QUARTERLY REPORT

HILLGROVE RESOURCES

Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 30 September 2022

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SUMMARY

- Completion of a funding agreement for the sale of the Kanmantoo royalty to Freepoint:
  - Hillgrove received $6 million consideration;
  - Freepoint to receive 2.5% of net smelter returns for the first 85,000 tonnes of payable copper at the Kanmantoo project, reducing to 0.5% thereafter; and
  - Royalty will not be payable on garnet as well as any processing or reprocessing of historical tailings.
- Following the successful drilling campaigns in Nugent and Kavanagh, updated Mineral Resource Estimates (MRE) have been compiled in both areas, increasing total copper metal at Kanmantoo by 13.4kt (21%) to 75.9kt[1].
  - The proportion of Resources classified as Indicated and Measured increased from 67% to 76%.
  - The updated MRE is expected to increase the mining inventory and geological confidence within the Stage 1 mine plan[2].
- A further drilling campaign into the Spitfire lode from the underground drilling platform delivered some excellent results[3].
  - Of the 12 holes drilled, 9 holes intersected significant Cu-Au hosted in the Spitfire Cu-Au system.
  - 13.13m @ 2.1%Cu, 0.18 g/t Au (22KVUG006).
  - 10.35m @ 2.38%Cu, 0.28 g/t Au (22KVUG008).
- Further modest drilling campaign currently being conducted to demonstrate the potential of the other lodes within the lease, beginning with South Hub.

[1] *Refer ASX release of 26 July 2022*
[2] *Refer ASX release of 14 December 2021*
[3] *Refer ASX release of 8 August 2022*

MANAGING DIRECTOR'S STATEMENT

"Following the 21% increase in the Kanmantoo Mineral Resources Estimate (MRE) announced in the previous quarter, drilling continued at Spitfire with 9 of the 12 holes successfully yielding significant Cu-Au intersections, including excellent high grade hits of 13m @ 2.1%Cu, 0.18 g/t Au, and 10m @ 2.38%Cu, 0.28 g/t Au[4]. These intersections extend the strike length of the Spitfire lode system and confirm its continuation at depth. The extension of Spitfire is particularly welcome as Spitfire utilises the decline and ventilation infrastructure already invested for Kavanagh and as such can be mined for relatively low incremental cost. Furthermore, the close spaced drilling enables detailed stope design at Spitfire, which is important as it shores up the mining inventory of one of the areas proposed to be mined early in the underground mine plan.

The cash position is strong at quarter end following the royalty agreement with our long-term offtake partners Freepoint. The agreement demonstrates Freepoint's commitment to the development of the Kanmantoo underground project and appreciation of the on-lease exploration upside. The $6m of funding enables further drilling aimed at increasing the resource base, and additional runway to secure a project funding solution which has been delayed by the falling copper price.

Despite the project economics remaining robust, the decline in copper price has impacted project financing and the ability to hedge forward production. We remain engaged in discussions to complete project financing, however the realisable copper price remains a material consideration in any investment decision. Over the medium term, we remain bullish on copper price noting that the fundamentals are relatively unchanged, with the supply side still tight with low stockpiles and declining global head grades, whilst copper will still be essential to facilitate the transition to a lower carbon future.

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. As we continue to work through the financing based on the existing mineral resource base, we have also engaged DRC Drilling to continue drilling at Kanmantoo. The aim of this drilling is to demonstrate the potential of the other lodes within the lease, beginning with South Hub. Adding in more work areas will improve operational flexibility and increase annual throughput at relatively low incremental cost by utilising the latent capacity in the processing plant and tailings storage facility, all of which is expected to further improve value."

