average FCF yields of 30-50%pa over the coming 3-4 years. Furthermore, Hillgrove has significant franking credits available, which could enable the company to distribute over A\$50m in fully franked dividends at the appropriate time.

Significant upside potential through the drill-bit: HGO's initial mine plan only covers a mine life of ~4 years, although we believe this is likely to be materially extended as resource definition extends both laterally and at depth – we model a base case mine life of 6 years, but even we would acknowledge that this is a highly conservative scenario given our view of the likely prospectivity in the immediate near-mine vicinity. We note the existing Mineral Resource base of ~7Mt @1.1% Cu is complemented by a potentially game changing 60-100Mt of declared Exploration Target at similar grade. Each additional year of mine life adds ~1cps to our valuation.

Cause of historic disappointments a thing of the past: Some equity market investors may recall several periods when the company repeatedly missed production guidance during the period before the closure of open cut operations in 2020. As detailed in this report, we believe this was a technical issue which has been largely corrected for, in our view.

What closes the gap to our 8cps valuation?: In our view HGO is a 'SHOW ME' story – and for those investors who have the confidence to invest early in the journey of Australia's newest copper producer, the rewards could be significant. Consistent operational delivery is key over the coming 6 months as the company seeks to establish its underground operating credentials (and to banish the demons of historic disappointments). Separately, we expect the company to progressively announce further exploration results aimed at converting exploration targets into resources and reserves – which should add to the assessment of mine life. We anticipate a formal update to the Resource base during 4Q24, which may act as a major catalyst for the stock. Finally, once the operations have ramped up and confidence in reliability is regained, we note our compelling FCF estimates suggest high potential for significant fully franked capital returns to shareholders.

Financial summary (Y/E Dec, AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	0.0	0.0	119.2	178.8	194.7
EBITDA norm (\$m)	(4.4)	(15.8)	38.4	79.0	86.4
EBITDA growth (%)	(16.5)	254.6	(343.5)	105.8	9.3
EV/EBITDA (x)	n/m	n/m	2.1	0.6	0.0
FCF yield (%)	(21.7)	(32.2)	5.6	44.8	52.9

Source: Company data, Wilsons Advisory estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Wilsons Advisory Equity Research

Analyst(s) who owns shares in the Company: n/a Issued by Wilsons Advisory and Stockbroking Limited (Wilsons Advisory) ABN 68 010 529 665 – Australian Financial Services Licence No 238375, a participant of ASX Group and should be read in conjunction with the disclosures and disclaimer in this report. Important disclosures regarding companies that are subject of this report and an explanation of recommendations can be found at the end of this document.

Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$0.08
Share price @ 5-Sep-24 (AUD)	\$0.05
Forecast 12-mth capital return	56.9%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	56.9%

Market cap (\$m)	97.5
Enterprise value (\$m)	87.3
Shares on issue (m)	1,912
Sold short (%)	0.2
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.2

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12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	(7.3)	(12.1)	(22.7)
Rel return (%)	(11.0)	(14.2)	(29.1)

Business Description

Hillgrove Resources is an ASX-listed company focused on the operation and further development of its flagship copper-gold asset, Kanmantoo, located in South Australia.

Catalysts

Production updates, Exploration updates, MRE expansion, potential capital returns.

P&L (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	0.0	0.0	119.2	178.8	194.7
EBITDA norm	(4.4)	(15.8)	38.4	79.0	86.4
EBIT norm	(4.5)	(16.5)	11.4	42.3	45.0
PBT norm	(5.9)	(16.5)	11.5	43.1	47.1
NPAT norm	(5.9)	(17.2)	7.4	31.7	34.0
NPAT reported	(6.0)	(17.3)	7.4	31.7	34.0
EPS norm (cents)	(0.5)	(0.9)	0.3	1.4	1.5
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Growth (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	n/m	n/m	n/m	50.0	8.9
EBITDA norm	(16.5)	254.6	(343.5)	105.8	9.3
NPAT norm	1.7	189.1	(143.0)	328.6	7.1
EPS norm (cents)		97.9	(136.1)	319.7	7.1
DPS (cents)	n/m	n/m	n/m	n/m	n/m

Margins and returns (%)	FY22A	FY23A	FY24E	FY25E	FY26E
EBITDA margin	n/m	n/m	32.2	44.2	44.4
EBIT margin	n/m	n/m	9.5	23.6	23.1
PBT margin	n/m	n/m	9.7	24.1	24.2
NPAT margin	n/m	n/m	6.2	17.7	17.5
ROA	n/m	n/m	8.5	24.1	20.3
ROIC	n/m	n/m	20.1	69.5	74.4
ROE	n/m	n/m	10.0	28.3	21.8

Interims (\$m)	1H23A	2H23A	1H24A	2H24E	1H25E
Sales	0.0	0.0	40.2	79.0	84.9
EBITDA norm	(3.5)	(12.3)	6.3	32.1	36.6
EBIT norm	(3.6)	(12.9)	(4.0)	15.4	19.2
PBT norm	(4.0)	(12.5)	(4.0)	15.6	19.4
NPAT norm	(4.0)	(13.2)	(4.0)	11.4	14.4
NPAT reported	(4.0)	(13.3)	(4.0)	11.4	14.4
EPS norm (cents)	(0.2)	(0.7)	(0.2)	0.5	0.6
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Investment Thesis

As Australia's newest listed copper producer, we believe Hillgrove's 'rebirth' as an incumbent copper producer has largely flown under the radar amongst the investment community. We believe therein lies the opportunity for investors to enter a copper leveraged stock, which (in our view) has banished the causes of past disappointments, has compelling near-term positive cashflow, and significant mine-life/resource upside potential.

Risks

Delivery risk on ramp up, lack of exploration success, additional capital requirements above plan.

Balance sheet (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash & equivalents	5.3	10.2	17.4	51.1	95.3
Current receivables	0.9	1.5	4.2	4.2	4.2
Current inventory	0.4	3.1	6.8	6.8	6.8
PPE	40.0	69.1	82.8	84.0	80.6
Total assets	52.9	101.1	134.1	175.0	221.8
Current payables	0.7	13.7	24.2	24.2	24.2
Total debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	19.6	28.2	30.6	33.6	36.5
Total liabilities	20.3	46.2	60.1	63.1	66.0
Shareholders equity	32.6	54.9	74.0	111.9	155.8

Cash flow (\$m)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating cash flow	(5.8)	(9.5)	33.9	79.9	88.5
Maintenance capex	(7.3)	(21.8)	(27.9)	(32.0)	(32.0)
Free cash flow	(13.0)	(31.4)	6.0	47.9	56.5
Growth capex	0.0	0.0	(3.0)	(6.0)	(6.0)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other cash flow	1.7	(2.1)	(6.3)	(7.2)	(7.2)
Cash flow pre-financing	(11.3)	(33.5)	(3.3)	34.7	43.3
Funded by equity	0.0	38.4	10.2	0.0	0.0
Funded by cash/debt	5.4	(43.4)	(17.1)	(34.7)	(43.3)

Liquidity	FY22A	FY23A	FY24E	FY25E	FY26E
Cash conversion (%)	130.0	61.0	89.5	100.0	100.0
Net debt (\$m)	(5.3)	(10.2)	(17.4)	(51.1)	(95.3)
Net debt / EBITDA (x)	1.2	0.6	(0.5)	(0.6)	(1.1)
ND / ND + Equity (%)	(19.5)	(22.9)	(30.7)	(84.0)	(157.5)
EBIT / Interest expense (x)	(3.2)	n/m	(69.8)	(49.5)	(20.9)

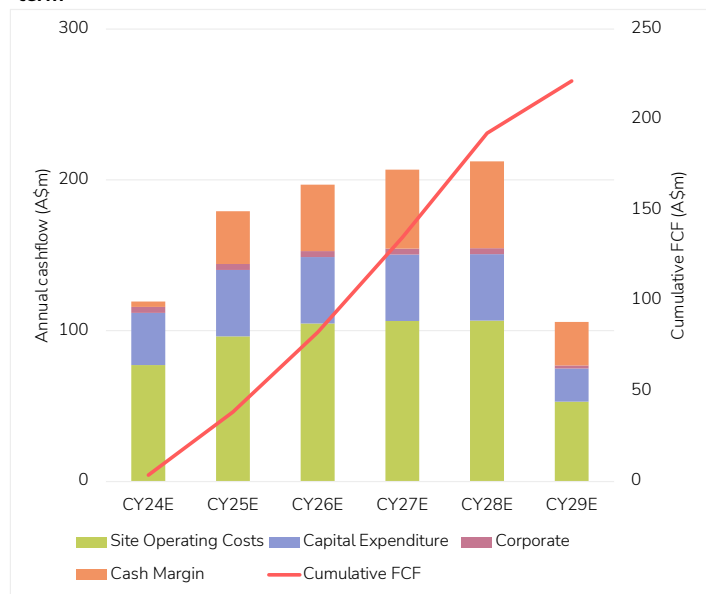
Valuation	FY22A	FY23A	FY24E	FY25E	FY26E
EV / Sales (x)	n/m	n/m	0.7	0.3	0.0
EV / EBITDA (x)	n/m	n/m	2.1	0.6	0.0
EV / EBIT (x)	n/m	n/m	7.0	1.1	0.0
P / E (x)	n/m	n/m	14.9	3.6	3.3
P / BV (x)	1.8	1.8	1.4	1.0	0.7
FCF yield (%)	(21.7)	(32.2)	5.6	44.8	52.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Weighted shares (m)	1,244	1,817	2,166	2,212	2,212

Source: Company data, Wilsons Advisory estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Hillgrove Resources	Market Cap (US\$m)	69	Share Price (A\$ps)	0.05	Recommendation					
HGO-ASX	Market Cap (A\$m)	107	Implied upside to target	57%	OVERWEIGHT					
			Implied TSR	57%						
			Target Price (A\$ps)	0.08						
Year ending 30 December										
Profit & Loss		CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29
Group turnover	A\$m	0	0	0	119	179	195	203	207	98
- Total operating costs	A\$m	3	3	12	77	96	105	106	107	53
- Corporate & overheads	A\$m	3	2	4	4	4	4	4	4	2
EBITDA	A\$m	-5	-4	-16	38	79	86	93	97	44
- Depreciation	A\$m	0	0	1	27	37	41	42	42	21
EBIT	A\$m	-5	-5	-17	11	42	45	51	54	23
+ Net finance income	A\$m	0	-1	0	-4	-3	-2	0	1	5
+ Exceptional and Other Items	A\$m	0	0	0	0	-1	1	0	0	0
Profit before tax (incl one-offs)	A\$m	-5	-6	-16	9	38	44	51	56	28
- Tax expense	A\$m	0	0	1	0	0	0	0	0	1
- Minorities	A\$m	0	0	0	0	0	0	0	0	0
Reported Profit	A\$m	-6	-6	-16	9	38	44	51	56	27
EPS	A\$cps	-3.3	-1.7	-3.7	0.4	1.7	2.0	2.3	2.5	1.2
EPS growth	%		-48%	118%	-111%	313%	15%	15%	10%	-51%
EBITDA Growth	%		-16%	255%	-343%	106%	9%	8%	4%	-55%
DPS (declared)	A\$cps	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average diluted shares	m	178	348	437	2,166	2,212	2,212	2,212	2,212	2,212
Cashflow		CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29
Post Tax Operating Cashflow	A\$m	-5	-6	-10	34	79	89	97	102	51
Capital expenditure (incl Exploration)	A\$m	-9	-8	-23	-35	-44	-44	-44	-44	-22
Asset sales/(purchases)	A\$m	0	0	0	0	0	0	0	0	0
Other	A\$m	0	2	0	0	0	0	0	0	0
Investing cashflow	A\$m	-9	-6	-22	-34	-44	-44	-44	-44	-22
Dividends paid to equity	A\$m	0	0	0	0	0	0	0	0	0
Net borrowings	A\$m	0	6	0	0	0	0	0	0	0
Equity financing	A\$m	19	0	38	10	0	0	0	0	0
Flows from (to) minorities	A\$m	0	0	0	0	0	0	0	0	0
Lease Payments	A\$m	0	0	-1	-2	0	0	0	0	0
Other financing costs	A\$m	0	0	-1	-1	-1	-1	-1	-1	-1
Financing cashflow	A\$m	19	6	37	7	-1	-1	-1	-1	-1
Net cashflow	A\$m	5	-5	5	7	34	44	52	57	29
Free cashflow pre-debt repayments (CFO less all capex)	A\$m	-14	-11	-33	-2	35	45	53	58	29
Free cashflow post-debt repayments (CFO less all capex)	A\$m	-14	-11	-33	-2	35	45	53	58	29
Free cashflow (CFO less maintenance capex)	A\$m	-13	-13	-31	6	47	57	65	70	35
Balance sheet		CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29
Cash	A\$m	11	5	10	17	51	95	147	204	233
Other current assets	A\$m	1	1	5	11	11	11	11	11	11
NC Assets	A\$m	40	46	86	106	113	116	117	119	120
Total assets	A\$m	51	53	101	134	175	222	275	334	364
Total liabilities	A\$m	13	20	46	60	63	66	69	72	75
Minority Interest	A\$m	0	0	0	0	0	0	0	0	0
Shareholder equity	A\$m	38	33	55	74	112	156	206	262	289
Total debt	A\$m	0	0	0	0	0	0	0	0	0
Net debt/(Net Cash)	A\$m	-11	-5	-10	-17	-51	-95	-147	-204	-233
Production & prices		CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29
Copper in concentrate production	kt	0.0	0.0	0.0	8.9	12.6	14.1	14.4	14.4	7.1
Gold in concentrate production	koz	0.0	0.0	0.0	2.4	4.0	4.7	4.8	4.8	1.4
Copper Equivalent Total Production	Kt	0.0	0.0	0.0	9.5	13.4	15.0	15.3	15.2	7.4
Payable Copper Sales	Kt	0.0	0.0	0.0	8.3	12.2	13.7	14.0	14.0	6.9
Cash cost (inc. BP credits & royalties)	Ac/lb Cu		0	0	370	314	304	303	310	323
Cash cost (inc. BP credits & royalties)	USc/lb Cu		0	0	244	207	213	212	217	226
All-In Costs	Ac/lb Cu		0	0	527	451	426	423	429	444
All-In Costs	USc/lb Cu		0	0	348	298	298	296	300	311
Copper price	US\$/lb	4.22	4.01	3.85	4.10	4.18	4.28	4.39	4.50	4.42
Gold price	US\$/lb	4	4	4	4	4	4	4	4	4
AUD/USD	#	0.75	0.69	0.66	0.66	0.66	0.70	0.70	0.70	0.70
AUD/EUR	#	0.64	0.66	0.61	0.60	0.59	0.60	0.60	0.60	0.60
Key investment ratios		CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29
P/E (adj)	x	-18.3	-17.9	-6.5	11.9	2.8	2.4	2.1	1.9	3.9
EV/EBITDA	x	-18.1	-22.8	-6.1	2.3	0.7	0.1	-0.4	-1.0	-2.9
FCF Yield pre-debt repayments (CFO less all capex)	%	-13%	-11%	-31%	-2%	33%	42%	50%	54%	27%
FCF Yield post-debt repayments (CFO less all capex)	%	-13%	-11%	-31%	-2%	33%	42%	50%	54%	27%
FCF Yield post-debt repayments (CFO less maintenance c %)	%	-19%	-19%	-45%	9%	68%	83%	93%	101%	51%
Dividend yield	%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Profitability and liquidity analysis		CY21	CY22	CY23	CY24	CY25	CY26	CY27	CY28	CY29
ROE (NPAT/Equity)	%		-17%	-37%	14%	41%	33%	28%	24%	10%
ROCE (EBIT/Debt+equity)	%		-13%	-36%	20%	44%	34%	28%	23%	8%
EBITDA margin (incl Leases)	%		NA	NA	32%	44%	44%	46%	47%	44%
Net debt/(net debt + equity)	%	-39%	-19%	-23%	-31%	-84%	-158%	-248%	-351%	-412%
ND/EBITDA	x	2.0	1.2	0.6	-0.5	-0.6	-1.1	-1.6	-2.1	-5.3
Effective tax rate	%	-8%	0%	-4%	0%	0%	0%	0%	0%	4%
Net present value @ 10% real	US\$m	A\$m	A\$/share							
Kanmantoo	73	112	0.05							
Total Operations	73	112	0.05							
Corporate & Other	(8)	(12)	(0.01)							
Tax offsets	32	49	0.02							
Attributable Net Cash/(Net Debt)	11	17	0.01							
Total NPV	108	166	0.08							
Market capitalisation	69	107								
Price to NPV (Diluted Share Count)	0.68									

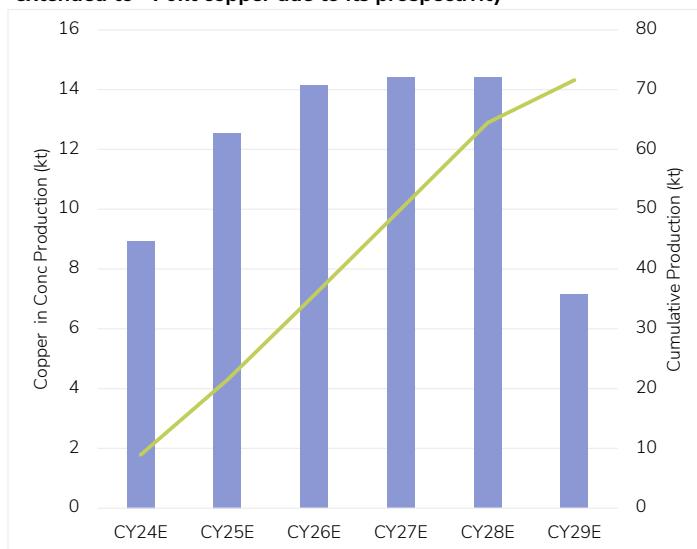
Key Charts & Tables

Figure 1: Kanmantoo should provide attractive cashflow in the near-term



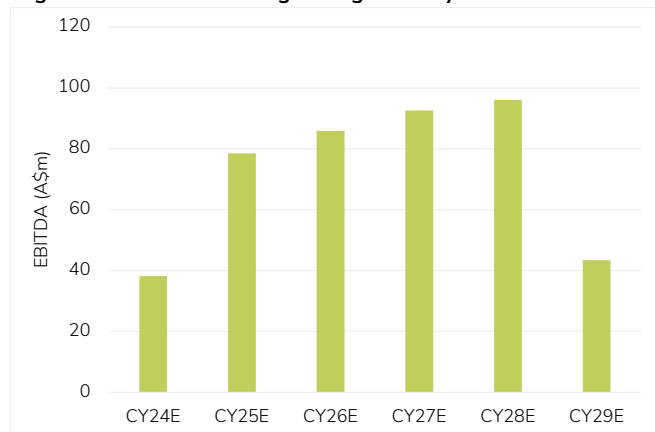
Source: Wilsons Advisory.

Figure 2: We believe the underground mine’s production will be extended to ~70kt copper due to its prospectivity



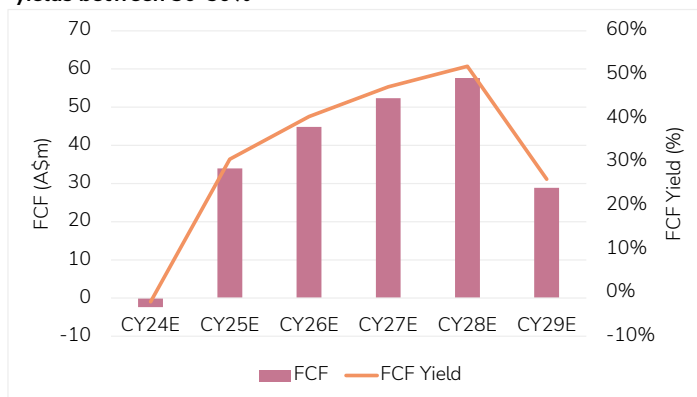
Source: Wilsons Advisory.

Figure 3: EBITDA is set to grow significantly



Source: Wilsons Advisory.

Figure 4: Per our Base Case, we forecast Hillgrove to provide FCF yields between 30-50%



Source: Wilsons Advisory & Company data.

