



HILLGROVE
RESOURCES

ANNUAL REPORT **2018**
for the year ended 31 December

Hillgrove Resources Limited

ACN 004 297 116

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Chairman and Managing Director's Statement

Dear Shareholders,

At last year's Annual General Meeting we reviewed the investment phase of the Kanmantoo Giant Pit cutback and the initiatives that we implemented to ensure our operations were on a sound footing. We made some predictions then regarding our performance in the future and the strengthening of our financial performance after a period of poor cashflows.

So we are pleased to report that 2018 was a positive year for Hillgrove Resources. We achieved our cost and production guidance, we returned to profitability and we continued to overcome a number of challenges.

The significant mining challenges faced during the year included mining productivity shortfalls resulting from a lack of equipment availability, inclement weather, a tighter working area in the pit and the rock fall in December which, as reported in January 2019, is likely to reduce future copper production by approximately two thousand tonnes. All of these factors contributed to a slower than expected mining rate which delayed the completion of mining and added to costs. Furthermore, there was unplanned downtime in the processing plant to replace the mill gearbox and motor, rotate the girth gear, and rebuild the primary crusher.

The deepening of the pit during the final few months of mining may present further geotechnical challenges however, safety remains our priority. As such, detailed planning and additional costs to ensure safe conduct of activities in the pit are imperatives for mining operations.

Despite the greater challenges than expected, our dedicated management and production personnel have successfully weathered these issues in a professional and timely manner and continue to strive towards creating value for shareholders.



Mr John Gooding
Independent Non-Executive Chairman



Mr Steven McClare - Chief Executive Officer and Managing Director

The revenue generated from the highest annual copper production on record allowed creditors to be returned to near normal terms and helped repair the balance sheet so that the Company is in a much stronger position than this time last year.

The next phase in the Hillgrove journey is finalising pit mining and moving to a cash accumulation phase, as we complete the milling of our stockpiled ore with the aim of returning a large part of this cash to shareholders in the form of franked dividends.

Financial and Operational Highlights

The financial highlights include:

	2018	2017
Revenue	\$180.1M	\$113.3M
EBITDA	\$44.3M	\$16.2M
EBIT	\$27.6M	\$4.4M
Statutory net profit	\$29.5M	(\$14.1M)
Earnings per share	5.1c	(4.8c)
Ending cash balance	\$2.5M	\$0.5M
Debt reduction	\$8.6M	\$3.5M
Creditor reduction / (addition)	\$21.7M	(\$11.9M)

Operations

With the pit nearing completion, stockpiles will continue to accumulate to support milling for a further 12 months after mining ceases. As mentioned earlier, there have been some ground issues that have caused delays during 2018 and as the pit gets deeper in 2019, it is likely that some further disruptions and inefficiencies may occur, although management has implemented many protocols to ensure that the safety of our employees and contractors remains the ultimate driver, as we complete the mining phase.

In summary:

- The mining of ore is anticipated to cease around April 2019,
- Processing will continue through to approximately May 2020, and
- More than half of the ore to be processed through to May 2020, has already been stockpiled.

Chairman and Managing Director's Statement *(cont.)*

Strategy and Direction

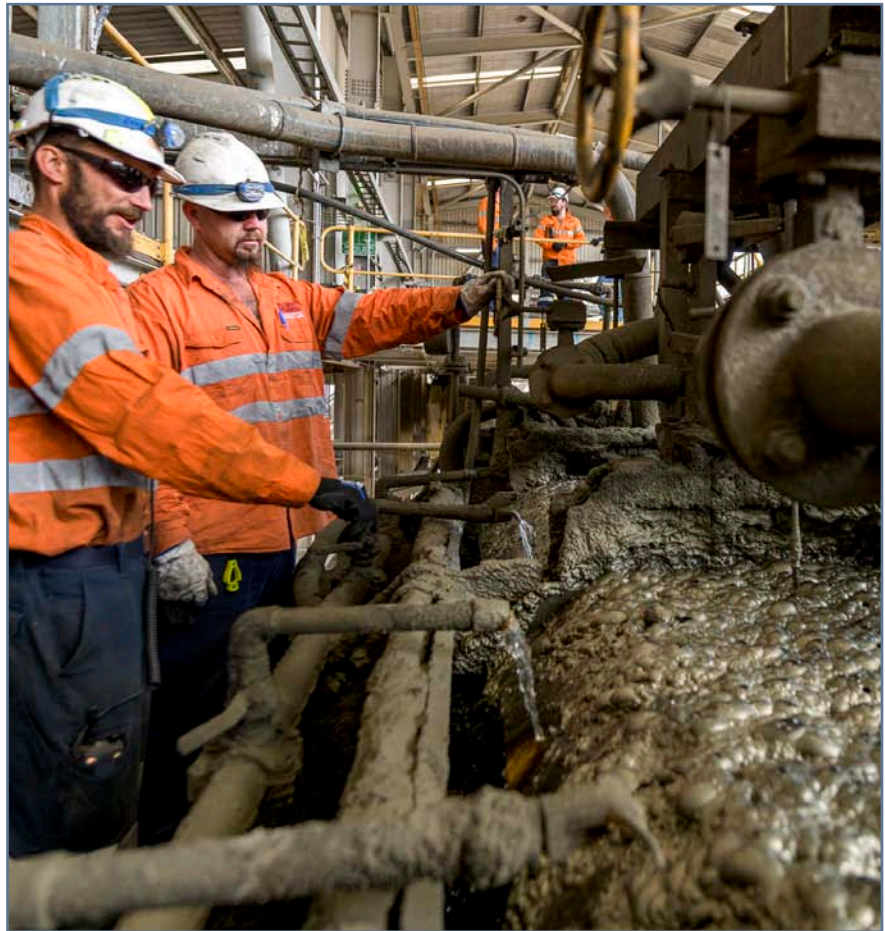
The Board will continue to focus on realising value from the current operations whilst also looking at the optimal future use of all of the Company's assets and exploration potential. With this in mind, during 2018, the Company has initiated a Pumped Hydro Energy Storage (PHES) sale process. Negotiations continue with a preferred bidder but remain incomplete.

Whilst the Exploration Target in and around the pit is promising, a number of the underground targets that are in the area directly below the pit rim and to the north of the pit are likely to be sterilised should the PHES sale proceed.

Therefore, areas to the south like Nugent are being reviewed to consider whether they are viable as standalone operations for underground mining.

In addition, the Company is building a pipeline of near mine exploration projects for future evaluation. To this end, low cost exploration activities are being conducted on a number of areas to improve prospectivity and generate specific drill targets. The importance of any exploration success to shareholders is that it may add substantial value to the fully owned processing infrastructure at Kanmantoo, given its proximity to these target areas.

Site rehabilitation works have been undertaken progressively to date but there will be a need to complete this activity after cessation of operations. Detailed plans for this work have been prepared. In any case, the processing facilities and associated infrastructure retains some residual value post wind down of operations, for which options are currently being evaluated to crystallise this value for shareholders.



Safety and community

The emphasis on reducing safety incidents has pleasingly led to a significant and sustained reduction in the total recordable injury frequency. This has resulted in a 60% reduction over the calendar year 2018 and a 63% sustained reduction over the last four years.

Working with the local community on the progressive rehabilitation of the site, local community projects and concepts such as the PHES, have advanced with input by the hard-working Kanmantoo Callington Community Consultative Committee. With the rehabilitation concentrated in and around the mining operation, we are determined to leave a positive legacy in the district post mining.

2019 key focus areas

The key focus areas will be completing mining, continuing to maximise processing efficiency, winding back overheads, pushing forward with the PHES, building the value of the exploration potential and returning cash to shareholders.

Whilst the outlook for copper is promising, the Company will continue to carefully manage its fixed pricing contracts with some flexibility to deliver product into the spot market when A\$ prices are relatively high or otherwise utilise fixed pricing when prices are relatively weak.

Finally, we sincerely thank our fellow directors for their guidance and diligence, all shareholders, employees, suppliers and our local community for their commitment and continued support during 2018 and we look forward to continuing that relationship through 2019 and beyond.

Kanmantoo Copper Mine, *South Australia*

IMPROVED SAFETY PERFORMANCE WITH A 60% REDUCTION IN TRIFR TO THE LOWEST LEVEL SINCE OPERATIONS COMMENCED

RECORD PRODUCTION OF 22,584 TONNES OF COPPER IN CONCENTRATE

KANMANTOO HIGHLIGHTS

- ACHIEVED COPPER AND GOLD PRODUCTION AND COST GUIDANCE DESPITE PRODUCTION INTERRUPTIONS IN THE PROCESSING FACILITY INCLUDING CRUSHER REBUILD, MILL MOTOR AND GEARBOX REPLACEMENT
- ORE STOCKPILES INCREASED TO 2.9MT, EQUIVALENT TO 10 MONTHS PROCESSING, DESPITE A NUMBER OF MINING PRODUCTION CHALLENGES INCLUDING WEATHER DELAYS AND A MAJOR ROCKFALL EVENT
- CONTINUED PROGRESSIVE REHABILITATION PROGRAMME WITH 62HA NOW PLANTED AND AN ADDITIONAL 40HA PREPARED FOR 2019
- ADVANCED GROWTH PIPELINE INCLUDING STAGED UNDERGROUND DEVELOPMENT AT KANMANTOO, AND REGIONAL EXPLORATION OPPORTUNITIES
- SALE OF PHES PROJECT PROGRESSED

Kanmantoo Copper Mine, South Australia (cont.)



Hillgrove's flagship development is the open pit Kanmantoo Copper Mine in South Australia, located 55 kilometres from Adelaide and close to road, rail, power and Port Adelaide. The exploration and mining lease is dotted with historical copper and base metal operations and includes the former Kanmantoo Mine, a medium sized copper operation that operated from 1971 to 1976. The location of the Kanmantoo Copper Mine offers many operational and logistical advantages, with a main highway passing close to the project and being approximately 90km by road to Port Adelaide, permitting the trucking of copper concentrate.

The mine site is connected to the electricity grid and has mains water available, although most of the process water is supplied by the District Council of Mount Barker's treated waste water programme with a supplementary (untreated) supply from SA Water, providing 100% redundancy to the Mount Barker supply.

Approximately 190 Hillgrove personnel currently staff the mine. Due to Kanmantoo's location close to the outer-Adelaide regional centres of Mt Barker and Murray Bridge there is no requirement to provide fly in/fly out facilities. The resulting mix of staff comprises about 12% from the local area, 67% from the nearby regional area, 15% from Adelaide metropolitan area and the remaining 6% from outside of these regions.

Along with Hillgrove's direct employment, specialist contract services are being undertaken by its three main mining contractors which have a combined permanent workforce of some 55 employees on site. The combination of specialised contract skills and experienced Hillgrove employees has allowed a high level of quality control in the critical areas of drilling, blasting, production and dilution control during mining and milling operations.

The safety performance in CY18 improved significantly with Total Reportable Injury Frequency Rate (TRIFR) down to 8.2 injuries per million work hours (CY17: 20.3). Injury prevention in CY19 will continue to focus on manual handling practices and reducing soft muscle injuries in static roles.

Kanmantoo Copper Mine, South Australia (cont.)

Copper production was 22,584 tonnes of copper in concentrate, the highest annual production recorded at Kanmantoo. C1 costs were within guidance at US\$2.09/lb of copper produced (guidance US\$2.00/lb to US\$2.25/lb). High grade gold areas encountered on the eastern lens of the pit also contributed to gold production of 6,003oz, slightly above the revised guidance range of 5,000oz to 6,000oz gold in concentrate.

Mining costs were \$18.28/BCM, and processing costs \$8.43/tonne milled. Mining production in CY18 was 27% lower than the previous year, as expected, due to the tighter working areas as the pit nears completion, resulting in increased unit mining costs (CY17: \$13.15/BCM). The unit mining costs were also driven up by the increased rate of final landform shaping of the waste rock dumps as part of the progressive rehabilitation programme. Utilising idle mining equipment during the mining production phase is the most cost-effective way to complete the rehabilitation obligations.

A number of factors including a lack of equipment availability, inclement weather, a tighter working area in the pit and the rock fall in December (which is likely to reduce future copper production by 2,000 tonnes) contributed to a slower than expected mining rate which will delay the completion of mining and add to costs.

A low strip ratio increased ore production to 5.7M tonnes (CY17: 3.9M tonnes), creating ore stockpiles of 2.9M tonnes, which is equivalent to 10 months mill feed. The stockpiles will continue to grow as the pit is completed and then processed for approximately 12 months after mining ceases. It is during this period that the bulk of the cash accumulation is expected to occur as mining costs are no longer incurred in the business.



Kanmantoo and South East Regional Tenement Map

Milling costs were higher than the previous year (CY17: \$7.41/tonne milled) due to unplanned maintenance, which included replacement of the mill gearbox and motor, rotation of the girth gear and the primary crusher rebuild which led to higher costs and reduced mill throughput. Risk management through critical spares limited the downtime associated with these major works.

Hillgrove continued its engagement during the year with the local Kanmantoo Callington Community Consultative Committee (KCCCC). In CY18, the Company assisted the KCCCC to develop a regional master plan which focusses on how the mine can have a lasting positive effect on the

local area, through shared infrastructure and enhancing the local environment by linking on site rehabilitation works with off site vegetation. This innovative approach was recognised in the 2018 Premier's Awards as an excellent example of community engagement.

Along with direct employment opportunities and the significant use of local suppliers and businesses, Hillgrove continues to support local township community events and sporting groups, and engages with local Councils on support and provision of services. The Company also supports the awareness of and education in the mining industry through its support of mining training, induction programmes and scholarships for study in the resources industry.

Exploration

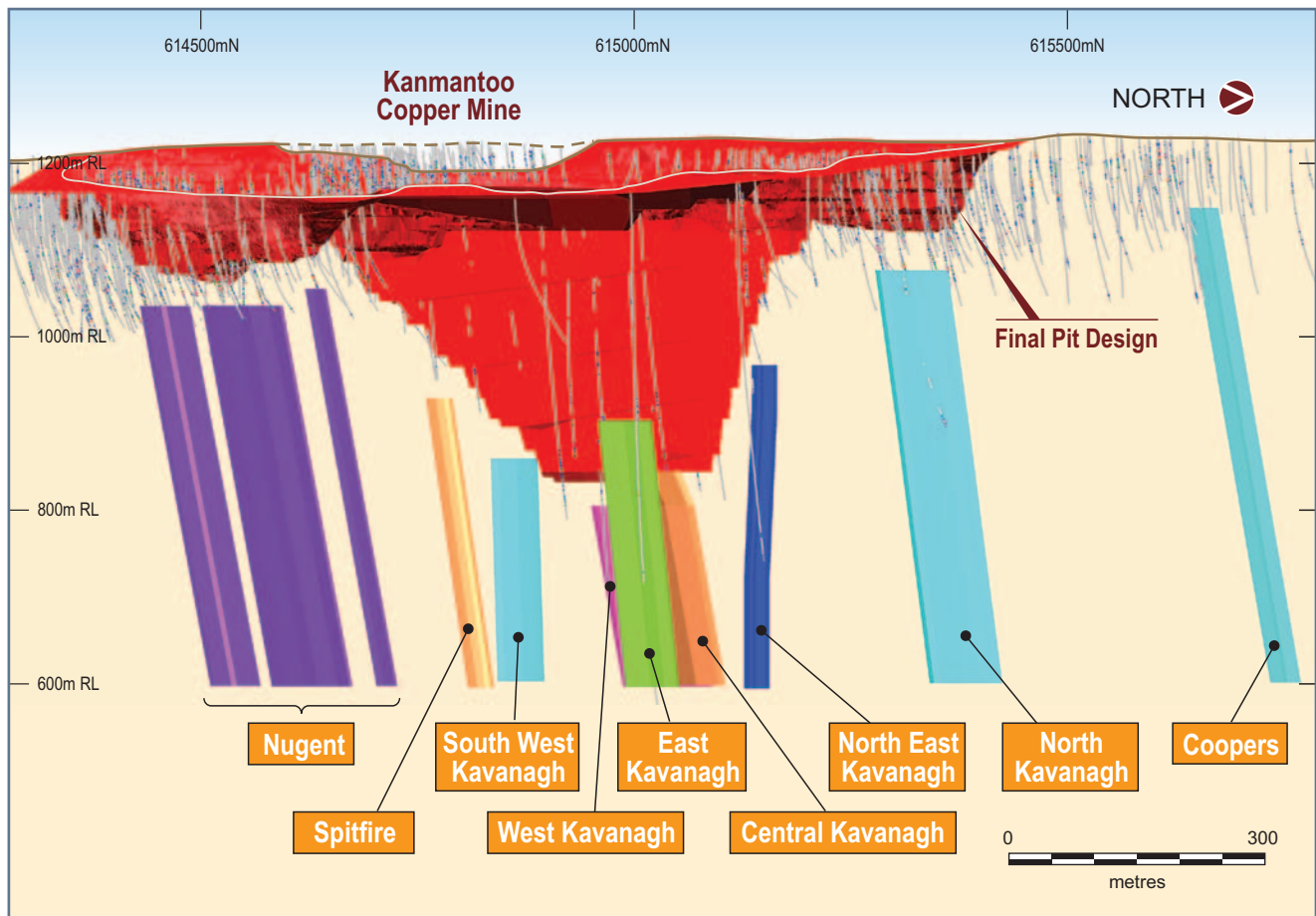
NEAR MINE AND REGIONAL EXPLORATION

In 2018, the Company continued to advance a number of opportunities for organic growth around the Kanmantoo infrastructure, namely the Kanmantoo Underground Exploration Targets, the South Kanmantoo Cu-Au targets, and the Kanappa and Mt Rhine Cu-Au exploration projects. In addition to this, a number of new opportunities became evident and are continuing to be evaluated, including the South-East Regional Corridor for magmatic hosted Cu-Au mineralisation.

The development of these opportunities resulted in several announcements in 2018 on their progress on 8 May, 24 May, 26 June, 31 July, 16 October and 7 December 2018.

Kanmantoo Underground Exploration Targets

The Company demonstrated the extension of several high grade copper-gold zones beyond the final open pit design. This resulted in the announcement (25 May 2017) of an Exploration Target¹ of: **5-10Mt @ 1.7-2.2% Cu, 0.4-1.0g/t Au**



Kanmantoo Copper Mine Longitudinal Section - Exploration Target Zones

If the Pumped Hydro Energy Storage (PHES) transaction proceeds to financial closure, then the Exploration Target immediately below the Giant Pit (but not the former Nugent Pit) will likely be sterilised and underground mining may not be possible.

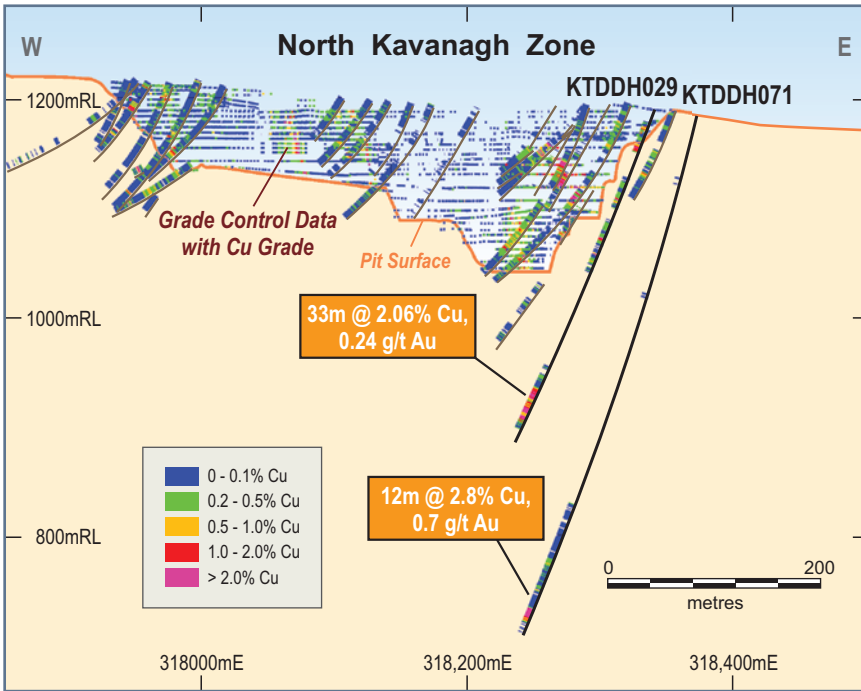
However, the change in the final pit wall design may enable an opportunity to exploit a number of the Cu-Au zones through an underground mining operation before any PHES agreement is closed. This possibility is being investigated.

¹ The Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.

