Interim Report
for the Half Year Ended
30 June 2023

Hillgrove Resources Limited
and its Controlled Entities

ACN 004 297 116

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Note: All dollars in this report are Australian unless otherwise noted.

Directors' Report

The Directors present their report on the consolidated entity consisting of Hillgrove Resources Limited ("Hillgrove" or the "Company") and its controlled entities (the "Group" or the "Consolidated Entity") for the six-month period to 30 June 2023.

Directors

The Directors of the Company during this period were:

- Derek Carter;
- Murray Boyte;
- Roger Higgins; and
- Lachlan Wallace.

Principal Activities

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) and focused on the development of the Kanmantoo Underground (Underground) Copper Mine in South Australia and mineral exploration in the south-east of South Australia.

Kanmantoo Copper Mine

The Kanmantoo Copper Mine in South Australia is located 55 kilometres from Adelaide. A main highway passes close to the project and being approximately 90 kilometres by road to Port Adelaide, enables the trucking of copper concentrate to the port. The mine site is connected to the electricity grid and has water supplied by the District Council of Mount Barker's treated wastewater facility with additional water capacity from the Murray River which provides 100% redundancy for the project.

With the completion of the open cut operations, the focus is on the development of the fully funded Underground project. The mine is fully permitted and has strong community support in an excellent mining jurisdiction, with exploration upside both on the mining lease and nearby areas which provides an opportunity to further increase the mining inventory to take advantage of forecast rising copper prices as the world decarbonises.

A positive final investment decision for the Underground project was reached in June 2023.

Environment and Community

Hillgrove continues to maintain the rehabilitated areas on the Kanmantoo Mining Lease and its established high-quality native vegetation on surrounding properties to meet its environmental offset obligations. These areas in total amount to 122 hectares of vegetation.

Hillgrove continues to actively engage with local communities and landowners around the Kanmantoo mine, through regular meetings of the Kanmantoo Callington Community Consultative Committee and the Master Planning Committee, which has the ongoing amenity of the mine site and surrounds post-closure as an objective.

Directors' Report (continued)

Development Activities

Hillgrove is aiming to maximise the value from the mining lease through continued use of the existing infrastructure at Kanmantoo including the processing plant and permitted tailings storage facility. Following the successful drilling campaigns, that culminated in the release of an updated Mineral Resource Estimate for Kavanagh Underground[1] and Nugent Underground[2], an updated Economic Assessment was released by the Company in February 2023[3]. This Economic Assessment highlighted strong free cash flow potential from the recommencement of operations.

The robust economics of the Underground project led to the project becoming fully funded without debt during the half, through a $38 million Placement and Share Purchase Plan offering – and the Board formally approving a positive Final Investment Decision.

In anticipation of this decision, the Underground development commenced in May 2023, with the Company:

- Entering into the key underground mining contracts;
- Appointing key employees for the development;
- Mobilising and commissioning mining equipment;
- Installing the requisite capital infrastructure; and
- Conducting development, with the ore intersected being stockpiled.

These initial cuts have validated the productivity and ground support assumptions outlined in the Economic Assessment, with the Company on track for first copper production in the first quarter of 2024.

Exploration Activities

Concurrent to the development activities, the Company continued exploration activities on the mining lease aimed at increasing mining inventory. Drill results in Emily Star[4] highlight the growth potential, with the mineralisation remaining open down dip and north along strike, which is encouraging for the South Hub development and may lead to the potential for it 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 half.

Regionally, the Company continues to advance the exploration in its extensive pipeline of opportunities, with over than 6,100km^2 of tenements.

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[1] ASX Release 11 May 2022
[2] ASX Release 26 July 2022
[3] ASX Release 27 February 2023
[4] ASX Release 3 July 2023
[4] ASX Release 26 July 2022

Directors' Report (continued)

Operating and Financial Review

Review of Consolidated Financial Results

The underlying EBITDA for the half year was a loss of $3,081k compared to a loss of $2,531k in the corresponding period.

