QUARTERLY REPORT

HILLGROVE RESOURCES

Hillgrove Resources Limited (ASX: HGO) report for the quarter ended 30 June 2023

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SUMMARY

- Formal positive Final Investment Decision (FID) to proceed with the Stage 1 development of the Kanmantoo underground copper mine in South Australia.
- The project is fully funded without debt through a $38m placement that was completed on 5 June 2023. This funding provides sufficient working capital to reach sustainable copper production in the Stage 1 underground, and continue exploration activities to increase mine life and production.
- The Company has entered into the underground development contracts and has appointed key employees for the underground development.
- The underground development commenced in May 2023 and quickly ramped up to planned development rates. The development profile will increase further towards the end of the year with the arrival of the second jumbo and the commencement of mine production.
- Mine life extension drilling indicates that the Emily Star Cu-Au system has wide zones of mineralisation within which higher grade copper-gold zones occur continued. The drill results demonstrate the potential to expand the mine life and annual copper production at Kanmantoo, with underground development at Emily Star as part of a broader South Hub expansion. Additional drilling is planned to evaluate the mining potential of South Hub.
- Hillgrove is on track for first copper concentrate production to occur in the first quarter of 2024.

MANAGING DIRECTOR'S STATEMENT

"Another exciting quarter for the Company, which has seen us finalise funding and commence production at our 100% owned copper gold project at Kanmantoo.

The quarter saw the formalisation of FIRB approval for Freepoint to become our largest shareholder, followed by the formal decision to commence mining. Mobilisation of key personnel and the initial mining fleet resulted in the first blast occurring in May and underground development quickly ramped up to the planned rate. We have been fortunate to attract an experienced team who have made short work of bedding down the initial processes and establishing an agile value focussed culture.

Concurrently, we continued exploration activities on the mining lease aimed at increasing mining inventory. Drill results in Emily Star highlight the growth potential, with the mineralisation remaining open down dip and north along strike. This is encouraging for the South Hub development which may have the potential to become an additional work area in the mine plan, leveraging the invested capital in the existing infrastructure. Drilling also continues below the extent of the mine design in Kavanagh, the results of which will be released in the next quarter.

Finally, a detailed magneto-telluric (MT) survey commenced during the quarter to refine the Kanmantoo Deeps target ahead of future drilling. The initial MT survey in 2018 identified a large conductive zone coincident with gravity and magnetic highs, located down dip from the current underground which, if confirmed, makes Kanmantoo Deeps an exciting growth opportunity.

In the immediate future, the primary focus remains to deliver first copper production on time and budget. As such, the next quarter sees the commencement of underground stope definition drilling, primary ventilation circuit installation, and the establishment of development drives ahead of future stoping activities."

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UNDERGROUND DEVELOPMENT

Underground development commenced late May 2023. Approximately 248m of development was completed in the quarter which is in line with plan and ensures the project remains on track for first copper in early 2024. There is approximately 7,000 tonnes of ore stockpiled in preparation for processing. Figures 1-9 highlight some of the many activities underway at the Kanmantoo underground.

Figure 1 Installing a refuge chamber

Figure 2 Commissioning of the jumbo

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Figure 3 Installing ground support

