

QUARTERLY REPORT

Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 31 December 2022

SUMMARY

- ▶ Drilling continued in South and North Hub during the quarter with a view to expanding the existing Mineral Resource Estimate. Results from the initial program will be released in Q1 2023 once the program has been completed and all assays returned. These areas are not currently in the mine plan and, pending successful drilling, have the potential to increase mine life and annual throughput.
- ▶ Hillgrove is one of the few copper companies that has the ability to take advantage of improving copper sentiment and pricing. With all permitting and infrastructure in place, including a 3.6Mtpa processing facility, an operational tailings storage facility and two underground portals already established, the Company is well positioned for a low cost restart of operations.
- ▶ Financing discussions to commence the Kanmantoo Underground ramped up during the quarter as the copper price strengthened, and the outlook continues to look strong with increasing demand and supply concerns for the metal.
- ▶ Work continues on the update of the mine plan following the 2022 drilling programs.

MANAGING DIRECTOR'S STATEMENT

"To date, the mine plan only includes two of nine known mineralised lodes within the permitted lease (Kavanagh and Nugent), and these areas remain open at depth and along strike, so the ability to significantly grow the mining inventory and mine life is very real. During the quarter, drilling commenced in South Hub and North Hub at Kanmantoo to test the viability of these areas. Pending successful drilling, the intent is to bring these areas into the mine plan in order to utilise the latent capacity in the processing plant, which is only 40% utilised in the initial mine plan. The additional mining production has the potential to improve value by adding in copper production at relatively low incremental cost. The initial drilling results are on track to be released within the next month.

The drop in copper price in mid-2022 caused delays to the funding process. However, the recent resurgence in the copper price, particularly late in 2022 (and which has continued into early 2023), and the outlook for surging demand and supply concerns, has seen significant interest in Kanmantoo again, and the funding process is back on track. We are in discussions with multiple parties in order to secure sufficient funding to restart operations at Kanmantoo, which is budgeted to cost only \$26m¹, as well as additional proceeds to cover any cost inflation, enable mine life expansion drilling to continue, and a prudent and appropriate contingency during the ramp up period.

¹ Refer Economic Assessment (ASX announcement of 14 December 2021).

Over the next quarter, we will continue to grow the mine plan through drilling as we concurrently strive to conclude funding for the underground commencement.”

UNDERGROUND EXPLORATION & DEVELOPMENT

The underground remains well positioned for a potential restart.

The primary access portal and ventilation portal in Kavanagh has been completed. Infrastructure at the access portal includes water supply lines, fuel storage, electrical infrastructure, secondary ventilation fans, ablution, crib, office, and emergency response facilities. This makes for a fast ramp-up to stoping.

The processing plant and tailings storage facility are being maintained in such a manner that it can be restarted immediately with very little refurbishment costs. The electricity and water contracts have been maintained, and water is circulated through the entire system daily. In addition, the crushing and conveying system are live tested on a weekly basis. With all of the critical spares we need, including spare mill motor, gearbox, trunnion bearing, girth gear, pinion gear, mill head, crusher swing stock, there are no long lead times required to restart processing.

Following the Economic Assessment released in December 2021, drilling during 2022 added a further 1.2Mt of mineral resources (21% increase in copper metal tonnes). Work continues to update the mine plan following the 2022 drilling programs. Key to concluding the study is a review of input costs to ensure recent inflation pressure is captured.

Since 2019, the Company drilled 122 holes and returned 143 intersections of economic grade and width. This is a strike rate of more than 100%. This drilling success has translated into a material increase in the Resource estimate from every drill program. However, drilling to date has only focussed on two of the nine known lodes within the permitted mining lease, Kavanagh and Nugent. The mineral resource estimates in both Kavanagh and Nugent remain limited by the extent of the drilling and both areas remain open along strike and down dip.

Further to this, drilling at the north end of the main Kavanagh zone and at the South Hub and North Hub Cu-Au zones provide opportunities to increase both mine life and annual throughput. Drilling commenced in these three areas during the quarter, with the intent of demonstrating that the breccia zone which hosts the copper-gold mineralisation continues down dip and along strike. With further drilling, there is potential to establish a mineral resource estimate for these areas and bring them into the mine plan as additional work areas. The initial drilling program is expected to be completed in early 2023, with results released once assays have been returned and assessed.

EXPLORATION

Hillgrove has a strong pipeline of exploration opportunities over more than 6,100km² of tenements. These tenements comprise three project areas, the Mine Lease Exploration, Near Mine Exploration (within 10 kms of Hillgrove’s processing plant) and the Regional Exploration areas within the Kanmantoo Province in the south-east of South Australia.