The cash balance at 30 June 2023 was $35,039k compared to $5,305k at 31 December 2022.

Income Statement Overview

$000's	Half Year June 2023	Half Year June 2022	Change
Mining costs	(344)	-	(344)
Ore inventory movements	117	-	117
Care and maintenance costs and other site costs	(1,541)	(1,340)	(201)
Corporate costs	(1,605)	(1,216)	(389)
TOTAL COSTS	**(3,373)**	**(2,556)**	**(817)**
Other income	292	25	267
EBITDA	**(3,081)**	**(2,531)**	**(550)**
Depreciation and amortisation	(110)	(34)	(76)
EBIT	**(3,191)**	**(2,565)**	**(626)**
Net interest and financing charges	(670)	(69)	(601)
Income tax benefit/(expense)	-	-	-
NET LOSS AFTER TAX	**(3,861)**	**(2,634)**	**(1,227)**

Costs for the 6 months to 30 June 2023 related to the commencement of underground mining, care and maintenance of the processing plant, other site overheads and corporate costs. Refer to note 3 for additional information.

The increase in net interest and financing charges relates to the unwinding of the discounts in the rehabilitation provision and other financial liabilities.

Directors' Report (continued)
Operating and Financial Review (continued)

Cash Flow Overview

$000's	Half Year June 2023	Half Year June 2022	Change
Net cash outflows from operating activities	(2,824)	(2,822)	(2)
Net cash used in investing activities	(4,531)	(3,422)	(1,109)
Net cash inflows/(outflows) from financing activities	37,089	(19)	37,108
Net increase/(decrease) in cash held	29,734	(6,263)	35,997
Cash and cash equivalents at the end of half year	**35,039**	**4,474**	**30,565**

Operating Activities Cash Flow

The net cash outflow of $2,824k in the current period relates to payments for the commencement of underground operations (non-capital related), site care and maintenance and other costs together with corporate overheads.

Investing Activities Cash Flow

The Group's continued focus on Underground development and exploration resulted in the majority of cash outflows for the half year ended 30 June 2023 relating to investing activities. During the period, there were cash outflows of $4,265k on the Underground development and $266k on the various exploration leases held by the Group.

Financing Activities Cash Flow

During the current period, $36,834k of proceeds (net of transaction costs) were received from the equity raise as announced to the market on 1 March 2023. In addition, $275k of interest was received on bank deposits during the period and payments totalling $20k were made in respect of lease liabilities.

Directors' Report (continued)
Operating and Financial Review (continued)

Statement of Financial Position Overview

	30 June 2023	31 Dec 2022
	$'000	**$'000**
Cash and cash equivalents	**35,039**	5,305
Receivables and inventories	**2,903**	2,779
Property, plant and equipment (incl. right-of-use assets)	**48,808**	40,031
Exploration	**5,033**	4,784
Total assets	**91,783**	52,899
Trade and other payables	**3,179**	703
Provisions	**9,414**	9,772
Lease liabilities	**2,574**	-
Employee benefits	**818**	663
Other financial liabilities	**7,668**	7,195
Deferred income	**2,000**	2,000
Total liabilities	**25,653**	20,333
Net Assets / Equity	**66,130**	32,566

Assets

The increase in total assets is primarily due to the higher cash balance resulting from the capital raise proceeds received during the period. The increase in property, plant and equipment relates to expenditure on the underground project and exploration activities within the mining lease.

Liabilities

The increase in total liabilities of $5,320k largely relates to the introduction of leases liabilities of $2,574k for right-of-use assets under AASB 16, and an increase in trade creditors and accruals reflecting the ramp up in underground operations. The increase of $473k in other financial liabilities relates to the movement in the estimated royalty payable to Freepoint Metal and Concentrates, including the unwinding of the timing discount built into the valuation.

Rounding of Amounts

The company is of a kind referred to as ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with the Instrument.

Directors' Report (continued)
Operating and Financial Review (continued)

Outlook

With the completion of funding for the Underground project and the positive Final Investment Decision by the Board in June 2023, the Company has commenced mining and development activities. This is expected to continue for the remainder of the year, with the Company on track for first copper production in the first quarter of 2024.