[4] *Refer ASX release of 8 August 2022*

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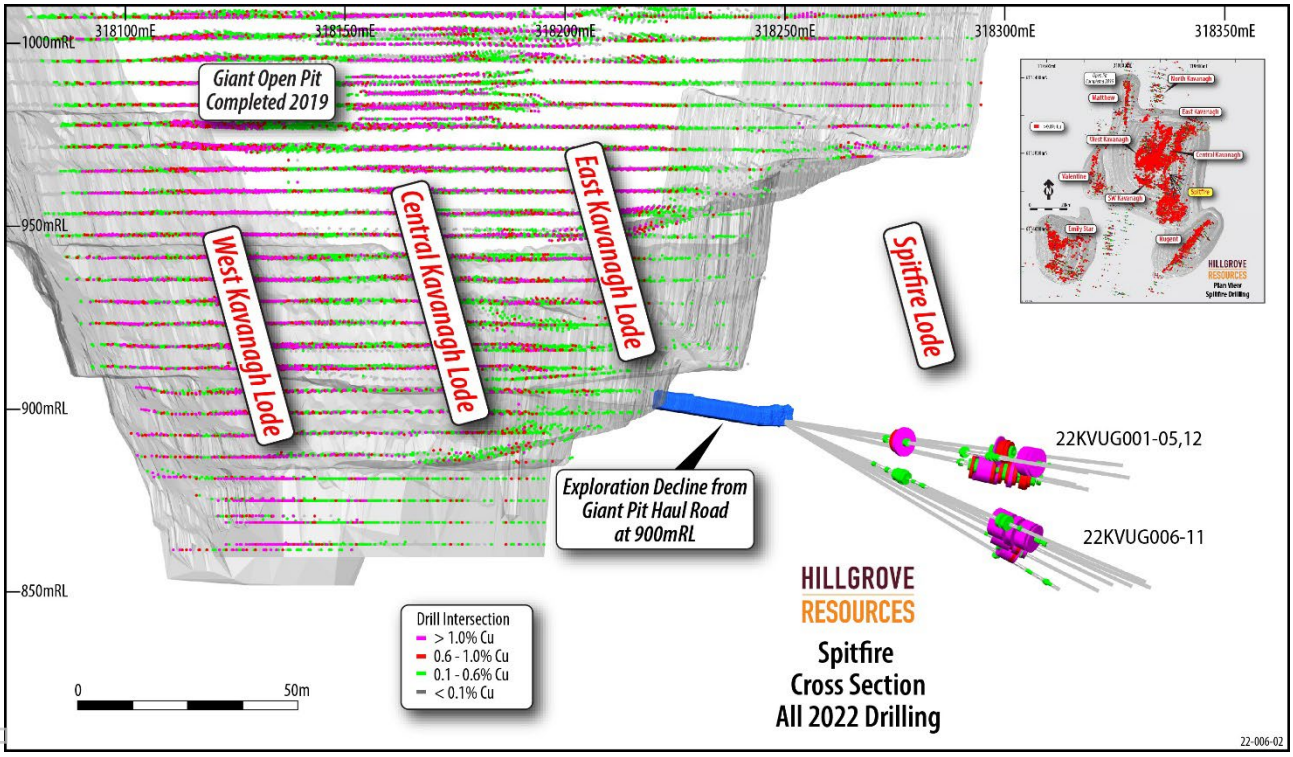
UNDERGROUND EXPLORATION & DEVELOPMENT

During the quarter, Hillgrove completed 12 drill holes through the Spitfire Cu-Au system from the underground development at Kanmantoo. Of the 12 holes drilled, 9 holes intersected significant Cu-Au hosted in the Spitfire Cu-Au system. Results were reported on 8 August 2022 and include:

- **22KVUG004 18.82m @ 0.95% Cu, 0.18 g/t Au from 53.38m downhole**
- **22KVUG005 12.55m @ 1.72% Cu, 0.22 g/t Au from 56.45m downhole**
- **22KVUG006 13.13m @ 2.1% Cu, 0.18 g/t Au from 72.0m downhole**
- **22KVUG008 10.35m @ 2.38% Cu, 0.28 g/t Au from 66.65m downhole**
- **22KVUG002 4.55m @ 2.55% Cu, 0.12 g/t Au from 83.8m downhole**

The Spitfire Cu-Au zone had previously been intersected by KTDD206, 206_W1 and 206_W2[5] in 2021 and shown to be over 25m strike length. The 2022 drilling has extended the Spitfire zone to over 100m in strike length and is still open down-dip.

