

## Chairman's Address

### Hillgrove Resources Limited - Annual General Meeting 2017

Ladies and Gentlemen, on behalf of the Board of Directors I welcome you to the 2017 Annual General Meeting of Hillgrove Resources Limited.

As you are well aware, the past financial year was a very difficult and challenging one for your Company.

Over the past twelve months Hillgrove has faced significant financial challenges as a direct result of:

- A sharp and sustained fall in copper prices throughout much of 2016, combined with:
- A change to the LOM plan in early 2016, which was required because:
  - In the first few months of 2016, Hillgrove had not been able to achieve its budgeted production, and
  - Based on a detailed analysis of this underperformance it was determined the planned mining sequence was too aggressive, and
  - A new resource model was used, the impact of which was to bring forward waste removal and defer copper production.

This occurred at a time when funding was needed to complete the Giant Pit cutback to ensure the operation returned to profitability.

The forecast cash funding shortfalls required dramatic action by the Company to bridge the gaps. This action included implementing a series of fund raising and cost reduction/deferral initiatives, and the restructuring of Hillgrove's balance sheet.



The funding initiatives included asset sales such the sale and lease back of the bulk shipping containers, the \$4m South Australian Government loan, the \$5m convertible note issue and the Electranet bond and the Petrobond.

The cost reduction/deferral initiatives included a 10% salary deferral for all staff and a number of innovative agreements with our major mining contractors which have resulted in lower costs in the future and the deferral of creditor payments until after completion of the Giant Pit cutback, with in one case, the payment pegged to the copper price.

The balance sheet restructure involved the transfer of the Performance Bond from Macquarie Bank to the South Australian Government (secured by our assets) and the closing of our copper hedge book, which along with the access to restricted cash, allowed us to repay the USD13m debt facility.

While these initiatives allowed Hillgrove to survive a very difficult cash constrained 2016, they could not prevent a negative impact on production as mining rates had to be reduced to match available cash.

The hedge book closure in August 2016 proved to be a very prudent decision for two reasons:

- Firstly it allowed us to optimise the hedge book value as it was done at a very low copper price. Based on today's copper price the hedge book would have had minimal value; and
- As a result of the closure, Hillgrove was fully exposed to the copper price, and this allowed us to take advantage of the higher copper prices since late 2016.

The encouraging news is that actual copper produced under the new resource model announced last year has performed to plan, where as previously reported copper production was significantly below the historic model.

The initiatives along with the higher copper price have put Hillgrove in a stronger financial position. In 2017 we have been able to reap the benefits of our improved credit worthiness as demonstrated by credit being provided through the Electranet bond and the Petrobond and the recommencement of copper hedging.

The initiatives could not have been implemented without the strong and continuing support from all of our stakeholders. On behalf of the Board, I would like to take this opportunity to say a huge thank you to all our staff for the enormous effort and commitment they have made to Hillgrove over the past year, and also to our contractors and suppliers and to the South Australian Government. I also greatly appreciate the guidance and wisdom my fellow directors have shown during this period.

We are nearing the completion of the Giant Pit cutback and cash will remain tight until it is completed. Once completed, we will see a steady improvement in the Company's liquidity with lower waste removal costs and the generation of positive cash flows.

There will continue to be challenges in the future but there are also significant opportunities for organic growth, which include:

- A potential underground mining operation at Kanmantoo, where Hillgrove has approximated an Exploration Target of between five and ten million tonnes with a target grade of between 1.7% and 2.2% Cu and 0.4g/t to 1.0g/t Au and which has the potential to significantly increase the current mine life; and,

- A regional exploration project, where Hillgrove has identified a 3.7km long, 600m wide, copper-gold zone at its wholly owned Kanappa Project, which is 44kms from the Kanmantoo processing plant.

Steve McClare will cover these areas in detail with a presentation, at the conclusion of this AGM and I encourage everyone to remain for this informative update.

By the end of 2017, I expect Hillgrove to be in a stronger financial position underpinned by a much improved balance sheet and with a focus on growth. I therefore feel comfortable that the company is on a sound footing and I may now step down from the Board, after more than ten years, knowing that your Board and Management are fully committed to the Company's success and looking forward to an exciting future.

**The Hon. Dean Brown, AO**

Chairman