

Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 30 September 2020

SUMMARY

Underground Exploration and Development

The Stage 1 drilling program at Kavanagh and Nugent was successfully completed during the quarter and the results were reported on 3 September 2020. Advanced funding discussions with parties continue.

Cash Preservation

Cash and receivables balance of \$6.1M, with trade creditors, payroll liabilities and accruals of \$4.2M at the end of the quarter (unaudited). The Company continues to focus on cash preservation, which included the successful withdrawal from Indonesia post quarter end, and resulted in the reduction of trade creditors, payroll liabilities and accruals by \$2.2M from \$4.2M to \$2.0M.

MANAGING DIRECTOR'S STATEMENT

The Kanmantoo Underground Project presents an opportunity to return the Company to cash generation in the near future. The existing infrastructure, permitted status, and short distance from the base of the open pit to the underground ore lodes, is expected to enable a relatively fast and low capital development.

Hillgrove continues to focus on developing the Kanmantoo Underground Project. The Stage 1 drilling program was completed in August. The drilling results released on 3 September 2020 clearly demonstrate the down dip and lateral continuity of the higher-grade copper mineralisation within the Kavanagh and Nugent Cu-Au lodes and the Company looks forward to releasing the maiden Mineral Resource Estimates (MRE) for West Kavanagh and Nugent, and an updated MRE for Central and East Kavanagh in the next Quarter. A proposed Stage 2 drill program (subject to funding) is aimed to continue to expand and upgrade the underground Resource with a view to convert to a Reserve prior to an investment decision to commence development.

The Company continues to undertake test work to assess the viability of installing a gravity concentration circuit to the processing plant to produce a gold enriched gravity concentrate. The encouraging results of the initial test work that were released 11 August 2020, coupled with drilling that demonstrates extensive gold mineralisation at Kanmantoo, create an opportunity to realise value from improved gold recovery, particularly in the Nugent and the eastern lodes of the Kavanagh system.

The company continues to be prudent with cost saving initiatives in order to minimise cash burn, however there are unavoidable costs associated with maintaining the permitted site status and existing infrastructure to enable a quick low-cost restart. Additional funding is required to complete the drilling and to maintain the infrastructure optionality through to an investment decision. Discussions with parties regarding funding continue.

DEVELOPMENT PROJECTS

Hillgrove is executing a staged strategy for the evaluation of the Kanmantoo Underground which is designed to efficiently drill test the dominant Cu-Au lodes to confirm depth, width and grade continuity. If the evaluation studies indicate the underground business is viable, then to prove up and move into production, with low exploration and development capital.

The completed Stage 1 drilling was aimed at confirming that the key Cu-Au lodes of Kavanagh and Nugent extend at least 150m below the extent of the respective pits with adequate grade and width to support underground mining. The drilling completed in August clearly demonstrates that the mineralisation extends to these levels and a maiden Mineral Resource Estimate (MRE) for West Kavanagh and Nugent, and an updated MRE for Central and East Kavanagh will be released during the December Quarter. Highlights¹ from the drill program include:

Central and East Kavanagh

- KTDD190_W2 20.3m @ 2.07% Cu, 0.67 g/t Au, 7.0 g/t Ag from 490.0m downhole
- KTDD197 20.65m @ 2.01% Cu, 0.42 g/t Au, 6.0g/t Ag from 326.6m downhole

Nugent

- KTDD192 10m @ 1.43% Cu, 0.46 g/t Au, 1.6 g/t Ag from 295m downhole
- KTDD194 6.0m @ 1.13% Cu, 1.86 g/t Au, 1.9 g/t Ag from 281m downhole
- KTDD195 11m @ 1.15% Cu, 0.58 g/t Au, 2.9 g/t Ag from 301m downhole

