HILLGROVE RESOURCES

ANNUAL REPORT

for the year ended 31 December 2016

Hillgrove Resources Limited ACN 004 297 116

Corporate Directory

CORPORATE AND REGISTERED OFFICE
5-7 King William Road,
Unley S.A. 5061, Australia
Tel: +61 8 7070 1698

KANMANTOO COPPER MINE
Eclair Mine Road
Kanmantoo S.A. 5252, Australia
Tel: + 61 8 8538 6800
Fax: + 61 8 8538 5255

SHARE REGISTRY
Boardroom Pty Limited
Level 12, 225 George Street
Sydney N.S.W. 2000, Australia
Tel: + 61 2 9290 9600
Fax: + 61 2 9279 0664

BANKERS
Westpac Banking Corporation
31 Willoughby Road
Crows Nest N.S.W. 2065, Australia

Macquarie Bank Limited
1 Martin Place
Sydney N.S.W. 2000, Australia

AUDITORS
Deloitte Touche Tohmatsu
11 Waymouth Street
Adelaide S.A. 5000, Australia

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www.hillgroveresources.com.au

GENERAL ENQUIRIES
Info@hillgroveresources.com.au

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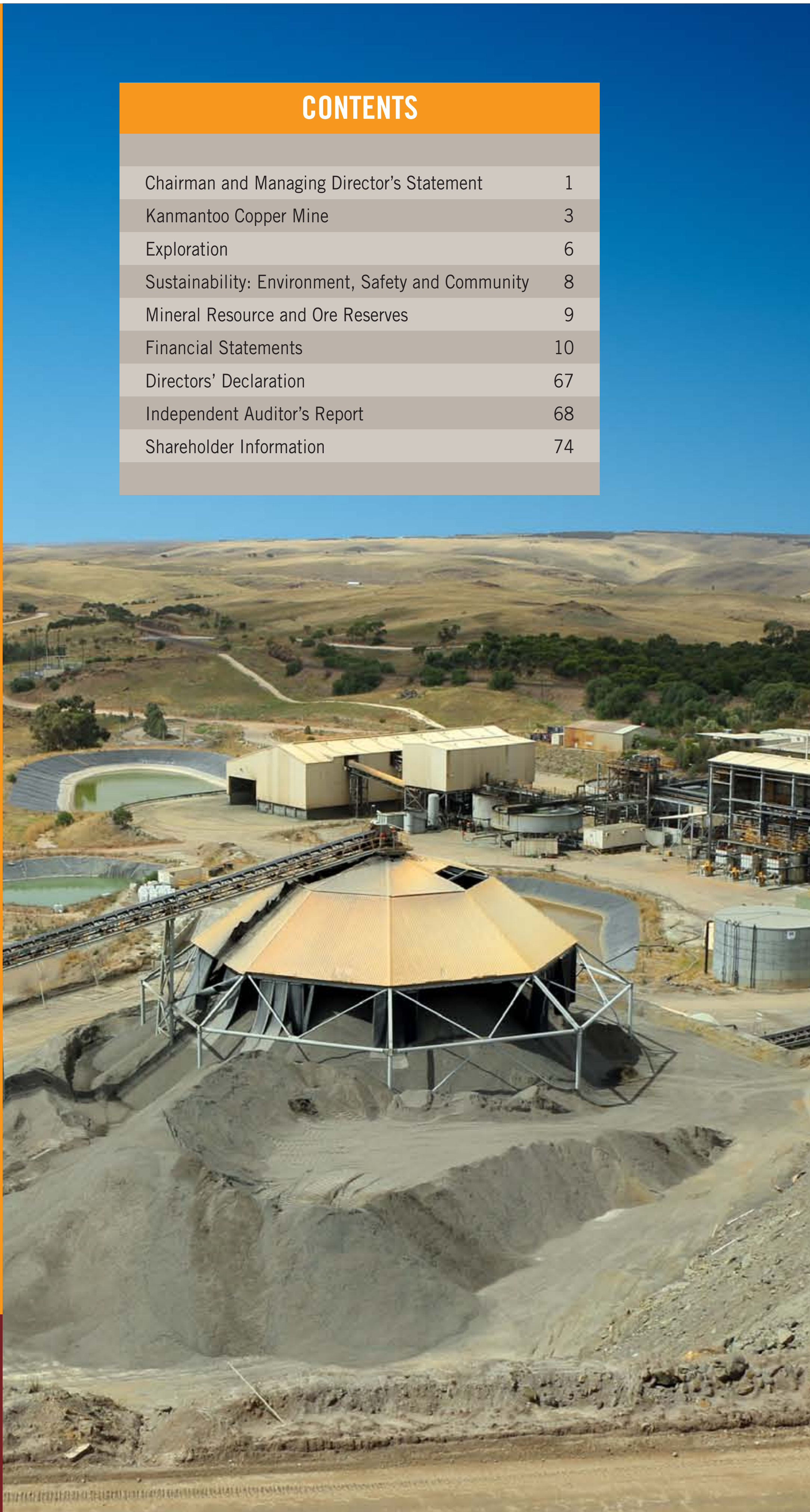


Chairman and Managing Director's Statement

In the 2016 calendar year, Hillgrove has achieved significant progress in overcoming an identified cash flow gap and implementing initiatives that have built solid foundations for the future of your Company.