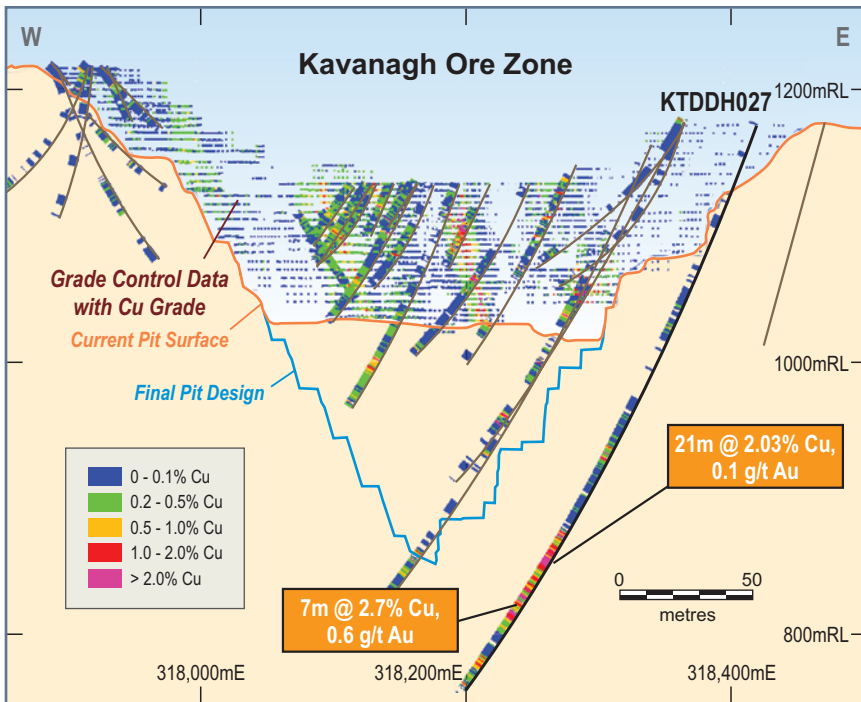
Exploration (cont.)

NEAR MINE AND REGIONAL EXPLORATION (cont.)

Kanmantoo Underground Exploration Targets (cont.)



North Kavanagh Zone, Kanmantoo Copper Mine, Section 6, 115, 140mN



Kavanagh Zone, Kanmantoo Copper Mine, Section 6, 115, 040mN

NUGENT UNDERGROUND OPPORTUNITY

The Nugent underground feasibility study was completed in 2018 and an application to the Department of Energy and Mining for a permit to commence the evaluation of the lode system via underground drilling platforms and trial stoping was submitted and approved. Since that application, it has been determined that the proposed access route to the Nugent lode system from the Giant Pit will be affected by the PHES, and alternative underground access routes are now being evaluated.

The above diagrams show two cross sections through the Central Kavanagh Cu-Au mineralisation at depth under the final pit shell. This Cu-Au zone is only 50 metres from the final open pit shell and is one that is being investigated for underground mining.

Exploration (cont.)

NEAR MINE AND REGIONAL EXPLORATION (cont.)

Kanmantoo Exploration

Exploration activities around the Kanmantoo mine site have identified a number of geochemical and geophysical targets for further exploration.

SOUTH KANMANTOO MINE CORRIDOR

This zone of interest is within 1,500m of the processing plant. Previous drilling has intersected a number of Cu-Au zones of interest that require further work. This area is a focus for further underground mining opportunities, with intersects including:

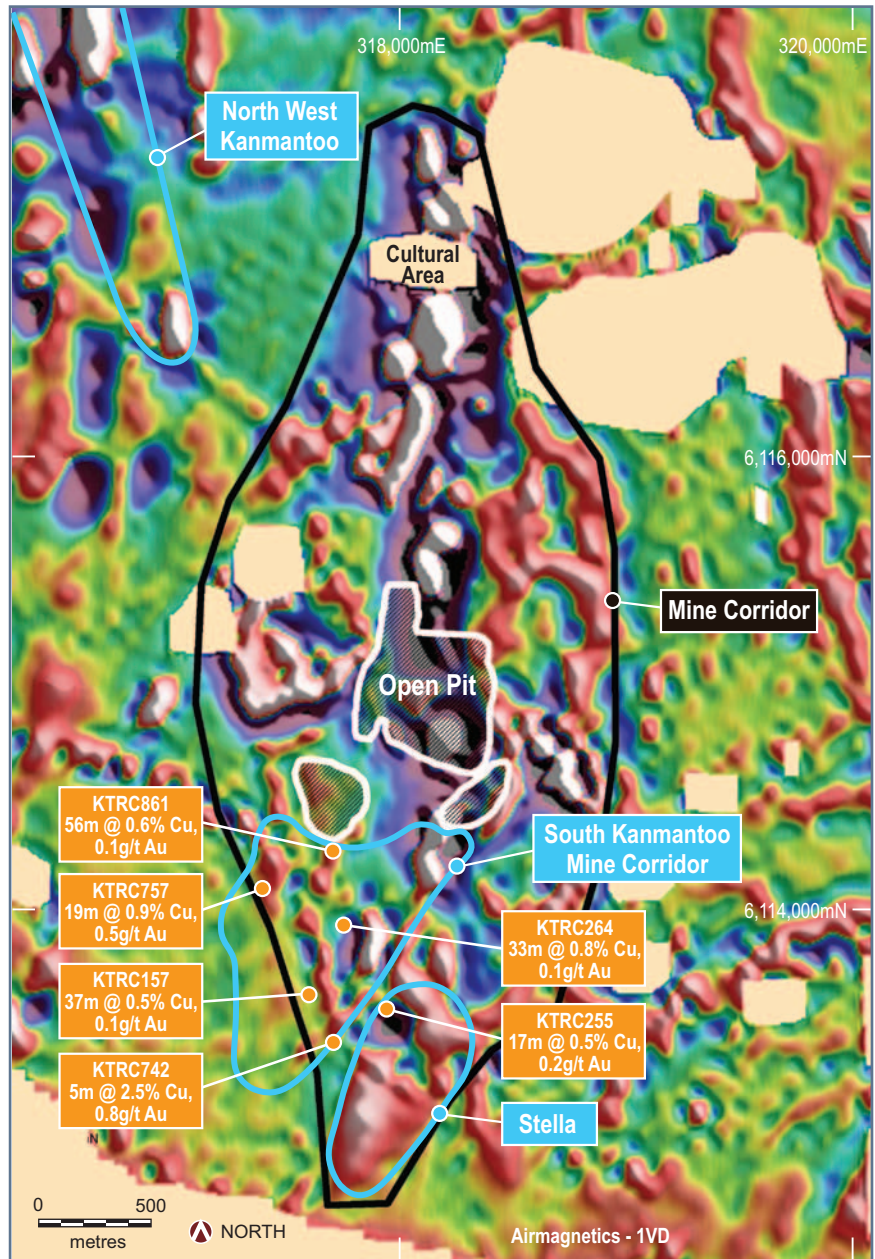
- 5m @ 2.5% Cu, 0.8g/t Au from 13m in KTRC742
- 19m @ 0.9% Cu, 0.5g/t Au from 48m in KTRC757
- 33m @ 0.8% Cu, 0.1g/t Au from 12m in KTRC264

STELLA

In 2018, the Stella target was mapped with a Magneto-Telluric (MT) survey that identified a strong deep-seated conductor that is coincident with a magnetic high and is supported by an Induced Polarity (IP) chargeability zone. This zone has not been previously drilled.

NORTH-WEST KANMANTOO

Mapping and sampling has identified a 4km long zone of Cu-Au anomalism coincident with a strong magnetic high and broad widths of FeOx alteration at surface, within 5kms of the processing plant.



Kanmantoo exploration areas

Kanappa Copper-Gold Exploration

Hillgrove has previously identified a copper-gold mineralised zone at Kanappa over 4.8km long, confirmed with soil and rock chip sampling. In 2018, the Company completed a detailed ground magnetic survey and an IP survey. As a result of this work, six drilling targets were identified, of which three drill holes were completed.

The drilling at Kanappa was prematurely terminated after only three holes due to excessively broken ground, which resulted in the drill holes not being able to reach planned depth, low penetration rates, high water consumption and higher costs.

All assays from the diamond drilling of the three holes at Kanappa have now been received. For the full report see the ASX release of 30 January 2019. The photograph opposite shows an example of the copper mineralisation intersected in KPDD002.

Exploration (cont.)

NEAR MINE AND REGIONAL EXPLORATION (cont.)

Kanappa Copper-Gold Exploration (cont.)

The drill holes intersected a wide sequence of potassic, chlorite and sericite altered and veined sediments, monzonites and diorites that is at least 250m wide and open to the east. Petrology work by internationally respected alteration petrologist, Dr Roger Taylor, on a suite of samples from the first hole (KPDD002), is summarised below. Further work is in progress to confirm these observations and their implication for the next drilling program.

Dr Taylor comments, “the paragenesis records a classic magmatic related down temperature sequence, often recorded in porphyry copper gold systems and in several iron oxide copper gold systems.”

These drill results confirm the Company’s view that the Kanappa area is prospective for large scale magmatic related copper-gold mineral deposits.

Results from all holes are as follows:

KPDD002

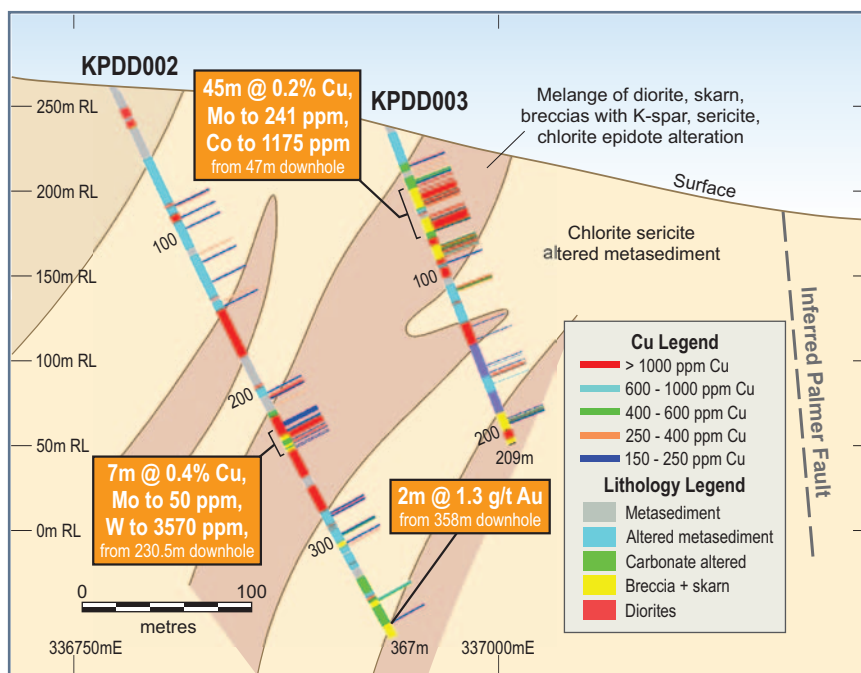
- 7m @ 0.4% Cu, from 230.5 downhole
- 2m @ 1.3g/t Au from 358m downhole

KPDD003

- 45m @ 0.2% Cu, from 47m downhole, including two higher grade zones
 - 5.5m @ 0.47% Cu from 69.5m downhole, and
 - 4.5m @ 0.65% Cu from 85.0m downhole

KPDD004

- 1.0m @ 0.2% Cu, from 100m downhole



Cross Section looking north of KPDD002 and KPDD003 drill holes at Kanappa

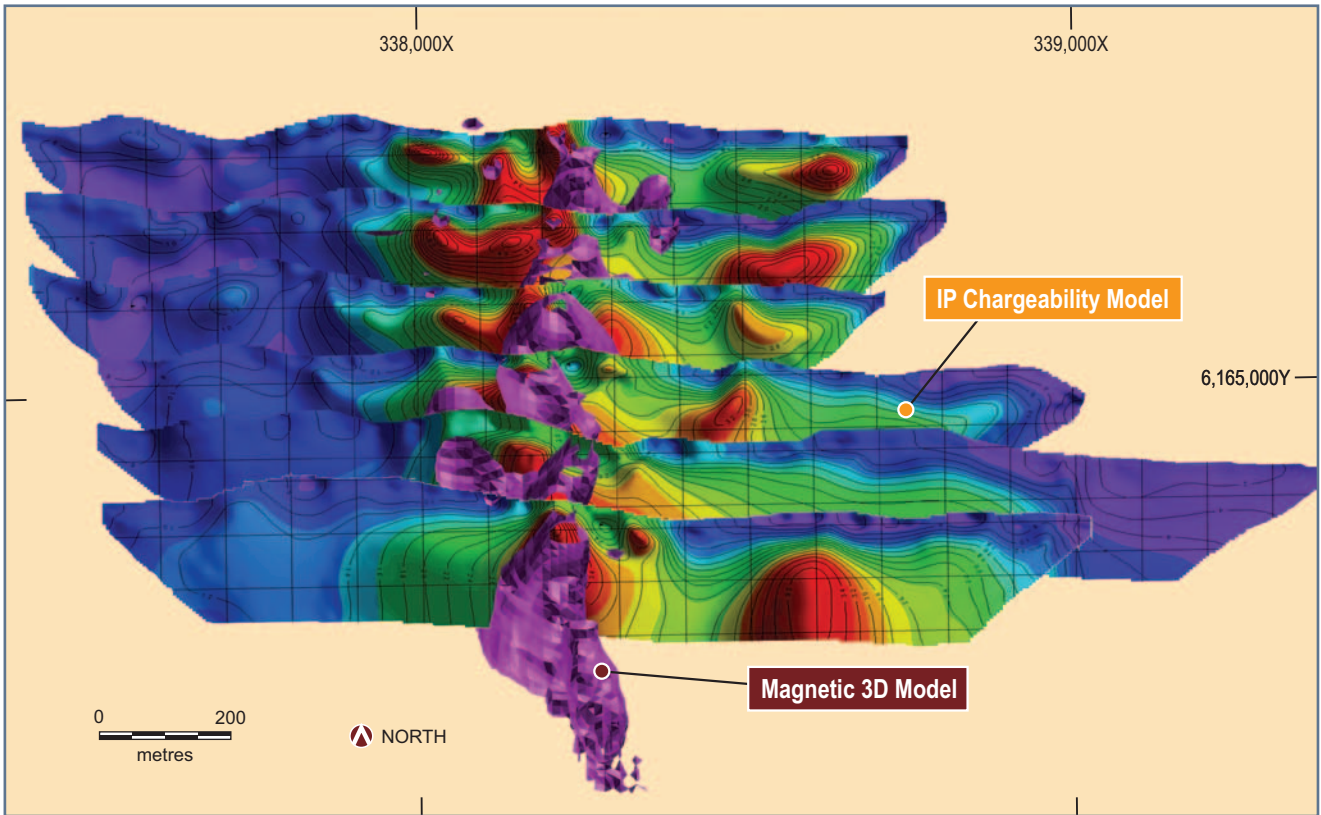


Drill core from KPDD002

Exploration (cont.)

NEAR MINE AND REGIONAL EXPLORATION (cont.)

MT RHINE COPPER-GOLD EXPLORATION PROJECT



Plan of the 1.7km long geophysical anomalies at the Cu-Au target zone at Mt Rhine

The Company had previously identified two significant zones of copper-gold at Mt Rhine through a systematic soil and rock chip sampling program. In 2018, the stronger copper-gold zone was covered with a program of ground magnetics and pole-dipole IP. The diagram above shows an isometric view of the magnetic and IP chargeability results which indicate a 1.7km long anomaly for drill targeting.

The Mt Rhine Project is 80kms via existing roads from the Kanmantoo processing plant and 12kms from the Kanappa copper-gold project.



Exploration (cont.)

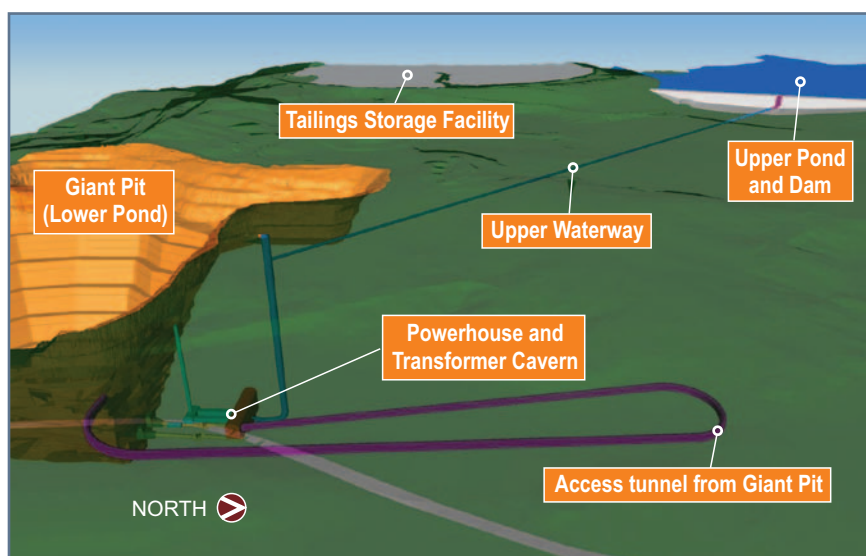
PUMPED HYDRO ENERGY STORAGE

During 2018, and based on strong interest from a number of parties in the PHES project, the Company conducted a formal process to seek offers for the sale of rights to establish a PHES project utilising the final pit void at Kanmantoo. The aim of the process was to unlock the value inherent in the project post the completion of mining at Kanmantoo.

The end of mine Kanmantoo Pit presents a potential PHES opportunity due to the difference in elevation between the base of the pit and an upper reservoir (>400m), its proximity to the South Australian Electricity Interconnector, water availability, its land holding on surrounding properties and the South Australian electricity market requirements.

PHES helps address the challenges faced in the state emanating from reliance on renewable energy, by adding system stability and storage, and also by providing opportunities for associated projects, such as solar.

The process called for non-binding indicative offers to be received in Q3 2018, and binding offers to be received in Q4 2018. Based on the indicative offers, the Company together with its advisor Key Pacific selected a shortlist of bidders to progress to the binding bid stage with final offers received in the December 2018 quarter.



Kanmantoo Pumped Hydro Energy Storage - generalised project layout

The Company evaluated these bids against the potential returns from an underground development. If this transaction were to proceed, the inferred resource and the exploration targets that sit directly below the final pit footprint would be sterilised, meaning that mining of this resource would only be possible before commencement of the construction of the PHES facility.

The PHES bid process was completed as planned and a preferred bidder has been selected. Negotiations have progressed well but are incomplete at the date of this report.

INDONESIAN PROJECTS

The Company is continuing to progress its withdrawal from Indonesia.

The Indonesian projects have been on care and maintenance since 2013 and the carrying values of both projects were fully impaired in 2015.

Mineral Resource and Ore Reserve Estimates

On 18 October 2016 a Mineral Resource Estimate and Ore Reserve Estimate was announced for the Kanmantoo Copper Mine. The 2016 Mineral Resource Estimate for the Giant Pit was updated in 2017 with 1,617m of in-pit RC drilling (<0.01% increase in drill metres) to provide more certainty for the production schedules. The in-pit drilling has not resulted in a material change to the total Mineral Resource Estimate.

The 2017 Mineral Resource Estimate for the Kanmantoo District is reported at the 31 December 2018 mined surface and is therefore depleted for production to 31 December 2018. As production has only been from the Giant Pit, only the Giant Pit has been depleted. The Mineral Resource Estimate is inclusive of the Ore Reserve Estimate also tabulated below for the same surface and cut-off grade for the Giant Pit.

The Kanmantoo Ore Reserve Estimate at 31 December 2018 in the table below has been depleted for production to 31 December 2018. It represents the ore within the remaining Giant Pit which is expected to be recovered by May 2019, and ore which has already been mined and sitting on surface in stockpiles which will be processed after the completion of mining of the Giant Pit.

Kanmantoo Global Mineral Resource Estimate at 31 December 2018

	JORC 2012	Tonnage	Cu	Au	Ag	Cu Metal
Mine	Classification	(Mt)	(%)	(g/t)	(g/t)	(kt)
Kanmantoo Copper Mine, All Deposits	Measured	5.1	0.6	0.1	1.3	33
	Indicated	9.0	0.6	0.1	1.5	57
	Inferred	10	0.6	0.1	1.0	60
Total		24	0.6	0.1	1.3	150

Note: Economic cut-off grade is 0.20% Cu.

Giant Open Pit Mineral Resource Estimate at 31 December 2018

	JORC 2012	Tonnage	Cu	Au	Ag	Cu Metal
Mine	Classification	(Mt)	(%)	(g/t)	(g/t)	(kt)
Kanmantoo Copper Mine, Giant Pit Only	Measured	3.8	0.6	0.1	1.1	21
	Indicated	3.5	0.5	0.1	0.9	18
	Inferred	8	0.6	0.1	0.8	47
Total		15.9	0.5	0.1	1.0	86

Note: Economic cut-off grade is 0.20% Cu.

Kanmantoo Open Pit Ore Reserve Estimate at 31 December 2018

	JORC 2012	Tonnage	Cu	Au	Ag	Cu Metal
Mine	Classification	(Mt)	(%)	(g/t)	(g/t)	(kt)
Kanmantoo Copper Mine (Giant Pit)	Proved	1.2	0.6	0.1	1.2	8
	Probable	0.3	0.5	0.1	0.8	1
Total		1.5	0.6	0.1	1.2	9
Stockpiles		2.9	0.3			9

Note: Economic cut-off grade is 0.20% Cu. The stockpiles are not assayed for gold or silver so no estimate for gold or silver grades are provided, however gold and silver are expected to be recovered from the stockpiles.

The figures included in the Mineral Resource and Ore Reserve statements are estimates only and not precise calculations, therefore appropriate rounding according to JORC guidelines has been applied. Discrepancies in totals may occur due to rounding.

Mineral Resource and Ore Reserve Estimates (cont.)