Figure 5: The ‘For’ and ‘Against’ – our preliminary assessment of the merits and risks of HGO

The 'For'	The 'Against'
1. Existing infrastructure with spare capacity	1. Poor historic grade reconciliation
2. Operating...with A\$200m of near-term cashflow potential	2. Short mine life
3. Significant resource upside potential	3. Offtake & Hedging
4. Opportunity on both sides of the M&A thematic	4. Potential unforeseen capex requirements
5. Balance Sheet strength	5. Higher-cost producer
6. Significant Franking Credits	
7. Positive copper outlook	

Source: Wilsons Advisory.

Figure 6: HGO's largest shareholders

Top Investors				
Investor Rank	Investor Name	Position (m)	% O/S	Value (US\$m)
1	Freepoint Metals & Concentrates L.L.C.	418.29	20%	19
2	Ariadne Australia Ltd	215.64	10%	10
3	Munro (Raymond Edward)	61.90	3%	3
4	Proco Pty. Ltd.	47.90	2%	2
5	Wallace (Lachlan A)	26.96	1%	1
6	Breuer (Antony Gordon)	16.18	1%	1
7	Nichols (Malcolm Neil)	15.36	1%	1
8	Barolo Tnc Ct Pty. Ltd.	15.09	1%	1
9	Cosell Pty. Ltd.	14.60	1%	1
10	DFA Australia Ltd.	7.54	0%	0

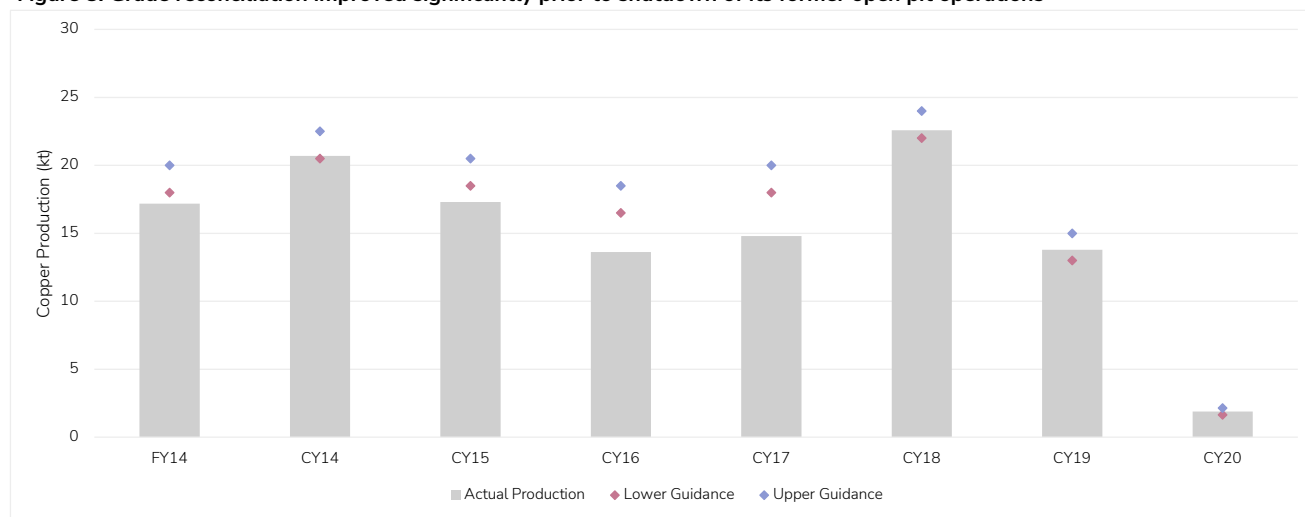
Source: Refinitiv.

Figure 7: Board & Management

Board	Management
Derek Carter (Non-Exec Chairman)	Bob Fulker (Managing Director & CEO)
Murray Boyte (Non-Exec Director)	Joe Sutanto (CFO & Secretary)
Roger Higgins (Non-Exec Director)	
Bob Fulker (Managing Director & CEO)	

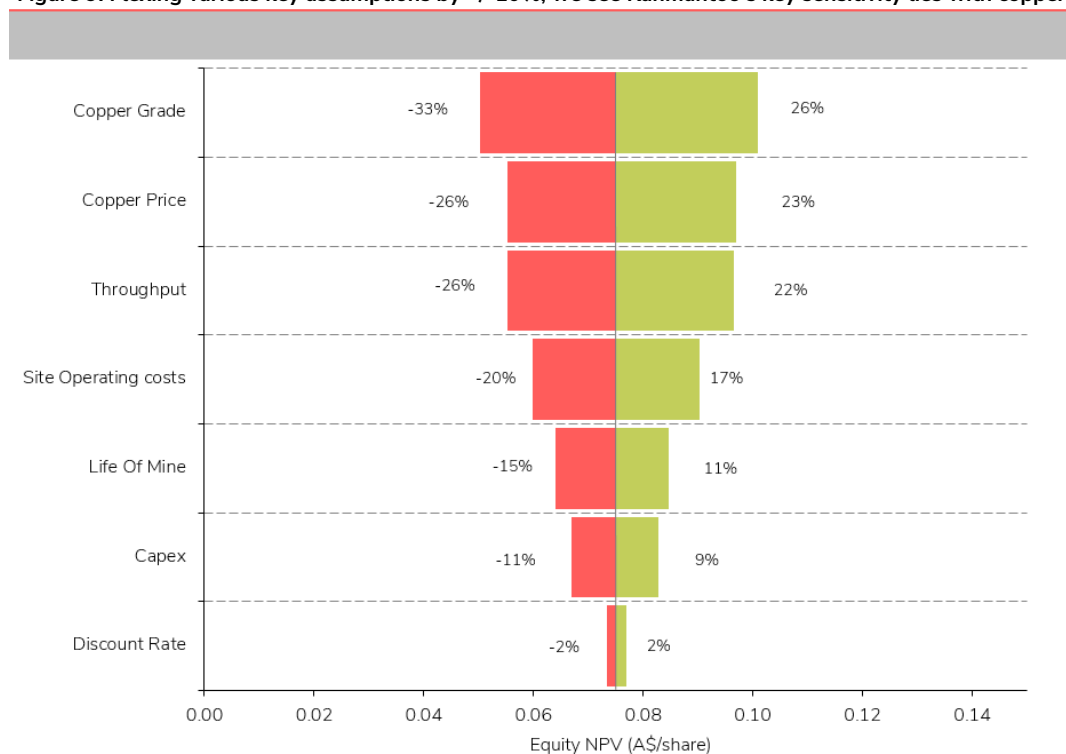
Source: Company data.

Figure 8: Grade reconciliation improved significantly prior to shutdown of its former open pit operations



Source: Company data.

Figure 9: Flexing various key assumptions by +/-10%, we see Kanmantoo's key sensitivity lies with copper grade, throughput & copper price



Source: Wilsons Advisory.

Table of Contents

Key Charts & Tables	4
Investment Summary	7
Australia's newest copper producer	7
The near-term question: How much cash can they generate?	8
The long-term question: What happens after 4 years?.....	10
What about the patchy history?	11
Attractive comparison to peers on EV/Production & FCF metrics.....	11
What closes the gap to valuation?.....	12
The 'For'	13
1. Existing infrastructure with spare capacity.....	13
2. An operating copper asset with ~A\$200m of near-term cashflow potential.....	14
3. Significant resource upside potential.....	14
4. Opportunity on both sides of the M&A thematic?.....	16
5. Balance Sheet strength.....	17
6. Significant Franking credits should capital returns become preferred	18
7. Positive copper outlook.....	18
The 'Against'	20
1. Poor historic grade reconciliation	20
2. Short mine life.....	21
3. Hedging risk	22
4. Potential unforeseen capex requirements	23
5. Higher-cost producer.....	23
How we value stocks in the mining sector	25
Prospectors: Analyst Judgement.....	25
Explorers: In-situ Metrics	25
Developers: P/NPV	26
Producers: Earnings Trajectory.....	27
How does HGO fit in this framework?.....	28
Standout FCF Generation near-term	28
Attractive comparison to Peers on EV/Production.....	29
Asset Snapshot - Kanmantoo	31
Operations History.....	31
Location & Infrastructure	31
Mineralisation & Geology	32
Workforce	32
Appendix A: Copper price comment	33
On a fundamental basis, the copper outlook remains strong.....	34
Appendix B: Why are the copper deficits always 3+ years away?	35
Appendix C: Board & Management	36

Investment Summary

Hillgrove Resources is Australian mining company focused on the operation and further development of its flagship copper-gold asset, Kanmantoo (50km from Adelaide), with a market capitalization of a ~A\$100m. We believe the stock is an attractive exposure to the structurally attractive copper market.

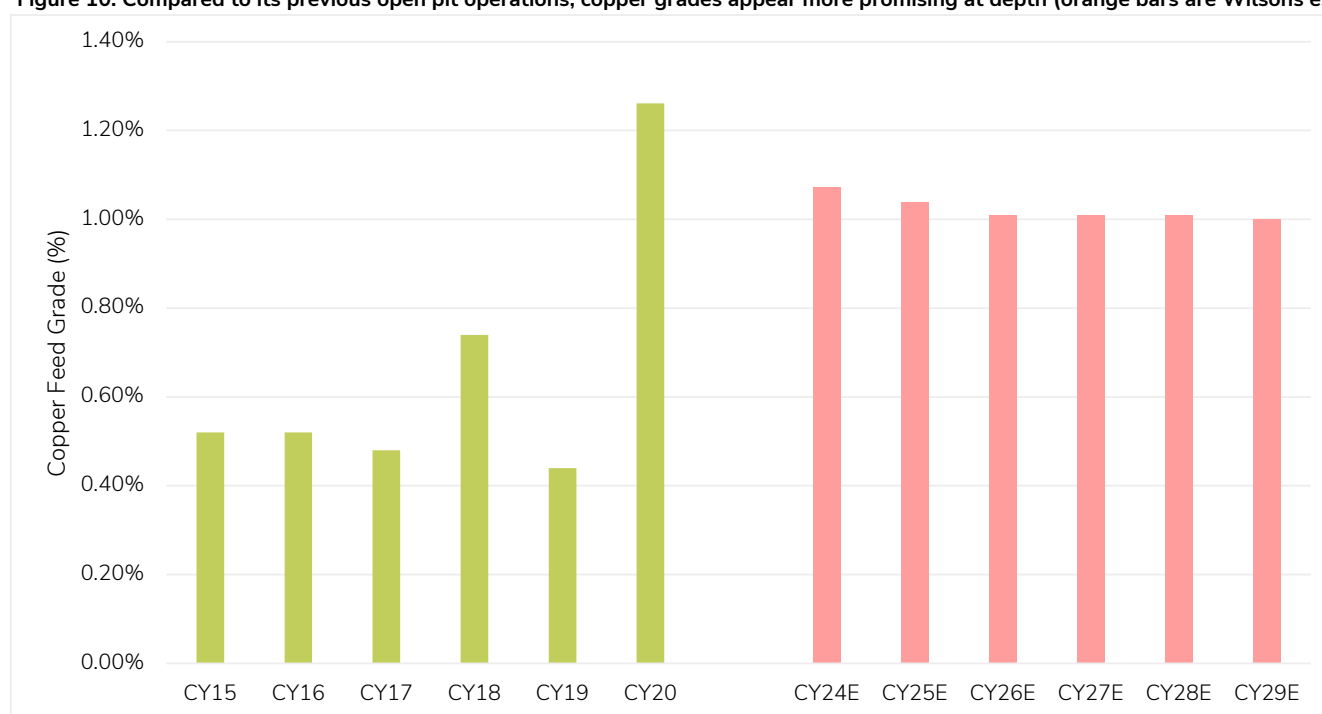
Kanmantoo has a long (and somewhat patchy) operating history dating back to the 1840s, with Hillgrove reopening the mine in 2010 as an open cut operation, which produced for ~10 years. These open pits ceased operating in 2020, and the company has now 'rebirthed' Kanmantoo as an underground operation, which this year has recommenced commercial copper production, making HGO one of only a handful of pure play ASX-listed copper producers. The company has been ramping up output from the underground during 1HCY24, progressively reducing unit costs to the point of announcing positive free cash flow generation for the month of June.

Australia's newest copper producer

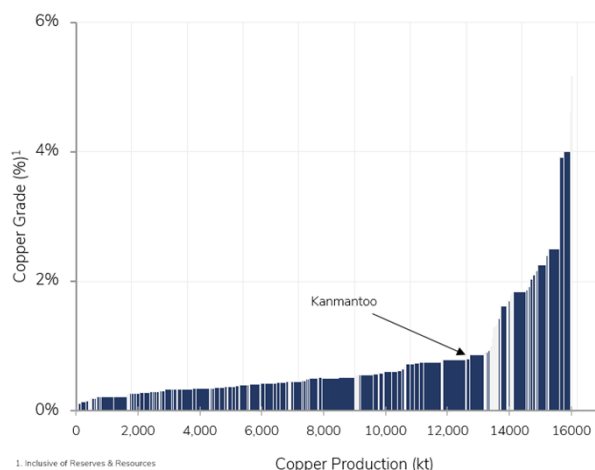
As Australia's newest listed copper producer, we believe Hillgrove's 'rebirth' as an incumbent copper producer has largely flown under the radar amongst the investment community. We believe therein lies the opportunity for investors to enter a copper leveraged stock, with near-term positive cashflow, in addition to significant mine-life/resource upside potential. Furthermore, we flag the addition of experienced underground operator Bob Fulker (ex OZ Minerals and Evolution) as the new MD & CEO of Hillgrove, which adds a depth of technical experience and credibility to the well-established operational team who have delivered the new underground operations at Kanmantoo.

The new underground resource being exploited is higher grade than the legacy open cut mineralisation, and Kanmantoo's established processing and supply chain infrastructure means capex was limited for the restart of operations at site, resulting in a debt free balance sheet. While the initial mine plan only covers a mine life of 4 years, we believe this is likely to be materially extended as resource definition extends both laterally and at depth – we model a base case mine life of 6 years, but even we would acknowledge that this is a highly conservative scenario given our view of the likely prospectivity in the immediate near-mine vicinity (covered in detail further in this report).

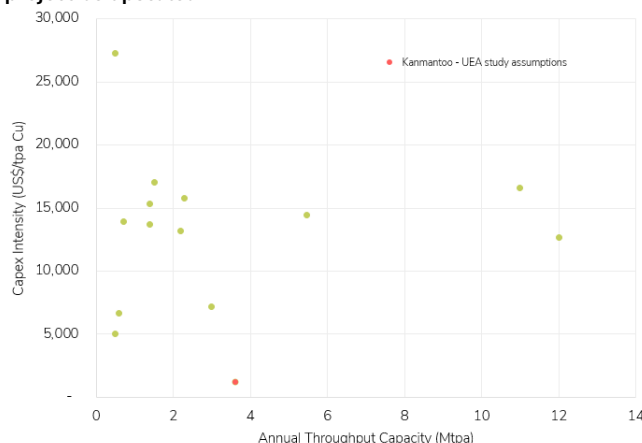
Figure 10: Compared to its previous open pit operations, copper grades appear more promising at depth (orange bars are Wilsons estimates)



Source: Company data and Wilsons Advisory.

Figure 11: On grade, Kanmantoo UG ranks in top 25% of producing mines

Source: S&P Global Market Intelligence & Company data.

Figure 12: Kanmantoo redevelopment was attractive based on its low capex intensity, with ample spare processing capacity should the project be upscaled

Source: S&P Global Market Intelligence & Company data.

Prior to development of the underground operations, HGO released an Updated Economic Assessment (UEA) which outlined an initial 4 years of production yielding 43.5kt of copper and 11.5koz of gold. Our current modelling assumes an additional 2 years of output (which we believe is still a highly conservative assumption, based on the prospectivity for near-mine resource/reserve expansion), taking total copper production to ~70kt assuming an average cash cost of A\$7,000/t (~US\$2.15/lb) & All-in-Sustaining-Cost (AISC) of A\$9,400/t (US\$2.80/lb). Despite the relatively short mine-life, we believe the company could feasibly generate ~A\$225m in free cash flow, **with further significant upside possible through the drill bit.**

Figure 13: With exploration efforts underway & reserve extension likely, we forecast ~70kt copper production albeit with a more conservative cost assessment compared to the Updated Economic Assessment (annual rates are at steady state once fully ramped)

Assumption	Units	UEA	Wils. modelled	Comments
Annual Throughput	kt	1.4	1.5	
Mine life	years	4	6	
Copper in conc. Produced	kt	43.5	71.6	Assumed 2 additional years of production - we believe this is conservative
Copper Grade	%	1.03%	1.02%	
Copper Recovery	%	93%	92%	
Gold in conc. produced	koz	11.5	22.1	
C1 Operating Cost	A\$/t Cu	7,961	6,988	Although we have refined the split between cash costs and expected capital, overall have assumed 15% increase on UEA AISC
AISC	A\$/t Cu	8,051	9,388	Assumed a 15% higher AISC unit cost than UEA for conservatism
Free cashflow	A\$m	205	~225	Includes tax savings from past losses
NPV	A\$m	165	~165	Includes tax savings from past losses
Discount rate	%	8%	10%	

Source: Company data & Wilsons Advisory.

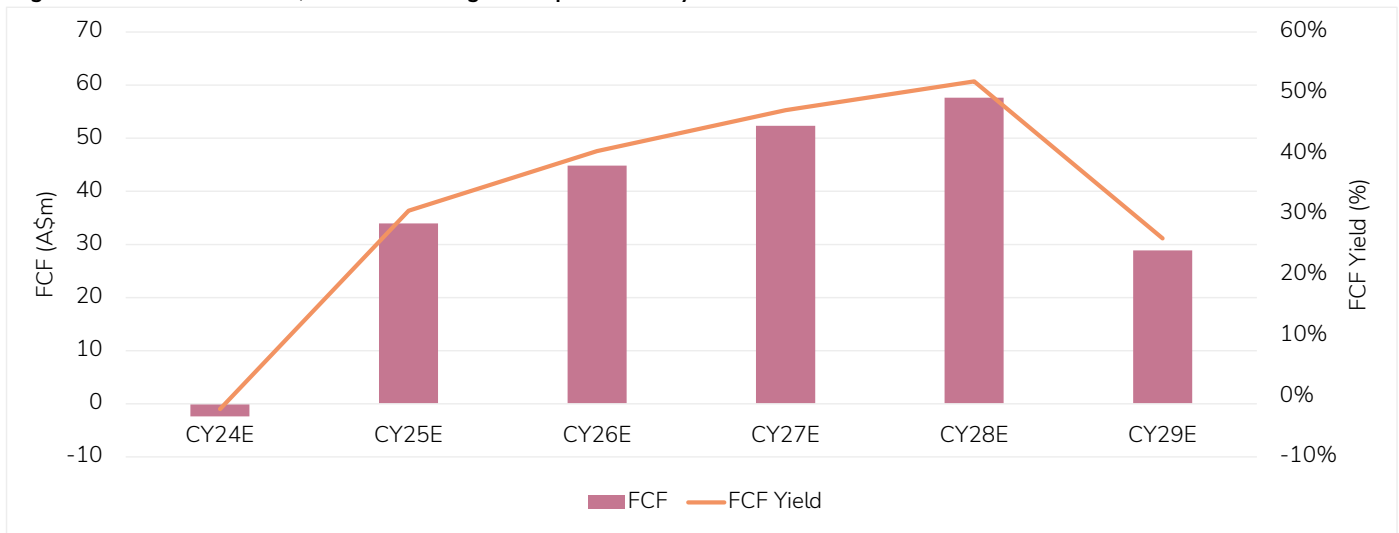
The near-term question: How much cash can they generate?

While we would not classify Kanmantoo as a low-cost operation, the Updated Economic Assessment, plus recent actual performance as the UG operations have ramped up, suggest that material cashflow generation in the near-term is likely (see Figure 14). **We see average FCF yields of 30-50%pa over the coming 3-4 years** and it is the near term cashflow potential which is a key differentiator from HGO's ASX-listed copper producing peers (See Comps sheet in Figure 21).

Clearly, given the early-stage nature of the new underground operations, there remains some delivery risk as to the actual cost levels, furthermore, how the operating costs interact with capital cost requirements for ongoing mine development, and exploration spend will be key to the levels of excess cashflow which the company will generate. We remind investors, that HGO is now a debt free vehicle, after having retired debt which created problems during the previous incarnation of Kanmantoo as an open cut operation.

