

## Chairman's Address

### Hillgrove Resources Limited – Annual General Meeting, 30 April 2019

Ladies and Gentlemen, on behalf of my fellow directors and the management team, I welcome you to the 2019 AGM.

Today we are at the end of the bulk of mining in the pit, and we farewell over 85 of our employees as work basically finishes in that area, with another 35 already having left over the last 4 months, but milling of stockpiles continues. Some of those employees have been with us for over 7 years and we wish all those leaving the very best in the future and thank them for their efforts and support through some very difficult times. With a resurgence of mining activity in South Australia at Olympic Dam, Carrapeteena and Prominent Hill, we know that the expertise and experience gained with Hillgrove will stand them in very good stead should they wish to explore opportunities further afield.

Regrettably, the mining of copper/gold ore from the Kanmantoo open pit has not been financially successful. The orebody grade in particular has proven difficult to model and in the early life at Kanmantoo resulted in not realizing as much value from the initial satellite pits. Over the years thanks to a huge effort by our technical people, our understanding has improved and we are now predicting the orebody grade with consistent accuracy, however the overall grade has not been sufficient to realise early expectations and unfortunately a lot of shareholders who have remained with us as we grappled with this issue have seen their investment diminish over time. This also resulted in severe cash flow tight points in 2016 which hampered expansion and exploration opportunities over the past two years as we have recovered to bring creditors back to normal payment terms.

We as a Board are just as disappointed at the impact that the lower than anticipated grade had but would like to acknowledge the success of senior management and the Hillgrove workforce in rescuing the company from the dire circumstances of just a few years ago. A measure of shareholder value has been retrieved by a mix of hard work and thoughtful enterprise.

2018 was a year of mixed outcomes. We achieved our guidance for the year, brought creditors back to normal payment terms, and we are most pleased by the outstanding safety performance in what is a high-risk business. On the other hand, there were a number of setbacks including the



geotechnical events and difficulties such as the December 2018 rockfall which added to costs and reduced availability of ore, illustrating the risks associated with mining, not only for the workers but also for the owners.

The future of Hillgrove should be viewed under four headings-

- 1) The completion of the open-cut and treatment of stockpiled ore
- 2) Rehabilitation of the site
- 3) Pumped hydro energy storage (PHES) project
- 4) Near mine assets and exploration

Today, there are still about 200,000 tonnes of blasted ore to be removed from the pit floor, but the vast majority of untreated ore is now stockpiled for processing over the next year or so. We believe there is minimal grade and tonnage risk attaching to the stockpiled ore. And a large part is covered by fixed price forward selling. Significant cash surpluses should be generated from the treatment of this stockpiled ore which would be available for future dividend payments.

While we have been doing the mining work and extracting value, we have been progressively rehabilitating the disturbed areas and those for which we are responsible. Some 75ha of native vegetation has been planted as we fulfil our environmental closure obligations. We have spent over \$ 3.8M to date and will continue rehabilitation commitments over the next seven years to complete this programme and the company believes it has fully provided for all anticipated rehabilitation expenses in its accounts.

We would like to acknowledge the support of our local Kanmantoo Callington Community Consultative Committee (KCCCC), which has been instrumental in providing feedback and ideas basically from day one to ensure that we have had social acceptance to operate in the area. We also congratulate Hillgrove management and the KCCCC for development of the regional master plan which ensures that the local communities which host the Kanmantoo Copper Mine reap the benefits long after operations and rehabilitation activities conclude. This positive relationship was once again recognized as best in industry with a commendation in community excellence in the 2018 Premier's Awards. The ability to demonstrate significant community benefit as a direct result of a mining project is invaluable as Hillgrove continues to carry out grass roots exploration and help develop the South East of SA as potentially Australia's newest copper porphyry province.

The PHES project saw its beginning as just a glimmer of an idea more than two years ago. Management has put a big effort into seeing this vision become a reality, and we have recently announced the signing of a deal with AGL. Should the project be completed as proposed, this will

see the construction of an electricity generation plant using our pit void to produce 250MW power supply at peak times that will assist in making the electricity supply in SA more reliable and economical. This is a wonderful example of thinking outside the box and once again is an illustration of mining working hand in hand with other sectors for the benefit of the country. This is a significant proposed capital commitment by AGL with the returns to Hillgrove shareholders staged as critical approval and construction milestones are met over the next few years. All going well, Hillgrove stands to receive \$31 million in payments from AGL. These payments are expected to be protected from tax by the company's tax losses, and will provide further funds available for dividend payments.

With the over-arching priority of protecting and enhancing shareholder value and the potential future dividends, the board continues to consider various options regarding the company's residual assets following the completion of the Kanmantoo open-cut enterprise and delivery of the PHES project. These assets mainly comprise the crusher/mill, surrounding land holdings and improvements, and the significant copper exploration prospects around the mine and further afield. The big mining houses seem to be keen on copper, and at the CESCO conference in Chile last month, Rio Tinto stated that "the world will require the same amount of copper in the next 25 years as it has produced in the last 500 years". We believe that we have only scratched the surface (and no pun intended) of our highly prospective and exciting exploration ground. Our Chief Geologist, Peter Rolley will be giving a brief presentation after Steve McClare's presentation at the end of the meeting. The Board will therefore be assessing those priorities as well as recognizing importantly that our shareholders need to benefit from both dividends and future exploration success, or by a partial or whole sale of the company's residual assets. Exploration success doesn't just happen without funding and the application of technology and diligence, so there needs to be careful consideration of the value propositions that these options provide.

I am very pleased to advise that as proposed in the Annual Report, Hillgrove Resources expects to be paying a fully franked dividend prior to June 30. Cash will continue to be accumulated until the end of May when mining should be completed. At this time, the company will confirm the dividend amount and record date based on the surplus cash.

I have already acknowledged the contribution from our mining workforce and wish them well. It would be remiss of me to not also thank many others in our administration area, whose positions will become redundant over the next year. They have been important contributors in the team and we thank them for their efforts and wish them well for the future.

Finally, I am very pleased to be chairing this meeting with some good news, after recent years that have been disappointing to us all. I would like to thank our shareholders, our employees, suppliers, the local community, State and local governments and their instrumentalities, and other stakeholders for the support, and my fellow directors for their input and guidance and patience.

We announced this morning that our MD and CEO Steve McClare is stepping down from the company this week now that mining the pit at Kanmantoo is coming to an end and the organization is down-sizing. So, in closing, I would like to pay tribute to Steve. Steve had responsibility for site activities for a few years before he stepped up to the plate in the top management role four years ago. He steered the company through some very dark days but he has inspired our employees with his work ethic and creativity and has always maintained his optimism about, and dedication to Hillgrove. Steve has demonstrated his in-depth knowledge of and extensive experience in mining but he has shown also how he can step out of the box to create value and overcome challenges. His development of the PHES project is a good example. I would like to take this opportunity to thank Steve for all his hard work and for his leadership at Hillgrove and wish him well in his future endeavors.

Lachlan Wallace currently the GM at Kanmantoo since Steve became MD, will fill the CEO position on an interim basis. Lachlan has been with Hillgrove for 7 years and his successor as the interim head of Kanmantoo will be Glenn Norris who has been the Concentrator Manager since the mine was commissioned. Both these appointments will be finalized in the near future but you would have to agree that the transition should be a seamless one due to the huge experience that each of these incumbents have at Hillgrove. Paul Kiley our dedicated CFO will remain in that position supporting Lachlan and the team.

Please join with me in thanking Steve for his great contribution, and congratulate Lachy and Glenn on their appointments.

Thank you for your support and interest.

**John Gooding**

Chairman