Kanmantoo underground copper-gold Exploration Target

The Kanmantoo Exploration Target in this Annual Report is based on currently available data and was reported on 25 May 2017. The Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource under the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, the JORC Code” (JORC 2012). The Exploration Target is in addition to the Mineral Resource Estimates tabulated above.

EXPLORATION TARGET

	DH Width Range (m)	Tonnage Range (Mt)	Grade Range (Cu%)	Grade Range (Au g/t)	Grade Range (CuEq%)
Coopers	6-10	0.1-0.3	1.5-2.0	0.4-0.8	1.8-2.5
North Kavanagh	6-10	0.1-0.7	1.5-2.0	0.4-0.8	1.8-2.5
North East Zone	12-33	0.4-0.7	2.0-2.5	0.4-0.8	2.2-3.0
East Kavanagh	10-24	0.4-0.8	2.0-2.5	0.05-0.2	2.0-2.6
Central Kavanagh	13-30	1.2-2.2	1.5-2.0	0.1-0.4	1.6-2.2
West Kavanagh	11-28	0.8-1.6	2.0-2.5	0.01-0.05	2.0-2.5
South West Kavanagh	7-22	0.8-1.0	1.8-2.2	0.1-0.4	1.8-2.4
Spitfire	16-37	0.4-0.7	1.5-2.0	1.5-3.0	2.5-4.0
Nugent	8-15	0.8-2.0	1.5-2.0	1.5-2.5	2.5-3.5
Totals	6-37	5.0-10.0	1.7-2.2	0.4-1.0	2.0-2.8

Competent Person's Statement

The information in this release that relates to Ore Reserve and Mineral Resource Estimates were prepared by Competent Persons in accordance with the JORC Code 2012. Further information on the Kanmantoo Mineral Resources and Ore Reserves is available in the Hillgrove Updated Mineral Resource and Ore Reserve Estimate released to the ASX in this annual report, which is also available on the Hillgrove Resources website at www.hillgroveresources.com.au. Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in that market announcement and, in the case of estimates of Mineral Resources and Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Hillgrove Resources confirms that the form and context in which the findings of the Competent Persons (Peter Rolley in relation to the Mineral Resource Estimates and Lachlan Wallace in relation to the Ore Reserve estimates) are presented, have not been materially modified from the original market announcement apart from mining depletion. Peter Rolley (MAIG) and Lachlan Wallace (MAusIMM) consent to the inclusion in this report of the matters based on their information in the form and context in which they appear.

Sustainability: Environment, Safety and Community

Hillgrove's Sustainability and Work Health & Safety Policies provide a strong, ethical foundation for our approach to health, safety, environment and community (HSEC) responsibilities. Supporting these policies, Hillgrove has implemented an Integrated Risk Management System (Kan-do) across our operations. The system incorporates a prioritised risk based approach and continual improvement framework, ensuring our HSEC policy objectives and legislative compliance are achieved.

To reduce the risks as low as reasonably practicable, the Kan-do system provides the appropriate safe systems of work, clearly outlined responsibilities and accountabilities, and a strong audit framework. Hillgrove has identified its Principal HSEC risks and implemented the appropriate control measures.

The Kan-do system is driven by effective leadership, the acceptance of individual responsibility and the promotion of a risk aware culture across its operations through the implementation of a Due Diligence Model.



The Kan-do system is audited regularly, and improvements are monitored through Hillgrove's Senior Leadership Team and the Audit and Risk Committee.

Prudent and environmentally responsible operational management at Kanmantoo has helped reduce our overall rehabilitation expenditure, while building our reputation with the community as a good neighbour and an ethical mining operator.

Progressive rehabilitation of the site has commenced and the Integrated Waste Landform (IWL) comprised of our waste rock and the tailings storage facility has seen considerable progress. The continued revegetation of the Mining Lease has seen further linkages of remnant woodland areas and enhancement of conserved remnant vegetation. The establishment of high quality native vegetation on adjacent land is assisting Hillgrove to return up to 10 hectares of high quality rehabilitated land to the community for every hectare of native vegetation we have disturbed.

The establishment of this vegetation as a community asset is being integrated into a "Community Master Plan" to ensure real benefit back to the impacted community and the natural environment. We continue to produce and harvest native seed as well as conduct wild seed collection to ensure there are sufficient propagules to enable this important work.

Strategic community engagement continues utilising the long established Community Engagement Plan. Regular reviews and modifications to the plan continue to ensure engagement of the community remains effective and productive.

We remain pro-active in meeting the ongoing challenges and impacts of our site through the use of real-time monitoring and alert systems focused on dust prevention and action and the blasting notification SMS system. There is however always room for improvement and as such we utilise working groups made up of community and committee members and regulators to drive actions and ideas to improve performance.



Premier Steven Marshall recognising the excellent work by Hillgrove and the local community in developing the regional Master Plan; ensuring positive and enduring benefit for the community surrounding the Kanmantoo mine

HILLGROVE RESOURCES

These financial statements are the consolidated financial statements for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Hillgrove Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hillgrove Resources Limited

Ground Floor, 5-7 King William Road, Unley, South Australia 5061

The financial statements were authorised for issue by the Directors on 28 February 2019. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investors' Centre on our website www.hillgroveresources.com.au

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Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Hillgrove Resources Limited (Hillgrove or the Company) and the entities it controlled during the 12 months ended 31 December 2018.




PRINCIPAL ACTIVITIES

Hillgrove Resources Limited is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on operating its flagship Kanmantoo Copper Mine and associated regional exploration targets, located less than 55km from Adelaide in South Australia.

The Kanmantoo Mine has been mined at the rate of up to 20 million tonnes per annum and in 2018 produced 22,584 tonnes of copper. Copper concentrate production from the Kanmantoo Copper Mine is sold to Freepoint Metals & Concentrates LLC under a 100% off take agreement.




DIRECTORS AND OFFICERS

The Directors and Officers of the Company at any time during the 12 month period or since the end of 31 December 2018 are:

Name/Qualifications	Experience and special responsibilities
Mr John Gooding	Independent Non-Executive Chairman / Chairman Nomination and Remuneration Committees
Qualifications	<i>Assoc Dip. Mining Eng., FIE Aust., F. Aus. IMM, MAICD</i>
Experience	John is a Mining Engineer with over 40 years experience in the resources industry. He has held executive management positions with CRA, Normandy Mining, MIM, Xstrata (CEO Xstrata Copper Australia), Ok Tedi Mining and Roche Mining. John has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia and internationally. He was the Managing Director and CEO of Highlands Pacific for nine and a half years until November 2016, and was a Board member of the PNG Chamber of Mines and Petroleum from 2009. He is also the Non-Executive Chairman of the Board for Kasbah Resources Ltd and a Non-Executive Director of KGL Resources Ltd.
	John is a member of the Audit and Risk Committee. Appointed 31 May 2007.
Mr Maurice Loomes	Non-Executive Director
Qualifications	<i>B.Comm (Econ Hons), F.Fin.</i>
Experience	Maurice has a Bachelor of Commerce (Econ Hons) and over 40 years experience in investment analysis and strategy gained across many industries, including roles at Bain and Company, Industrial Equity Limited, Westmex Limited, Guinness Peat Group PLC and many others. He has also held numerous directorships of public companies including CIC Australia Limited (1994-2013), Guinness Peat Group PLC (1996-2000) and Tower Limited (2003-2005). Maurice is currently a Non-Executive Director of Ariadne Australia Limited (2004-) (a significant shareholder of Hillgrove Resources) and was formerly a Non-Executive Director of Calliden Group Ltd from (2000- 2014).
	Maurice is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 25 November 2013.
Mr Philip Baker	Independent Non-Executive Director / Chairman Audit and Risk and Treasury Committees
Qualifications	<i>CPA, MAICD, BBus, PGDipBA</i>
Experience	Phil is a Certified Practising Accountant with over 37 years in the mining industry. He started with MIM Holdings in 1980 undertaking various roles before leading the development and construction of the Ernest Henry copper/gold mine from 1995-97, and then was responsible for the copper refinery and other operations in north Queensland. He became Group Treasurer and later EGM - Strategy, Planning and Development, before leaving MIM in 2003. Phil was then CFO and Company Secretary at Peplin Limited and later QMAG Limited before joining Lihir Gold Limited in 2007 as CFO, serving as CEO for three months in 2010 before the takeover by Newcrest Ltd. After a period consulting to the resources industry, Phil joined Rio Tinto in 2012 as CFO of Pacific Aluminium to help prepare it for divestment, leaving in late 2013 when it was reintegrated into Rio Tinto Alcan.
	Phil is a member of the Remuneration and Nomination Committees. Appointed 29 October 2014.

Directors' Report (cont.)

DIRECTORS AND OFFICERS (CONT.)

Name/Qualifications	Experience and special responsibilities
Mr Anthony (Tony) Breuer	Independent Non-Executive Director
Qualifications	<i>BCom/LLB</i>
Experience	Tony has over 30 years of experience at investment bank Gresham Partners Limited and is currently Managing Director of Gresham Funds Management Group and Deputy Chairman of Gresham Partners Capital Limited, and is a Board member of various Gresham group companies and committees. He was formerly, Director of National Gallery Australia Foundation. He was admitted as a Barrister to the Supreme Court of NSW. Tony is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 1 June 2017.
	
Mr Steven McClare	Chief Executive Officer and Managing Director
Qualifications	<i>BEng (Mining Hons), M.Aus.IMM</i>
Experience	Steve joined Hillgrove in September 2012 as the General Manager Operations at the Kanmantoo Copper Mine and in May 2015 he was promoted to Chief Executive Officer and Managing Director. Previously the Deputy General Manager, then Head of Mining Operations for Newcrest Mining's Cadia Valley Operations, Steve has spent a significant portion of his career constructing, ramping up and optimising mining operations, including Telfer, Cadia Hill, Ridgeway Deeps and Cadia East for Newcrest, and Callie for Newmont. With a background that includes management of Normandy's White Devil Mine, and also various roles within Mount Isa Mines and a work/study Mining Engineering Cadetship with Western Collieries when he joined the industry in 1989. Steve boasts significant experience within industry ranging from underground operations to 150ktpa to 26mtpa, to open pit operations of 2mtpa to 24mtpa. Steve is a member of the Treasury Committee. Appointed 27 May 2015.
	
Mr Paul Kiley	Chief Financial Officer & Company Secretary
Qualifications	<i>B.Ec, CPA</i>
Experience	Paul has over 30 years of experience in the mining, oil and gas industries. He spent 13 years with Newmont (and previously Normandy) in a number of executive roles including Director for Corporate Development for Newmont's Asia Pacific region and the Group Risk Manager. He also spent six years in senior roles with Occidental Oil & Gas, working in both Australia and the United States of America. Paul is a member of the Treasury Committee. Appointed 12 June 2015.
	

Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the twelve month period are:

Meetings Held	Board		Remuneration Committee		Audit Committee		Nomination Committee		Treasury Committee	
	A	B	A	B	A	B	A	B	A	B
Director										
Mr J E Gooding	15	15	7	7	8	8	1	1	-	-
Mr M W Loomes	15	14	7	6	8	7	1	-	-	-
Mr P Baker	15	15	7	7	8	8	1	1	2	2
Mr A Breuer	15	15	7	7	8	8	1	1	-	-
Mr S P McClare	15	15	7	7	8	8	-	-	2	2

A – Number of meetings held during the Directors time in office

B – Number of meetings attended

The Treasury Committee members are Mr P Baker, Mr S McClare, Mr P Kiley and Mr J Sutanto (Group Finance & Planning Manager).

RESULTS

Revenue from ordinary activities	\$180.1m	CY17: \$113.3m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	\$29.5m	CY17: (\$14.1m)
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	\$29.5m	CY17: (\$14.1m)

OVERVIEW OF CONSOLIDATED FINANCIAL RESULTS

For the year ended 31 December 2018, the net profit after tax was \$29.5 million compared to a net loss after tax of \$14.1 million for the year ended 31 December 2017. The underlying net profit after tax during the year was \$29.7 million compared with a \$8.4 million loss in 2017 (refer page 21 for further details including a reconciliation of statutory results to underlying results).

Before the non-underlying items, the operating result for 2018 was a profit before interest and tax (EBIT) of \$27.6 million compared to an EBIT of \$4.4 million in 2017. Depreciation expense in CY18 was \$4.9 million higher than the previous year, in line with the higher copper production which occurred during CY18. With non-cash depreciation and amortisation added back, underlying EBITDA in 2018 increased by \$28.1 million from \$16.2 million to \$44.3 million as a result of increased production.

REVIEW OF OPERATIONS FOR THE CY18 YEAR AND OUTLOOK

With the completion of the Giant Pit cutback in December 2017, the Company entered a cash-generative phase as low operating strip ratios resulted in the stockpiling of mined ore which enabled higher grade ore to be prioritised through the plant. Average milled grade for CY18 was 0.74% compared to 0.48% in the previous year. As a consequence, underlying EBITDA for CY18 increased from \$16.2 million to \$44.3 million and inventory on hand increased by \$20.9 million from \$12.7 million to \$33.6 million at the end of December 2018.

The free cash flow generated from the higher copper sales allowed the Company to improve its balance sheet through debt reduction of \$8.6M, a reduction in the creditors balance of \$21.7M, and a build up of cash of \$2.5M by year end.

As a result of cash flow challenges during CY16 and CY17, a number of payable and debt repayments were deferred until CY18. By the end of 2018, trade creditors which have supported the Company through the 2016 to 2017 period have been returned to near normal trading terms, employees have been repaid their salary deferrals and the Company is close to being debt-free.

For CY18, the company achieved its highest annual copper production on record of 22,584 tonnes of copper metal which was sold at an average price of A\$8,833 per tonne (CY17: 14,802 tonnes at A\$7,763 per tonne). At the end of December 2018, the Company had fixed pricing agreements in place for future sales of 10,900 tonnes of copper at an average price of \$8,873 per tonne, representing about 60% of expected remaining production for the life of mine.

During the year, the Company initiated a formal process to seek offers for the PHES project. Negotiations with the preferred bidder have progressed but are incomplete.

Directors' Report *(cont.)*

REVIEW OF OPERATIONS FOR THE CY18 YEAR AND OUTLOOK *(CONT.)*

KANMANTOO COPPER MINE PRODUCTION STATISTICS

		MAR-18 QTR	JUN-18 QTR	SEP-18 QTR	DEC-18 QTR	CY18	CY17
Ore to ROM from Pit	kt	1,636	1,843	1,184	1,064	5,728	3,915
Mined Waste	kt	2,571	1,889	1,614	1,483	7,557	14,388
Total Tonnes Mined	kt	4,207	3,733	2,799	2,547	13,285	18,303
Strip Ratio	W:O	1.6:1	1.0:1	1.4:1	1.4:1	1.3:1	3.7:1
Closing Ore Stocks	kt	1,257	2,331	2,643	2,893	2,893	484
Mining Grade	%	0.47	0.54	0.62	0.52	0.53	0.48
Ore Milled	kt	876	747	870	831	3,324	3,427
Milled Grade - Cu	%	0.64	0.82	0.80	0.70	0.74	0.48
- Au	g/t	0.12	0.15	0.08	0.06	0.10	0.12
Recovery - Cu	%	91.4	92.5	92.4	91.7	92.0	90.6
- Au	%	54.3	55.5	58.5	54.4	55.6	51.8
Cu Concentrate Produced	Dry mt	21,653	24,023	26,794	22,106	94,576	67,265
Concentrate Grade - Cu	%	23.7	23.5	24.1	24.3	23.9	22.0
- Au	g/t	2.5	2.6	1.5	1.2	2.0	3.1
Contained Metal in Concentrate							
- Cu	t	5,122	5,642	6,454	5,366	22,584	14,802
- Au	oz	1,770	2,042	1,306	885	6,003	6,785
- Ag	oz	36,996	40,139	45,247	39,211	161,592	110,551
Total Concentrate Sold	Dry mt	23,395	23,335	26,391	22,981	96,102	65,161

During 2018, Hillgrove achieved production of 94,576 tonnes of dry concentrate containing 22,584 tonnes of copper and 6,003 ounces of gold from the Kanmantoo Copper Mine, a record year for copper production.

With the completion of the Giant Pit cutback, strip ratios significantly decreased from 3.7:1 to 1.3:1, leading to increased ore production from the Pit. As a result of this, stockpiles increased from 484k tonnes at the beginning of the year to 2,893k tonnes by 31 December 2018. This ore inventory stockpile (equivalent to 10 months of processing) increases the business' resilience by allowing stockpiles to be processed if there are any unplanned mining interruptions. In addition to this, it allows copper production to be optimised by enabling high grade ore to be preferentially processed.

The Company has taken the opportunity to accelerate the earthworks associated with the rehabilitation obligations prior to the completion of mining in mid-2019. Progressive rehabilitation using idle equipment is the most cost effective method to complete the rehabilitation obligations and will progressively reduce the Company's environmental liability.

The 3.0Mtpa processing plant continued to operate above nameplate capacity, with crushing and milling of 3.3M tonnes during CY18, against 3.4M tonnes in CY17. The slight reduction on the prior year was a result of the temporary stoppages to production emanating from the crusher bearing and mill motor replacement.

Mining costs were \$18.28/BCM, and processing costs were \$8.43/tonne milled. The mining unit costs increased during the year (CY17: \$13.15/BCM) due to the increasingly tight working areas as we approach the final months of mining (which reduces efficiency as the work area eventually becomes too small to manage load/haul and drill/blast activities concurrently), weather related delays, and the effect of the December 2018 rock fall.

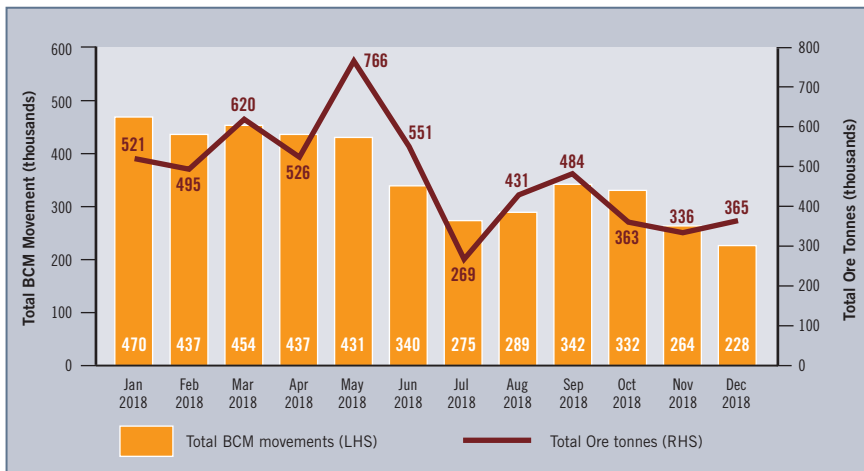
The CY18 C1 cost of US\$2.09/lb of copper produced was within guidance of US\$2.00/lb to US\$2.25/lb.

Directors' Report (cont.)

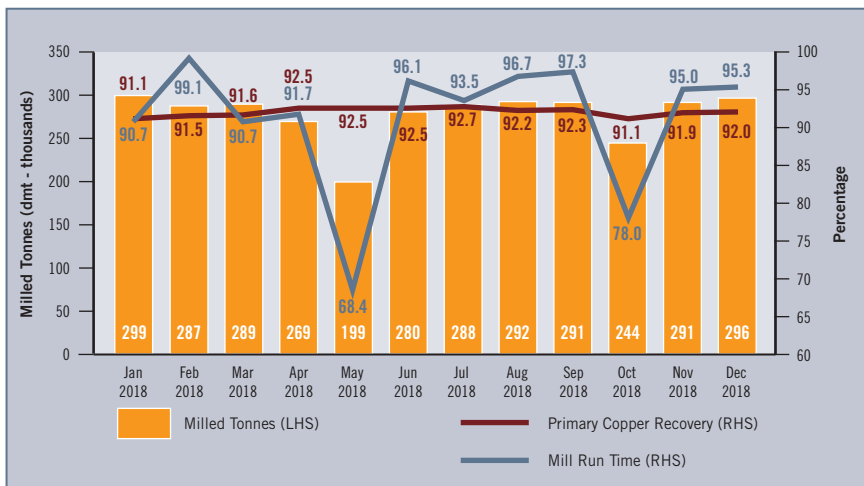
REVIEW OF OPERATIONS FOR THE CY18 YEAR AND OUTLOOK (CONT.)

KANMANTOO COPPER MINE PERFORMANCE

Monthly Mining Performance



Monthly Processing Performance



The successful delineation of the underground targets may result in an increase in mine life at Kanmantoo, made possible only by the utilisation of the substantial assets of the Company, the open pit Haul Road and the efficient processing plant. The development of these underground opportunities will be evaluated against the outcome of the PHES once the formal process is completed.

Other exploration activities around the Kanmantoo mine site were undertaken during the year, and these identified a number of geochemical and geophysical targets for further exploration. This included work in the South Kanmantoo Mine Corridor, Stella, and North West Kanmantoo targets.

At Kanappa, the Company completed a detailed ground magnetic survey and an IP survey, which led to three drill holes being completed during the year. The drill holes intersected a wide sequence of potassic, chlorite and sericite altered and veined sediments, monzonites and diorites that is at least 250m wide and open to the east – this confirms the Company's view that the Kanappa area is prospective for large scale magmatic related copper-gold mineral deposits.