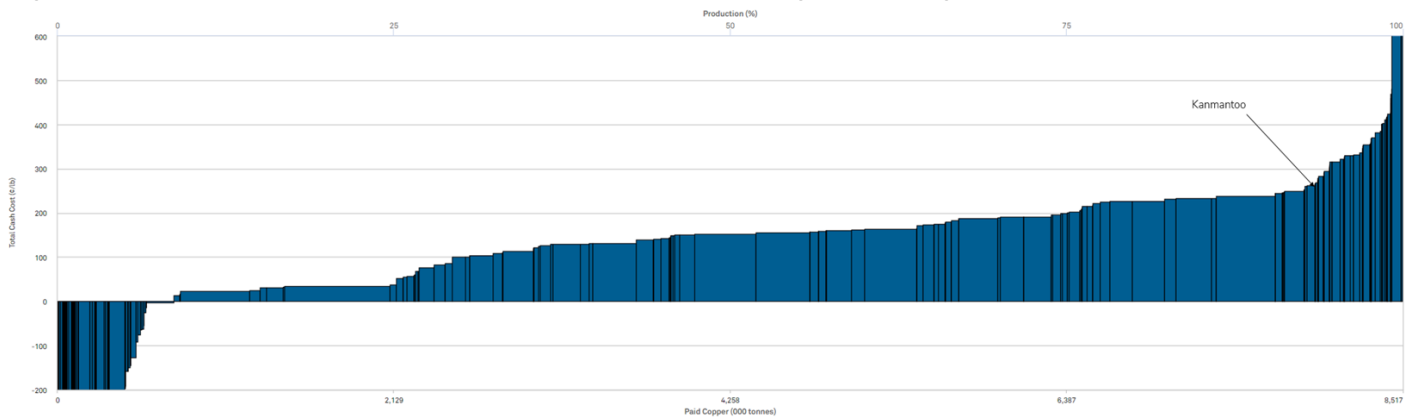
We note that our FCF projections already incorporate ~A\$6mpa of exploration spend, ~A\$32mpa of development spend, and ~A\$6mpa of expansionary/major works spend in our base case forecast. Accordingly, in the absence of large scale new additional investment required to expand/extend the mine (ahead of the generous allowance already in our base case) we note the potential for capital returns to shareholders alongside the mine life extension /development activities, and we note the company has a significant franking credit balance. Stemming from its past operations, Hillgrove has A\$17.5m of franking credits available. This could potentially enable the company to distribute over A\$50m in fully franked dividends at the appropriate time.

Figure 14: Per our Base Case, we forecast Hillgrove to provide FCF yields between 30-50%



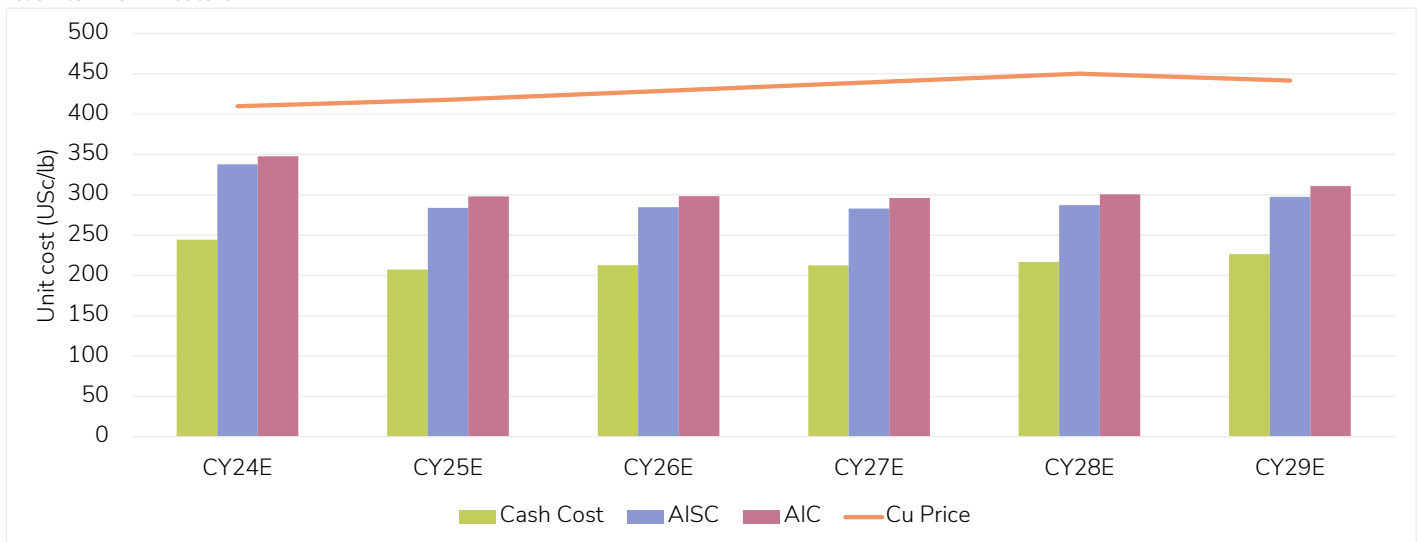
Source: Company data & Wilsons Advisory.

Figure 15: While there are other lower cost operations, Kanmantoo should still generate strong cashflows



Source: Company data.

Figure 16: Hillgrove is well positioned to capitalize on the positive outlook for copper over the coming years and generate significant free cashflow for investors



Source: Wilsons Advisory.

The long-term question: What happens after 4 years?

We believe the current share price is underpinned by valuation of the successful operation of the mine for the initial 4 year mine plan. The key (in our view) to HGO becoming an attractive longer term investment proposition is near-mine exploration success., which we believe is highly likely.

We note the existing Mineral Resource base of ~7Mt @1.1% Cu is complemented by a potentially game changing 60-100mt of exploration targets at similar expected grades.

Figure 17: Within the Kanmantoo mine lease, the current exploration target is 60-100Mt across the various zones

	Max RL Depth	Tonnage Range Mt	Grade Range Cu %	Grade Range Au g/t
Kavanagh	400	4 - 6	1.0 - 1.4%	0.1 - 0.3
Nugent	600	2 - 4	0.8 - 1.3%	0.3 - 0.5
Emily Star	600	1 - 4	0.8 - 1.2%	0.1 - 0.2
Paringa	600	1 - 2	0.8 - 1.2%	0.2 - 0.3
North Kavanagh	600	1 - 2	0.8 - 1.2%	0.1 - 0.2
Coopers	600	1 - 2	0.8 - 1.2%	0.1 - 0.2
Kanmantoo Deeps	600 - 000	50 - 80	0.8 - 1.2%	0.1 - 0.2
Total Mine Lease		60 - 100	0.9 - 1.2%	0.1 - 0.2
South Kanmantoo	600	2 - 4	0.8 - 1.2%	0.1 - 0.3
Stella	600	2 - 4	0.8 - 1.2%	0.1 - 0.3

Source: Company data.

While there appears to be a potential ‘game changer’ to the longer-term viability of operations at Kanmantoo through successful drilling into the Kanmantoo Deeps exploration target (currently estimated at 50-80Mt at 0.8-1.2% Cu.); we highlight the more likely near-term progressive incremental upside which may come from extensional satellite exploration targets adjacent to existing mineralisation (in many cases just continuation of existing mineralisation, below previously drilling horizons) which we believe **could add incrementally to mine life, and materially change the value proposition of HGO for potential investors.**, and underpins our conservative expectations for a total 6 year mine life.

We note our base case DCF estimate of 8cps. Each additional year of life (at ~14ktpa Cu output) would add ~1cps to our DCF valuation. Accordingly, even if the large Kanmantoo Deeps target proves a bridge too far, the conversion of the near mine lateral smaller scale exploration targets (as listed in Figure 17) into mineable inventory could have the potential to double our assessment of company NPV.

Figure 18: Kanmantoo Deeps could be a ‘game changer’ for HGO, but incremental resource delineation could provide material upside



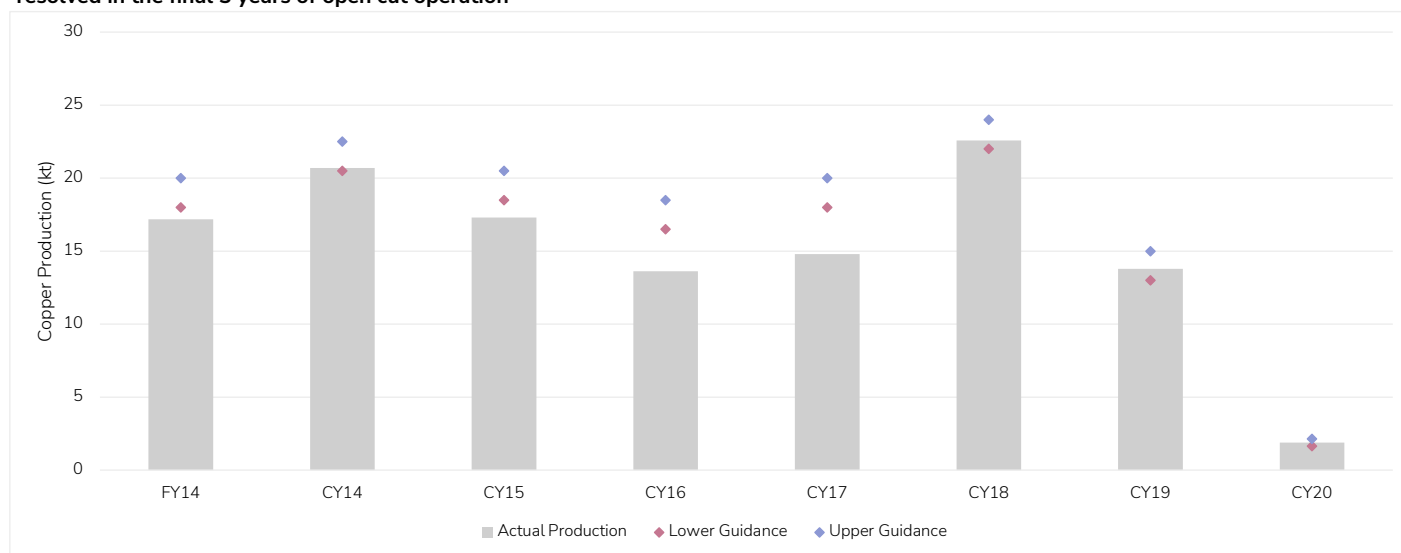
Source: Company data.

| What about the patchy history?

Some equity market investors may have less than positive memories of Hillgrove as an investment, during the period before its closed down open cut operations in 2020. We note there were several periods when the company repeatedly missed production guidance and disappointed the market as a result (most notably between ~2015 and 2018).

As we understand, the key cause of these production disappointments was poor actual reconciliations with expected grades. This is an issue which we believe has been largely corrected for. In fact, we believe that the issue had already been largely corrected prior to shut down in 2020, but by that stage (~2018-2020) the company was already 'chasing its tail' with regards to capital and cashflow requirements, and the market may not have noticed the improvement in the underlying grade reconciliations which took place.

Figure 19: Hillgrove repeatedly missed copper production guidance stemming from poor grade reconciliation in earlier years, but this was resolved in the final 3 years of open cut operation



Source: Company data.

As we detail in this report, the high 'nugget effect' of the Kanmantoo mineralisation meant that the original Mineral Resource Estimation (MRE) techniques used were ill-suited to this orebody. By 2018, the resource estimation methodology was adjusted (from ordinary kriging to broad panel & localised kriging) which resulted in significant improvements in grade reconciliation versus mine plan (seeing resultant improvement in performance versus guidance in the last 2-3 year of open cut operations).

Furthermore, we note that grade reconciliation out of the underground operations since the restart of mining operations over the past 6 months have shown a slight 'positive' reconciliation with expected grades, adding further weight to the view that a major cause of disappointment from the past has been addressed and hopefully resolved.

| Attractive comparison to peers on EV/Production & FCF metrics

Relative to other ASX-listed copper producers, HGO's current market capitalisation implies that it is trading at discounted levels on an EV/Production basis. Another way to interpret the below chart is that the market lacks conviction in Hillgrove's ramp up and operating potential, though we believe that with its established infrastructure, ample processing capacity and improved understanding of the orebody (including grade reconciliation processes) this should provide investors with greater confidence in Kanmantoo's ability to deliver on its mine plan moving forward.

Figure 20: On an EV/Production basis, Hillgrove's current market capitalisation implies that its trading at discounted levels compared to other ASX-listed producers

Source: Company data & Refinitiv.

Figure 21: HGO is positioned to deliver superior FCF yields to other copper producers, including MAC & SFR

Company Name	Ticker	Share Price	Currency	Year end	Mkt cap US\$m	Total NPV (A\$m)	Price Target (A\$m)	EV/EBITDA (x)			EBITDA Growth (%)			FCF Yield (%)			P/E		
								FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3
Sandfire Resources Ltd	SFR.AX	8.20	AUD	30-Jun	2,542	8.85	9.90	5.5x	4.1x	3.4x	43%	17%	5%	9%	8%	12%	22.3x	15.5x	12.3x
Metals Acquisition Ltd	MAC.AX	15.55	AUD	31-Dec	848	21.89	24.00	5.4x	4.0x	2.9x	8%	21%	28%	9%	17%	15%	40.9x	14.3x	7.5x
Hillgrove Resources	HGO.AX	0.05	AUD	31-Dec	112	0.08	0.08	1.2x	0.5x	-0.1x	-1260%	27%	11%	21%	37%	46%	3.8x	2.7x	2.3x
Capstone Copper Corp	CSC.AX	9.70	AUD	31-Dec	4,841			8.3x	4.2x	3.6x	169%	80%	15%	1%	7%	6%	40.0x	15.1x	12.2x
Antofagasta PLC	anto.l	1757	GBP	31-Dec	22,776			6.8x	5.8x	5.3x	19%	25%	10%	1%	0%	2%	20.5x	14.1x	13.4x
Atalaya Mining PLC	atym.l	371.5	GBP	31-Dec	688			5.8x	3.0x	0.1x	35%	90%	14%	3%	23%	31%	9.4x	4.1x	3.0x
Central Asia Metals PLC	cam.l	179.6	GBP	31-Dec	430			3.4x	2.7x	2.5x	2%	12%	-1%	18%	24%	23%	6.7x	5.6x	5.7x
First Quantum Minerals Ltd	fm.to	14.63	CAD	31-Dec	9,046			11.4x	6.8x	3.5x	-47%	70%	78%	-1%	2%	14%	-76.0x	31.4x	9.2x
Lundin Mining Corp	lun.to	12.23	CAD	31-Dec	7,042			4.4x	4.1x	3.8x	53%	5%	9%	3%	2%	1%	16.7x	15.5x	13.3x
Freeport-McMoRan Inc	fcx	41.36	USD	31-Dec	59,428			5.9x	5.2x	4.4x	24%	14%	9%	5%	7%	9%	24.1x	17.5x	15.7x
Mean								6.3x	4.4x	3.3x	34%	37%	19%	5%	10%	13%	11.6x	14.8x	10.2x
Median								5.8x	4.1x	3.5x	24%	21%	10%	3%	7%	12%	20.5x	15.1x	12.2x

Source: Wilsons Advisory, Refinitiv. All estimates in grey are Wilsons estimates, with Refinitiv values in white

All estimates are based on Refinitiv Consensus, except for SFR, MAC & HGO, which are Wilsons Estimates.

Source: Wilsons Advisory & Refinitiv.

We initiate on HGO with an Overweight rating and a conservative 8cps target price (~50% upside). Our target price is based on combination of earnings growth and DCF (detailed in our valuation section in this report). As mentioned earlier, we believe that if exploration success is forthcoming (along with consistent delivery from the new operations) then there is meaningful upside potential to this valuation.

What closes the gap to valuation?

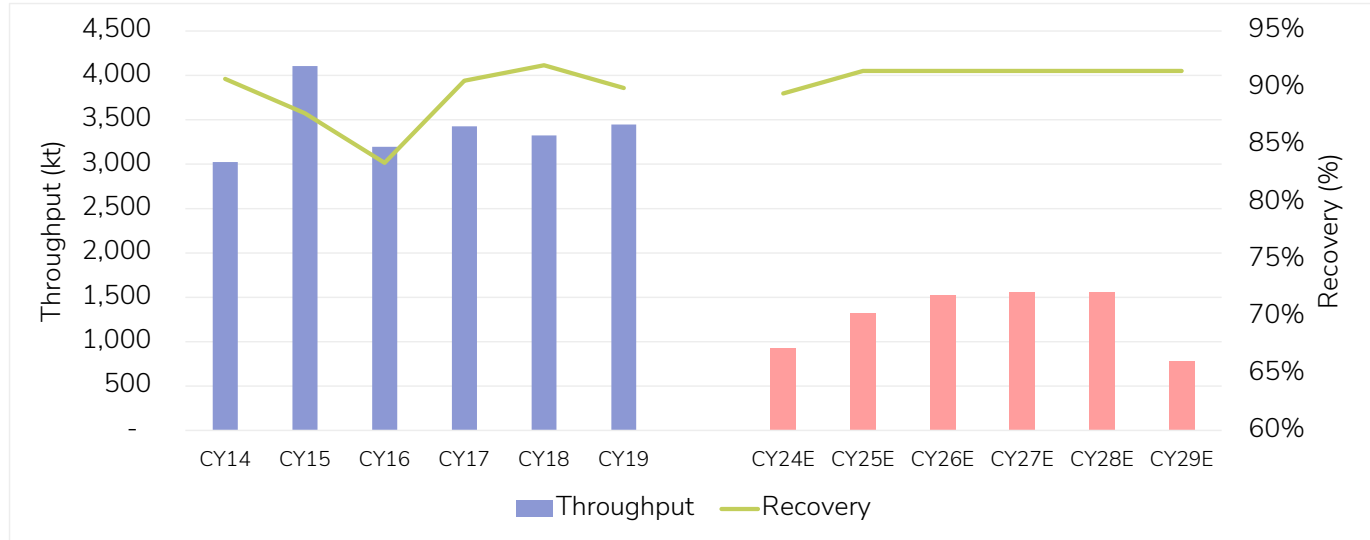
In our view Hillgrove Resources is a 'SHOW ME' story – and for those investors who have the confidence to invest early in journey of Australia's news copper producer, the rewards could be significant. Consistent operational delivery is key over the coming 6 months as the company seeks to establish its underground operating credentials (and to banish the demons of historic disappointments). Separately, we expect the company to progressively announce further exploration results aimed at converting exploration targets into resources and reserves – which should add to the assessment of mine life. We anticipate a formal update to the Resource base during 4Q24, which may act as a major catalyst for the stock. Finally, once the operations have ramped up and confidence in reliability is regained, we note the high potential for significant fully franked capital returns to shareholders

The 'For'

1. Existing infrastructure with spare capacity

Hillgrove boasts already established infrastructure at Kanmantoo with a proven track record of processing more than 3Mt of ore annually, which has significantly lightened the capex burden during the restart process.

Figure 22: Kanmantoo's processing plant achieved impressive throughput and recoveries (CY20 excluded as Kanmantoo was undergoing mine closure) (orange bars are Wilsons estimates)



Source: Company data & Wilsons Advisory.

After being placed on care and maintenance for ~3 years (from mid-2020 to early 2024), the company has navigated through various challenges in recommissioning the plant, including upskilling its workforce and managing equipment breakdowns, and despite still being early days, has continued to improve throughout the ramp up. The plant has been (and is planned to continue) running at significantly lower throughput than nameplate capacity, and as such has been operating on an intermittent, campaign basis (~14 days per campaign), underpinned primarily by mining rate constraints and development progress (we believe HGO can achieve ~1.4 Mtpa from the pit at its current level of investment).

Recently, the company has connected mains power to the underground operation resulting in a substantial circa 65% cost reduction to power use, which we anticipate will further support underground development rates in the near-term. We also note that the existing tailings storage facility has 3Mt more permitted capacity than the current mine plan, which could accommodate a ~2-3-year mine life extension without needing further capital or permitting.

Figure 23: Layout of Kanmantoo's surface infrastructure, with ample additional capacity should mining rates improve or exploration succeed



Source: Company data.

2. An operating copper asset with ~A\$200m of near-term cashflow potential

Hillgrove in 2024 has joined the very limited ranks of Australian-based copper producers, making the stock something of a rare commodity on the ASX.

Following the commissioning of the processing plant in February 2024, Kanmantoo achieved its first production in mid-Q1 2024 and has totalled 3.4kt in production up to June 24. Assuming the company continues to ramp up production in line with the UEA, we see potential for the asset to strong potential cash flow generation.