The Hon. Dean Craig Brown, AO Independent Non-Executive Chairman

Mr Steven McClare - Chief Executive Officer and Managing Director

There is significant residual value in the Kanmantoo Copper Mining Operation. Having sufficient liquidity through the investment phase of the Giant cutback and retaining ownership has been critically important to enabling the future delivery of this value to shareholders.

In the first quarter, the new Executive Team under the direction of the Board, critically assessed the past performance of Kanmantoo.

The depressed copper prices at the time and the deferred copper production associated with the new Mineral Resource Estimate (announced in May 2016), led to the identification and declaration of a forecast cash shortfall throughout 2016 and early 2017. Facing this challenge as a real and imminent threat, galvanised the Company and led to an extraordinary effort to successfully implement a wide range of initiatives.

One initiative was to unwind the forward sold copper hedges. We were fortunate that a series of circumstances allowed the decision to be made at a significant downturn in the market. This enabled the Company to fully repay the USD debt early. It should be noted that at the close of 2016, the copper price increase would have led to a negligible monetary hedge book value.

Other initiatives included securing a $4m loan with the South Australian Government, targeting gold during a high price period, lowering the cash costs of production to offset lower revenues, deferring salaries by 10%, completing an infill drilling programme, selling and leasing back concentrate containers, deferring price participation with our offtake company, securing with owned assets the South Australian Government Performance Bond and releasing securities held by Macquarie Bank, successfully raising funds through a fully underwritten convertible note issue and lifting mining rates post funding.

There are also a number of initiatives that were arranged in 2016, that impact 2017. These include gaining a Swiss Re provided Bond to Electranet thus removing the cash backing requirement, negotiating significant rate reductions and payment terms (liquidity benefit) associated with our newly merged mining contractor, as well as negotiating a debt for equity swap and copper price linked deferment with our drilling contractor.

Being able to implement these initiatives required the co-operation, assistance and belief of a large number of stakeholders. These stakeholders include employees, suppliers, contractors, offtake partners, shareholders, the surrounding community and the South Australian Government. We would like to once again sincerely thank all involved and look forward to sharing in our future success.

As can be seen in the consolidated financial results, revenue decreased, however this was more than offset by lower costs of production. This resulted in an improved EBITDA and operating cashflows, with operating cashflow increasing to $21.0 million. The Giant cutback investment (expenditure attributable to future earnings) capitalised in 2015 - 2016 is $65.1 million. At the end of 2016 this represented 94% of the cash outlay required to complete the cutback. It should be noted that guidance of C1 cash costs includes this attributable past expenditure, which is often overlooked when looking at cash requirements.

Chairman and Managing Director's Statement *(cont.)*

The copper equivalent metal produced was within guidance, with lower copper and higher gold production. The loss after tax for CY16 was $109.1 million, which was mostly associated with impairment write downs of Kanmantoo mine assets at $67.1 million and deferred tax assets at $19.2 million. Whilst the improved copper price may have given reason to considering reversing these impairments at year end, the Board felt it prudent to ensure the operational improvements, finalisation of initiatives and improved copper price, were sustained over an extended period.

There has been a significant focus on assessing the potential options of mine life extensions. These efforts have identified several targets with minimal capital investment requirements, as they can utilise the existing processing facility. These targets include both surface and underground and are either at Kanmantoo or within a sixty kilometre radius. With cashflow improving the Company will finalise this review of the targets and recommence active field exploration. We look forward to announcing further details in the coming months as this work progresses.

While 2016 was a very challenging year, we are delighted to have won the South Australian Premier's Award for Excellence in Supporting Communities. The local Kanmantoo Callington Community Consultative Committee is a proud and hardworking team and we acknowledge the extremely important role they play in the success of the Kanmantoo Copper Mine. Through working together, we have successfully achieved improved outcomes for all parties. The Company remains committed to being the best neighbour that we can be as a progressive and professional mining company.