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 9.

This report is made in accordance with a resolution of the Directors:

Dated at Adelaide this 23rd day of August 2023

Mr Derek Carter
Chairman

Mr Lachlan Wallace
Managing Director

Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half-year ended 30 June 2023, 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Julian McCarthy
Partner
PricewaterhouseCoopers

Adelaide
23 August 2023

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2023

		Half Year	
		June 2023	June 2022
	Note	$'000	$'000
Other income	2	**292**	25
Expenses	3	**(3,483)**	(2,590)
Interest and finance charges	4	**(670)**	(69)
Loss before income tax		**(3,861)**	(2,634)
Income tax benefit/(expense)		**-**	-
Loss for the half year attributable to owners		**(3,861)**	(2,634)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
		-	-
Total comprehensive income for the period attributable to equity holders of Hillgrove Resources Limited		**(3,861)**	(2,634)
		Cents	**Cents**
Earnings per share for income attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**(0.3)**	(0.2)
Diluted earnings per share		**(0.3)**	(0.2)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2023

	Note	30 June 2023 $'000	31 Dec 2022 $'000
Current assets			
Cash and cash equivalents	5	**35,039**	5,305
Trade and other receivables		**777**	905
Inventories	6	**2,126**	410
Total current assets		**37,942**	6,620
Non-current assets			
Property, plant and equipment	7a	**46,224**	40,031
Right-of-use assets	7b	**2,584**	-
Exploration and evaluation expenditure		**5,033**	4,784
Inventories	6	**-**	1,464
Total non-current assets		**53,841**	46,279
Total assets		**91,783**	52,899
Current liabilities			
Trade and other payables	8	**3,179**	703
Provisions	9	**146**	766
Lease liabilities	10	**1,038**	-
Employee benefits payable		**818**	663
Other financial liabilities		**1,379**	-
Total current liabilities		**6,560**	2,132
Non-current liabilities			
Provisions	9	**9,268**	9,006
Lease liabilities	10	**1,536**	-
Deferred income	11	**2,000**	2,000
Other financial liabilities		**6,289**	7,195
Total non-current liabilities		**19,093**	18,201
Total liabilities		**25,653**	20,333
Net assets		**66,130**	32,566
Equity			
Contributed equity	12	**292,272**	256,088
Reserves		**30,629**	29,388
Accumulated losses		**(256,771)**	(252,910)
Total equity		**66,130**	32,566

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the half year ended 30 June 2023

	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance 1 January 2022	256,118	28,762	(246,937)	37,943
Loss for the period	-	-	(2,634)	(2,634)
Other comprehensive income	-	-	-	-
Transactions with owners:				
Share-based compensation	-	288	-	288
Contributions of equity, net of transaction costs	(42)	-	-	(42)
Balance 30 June 2022	**256,076**	**29,050**	**(249,571)**	**35,555**
Balance 31 December 2022	256,088	29,388	(252,910)	32,566
Loss for the period			(3,861)	(3,861)
Other comprehensive income				
Transactions with owners:				
Share-based compensation		1,241		1,241
Contributions of equity, net of transaction costs	36,184			36,184
Balance 30 June 2023	**292,272**	**30,629**	**(256,771)**	**66,130**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half year ended 30 June 2023

	Half-year	
	June 2023	June 2022
	$'000	$'000
Cash flows from operating activities		
Cash receipts in the course of operations	**17**	23
Cash payments in the course of operations	**(2,841)**	(2,845)
Net cash generated from operating activities	**(2,824)**	(2,822)
Cash flows from investing activities		
Payments for exploration, evaluation and development	**(266)**	(313)
Grant income received relating to exploration	**-**	230
Payments for property, plant and equipment and project costs	**(4,265)**	(5,339)
Grant income received	**-**	2,000
Net cash used in investing activities	**(4,531)**	(3,422)
Cash flows from financing activities		
Proceeds from issue of shares (net of transaction costs)	**36,834**	(23)
Lease payments	**(20)**	-
Interest received	**275**	4
Net cash provided / (used) in financing activities	**37,089**	(19)
Net increase / (decrease) in cash held	**29,734**	(6,263)
Cash at beginning of the half year	**5,305**	10,737
Cash at end of the half year	**35,039**	4,474