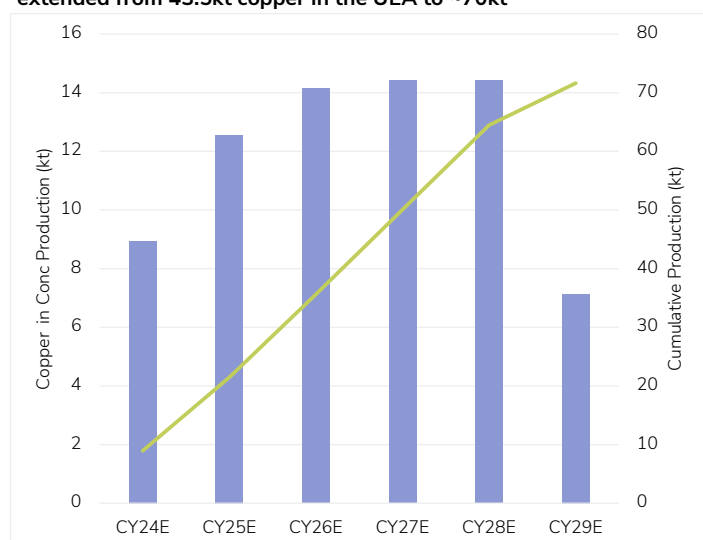
Figure 24: Hillgrove's ramp up has demonstrated promising results

	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Wilsons Steady State	UEA Steady State
Milled Tonnes (kt)	34	71	81	85	90	120	115
Copper Grade (%)	0.89%	0.97%	0.98%	1.09%	1.23%	1.02%	1.03%
Recovery (%)	80%	86%	90%	91%	94%	92%	93%
Copper Production (kt)	0.2	0.6	0.7	0.8	1.0	1.2	1.2

Source: Company data & Wilsons Advisory.

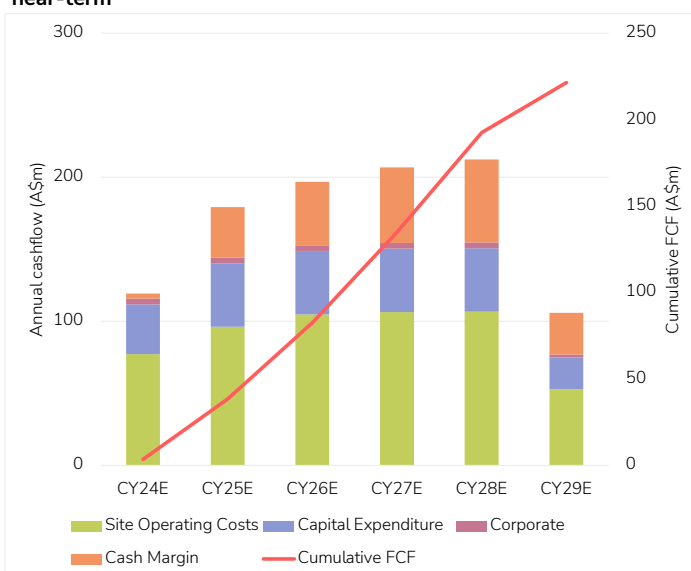
The initial phase of the underground mine plan (as outlined in the UEA) extends over ~4 years, producing 43.5kt copper and 11.5koz gold at an operating cost of A\$7,961/t copper. While this positions Kanmantoo in the upper end of the global cost curve (Figure 48), we still see the potential for strong cash margins at Kanmantoo given prevailing copper prices. Furthermore, we note that we expect the operations to continue for a number of years beyond the initial 4 year plan, and our current modelling assumes an additional 2 years of output (which we believe is still a highly conservative assumption, based on the prospectivity for near-mine resource/reserve expansion - see subsequent section on resource upside for further details).

Figure 25: We believe the restarted mine plan will modestly be extended from 43.5kt copper in the UEA to ~70kt



Source: Wilsons Advisory.

Figure 26: We expect Kanmantoo to provide robust cashflow in the near-term



Source: Wilsons Advisory.

3. Significant resource upside potential

Concurrent to the ramp up of production at Kanmantoo, Hillgrove is actively pursuing exploration and resource expansion. Noting that the initial mine plan (as per the UEA) is based on ~4.6Mt of ore, the company released an impressive exploration target of between 60 – 100Mt in October 2023, with grades varying between 0.9 and 1.2% Cu.

The lion share of the proposed Exploration Target is contained within the Kanmantoo Deeps zone, detected down dip and along strike of the original copper system through resistivity testing, where the company are yet to begin a significant drilling program. The remainder of the exploration target is based on six other copper-gold ore zones that have already been intersected by Hillgrove's surface drilling or mined in the open pit. Drilling results have returned >100% strike rate after recording 158 copper-gold intersections from only 136 holes, further increasing our confidence in the company's resource growth potential.

Figure 27: Updated Resource estimate for the Kanmantoo Underground in December 2023

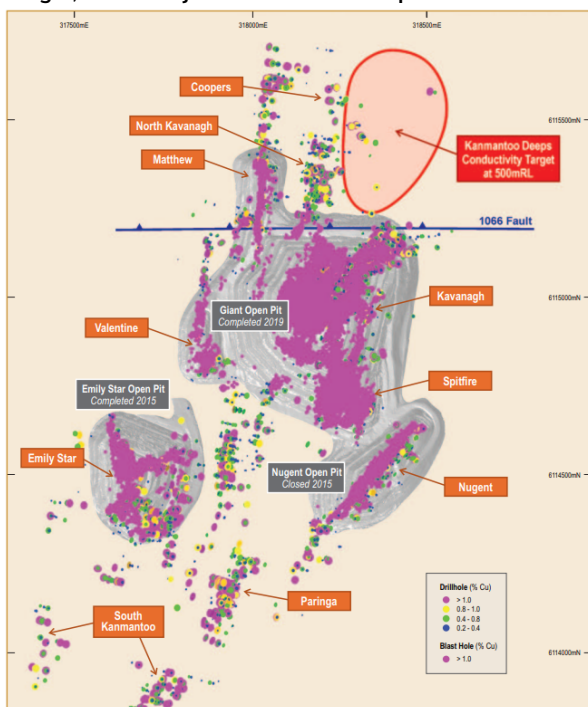
as at 31 Dec 2023		Ore (Kt)	Cu Grade (%)	Cu cont. (kt)	Au Grade (g/t)
Kavanagh	Measured	780	1.3%	9.9	0.10
	Indicated	3,640	1.0%	38.0	0.06
	Inferred	1,300	1.0%	10.0	0.10
	Sub-Total	5,750	1.1%	61.0	0.10
Nugent	Indicated	865	1.2%	10.3	0.64
	Inferred	400	1.1%	5.0	0.30
	Sub-Total	1,270	1.2%	15.0	0.54
Kanmantoo Total	Measured	780	1.3%	9.9	0.10
	Indicated	4,505	1.1%	48.0	0.20
	Inferred	1,700	1.0%	15.0	0.10
	Total	6,985	1.1%	75.9	0.16

Source: Company data.

Some significant recent intercepts include:

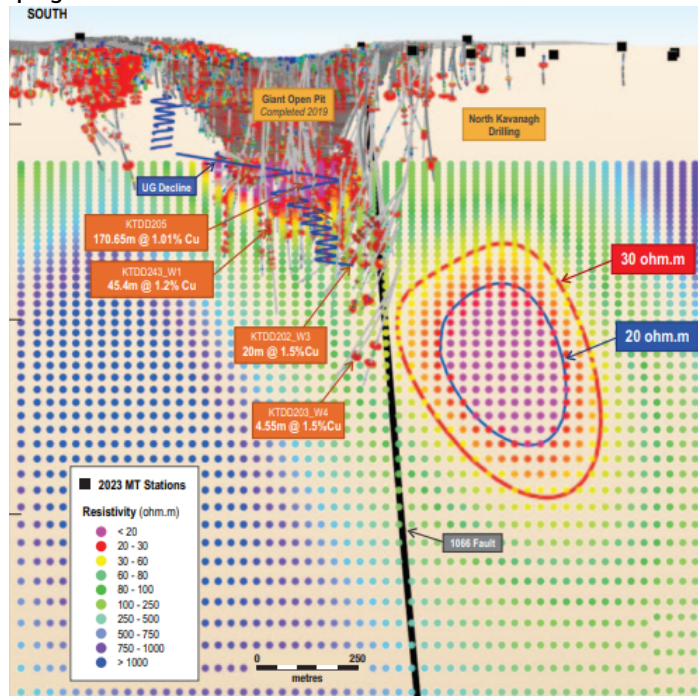
- 36.6m @ 3.35% Cu from 43m downhole in East Kavanagh (23KVUG064)
- 40.0m @ 1.38% Cu (uncut) from 74m downhole in Spitfire (23KVUG0238)
- 45.4m @ 1.19% Cu and 0.12g/t Au from Spitfire from 428.5m downhole (KTD243_W1)
- 40m @ 1.27% Cu from 43m downhole in Central Kavanagh (23KVUG072)
- 36.0m @ 1.78% Cu, 0.15g/t Au (uncut) from 175m downhole in Spitfire (23KVUG0101)
- 33.23m @ 1.46% Cu from 42m downhole in East Kavanagh (23KVUG083)

Figure 28: Kanmantoo Deeps, the largest prospective exploration target, is located just north of Giants Open Pit



Source: Company data.

Figure 29: Resistivity testing indicated key targets for drilling programs



Source: Company data.

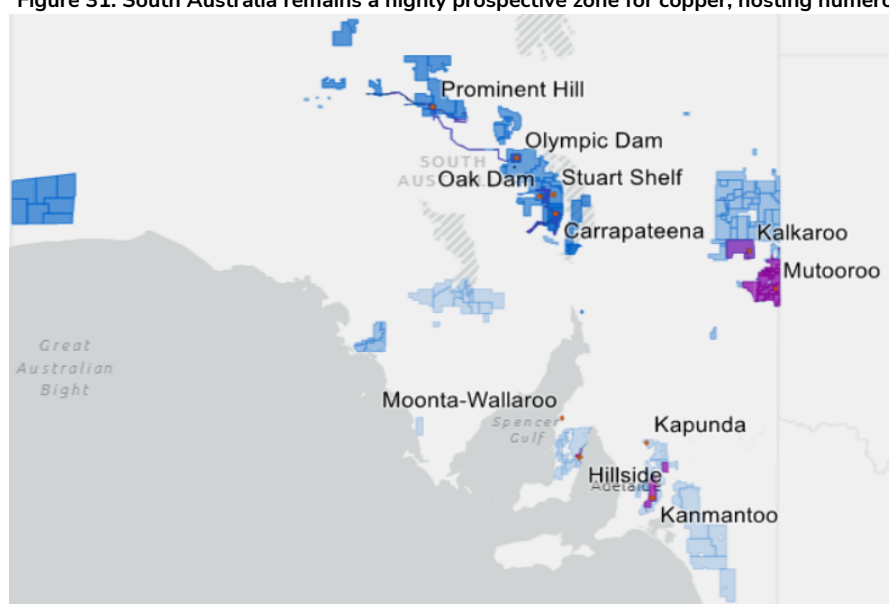
Figure 30: Within the Kanmantoo mine lease, the current exploration target is 60-100Mt across the various zones

	Max RL Depth	Tonnage Range Mt	Grade Range Cu %	Grade Range Au g/t
Kavanagh	400	4 - 6	1.0 - 1.4%	0.1 - 0.3
Nugent	600	2 - 4	0.8 - 1.3%	0.3 - 0.5
Emily Star	600	1 - 4	0.8 - 1.2%	0.1 - 0.2
Paringa	600	1 - 2	0.8 - 1.2%	0.2 - 0.3
North Kavanagh	600	1 - 2	0.8 - 1.2%	0.1 - 0.2
Coopers	600	1 - 2	0.8 - 1.2%	0.1 - 0.2
Kanmantoo Deeps	600 - 000	50 - 80	0.8 - 1.2%	0.1 - 0.2
Total Mine Lease		60 - 100	0.9 - 1.2%	0.1 - 0.2
South Kanmantoo	600	2 - 4	0.8 - 1.2%	0.1 - 0.3
Stella	600	2 - 4	0.8 - 1.2%	0.1 - 0.3

Source: Company data.

4. Opportunity on both sides of the M&A thematic?

With the 'open market' for copper transactions being a highly competitive space, we see potential for Hillgrove to look to bolt on more production or acquire further assets. HGO management have previously flagged a desire to become a multi-asset company. Based on our FCF forecasts (and no current debt), HGO may be able to pursue organic growth, in addition to more broadly evaluating nearby copper sources where Hillgrove can utilise the spare capacity of the existing plant. In South Australia, Kanmantoo is surrounded by various new development projects in addition to historical deposits where mines are no longer operating yet could possibly yield promising exploration results (we note that the grade of any potential satellite deposit would obviously need to be sufficient to absorb the transport costs to the Kanmantoo mill).

Figure 31: South Australia remains a highly prospective zone for copper, hosting numerous globally significant operations & orebodies

Source: S&P Global Market Intelligence.

On the other side of the M&A ledger, we note that Hillgrove's regional neighbour, Rex Resources, was recently acquired by MACH Metals for A\$393 million, which highlights a recent industry trend of a preference for existing asset consolidation rather than investing in grassroots exploration. This trend is being fuelled by the increasing operational challenges (i.e. declining grade, increasing depth, increasing geological risk, permitting challenges, higher cost bases) faced by copper miners, with the lead time for a new copper greenfield development now averaging 17 years. To emphasize the competitiveness of the current market REX/MACH deal values Rex at \$0.47 per share, representing a 98% premium to its 90-day VWAP (\$0.24) and 176% premium to Rex's entitlement offer in January (\$0.17). On a US\$/contained Cu basis, this equates to approximately ~US\$150/t, bearing in mind that Hillside (Rex's flagship project) is still in the study stage and due to be tentatively commissioned in early 2026. For reference, Hillside is one of Australia's largest undeveloped copper projects and currently contains a mineral resource of 1.9Mt of contained copper (at grades of ~0.6%) and 1.5Moz contained gold.

For illustrative purposes, we have benchmarked copper M&A transactions over the past decade and determined that the underlying purchase price on average has increased from ~US\$170/t contained Cu (2015-2019) to ~US\$240/t contained Cu (2020-2024). Taking US\$250/t contained Cu as an indicative price for producers in current conditions, HGO's possible ~A\$225m of free cashflow translates to ~560kt contained copper of potential purchasing power (7x the current HGO resource base). Alternatively, we acknowledge this same metric would imply that Kanmantoo's existing resources could be worth just ~A\$30m (perhaps a slightly misleading metric given the operating status of asset and the significant infrastructure already installed onsite); but adding in the successful delineation of 60-100mt (current exploration target) could imply resource only value of A\$200m to A\$450m.

Figure 32: Transaction volume declined, with a clear upward trend in transaction price per contained Cu tonne

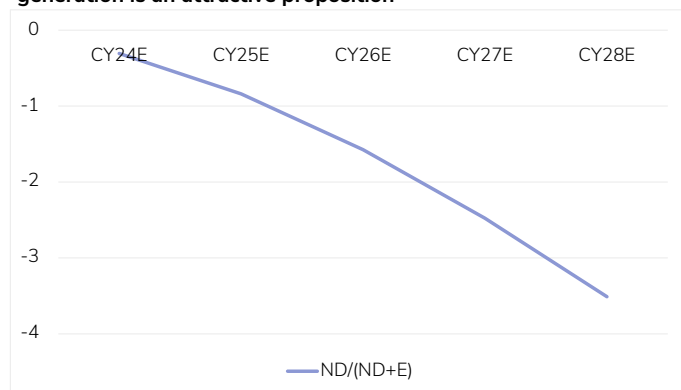
Transaction Value (US\$m)	2015-2019		2020-2024		Total	
	# Transactions	US\$/t contained Cu	# Transactions	US\$/t contained Cu	# Transactions	US\$/t contained Cu
0-50	15		8		23	
50-150	11		9		20	
150-250	4		2		6	
250-400	4	166	-	240	4	203
400-600	3		5		8	
600+	16		10		26	
Total	53		34		87	

Source: S&P Global Market Intelligence & Wilsons Advisory.

5. Balance Sheet strength

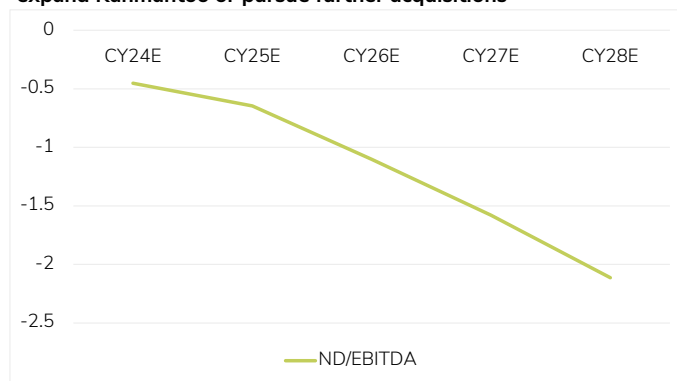
We flag to investors that whilst Hillgrove was financially strained in previous years, **the company is commencing underground operations with no debt on its Balance Sheet**. Importantly, this has helped derisk the project from a cashflow perspective, enabling additional flexibility during the start-up period and accelerating the company's path to positive cashflow generation. In the absence of debt, we note that the Kanmantoo restart has been largely funded through equity contributions, with ~60% of Hillgrove's equity having been issued since December 2020.

Figure 33: HGO's lack of borrowings coupled with its significant FCF generation is an attractive proposition



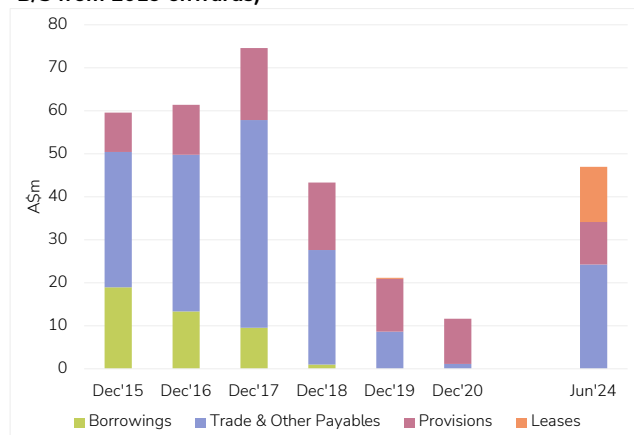
Source: Wilsons Advisory.

Figure 34: Looking forward, HGO will be in a strong position to either expand Kanmantoo or pursue further acquisitions



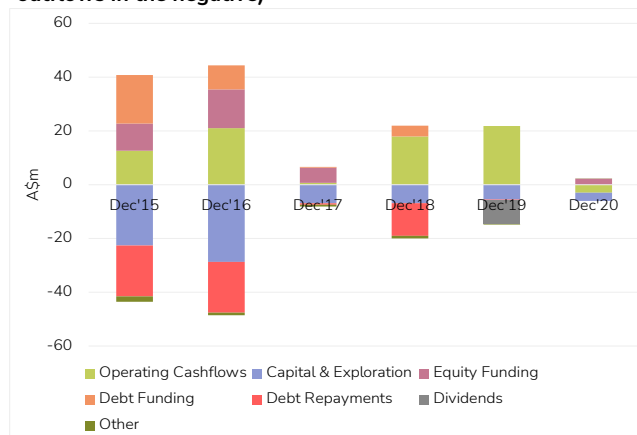
Source: Wilsons Advisory.