Figure 1 Cross section through the Spitfire drilling



These results continue to affirm the down-dip continuity of the Cu-Au zones mined within the Kanmantoo open pits and their potential to add significant tonnes per vertical metre for an underground operation utilising the invested capital in the Kavanagh underground operations and Kanmantoo Processing Plant.

Hillgrove is also working with PlotLogic to develop an underground grade control system based on Face scanning technology and machine learning algorithms. This work is continuing to assure there will not be any implementation delays upon UG mining. Figure 2 is a face scan of the copper mineralisation in the underground ventilation drive, captured as part of the PlotLogic trial, and being used to develop a copper grade map of the UG faces.

[5] *Refer ASX release of 24 June 2021 (KTDD206) and 30 August 2021 (KTDD206_W1 and _W2)*

Figure 2 Scan of the copper mineralisation as exposed in the UG ventilation drive

EXPLORATION

Hillgrove has a strong pipeline of exploration opportunities over more than 6,100km^2 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 south-east Delamerian Magmatic Cu-Au province.

Mine Lease Exploration

The Cu-Au targets within the Kanmantoo Mine lease within 1 km of Hillgrove's processing plant includes the previously mined Emily Star, Paringa, and Critchley Cu-Au deposits south of the Kavanagh underground Cu-Au development, and the Coopers and North Kavanagh Cu-Au deposits north of the Kavanagh underground development. These Mine Lease Cu-Au targets have been confirmed by past Hillgrove shallow RC drill holes. Planning and drill tendering has been completed to commence drilling of the Emily Star down-dip mineralisation with drilling is expected to commence in the next quarter with specific start-up dependant on rig and drill crew availability.

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)

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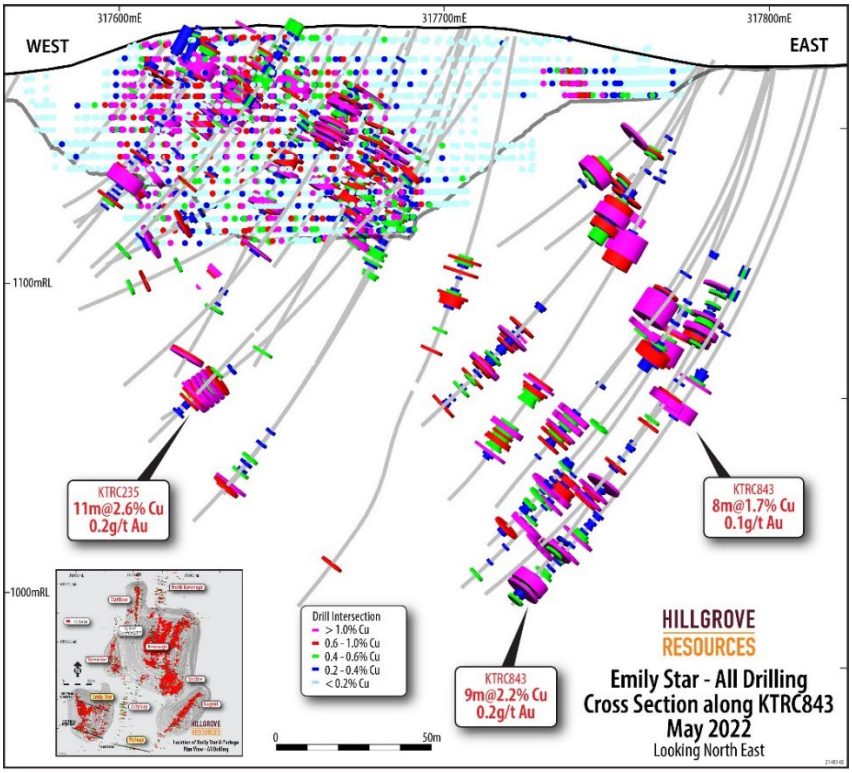
Figure 3 is a cross section of past drilling on the Emily Star deposit demonstrates the spatial location and copper-gold endowment.