Mine Lease Exploration

The Cu-Au targets within the Kanmantoo Mine Lease, and within 1 km of Hillgrove’s processing plant, include the Emily Star, Paringa, and Critchley Cu-Au deposits located south of the Kavanagh

underground Cu-Au development (the South Hub), and the Coopers and North Kavanagh Cu-Au deposits north of the Kavanagh underground development (the North Hub). These Mine Lease Cu-Au targets have been confirmed by Hillgrove shallow RC drill holes drilled pre-2010.

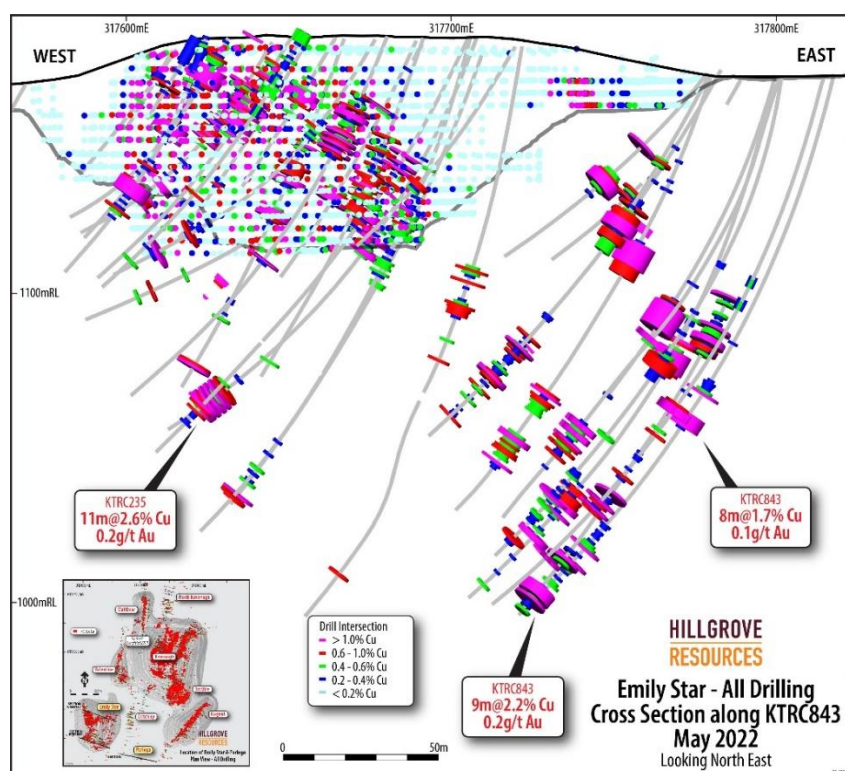
South Hub

Previous Emily Star drill results include:

- ▶ 11m @ 2.0% Cu, 0.2 g/t Au from 82m downhole at Emily (KTRC833)
- ▶ 6m @ 1.9% Cu, 0.4 g/t Au from 144m downhole at Emily (KTDD127)

Figure 1 is a cross section of past drilling on the Emily Star deposit demonstrates the spatial location and copper-gold endowment. Emily Star is the second largest copper endowment after Kavanagh and was previously mined by Hillgrove as a shallow open pit in 2014-2015.

Figure 1 Cross section through numerous Emily Star lodes in the South Hub zone



Two diamond holes have been completed at Emily Star in this quarter and will be reported in Q1 2023 when all drill results are available.