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023

1. Basis of Preparation

This consolidated interim financial report for the half year reporting period ended 30 June 2023 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2022 and any public announcements made by Hillgrove Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

a. Going Concern

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.

b. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Recoverability of non-current assets

The Group has a single Cash Generating Unit (CGU) being the Kanmantoo copper mine. The recoverable amount is based on value in use calculations which require the use of assumptions. The estimates of discounted future cash flows for the Kanmantoo CGU are based on significant assumptions including:

- Estimates of the quantities of resources, and the timing of access to those resources;
- Future production levels based on plant throughput and recoveries;
- Future copper, gold and silver prices based on spot pricing;
- Future exchange rates for the Australian dollar to US dollar based on spot prices;
- Future operating costs of production, capital expenditure and rehabilitation expenditure;
- The discount rate most appropriate to the CGU; and
- The timing and amounts to be received from the sale of processing equipment and land following completion of mining and processing activities.

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

Separate to the CGU, 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.

Restoration, rehabilitation and environmental obligations

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.

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.

c. Changes in Accounting Policy

The accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting periods, except as noted in Note 1(d).

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

1. Basis of Preparation (continued)

d. AASB 16 - Leases

Prior to the current period, the Group did not have any material lease obligations that required disclosure under AASB 16. The approval of the underground project has resulted in various contracts being entered into that require the introduction of “right-of-use assets” and "lease liabilities” disclosures in the current period, refer to Notes 7b and 10 respectively.

Lease Identification:

In identifying whether a contract contains a lease component, The Group considers whether:

- The contract explicitly or implicitly conveys the right to control the use of an identified asset;
- The Group has the right to substantially all of the economic benefits from the use of the identified asset; and
- The Group has the right to direct the use of the identified asset.

Measurement of Lease Liabilities and Right-of-Use Assets:

As a lessee, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost (present value of the lease liability), and subsequently at cost less any accumulated depreciation, impairment losses and adjustments for remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset’s useful life or the lease term on a straight-line basis. However, if the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

Lease liabilities are initially recognised at the net present value of the lease payments expected to be paid over the lease term. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group’s incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security, and conditions. Lease payments are allocated between principal and finance charge. The finance charge is expensed to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected against the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

Short-term Leases and Low-Value Leases:

The Group applies the short-term lease recognition exemption to its short-term leases. These are leases with a lease term of 12 months or less without a purchase option. The Group also applies the low-value (<$5,000 USD) asset recognition exemption to leases such as IT and office equipment. Payments associated with short-term and low value leases are recognised on a straight-line basis as an expense in profit or loss.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

2. Other income

	Half Year	
	June 2023	**June 2022**
	$'000	**$'000**
Interest	**276**	4
Other	**16**	21
Total other income	**292**	25

Other income of $16k relates to the sale of excess seed that was produced as part of the Group's rehabilitation obligations.

3. Expenses

	Half Year	
	June 2023	**June 2022**
	$'000	**$'000**
Mining costs	**344**	-
Ore inventory movements	**(117)**	-
Care and maintenance and other site costs	**1,541**	1,340
Corporate costs	**1,605**	1,216
Depreciation and amortisation	**110**	34
Total expenses	**3,483**	2,590

<u>Mining costs</u>
The majority of the underground mining costs incurred in the period have been charged to Property, Plant and Equipment. However, there are certain costs that cannot be capitalised, and these have been expensed in the period under as Mining costs.

<u>Ore inventory movements</u>
This represents the value assigned to stockpiled ore that will be processed at a later date. These costs are deferred to the consolidated statement of financial position and will be released to the consolidated statement of profit or loss and other comprehensive Income when the processing activities commence.