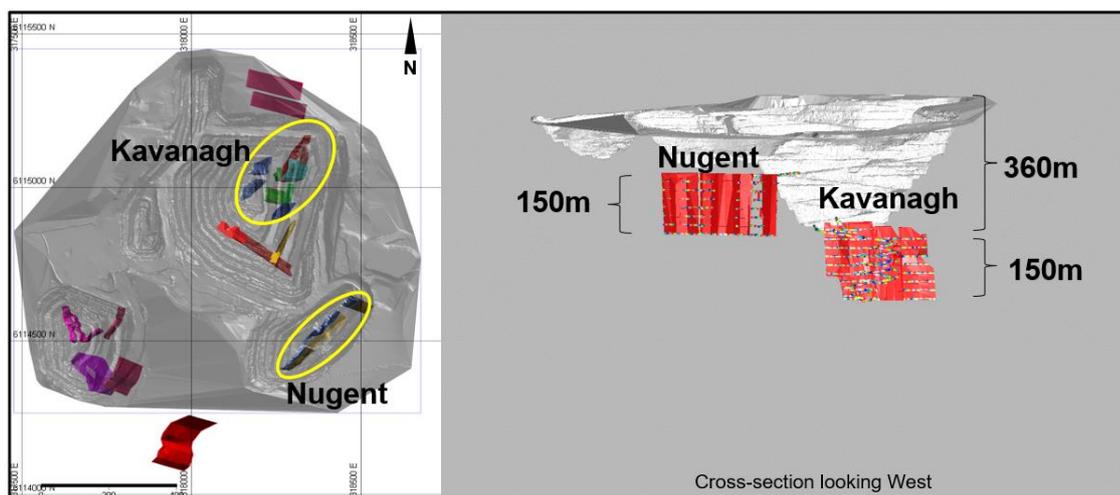
West Kavanagh

- KTDD189 16.7m @ 1.27% Cu, 0.08 g/t Au, 2.7 g/t Ag from 496m downhole

The proposed Stage 2 drilling (subject to funding) seeks to expand the MRE for Kavanagh and Nugent, and infill drill to improve the geological confidence such that Ore Reserve Estimate may be prepared for these zones. The aim is to define sufficient Ore Reserves to support the capital investment required to develop the Kavanagh and Nugent underground mining areas.

STAGE 2:

AIMING TO REACH A POSITIVE INVESTMENT DECISION QUICKLY FOR MINIMAL EXPLORATION AND DEVELOPMENT EXPENDITURE



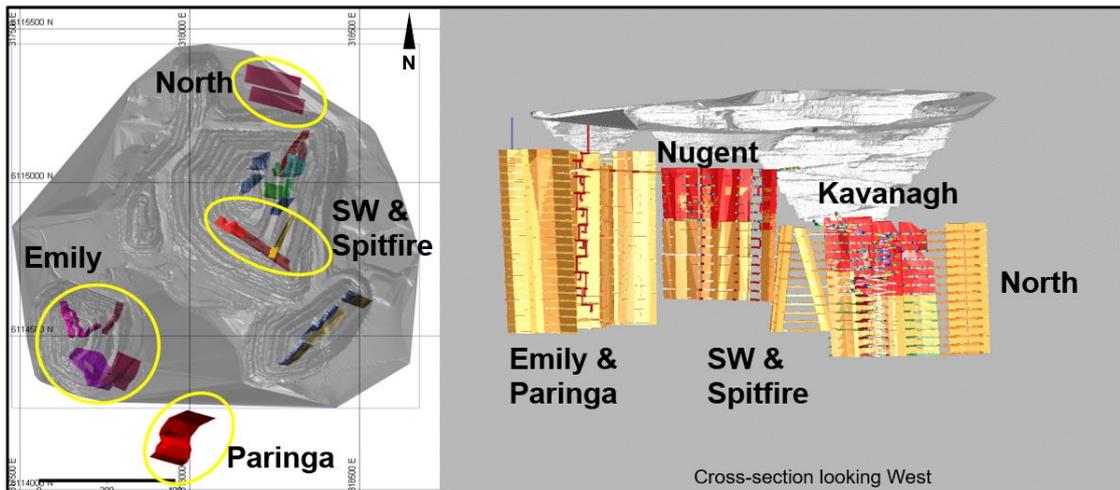
If the underground is developed, Stage 3 will use cash flows from the underground operation to drill test the depth extensions and proximal lodes which were mined during the open pits such as North Kavanagh, SW Kavanagh, Spitfire, and Emily. These lodes have potential value uplift for relatively low incremental cost as they utilise the sunk development infrastructure from the mine development.

¹ intersections at a 0.6% Cu cut-off grade over a minimum of 5m horizontal width.



STAGE 3:

UNDERGROUND CASH FLOWS REINVESTED TO DRILL TEST DEPTH EXTENSIONS AND ADDITIONAL LODES



EXPLORATION

Hillgrove has a strong pipeline of exploration opportunities over more than 6,100km² of tenements.

These tenements comprise of two project areas, the Near Mine area (within 10 kms of Hillgrove’s processing plant) and the Regional tenements within the south-east Delamerian Porphyry Cu-Au province.