We would like to sincerely thank all shareholders for your patience and continued support. The balance sheet restructuring, improved operational performance and copper price outlook place the Company on a much stronger financial footing than at the same time a year ago. With the vast majority of the Giant cutback completed, the operation is poised to generate significant free cash flows over the remainder of Life of Mine. We look forward to rewarding you for your investment in Hillgrove Resources Limited.

The decision made in 2015 to simplify and consolidate the Company with a clear focus on the Kanmantoo copper mine was the right one. This strategy has been critical to ensure all non-essential expenditure is directed to near term income generating activities.

Hillgrove has been methodically cutting costs for several years through its ingrained culture of cost control and waste reduction. At current consensus pricing Kanmantoo has the potential to generate significant free cash over the remaining mine life.

From mid-2017 when the Giant Pit cutback is scheduled to be completed and free cash is being generated, the creditors will be reduced and near mine exploration targets capable of supplying existing assets will be prioritised.

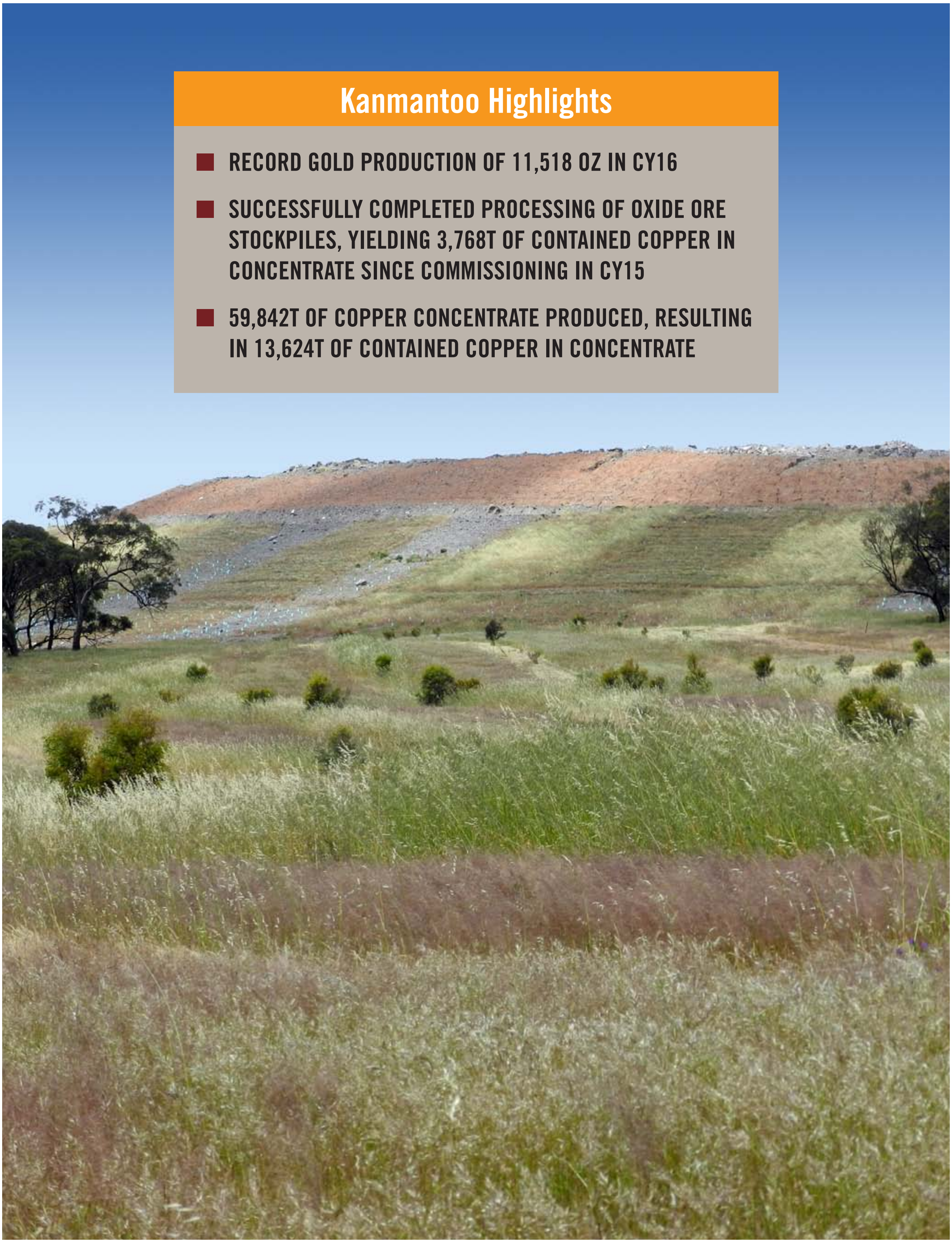
The Board is determined to ensure that any future growth or life extensions must deliver value for shareholders over and above the base case of returning otherwise invested cash to shareholders. To this end, the Company will undertake a measured exploration programme which will aim to extend mine life through near mine extensions and or regional exploration targets (refer Near Mine and Regional Exploration section of this report).