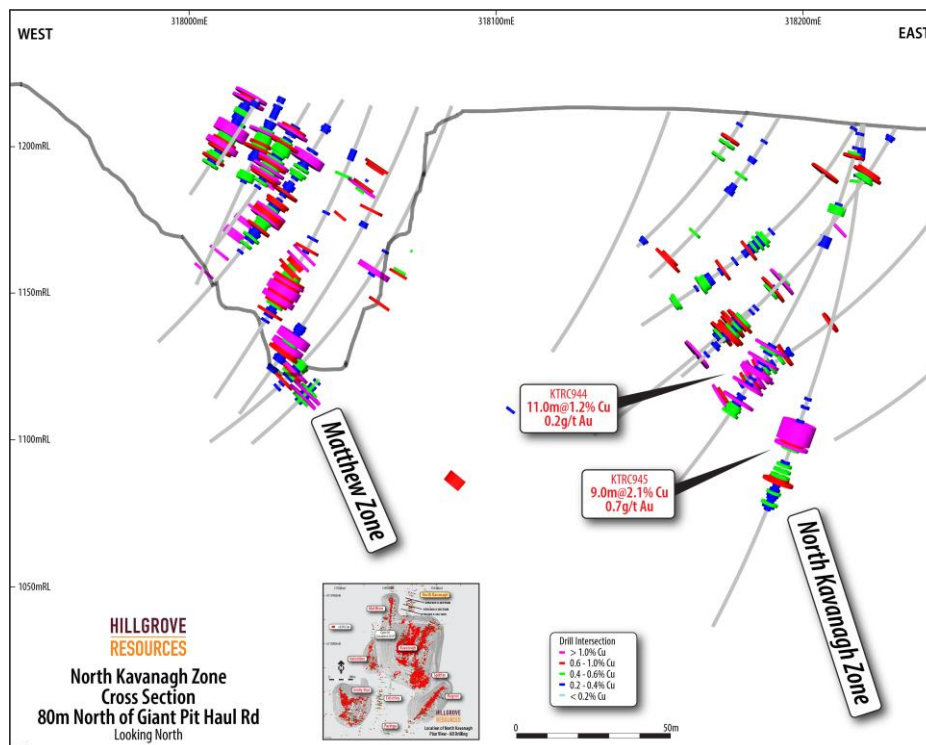
North Hub

Previous North Kavanagh drill results include:

- ▶ 9m @ 2.1% Cu, 0.7 g/t Au from 104m downhole (KTRC945)
- ▶ 19m @ 1.1% Cu, 0.2 g/t Au from 99m downhole (KTRC942)
- ▶ 12m @ 1.5% Cu, 0.2 g/t Au from 102m downhole (KTRC984)

Figure 2 is a cross section of past drilling on the North Kavanagh prospect and demonstrates the spatial location and copper-gold endowment.

Figure 2 Cross section through the North Kavanagh prospect in the North Hub zone



Four diamond drill holes are in progress at the North Kavanagh prospect which is located ~160 metres from the proposed Kavanagh underground development. These holes will also be reported in Q1 2023 when all drill results are available.

Near Mine Exploration

The Cu-Au targets within 10 kms of the Kanmantoo processing plant include the Stella, Mullewa and North West Kanmantoo geochemical and geophysical targets. There has not been any work on these prospects in this quarter.

Regional Exploration

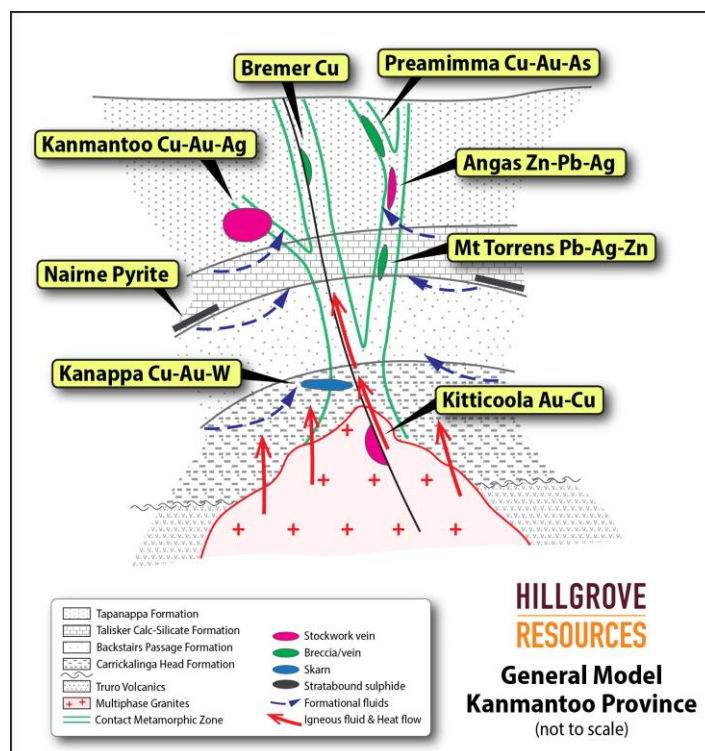
The regional area comprises 5,652km² of exploration licences in the south-east of South Australia, within the Kanmantoo Province. The Kanmantoo Province is now being investigated by the Geological Survey of South Australia (GSSA) and MINEX-CRC for its magmatic related copper-gold endowment as a consequence of the discoveries on the Stavely Belt in western Victoria. Geological work by the GSSA was released at the Discovery Day held by GSSA on 1 December 2022 and included the break-through news that Cu mineralisation with the Kanmantoo Province occurs over four distinct periods from onset of the Delamerian Orogen (early Cambrian) to the close of the Benambran Orogen (mid-Ordovician – the same orogen that resulted in the Macquarie Arc Cu-Au mineralisation of Cadia-Ridgeway renown). This opens up the window of prospectivity of the Kanmantoo Province and in particular the tenement holding of Hillgrove for significant Cu-Au mineralisation.