At Mt Rhine, a detailed ground magnetic survey and an IP survey was also completed, and these identified a zone with broadly coincident anomalism. The Mt Rhine target area has a much higher gold tenor compared to the Kanappa exploration target and further work is required to integrate the gold targets with these copper anomalies for drill hole targeting.

EXPLORATION PROGRAMME

Exploration activities during the year were focused on optimising the underground plan for the Exploration Target¹ at the Kanmantoo Copper Mine, testing the regional copper-gold projects, and undertaking diamond drilling at the Kanappa tenement.

As previously announced in 2017, the Company has demonstrated the extension of several high grade copper-gold zones beyond the final open pit design, with the most advanced of these being the underground targets in the Nugent zone where the Company has identified a high copper-gold area (12m @ 2.2% Cu, 7.9g/t Au). Preliminary design work was completed during the year and the Regulator has approved the proposed underground exploration drive below the Nugent Pit.

As a result of the December pit wall failure and the resultant modified pit design, the Company is investigating various underground mining scenarios to profitably and expediently access the copper mineralisation no longer accessible by open pit mining. The investigation of this is in addition to the previous work undertaken to evaluate underground operations on the Nugent lode system.

¹ The Exploration Target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.

Directors' Report *(cont.)*

REVIEW OF OPERATIONS FOR THE CY18 YEAR AND OUTLOOK *(CONT.)*

STATEMENT OF PROFIT OR LOSS

	12 months to 31 December 2018	12 months to 31 December 2017	Change
	\$ million	\$ million	\$ million
Revenue			
Revenue	202.4	126.2	76.2
Treatment and refining	(22.3)	(12.9)	(9.4)
TOTAL REVENUE	180.1	113.3	66.8
Cash costs of production			
Mining	(78.5)	(73.8)	(4.7)
Pre-strip and deferral	(19.4)	15.9	(35.3)
Processing	(30.6)	(27.7)	(2.9)
Transport and shipping	(9.6)	(5.1)	(4.5)
Other direct costs	(5.1)	(5.1)	-
Inventory movements	20.6	7.8	13.1
Royalties	(8.6)	(4.6)	(4.0)
Corporate costs	(4.9)	(4.4)	(0.5)
Gain/(loss) on disposal of assets	-	(0.1)	0.1
Other income	0.2	0.2	-
Net foreign exchange gain/(loss) realised	0.1	(0.2)	0.3
TOTAL CASH COSTS OF PRODUCTION	(135.8)	(97.1)	(38.4)
UNDERLYING EBITDA	44.3	16.2	28.4
Depreciation and amortisation	(16.7)	(11.8)	(5.2)
UNDERLYING EBIT	27.6	4.4	23.2
Net interest and financing charges	(1.7)	(4.6)	2.9
Income tax (expense)/benefit	3.7	(8.2)	11.9
UNDERLYING NPAT	29.7	(8.4)	38.0
Non-underlying items, net of tax	(0.2)	(5.7)	5.5
REPORTED NET PROFIT / (LOSS) AFTER TAX	29.5	(14.1)	43.5
Non-underlying Items			
Fair value movement – convertible notes	-	(5.5)	5.5
Impairment - Australian exploration write down	(0.2)	(0.2)	-
Impairment - Kanmantoo assets write down	-	-	-
Total Non-underlying Items	(0.2)	(5.7)	5.5

Revenue from the sale of concentrate increased from \$113.3 million in 2017 to \$180.1 million in 2018. Total concentrate sold in 2018 was 96,102 dry tonnes (CY17: 65,161 tonnes) at an average realised price of \$8,833 per tonne of payable copper (CY17: \$7,763 per tonne). The value of gold sold in concentrate was \$8.2 million (CY17: \$10.0 million). The completion of the Giant Pit cut-back in 2018 led to increased copper production, due to the increased grades available for processing and resulted in an increase in the volume of concentrate produced.

Cash costs of production were higher, rising from \$97.1 million in 2017 to \$135.8 million in 2018. Although gross mining costs were in line with the prior year, pre strip and deferred mining costs were reallocated from the balance sheet to operating costs as waste removal ratios declined with the completion of the cut-back. In addition to this, transport and shipping, treatment and refining, and royalties increased due to the higher levels of production.

Directors' Report (cont.)

REVIEW OF OPERATIONS FOR THE CY18 YEAR AND OUTLOOK (CONT.)

CASH FLOW OVERVIEW

Operating activities cash flow

	12 months to 31 Dec 2018	12 months to 31 Dec 2017	Change
	\$ million	\$ million	\$ million
Receipts from customers	179.6	101.5	78.1
Payment to suppliers, employees and contractors	(161.6)	(100.8)	(60.8)
Net cash inflows from operating activities	18.0	0.7	17.3

Net cash inflows from operating activities for the 12 months ended 31 December 2018 were \$18.0 million, reflecting the increase in copper metal production during the year. This includes the expenditure on deferred mining costs of \$19.4 million (2017: \$14.5 million). In addition to this, it must be noted that of the \$161.6M of payments made to suppliers, employees, and contractors, \$21.7M of this was to reduce the creditors balance and \$1.7M was for the repayment of deferred salaries. Taking these two items into account, net cash inflows from operating activities would have increased in 2018 from \$18.0M to \$41.4M (CY17: -\$11.0M).

Investing activities cash flow

	12 months to 31 Dec 2018	12 months to 31 Dec 2017	Change
	\$ million	\$ million	\$ million
Payments for exploration activities	(1.5)	(0.1)	(1.4)
Payments for property, plant and equipment	(5.4)	(6.8)	1.4
Net cash (outflows) from investing activities	(6.9)	(6.9)	-

The amount of capitalised pre-strip expenditure decreased in 2018 following completion of the last bench with a strip ratio greater than ten to one. As such, investing activities for property, plant and equipment were limited to sustaining capex at Kanmantoo and costs associated with progressing the PHES. Payments related to exploration activities increased in 2018 from \$0.1M to \$1.5M, which largely focussed on the Kanmantoo tenements and the surrounds (predominantly Kanappa).

Financing activities cash flow

	12 months to 31 Dec 2018	12 months to 31 Dec 2017	Change
	\$ million	\$ million	\$ million
Proceeds from issue of shares	-	5.6	(5.6)
Proceeds from new borrowings	4.0	0.3	3.7
Repayment of borrowings	(12.0)	(0.3)	(11.7)
Repayment of finance leases	(0.3)	(0.3)	-
Net interest paid (incl. transaction costs)	(0.8)	(0.6)	(0.2)
Net cash inflows from financing activities	(9.1)	4.7	(13.8)

The \$4.0M loan from the South Australian Government was repaid in February 2018 and replaced with a \$4.0M copper prepayment of future 2018 copper sales (provided by Freeport). This copper prepayment was repaid during the year. In addition to this, loans related to two contractor creditors were largely repaid during the year, with the liability due to be fully repaid by February 2019.

STATEMENT OF FINANCIAL POSITION

With the completion of the investment phase, the Company entered a free cash generative phase during the year due to higher grade ore being selectively processed. As a result, the balance sheet significantly improved, with net assets increasing from \$13.8M to \$44.2M.

Cash and cash equivalents at 31 December 2018 were \$2.5M. With the forecast strong copper production, cessation of mining (thereby reducing costs), the fixed pricing contracts in place, and creditors now back on industry terms, the Kanmantoo copper mine is expected to generate continued net cash inflows from operations. This should enable the Company to generate significant surplus cash through 2019.

Inventories have continued to build during the year, with ore stockpiles and store consumables increasing from \$12.7M at 31 December 2017 to \$33.6M at 31 December 2018. This build up is due to run-of-mine (ROM) ore stocks, which increased because the mine was producing ore at rates faster than the mill could process at full capacity.

Property, plant and equipment decreased by \$33.7M to \$44.0M during the year. This was a result of depreciation and amortisation of \$16.7M, the release of deferred mining from the balance sheet to the profit and loss of \$19.4M (to normalise costs in the Giant Pit for the impacts of variable waste ratios and copper grades), offset by sustaining capital expenditure of \$2.8M (comprising mainly geotechnical controls in the pit and ongoing tailings storage facility construction).

Project costs of \$1.5M relate to the PHES project, which have been capitalised.

Directors' Report (cont.)

REVIEW OF OPERATIONS FOR THE CY18 YEAR AND OUTLOOK (CONT.)

Statement of Financial Position (cont.)

Deferred tax assets of \$3.7M were recognised on the balance sheet. The tax benefit of carried forward tax losses of approximately \$126.1M has not been brought to account.

Payables decreased by \$21.7M to \$26.6M at 31 December 2018, reflecting the repayment of creditors from the improved free cash flow generation in 2018.

Provisions decreased by \$1.1 million, mainly as a result of a revision of the final cost estimate due to works undertaken during the year to close the Kanmantoo mine upon depletion and fully rehabilitate all affected areas.

Total borrowings of \$1.0M at 31 December 2018 comprises of \$0.5M in finance lease liabilities and \$0.5M for a promissory note from a mining contractor. The liability for this promissory note is scheduled to be fully repaid at the end of February 2019.

Employee benefits payable decreased by \$3.5M, due to the repayment of salary deferrals as planned and previously unpaid liabilities for payroll related on costs.

For the year ended 31 December 2018, total equity increased by \$30.4M, reflecting the profit for the year of \$29.4M. As was the case at 31 December 2017, by applying impairment testing methodology consistent with that used in previous years, the calculated recoverable amount as at 31 December 2018 exceeds the carrying value. However, past impairment charges have not been written back until such time as the Group has demonstrated a sustained period of positive cashflows. In addition to this, a significant portion of the previously booked impairment charge was recorded against mining related assets, which are projected to be fully depreciated within the next four months. Due to these factors, prior impairments were not reversed.

Summary Balance Sheet

	31 Dec 2018	31 Dec 2017	Change
	\$ million	\$ million	\$ million
Cash	2.5	0.5	2.0
Receivables	5.4	5.2	0.2
Inventories	33.6	12.7	20.9
Property, Plant & Equipment	44.0	77.7	(33.7)
Exploration	2.0	0.9	1.1
Project Costs	1.5	-	1.5
Deferred Tax Assets	3.7	-	3.7
Total Assets	92.7	97.0	(4.3)
Trade Payables	26.6	48.3	21.7
Provisions	15.7	16.8	1.1
Borrowings	1.0	9.5	8.5
Employee Benefits	3.8	7.3	3.5
Deferred Income	1.4	1.3	(0.1)
Total Liabilities	48.5	83.2	34.7
Net Assets / Equity	44.2	13.8	30.4

2019 GUIDANCE

The Company provides the following guidance for 2019 for the Kanmantoo Copper Mine Open Pit:

- Copper produced 13,000t to 15,000t copper contained in concentrates
- Gold produced 2,000oz to 3,000oz gold contained in concentrates
- C1 Costs US\$2.05 to US\$2.30 per lb (at a 0.72 exchange rate)
- Exploration \$1.5 million to \$2.0 million
- Capital projects \$1.5 million to \$2.5 million

Despite the reduction in expenses due to the completion of mining in the second quarter of 2019, C1 costs should remain relatively high because they include non cash deferred mining costs and ore inventory adjustment (consumption of stockpiles that have been built up), which will be reallocated from the balance sheet to operating costs. Excluding the reallocation of the deferred mining costs and adjustments to ore inventory, the C1 cost would be in the order of US\$1.40 to US\$1.60 (at a 0.72 exchange rate), and this would be more reflective of cash costs.

The deepening of the pit during the final few months of mining may present further geotechnical challenges, which may impact copper production. This however, is expected to be limited as a result of the completion of mining in April 2019.

Directors' Report *(cont.)*

REVIEW OF OPERATIONS FOR THE CY18 YEAR AND OUTLOOK *(CONT.)*

RISKS

The Company currently has a single operating asset, the Kanmantoo Copper Mine in South Australia. The operation provides the Company with all of its income and it consists of an open pit mine and processing plant located close to regional communities. Concentrate is transported by road in containers to the Port of Adelaide and then loaded onto ship via the port rotainer operation. The concentrate is then shipped to the receiver, typically located in China. Should any of these elements be subject to failure, the Company's expected financial result could be impacted.

The Company's annual budget and related mine plans and production and operating outcomes are subject to a range of assumptions and expectations, all of which contain a level of uncertainty and therefore risk. The Company adopts a risk management framework in order to identify, analyse, treat and monitor the risks applicable to the Group. These risks are formally reported and discussed by the Executive on a regular basis and with the Board and Audit and Risk Committee twice a year.

The prices received for the Company's commodities (copper, gold and silver) are dictated by global markets over which Hillgrove and its offtake partner, Freepoint Commodities LLC, have no influence. The Company has taken active steps to mitigate copper price and exchange rate risk on revenues by fixing the AUD copper price for a portion of future shipments. As at the end of December 2018, the Company had fixed pricing for 10,900 tonnes of copper at an average copper price of \$8,873 per tonne after margins.

With the economic life of the open pit approaching completion, the rehabilitation of the site becomes a major focus to ensure risks associated with the cost of the rehabilitation, the Company's obligations under the approved program for environment protection and rehabilitation (PEPR) and its responsibilities to the local community are managed. The Company has actively ramped up the rehabilitation earthworks to ensure the majority of the final land form shaping is completed prior to demobilisation of the mining fleet and personnel. Progressive rehabilitation of this nature is cost effective, progressively reduces its rehabilitation liability and demonstrates to surrounding communities that Hillgrove is a socially and environmentally responsible company.

CAPITAL RAISINGS

There were no equity capital raisings during the current period.

DIVIDENDS

There were no dividends declared or paid during the current period or in the prior year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than those matters listed in this report there have been no significant changes in the affairs of the Group during the period.

EVENTS SUBSEQUENT TO REPORTING DATE

There were no events subsequent to balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the group in the short to medium term include the cessation of mining in April 2019, looking at the optimal future use of all of the Company's assets and exploration potential, and maximising value from the PHES. For further details on each of these, refer to the review of operations section of this report.

ENVIRONMENTAL REGULATION

Closure of an operation brings with it potential significant financial, environment, and social impacts. Recognising this, a closure management plan for Kanmantoo has been prepared, which includes long term monitoring to verify that controls are effective and standards are maintained.

The consolidated entity has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration and development activities. There have been no reports of material breaches of environmental regulations in the financial period and at the date of this report.

INDEMNIFICATION AND INSURANCE OF OFFICERS

Officers' Indemnity

Article 7.3(a) of the Company's Constitution provides that "To the extent permitted by law, the Company must indemnify each Relevant Officer against: (i) a Liability of that person; and (ii) Legal Costs of that person".

The Company indemnifies every officer against any liability or costs and expenses incurred by the person in his or her capacity as officer of the Company:

- in defending any proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or
- in connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Law.

Indemnity of auditors

Hillgrove Resources Limited has agreed to indemnify their auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from Hillgrove Resources Limited's breach of their agreement. The indemnity stipulates that Hillgrove Resources Limited will meet the full amount of any such liabilities including a reasonable amount of legal costs.

Directors' and Officers' Insurance

During the financial year, the Company paid a premium in respect of a contract for directors' and officers' liability insurance. It is a condition of this Policy that each Insured and/or any persons at their direction or on their behalf shall not disclose the existence of any Coverage Section, its Limits of Liability, the nature of the liability indemnified, or the premium payable.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the period are set out in Note 6.

The Audit and Risk Committee has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

None of the services provided undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards. A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

The Board is committed to following ASX Corporate Governance Council *Corporate Governance Principles and Recommendations*. The Company adopts these best practice recommendations in its policies and procedures where it is appropriate to do so, given the size and type of Company and its operations.

The Board has a process of reviewing all policies and corporate governance processes. Charters are reviewed and updated periodically. These charters provide the framework and roles of respective committees for the appointment of Non-Executive Directors to undertake specific responsibilities on behalf of the Board.

Details of the corporate governance policies adopted by the Company and referred to in this statement are available on the Company's website at www.hillgroveresources.com.au.

Directors' Report (cont.)

Remuneration Report (audited)

The Directors of Hillgrove Resources and its Consolidated Entities present the Remuneration Report for the Company for the year ended 31 December 2018, which forms part of the director's report and has been audited in accordance with section 308 (3C) of the *Corporations Act 2001*.

As a result of the completion of the Giant Pit cutback in December 2017, copper production levels increased during 2018, which resulted in additional revenue generation and improved cashflows, the bulk of which was used to repay debt and creditors. The additional cash was also used to both repay deferred salaries and prudently reward staff for their considerable efforts over the difficult period leading up to the completion of the cutback, as follows:

- The continued repayment of the 10% salary deferral for all staff (staff agreed to defer 10% of salaries from May 2016 to November 2017), which commenced in December 2017 and was completed in January 2019;
- A Short Term Incentive (STI) was paid in October 2018 (Refer 4.1); and
- In March 2018 Directors fees were reinstated to the pre-December 2015 levels (Refer 3.0).

Throughout 2018, the Company continued its policies of maintaining the pay freeze which was instituted in 2014 and which has maintained salaries at 2013 levels (other than for award and anomaly changes) and reducing staff through natural attrition and absorbing their roles into remaining roles, where possible.

1.0 Key Management Personnel

Key management personnel comprise the Non-Executive Directors, the Executive Director and Executives (KMP). Details of the KMP are set out in the table below.

Non-executive Directors	Title (at year end)	Change in 2018 Financial Year
Mr J E Gooding	Chairman Chairman Remuneration Committee Member Audit and Risk Committee Chairman Nomination Committee	Full Year
Mr M W Loomes (Non-independent)	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Full Year
Mr P Baker	Director Chairman Audit and Risk Committee Chairman Treasury Committee Member Remuneration Committee Member Nomination Committee	Full Year
Mr T Breuer	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Full Year
Executive Directors		
Mr S P McClare	CEO and Managing Director Member Treasury Committee	Full Year
KMP Executives		
Mr P Kiley	Chief Financial Officer and Company Secretary Member Treasury Committee	Full Year
Mr L Wallace	General Manager, Kanmantoo	Full Year

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

2.0 Role of the Board and the Remuneration Committee

The Board is responsible for the Company's remuneration strategy and policy. Consistent with this responsibility, the Board has established a Remuneration Committee which comprises a majority of independent non-executive directors.

The role of the Remuneration Committee is set out in its Charter and in summary is to:

- Review and approve the Company's remuneration strategy and policy;
- Consider and propose to the Board the remuneration of the CEO and consider and approve the remuneration of all designated senior executives;
- Review and approve Hillgrove Resources' short term incentive (STI) and long term incentive (LTI) schemes, including amounts, terms and offer processes and procedures;
- Determine and approve equity awards in accordance with policy and shareholder approvals, including testing of vesting and termination provisions; and
- Review and make recommendations to the Board regarding remuneration of non-executive directors.

Further information on the Remuneration Committee's role, responsibilities and membership is contained in the Corporate Governance Statement which is available on the Company's website www.hillgroveresources.com.au.

2.1 Remuneration and Benefits Policy

The Company's approach to remuneration is outlined in the Remuneration and Benefits Policy and is based on providing competitive rewards that motivate talented employees to deliver superior results.

The Remuneration and Benefits policy aims to:

- Align employee remuneration to the principles and measurement of Total Shareholder Return (TSR);
- Present progressive incentive structures to encourage outstanding performance, and hence improved TSR; and
- Mitigate the business risks associated with poor performance, market movements and employee turnover.

The Remuneration Committee Charter and Remuneration and Benefits Policy can be viewed in the Corporate Governance section of the Company's website www.hillgroveresources.com.au.

2.2 Use of remuneration consultants

During the year no remuneration consultancy contracts were entered into by the Company and no disclosure is required under section 300A (1) (h) of the *Corporations Act 2001*.

3.0 Non-executive Director Remuneration

Elements	Details	
Aggregate Board and Committee Fees	The total amount of fees paid to non-executive directors in the year ended 31 December 2018 is within the aggregate amount approved by shareholders at the AGM in 2009 of \$450,000 a year. The individual amounts paid to directors have not increased since January 2011 ⁽¹⁾ ⁽²⁾ .	
Board/Committee fees per annum*	Board Chairman Fee	\$150,000 ⁽¹⁾
	Audit Committee Chairman	\$10,000 ⁽²⁾
	Board NED Base Fee	\$75,000 ⁽¹⁾
Post-employment Benefits	Details	
Superannuation	Superannuation contributions are made at a rate of 9.5% of base fee (but only up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. Contributions are included in the total fee.	
Other Benefits	Details	
Equity Instruments	Non-Executive directors do not receive any performance related remuneration or performance rights.	
Other fees/benefits	No payments were made to non-executive directors during the 2018 financial year for extra services or special exertions. Directors are entitled to be reimbursed for approved Company related expenditure e.g. flights and expenses to attend Board meetings.	

(1) Effective 1 December 2015, the Board agreed to a voluntary and temporary 20% fee reduction in the light of the economic conditions and low commodity price environment, at that time. From 1 March 2018 director's fees were reinstated to the pre-December 2015 levels. As a result, the Chairman's fee was reinstated from \$120,000 back to \$150,000 and the NED fee was reinstated from \$60,000 back to \$75,000. Directors were not repaid any of their respective 20% fee reductions for the December 2015 to February 2018 period.

(2) Effective 1 January 2017, the Board agreed to pay the chairman of the Audit & Risk Committee an annual fee of \$10,000 in recognition of the significant time commitment which is required to fulfil this role.