Kanmantoo Copper Mine, *South Australia*

Waste mining in Giant Pit Cutback has reduced the future strip ratio to 1.9 waste tonnes for every tonne of ore, positioning the business to maximise copper production in CY17.

Kanmantoo Highlights

- RECORD GOLD PRODUCTION OF 11,518 OZ IN CY16
- SUCCESSFULLY COMPLETED PROCESSING OF OXIDE ORE STOCKPILES, YIELDING 3,768T OF CONTAINED COPPER IN CONCENTRATE SINCE COMMISSIONING IN CY15
- 59,842T OF COPPER CONCENTRATE PRODUCED, RESULTING IN 13,624T OF CONTAINED COPPER IN CONCENTRATE



Kanmantoo Copper Mine, *South Australia (cont.)*

Hillgrove's flagship development is the open pit Kanmantoo Copper Mine in South Australia, located 55 kilometres from Adelaide and close to road, rail, power and the Port of Adelaide. The exploration and mining lease is dotted with historical copper and base metal operations and includes the former Kanmantoo Mine; a medium sized copper operation that operated from 1971 to 1976. The location of the Kanmantoo Copper Mine offers many operational and logistical advantages, with a main highway passing close to the project and being approximately 90km by road to the Port of Adelaide, permitting the trucking of copper concentrate. The mine site is connected to the electricity grid and has mains water available, although most of the process water is supplied by the District Council of Mount Barker's treated waste water programme with a supplementary (untreated) supply from SA Water. In partnership with the South Australian Government, additional water capacity was installed in CY2016 from the Murray River which provides 100% redundancy to the Mount Barker supply if required and enhances Hillgrove's active dust suppression programme.

Approximately 197 Hillgrove personnel currently staff the mine. Due to Kanmantoo's location close to the outer-Adelaide regional centres of Mt Barker and Murray Bridge there is no requirement to provide fly in/fly out facilities. The resulting mix of staff comprises about 20% from the local area, 60% from the nearby regional area and the remainder from greater Adelaide.

Along with Hillgrove's direct employment, specialist contract services are being undertaken by Andy's Earthmovers (Asia Pacific) Pty Ltd (equipment supply and maintenance), Roc-Drill Pty Ltd (blast hole drilling) and Maxam Australia Pty Ltd (explosive supply), who have a combined permanent workforce of some 55 employees on site. The combination of specialised contract skills and experienced Hillgrove employees has allowed a high level of quality control in the critical areas of drilling, blasting, productivity and dilution control during mining operations.

The safety performance in CY16 was disappointing with an increase in injuries sustained on site reflected in an increasing Total Reportable Injury Frequency Rate (TRIFR) to 21.3 injuries per million work hours (CY15 12.6).

The majority of injuries sustained have been soft muscle tissue strains sustained in the pit environment. Injury prevention in CY17 will focus on manual handling and reducing soft muscle injuries in static roles.

Mining in CY16 was 27% lower than the previous year as limited cash flow constrained operations. The capital raise in December along with other funding initiatives provided the necessary working capital to widen work areas within the pit, returning mining efficiency and productivity back to the levels achieved in CY14 and 15. Backfilling of the satellite pit Nugent was completed in CY16, and a start was made on backfilling the Emily Pit in accordance with Hillgrove's environmental commitments. Shaping of the final waste rock landforms continued ahead of further planned planting in CY17.