Figure 4 Emergency response training

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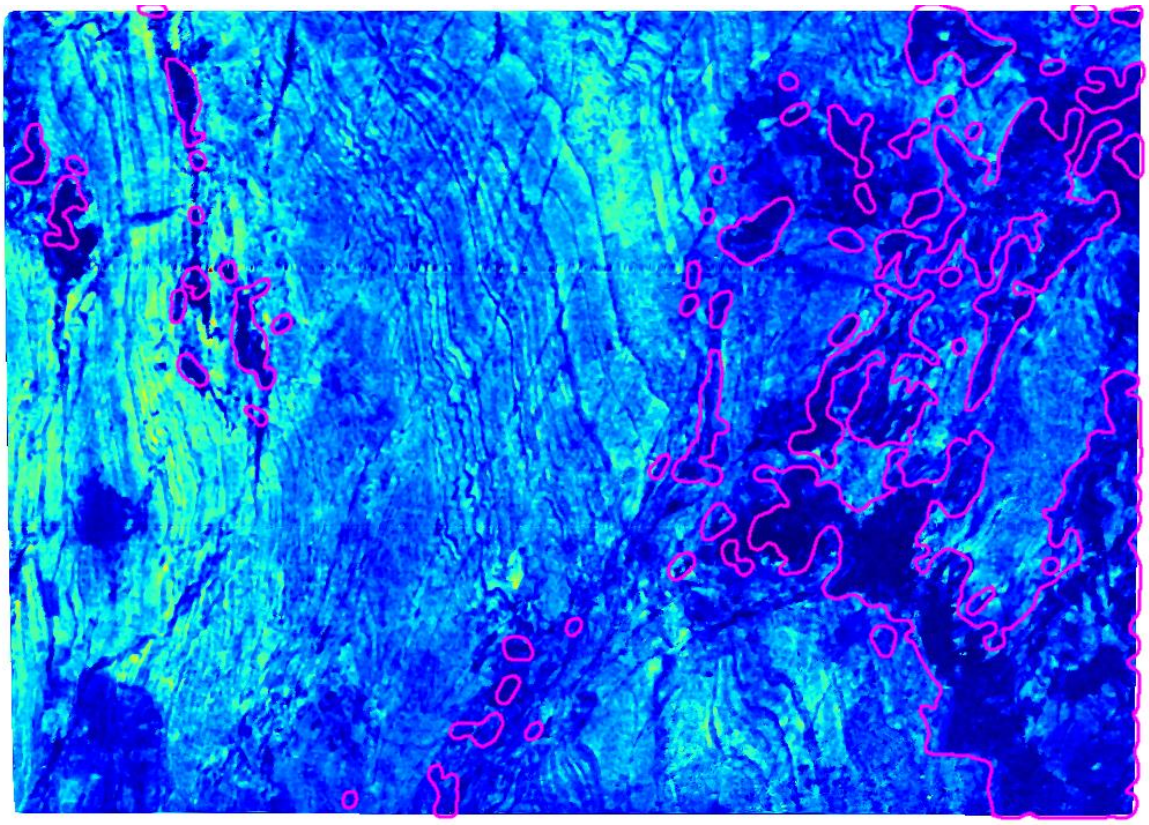
Figure 5 First blast

Figure 6 Securing the face with thin spray-on liner (LHS) and Figure 7 part of the ROM stockpile(RHS)

Figure 8 Using PlotLogic's OreSense system to map the Cu lodes

Figure 9 An example of mapped Cu contours (0.35% Cu) over image of Al2O3 from OreSense



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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 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, Valentine and Paringa 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 and diamond drill holes drilled pre-2010.

South Hub

As a result of the encouraging drill results at Emily Star in the last quarter, four more diamond holes were drilled at the prospect in this quarter (results were released post quarter end on 3 July 2023). Drilling continued to intersect strongly mineralised alteration zones hosting higher grade Cu-Au breccia zones and include[1]:

- KTDD239 71.7m @ 0.89% Cu including:
  9.7m @ 1.29% Cu, 0.14 g/t Au from 135.6m downhole
  4.0m @ 2.9% Cu, 0.61 g/t Au from 159.3m downhole
  20.2m @ 1.7% Cu, 0.69 g/t Au from 178.8m downhole
- KTDD239 8.4m @ 0.96% Cu, 0.06 g/t Au from 277.2m downhole
- KTDD240 68.75m @ 0.9% Cu including:
  4.8m @ 1.39% Cu, 0.09 g/t Au from 169.5m downhole
  35.1m @ 1.29% Cu, 0.08 g/t Au from 192.2m downhole
- KTDD240 3.35m @ 0.97% Cu, 0.05 g/t Au from 297m downhole
- KTDD241 4.3m @ 1.31% Cu, 0.03 g/t Au from 120.7m downhole

The drill results demonstrate the potential to expand the mine life and annual copper production at Kanmantoo with underground development at Emily Star as part of a broader South Hub expansion. Additional drilling is planned to evaluate the mining potential of South Hub.

Figure 10 is a cross section of past and recent drilling on the Emily Star deposit. The recent drilling confirms that the Cu-Au lodes extends down-dip and support further investment in the South Hub mining concept.