Figure 35: Compared to the more challenging years in its operating past, HGO's current B/S is significantly cleaner and contains no borrowings (noting AASB16 mandated leases to be reflected on the B/S from 2019 onwards)

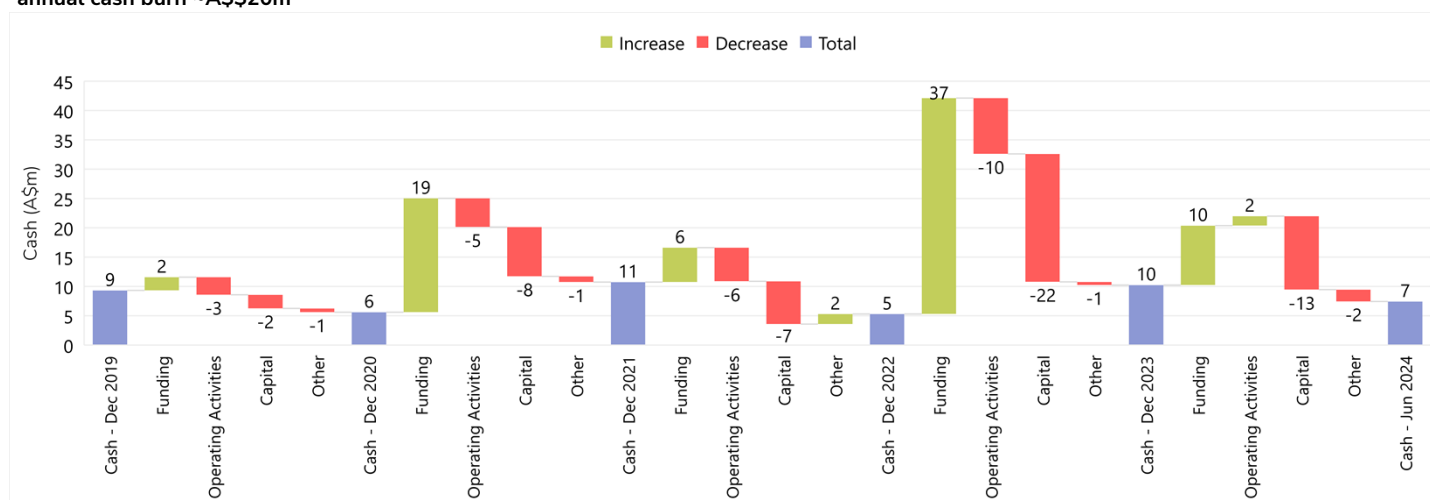


Source: Company data.

Figure 36: Historically With ~A\$15m-A\$20m in average operating cashflows, HGO previously relied on a combination of debt & equity financing (in the bar chart, inflows are shown above the line, with outflows in the negative)



Source: Company data.

Figure 37: Cash levels have been supported through various capital raises throughout the development of the underground, with average annual cash burn ~A\$20m

Source: Company data.

Figure 38: Though significant shareholder dilution has occurred overall given the equity source of funds, we note that Freepoint has subscribed in several of the key financings on a pro-rata basis

Funding	Value (A\$m)	Timing	Share Price (A\$)	Instruments (#m)	Purpose/Other Notes
Equity	10	February 2024	0.060	167	Funding for mine extension drilling via placement, Freepoint subscribed 2m for its pro-rata portion
Equity	39	March 2023	0.053	725	19m from Institutional Placement, 17.2 from Freepoint Metals & Conc LLC, 3m SPP from shareholders
Royalty	6	August 2022			2.5% NSR for first 85kt of payable copper, reduced to 0.5% thereafter
Equity	12	September 2021	0.052	231	10m from Institutional Placement, 2m SPP from Shareholders
Gvmt. Grant	2	August 2021			SA Government Grant to trial new UG technology
Equity	11	December 2020	0.031	351	8m from Institutional Placement, 3m from Entitlement Offer
Total	70			1,307	

Ordinary shares on issue ~2,095m

Source: Company data.

6. Significant Franking credits should capital returns become preferred

Stemming from its past operations, Hillgrove has A\$17.5m of franking credits available for its investor base. This could potentially enable the company to distribute over \$50m in fully franked dividends at the appropriate time.

7. Positive copper outlook

We are unshakingly positive on the structural outlook for copper and believe that prices will likely continue to move to higher highs and higher lows. In the near-term, we acknowledge the near-term weakness in the copper market, although expect prices to rally into year-end. Following the copper tailwinds in April, LME 3M copper prices slumped to a nearly five-month low of \$8,757/t in early August, primarily driven by weak demand and elevated copper stocks at global exchange warehouses, while macroeconomic headwinds further accelerated the drop in prices. On a positive note, a Fed rate cut in September should provide a tailwind for metals prices and demand as the US economy enters a rate-cutting cycle, additionally emerging markets' demand is likely to benefit from a weaker USD and falling USD borrowing costs. Finally, while recent Chinese macro data hasn't been inspiring, we flag the potential for a seasonal uptick in activity in China as local authorities push to meet full year mandated targets, meanwhile scrap availability has also fallen following recent policy changes on tax rebates in China.

The ramp up of renewable technologies and advanced energy storage systems have undeniably positioned copper at the centre of the energy transition. With the average lead time for new copper mines at ~17 years, and the well accepted increasing operational challenges which the copper industry faces (i.e. declining grade, increasing depth, increasing geological risk, high capex and opex) we continue to believe the supply side will struggle to keep pace with demand. Whilst the questionable health of China's real estate sector has the potential to crimp some of the upside in prices, many of the characteristics of the copper market remain robust and positive which we believe will fuel further price growth in the coming years. We comment on the current copper market in greater detail in Appendix A, which we believe culminate in a fundamentally positive outlook.

Figure 39: Consensus forecast has copper prices remaining above US\$4.50/lb, offering significant near-term opportunity for Hillgrove



Source: Historical copper costs provided from Refinitiv, with consensus forecast sourced from Visible Alpha.

The ‘Against’

1. Poor historic grade reconciliation

We flag that grade reconciliation issues plagued Kanmantoo's early production years, playing a key part in the company consecutively missing market guidance on volumes. It is this disappointment which may stick in the minds of some investors with longer memories. We note that what may have been missed after the damage had already been done was that the grade reconciliation actually improved materially in the latter years of open pit production.

The challenges around grade reconciliation stemmed from highly variable ore grades within the mineralised envelope (i.e. the nugget effect). At Kanmantoo, the nugget effect is particularly pronounced due to the erratic distribution of high-grade copper-gold mineralization within a broader low-grade matrix, complicating resource estimation and requiring advanced geostatistical methods to manage. Understanding and modelling the nugget effect at Kanmantoo proved crucial for improving the accuracy of reserve calculations and optimizing mining operations. We have provided additional detail below on various geostatistical methods, noting that Broad Panel Kriging & Localized Kriging are commonly used now at Kanmantoo.

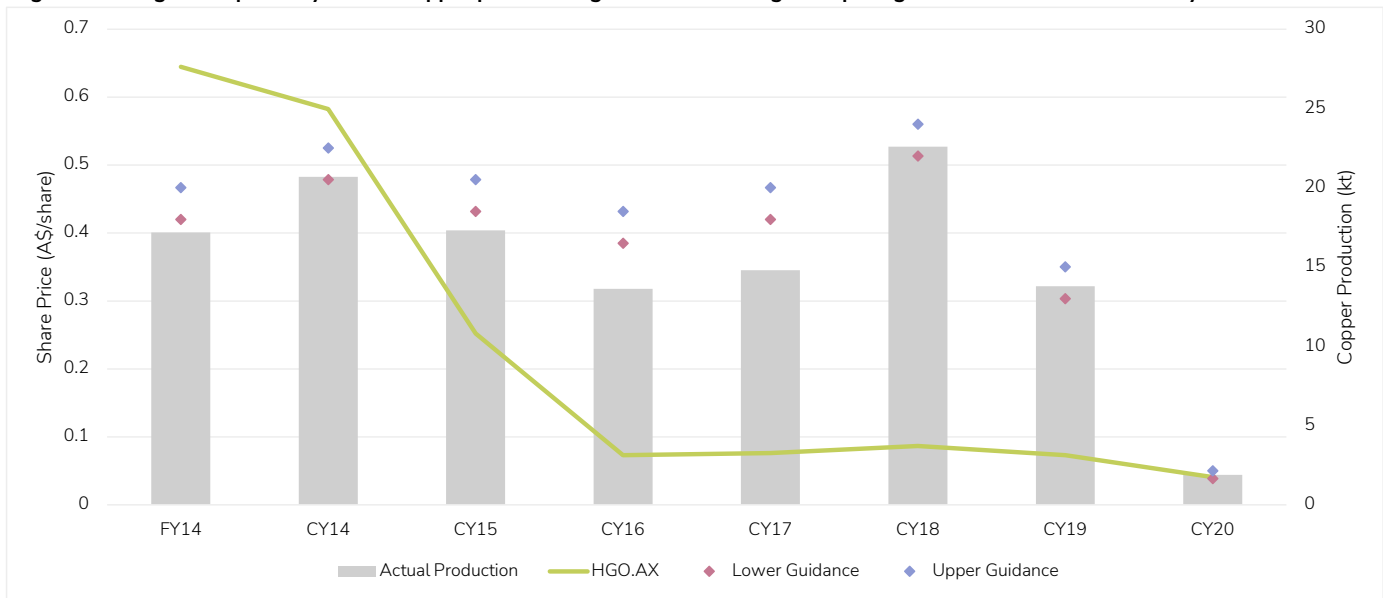
Figure 40: Methods of resource estimation

Ordinary Kriging	Broad Panel Multiple Indicator Kriging (MiK)	Localized Multiple Indicator Kriging (L-MiK)
<p>Basic Concept: Predicts unknown ore grades at unsampled locations using a weighted sum of known sample grades. Weights are determined based on the spatial correlation of sample data.</p> <p>Assumptions: Assumes a constant but unknown mean ore grade throughout the mining area.</p> <p>Applications: Suitable for continuous ore deposits with relatively homogeneous spatial distribution and normally distributed grades.</p> <p>Output: Provides a single best estimate of the ore grade and a measure of estimation uncertainty (kriging variance) for each unsampled location within the mining area.</p>	<p>Basic Concept: Extends kriging by using multiple cut-offs to transform continuous ore grades into several binary indicators, which are kriged separately. This method captures the non-linear characteristics of the ore distribution.</p> <p>Assumptions: Ideal for highly skewed ore grade distributions and heterogeneous ore bodies.</p> <p>Applications: Used in resource estimation where ore grades are highly variable and not normally distributed, such as in precious metal deposits with erratic grade distributions.</p> <p>Output: Estimates the probability distribution of ore grades within each broad panel (block), providing a more comprehensive assessment of grade uncertainty and risk over larger areas.</p>	<p>Basic Concept: Refines Broad Panel MiK by focusing on smaller, localized mining blocks. It applies the same indicator approach to smaller areas, capturing finer spatial details of the ore distribution.</p> <p>Assumptions: Suitable for highly skewed and non-Gaussian ore grade distributions, with a focus on capturing detailed local variability.</p> <p>Applications: Ideal for mining operations where high spatial variability exists, and detailed local estimates are necessary. Commonly used in complex ore bodies where precision in grade estimation at a finer scale is critical.</p> <p>Output: Provides localized probability distributions and more precise local estimates of ore grades, enhancing the accuracy of resource models and decision-making at a finer spatial resolution.</p>

Source: Wilsons Advisory.

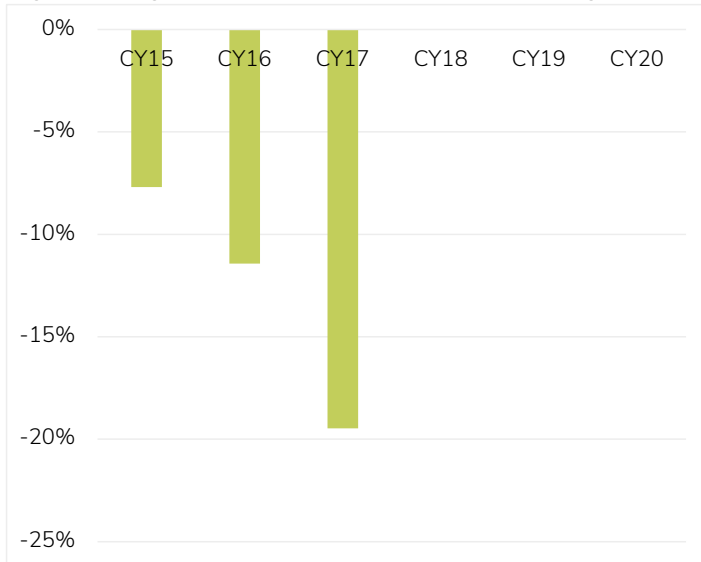
As a result of these historic grade reconciliation issues, we note the company had consecutive years of underperformance versus guidance, which resulted in a loss of investor confidence. In CY15, the company achieved a milled copper grade of 0.52% against initial guidance of between 0.68% - 0.72%, with the company thereafter withholding guidance for both grade and recovery. Over the 3 years of consecutive downgrades between CY15-CY17, we flag that market guidance became progressively more limited, with ore mined/milled, recovery and grade (disappeared first in CY15) all being withheld from guidance by CY17. Note we display from CY15 onwards as the company changed their reporting periods.

Figure 41: Hillgrove repeatedly missed copper production guidance stemming from poor grade reconciliation in earlier years



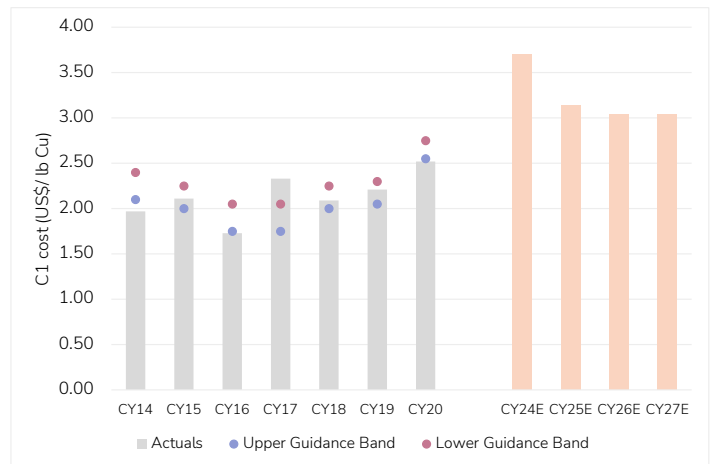
Source: Company data & Refinitiv.

Figure 42: Magnitude of copper production misses versus guidance



Source: Company data.

Figure 43: While production guidance was an issue, the company managed to show robust performance in the context of unit cost guidance (matching or beating in all but 1 years from CY14-CY20. (orange bars are Wilsons estimates)



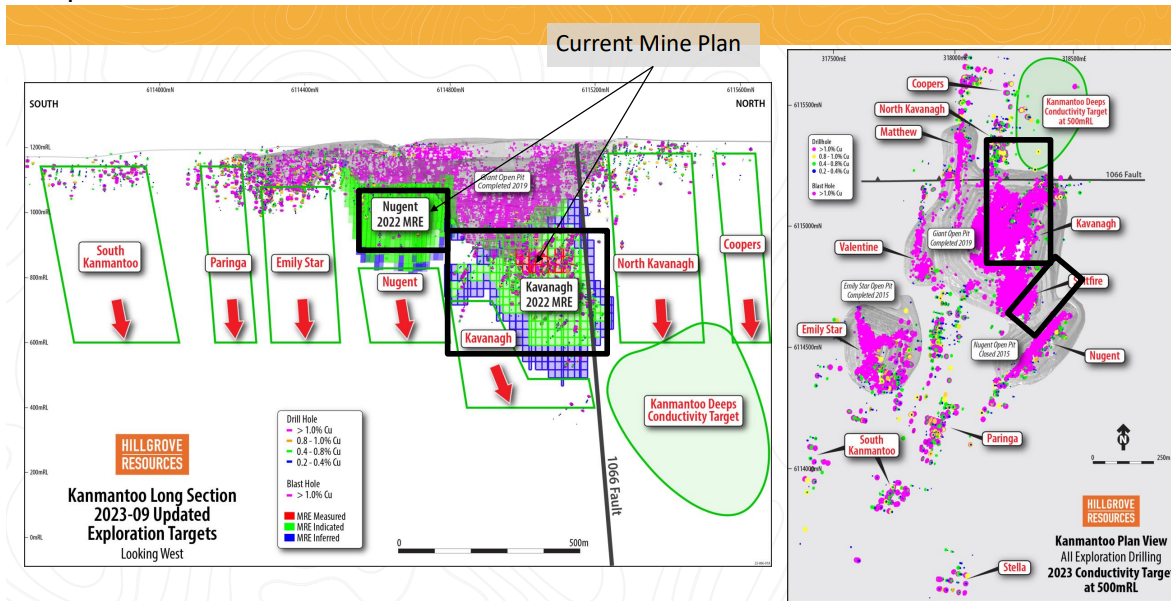
Source: Company data & Wilsons Advisory.

2. Short mine life

Kanmantoo’s current production profile (as per the UEA) is only expected to cover ~4 years of mining activity (noting that our base case assumes a further 2 years). Whilst Hillgrove have developed ambitious exploration targets and is looking to extend its operation, we note there remains the risk that this upside potential does not provide much benefit to investors until converted into reserve tonnes and factored into the mine plan.

As we have noted earlier in this report, further mineralisation has been detected both laterally and at depth relative to Kavanagh and Nugent, and we remain confident in mine life extension being forthcoming in due course (with a MRE update expected during 4Q24).

Figure 44: Kanmantoo's initial mine plan is directly below previous open pits (outlined in black), with exploration potential both laterally and at-depth



Source: Company data.

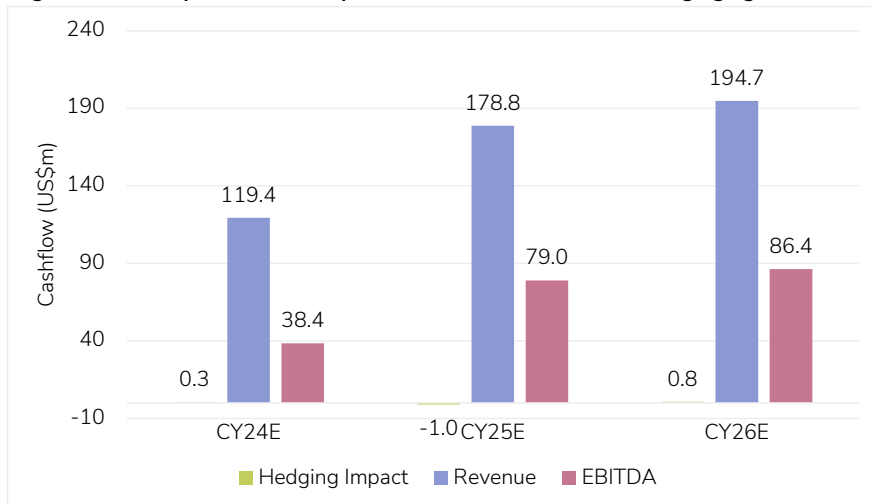
3. Hedging risk

We acknowledge that generally markets are wary of hedging arrangement, and prefer mining companies to be fully exposed to the vagaries of commodity prices, hence flagging as a risk point for some investors. As part of its equity raise in March 2023, Hillgrove entered into a binding agreement with Freepoint to fix the pricing on up to 16kt of copper in concentrate at ~A\$13,700/t, maxing out at ~35% of copper production in the initial UEA mine plan. The agreement includes:

- Tranche 1: 6kt at the completion of the Tranche 2 Freepoint Placement and the copper price is above A\$12,500/t plus hedging margin; and
- Tranche 2: Further 10kt when certain operating performance hurdles are met, and the copper price is within the pricing window of A\$12,000/t - A\$21,650/t plus hedging margin. Hillgrove has the right to pursue third party offers for the Tranche 2 Hedging if the copper price increases above A\$21,650/t prior to achieving the performance hurdles required to affect the Tranche 2 Hedging.

As of June 30, we understand that Hillgrove had fixed the pricing on ~10kt of copper to date with Freepoint, with the hedged material to be delivered over 2.5 years at ~A\$13,700/t. Based on our copper forecast, we expect minimal impact from this hedging agreement in our base case as seen below, but do note that the volumes in question represent ~25-30% of production over the coming ~2-3years, which could result in meaningful impact if the copper price swings materially away from our estimates.