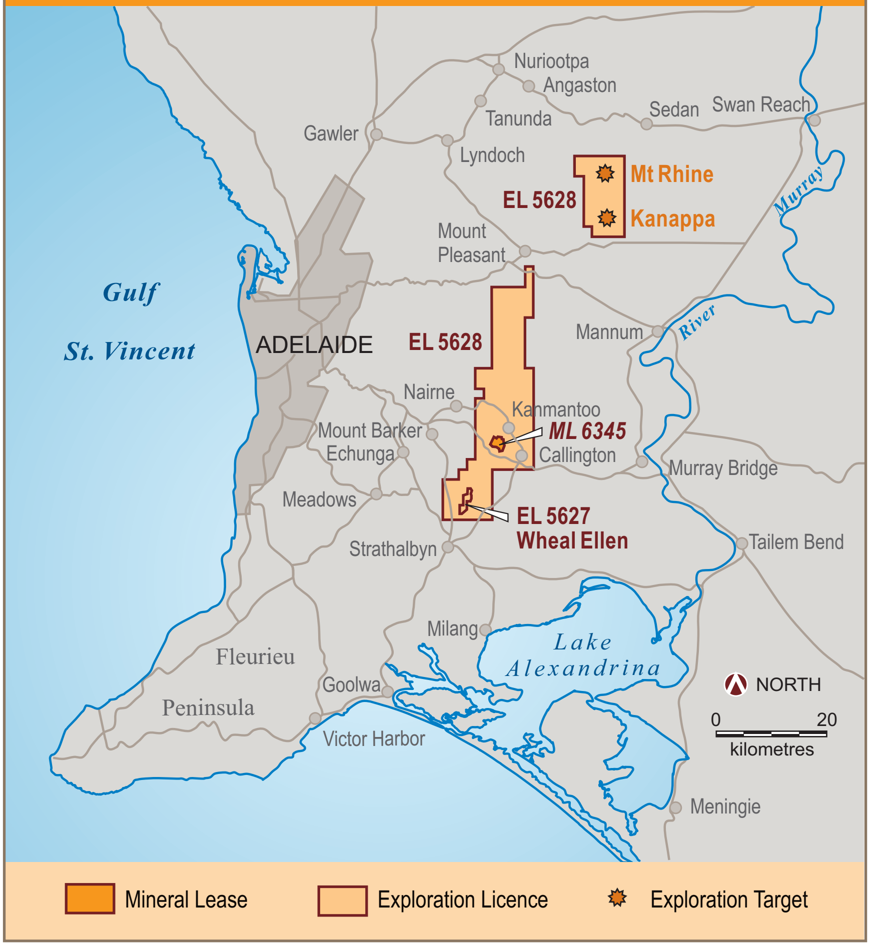
Kanmantoo Copper Mine, *South Australia (cont.)*

The processing plant crushed and milled 3.2M tonnes in CY16 with rates below previous year due to availability of ore as mining focussed on waste stripping in the Giant Pit cutback. The Controlled Potential Sulphidisation circuit in the process plant that was commissioned in CY15 to process oxide ores successfully completed treating the remaining stockpiles in CY16, converting these long standing inventories to revenue. Higher grade gold zones identified in CY16 were selectively mined and treated, returning record gold production of 11,518 oz, a 70% increase on the previous year. A flash flotation cell in the grinding circuit aimed at improving gold recoveries was commissioned in late CY16 to improve the gold recovery from these higher grade ores when they are processed in the future.

Mining costs were $14.01/BCM, and processing costs $6.98/tonne milled, an increase on the previous year due largely to cash constraints which reduced mining productivity and in turn ore availability for processing. The C1 cost of US$1.73/lb was below guidance of US$1.85/lb to US$2.15/lb.

Hillgrove continued its engagement during the year with the local Kanmantoo Callington Community Consultative Committee (KCCCC) in regards to improving key community concerns and planning how the mine can have a lasting positive effect on the local area, through shared infrastructure and enhancing the local environment by linking onsite rehabilitation works with offsite vegetation. The exceptional efforts and contribution of the KCCCC was formally recognised as recipients of the 2016 South Australian Premier's Award for Excellence in Supporting Communities.

Kanmantoo Copper Mine – Tenement Map



Along with direct employment opportunities and the significant use of local suppliers and businesses, Hillgrove has supported local township community events and sporting groups, and engaged with local Councils on support and provision of services. The Company also supports the awareness of and education in the mining industry through its support of mining training, induction programmes and scholarships for study in the resources industry.

Exploration drilling during CY15 intersected copper sulphide mineralisation through the southern extent of a geophysical anomaly identified earlier in that year, with a 433 metre deep RC hole returning the following assays at a depth of 300 metres below surface of 28 metres @ 0.61% Cu, 0.14g/t Au, and 2.6g/t Ag at a 0.20% Cu cut off [1]. The potential for further ore resource extensions and discoveries and growth of the global copper/gold Resource at Kanmantoo is high. The Project's regional exploration prospects range from grass roots to those with significant intercepts and historic mining and are described further in the next section.