<u>Care and maintenance</u>
During the period of care and maintenance, depreciation of the processing plant has ceased based on the assumption that the activities performed during the period of care and maintenance will preserve the current value of these assets. Costs incurred in relation to care and maintenance have been expensed.

<u>Corporate costs</u>
Corporate costs reflect the costs of running the Group's head office and include $499k of non-cash costs in relation to the Group's share-based payments plan. Refer to note 15 for further information.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

4. Interest and finance charges

	Half Year	
	June 2023	**June 2022**
	$'000	**$'000**
Discount on unwind of rehabilitation provision	**175**	65
Discount on unwind of royalty financial liability	**812**	-
Bank fees and other borrowing costs	**4**	4
Interest on leases	**17**	-
Movement in Royalty Financial Liability	**(338)**	-
Total interest and finance charges	**670**	69

5. Cash and cash equivalents

	30 Jun 2023	**31 Dec 2022**
	$'000	**$'000**
Cash at bank	**34,722**	4,758
Restricted cash	**317**	547
	35,039	5,305

Restricted cash cannot be accessed without consent and comprises of a bank guarantee and an office rental security bond.

6. Inventories

	30 Jun 2023	**31 Dec 2022**
	$'000	**$'000**
Current Assets		
Ore inventory	**117**	-
Stores inventory and consumables	**2,009**	410
Non-Current Assets		
Stores inventory	**-**	1,464
Total inventories	**2,126**	1,874

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

7. Non-financial assets

(a) Property, plant and equipment

	30 Jun 2023 $'000	31 Dec 2022 $'000
Land and buildings		
At cost	**5,277**	5,277
Accumulated depreciation	**(379)**	(379)
	4,898	4,898
Plant & equipment		
At cost	**75,212**	73,574
Accumulated depreciation	**(60,074)**	(59,964)
	15,138	13,610
Motor vehicles		
At cost	**783**	451
Accumulated depreciation	**(379)**	(369)
	404	82
Mine development		
At cost	**185,703**	181,151
Accumulated depreciation	**(159,919)**	(159,710)
	25,784	21,441
Total property, plant and equipment	**46,224**	40,031

(b) Right-of-use assets

	Mining equipment $'000
Opening balance at 1 January 2023	**-**
Additions to right-of-use assets	**2,676**
Depreciation charge for the period	**(92)**
Closing carrying amount at 30 June 2023	**2,584**

The Group has entered into new services agreements which provide rights to use various equipment to be used as part of the underground mining operations. Accordingly new right-of-use assets have been recognised associated with those arrangements. Corresponding lease liabilities are recognised in the consolidated statement of financial position (refer to Note 10).

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

8. Trade and other payables

	30 Jun 2023 $'000	31 Dec 2022 $'000
Trade payables	**1,849**	130
Other payables and accruals	**1,330**	573
	3,179	703

Financing arrangements

On 1 June 2023, the Group renewed the line of credit finance facility with Volvo Finance Australia Pty Ltd. The facility limit has increased from $4m to $5m and it now expires on 31st May 2024. At the date of this report, the facility had not been drawn upon.

9. Provisions

	30 Jun 2023 $'000	31 Dec 2022 $'000
Current Liability		
Rehabilitation provision	**146**	766
Non-Current Liability		
Rehabilitation provision	**9,268**	9,006
Total Provisions	**9,414**	9,772

10. Lease liabilities

The balance sheet shows the following amounts relating to leases:

	$'000
Opening balance at 1 January 2023	**-**
Leases recognised during the period	**2,676**
Interest expense during the period	**17**
Lease expense during the period	**(119)**
Closing balance at 30 June 2023	**2,574**
Lease liabilities of which are:	
Current lease liabilities	**1,038**
Non-current lease liabilities	**1,536**
	2,574

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

10. Lease liabilities (continued)

The consolidated statement of profit or loss and other comprehensive income includes the following amounts relating to leases:

	30 Jun 2023
	$'000
Depreciation charge of right-of-use assets (included in expenses)	**92**
Interest expense (included in interest and finance charges)	**17**
Expense relating to short-term leases (included in expenses)	**15**
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in expenses)	**16**
Expense relating to variable lease payments not included in lease liabilities (included in expenses)	**48**

The total cash outflow for leases, other than leases not recognised as lease liabilities, during the half-year ended 30 June 2023 was $19,952.