* Fees include all committee memberships with no extra payments for committee memberships, except as noted at (2) above.

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

4.0 Executive Remuneration

4.1 KMP Remuneration Tables – Audited

	Year	Fixed Remuneration					Total
		Short-term		Long-term			
		Salary and Fees	Non-monetary benefits	Superannuation Benefits	Termination Benefits	Long Service Leave	
Non-Executive Directors							
Mr J E Gooding	CY18 ⁽²⁾	132,420	-	12,601	-	-	145,021
	CY17 ⁽³⁾	88,059	-	6,941	-	-	95,000
Mr M W Loomes	CY18	66,210	-	6,290	-	-	72,500
	CY17 ⁽³⁾	54,795	-	5,205	-	-	60,000
Mr P Baker	CY18	75,342	-	7,158	-	-	82,500
	CY17 ⁽³⁾	63,927	-	6,073	-	-	70,000
Mr A Breuer	CY18	66,210	-	6,290	-	-	72,500
	CY17 ⁽³⁾	31,963	-	3,037	-	-	35,000
The Hon. D C Brown ⁽¹⁾	CY18	-	-	-	-	-	-
	CY17 ⁽³⁾	50,000	-	-	-	-	50,000
Total	CY18	340,182	-	32,339	-	-	372,521
	CY17	288,744	-	21,256	-	-	310,000
Executive Directors							
Mr S McClare	CY18 ⁽⁴⁾	539,632	-	30,301	-	23,157	593,090
	CY17 ⁽⁴⁾	472,634	-	25,830	-	23,713	522,177
Total	CY18	539,632	-	30,301	-	23,157	593,090
	CY17	472,634	-	25,830	-	23,713	522,177
Other key management personnel							
Mr P G Kiley	CY18 ⁽⁴⁾	437,988	-	15,469	-	-	453,457
	CY17 ⁽⁴⁾	337,000	-	31,599	-	-	368,599
Mr L A Wallace	CY18 ⁽⁴⁾	348,806	-	28,975	-	14,869	392,650
	CY17 ⁽⁴⁾	277,697	-	26,034	-	15,032	318,763
Total	CY18	786,794	-	44,444	-	14,869	846,107
	CY17	614,697	-	57,633	-	15,032	687,362
KMP Total	CY18	1,666,608	-	107,084	-	38,026	1,811,718
	CY17	1,376,075	-	104,719	-	38,745	1,519,539

(1) The Honorable D C Brown retired from the Board in 2017.

(2) Mr Gooding's CY18 fees are higher than his CY17 fees as they include a full year in the Chairman's role.

(3) The CY18 directors fees are higher than the CY17 fees because the 20% voluntary reduction was reinstated in March 2018.

(4) On 19 May 2016 all Hillgrove management and staff, as part of a cost reduction initiative, agreed to defer 10% of their salary from 19 May 2016 until 30 November 2017. Beginning from 1 December 2017, the total salary deferral for each employee was repaid over a 14 month period. The 2018 salaries include 12 months of deferred salary repayments and the 2017 salaries include 1 month.

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

4.0 Executive Remuneration (cont.)

4.1 KMP Remuneration Tables – Audited (cont.)

	Year	Variable Remuneration			Total Fixed and Variable	Proportion of Total Remuneration	
		Short-term	Equity Compensation	Total		Performance Related	Equity Related
		Bonus	Value of Performance Rights			%	%
Non-Executive Directors							
Mr J E Gooding	CY18	-	-	-	145,021	0%	0%
	CY17	-	-	-	95,000	0%	0%
Mr M W Loomes	CY18	-	-	-	72,500	0%	0%
	CY17	-	-	-	60,000	0%	0%
Mr P Baker	CY18	-	-	-	82,500	0%	0%
	CY17	-	-	-	70,000	0%	0%
Mr A Breuer	CY18	-	-	-	72,500	0%	0%
	CY17	-	-	-	35,000	0%	0%
The Hon. D C Brown	CY18	-	-	-	-	0%	0%
	CY17	-	-	-	50,000	0%	0%
Total	CY18	-	-	-	372,521	-	-
	CY17	-	-	-	310,000	-	-
Executive Directors							
Mr S P McClare	CY18	131,400	227,676	359,076	952,166	14%	25%
	CY17	-	126,566	126,566	648,743	0%	20%
Total	CY18	131,400	227,676	359,076	952,166	-	-
	CY17	-	126,566	126,566	648,743	-	-
Other key management personnel							
Mr P G Kiley	CY18	87,600	160,859	248,459	701,916	12%	23%
	CY17	-	100,667	100,667	469,266	0%	21%
Mr L A Wallace	CY18	81,303	130,832	212,135	604,785	13%	22%
	CY17	-	86,413	86,413	405,176	0%	22%
Total	CY18	168,903	291,691	460,594	1,306,701	-	-
	CY17	-	187,080	187,080	874,442	-	-
KMP Total	CY18	300,303	519,367	819,670	2,631,388	-	-
	CY17	-	313,646	313,646	1,833,185	-	-

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

4.0 Executive Remuneration (cont.)

4.2 Executive KMP remuneration framework

Hillgrove Resources' executive remuneration strategy is designed to attract, retain and motivate a highly qualified and experienced group of executives.

4.3 Total fixed remuneration

Total Fixed Remuneration (TFR) includes all remuneration and benefits paid to an Executive KMP calculated on a Total Employment Cost (TEC) basis and includes base salary and superannuation benefits paid in line with the prevailing statutory Superannuation Guarantee legislation.

Other than for award and anomaly changes, there has been no increases in TFR during the last five years and salaries have remained at 2013 levels. In May 2016, given the Company's cashflow position was forecast to be very tight throughout the remainder of 2016 and continue into 2017, all Hillgrove employees agreed to defer 10% of salaries from 19th May 2016 until 30th November 2017. In December 2017, the Company began repaying these deferred amounts, over a fourteen month period with the final payment made in January 2019.

4.4 Remuneration composition mix and timing of receipt

The Company endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and 'at risk'. The broad remuneration composition mix of the Company's Executive KMP can be illustrated as follows:

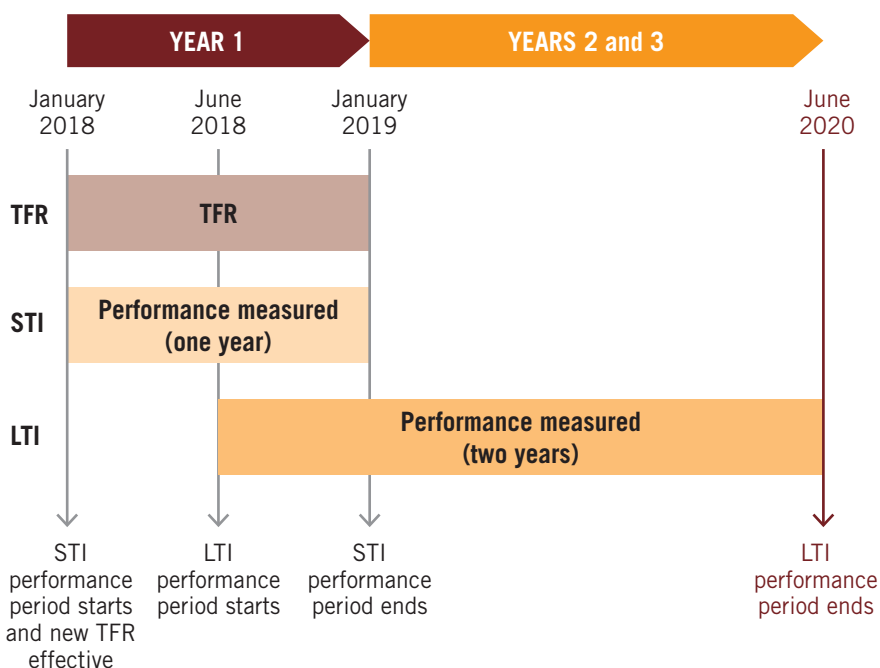
Remuneration mix (actual) CY 2018

Position	TFR (Cash)	STI (Cash) ⁽¹⁾	LTI (Equity)
CEO/MD	100%	Up to 60% of TFR	Up to 60% of TFR
Senior Executives (KMP)	100%	Up to 50% of TFR	Up to 50% of TFR

(1) Note no STI's were offered or paid in 2017.

Note KMPs are classified as Executives for the purposes of remuneration disclosures under the Corporations Act.

The three complementary components of Executive KMP remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart.



4.5 Variable 'at risk' remuneration

As set out in Section 4.4, variable remuneration forms a portion of the CEO/MD and other Executive KMP remuneration. Apart from being market competitive, the purpose of variable remuneration is to direct executive's behaviours towards maximising Hillgrove Resources' value and return value to shareholders, by targeting short, medium and long term performance measures. The key aspects are summarised below.

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

4.0 Executive Remuneration (cont.)

4.5 Variable 'at risk' remuneration (cont.)

4.5.1 Hedging and Margin Lending Prohibition

Under the Company's Share Trading Policy and in accordance with the Corporations Act 2001, equity granted under the Company's equity incentive schemes must remain at risk until vested, or exercised. It is a specific condition of the policy that no schemes are entered into, by an individual or their associates, that specifically protects the unvested value of shares, options or performance rights allocated.

The Company, as required under the ASX Listing Rules, has a formal policy outlining how and when employees may deal in Hillgrove Resources securities.

Hillgrove Resources Limited's Share Trading Policy is available on the Company's website www.hillgroveresources.com under Investor Centre, Corporate Governance.

4.5.2 Long Term Incentives (LTI)

The LTI provides an annual opportunity for executives and key staff to receive an equity award with a two year vesting period and that is intended to align a significant portion of an executive's overall remuneration to shareholder value over the longer term. All LTI awards remain at risk and subject to clawback (forfeiture or lapse) until vesting and must meet or exceed relative TSR performance hurdles over the vesting period, along with other performance criteria.

Long Term Incentives (LTI)													
Purpose	To retain key executives and align their remuneration with shareholder value.												
Types of equity awarded	LTI has been provided under the Company's Executive Long Term Incentive Plan. See Section 5.1 for further details. Under the LTI, executives and key staff are offered performance rights (to acquire ordinary shares of Hillgrove Resources Limited).												
Time restrictions	Equity grants awarded to the CEO/MD and other KMPs are tested against the performance hurdle at the vesting date which is two years ⁽¹⁾ after the grant date. If the performance hurdle is not met at the vesting date, performance rights lapse, subject to Board discretion. A service and performance requirement is imposed on all equity grants.												
Performance hurdles and vesting schedule	Equity grants were made in 2018 and were subject to the Company's Total Shareholder Return (TSR) ranked against the S&P/ASX Small Resources Index as follows: <table border="1"><thead><tr><th colspan="2">Ranking of TSR Against S&P/ASX Small Resources Index (2 Years)⁽¹⁾</th></tr><tr><th>Performance</th><th>% of equity to vest</th></tr></thead><tbody><tr><td>Below the 50th percentile</td><td>0%</td></tr><tr><td>At the 50th percentile</td><td>50% vest</td></tr><tr><td>Between the 50th to 75th percentile</td><td>2% vesting on a straight line interpolation for each percentile ranking above the 50th percentile</td></tr><tr><td>At or above 75th percentile</td><td>100% vest</td></tr></tbody></table> Performance rights vest as shares if the time restrictions and relevant performance hurdle are met. Special provisions, in accordance with company policies, may apply in the event of termination of employment or a change of control.	Ranking of TSR Against S&P/ASX Small Resources Index (2 Years) ⁽¹⁾		Performance	% of equity to vest	Below the 50th percentile	0%	At the 50th percentile	50% vest	Between the 50th to 75th percentile	2% vesting on a straight line interpolation for each percentile ranking above the 50th percentile	At or above 75th percentile	100% vest
Ranking of TSR Against S&P/ASX Small Resources Index (2 Years) ⁽¹⁾													
Performance	% of equity to vest												
Below the 50th percentile	0%												
At the 50th percentile	50% vest												
Between the 50th to 75th percentile	2% vesting on a straight line interpolation for each percentile ranking above the 50th percentile												
At or above 75th percentile	100% vest												
Exercise Price	Exercise price of nil in the event performance hurdles are met.												
Voting rights	There are no voting rights attached to performance rights.												
LTI Allocation	The size of individual LTI grants for the CEO/MD and other KMPs is determined in accordance with the Board approved remuneration strategy mix. See Section 4.4. The target LTI \$ value for each executive is then converted into a number of performance rights based on a valuation methodology determined at the grant date, as follows: Performance right allocation = LTI \$ value determined / Hillgrove Resources share price at grant date.												

(1) The vesting period for the 2017 and 2018 LTI's has been reduced to two years to reflect the current approved PEPR mine life.

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

4.0 Executive Remuneration (cont.)

4.5 Variable 'at risk' remuneration (cont.)

4.5.3 Short Term Incentives (STI)

STI Programme		
Purpose	The STI arrangements are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI programme is reviewed annually by the Remuneration Committee and approved by the Board.	All STI awards to the CEO/MD and other KMP are approved by the Remuneration Committee and the Board.
Performance Target Areas	The key performance objectives of the Company vary by level but are currently directed to achieving ambitious targets, complemented by the achievement of individual performance goals and Company performance.	
Rewarding Performance	Based on the performance target areas set out above, a number of targets are set for each area which generally includes a Threshold, Target and Stretch target. An STI measure can only start to be accumulated provided the Threshold level is achieved. A "gate opener" principle applies whereby an STI will only start to be awarded to the CEO and KMPs if threshold targets are achieved.	All targets are set having regard to prior year performance, market conditions and Board approved budgets. Specific targets are not provided in detail due to commercial sensitivity. Validation of performance against the measures set for the CEO/MD and KMPs involves a review calculation and recommendation by the CEO, reviewed and approved by the Remuneration Committee with final Board sign-off.

The Remuneration Committee determined that an STI for 2017 should be paid to reward staff, whose efforts and tenacity were instrumental allowing the Company to continue through the very challenging cash constrained period leading up to the completion of the Giant Pit cutback in December 2017.

4.5.4 Performance based remuneration granted and forfeited during the year

Due to the Company's limited cash resources, the STI was capped at less than 50% of staff's contracted rate. As payment of the STI was subject to the achievement of both production and cashflow targets, it was not paid to staff until October 2018. The following shows for each KMP how much of their STI cash bonus was awarded and how much was forfeited.

2018	Total Opportunity (\$)	Awarded (%)	Forfeited (%)
Mr S McClare	300,000	44%	56%
Mr P G Kiley	200,000	44%	56%
Mr L A Wallace	165,000	49%	51%

4.6 Relationship between Performance and Executive KMP Remuneration

4.6.1 Hillgrove Resources Financial Performance (31 January 2014 to 31 December 2018)

	11 Months to 31 December	12 Months to 31 December			
	2014	2015	2016	2017 (restated)	2018
Sales Revenue (\$M)	166.8	139.5	113.1	113.3 ⁽¹⁾	180.1
Underlying EBITDA (\$M)	52.3	16.1	22.2	16.2	44.3
Reported net profit / (loss) (\$M)	3.8	(130.1) ⁽²⁾	(109.1) ⁽⁵⁾	(14.1)	29.5
Return on equity (ROE) % ⁽³⁾	1.6%	(69.1%) ⁽²⁾	(144.3%) ⁽⁵⁾	(88.3%)	101.7%
Basic earnings per share (EPS) (cents)	2.6	(77.0) ⁽²⁾	(57.8) ⁽⁵⁾	(4.8)	5.1
Diluted EPS (cents)	2.5	(77.0) ⁽²⁾	(57.8) ⁽⁵⁾	(4.8)	4.9
Share price as at 31 December (cents) ⁽⁴⁾	45	16	4	9	9
Total shareholder return (TSR) % (Annual)	(35.3%)	(64.4%)	(75.0%)	125.0%	0% ⁽⁶⁾

(1) Restatement for changes in accounting policies.

(2) Includes impairment charge of \$112.9m.

(3) Based on average total equity.

(4) After 8 for 1 share consolidation effective on 17 September 2014.

(5) Includes impairment charge of \$68.5m.

(6) Share price as at 31 December was 9c in 2017 and 2018, which results in a 0% TSR.

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

4.0 Executive Remuneration (cont.)

4.6 Relationship between Performance and Executive KMP Remuneration (cont.)

4.6.2 Dividend History

No dividends have been declared or paid (interim or final) over the five years from 2014 to 2018.

5.0 Equity plan disclosures

5.1 Employee Share Schemes (ESS) operated by the Group

Plan Details	Type of Instruments	Details	Purpose
Employee share plan and share issues	General Employee Share Plan (GESP)		To incentivise and align part of employee remuneration to shareholder value
Hillgrove Resources Option and Performance Rights Plan	Option and Performance Rights Plan (OPRP)	Refer 4.5.2	To provide equity incentive subject to meeting predetermined service and performance conditions.

5.2 Analysis of share-based payments granted as remuneration to KMP

Details of the vesting profile of the performance rights granted as remuneration to each Key Management Personnel, and the movements during the period are set out below:

Key Executives	Grant Date	Balance held at 31/12/17	Granted	Number vested	% vested	Number forfeited	% lapsed	Balance held at 31/12/18 ⁽¹⁾
Mr S P McClare	Jun 18	-	3,500,000	-	0%	-	-	3,500,000
	Jun 17	3,800,000	-	-	0%	-	-	3,800,000
	Jul 16	2,500,000	-	2,500,000	100%	-	-	-
TOTAL		6,300,000	3,500,000	2,500,000				7,300,000
Mr P Kiley	Jun 18	-	2,300,000	-	0%	-	-	2,300,000
	Jun 17	2,600,000	-	-	0%	-	-	2,600,000
	Jul 16	1,500,000	-	1,500,000	100%	-	-	-
TOTAL		4,100,000	2,300,000	1,500,000				4,900,000
Mr L A Wallace	Jun 18	-	1,900,000	-	0%	-	-	1,900,000
	Jun 17	2,100,000	-	-	0%	-	-	2,100,000
	Jul 16	1,200,000	-	1,200,000	100%	-	-	-
TOTAL		3,300,000	1,900,000	1,200,000				4,000,000

(1) None of these rights are exercisable and have not vested.

Directors' Report (cont.)

Remuneration Report (audited) (cont.)

5.3 Exercise of Performance Rights granted as remuneration

During the financial year, the following shares were issued on the exercise of performance rights previously granted as part of remuneration:

Key Executives	Number of shares	Amount paid \$/share	Total Amount paid	Intrinsic value of benefit based on year end value of HGO shares ^{(1) (2)}
Executive Directors				
Mr S P McClare	2,500,000	\$0.00	\$0.00	\$212,500
Mr P Kiley	1,500,000	\$0.00	\$0.00	\$127,500
Mr L A Wallace	1,200,000	\$0.00	\$0.00	\$102,000
TOTAL	5,200,000	\$0.00	\$0.00	\$442,000

- The value of performance rights exercised during the year is calculated as the market price of shares of the company on the ASX as at close of trading on the date the performance rights were exercised after deducting the price paid or payable to exercise the performance rights.
- Intrinsic value at year end is the difference between the exercise price (\$0.00) and the share price (\$0.085) on 31 December 2018.

During the financial year 5,200,000 performance rights held by executive KMP members were exercised. There are no amounts unpaid on the shares issued.

5.4 Value of performance rights granted to Executive KMP, and on foot as at 31 December 2018

Key Executives	Grant Date	Number Granted	Vesting Date	Face Value per right ⁽¹⁾	Fair Value ⁽²⁾	Intrinsic Value ⁽³⁾	Total Fair Value
Mr S P McClare	Jun 18	3,500,000	Jun 20	\$0.085	⁽⁴⁾ \$0.0865	\$297,500	\$302,750
	Jun 17	3,800,000	Jun 19	\$0.085	⁽⁵⁾ \$0.0644	\$323,000	\$244,720
TOTAL		7,300,000				\$620,500	\$547,470
Mr P Kiley	Jun 18	2,300,000	Jun 20	\$0.085	⁽⁶⁾ \$0.0904	\$195,500	\$207,920
	Jun 17	2,600,000	Jun 19	\$0.085	⁽⁷⁾ \$0.0654	\$221,000	\$170,040
TOTAL		4,900,000				\$416,500	\$377,960
Mr L A Wallace	Jun 18	1,900,000	Jun 20	\$0.085	⁽⁶⁾ \$0.0904	\$161,500	\$171,760
	Jun 17	2,100,000	Jun 19	\$0.085	⁽⁷⁾ \$0.0654	\$178,500	\$137,340
TOTAL		4,000,000				\$340,000	\$309,100

- The Face Value is the closing share price on 31 December 2018.
- The Fair Value at grant date has been based on a valuation in accordance with accounting standard AASB 2 "Share Based Payments". The fair values are used for accounting purposes only.
- Intrinsic value at year end is the difference between the Face Value and the exercise price (\$0.00)
- Valued at 24 May 2018 when approved by shareholders at the AGM.
- Valued at 25 May 2017 when approved by shareholders at the AGM.
- Valued at Grant Date on 1 June 2018.
- Valued at Grant Date on 1 June 2017.