1 *Refer ASX release 13 April 2015.*

Exploration

Near Mine Exploration

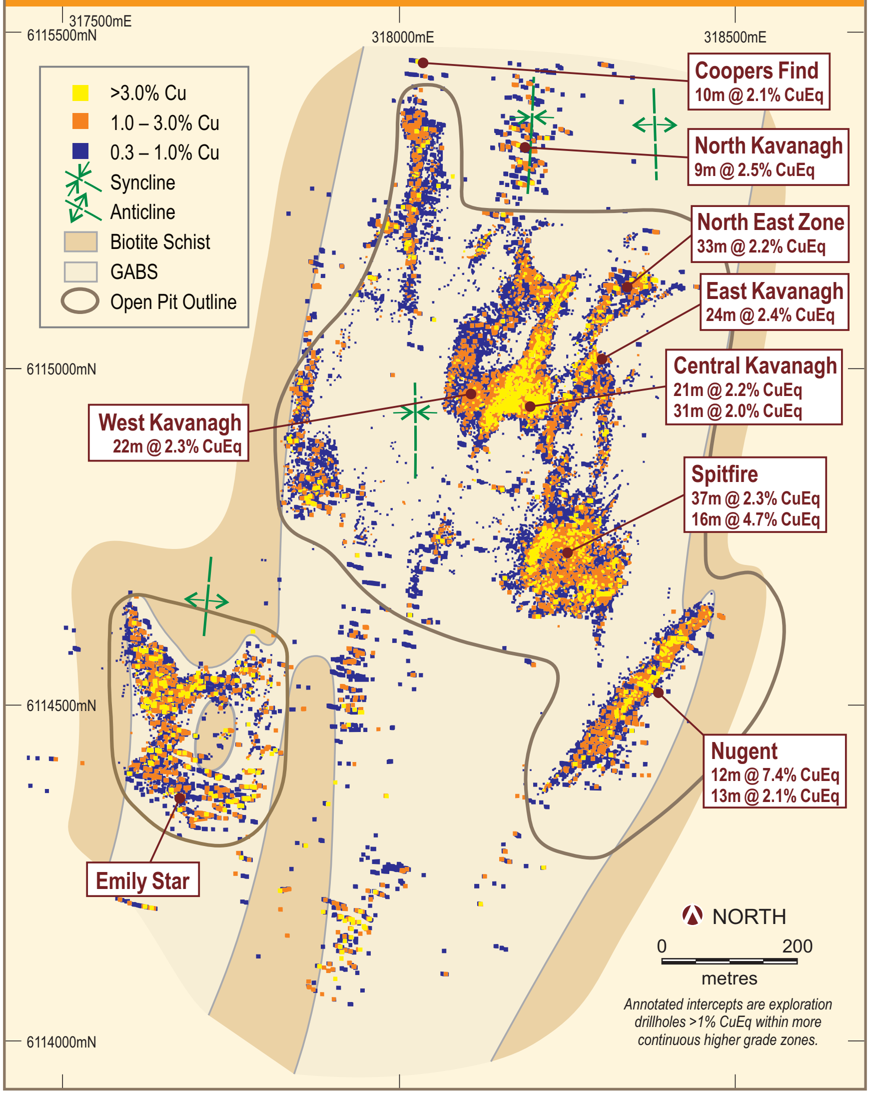
The Company has continued to review opportunities for resource extensions that may convert to an extension of mine life at Kanmantoo. The successful exploration drilling in 2015 highlighted the excellent copper-gold endowment of the Kanmantoo mineralisation and its down-dip continuity. This has encouraged the Company to continue to plan for an extended drilling programme proposed to be undertaken in 2017. The planning has emphasised the number of outstanding copper-gold underground targets within the Kanmantoo mine lease for further drill definition. The following table of drill intercepts are from the Company's ASX releases 6 July 2006 to 25 June 2007 [1]. The intercepts are downhole widths and true width is unknown.

The plan shows the distribution of these possible underground targets. All of the targets are within 150m of the planned final position of the pit haul road (excluding Coopers Find).

The number and quality of these zones of mineralisation shown by diamond drilling to continue to depth below the final pit design, is a great opportunity for the Company to pursue extending its mine life through the execution of a drilling programme.

1 *This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. The information is extracted from the ASX reports dated 6/07/2006, 14/02/2007, 28/03/2007, 23/04/2007, and 25/06/2007. 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. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.*