Contractual maturities of lease liabilities

The following table reflects all undiscounted contractual repayments from recognised lease liabilities at the reporting date.

At 30 June 2023	6 months or less	6 to 12 months	1 to 2 years	Over 2 years	Total cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
Lease liabilities	594	594	1,148	474	2,810	2,574

11. Deferred income

	30 Jun 2023	31 Dec 2022
	$'000	$'000
Government grant income	2,000	2,000
	2,000	2,000

A $2 million government grant was received in the prior period from the South Australian Government to assist with the trial of new underground mining technology. In accordance with AASB 120, the grant was disclosed as deferred income. On the commencement of underground mining operations, this will be released to the consolidated statement of profit or loss and other comprehensive income over the life of the associated mine development asset.

Upon successful development, and commercial production from the underground project, $1 million of the grant will be repayable to the South Australian Government via a 0.25% royalty, 12 months after the first concentrate sale from the underground operation.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

12. Contributed equity

	30 Jun 2023	31 Dec 2022
	$'000	$'000
Share capital		
Issued and paid up capital 1,911,971,009 shares (2022: 1,174,289,057) fully paid	**292,272**	256,088
Ordinary shares - movements during the year		
Balance as at beginning of year	**256,088**	256,118
Shares issued		
Capital raise	**38,455**	-
Transaction costs arising from share issues	**(2,271)**	(30)
Balance at end of year	**292,272**	256,088

13. Financial reporting by segment

Through its ownership of the Kanmantoo copper mine, the Group has one operating segment in the resources industry, in Australia.

14. Contingent liabilities

	30 Jun 2023	31 Dec 2022
	$'000	$'000
Guarantees		
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	**388**	359
Security bonds on rental properties and tenements	**5**	15
	393	374

Native vegetation fund payment

The Group has obligations to restore land disturbed under exploration and mining licences for which a rehabilitation provision is already on the balance sheet. The maximum obligation to the South Australian 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.

Included in the rehabilitation provision is a payment of approximately $1.7 million to the Native Vegetation Fund. With permission from the State Government, the Group has delayed the timing of this payment and, whilst the intention is for the payment to be made at a later date, it should be noted that non-payment would increase the Group's rehabilitation provision by approximately $1.5 million. This circumstance is not expected to eventuate.

Notes to the Consolidated Financial Statements

For the half year ended 30 June 2023 (continued)

15. Share based payments

Total compensation from share-based payment transactions recognised during the period were as follows:

	Half Year	
	June 2023	**June 2022**
	$'000	**$'000**
Performance rights issued under the OPRP to employees	**499**	288
Performance rights issued to equity raise managers	**742**	-
Total equity-based payments	**1,241**	288

Events occurring after the reporting period

On 6 July 2023, the Group entered a "Container Lease Agreement" effective 19 June 2023. However, at the date of this report, the assets are not yet available for use and therefore no lease liability or right-of-use asset is required to be recognised in accordance with the accounting standard.

No other material events have occurred post the reporting period until the date of signing.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 22 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 30 June 2023 and of its performance for the half year ended on that date.

(b) there are reasonable grounds to believe that Hillgrove Resources Limited will be able to pay its debts as and when they become due and payable.

This report is made in accordance with a resolution of the directors:

Dated at Adelaide this 23rd day of August 2023.

Mr Derek Carter
Chairman

Mr Lachlan Wallace
Managing Director

Independent auditor's review report to the members of Hillgrove Resources Limited and its controlled entities

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Hillgrove Resources Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, material accounting policy information and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Hillgrove Resources Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true

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and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

Julian McCarthy
Partner

Adelaide
23 August 2023