Figure 45: We expect minimal impact in our base case from the hedging agreement with Freepoint

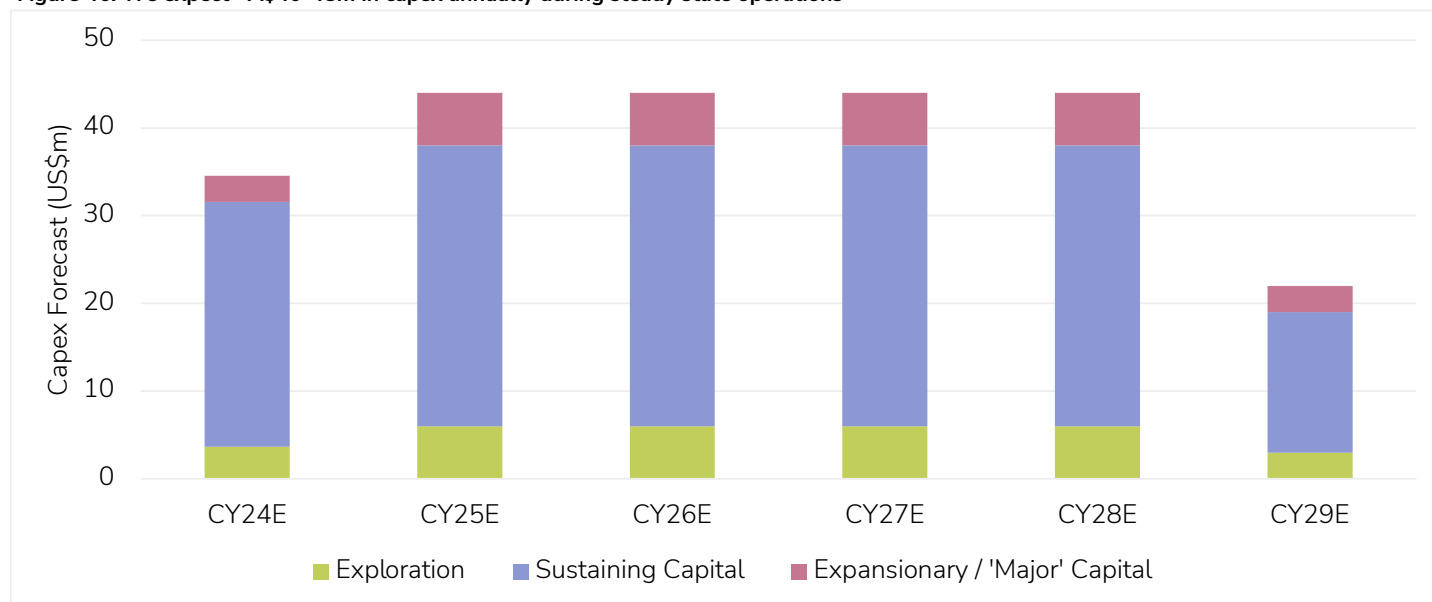


Source: Wilsons Advisory.

4. Potential unforeseen capex requirements

HGO management should be commended for 'keeping the lights on' during the 3–4-year period when operations were suspended. The company was able to manage this, in part at least due to a disciplined capital focus with limited spending on the existing plant. That being the case, now that the operation is ramping back up again (albeit with the plant operating on a campaign basis) we flag the risk that unforeseen maintenance issues may require additional capex after capital conservation has been a key focus for several years.

Figure 46: We expect ~A\$40-45m in capex annually during steady state operations

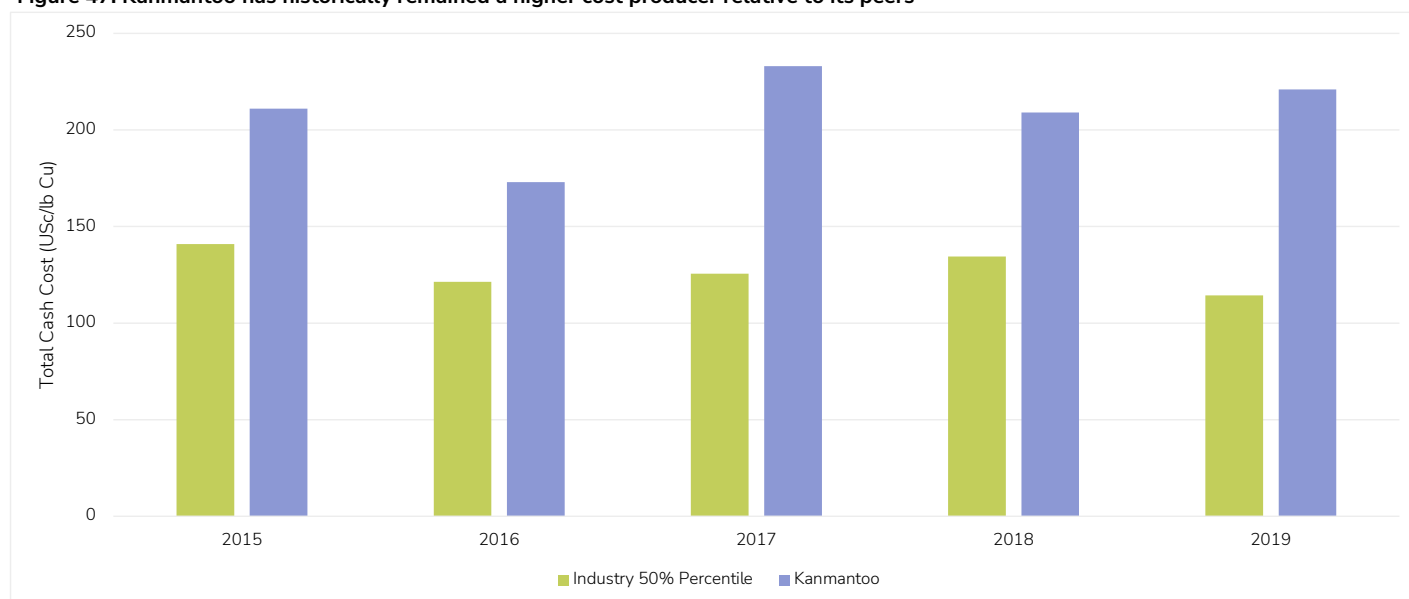


Source: Wilsons Advisory.

5. Higher-cost producer

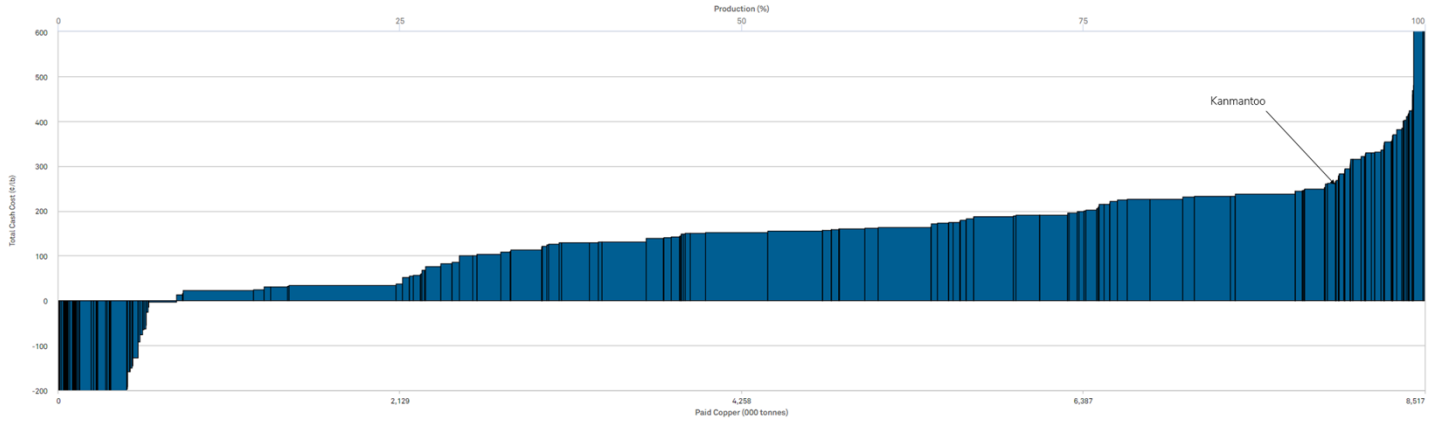
Kanmantoo has historically been a higher-cost producer, due to the limited scale of its operation (in the context of prevailing grades). Below we have mapped Kanmantoo's unit cash cost performance against other open pit assets from 2015 to 2019 (2020 excluded based on Kanmantoo's closure early in the period). Based on the preliminary study economics, Kanmantoo is expected to maintain a higher cost base (in Q4 of the UG copper mines cost curve), with a total cash cost of A\$7,961/t (~US\$2.50/lb) and AISC of A\$8,051/t (~US\$2.55/lb), however this could see further improvement through additional production should the bottleneck from the mine to the plant be eased.

Figure 47: Kanmantoo has historically remained a higher cost producer relative to its peers



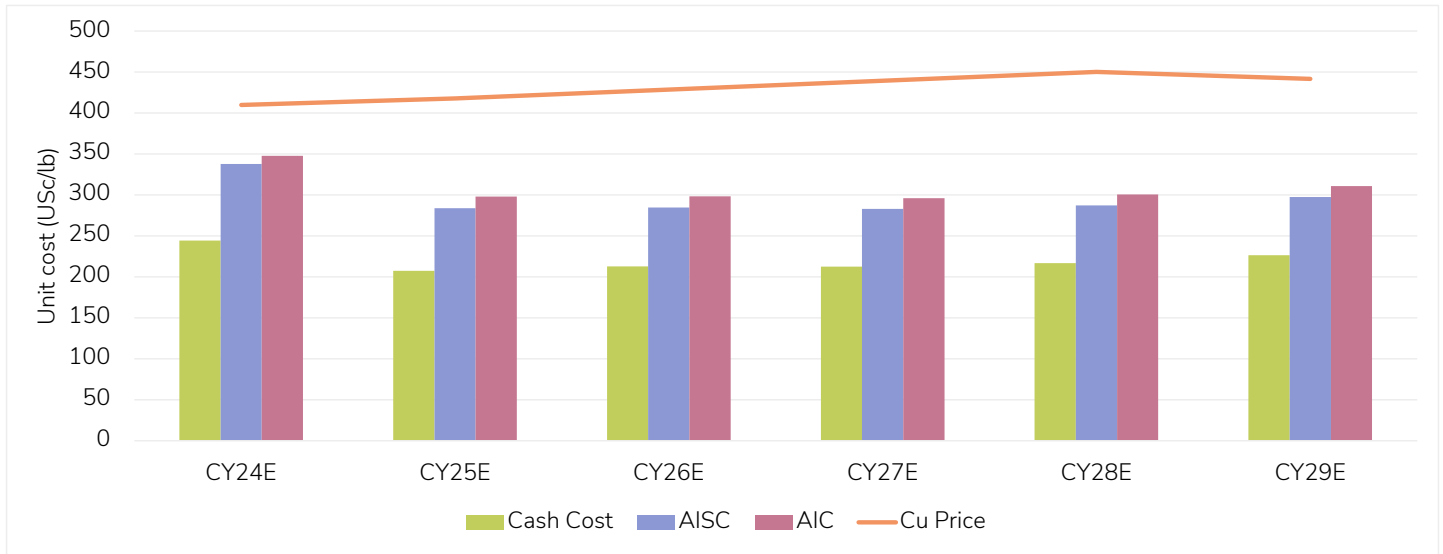
Source: S&P Global Market Intelligence & Company data.

Figure 48: Using 2022 cost data, the UEA would place Kanmantoo's new mine plan in the 4th quartile of underground operations globally



Source: S&P Global Market Intelligence & Company data.

Figure 49: Hillgrove is positioned well to capitalize on the positive outlook for copper over the coming years and generate significant free cashflow for investors

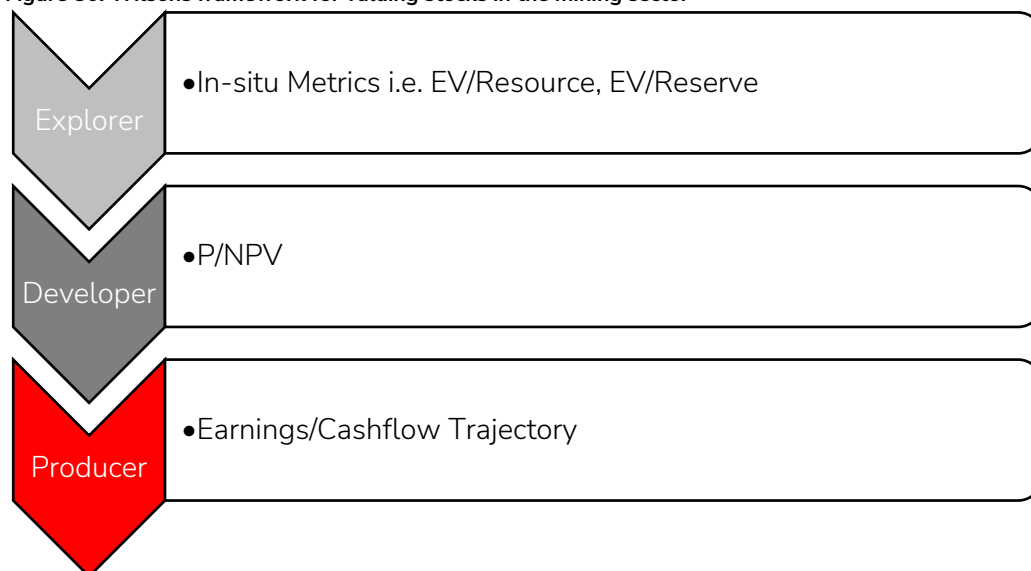


Source: Wilsons Advisory.

How we value stocks in the mining sector

We believe that as a mining stock move through its life cycle – from explorer, to developer, to producer – the market will give primacy varying metrics as the company evolves. While we always aim to look holistically at a broad range of relevant valuation metrics (typically our target price formation will be informed by the base framework outlined below).

Figure 50: Wilsons framework for valuing stocks in the mining sector



Source: WILSONS Advisory Research.

This framework will have various exceptions and caveats specific to each company, and our job as equity analysts is to identify the idiosyncratic features of specific stocks which may require emphasis of differing metrics at differing points in a company's life cycle (or in different market conditions). Furthermore, qualitative overlays, such as Management Quality & ESG considerations, may also contribute to valuation from time to time. Accordingly, we consider the above framework, as a high-level starting point in our approach to valuation within the sector.

We expand on the graphic above in the discussion below.

Prospectors: Analyst Judgement

'Prospectors do not appear in the graphic above, but for completeness we discuss our approach to analysis prospectors here. We typically consider a 'Prospector' to be a very early-stage exploration company which has yet to declare any form of mineral resource. Prospectors which we might consider for research coverage have typically moved past the geophysics/non-invasive geological techniques stage, and have commenced some form of drilling or physical sampling of potential mineral targets. Prospectors present a challenge for analysts as there is relatively limited analytical value which can be added through use of any recognised valuation technique given the very early stage nature of these types of businesses. Only a very small number of prospecting properties will ultimately become mining properties, but until exploration potential is reasonably well tested, it is highly subjective exercise to assess value. Accordingly, any coverage of prospectors will rely heavily on Analyst experience and subjective judgement (i.e. perhaps comparing market capitalisations with similar companies and making a judgement call on the quality of early stage drill results) for price target consideration.

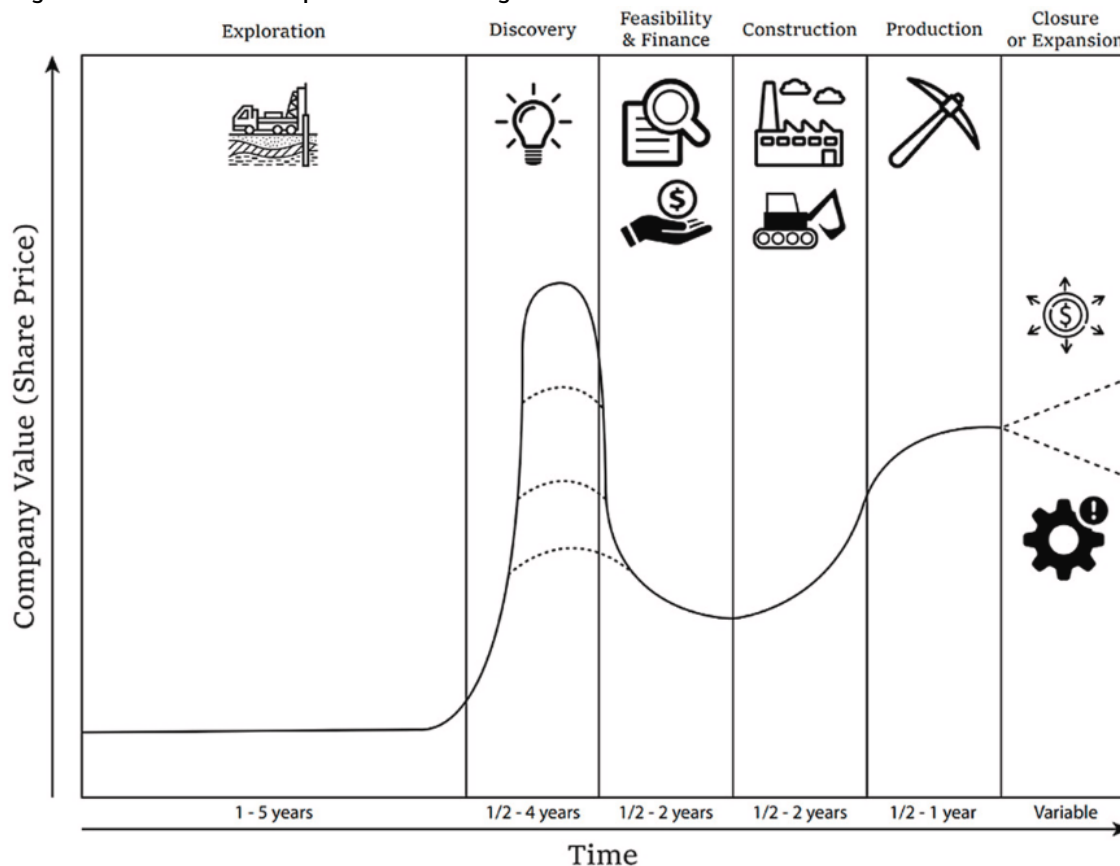
Explorers: In-situ Metrics

Typically, we define an "Explorer" as a company which has declared a maiden resource estimate. Some form of resource base (even if relatively low confidence) at least begins to provide us with the ability to use metrics such as EV/Resource to gain a sense of relative valuation versus peers at a similar stage in their lifecycle. At this stage we make the caveat that in-situ metrics are one of our least preferred valuation tools, given their significant shortcomings (i.e. In-situ metrics such as EV/Resource or even EV/Reserve make no distinctions between resource or reserve tonnes which are expensive to extract versus those that can be extracted for minimal outlay). We use these metrics for explorer as typical there is little other information available. As soon as practical for 'explorers' we will attempt to move them into the 'Developer' category, in that we will make every effort to estimate development and operating costs of a potential operation. In our experience, the market begins to value very advanced stage explorers on a P/NPV approach as soon as it becomes possible to make broadly acceptable assumptions on things such as development capex and operating cost for a given exploration target.

| Developers: P/NPV

We will typically define a company as a 'Developer' after the first economic study has been completed for project development. This covers anything from Scoping studies or Preliminary Economics Assessments through to Definitive Feasibility and FEED studies. The publication of such studies typically allows for independent assessment of project NPV (using DCF) using the study metrics (i.e. operating costs, project scale and capex) as a basis for our own calculations of project value. We note that our valuation of a project will usually differ from the NPV figures published in company studies, as analytical assumptions on things such as commodity price and discount rate may vary from study assumptions.

Figure 51: We believe developers will move along the Lassonde curve



Source: Resources Policy Journal.

For developers, we adhere to the view that the share price will move along the Lassonde Curve (see Figure 38) as the project progresses through the evaluation stages.

It is here where we also slightly differ from many of our peers: as a general rule (there can occasionally be exceptions) we will tend not to vary the discount rate wildly that we use for all project valuations, we will also avoid (for the most part) placing arbitrary 'discount weightings' next to certain early stage projects which we incorporate into a company's NPV (i.e. a project NPV will typically either be 100% included in our company NPV, or will not be included at all). Our rationale for doing so is that we believe the market will typically look to price stocks at this stage of development on the basis of a P/NPV (using either study NPV's or analyst NPVs), and will typically apply discounts to NPV for various factors, such as geopolitical risk, development risk, funding risk etc. Accordingly, if we were to vary both discount rates significantly and apply 'discount factors' to some projects but not to others we believe this 'muddies' the ability of investors to make their own judgements on appropriate P/NPV ratios for differing minerals development companies (i.e. if comparing two identical operations, but one is based in a high geopolitical risk country and one in a low geopolitical risk country, and investor will typically use the Study NPV as a starting point then apply a chosen P/NPV to the higher risk project, if we had already used a higher discount rate in calculation of our NPV, then clearly those two NPV's are not equivalent starting points when using this approach).

For reference, we typically use a real discount rate of 10% in our NPV calculations.