In addition to the startling new findings by the GSSA, recent compilation of all petrology, litho-geochemistry and logging of drill holes around Kanmantoo and across the south-east of South Australia by Hillgrove suggests that the simplest explanation that explains the geology of these data sets is a “Winu”² style sediment hosted Cu-Au mineral system. This was presented at the recent SAEMC Conference in Adelaide on 2 December 2022 (Figure 3 diagrammatically presents the model).

The main characteristics of the “Winu” style mineralisation within the Kanmantoo Province include,

- Cu-Au-Ag is hosted within a sequence of Cambro-Ordovician turbidites (the Kanmantoo Group) folded and deformed by multiple events of the Delamerian Orogen and post-Delamerian events
- Proximal to crustal-scale tectonic corridors and basin defining faults with associated granite intrusives
- Early Buchan style contact metamorphism evidenced as andalusite-biotite metamorphism within corridors through the Kanmantoo Basin
- At Kanmantoo the andalusite schists are overprinted by garnet-chlorite alteration zone that is mappable over 50kms in length
- The garnet zones are overprinted by a retrograde thermal epigenetic Fe-sulphide system, evidenced at Kanmantoo by early magnetite to potassic to fe-chlorite to pyrrhotite to chalcopyrite to gold-bismuth-Hg to sphalerite to carbonate to kaolinite.
- Element characteristics of the Cu-Au mineralisation include Cu-Ag-Au-Bi-Te-Mo-W

Figure 3 Kanmantoo Mineral System Model



The new interpretation of two new mineral system models operating within the Kanmantoo Province will be a focus for Hillgrove’s exploration activities.

² The Winu copper system in NW WA was recently described by RTZ at an AIG meeting in Perth, now available on YouTube (18-05-2022). Winu is reported as Indicated ~ 249 Mt at ~0.55% CuEq Inferred ~358 Mt at ~0.46% CuEq (ASX:RTZ 23 February 2022)

Competent Persons Statement

The information in this report that relates to the Exploration and Drilling Results on the Kanmantoo project were initially reported by the Company to ASX on 26 May 2016, 10 October 2019, 3 September 2020, 3 May 2021, 6 May 2021, 24 June 2021, 26 August 2021, 1 September 2021, 21 March 2022, 6 May 2022, and 8 August 2022. 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 Exploration Results and the Resource 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 announcements.

The information in this release that relates to the 2022 Mineral Resource Estimates for the Nugent (26 July 2022) and Kavanagh (11 May 2022) underground areas are based upon information compiled by Mr Peter Rolley, who is a Member of The Australian Institute of Geoscientists. Mr Rolley is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mr Rolley has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.

HILLGROVE CORPORATE

Exploration and Development Expenditure

For the quarter, the Company incurred the following exploration and development expenditures:

- ▶ Exploration of \$0.1 million; and
- ▶ Development of \$1.1 million, which includes \$0.9m for mine lease drilling.

Payments to Related Parties of the Company

The Company paid executive director salaries and non executive director fees of \$169,000 during the quarter.

CORPORATE INFORMATION

Issued Share Capital at 31 December 2022	
Ordinary shares	1,174,289,057
Unlisted Options	34,000,000
Employee Performance Rights	44,500,000
Share price activity for the Quarter	
High	0.062
Low	0.033
Last (31 December 2022)	0.054

SHARE REGISTRY	REGISTERED OFFICE
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For more information contact:

Lachlan Wallace, *Managing Director*

Joe Sutanto, *Chief Commercial Officer*

SCHEDULE OF TENEMENTS AS AT 31 DECEMBER 2022

Tenement	Location	Percentage
ML 6345	Kanmantoo, South Australia	100%
ML 6436	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
EL 6526	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%
EL 6397	Laffer, South Australia	100%
ML 755	Armidale, New South Wales	100%

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Hillgrove Resources Limited

ABN

73 004 297 116

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	25
1.2 Payments for		
(a) exploration & evaluation	-	-
(b) development	-	-
(c) production	-	-
(d) staff costs	(769)	(3,974)
(e) administration and corporate costs	(268)	(1,803)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	29	45
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	74	2,304
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(934)	(3,403)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	(766)	(7,269)
(d) exploration & evaluation	(64)	(605)
(e) investments	-	-
(f) other non-current assets	-	-

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(830)	(7,874)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(23)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (sale of net smelter royalty)	-	5,868
3.10	Net cash from / (used in) financing activities	-	5,845

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,069	10,737
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(934)	(3,403)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(830)	(7,874)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	5,845

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	5,305	5,305

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	5,305	7,069
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,305	7,069

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	169
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

The amount in item 6.1 comprises executive director salaries and non executive director fees during the quarter.

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(934)
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(64)
8.3 Total relevant outgoings (item 8.1 + item 8.2)	(998)
8.4 Cash and cash equivalents at quarter end (item 4.6)	5,305
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	5,305
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	5.3
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

31 January 2023

Date:

By the Board

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.