[1] *Intercepts tabulated in the Highlights table are amalgamated over a minimum down hole length of 2m > 0.4% Cu with a maximum of 2m internal dilution < 0.4% Cu. No assays were cut before amalgamating for the intercept calculation.*

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Figure 10 Cross section through KTDD239 and 240 at Emily Star in the South Hub zone

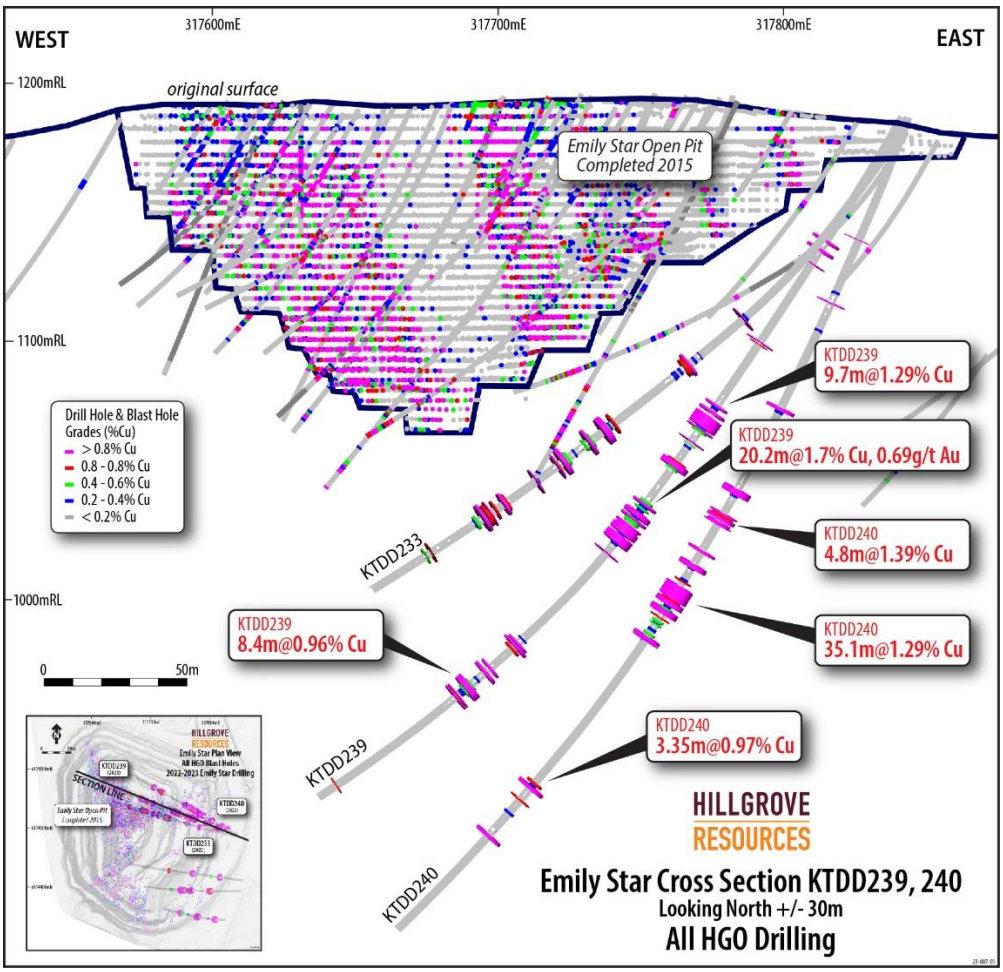
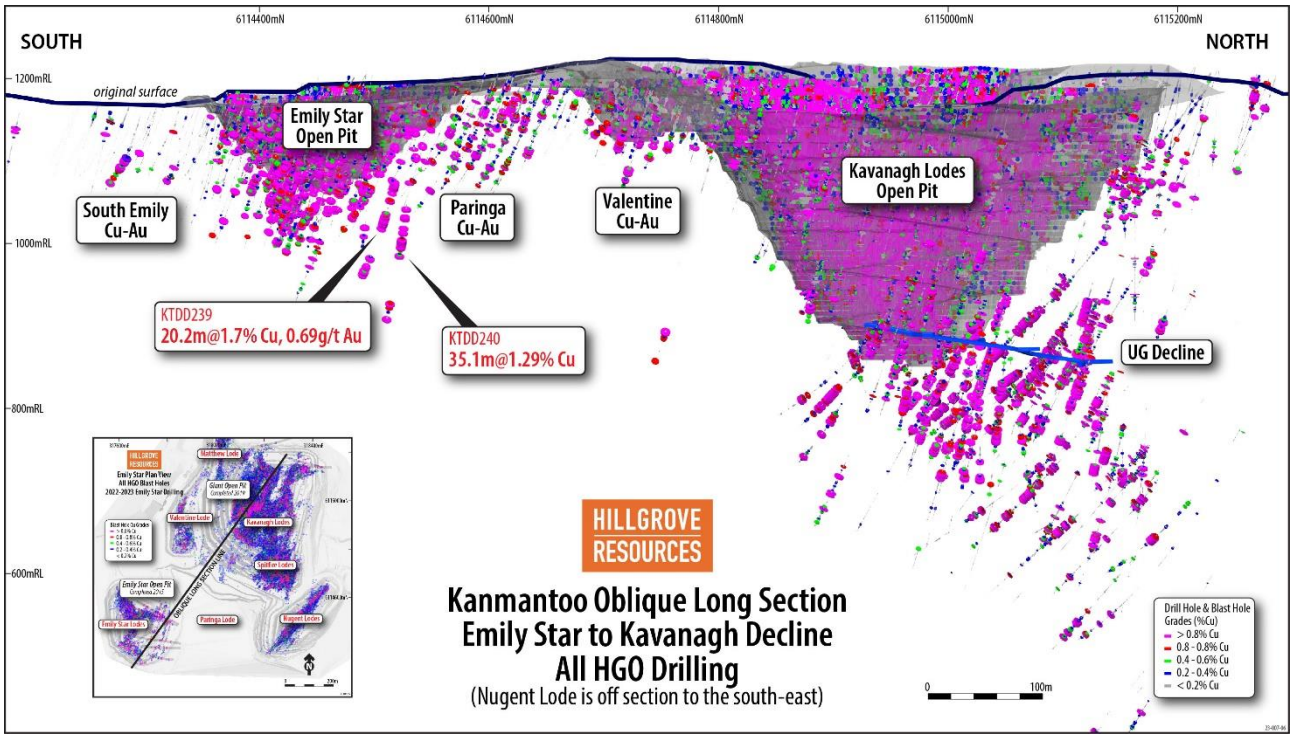