Kanmantoo Copper Deposits



	Drillhole	Intersection Results	CuEq [2]
North East Zone	KTDD029 280-331m	33m @ 2.0% Cu, 0.2g/t Au, 7g/t Ag	2.2%
	KTDD071 479-491m	12m @ 2.8% Cu, 0.7g/t Au, 12g/t Ag	3.4%
Spitfire	KTDD044 142-179m	37m @ 1.1% Cu, 1.9g/t Au, 3g/t Ag	2.3%
	KTDD133 158-173m	16m @ 2.4% Cu, 3.5g/t Au, 8g/t Ag	4.7%
Nugent	KTDD141 64-76m	12m @ 2.2% Cu, 7.9g/t Au, 9g/t Ag	7.4%
	KTRC557 102-115m	13m @ 1.0% Cu, 1.6g/t Au, 4g/t Ag	2.1%
East Kavanagh	KTDD148 280-290m	10m @ 2.3% Cu, 0.1g/t Au, 6g/t Ag	2.4%
	KTDD149 282-306m	24m @ 2.2% Cu, 0.1g/t Au, 6g/t Ag	2.4%
Central Kavanagh	KTDD027 344-365m	21m @ 2.0% Cu, 0.1g/t Au, 6g/t Ag	2.2%
West Kavanagh	KTRCD399 137-160m	22m @ 2.1% Cu, 0.3g/t Au, 3g/t Ag	2.3%
North Kavanagh	KTRC945 104-113m	9m @ 2.1% Cu, 0.7g/t Au, 7g/t Ag	2.5%
Coopers Find	KTRC174 86-96m	10m @ 1.6% Cu, 0.6g/t Au, 8g/t Ag	2.1%

2 *CuEq = AUD7,900/t Cu, AUD1,575/oz Au, AUD22.00/oz Ag*

Exploration *(cont.)*

Regional Kanmantoo Exploration Programme

The Company has again curtailed its exploration activities whilst it conserves its cash for the Kanmantoo copper production activities.

During the year a review of the Company's exploration projects within trucking distance of the Kanmantoo process plant was undertaken and again highlighted the potential of the Kanappa – Mt Rhine area (EL5628) for significant copper-gold mineralisation. The following results from surface channel sampling across strike of the Mt Rhine gold workings were released to the market on 14 December 2006 and are horizontal widths. The general Kanappa – Mt Rhine area is adjacent to the regionally significant Palmer Fault and the Cambrian granitic intrusive related gold mineralisation.

Channel Sample	Intersection
MRCS001	32m at 5.05g/t Au
MRCS002	16m at 5.36g/t Au
MRCS003	20m at 7.76g/t Au
MRCS004	10m at 4.34g/t Au

The results provide excellent exploration targets for investigation in 2017.

Indonesian Projects

Hillgrove retains its two Indonesian assets at Bird's Head in West Papua and Sumba Island which are both on a care and maintenance phase.

These assets still have the potential to realise value and the Company continues to receive interest from third parties.

Sumba Project

Hillgrove is an 80% shareholder in PT Fathi Resources Pte Ltd held IUP 322, covering nearly 490km^2 or some 5% of the island of Sumba, up until November 2015, when the permit expired and Hillgrove has lodged an application to renew the IUP as a Produksi licence.

Hillgrove is responsible for the sole funding and management of all exploration and development activities, up to a decision to mine.

Sumba is something of a geological oddity, with its highly prospective basement island arc volcanic lithology being approximately 90 million years old: significantly older than similar island arc settings such as Newmont's Batu Hijau porphyry copper-gold mine on the nearby island of Sumbawa.

The island is covered in geologically recent marine sediments that effectively mask and preserve highly gold-prospective underlying volcanic units. Uplift of the island and subsequent erosion of this sedimentary cover has created windows through the sediment to the underlying volcanic lithology, where PT Fathi Resources had focused its exploration efforts.

Bird's Head Project

Hillgrove is an 80% shareholder in PT Akram Resources Pte Ltd which holds the IUP Eksplorasi 40/2010 (Izin Usaha Pertambangan) covering 220.0km^2 granted in March 2010 for seven years.

Hillgrove is responsible for the sole funding and management of all exploration and development activities up to a decision to mine.

The Bird's Head licence is located in north-western West Papua, Indonesia. The regional centre of Sorong, located approximately 130km to the southwest of the licence where a PT Akram office has been established, is supported by regular commercial air and sea services. The licence area is sparsely populated and covers areas ranging from the coast through to moderate elevations of around 2,500m within 40km of the coast.

Sustainability: Environment, Safety and Community

Hillgrove's Sustainability and Work Health & Safety Policies provide a strong, ethical foundation for our approach to health, safety, environment and community (HSEC) responsibilities. Supporting these policies, Hillgrove has implemented an Integrated Risk Management System (Kan-do) across our operations. The system incorporates a prioritised risk based approach and continual improvement framework, ensuring our HSEC policy objectives and legislative compliance are achieved.

To reduce the risks as low as reasonably practicable, the Kan-do system provides the appropriate safe systems of work, clearly outlined responsibilities and accountabilities, and a strong audit framework. Hillgrove has identified its Principal HSEC risks and implemented the appropriate control measures.