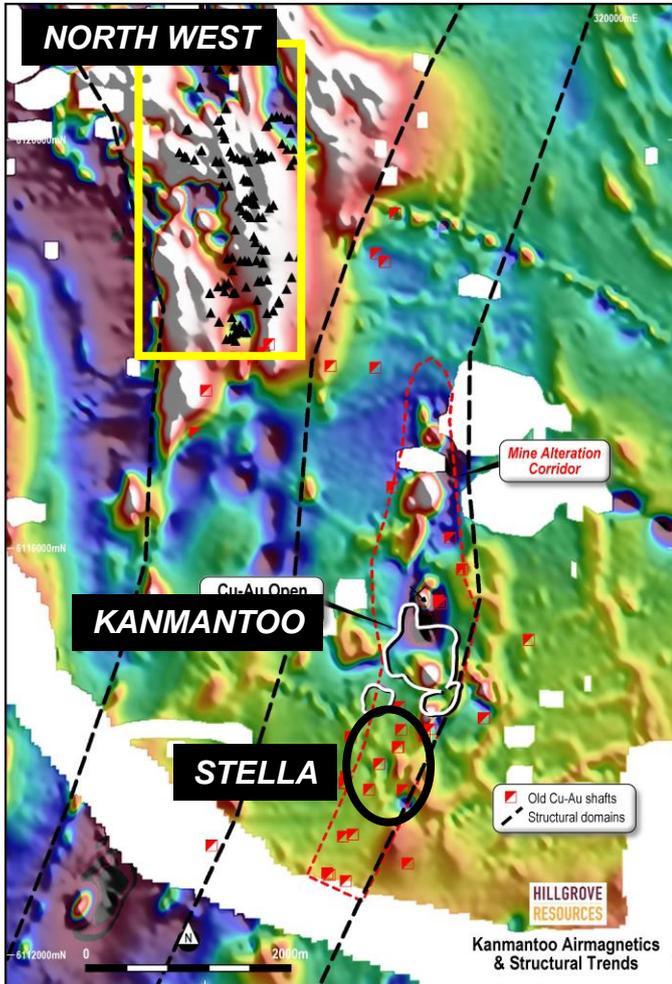
The Near Mine projects include the Stella and the NorthWest Kanmantoo Cu-Au targets.

The Regional area comprises 5,652 sq kms of exploration licences in the south-east of South Australia, within the Delamerian orogen. The Delamerian orogen is now being investigated by the Geological Survey of South Australia and MINEX-CRC for its porphyry copper-gold endowment as a consequence of the discoveries on the Stavely Belt, which is also within the Delamerian orogen in western Victoria.

Near Mine (Kanmantoo Surrounds)

The Company continues to advance the exploration of its Cu-Au targets within 10 kms of the Kanmantoo processing plant. These include the previously announced Stella and North West Kanmantoo geochemical and geophysical targets of 29 April 2019.

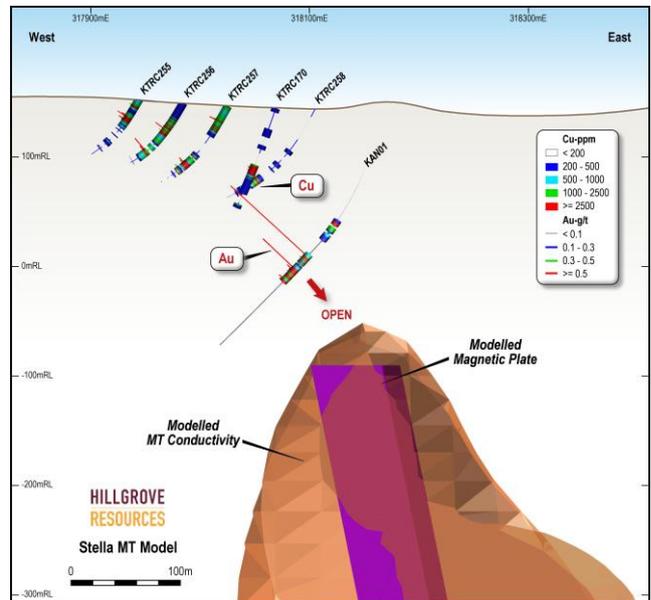
PLAN VIEW OF THE LOCATION OF PROJECTS WITHIN 10KM OF THE KANMANTOO PROCESSING PLANT



Stella

At Stella, the 3D MT (magneto-telluric) geophysical survey completed and reported in 2019 has been modelled. This has identified the Stella zone as a coincident magnetic high, resistivity low and gravity low target commencing at around 200m below surface. Nearby drilling has intersected a 60m wide zone of chlorite-pyrrhotite-garnet alteration with attendant Cu-Au mineralisation (ASX release of 29 April 2019).