Figure 3 Cross section through numerous Emily Star lodes in the South Hub zone



Near Mine Exploration

The Cu-Au targets within 10 kms of the Kanmantoo processing plant includes the Stella, Mullewa and North West Kanmantoo geochemical and geophysical targets.

Stella

Hillgrove commenced a follow up of its 2021 drilling at the new Stella Cu-Au target near the Kanmantoo infrastructure. The main mineralised zone intersected in SLDD001 is characterised as an Fe-Au-Cu-Bi Zone similar in style and texture to the Kanmantoo mineralisation mined by Hillgrove from 2011 to 2019.

- **SLDD001 0.6m @ 16.85 g/t Au, 10.1% Cu, 44.8 g/t Ag from 344m downhole Within 3m @ 3.53 g/t Au, 2.76% Cu, 11.9 g/t Ag from 343m downhole.**

This high-grade Au-Cu intercept is part of an 82.35m zone of Cu veining from 315m downhole.

A geophysical survey to map the strike extent of the under-cover Cu-Au mineralisation was undertaken using Ambient Noise Tomography ("ANT") with FleetSpace. The survey was successfully completed and is currently being processed.

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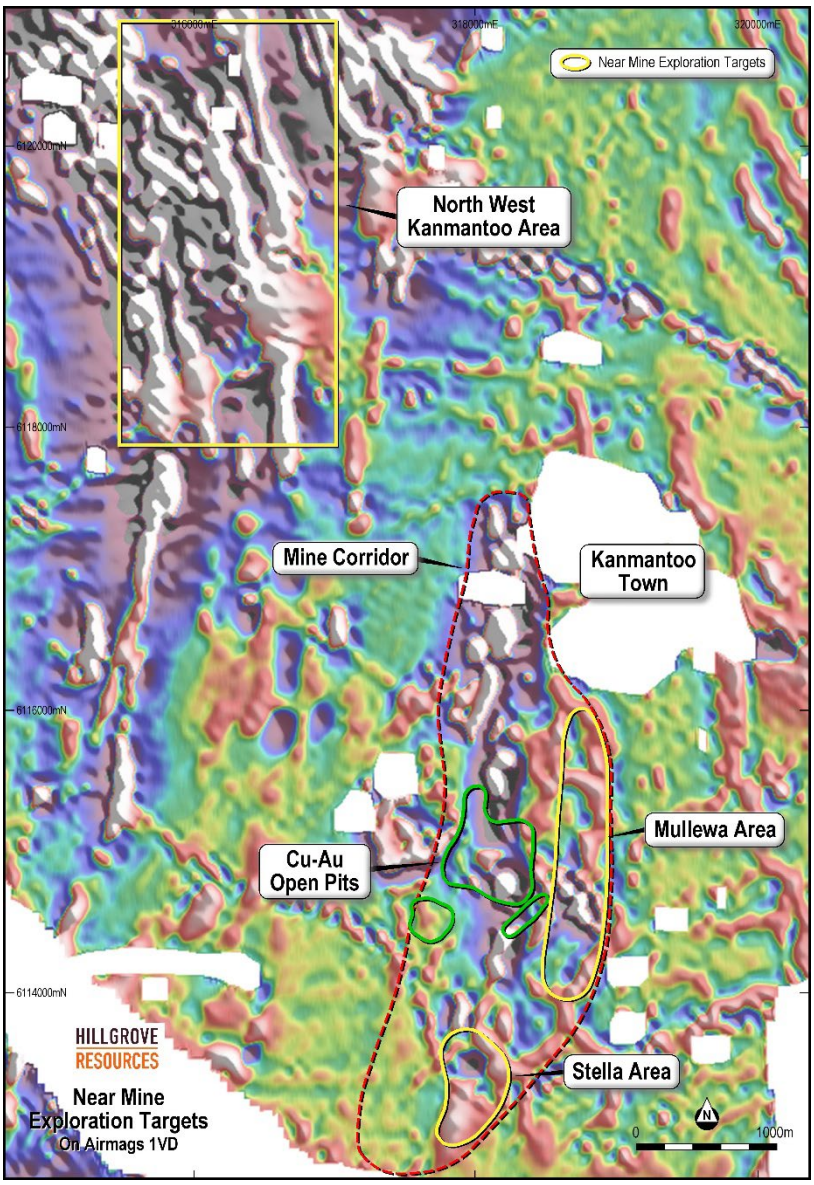