5.5 Movement in equity held

The movement during the reporting period in the number of ordinary shares of Hillgrove Resources Limited held, directly, indirectly or beneficially, by each specified Director and executive KMP, including their personally-related entities:

		Held as at 31/12/17	Exercise of Rights ⁽¹⁾	Net Other Changes	Held as at 31/12/18
Directors					
Mr J E Gooding	Shares	94,444	-	-	94,444
Mr M W Loomes	Shares	10,127,346	-	-	10,127,346
Mr P Baker	Shares	667,626	-	-	667,626
Mr A Breuer	Shares	20,166,800	-	-	20,166,800
Mr S P McClare	Shares	6,879,706	2,500,000	-	9,379,706
Other KMP					
Mr P Kiley	Shares	3,557,666	1,500,000	-	5,057,666
Mr L A Wallace	Shares	9,619,197	1,200,000	-	10,819,197

- Rights were exercised on or before their expiry date of 31 July 2018.

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

6.0 Service Contracts and Employment Agreements

The Company does not enter into service contracts for KMP Executives. The following sets out details of the employment contracts for Executive KMPs as at 31 December 2018.

Employee	Mr S P McClare	Mr P G Kiley	Mr L A Wallace
Position	Chief Executive Officer and Managing Director	Chief Financial Officer and Company Secretary	General Manager, Kanmantoo Copper Mine
Commencement	25 May 2015	12 June 2015	1 August 2015
Fixed Remuneration ⁽¹⁾	\$500,000 p.a. ⁽²⁾ reviewed periodically	\$400,000 p.a. ⁽³⁾ reviewed periodically	\$330,000 p.a. ⁽⁴⁾ reviewed periodically
Short-term Incentive	Up to 60% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Long-term Incentive	Up to 60% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Contract Length	Indefinite	Indefinite	Indefinite
Notice periods for resignation or termination	6 months	3 months	3 months
Redundancy Benefit	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy
Death or Total and Permanent Disability Benefit	No specific benefit	No specific benefit	No specific benefit
Change of Control	No effect	No effect	No effect
Termination for serious misconduct	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI
Statutory entitlements	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards
Post-Employment restraints	For 6 months: Must not interfere in Company business, recruit employees, or make adverse comments or actions by either party	No adverse comments or actions by either party	No adverse comments or actions by either party

(1) On 19 May 2016 all Hillgrove employees, as part of a cost reduction initiative, agreed to defer 10% of their salary from 19 May 2016 until 30 November 2017. From 1 December 2017, the total salary deferral for each employee was repaid over a 14 month period up until January 2019.

(2) Mr McClare's annual fixed remuneration excludes \$64,632 which was paid in 2018 and which was attributable to the 2016 and 2017 salary deferral amounts, and also excludes a further \$5,386 which was paid in January 2019.

(3) Mr Kiley's annual fixed remuneration excludes \$52,571 which was paid in 2018 and which was attributable to the 2016 and 2017 salary deferral amounts, and also excludes a further \$4,381 which was paid in January 2019.

(4) Mr Wallace's annual fixed remuneration excludes \$43,806 which was paid in 2018 and which was attributable to the 2016 and 2017 salary deferral amounts, and also excludes a further \$3,651 which was paid in January 2019.

Directors' Report *(cont.)*

Corporate Governance Statement

The Company's Board is committed to achieving the highest standards of corporate governance.

The Company's Corporate Governance Statement for the year ended 31 December 2018 may be accessed from the Company's website at www.hillgroveresources.com.au/article/Corporate_Governance/Corporate_Governance.

Rounding of Amounts

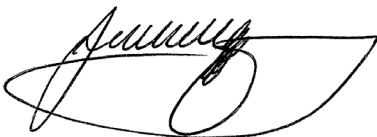
The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

Signed in accordance with a resolution of the Directors:

Dated at Adelaide this 28th day of February 2019



Mr John Gooding

Chairman



Mr Steve McClare

Managing Director

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Hillgrove Resources Limited for the year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Andrew Forman', is written over a light blue horizontal line.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
28 February 2019

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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

		31 Dec 2018	31 Dec 2017
	Note	\$'000	Restated* \$'000
Revenue from contracts with customers	4	180,080	113,315
Other income	5	225	212
Expenses	6(a)	(152,665)	(109,151)
Interest and finance charges	6(b)	(1,646)	(4,561)
Impairment charges	6(c)	(214)	(153)
Fair value movement in convertible notes		-	(5,569)
Profit / (Loss) before income tax		25,780	(5,907)
Income tax (expense) / benefit	7	3,685	(8,167)
Profit / (Loss) for the year attributable to owners		29,465	(14,074)
<i>Items that may be reclassified to profit or loss</i>			
Recycle of cash flow hedge reserve	24	-	(10,946)
Income tax relating to components of other comprehensive income	24	-	3,284
Other comprehensive income for the period (net of income tax)		-	(7,662)
Total comprehensive income for the period		29,465	(21,736)
Total comprehensive income for the period is attributed to:			
Equity holders of Hillgrove Resources Limited		29,465	(21,736)
Non-controlling interests		-	-
Total comprehensive income		29,465	(21,736)
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share	8	5.1	(4.8)
Diluted earnings per share	8	4.9	(4.8)

* See note 36 for details about restatements for changes in accounting policies.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 42 to 65.

Consolidated Statement of Financial Position

As at 31 December 2018

		31 Dec 2018	31 Dec 2017
	Note	\$'000	Restated* \$'000
Current assets			
Cash and cash equivalents	9	2,451	471
Trade and other receivables	10	5,421	5,216
Inventories	11	25,616	12,734
Total current assets		33,488	18,421
Non-current assets			
Property, plant and equipment	12	44,008	77,691
Exploration and evaluation expenditure	13	2,034	889
Inventories	11	8,000	-
Project costs		1,515	-
Deferred tax assets	14	3,685	-
Total non-current assets		59,242	78,580
Total assets		92,730	97,001
Current liabilities			
Trade and other payables	15	26,647	48,317
Provisions	16	3,277	2,896
Borrowings	17	836	8,151
Employee benefits payable	18	3,448	6,716
Deferred income	19	1,383	1,155
Total current liabilities		35,591	67,235
Non-current liabilities			
Provisions	20	12,402	13,826
Borrowings	21	145	1,388
Employee benefits payable	22	331	609
Deferred income	19	58	190
Total non-current liabilities		12,936	16,013
Total liabilities		48,527	83,248
Net assets		44,203	13,753
Equity			
Contributed equity	23	234,327	234,334
Reserves	24	34,986	3,128
Accumulated losses	25	(225,110)	(223,709)
Total equity		44,203	13,753

* See note 36 for details about restatements for changes in accounting policies.

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 42 to 65.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Contributed equity	Reserves	Accumulated losses	Total equity
	Note	\$'000	\$'000	\$'000	\$'000
Balance 31 December 2016		217,538	10,280	(209,635)	18,183
Profit/(Loss) for the period		-	-	(14,074)	(14,074)
Other comprehensive income		-	(7,662)	-	(7,662)
Transactions with owners:					
Shares issued to creditors	23	658	-	-	658
Contributions to equity	23	16,138	-	-	16,138
Share based compensation	34	-	510	-	510
Balance 31 December 2017		234,334	3,128	(223,709)	13,753
Profit/(Loss) for the period	24, 25	-	30,866	(1,401)	29,465
Transactions with owners:					
Contributions of equity	23	(7)	-	-	(7)
Share based compensation	34	-	992	-	992
Balance 31 December 2018		234,327	34,986	(225,110)	44,203

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 42 to 65.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

		31 Dec 2018	31 Dec 2017
	Note	\$'000	\$'000
Cash flows from operating activities			
Cash receipts in the course of operations		179,601	101,547
Cash payments in the course of operations		(161,651)	(100,836)
Net cash generated by operating activities	29	17,950	711
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(1,446)	(107)
Payments for property, plant and equipment		(5,422)	(6,788)
Proceeds on disposal of plant and equipment		9	1
Net cash used in investing activities		(6,859)	(6,894)
Cash flows from financing activities			
Proceeds from issue of shares	23	-	5,635
Proceeds from borrowings		4,000	300
Transaction costs of borrowings / convertible notes		(135)	(276)
Repayment of borrowings		(12,000)	(300)
Repayment of finance leases		(326)	(288)
Interest received		-	5
Interest paid		(650)	(364)
Net cash from/(used) in financing activities		(9,111)	4,712
Net increase/(decrease) in cash and cash equivalents		1,980	(1,471)
Cash and cash equivalents at the beginning of financial period		471	1,942
Cash and cash equivalents at the end of the financial period	9	2,451	471

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 42 to 65.

Notes to the Financial Statements *for the year ended 31 December 2018*

1. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. The financial statements are for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, Hillgrove Resources Limited is a for-profit entity.

(i) Working capital

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business. At 31 December 2018, the Group's current liabilities exceeded its current assets by \$2.1 million. This deficit has significantly improved from a deficit of \$48.8 million in the prior year – largely as a result of the generation of free cashflow to reduce trade payables and borrowings, as well as the build up of ore inventories on stockpile for processing in the next 12 months.

The Directors believe they have reasonable grounds to expect that the Group will have sufficient funds to settle its liabilities and meet its debts as and when they fall due throughout 2019 and beyond. The Directors have considered the funding and operational status of the business, including:

- Following the completion of the Giant Pit cutback, the operating performance of the Kanmantoo mine improved significantly from December 2017, with increases in ore extraction and copper output (2018 was the highest annual production since operations began).
- The Group has generated positive cashflows from operations, after reducing creditors by \$21.7million and borrowings by \$8.6 million in the 12 months to 31 December 2018.
- The most recent rolling twelve-month cash flow forecast shows continued positive cash flows from operations which will enable the Group to meet its obligations, build cash reserves and manage working capital without any requirement for new external finance.

- To minimise short term downside copper price risk on the expected copper output, the Group has fixed pricing for 10,900 tonnes at an average of \$8,873 per tonne as at 31 December 2018.
- Mining activity is expected to wind down and be completed in mid-2019 however, copper concentrate production is expected to continue until mid-2020.
- Short term mining risk is mitigated by the existence of large ore stockpiles at year end, which could keep the plant processing at full capacity for approximately 10 months.

(ii) Compliance with International Financial Reporting Standards

Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of Hillgrove Resources Limited comply with International Financial Reporting Standards (IFRSs).

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified when necessary by the revaluation of certain financial assets and liabilities to fair value through other comprehensive income or through profit or loss.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Notes to the Financial Statements *for the year ended 31 December 2018*

1. Statement of Significant Accounting Policies *(cont.)*

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited (the “parent entity”) as at 31 December 2018 and the results of all subsidiaries for the period then ended. Hillgrove Resources Limited and its subsidiaries together are referred to in this financial report as the Group. Subsidiaries are all entities controlled by the Group. Control is achieved when the Group has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and each component of other comprehensive income are attributed to owners of Hillgrove Resources Limited and to the non-controlling interests where applicable.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Parent Entity

The financial information for the parent entity, Hillgrove Resources Limited, disclosed in Note 35 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates are accounted for at cost in the financial statements of Hillgrove Resources Limited. Dividends received from associates are recognised in the parent entity’s profit or loss, rather than being deducted from the carrying amount of these investments.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Australian dollars, which is Hillgrove Resources Limited’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

For the purpose of presenting consolidated financial statements, the assets and liabilities of Hillgrove Resources Limited’s foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange rate differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(d) Impairment of assets

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

In its impairment assessment, the Company determined the recoverable amount based on a Value in Use (“VIU”) calculation. The VIU assessment was undertaken using a discounted cash flow approach. Cash flow projections are based on the CGU’s life of mine plan. In assessing the VIU, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessment of the time value of money and business risk. Assets that have suffered an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements *for the year ended 31 December 2018*

1. Statement of Significant Accounting Policies *(cont.)*

(d) Impairment of assets *(cont.)*

The specific methods and assumptions used to estimate the discounted future cash flows of the Group's CGU are outlined in more detail in Note 2 "Critical accounting estimates and judgements".

(e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(f) Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

2. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Recoverability of non-current assets

The Group has a single Cash Generating Unit (CGU) being the Kanmantoo copper mine. The estimates of discounted future cash flows for the Kanmantoo CGU are based on significant assumptions including;

- Estimates of the quantities of ore reserves and the timing of access to those reserves;
- Future production levels based on plant throughput and recoveries;
- Future copper, gold and silver prices based on broker consensus pricing;
- Future exchange rates for the Australian dollar to US dollar based on forward curve data;
- Future operating costs of production including capital expenditure and rehabilitation; and
- The discount rate most appropriate to the CGU.

Annual assessments of the discounted future cash flows for the Kanmantoo CGU have resulted in no adjustments to the carrying values.

The ultimate recoupment of costs capitalised and carried forward for exploration and evaluation activities is dependent on successful development and commercial exploitation, or sale of the respective areas.

(b) Pre-strip mine development and deferred mining costs

The Group capitalises pre-strip mining costs associated with the development of pit structures prior to normal production. The amount deferred is calculated according to the waste removal ratio when that ratio is significantly higher than the normal waste removal ratio expected to be experienced during ore production, as indicated by the mine plan. Capitalised pre-strip mining costs are classified under Mine Development within Property Plant and Equipment in the balance sheet and are being amortised to the Income Statement over the remaining life of the Kanmantoo mine.

Deferred mining costs represent the mining costs which are normalised for the impact of waste removal ratios and copper grades over the productive life of specific pits. Costs are usually deferred in the upper benches of the pit when the waste removal ratio is generally higher and the copper grade is generally lower than the average of all the ore-producing benches in the pit. The deferred costs are returned to the cost of production as the relevant pit reaches its floor depth.

Notes to the Financial Statements *for the year ended 31 December 2018*

2. Critical Accounting Estimates and Judgements *(cont.)*

(c) Ore reserve estimates

The Group's disclosed reserves are its best estimate of product that can be economically and legally extracted from the relevant mining properties. Estimates are developed after taking into account a range of factors including quantities, ore grades, production techniques and recovery rates, exchange rates, forecast commodity prices and production costs.

The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each ore body. Significant judgement is required to generate an estimate based on the geological data available.

Changes in reported reserves can impact the carrying value of property, plant and equipment including deferred mining expenditure, provision for mine rehabilitation, recognition of deferred tax assets and the amount of depreciation and amortisation charged to the profit or loss.

(d) Restoration, rehabilitation and environmental obligations

Expenditures related to ongoing restoration, rehabilitation and environmental obligation activities are accrued and expensed as incurred and included in the relevant cost of mining activities. These expenditures are estimated either on the basis of detailed cost estimates or are in accordance with statutory provision requirements.

Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in Notes 16 and 20.

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

3. Financial Reporting by Segment

Through its ownership of the Kanmantoo copper mine, the Group has one operating segment being in the resources industry, in Australia. The Group also has exploration tenement interests overseas, but these tenements are fully written down, under minimal care and maintenance and therefore are considered to be immaterial, not requiring separate segment disclosure.

4. Revenue from Contracts with Customers

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Revenue from contracts with customers	180,080	113,315
Total revenue	180,080	113,315

Revenue is measured at the fair value of the consideration received or receivable.

The Group sells copper concentrate (with gold and silver by-products) under an offtake contract with FreeportMetal & Concentrates LLC. The Group trades using CIF terms (ie. seller's cost, insurance and freight) for vessel chartering and recognises revenue in accordance with the AASB 15 policy in note 36.

The price can be declared as either one of: one month before the month of shipment or synthetically spread adjusted to five months after the month of arrival at the discharge port.

Revenue for 2017 also includes the net value realised from the early close out in 2016 of commodity forward sale contracts designated as cash flow hedges. All of the value realised from this close out had been recycled to the profit and loss statement by 31 December 2017.

The group has recognised the following assets and liabilities related to contracts with customers.

	31 Dec 2018	31 Dec 2017*
	\$'000	\$'000
Deferred income (contract liability)	(1,166)	(849)
Trade and other receivables (contract asset)	1,166	849

* See note 36 for details about restatements for changes in accounting policies.

The balance of the contract liability of \$849,000 at the beginning of the period has been recognised as revenue in 2018.

Notes to the Financial Statements *for the year ended 31 December 2018*

5. Other Income

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Interest	4	11
Grant income (a)	221	201
Total other income	225	212

- (a) Grant income received to assist with construction of a water pipeline was deferred to the balance sheet and is recognised in the profit or loss on the same basis as amortisation of the underlying asset.

6. Expenses

Profit or loss before income tax includes the following expenses:

(a) Expenses per Profit or Loss

		31 Dec 2018	31 Dec 2017
	Note	\$'000	\$'000
Costs of production	(i)	143,322	95,928
Depreciation and amortisation		16,713	11,814
Inventory movement		(20,661)	(7,794)
Cost of goods sold		139,374	99,948
Government royalties		8,552	4,596
Corporate and other costs	(ii)	4,880	4,352
Loss on sale of fixed assets		4	18
Foreign exchange loss / (gain)		(145)	237
Total Expenses per Profit or Loss		152,665	109,151

- (i) Costs of production represent costs for mining, processing, transport of concentrate to port, and site overheads.
- (ii) Corporate and other costs reflect the costs incurred in running the corporate head office, together with Indonesian care and maintenance costs.

(b) Interest and finance charges

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Discount on unwind of rehabilitation provision	350	1,189
Borrowing costs, bank fees and charges	200	16
Interest on borrowings	286	292
Interest payable on financial liabilities	809	561
Convertible Note interest	1	295
Convertible Note costs	-	645
Shares in lieu of interest to mining contractor	-	658
Loss on embedded derivative	-	905
Total Interest and finance charges	1,646	4,561

(c) Impairment charges

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Exploration assets	214	153
	214	153

In accordance with the Group's accounting policies, regular impairment testing is carried out to ensure assets are not carried at more than their recoverable amount. The value in use methodology is used to estimate the recoverable amount, rather than the fair value less cost of disposal method. This is because the value in use methodology more closely portrays Kanmantoo's current life of mine plan which envisages completion of mining and closure in the near-term and does not assume any future expansion of the mineral resource. As the recoverable amount can vary with market conditions particularly the future estimated price of copper, impairment testing is done at a point in time to reflect those market conditions. No impairment charges were taken against the Group's Kanmantoo assets in the current year.

An impairment is not a write off but a provision which can be reversed in the event of improvements in market outlook or operational performance including mine life extensions. As was the case at 31 December 2017, by applying methodology consistent with that used in previous years, the calculated recoverable amount as at 31 December 2018 exceeds the carrying value. However, past impairment charges have not been written back until such time as the Group has demonstrated a sustained period of positive cashflows.

Notes to the Financial Statements *for the year ended 31 December 2018*

6. Expenses (cont.)

In addition to this, a significant portion of the previously booked impairment charge was recorded against mining related assets, which are projected to be fully depreciated within the next four months. Due to these factors, prior impairments were not reversed.

Expenditure on exploration areas of interest where the prospect of recoupment of costs capitalised through successful development and commercial exploitation is no longer considered likely, is charged to the profit or loss as an impairment charge.

(d) Other required disclosures

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Employee benefits (excluding share-based payments)	27,349	25,113
Share based payments (see note 34)	992	510

(e) Assurance services

The following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	31 Dec 2018	31 Dec 2017
	\$	\$
(i) Audit Services		
Fees paid to PricewaterhouseCoopers:		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	257,459	203,060
Fees paid to Deloitte Touche Tohmatsu:		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	-	63,490
Fees paid to other firms:		
Audit and review of Singapore financial reports (Crowe Horwath)	15,470	14,624
	272,929	281,174
(ii) Taxation Services		
Services by Deloitte Touche Tohmatsu:		
Tax compliance services, including review of income tax returns	9,000	12,477
Services by PricewaterhouseCoopers:		
Tax compliance services, including review of income tax returns	35,677	-
Services by other firms:		
Singapore tax compliance services, including income tax returns (Crowe Horwath)	8,330	8,348
Research and development concession claims (Shinewing)	-	10,335
	53,007	31,160

7. Income Tax Expense

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
(a) Income tax expense		
Income tax expense comprises:		
- Current tax expense	-	3,284
- Deferred tax expense / (benefit)	(3,685)	4,883
Income tax expense / (benefit)	(3,685)	8,167

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit / (loss) from continuing operations before income tax expense / (benefit)	25,780	(5,907)
Tax at the Australian tax rate of 30%	7,734	(1,772)
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	297	153
- Non-deductible expenses	212	45
- Losses from non-resident foreign operations	267	261
- Prior year tax losses utilised and temporary differences	(8,510)	-
- Tax temporary differences recognised	(3,685)	-
- Tax temporary differences not recognised	-	7,809
- Fair value movement in convertible notes	-	1,671
Income tax expense / (benefit)	(3,685)	8,167

(c) Amounts recognised directly in equity

Deferred tax – (credited) / debited directly in equity	-	(3,284)
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(d) Tax consolidation legislation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Hillgrove Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Hillgrove Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The entities in the tax-consolidated group entered into a tax sharing agreement and a tax funding agreement. On adoption of the legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity. The entities have also entered a tax funding agreement under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to it under the tax consolidation legislation. Refer to Note 14.

8. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Classification of securities as ordinary shares

Ordinary shares have been classified as ordinary shares and included in basic earnings per share.

Classification of securities as potential shares

Outstanding performance rights have been classified as potential ordinary shares and included in diluted earnings per share.