CROSS SECTION LOOKING NORTH OF MODELLED MAGNETO-TELLURIC TARGET AT STELLA



North West

Mapping and sampling has identified a 2.4km long zone of Cu-Au anomalism coincident with a strong magnetic high and broad widths of iron-oxide alteration and iron-oxide brecciation at surface, within 4.5kms of the Kanmantoo processing plant. Further geophysical and geochemical surveys are in progress.

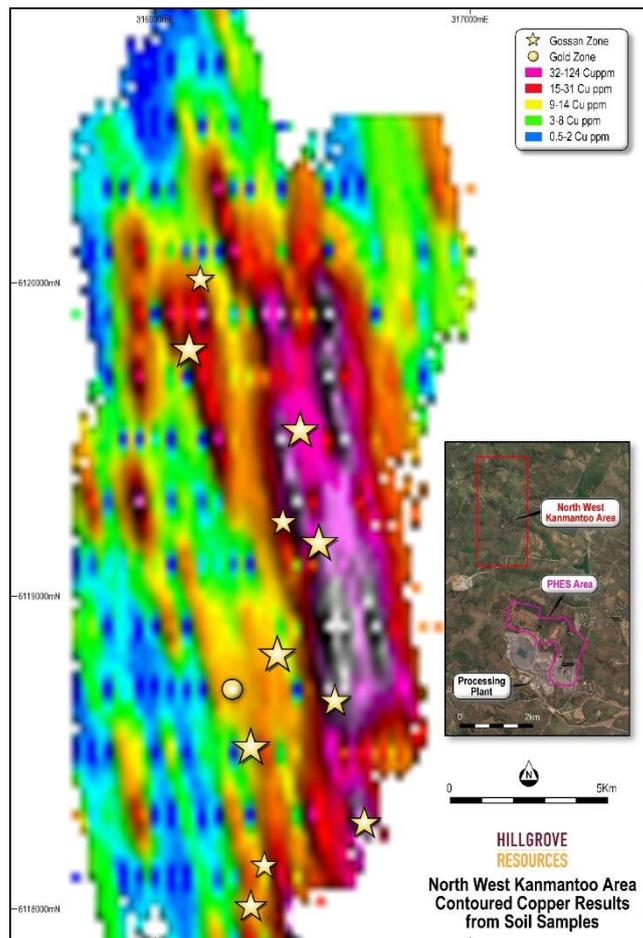
The rock chip sampling, where possible, across the North-West Kanmantoo area has identified mineralisation with a strong magmatic association including;

- Rock chip samples to 2.2 g/t Au, 0.1% Cu
- Elevated Mo, Bi, Co, Sn, U, La

The area has not previously been drilled by HGO or its predecessors. A series of three holes drilled in 1962 by the Department of Mines are not able to be spatially located, although somewhere in the area. These intersected strong copper mineralisation with attendant specular haematite, magnetite and chalcopyrite.

Further work is in progress to define drill targets.

PLAN VIEW OF COPPER SOIL GEOCHEMISTRY AT NORTH WEST KANMANTOO



Regional (South East Delamerian)

The Regional area comprises 5,652 sq kms of exploration licences in the south-east of South Australia, within the Delamerian orogen. In a recent publication by the Geological Survey of South Australia², the Survey notes the similarities between the Delamerian Orogen tectonic setting and its high-level granitic to dioritic intrusives in South Australia, with the geology of the large Porphyry Cu-Mo-Au deposits in south-east China (e.g. Dexing, 9.7Mt of Cu metal, 265 t Au).

These observations support Hillgrove’s exploration activities in this Orogen for large scale Cu-Au deposits.

The information in this report that relates to the Exploration Results is based on and fairly represents information and supporting documentation compiled by Peter Rolley, a Competent Person, a full time employee of Hillgrove Resources Limited, and a member of the Australian Institute of Geoscientists. Mr Rolley has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the ‘Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves’. Mr Rolley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The Company is not aware of any new information or data that materially affects the information included in the original announcement. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

² Mesa Journal 93, 2020, p47-53



HILLGROVE CORPORATE

Cash and receivables balance of \$6.1M, with trade creditors, payroll liabilities and accruals of \$4.2M at the end of the quarter (unaudited). With the sale of the Indonesian assets post quarter end (refer the next section below for further details), this led to the reduction in trade creditors, payroll liabilities and accruals by \$2.2M from \$4.2M to \$2.0M.