Regional Exploration

The regional area comprises 5,652km^2 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 magmatic arc related copper-gold endowment as a consequence of the discoveries on the Stavely Belt in western Victoria, which is also within the Delamerian Orogen.

The Company was also successful in being granted funds under the South Australian Government's ADI scheme to empirically test various soil geochemical sampling/analyses techniques that have showed some great promise in detecting Cu mineralisation under-cover of the Murray Basin.

Historic drilling within the tenement area is reported as intersecting 1.0m @ 6.13% Cu, 18 g/t Ag at 101.5m downhole (SHR008)[6] at an Intrusive Related Cu-Au prospect called Sherlock.

The research activities have now been completed and a report is nearing completion to enable drill targeting to progress.

[6] *SARIG Envelope 9015 by Pasminco Exploration, dated January 1996*

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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 and Kavanagh 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

As announced to the market on 24 August and 31 August 2022, the Company completed a $6 million funding agreement for the sale of the Kanmantoo royalty. The key terms of this agreement were as follows:

- Hillgrove received $6 million consideration;
- Freepoint to receive 2.5% of net smelter returns for the first 85,000 tonnes of payable copper at the Kanmantoo project, reducing to 0.5% thereafter; and
- Royalty will not be payable on garnet as well as any processing or reprocessing of historical tailings.

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

- Exploration of $0.2 million; and
- Development of $1.2 million.

CORPORATE INFORMATION	
Issued Share Capital at 30 September 2022	
Ordinary shares	1,174,289,057
Unlisted Options	34,000,000
Employee Performance Rights	30,000,000
Share price activity for the Quarter	
High	0.059
Low	0.036
Last (30 September 2022)	0.040

SHARE REGISTRY	REGISTERED OFFICE
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For more information contact:

Lachlan Wallace, *Managing Director*
Joe Sutanto, *Chief Commercial Officer*

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SCHEDULE OF TENEMENTS AS AT 30 SEPTEMBER 2022

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%
EL 6397	Laffer, South Australia	100%
ML 755	Armidale, New South Wales	100%

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Appendix 5B

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

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Name of entity

Hillgrove Resources Limited

ABN	Quarter ended ("current quarter")
73 004 297 116	30 September 2022

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	2	25
1.2	Payments for		
	(a) exploration & evaluation	-	-
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(770)	(3,205)
	(e) administration and corporate costs	(1,125)	(1,535)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	12	16
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	2,230
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(1,881)**	**(2,469)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(1,164)	(6,503)
	(d) exploration & evaluation	(228)	(541)
	(e) investments	-	-
	(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 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**	**(1,392)**	**(7,044)**

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	5,868
3.10	**Net cash from / (used in) financing activities**	**5,868**	**5,845**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	4,474	10,737
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,881)	(2,469)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,392)	(7,044)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,868	5,845

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**7,069**	**7,069**

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	7,069	4,474
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)**	**7,069**	**4,474**

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.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
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)	(1,881)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(228)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(2,109)
8.4	Cash and cash equivalents at quarter end (item 4.6)	7,069
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	7,069
8.7	**Estimated quarters of funding available (item 8.6 divided by item 8.3)**	3.35

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.

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

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.

Date: 24 October 2022 .....

Authorised by: By the Board .....
(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.

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