Figure 11 Oblique long-section connecting Emily Star to the Kavanagh UG development



Kanmantoo Deeps

A recent compilation of the historical exploration data at Kanmantoo in the context of the new Mineral System Model for the Cu-Au mineralisation has resulted in a re-appraisal of the geophysical results in the north Kanmantoo area.

An AMT/MT survey undertaken in 2018 identified a strong and large conductivity zone beneath the Kanmantoo open pit and extending to the north across all AMT/MT lines for a further 1.2 kms. The 1.2 km long conductivity zone is coincident with a strong ground gravity and heli-magnetic anomaly. The conductivity model suggests that the zone of interest starts at around 1300 metres below surface (Figure 13). The gravity anomaly has been interpreted to be due to a higher concentration of garnet and sulphides along the Kanmantoo shear zone (Figure 12).

This zone is now the object of an infill MT survey to better define the conductivity zone. The infill survey commenced during the quarter and is expected to be completed in Q3. If this large zone of high conductivity, high density and high magnetic anomalism (which are all geophysical characteristics of the main Kanmantoo mineralisation) represents a sulphide accumulation then it is a significant exploration prospect within the Mine Lease.

Figure 12 Plan view of gravity anomaly at Kanmantoo with 2018 MT lines

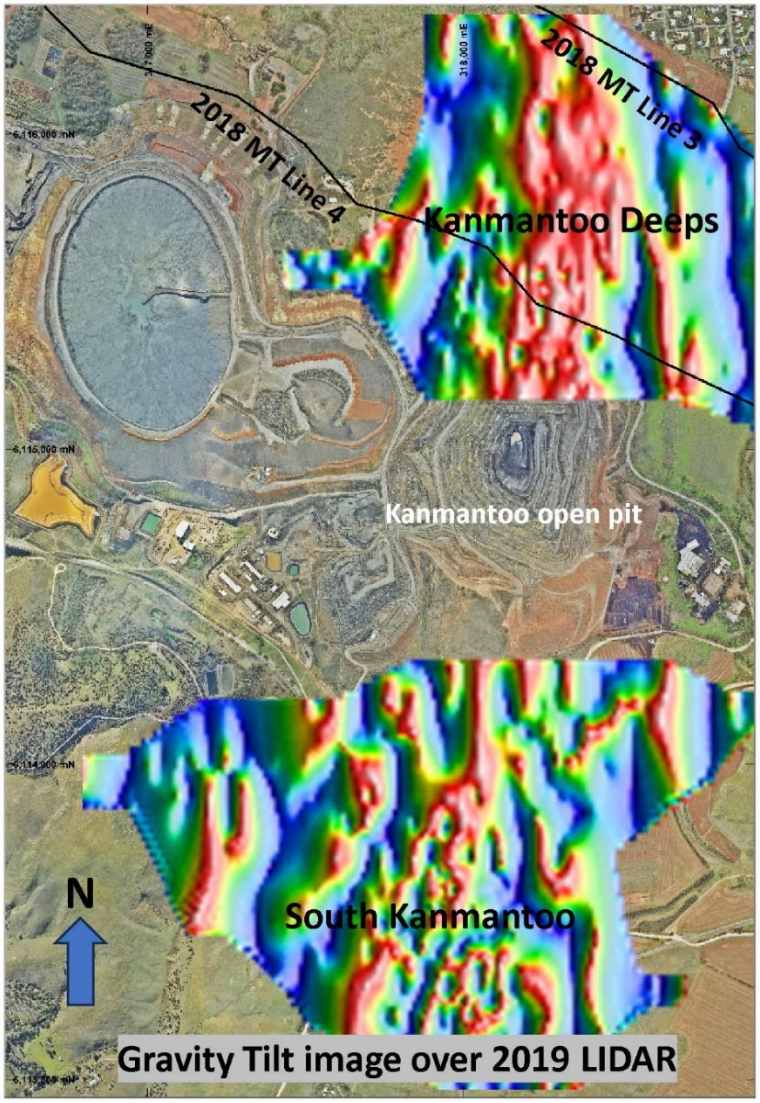


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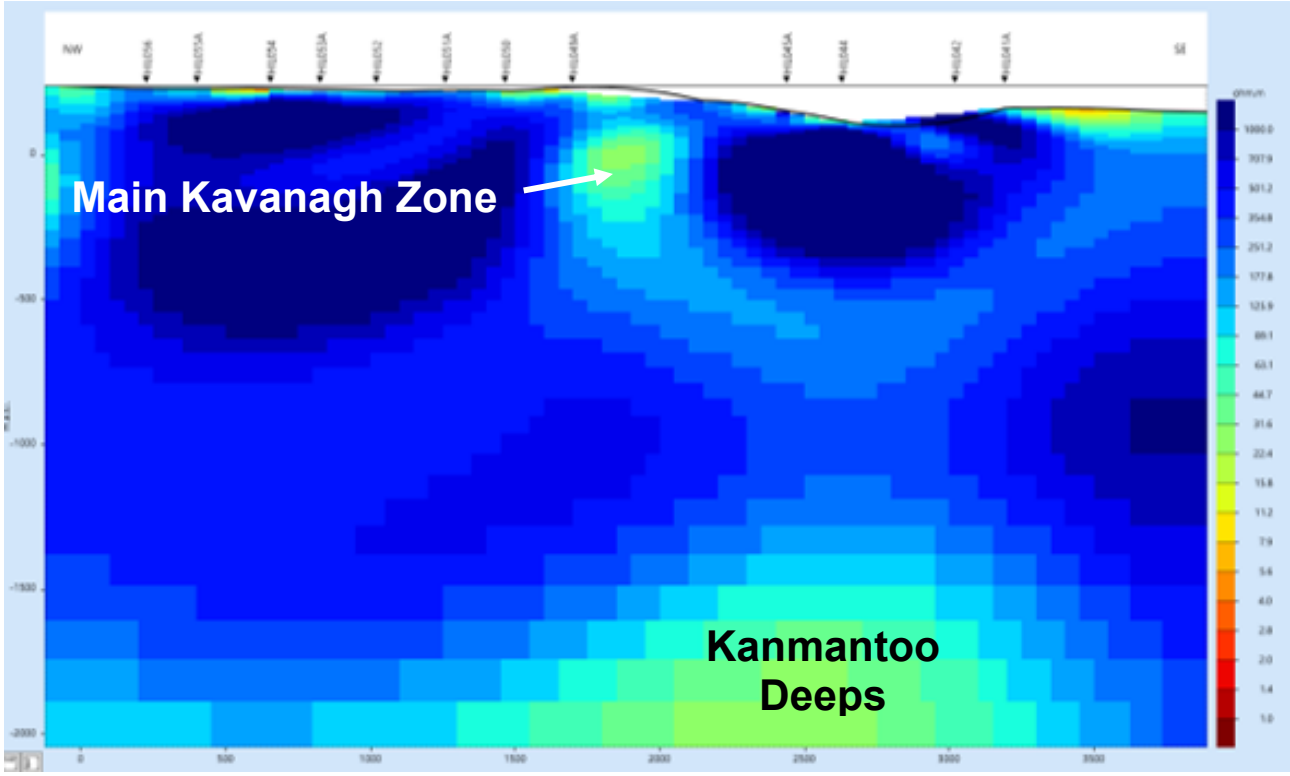
Figure 13 Cross section (Line 4) through the AMT/MT inversion model at Kanmantoo Deeps