Notes to the Financial Statements *for the year ended 31 December 2018*

8. Earnings Per Share (cont.)

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
(a) Basic earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company	29,465	(14,074)
(b) Diluted earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company.	29,465	(14,074)

	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	573,567,811	294,649,666
Number for diluted earnings per share		
Diluted ordinary shares	601,376,365	294,649,666

	Cents	Cents
(a) Basic earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	5.1	(4.8)
(b) Diluted earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	4.9	(4.8)

9. Cash and Cash Equivalents

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Cash at bank and on hand	2,058	188
Restricted cash	393	283
	2,451	471

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash cannot be accessed without consent and comprises deposits to cash back environmental bonds, office rental security deposits, foreign exchange pre settlement risk and unclaimed dividends.

10. Trade and Other Receivables

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Trade receivables	1,890	1,384
Prepayments	2,267	2,030
Other receivables	414	776
GST receivable	850	1,026
	5,421	5,216

Trade receivables are for concentrate sales and the Group has a single customer under the terms of an offtake agreement. Sales are denominated in US dollars. Revenue is recognised in accordance with the policy described in Note 36 using spot exchange rates on the date of the sale, with trade receivables subsequently being translated at the exchange rate applicable on the date when settled. Unsettled balances at period end are revalued using the appropriate end of period exchange rate.

First progress payment is received three business days after concentrate is delivered to port in minimum tonnage lots. First provisional payment covering 95% of the value is received three business days after ship loading. Second provisional payment for the remaining 5% is received 45 days after ship loading. Refer to note 36 (AASB 15 revenue from contracts with customers) for additional information.

The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in note 26(d).

Prepayments include contract assets of \$1,166,000 (CY17: \$849,000)

11. Inventories

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Current Assets		
Concentrates	1,803	2,662
ROM stockpile	20,756	7,020
Stores and consumables	3,057	3,052
	25,616	12,734
Non-Current Assets		
ROM stockpile	8,000	-
	8,000	-

Inventory is recognised at the lower of cost and net realisable value. The estimation of the split between current and non-current assets for ROM stockpiles involves judgement of the timing for when this material is expected to be processed.

Notes to the Financial Statements *for the year ended 31 December 2018*

11. Inventories (cont.)

The cost of inventory is determined using the allocation of costs between production and development activities. Costs and activities are monitored at each stage of the production process and allocated to physical units.

Net realisable value is based on the estimated amount expected to be received when the inventory is completely processed and sold. The estimation of net realisable value of inventories involves judgements about the quantity of metal that can be recovered, future commodity prices, production costs and selling costs.

12. Property, Plant and Equipment

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Land and building		
At cost	5,524	5,524
Accumulated depreciation	(379)	(379)
	5,145	5,145
Plant and equipment		
At cost	73,264	73,068
Accumulated depreciation and impairment	(58,112)	(56,314)
	15,152	16,754
Motor vehicles		
At cost	1,281	1,253
Accumulated depreciation	(761)	(711)
	520	542
Mine development		
At cost	161,054	158,770
Accumulated depreciation and impairment	(145,768)	(130,778)
	15,286	27,992
Deferred mining costs		
At cost	7,905	27,258
	7,905	27,258
Total property, plant and equipment	44,008	77,691

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and costs incurred in bringing assets into use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The units of production basis is used when depreciating mine specific assets which results in a depreciation charge proportional to the depletion of the forecast remaining life of mine production. Changes in factors such as estimates of proven and probable reserves that affect the unit of production calculations are applied on a prospective basis. The straight line method of depreciation to allocate cost, net of residual values, is used for all remaining assets over estimated useful lives between 3-10 years from inception, the duration reflects the specific nature of the assets. Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Mine development includes the Kanmantoo mine rehabilitation asset (see Note 2(d)).

Deferred mining costs represent the mining costs which are normalised for the impact of strip ratios and copper grades over the life of specific pits.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(d)).

Reconciliations of the carrying amounts for each class of asset are set out below:

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Land and buildings		
Carrying amount at beginning of period	5,145	5,145
Disposals	-	-
Depreciation	-	-
Carrying amount at end of period	5,145	5,145
Plant and equipment		
Carrying amount at beginning of period	16,754	17,616
Additions	196	172
Disposals	-	-
Depreciation	(1,798)	(1,034)
Carrying amount at end of period	15,152	16,754
Motor vehicles		
Carrying amount at beginning of period	542	628
Additions	136	77
Disposals	(12)	(31)
Depreciation	(146)	(132)
Carrying amount at end of period	520	542

Notes to the Financial Statements *for the year ended 31 December 2018*

12. Property, Plant and Equipment *(cont.)*

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Mine development		
Carrying amount at beginning of period	27,992	32,600
Additions	2,620	3,918
Transfers from exploration and evaluation expenditure	246	-
Depreciation	(14,990)	(10,921)
(Decrease) / Increase provision for rehabilitation	(582)	2,395
Carrying amount at end of period	15,286	27,992
Deferred mining costs		
Carrying amount at beginning of period	27,258	12,671
(Reductions) / Additions	(19,353)	14,587
Carrying amount at end of period	7,905	27,258
Total property, plant and equipment	44,008	77,691

13. Exploration and Evaluation Expenditure

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Exploration, evaluation and expenditure	2,034	889
Carrying amount at beginning of period	889	803
Additions	1,605	239
Transfers to mine development	(246)	-
Impairment losses	(214)	(153)
Carrying amount at end of period	2,034	889

The Group accumulates certain costs associated with exploration activities on specific areas of interest where the Group has rights of tenure and where exploration and evaluation activities in the area of interest have not reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves.

14. Deferred Tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Deferred tax asset (DTA)		
<i>DTA amounts recognised in profit or loss</i>		
Employee benefits	997	1,496
Rehabilitation provisions	4,291	4,688
Tax revenue losses	-	-
Property, plant & equipment	-	1,667
Other	982	495
	6,270	8,346
<i>DTA/(DTL) amounts recognised directly in equity</i>		
Share issue expenses	121	210
Other	9	-
Set-off deferred tax liabilities pursuant to set-off provision	(2,715)	(8,556)
Net deferred tax assets	3,685	-

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable future taxable amounts will be available to utilise those temporary differences and losses. Unused tax losses and offsets for which no deferred tax asset has been recognised are approximately \$126.1 million (tax benefit at the Australian tax rate of 30%: \$37.8 million). In addition there is an unrecognised temporary difference on plant and equipment amounting to approximately \$93.4 million (tax benefit at the Australian tax rate of 30%: \$28.0 million).

Notes to the Financial Statements *for the year ended 31 December 2018*

14. Deferred Tax (cont.)

Deferred tax assets of \$1,562,000 (2017: \$2,036,000) and deferred tax liabilities of \$2,715,000 (2017: \$8,289,000) are expected to be recovered in less than 12 months of the balance sheet date.

The Company has \$21.3 million of franking credits available for future periods (31 December 2017: \$21.3 million).

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Deferred tax liability (DTL)		
<i>DTL amounts recognised in profit or loss</i>		
Deferred mining costs	2,372	8,177
Other	343	379
	2,715	8,556
Amount offset to deferred tax assets pursuant to set-off	(2,715)	(8,556)
Net deferred tax liabilities	-	-
Movements in net deferred tax balance		
Opening balance	-	4,883
Credited/(charged) to profit or loss	3,685	(8,525)
Credited/(charged) directly in equity for cash flow hedges	-	3,284
Over/(under) provision in prior years	-	358
Closing balance	3,685	-

15. Trade and Other Payables

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Trade payables	18,209	30,092
Other payables and accruals	8,438	18,225
	26,647	48,317

Information about the Group's exposure to liquidity risk is provided in Note 26.

16. Provisions – Current

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Rehabilitation provision	2,200	1,801
Make good provision	549	499
Unsettled ship provision	528	596
	3,277	2,896
Movement in provisions		
Carrying value at the beginning of the period	2,896	3,027
Increase / (reduce) provision recognised:		
Make good provision	50	(209)
Unsettled ship provision	(68)	(421)
Transfer from/(to) non-current provisions;		
Rehabilitation provision	399	499
Balance at end of period	3,277	2,896

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration and mining activities. The current balance is in respect of the Kanmantoo mine and Comet Vale tenement, which are expected to occur over the next 12 months.

The make good provision is in respect of the contractual requirement to make repairs necessary for mobile equipment including vehicles to be returned to their original state.

The unsettled ship provision represents estimated outflows for shipments of concentrate that have been invoiced using provisional pricing. Settlement is expected to occur in the first quarter of 2019.

17. Borrowings – Current

Borrowings are classified as current liabilities. Where the Group has an unconditional right to defer settlement of the liability at least 12 months after the reporting period, that part of the deferred settlement is classified as a non-current liability.

Leases of property, plant and equipment where the Group substantially holds all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities.

Notes to the Financial Statements *for the year ended 31 December 2018*

17. Borrowings – Current *(cont.)*

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the liability balance outstanding. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight line basis over the lease period.

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Secured		
Loan - South Australian Government (a)	-	4,259
Unsecured		
Lease liabilities	333	544
Promissory note (b)	503	1,417
Deferred payment (c)	-	1,931
	836	3,892
Total current borrowings	836	8,151

- (a) The loan from the South Australian Government Financing Authority which was secured over Company-owned property was repaid in February 2018 and replaced with an advance from Freepoint Metals & Concentrates LLC which was subsequently converted to a copper prepayment of \$800 per tonne for 5,000 tonnes of future 2018 copper sales. The copper prepayment was repaid during the year.
- (b) A contractor creditor of the Company agreed to convert a portion of the amount owed for past services into an unsecured interest-bearing liability. Repayments have commenced and the liability is expected to be fully repaid in February 2019.
- (c) A contractor creditor of the Company agreed to receive a deferred payment in lieu of a portion of an amount owed for past services. This liability was repaid in February 2018.

18. Employee Benefits Payable – Current

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Employee benefits payable	3,448	6,716

The current provision for employee benefits includes:

- Accrued annual leave and long service leave.
- Deferred salaries (now all current) plus unpaid liabilities for payroll related on-costs.

The entire amount of employee benefits payable of \$3.4 million (2017: \$6.7 million) is presented as current since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Current leave obligations expected to settle after 12 months	1,015	1,820

19. Deferred Income

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Current Liabilities		
Deferred pipeline grant (i)	217	306
Deferred revenue (contract liability) (ii)	1,166	849
	1,383	1,155

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Non-Current Liabilities		
Deferred pipeline grant (i)	58	190
	58	190

- Deferred income relates to a grant received to assist with construction of a water pipeline.
- Relates to the delivery of concentrate to the local port and transfer of title being completed, however loading of concentrate onto vessels and the shipping of concentrate to the destination port had not yet been performed. Refer to note 36 (AASB 15: revenue from contracts with customers) for additional information.

Notes to the Financial Statements *for the year ended 31 December 2018*

20. Provisions – Non-Current

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Rehabilitation provision	12,402	13,826
Movement in provisions		
Carrying value at the beginning of the period	13,826	10,219
Discount on unwind of rehabilitation provision	350	1,189
Transfer (to)/from current provisions	(399)	(499)
Expenditure charged to provision	(1,179)	(543)
(Reduce)/increase provision recognised	(196)	3,460
Balance at end of period	12,402	13,826

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to remediate land disturbed by exploration and mining activities. Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs.

The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the statement of profit or loss in and shown as a financial cost.

21. Borrowings – Non-Current

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Unsecured		
Lease liabilities	145	128
Promissory note (see Note 17(b))	-	1,260
Total non-current borrowings	145	1,388

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption amount is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost in relation to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

22. Employee Benefits Payable – Non current

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Long service leave	331	609
	331	609

23. Contributed Equity

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Share Capital		
Issued and paid up capital for 577,477,118 fully paid shares (31 December 2017: 568,929,118)	234,327	234,334

Notes to the Financial Statements *for the year ended 31 December 2018*

23. Contributed Equity (cont.)

Ordinary Shares Issued – movements during the period

	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	No. of shares	No. of shares	\$'000	\$'000
Opening balance	568,929,118	206,767,247	234,334	217,538
Employee option schemes / issues	8,548,000	-	-	-
Shares issued to creditor	-	9,405,467	-	658
Exercise of options	-	187,792,770	-	5,634
Conversion of notes	-	164,963,634	-	10,508
Less – transaction costs	-	-	(7)	(4)
Balance at end of period	577,477,118	568,929,118	234,327	234,334

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings. In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any net proceeds of liquidation.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

24. Reserves

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Employee share options reserve	4,297	3,305
Profit reserve	30,866	-
Cash flow hedges	-	-
Foreign currency translation	(177)	(177)
	34,986	3,128
Movements:		
Employee share options reserve		
Opening balance	3,305	2,795
Share based compensation expense	992	510
Closing balance	4,297	3,305
Profit reserve:		
Opening balance	-	-
Transfer of current year profit	30,866	-
Closing balance	30,866	-
Cash flow hedge reserve		
Opening balance	-	7,662
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	-	(10,946)
Deferred tax (Note 14)	-	3,284
Closing balance	-	-

Notes to the Financial Statements *for the year ended 31 December 2018*

24. Reserves (cont.)

Nature and purpose of reserves

(i) Employee share option reserve

The employee share option reserve is used to recognise the fair value of share performance rights issued to employees but not exercised.

(ii) Cash flow hedge reserve

The cash flow hedge reserve represents the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges, net of taxes. The amounts are recognised in the profit or loss in the same periods the hedged item is recognised in the profit or loss.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in Other Comprehensive Income as described in Note 1(c)(ii) and accumulated in the foreign currency translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(iv) Profit reserve

The profit reserve is used to accumulate distributable profits, preserving the characteristics of profit by not appropriating against prior year accumulated losses. The reserve can be used to pay taxable dividends.

25. Accumulated Losses

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
At beginning of the period	(223,709)	(209,635)
Net loss not carried forward to profit reserve	(1,401)	(14,074)
Accumulated losses at end of the period	(225,110)	(223,709)

No dividend was paid during the current period (31 December 2017: Nil). The Company has \$21.3 million of franking credits available for future periods (31 December 2017: \$21.3 million).

26. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by senior management under direction of the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas.

(a) Market risk

(i) Copper and Gold – Commodity price and foreign exchange risk management

The Group has exposure to copper and gold commodity prices arising from sales contracts that commit the Group to supply copper concentrate in future years. The prices for copper concentrate supplied under these contracts will be determined at the time of delivery with respect to the price of copper, gold and silver which is quoted in US dollars. The copper price component represents greater than 95% of the copper concentrate sales value and gold represents about 4%.

During 2017 and 2018, the Group's metal offtaker Freeport Metals LLC provided short term fixed A\$ copper pricing to the Group on market competitive cost margin terms. These arrangements protected the Group from downside price risk, however they are not tradeable instruments nor able to be cancelled or settled/converted into cash. As a consequence, hedge accounting is not applicable to the fixed price arrangements.

As at 31 December 2018, the Group had a total of 10,900 tonnes of copper metal at agreed fixed prices ranging from A\$8,557 per tonne up to A\$9,246 per tonne (average price of A\$8,873).

Notes to the Financial Statements *for the year ended 31 December 2018*

26. Financial Risk Management *(cont.)*

(b) Interest rate risk management

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following borrowings:

	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	Weighted average interest rate		Book value \$'000	
Borrowings	5.6%	4.3%	981	7,608

The percentage of total borrowings which are at variable rates is 51% (31 December 2017: 35%).

An analysis by maturities is provided in (e) below.

Details of borrowings have been provided in Note 17 and 21. At 31 December 2018, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been decreased/increased by \$5,030 (31 December 2017: \$27,000).

(c) Foreign exchange risk

The Group sells copper concentrate and sales invoices are denominated in US\$.

The current fixed pricing arrangements on a ship by ship basis with Freeport include conversion from US\$ into A\$ to the extent of the aggregate of the early drawdown values for each ship. Provisional and final invoicing is settled at spot foreign exchange rates.

At 31 December 2018, the Group has US\$-denominated trade receivables of US\$1,333,665 (31 December 2017: US\$1,079,157). Offsetting this, the Group has unsettled ship provisions for final invoices which are also recorded in US\$. At 31 December 2018 the Group has US\$-denominated ship provisions of US\$372,500 (31 December 2017: US\$465,000). The table below details the Group's foreign exchange sensitivity on its net US\$-denominated trade receivables and final invoice ship provisions.

	31 December 2018 Impact on profit or loss		31 December 2017 Impact on profit or loss	
	Increase (\$'000)	Decrease (\$'000)	Increase (\$'000)	Decrease (\$'000)
Impact of 10% increase/decrease in A\$/US\$ exchange rate on US\$ denominated trade receivables	(124)	136	(72)	79

The Group and parent entity also hold bank accounts denominated in US\$ and IDR (Indonesian Rupiah) which had carrying values of \$NIL and \$397 respectively at 31 December 2018 (31 December 2017: \$NIL and \$8,102 respectively). The risk is not material.

(d) Credit risk

Credit risk is managed on a group basis. Credit risk can arise from cash and cash equivalents, deposits with banks and financial institutions, derivative financial instruments and receivables. The Group holds its cash with Westpac Banking Corporation which is considered to be an appropriate financial institution.

The Group has trade receivables of \$1,889,580 (31 December 2017: \$1,383,535). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Applying the principles of the expected credit loss model and historical recovery rates, the Consolidated entity has not recognised a provision against trade receivables and contract assets.

Notes to the Financial Statements *for the year ended 31 December 2018*

26. Financial Risk Management (cont.)

(d) Credit risk (cont.)

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments.

GST refunds are receivable from a government agency and are deemed to have no significant credit risk.

For banks, financial institutions and third party debtors, management assesses the credit quality of the counterparty, taking into account its financial position, past experience and other relevant factors.

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity risk is managed on a Group basis. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group monitors its cash flow on a weekly basis to ensure adequate funds are in place to maintain uninterrupted production. The Group and the parent entity had no undrawn borrowing facilities at the reporting date.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes future interest on borrowings.

	Less than 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
31 December 2018 (\$'000)						
Trade and other payables	26,647	-	-	-	-	-
Borrowings	836	145	-	-	-	-
Total	27,483	145	-	-	-	-
31 December 2017 (\$'000)						
Trade and other payables	48,317	-	-	-	-	-
Borrowings	8,151	1,388	-	-	-	-
Total	56,468	1,388	-	-	-	-

Notes to the Financial Statements *for the year ended 31 December 2018*

27. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b)(i).

Name of controlled entity	Country of incorporation	Class of share	Equity holding 31 Dec 2018 (%)	Equity holding 31 Dec 2017 (%)
Hillgrove Copper Pty Ltd	Australia	Ordinary	100	100
Hillgrove Copper Holdings Pty Ltd	Australia	Ordinary	100	100
Hillgrove Exploration Pty Ltd	Australia	Ordinary	100	100
Hillgrove Mining Pty Ltd	Australia	Ordinary	100	100
Hillgrove Operations Pty Ltd	Australia	Ordinary	100	100
Hillgrove Wheel Ellen Pty Ltd	Australia	Ordinary	100	100
Kanmantoo Properties Pty Ltd	Australia	Ordinary	100	100
Mt Torrens Properties Pty Ltd	Australia	Ordinary	100	100
SA Mining Resources Pty Ltd	Australia	Ordinary	100	100
Hillgrove Indonesia Pty Ltd	Australia	Ordinary	100	100
Hillgrove Singapore Holdings Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	80	80
Hillgrove Singapore No 3 Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 4 Pte Ltd	Singapore	Ordinary	100	100
PT Akram Resources	Indonesia	Ordinary	80	80
PT Fathi Resources	Indonesia	Ordinary	80	80
PT Hillgrove Indonesia	Indonesia	Ordinary	100	100

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

Transactions with non-controlling interests

There were no transactions with non-controlling interests during the period.

28. Commitments

(a) Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Within one year	34	34
One year or later and no later than five years	23	56
	57	90

The group leases its corporate offices under non-cancellable operating leases expiring within five years of the reporting date. The lease has been extended to 2020. The lease has varying CPI escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

Notes to the Financial Statements *for the year ended 31 December 2018*

28. Commitments (cont.)

(b) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform exploration work to meet the minimum expenditure requirements under the various exploration licences which are held. These obligations are expected to be fulfilled in the normal course of operations. Mining interests may be relinquished or joint ventured to reduce this amount. The SA State Government has the authority to defer, waive or amend the minimum expenditure requirements. Eligible exploration expenditure includes an appropriate allocation of overhead costs.

Commitments have increased from the prior year as a result of the tenements that have been granted during 2018.

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Within one year	820	300
One year or later and no later than five years	520	300
	1,340	600

(c) Capital commitments

At 31 December 2018 there were no contracted capital commitments (31 December 2017: Nil).

29. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as set out in Note 9.