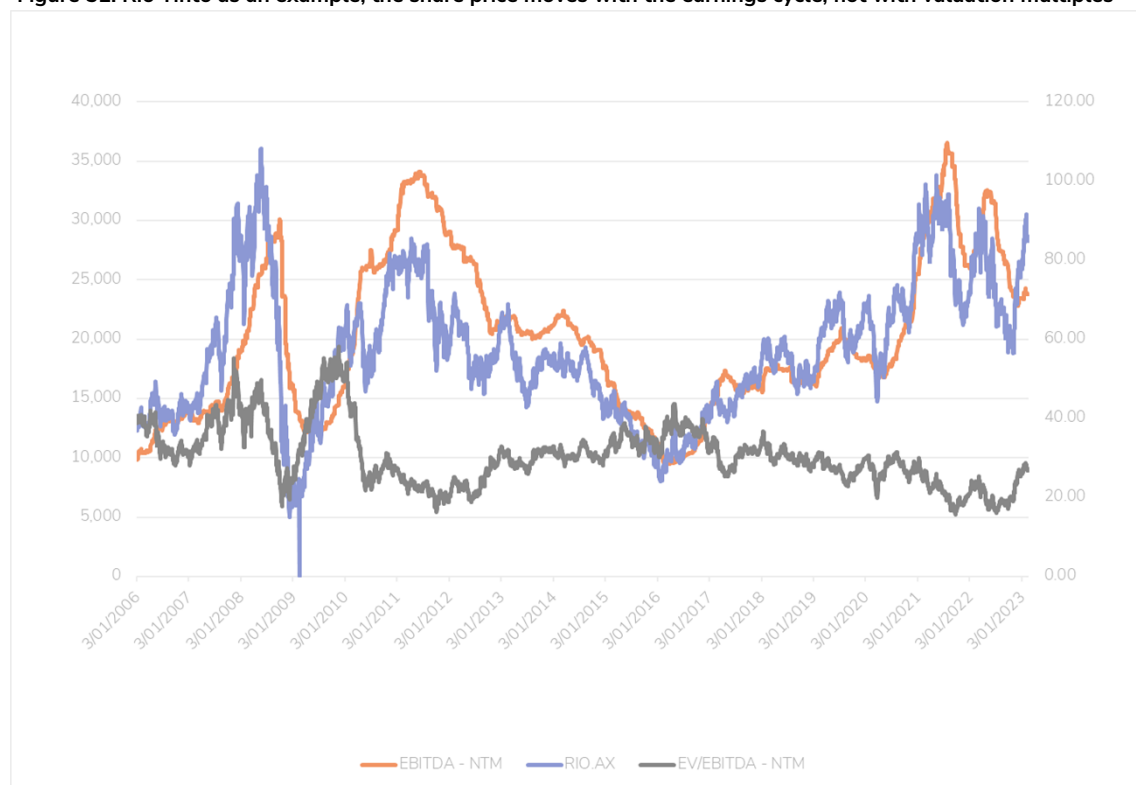
Producers: Earnings Trajectory

For established producers, while we believe that metrics such as NPV, EV/EBITDA and FCF yield are important markers (particularly on a relative basis between peers), we think it can sometimes be risky to use these metrics in isolation for investment decision-making involving producers in the mining space. History shows us that the highly cyclical nature of earnings streams in the mining sector means that the earnings cycle invariably has a greater amplitude than the multiple cycle (such as EV/EBITDA or P/NAV) – and is a greater driver of share price performance over the medium to longer term than conventional multiple metrics. As evidence, we cite the chart below, which shows extensive trading history for an established producer. It is notable that the company’s share price performance over time is highly correlated with its 12-month forward EBITDA forecast and actually exhibits quite low correlation (on a >6-month view) with widely used multiple metrics (such as EV/EBITDA).

In the example below there are many periods when we can observe the shares trading at a premium multiple versus history (which conventional wisdom would argue is a time to sell on valuation grounds), but then the share price continues to rise in line with the earnings trajectory. Similarly, there are many times when the multiple is very low by historic standards, which convention would suggest is a good time to buy, but if the earnings trajectory is negative, then the share price tends to follow.

We have observed the same relationship as displayed below for nearly all producing mining companies (and indeed for nearly all highly cyclical sectors), every time we have updated charts like these over the past 20 years of covering the sector.

Figure 52: Rio Tinto as an example, the share price moves with the earnings cycle, not with valuation multiples



Source: WILSONS Advisory Research & Refinitiv.

How does HGO fit in this framework?

HGO clearly fits into this framework as a producer, having demonstrated a successful ramp from commencement in Feb'24. However, given the single asset nature of the company, plus the short mine life as defined by the UEA, we believe that the stock may continue to trade with a mix of developer and producer influence. Accordingly, we equally weight out Price Target methodology between 1x P/NPV and EBITDA trajectory (see figure below for calculation details).

Figure 53: Blended NPV & EBITDA Trajectory target price yields strong upside

Price Target Calculation		
EBITDA Estimates		
2024 DEC	US\$m	68.7
2025 DEC	US\$m	84.5
NTM EBITDA Growth	%	23.0%
NPV	A\$/share	0.08
Upside to NPV	%	19%
Earnings Growth Weighting	%	50%
P/NAV weighting	%	50%
Total	%	100%
Weighted price growth	%	21%
60 Day Average Price	A\$/share	0.06
Target price	A\$/share	0.08

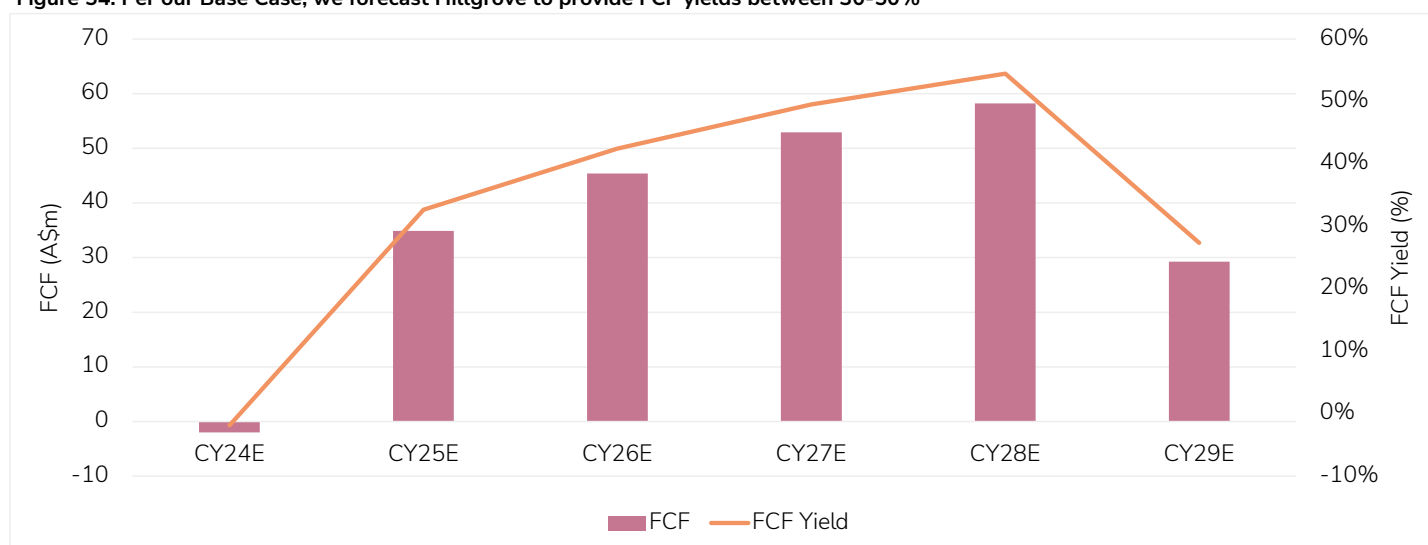
Source: Wilsons Advisory.

For clarity we note the key characteristics of our DCF calculation: (further detail on the specific operational assumptions used has been provided earlier in this report in Figure 13)

- Real discount rate of 10%
- Long term (Real) copper price of US\$4.00/lb
- All-in Sustaining unit cost A\$9,388/t across the life of mine
- Annual Cu production 14kt (Throughput 1.5Mtpa; Grade 1.02%; Recovery 92%)

Standout FCF Generation near-term

Figure 54: Per our Base Case, we forecast Hillgrove to provide FCF yields between 30-50%



Source: Company data & Wilsons Advisory.

Figure 55: With its recent price weakness, HGO is positioned to deliver superior FCF yields to other copper producers, including MAC & SFR

Company Name	Ticker	Share Price	Currency	Year end	Mkt cap US\$m	Total NPV (A\$m)	Price Target (A\$m)	EV/EBITDA (x)			EBITDA Growth (%)			FCF Yield (%)			P/E		
								FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3
Sandfire Resources Ltd	SFR.AX	8.20	AUD	30-Jun	2,542	8.85	9.90	5.5x	4.1x	3.4x	43%	17%	5%	9%	8%	12%	22.3x	15.5x	12.3x
Metals Acquisition Ltd	MAC.AX	15.55	AUD	31-Dec	848	21.89	24.00	5.4x	4.0x	2.9x	8%	21%	28%	9%	17%	15%	40.9x	14.3x	7.5x
Hillgrove Resources	HGO.AX	0.05	AUD	31-Dec	112	0.08	0.08	1.2x	0.5x	-0.1x	-1260%	27%	11%	21%	37%	46%	3.8x	2.7x	2.3x
Capstone Copper Corp	CSC.AX	9.70	AUD	31-Dec	4,841			8.3x	4.2x	3.6x	169%	80%	15%	1%	7%	6%	40.0x	15.1x	12.2x
Antofagasta PLC	anto.l	1757	GBP	31-Dec	22,776			6.8x	5.8x	5.3x	19%	25%	10%	1%	0%	2%	20.5x	14.1x	13.4x
Atalaya Mining PLC	atym.l	371.5	GBP	31-Dec	688			5.8x	3.0x	0.1x	35%	90%	14%	3%	23%	31%	9.4x	4.1x	3.0x
Central Asia Metals PLC	cam.l	179.6	GBP	31-Dec	430			3.4x	2.7x	2.5x	2%	12%	-1%	18%	24%	23%	6.7x	5.6x	5.7x
First Quantum Minerals Ltd	fm.to	14.63	CAD	31-Dec	9,046			11.4x	6.8x	3.5x	-47%	70%	78%	-1%	2%	14%	-76.0x	31.4x	9.2x
Lundin Mining Corp	lun.to	12.23	CAD	31-Dec	7,042			4.4x	4.1x	3.8x	53%	5%	9%	3%	2%	1%	16.7x	15.5x	13.3x
Freeport-McMoRan Inc	fcx	41.36	USD	31-Dec	59,428			5.9x	5.2x	4.4x	24%	14%	9%	5%	7%	9%	24.1x	17.5x	15.7x
Mean								6.3x	4.4x	3.3x	34%	37%	19%	5%	10%	13%	11.6x	14.8x	10.2x
Median								5.8x	4.1x	3.5x	24%	21%	10%	3%	7%	12%	20.5x	15.1x	12.2x

Source: Wilsons Advisory, Refinitiv. All estimates in grey are Wilsons estimates, with Refinitiv values in white

Source: All estimates are based on Refinitiv Consensus, except for SFR, MAC & HGO, which are Wilsons Estimates.

Attractive comparison to Peers on EV/Production

Relative to other ASX-listed copper producers, HGO's current market capitalisation implies that its trading at discounted levels on an EV/Production basis. Another way to interpret the below chart is that the market lacks conviction in Hillgrove's ramp up and operating potential, though we believe that with its established infrastructure, ample processing capacity and improved understanding of the orebody (including grade reconciliation processes) this should provide investors with greater confidence in Kanmantoo's ability to deliver on its mine plan moving forward.

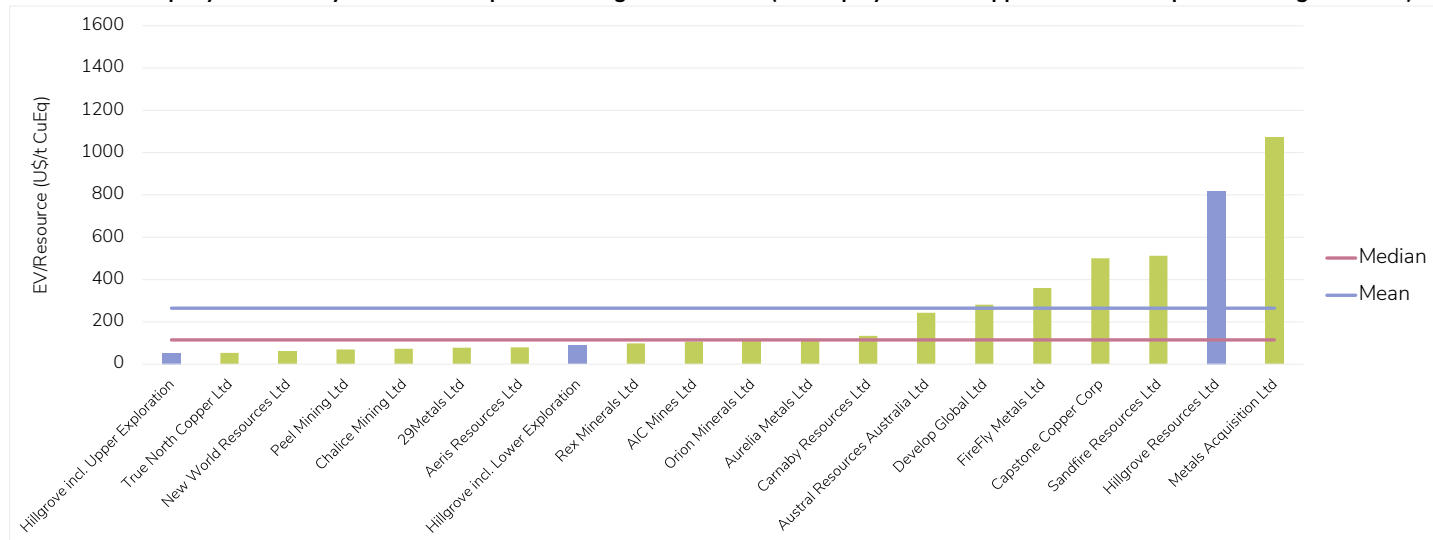
Figure 56: On an EV/Production basis, Hillgrove's current market capitalisation implies that its trading at discounted levels compared to other ASX-listed producers

Source: Company data & Refinitiv.

Broadening the view to include other ASX-listed copper developers, we note that the comparison of EV/Resources (based on contained copper) does not paint the stock in attractive light on relative basis, but we would make two key observations:

- The upper end of the EV/Reserve curve is dominated by the existing producers (of which HGO is one). And for existing producers, we do not believe that insitu metrics are of any particular relevance.
- For those that still would like to observe and make use of these insitu metric for this stock. We would expect the conversion of exploration targets into resource to materially move HGO down the relative curve.

Figure 57: Hillgrove appears expensive on an EV/Reserve basis currently; however, the stock begins to appear cheap relative to other producers should the company successfully convert the exploration target to resource (we display both the upper and lower exploration targets below)



Source: Company data & Refinitiv.

We stress that these metrics do not consider the relative cost of extraction (thus do not differentiate resource or production tonnes which are high cost versus those that are low cost), and thus should be considered indicative only.

Asset Snapshot - Kanmantoo

Figure 58: Our current modelling assumes an additional 2 years of output on the UEA (which we believe is still a highly conservative assumption)

Kanmantoo		CY24E	CY25E	CY26E	CY27E	CY28E
HGO Ownership	%	100%	100%	100%	100%	100%
Resource Tonnage	Mt	6.5	5.3	3.8	2.2	0.7
Resource Copper Grade	%	1.1%	1.1%	1.1%	1.1%	1.1%
Resource Gold Grade	g/t	0.17	0.17	0.17	0.17	0.17
Contained Copper	kt	70	57	42	27	11
Contained Gold	koz	36	36	36	36	36
Ore Milled	kt	930	1,320	1,530	1,560	1,560
Cu Recovery	%	89.5%	91.5%	91.5%	91.5%	91.5%
Copper Production	kt	8.9	12.6	14.1	14.4	14.4
Gold Production	koz	2.4	4.0	4.7	4.8	4.8
CuEq Production	kt	9.5	13.4	15.0	15.3	15.2
Copper Sales	kt	8.3	12.2	13.7	14.0	14.0
Gold Sales	koz	2.0	3.4	4.0	4.1	4.1
Copper Price	US\$/lb	4.10	4.18	4.28	4.39	4.50
Gold Price	US\$/oz	4	4	4	4	4
Revenue	A\$m	119	179	195	203	207
EBITDA	A\$m	38	79	86	93	97
C1 Cash Cost	Ac/lb Cu	370	314	304	303	310
C1 Cash Cost	USc/lb Cu	244	207	213	212	217
All-In Cost	Ac/lb Cu	527	451	426	423	429
All-In Cost	USc/lb Cu	348	298	298	296	300

Source: Wilsons Advisory.

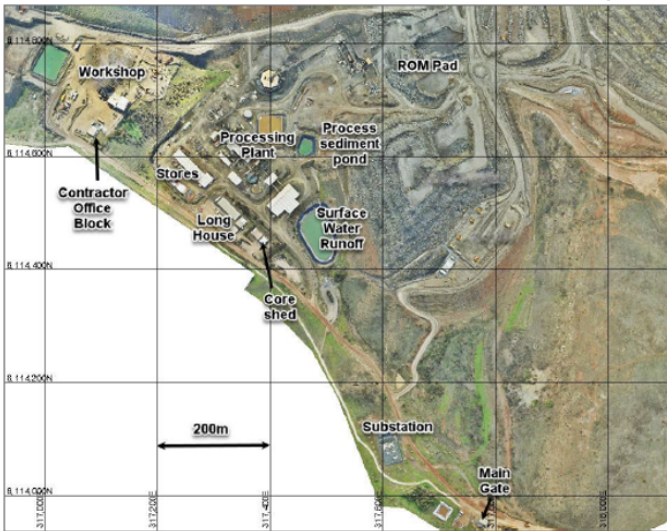
Operations History

Tracing its origins back to BH South in the 1970s, the Kanmantoo mine, under Hillgrove's ownership, was commissioned in November 2011, consisting of two main open pits that produced ~137kt of copper and 55koz of gold from 2010 to 2020. Due to operational issues and lower copper prices, mining ceased in March 2020, with Hillgrove thereafter investigating the feasibility of underground operation while keeping the infrastructure on standby. By May 2023, Hillgrove commenced underground mining and began stockpiling early ore for campaign milling. We note that compared to its open pit operations, the company has made significant strides in improving its grade/resource estimation and has drastically increased its overall prospectivity through the Kanmantoo Deeps discovery, which was released to the market in late 2023.

Location & Infrastructure

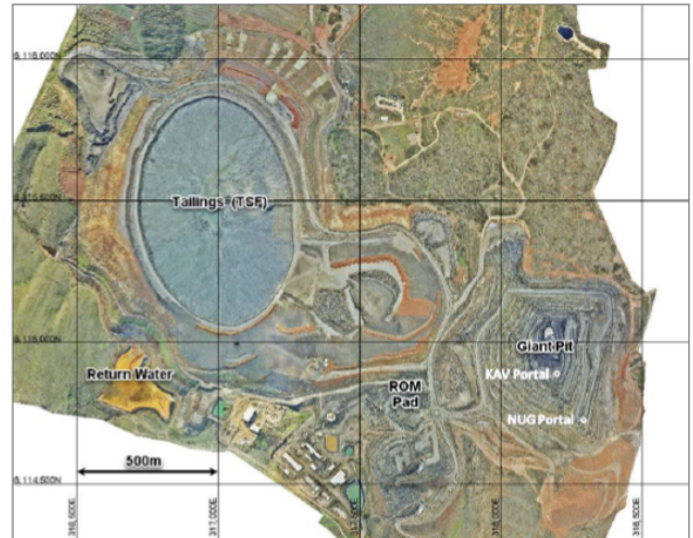
Kanmantoo, located only 55km from Adelaide, has all its surface infrastructure in place, including an operational 3.6Mtpa processing plant and a tailings storage facility with significant spare capacity (~3Mt above its existing production profile). Hillgrove has awarded a local transport company, Whittam Transport, the contract for the initial four-year mine life to transport copper concentrate from Kanmantoo to Port Adelaide.