Near Mine Exploration

The Cu-Au targets within 10 kms of the Kanmantoo processing plant include the South Kanmantoo, 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 5,652km^2 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 has concluded that Cu mineralisation within 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.

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

Competent Persons Statement

The information in this report that relates to the Exploration and Drilling Results and Exploration Targets 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, 8 August 2022, 27 February 2023, 23 March 2023, and 3 July 2023. 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

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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

Completion of Capital Raising

During the quarter, the Company completed the capital raising (as first announced to the market on 1 March 2023), with the following:

- Share Purchase Plan Offer ($2.2 million) – which was strongly supported by existing shareholders;
- General Placement Tranche 2 ($3.4 million) – which was approved at the Annual General Meeting held by the Company; and
- Freepoint Placement ($17.2 million) – with receipt of approval by both the Foreign Investment Review Board and the Company's Shareholders at the Annual General Meeting.

Execution of Hedging Agreements

Concurrent to the capital raising, the Company also entered into a mutually agreeable hedging program for AUD copper with Freepoint, covering at least 16,000 tonnes of copper in concentrate on the following schedule:

- 6,000 tonnes upon completion of the Freepoint Placement and the copper price is above A$12,500/t plus hedging margin; and
- an additional 10,000 tonnes when certain operating performance hurdles are met and the copper price is within the pricing window of A$12,000/t - A$21,650/t plus hedging margin.

During the quarter, the hedging agreement and the associated documentations were executed.

Other

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

- Exploration of $0.1 million; and
- Development of $6.0 million, which includes $1.2 million for mine lease drilling.

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

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CORPORATE INFORMATION	
Issued Share Capital at 30 June 2023	
Ordinary shares	1,911,971,009
Unlisted Options	34,000,000
Employee Performance Rights	32,000,000
Share price activity for the Quarter	
High	0.062
Low	0.043
Last (30 June 2023)	0.058

SHARE REGISTRY	REGISTERED OFFICE
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For more information contact:

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

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SCHEDULE OF TENEMENTS AS AT 30 JUNE 2023

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 6207	Tintinara, South Australia	100%
EL 6208	Carcuma, South Australia	100%
EL 6294	Wynarka, South Australia	100%
EL 6397	Laffer, South Australia	100%

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Appendix 5B

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

Name of entity

Hillgrove Resources Limited

ABN	Quarter ended ("current quarter")
73 004 297 116	30 June 2023

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	17	17
1.2	Payments for		
	(a) exploration & evaluation	-	-
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(1,337)	(2,008)
	(e) administration and corporate costs	(259)	(841)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	223	275
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(1,356)**	**(2,557)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(3,615)	(4,277)
	(d) exploration & evaluation	(132)	(266)
	(e) investments	-	-
	(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 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**	**(3,747)**	**(4,543)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	22,875	38,435
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	(737)	(1,601)
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)	-	-
3.10	**Net cash from / (used in) financing activities**	**22,138**	**36,834**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	18,004	5,305
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,356)	(2,557)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,747)	(4,543)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	22,138	36,834

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**35,039**	**35,039**

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	35,039	18,004
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)**	**35,039**	**18,004**

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)	(1,356)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(132)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(1,488)
8.4	Cash and cash equivalents at quarter end (item 4.6)	35,039
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	35,039
8.7	**Estimated quarters of funding available (item 8.6 divided by item 8.3)**	23.5

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: 17 July 2023 .....

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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