The Company continues to be prudent with cash burn, through cost reduction initiatives. However, in order to maintain the processing plant for quick restart and meet the regulatory requirements of the mine site, relatively high cash burn is incurred for site care and maintenance, water recirculation, and regulatory obligations.

INDONESIAN GOLD AND GOLD/COPPER ASSETS

Post quarter end, the Company successfully withdrew from Indonesia, through the sale of its Indonesian subsidiaries. With the carrying value of both projects being fully impaired in 2015, the transaction resulted in an improvement of the balance sheet (through a reduction in liabilities) of \$2.2M.

MINERAL RESOURCE & ORE RESERVE

Mineral Resources for Kanmantoo as at 31 December 2019

On 30 October 2019 the Company released a new Mineral Resource Estimate for the first of its underground opportunities on a portion of the deeper Kavanagh mineralisation beneath the Giant Open Pit. The Mineral Resource Estimate does not include any Ore Reserve and is estimated at a cut-off grade and geologic continuity suitable for eventual underground studies for its exploitation.

The Table below summarises the Mineral Resource Estimate (“MRE”) for the Central and East Kavanagh underground areas between 900 and 750 mRL at 0.6% Cu cut-off grade.

MINERAL RESOURCE ESTIMATE FOR CENTRAL AND EAST KAVANAGH UNDERGROUND AREA

Mine	JORC 2012 Classification	Tonnage (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kavanagh UG	Indicated	646	1.63	0.13	3.6	10.5
	Inferred	310	1.8	0.2	4	6
	Total	957	1.7	0.14	3.8	16.2

The information in this report that relates to the Mineral Resources on the Kavanagh underground project were initially reported by the Company to ASX on 30 October 2019. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimate in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Statement of Ore Reserves As At 31 March 2020

As a result of the cessation of open pit mining operations at Kanmantoo in May 2019 resulting from the depletion of all Ore Reserves within the Giant Open Pit, and the completion of milling of all stockpiles in March 2020, there is no longer an Ore Reserve reported for the Kanmantoo District.

The information in this release that relates to the Ore Reserve is prepared by a Competent Person in accordance with the JORC Code 2012. Further information on the Kanmantoo Ore Reserves is available in the Hillgrove Updated Ore Reserve Estimate released to the ASX on 18 October 2016. 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 Ore Reserves for open pit mining that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed except for open pit mining and processing depletion. Hillgrove Resources confirms that the form and context in which the findings of the Competent Person Lachlan Wallace in relation to the Ore Reserve estimates are presented, have not been materially modified from the original market announcement apart from mining and processing depletion. Lachlan Wallace (MAusIMM) consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

Statement of Exploration Targets As At 31 December 2019

The South Hub Exploration Target was reported on 27 September 2019 and is centred around the mineralisation south of the Giant Open Pit and down to 900m RL.

Hillgrove has approximated an Exploration Target for the Kanmantoo South Hub area of between four and nine million tonnes with a target grade of between 1.2% and 2.2% Cu and 0.1 g/t to 0.3 g/t Au.

South Hub Exploration Target			
Zone	Tonnage Range Mt	Grade Range Cu%	Grade Range Au g/t
Nugent	1.5 - 2.5	1.3 - 2.2	0.2 - 0.6
Paringa	0.5 - 1.5	1.1 - 2.2	0.1 - 0.2
Emily Star	2.0 - 4.5	1.2 - 2.2	0.1 - 0.3
TOTAL	4 - 9	1.2 - 2.2	0.1 - 0.3

The information contained in this announcement that relates to the South Hub Exploration Target was first reported by the Company to the ASX on 27 September 2019. The Exploration Target does not include areas of existing Mineral Resource and the potential quantity and grade reported are conceptual only in nature. Insufficient exploration has been conducted to estimate a Mineral Resource and it is uncertain whether future exploration will lead to the estimation of a Mineral Resource in the defined areas. The information in this report that relates to the Exploration Target is based on and fairly represents information and supporting documentation compiled by Peter Rolley, a Competent Person, a full time employee of Hillgrove Resources Limited, and a member of the Australian Institute of Geoscientists. Mr Rolley has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the 'Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Mr Rolley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The Company is not aware of any new information or data that materially affects the information included in the original announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

CORPORATE INFORMATION	
Issued Share Capital at 30 September 2020	
Ordinary shares	585,588,518
Employee Performance Rights	10,351,660
Share price activity for the Quarter	
High	0.051
Low	0.034
Last (30 September 2020)	0.036

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