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Operating profit after income tax	29,465	(14,074)
Add / (less) items classified as investing/financing activities		
Net loss on sale of fixed assets	4	18
Net interest expense	1,300	1,817
Finance lease payments	326	288
Add / (less) non-cash items		
Depreciation and amortisation	16,713	11,814
Impairment asset write downs	214	153
Fair value adjustment – convertible notes	-	5,569
Employee share options	992	511
Unrealised FX (gains) / losses	688	-
Unrealised (gain) / losses on financial derivatives	-	(7,662)
Discount on unwind of rehabilitation provision	350	1,189
Movement in deferred liability to contractor	-	905
Shares in lieu of interest	-	654
Deferred income amortisation	(221)	(201)
Other non cash items	300	231
Net cash generated by operating activities before change in assets and liabilities	50,131	1,212
Changes in operating assets and liabilities		
Increase / (decrease) in revenue	317	-
(Increase) / decrease in receivables, prepayments and inventories	(21,087)	(8,116)
Increase / (decrease) in trade creditors and accruals	(23,515)	14,265
(Increase) / decrease in net deferred tax assets	(3,685)	4,883
Increase / (decrease) in provisions and employee benefits	(3,564)	3,054
(Increase) / decrease in deferred mining costs	19,353	(14,587)
Net cash generated by operating activities	17,950	711

Notes to the Financial Statements *for the year ended 31 December 2018*

29. Notes to the Statement of Cash Flows *(cont.)*

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Cash and cash equivalents	2,451	471
Borrowings – repayable within one year	(836)	(8,151)
Borrowings – repayable after one year	(145)	(1,388)
Net Debt	1,470	(9,068)

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Other Assets		Liabilities from Financing activities				Total
	Cash & Bank	Liquid Investments	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net debt as at 1 January 2017	1,942	-	(443)	(515)	(2,391)	(9,678)	(11,085)
Cash flows	(1,471)	-	288	-	343	-	(841)
Other non cash movement	-	-	(388)	387	(5,559)	8,418	2,858
Net debt as at 31 December 2017	471	-	(544)	(128)	(7,607)	(1,260)	(9,068)
Cash flows	1,980	-	328	-	8,650	-	10,957
Acquisitions – finance leases	-	-	(30)	(103)	-	-	(133)
Other non cash movement	-	-	(86)	86	(1,546)	1,260	(286)
Net debt as at 31 December 2018	2,451	-	(333)	(145)	(503)	-	1,470

Non-cash movements represent accrued interest, repayment timing movements between current and non-current and revaluations.

30. Key Management Personnel Disclosures

(a) Key management personnel compensation

	31 Dec 2018	31 Dec 2017
	\$	\$
Short-term employee benefits	1,666,608	1,376,075
Post-employment benefits	145,110	143,464
Cash bonus	300,303	-
Share based payments	519,367	313,646
	2,631,388	1,833,185

Further detail regarding key management personnel compensation can be found in the Remuneration Report.

31. Related Party Transactions

(a) Parent entities

The parent entity within the Group is Hillgrove Resources Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 27.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 30.

(d) Related parties

Loans to controlled entities are eliminated on consolidation.

Hillgrove Copper Pty Ltd is the banker for the Group and re-allocates via loan account all costs that relate to the Group. Some assets and liabilities previously recognised in the parent Company, mainly consisting of property, plant, equipment and exploration related assets, have been transferred to the controlled entities via loan account. All these transactions were recorded at carrying value.

32. Events After the Reporting Period

There were no subsequent events since the balance date.

33. Contingent Liabilities

Guarantees

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	620	1,162
Security bonds on rental properties	16	16
	636	1,178

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

The Directors are of the opinion that further provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The consolidated entity had no other contingent liabilities at 31 December 2018.

34. Share-based Payments

Options and Performance Rights Plan (OPRP)

Share based compensation benefits are provided by the Options and Performance Rights Plan (OPRP). The securities issued under this plan are referred to as performance rights throughout the financial statements.

The OPRP is designed to provide long-term incentives for senior managers and above (including Executive Directors) to deliver ongoing improvements in shareholder returns.

Under the plan, participants are granted rights which vest and can be exercised two years after offer (for the 2017 and 2018 offers), subject to the achievement of certain pre-set performance measures and service conditions. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Rights granted under the plan carry voting rights. When exercisable, each performance right is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The granting and exercise price of the rights is nil. The ability for rights to vest and be automatically exercised under the OPRP is dependent on the following:

- The satisfaction of all the Performance Conditions (KPI's);
- The invitee complying with all Company policy and procedures (e.g. no disciplinary action against the invitee between offer and vesting); and
- The invitee meeting the Service Condition (continued employment) for the rights.

Collectively the above conditions are referred to as the Vesting Conditions.

Fair value of performance rights granted in the year

The assessed fair value at grant date of performance rights granted to individuals are allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Binominal Approximation or Monte Carlo simulation model (as appropriate). Both models take into account the exercise price, the term, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights. Expected volatility is based on the Group's three year rolling daily standard deviation using Hillgrove's closing share price for the six years prior to the grant.

Notes to the Financial Statements *for the year ended 31 December 2018*

34. Share-based Payments (cont.)

Movements in performance rights during the year

	31 December 2018		31 December 2017	
	Number of performance rights	Weighted average exercise price (\$)	Number of performance rights	Weighted average exercise price (\$)
Balance at beginning of year	21,188,000	-	9,410,500	-
Granted during the year	19,575,000	-	12,640,000	-
Forfeited during the year	(1,050,000)	-	(30,000)	-
Exercised during the year	(8,548,000)	-	-	-
Expired during the year	-	-	(832,500)	-
Balance at end of year	31,165,000	-	21,188,000	-
Exercisable at end of year	-	-	-	-

Performance rights outstanding at the end of the year

At the end of the year there are 31,165,000 performance rights outstanding that have been offered under the OPRP. The exercise price of these performance rights are Nil (31 December 2017: Nil), and the weighted average remaining contractual life at the end of the period was 1.02 years (31 December 2017: 1.01 years).

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Performance rights issued under the OPRP	992	510

The expense arising from share based payment transactions are determined using an adjusted form of the Black Scholes Model, with the key model inputs including the following:

	2018 Rights	2017 Rights	2016 Rights
Grant date	1 June 2018	5 June 2017	11 July 2016
Expiration date	31 July 2020	31 July 2019	31 July 2018
Share price at grant date	\$0.093	\$0.071	\$0.074
Risk free rate	1.85%	1.89%	2.75%
Expected price volatility of the company's shares	29%	60%	60%

35. Parent Entity Information

Set out below is the supplementary information about the parent entity.

	Parent	
	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Profit (loss) after income tax	5,150	(21,735)
Total comprehensive income	5,150	(21,735)
Balance Sheet		
Total current assets	316	335
Total assets	20,677	19,031
Total current liabilities	667	5,020
Total liabilities	790	5,278
Net assets	19,887	13,753
Shareholder's Equity		
Contributed equity	234,327	234,334
Reserves	9,447	3,128
Accumulated losses	(223,887)	(223,709)
Total equity	19,887	13,753

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1. Investments in subsidiaries are accounted for at cost, less any impairment.

Contingent liabilities

	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Security bond on rental properties	16	16

36. Standards and interpretations in issue

(a) Mandatory standards adopted in the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The adoption of these mandatory standards has not had a significant impact on the Group's accounting policies or the amounts reported during the year.

AASB 9 Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The majority of the Group financial assets are in the form of cash and cash equivalents, trade and other receivables. Accordingly, this new Standard does not have a significant impact on the classification and measurement of its financial assets and liabilities, its offtake pricing arrangements or its results for the Group.

The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 26(d).

Classification and Measurement

On 1 January 2018 (the date of initial application of AASB 9), the group's management has assessed the classification and measurement of the Group's financial assets and no change has been required.

Impairment of financial assets

The Group was required to revise its impairment methodology under AASB 9 for each of the classes of assets. Refer to note 26(d) for further information.

Trade receivables and contract assets

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

AASB 15 Revenue from Contracts with Customer

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

In accordance with the transition provisions in AASB 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the income statement and balance sheet at the date of initial application (1 January 2018) and the beginning of the earliest period presented (1 January 2017):

	31 Dec 2017 As Originally Presented	Impact of AASB 15	31 Dec 2017 Restated
	\$'000	\$'000	\$'000
Revenue	127,078	(13,763)	113,315
Expenses	(122,914)	13,763	(109,151)
Deferred income (contract liability)	(306)	(849)	(1,155)
Trade and other receivables (contract asset)	-	849	849

As at 31 December 2017, delivery of concentrate to the local port was completed, however loading of concentrate onto vessels and the shipping of concentrate to the destination port had not yet been performed for one shipment. In the prior period under the previous policy, revenue and expenses of \$849,000 were recognised in the Income Statement, having a nil impact on retained earnings. Under AASB 15 not all performance obligations have been met and therefore this revenue and expense have been deferred to the Balance Sheet and were recognised in 2018 once the performance obligations had been satisfied.

Revenue was previously recorded on a gross basis in accordance with AASB 118 however, under AASB 15 revenue has been recorded on a net basis, with treatment and refining charges deducted from the gross revenue received. This treatment has affected both revenue and expense by \$12.9m and therefore has a nil impact on profit.

The Group sells copper concentrate under an offtake contract and the Group trades using CIF terms (i.e. Seller's cost, insurance and freight) for vessel chartering. Under AASB 15, the Company has three performance obligations relating to the sale of concentrate which include delivery and transfer of title of concentrate at the port of loading, loading of concentrate onto the ship and transporting the shipment to the port of destination. The transaction price applied to the delivery of concentrate to the port is value of the concentrate delivered adjusted for treatment and refining charges, the transaction price allocated to the final two performance obligations are cost of loading and chartering a vessel for shipment to destination at cost recovery.

Notes to the Financial Statements *for the year ended 31 December 2018*

36. Standards and interpretations in issue *(cont.)*

(b) Early adoption of standards

There were no standards adopted early.

(c) Standards and interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective.

Standard/ Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 'Leases'	1 January 2019	31 December 2019

AASB 16 Leases

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in AASB 16. The standard will primarily affect the accounting for the group's operating leases upon the mandatory adoption date of 1 January 2019.

As a majority of all the Group's leases are due to expire upon cessation of mining in mid-2019, management have treated these contracts as exempt as they are deemed to be short term leases under AASB 16. Additionally, the Group has one lease that contains an option to extend the lease for the purposes of processing and rehabilitation activities. However, there is uncertainty around the facts and circumstances of the Group's extension plans for this lease and as at 31 December 2018, the Group is not reasonably certain to exercise the option to extend the lease. The Group will revisit this at the next reporting period.

The Group has completed an assessment over all other leases, and the amount of right of use assets and lease liabilities to be recognised on 1 January 2019 is not expected to be material. As at the reporting date, the Group has non-cancellable operating lease commitments of \$57,000, see note 28.

Based on the above, the Group does not expect any significant impact on the financial statements from the application of this new standard. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Directors' Declaration

In the Directors' opinion:

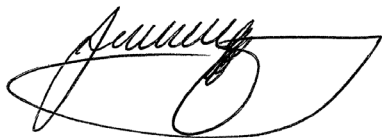
- (a) the financial statements and notes set out on pages 38 to 65 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Dated at Adelaide this 28th day of February 2019



Mr John Gooding
Chairman



Mr Steve McClare
Managing Director

Independent Auditor's Report

to the Members of Hillgrove Resources Limited



Independent auditor's report

To the members of Hillgrove Resources Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Hillgrove Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2018
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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Independent Auditor's Report

to the Members of Hillgrove Resources Limited (cont.)



Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$1.0 million, which represents approximately 4% of the Group's profit before tax. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We utilised a 4% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group's accounting records are held and managed at their operating mine in Kanmantoo and the corporate head office, located in Adelaide. We performed audit procedures at both locations. The Kanmantoo mining operation was the focus of the audit as it is the Group's only operating mine site. The Group has overseas subsidiaries in Indonesia and Singapore which are not material to the Group. We have performed limited audit procedures over these subsidiaries from the corporate head office.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Independent Auditor's Report

to the Members of Hillgrove Resources Limited (cont.)



Key audit matter

Basis of preparation of the financial report

(Refer to note 1 (a))

As described in Note 1 to the financial report, the financial statements have been prepared by the Group on a going concern basis, which contemplates that the Group will continue to meet its commitments, realise its assets and settle its liabilities in the normal course of business.

Assessing the appropriateness of the Group's basis of preparation for the financial report was a key audit matter due to its importance to the financial report and the level of judgement involved with respect to the Group forecasting future cash flows for a period of at least 12 months from the date of the financial report (cash flow forecasts).

How our audit addressed the key audit matter

In assessing the appropriateness of the Group's going concern basis of preparation for the financial report, we performed the following procedures amongst others:

- Evaluated the appropriateness of the Group's assessment of their ability to continue as a going concern, including whether the assessment is appropriate given the nature of the Group, the period covered is at least 12 months from the date of our auditor's report and relevant information of which we are aware as a result of the audit has been included.
- Enquired of management and the board of directors as to their knowledge of events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.
- Evaluated the Group's plans for future actions and whether the outcomes are feasible in the circumstances.
- Evaluated selected data and assumptions in the Group's cash flow forecasts for at least 12 months from the date of signing the auditor's report. We performed the following procedures, amongst others:
 - Compared copper pricing data used to independent industry forecasts;
 - Assessed the movement in reserve estimates over the year and assessed the competence of the Group's expert;
 - Assessed the reasonableness of the production and processing volumes by comparing these volumes to the overall mine reserve estimates;
 - Compared foreign exchange and inflation rate assumptions to current market information; and
 - Assessed the reasonableness of forecast costs by comparing forecast operating costs to actual costs incurred.
- Considered the liquidity of existing assets on the consolidated statement of financial position as at 31 December 2018.

Independent Auditor's Report

to the Members of Hillgrove Resources Limited (cont.)



Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of assets of Kanmantoo Cash Generating Unit (Refer to note 12)</p> <p>Large impairment charges were recorded in the consolidated statement of profit and loss and other comprehensive income for the financial years ended 31 December 2016 (\$68.5 million) and 31 December 2015 (\$112.9 million), the majority of which related to the Kanmantoo Cash Generating Unit ("CGU").</p> <p>The Group considered whether there was objective evidence that the conditions leading to the asset impairment were no longer present through assessment of the assumptions used in determining the carrying value of the CGU and whether the Group should consider a reversal of prior impairment charges.</p> <p>The assessment of the carrying value of the Kanmantoo CGU was considered a key audit matter due to the financial significance of property, plant and equipment (\$44 million) and the judgemental assumptions included in the Group's discounted cash flow model, particularly:</p> <ul style="list-style-type: none"> • long term copper prices; • reserve estimates; • production and processing volumes; • operating costs; • foreign exchange rates; • inflation rates; and • discount rate. 	<ul style="list-style-type: none"> • Requested written representations from management and the board of directors regarding their plans for future action and the feasibility of these plans. • Evaluated whether, in view of the requirements of Australian Accounting Standards, the financial report provides adequate disclosures about these events or conditions. <p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Assessed the appropriateness of the CGU identification in accordance with the requirements of Australian Accounting Standards. • Compared the cash flow forecasts used in the discounted cash flow model to those in the latest Board approved budgets and evaluated the Group's ability to forecast future results by comparing budgets with reported actual results for the previous financial year. • Tested the mathematical accuracy of the discounted cash flow model, and assessed the completeness of cash flows included within the model based on our understanding of operations from the audit. • Compared copper pricing data used to independent industry forecasts. • Assessed the movement in reserve estimates over the year and assessed the competence of the Group's expert. • Assessed the reasonableness of the production and processing volumes by comparing these volumes to the overall mine reserve estimates. • Compared foreign exchange and inflation rate assumptions to current market information. • Assessed the reasonableness of forecast costs by comparing forecast operating costs to actual costs incurred.

Independent Auditor's Report

to the Members of Hillgrove Resources Limited (cont.)



Key audit matter	How our audit addressed the key audit matter
<p>Rehabilitation provision (Refer to notes 16 and 20)</p> <p>As a result of its mining and processing operations, the Group is obligated to restore and rehabilitate the environment disturbed by these operations. Rehabilitation activities are governed by a combination of legislative requirements and Group policies. At 31 December 2018 the balance sheet included provisions for such obligations of \$14.6m.</p> <p>This was a key audit matter due to the judgement applied by the Group in assessing the nature and extent of the rehabilitation work to be performed, estimating the future cost and timing of performing this work and applying assumptions such as the discount rate and inflation for future cash outflows associated with rehabilitation activities.</p>	<ul style="list-style-type: none"> • Evaluated the sensitivity of the CGU carrying value to changes in the discount rate by varying the rate used in the discounted cash flow model. • Assessed the Group's judgement that there was not sufficient objective evidence to consider reversing previous impairment charges in line with the requirements of Australian Accounting Standards. • Evaluated the accuracy and adequacy of the disclosures made in the financial report, including those regarding the key assumptions in light of the requirements of Australian Accounting Standards.
<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Compared the actual rehabilitation costs incurred against the Group's forecasts to check that rehabilitation estimates take into account current experience. • Assessed the nature, timing and extent of rehabilitation work to be performed by inspecting mine and rehabilitation plans. • Tested the mathematical accuracy of the Group's rehabilitation estimate, and assessed the completeness of cash flows based on our understanding of rehabilitation obligations. • Considered the appropriateness of the discount rates and inflation rates utilised in calculating the closing provision by comparing them to current market information. • Considered the adequacy of disclosures made in the financial statements and their appropriateness under Australian Accounting Standards. 	

Independent Auditor's Report

to the Members of Hillgrove Resources Limited (cont.)



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Independent Auditor's Report

to the Members of Hillgrove Resources Limited (cont.)



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 26 to 35 of the directors' report for the year ended 31 December 2018.

In our opinion, the remuneration report of Hillgrove Resources Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized, handwritten signature of PricewaterhouseCoopers in black ink.

PricewaterhouseCoopers

A handwritten signature of Andrew Forman in black ink.

Andrew Forman
Partner

Adelaide
28 February 2019

Shareholder Information

Shareholder Information for Listed Public Companies

The following additional information is required by the Australian Securities Exchange Limited in respect of listed public companies only.

As at the reporting date the most recent Shareholder information available for disclosure is as follows:

(a) Voting rights and classes of equity securities

As at 1 February 2019, the Company has 577,477,118 listed fully paid ordinary shares. Each fully paid share carries on a poll one vote.

The company also has 31,165,000 unquoted options on issue which are held by 13 holders which do not carry voting rights.

(b) Unmarketable parcels

The number of shareholdings holding less than a marketable parcel of ordinary shares was 2,054 as at 1 February 2019.

(c) Distribution schedule of Fully Paid Ordinary Shares as at 1 February 2019

Size of holding	Number of shareholders
1 - 1,000	478
1,001 - 5,000	1,379
5,001 - 10,000	407
10,001 - 100,000	806
100,001 and over	238
	3,308

(d) Securities exchange listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited. The ASX code is HGO.

(e) Company Secretary

Mr Paul Kiley is the Company Secretary.

(f) On-market buy-back

There is no current on-market buy-back.

(g) Substantial shareholders as at 1 February 2019

An extract of the Company's register of Substantial Shareholders (who hold 5.0% or more of the issued capital) in accordance with Form 604 Notices is set out below:

Name	Issued capital
Ariadne Australia Limited	25.7%
Munro Family Super Fund	8.5%

Shareholder Information *(cont.)*

(g) Substantial shareholders as at 1 February 2019 *(cont.)*

Twenty largest listed shareholders

The twenty largest shareholders hold 69.4% of the total ordinary shares issued.

The 20 largest shareholders as at 1 February 2019 are listed below:

Shareholder	No. of ordinary shares held	% of issued shares
1 Portfolio Services Pty Ltd	64,837,374	11.2%
2 J P Morgan Nominees Australia	55,162,977	9.6%
3 Mr Raymond Edward Munro	51,120,000	8.9%
4 Portfolio Services Pty Ltd	36,692,125	6.4%
5 Portfolio Services Pty Ltd	27,482,196	4.8%
6 BNP Paribas Nominees Pty Ltd	25,714,373	4.5%
7 Bell Potter Nominees Pty Ltd	23,071,761	4.0%
8 Portfolio Services Pty Ltd	17,546,894	3.0%
9 Cosell Pty Ltd	15,000,000	2.6%
10 Mr Malcolm Neil Nichols	13,074,700	2.3%
11 WeyitinTrading Pty Ltd	10,127,346	1.8%
12 Mr Antony Gordon Breuer	10,005,559	1.7%
13 Emeco Pty Ltd	9,405,467	1.6%
14 Mr Lachlan Wallace	7,119,197	1.2%
15 W Donnelly Services Pty Ltd	7,006,667	1.2%
16 Sighet Pty Ltd	6,975,241	1.2%
17 Rossdale Superannuation Pty Ltd	6,470,069	1.1%
18 Mr Steven Paul McClare	5,000,000	0.9%
18 Mr Christopher Philip Martin	4,550,000	0.8%
20 McClare Pty Ltd	4,379,706	0.8%
	400,741,652	69.4%

(h) Interests in mining tenements

Tenement	Location	Percentage
ML 6345	Kanmantoo, South Australia	100%
ML 6436	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
EL 5628	Kanmantoo, South Australia	100%
EL 6174	Coomandook, South Australia	100%
EL 6175	Coonalpyn, South Australia	100%
EL 6176	Wheal Ellen, South Australia	100%
EL 6207	Tintinara, South Australia	100%
EL 6208	Carcuma, South Australia	100%
EL 6294	Wynarka, South Australia	100%
ELA 2019/008	Laffer, South Australia	application
ML 755	Armidale, New South Wales	100%
IUP 322/2009 ⁽¹⁾	Sumba, Indonesia	80%
IUP 40/2010 ⁽¹⁾	Bird's Head, Indonesia	80%

(1) the Company is continuing to progress its withdrawal from Indonesia.

(i) Other information

Hillgrove Resources Limited, incorporated and domiciled in Australia, is a publicly listed Company limited by shares.



HILLGROVE RESOURCES

HILLGROVE RESOURCES LIMITED

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