Figure 59: Existing surface infrastructure, which was placed on care and maintenance between 2020-2023, is now operational again



Source: Company data.

Figure 60: Kanmantoo's tailings storage facility has sufficient storage for the current mine plan & a further 3Mt



Source: Company data.

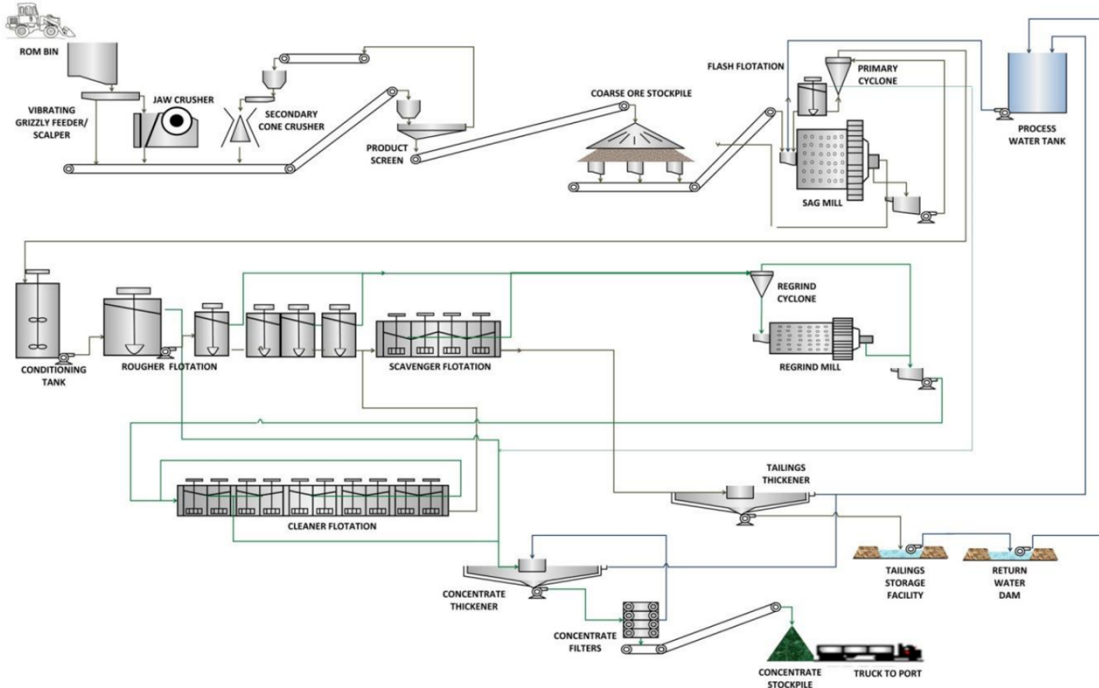
Mineralisation & Geology

Copper mineralisation at Kanmantoo is hosted by the Tapanappa Formation within the Cambrian Kanmantoo Group, a 7–8 km thick package of dominantly marine turbidite sediments deposited in an extensional back-arc basin, the Kanmantoo Trough. Disseminated and vein style chalcopyrite-pyrrhotite-magnetite mineralisation occurs in amphibolite facies metasediments within the Adelaide Fold Belt.

Workforce

Kanmantoo's proximity to Adelaide has enabled Hillgrove to attract both experienced mining professionals and residents based in the Adelaide Hills. As such, Hillgrove is positioned to leverage the well-capitalised facilities around Adelaide, eliminating the need to construct onsite accommodation. The approximate size of the workforce at the Kanmantoo mine is around 140 people, including both direct employees and contractors.

Figure 61: Processing Flowsheet at Kanmantoo

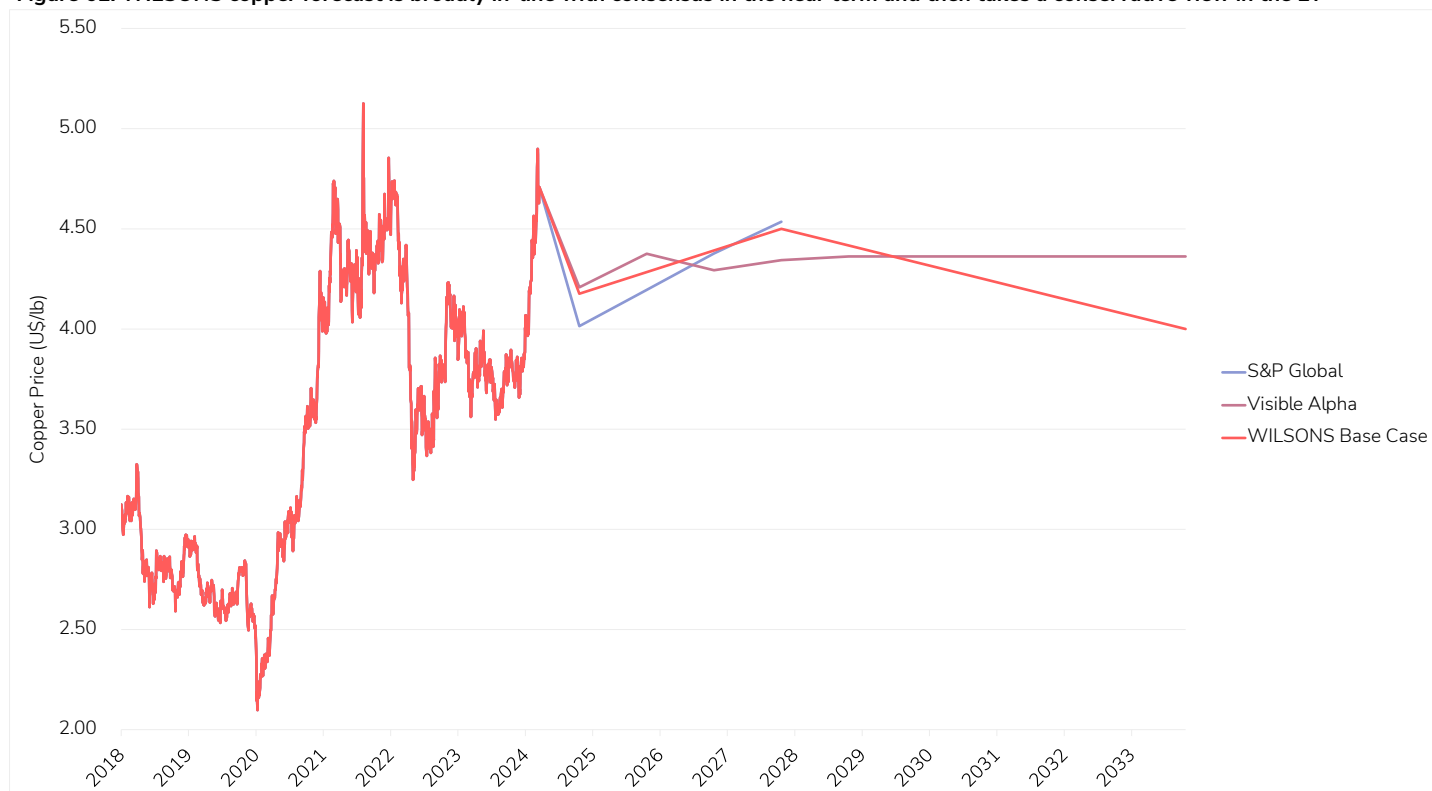


Source: Company data.

Appendix A: Copper price comment

We are unshakingly positive on the structural outlook for copper and believe that prices will likely continue to move to higher highs and higher lows. In the near-term, we acknowledge the near-term weakness in the copper market, although expect prices to rally into year-end. Following the copper tailwinds in April, LME 3M copper prices slumped to a nearly five-month low of \$8,757/t in early August, primarily driven by weak demand and elevated copper stocks at global exchange warehouses, while macroeconomic headwinds further accelerated the drop in prices. On a positive note, a Fed rate cut in September should provide a tailwind for metals prices and demand as the US economy enters a rate-cutting cycle, additionally emerging markets' demand is likely to benefit from a weaker USD and falling USD borrowing costs. Finally, while recent Chinese macro data hasn't been inspiring, we flag the potential for a seasonal uptick in activity in China as local authorities push to meet full year mandated targets, meanwhile scrap availability has also fallen following recent policy changes on tax rebates in China.

Figure 62: WILSONS copper forecast is broadly in-line with consensus in the near term and then takes a conservative view in the LT



Source: Wilsons Research, Refinitiv, S&P Global Intelligence, Visible Alpha.

The ramp up of renewable technologies and advanced energy storage systems have undeniably positioned copper at the centre of the energy transition. With the average lead time for new copper mines at ~17 years, and the well accepted increasing operational challenges which the copper industry faces (i.e. declining grade, increasing depth, increasing geological risk, high capex and opex) we continue to believe the supply side will struggle to keep pace with demand. Whilst the questionable health of China's real estate sector has the potential to crimp some of the upside in prices, many of the characteristics of the copper market remain robust and positive which we believe will fuel further price growth in the coming years.

Figure 63: Competing influences in the copper market

The 'For'	The 'Against'
Increasing challenges to supply growth - volume & expense	China's property sector's deteriorating health
Tightness in copper concentrate market	Increase stocking levels
Fundamental role in the energy transition	Delayed US rate cuts
China's industrial data & economic stimulus	

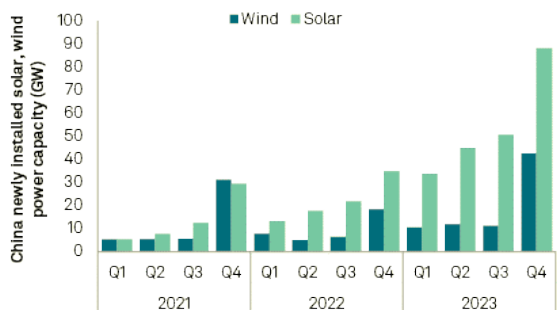
Source: Wilsons Advisory.

On a fundamental basis, the copper outlook remains strong

Whilst some uncertainty exists, the current outlook for copper remains robust and positive. Most industry forecasters (including ourselves) anticipate medium/longer term conditions to remain supportive.

1. We point out that over the past 6-12 months, there have been **significant disruptions to copper supply** including the closure of the Cobre Panama mine and Anglo-American cutting its near-term copper production guidance. Even before recent mine closures, global copper supply was widely expected to fall short of the requirements of the energy transition. Most market forecasts that we observe see a shift into a structural copper deficit beyond CY27/CY28 (See Figure 68). Globally, the refined copper demand is expected to grow at ~3%-4% Y/Y out until 2028 (See Figure 67).
2. Copper **smelters have recently been operating under tighter, deteriorating conditions** and margins. We observed smelters respond to the tightness by progressively lowering treatment & refining costs, which further compounded the problem and drove spot TCs to below ~US\$10/t, a 90%+ drop Y/Y (See Figure 66). Although Chinese smelters, which process half of the world's mined copper, agreed on a joint production cut in March 2024, this hasn't exactly come to fruition, with Chinese smelters appearing to maintain a strong appetite and hovering near all-time highs for monthly production. Consequently, spot concentrate treatment charges (TCs) remained below \$10 per dry metric ton throughout most of this year, and the quotation period and other side terms have become increasingly unfavourable to the smelter side, causing the Platts-assessed normalized spot TCs to drop below zero.
3. China, the world's largest copper consumer, recently exceeded market expectations with a **148% Y/Y increase in newly installed solar & wind power capacity in 2023** (See Figure 65). We expect this trend to continue as these technologies become more widely adopted across both more advanced and developing countries and improve in efficiency and cost competitiveness relative to other electricity generation sources. Stepping further back from renewables, copper's use in electric vehicles & home appliances shows promising growth. According to the China Association of Automobile Manufacturers, production and sales of electric vehicles were up 28.2% and 29.4% in January and February, respectively. Data from the General Administration of Customs shows China's home appliance export volumes jumped 38.6% year over year, with air-conditioning units being a major contributor.

Figure 64: China's newly installed capacity grew drastically in CY23



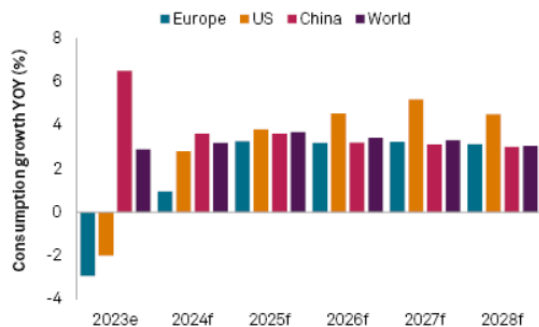
Source: S&P Global Market Intelligence.

Figure 65: Spot treatment costs have effectively plunged to 0



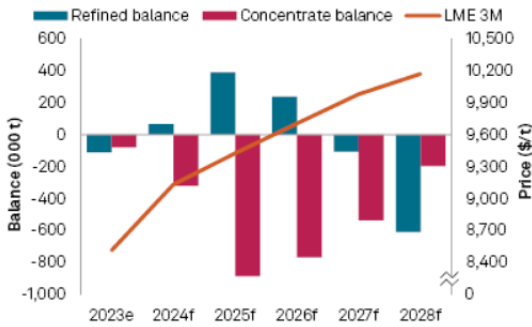
Source: S&P Global Market Intelligence.

Figure 66: Global copper consumption is forecast to grow ~3% p.a.



Source: S&P Global Market Intelligence.

Figure 67: CY27 sees a deficit of both refined copper & concentrate



Source: S&P Global Market Intelligence.

Appendix B: Why are the copper deficits always 3+ years away?

We believe the challenges in growing copper supply have been well understood for a number of years by the market – i.e. decreasing metal grades, increasing depth, exploration challenges in finding economic deposits, and the increasing time taken to actually study and develop new copper capacity.

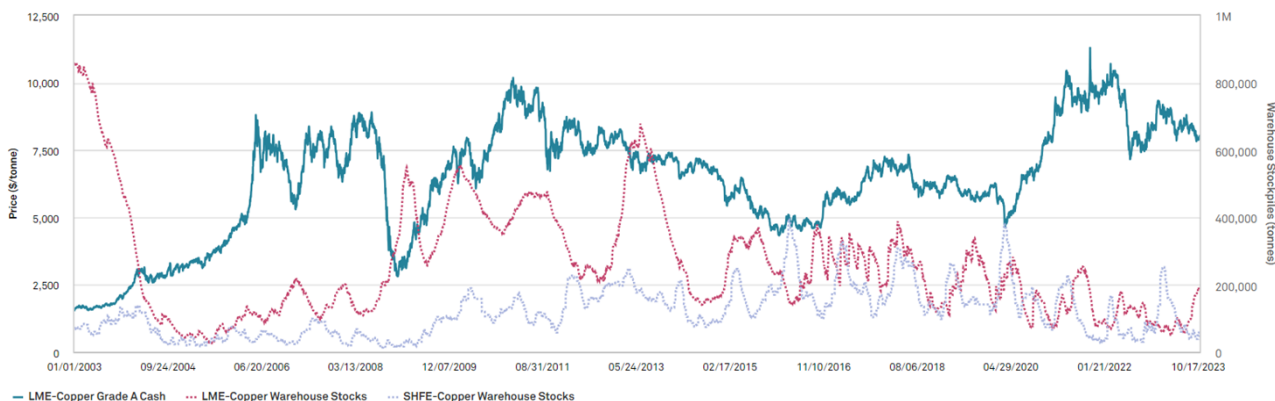
However, a common pushback to the bullish thematic for copper has typically been that “the copper deficit has been 3-4 years away for the last 20 years, and never seems to arrive”.

We would disagree with this characterisation of the way copper markets should be analysed. We believe the constant forecast of deficit in future years has actually proven to be a reliable indicator of future price performance for copper pricing.

Why do we say this? A commodity balance deficit is something that only exists in the spreadsheets of fundamental commodity analysts. There is no such thing as a deficit in the real physical world (i.e. you can't have a negative stockpile) - in the real physical world a spreadsheet deficit will manifest in the near term through either rationing of demand or by an increase in supply to meet the demand (usually both) – the key question here is at what price does demand ration or additional supply come to market? We believe the price performance of copper over the past 20 years is evidence of the longer-term structural undersupply argument playing out exactly as per commodity analyst deficit forecasts. It shows that it has become increasingly expensive to incentivise the required copper supply, but also that there is enough demand which has not been rationed by supply and is willing to pay the steadily increasing copper price over that time.

This view is further supported when we examine the median unit costs of copper production over the past 20 years, which has shown steadily increasing in costs of copper production, supporting our view that forecast deficits are being met in the physical world by sourcing of copper from increasingly expensive methods.

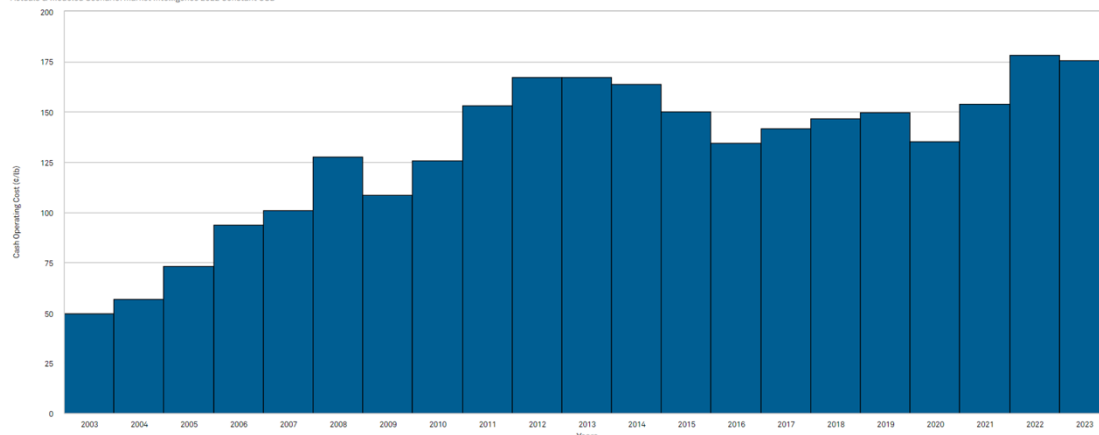
Figure 68: Although volatile, copper prices have trended upwards over the past 20 years with higher cyclical lows and higher cyclical peaks



Source: S&P Global Market Intelligence.

Figure 69: Medium term forecasts for deficits means the market has had to resort to increasingly expensive sources of copper to fill the gaps

2003 - 2023 Time Trend: Copper Production Ranked on Cash Operating Cost*



Source: S&P Global Market Intelligence.

Appendix C: Board & Management

Figure 70: Board & Management

Board	Management
Derek Carter (Non-Exec Chairman)	Bob Fulker (Managing Director & CEO)
Murray Boyte (Non-Exec Director)	Joe Sutanto (CFO & Secretary)
Roger Higgins (Non-Exec Director)	
Bob Fulker (Managing Director & CEO)	

Source: Company data.

Derek Carter - Chairman

Derek Carter has over 40 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. He is the Chairman of Petratherm Limited, and former Chairman of Highfield Resources Ltd.

Derek is a former President of the South Australian Chamber of Mines and Energy, former member of the Australian Gold Council and the South Australian Minerals and Energy Council. He is a member of the South Australian Minerals and Petroleum Experts Group. He 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.

Bob Fulker - Chief Executive Officer and 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 has consistently achieved outstanding results in various mineral sectors. 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

Murray joined the Board in May 2019, as a Non-Executive Director. 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) and National Tyre & Wheel Limited (ASX: NTD).

Roger Higgins - Non-Executive Director

Roger joined the board in June 2023 as a Non-Executive Director. Roger has over 50 years of experience and deep working experience leading mining companies and operations, which includes 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. Prior to this, he was Vice President and Chief Operating Officer with BHP Billiton Base Metals Customer Sector Group working in Australia and also held senior positions with BHP Billiton in Chile. He holds the position of Adjunct Professor with the Sustainable Minerals Institute, University of Queensland.

In addition to this, Roger has significant governance expertise, which includes being a current Non-Executive Director of Worley Limited and Newcrest Mining Limited. He was also recently the Chairman of Demetallica Limited, prior to its takeover by AIC Mines Limited.

Joe Sutanto - Chief Financial Officer & Company Secretary

Joe joined Hillgrove in 2011 and has held several roles within the finance team, which spanned commercial and planning to financial control before becoming the Chief Commercial Officer and Company Secretary in 2020. Prior to Hillgrove, Joe held several 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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