The Kan-do system is driven by effective leadership, the acceptance of individual responsibility and the promotion of a risk aware culture across its operations through the implementation of a Due Diligence Model. The Kan-do system is audited on an annual basis, and improvements are monitored through Hillgrove's Senior Leadership Team and the Audit and Risk Committee.

Prudent and environmentally responsible operational management at Kanmantoo has helped reduce our overall rehabilitation expenditure, while building our reputation with the community as a good neighbour and an ethical mining operator.

Progressive rehabilitation of the site has commenced and the Integrated Waste Landform (IWL) comprised of our waste rock and the tailings storage facility has seen considerable progress. The continued revegetation of the Mining Lease has seen further linkages of remnant woodland areas and enhancement of conserved remnant vegetation.

KAN-DO

Our attitude at Kanmantoo

The establishment of high quality native vegetation on adjacent land is assisting Hillgrove to return up to 10 hectares of high quality rehabilitated land to the community for every hectare of native vegetation we have disturbed. The establishment of this vegetation as a community asset is being integrated into a "Community Master Plan" to ensure real benefit back to the impacted community and the natural environment. We continue to produce and harvest native seed as well as conduct wild seed collection to ensure there are sufficient propagules to enable this important work.

Strategic community engagement continues utilising the long established Community Engagement Plan (2009). Regular reviews and modifications to the plan continue to ensure engagement of the community remains effective and productive.

We remain pro-active in meeting the ongoing challenges and impacts of our site through the use of real-time monitoring and alert systems focused on dust prevention and action and the blasting notification SMS system. There is however always room for improvement and as such we utilise working groups made up of community and committee members and regulators to drive actions and ideas to improve performance.

Mineral Resource and Ore Reserve Estimate

In October 2016 a Mineral Resource Estimate and Ore Reserve Estimate was announced for the Kanmantoo Copper Mine.

Kanmantoo Global Mineral Resource Estimate at 30 September 2016

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo Copper Mine, All Deposits	Measured	10.3	0.6	0.1	1.2	66
	Indicated	10.8	0.6	0.1	1.4	70
	Inferred	13.4	0.6	0.1	1.0	75
Total		**34.5**	**0.6**	**0.1**	**1.2**	**211**

Note: Economic cut-off grade is 0.20% Cu.

Kanmantoo Global Ore Reserve Estimate at 30 September 2016

Mine	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kanmantoo Copper Mine	Proved	7.1	0.6	0.08	1.1	44
	Probable	2.3	0.5	0.05	0.8	12
Total		**9.5**	**0.6**	**0.07**	**1.0**	**57**

Note: Economic cut-off grade is 0.20% Cu.

The 2016 Mineral Resource Estimate resulted in 34.5Mt at grades of 0.60% copper, 0.10g/t gold and 1.2g/t silver using a cut-off grade of 0.20% copper as outlined below, while the 2016 Ore Reserve Estimate increased by 5.4kt copper metal (or 10%), net of mining depletion since 30 June 2016.

Competent Person's Statement

The Ore Reserve and Mineral Resource estimates were prepared by Competent Persons in accordance with the JORC Code 2012. Further information on the Kanmantoo Mineral Resources and Ore Reserves is available in the Hillgrove Updated Mineral Resource and Ore Reserve Estimate released to the ASX on 18 October 2016, which is also available on the Hillgrove Resources website at www.hillgroveresources.com.au. Hillgrove Resources confirms that it is not aware of any new information or data that materially affects the information included in that market announcement and, in the case of estimates of Mineral Resources and Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Hillgrove Resources confirms that the form and context in which the findings of the Competent Persons (Peter Rolley and Michaela Wright in relation to the Mineral Resource estimates and Lachlan Wallace in relation to the Ore Reserve estimates) are presented, have not been materially modified from the original market announcement.

HILLGROVE RESOURCES

Financial Statements 31 December 2016

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These financial statements are the consolidated financial statements for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Hillgrove Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hillgrove Resources Limited
Ground Floor, 5-7 King William Road,
Unley, South Australia 5061

The financial statements were authorised for issue by the Directors on 31 March 2017. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investors' Centre on our website www.hillgroveresources.com.au

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Hillgrove Resources Limited (Hillgrove or the Company) and the entities it controlled during the 12 months ended 31 December 2016.

Principal Activities

Hillgrove Resources Limited is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on operating its flagship Kanmantoo Copper Mine and associated regional exploration targets, located less than 55km from Adelaide in South Australia.

The Kanmantoo Mine has been mined at the rate of up to 20 million tonnes per annum and has produced up to 20,000 tonnes of copper per annum. Annual export earnings are in a range of $110 million to $170 million per annum. Copper concentrate production from the Kanmantoo Copper Mine is sold to Freepoint Metals & Concentrates LLC under a 100% off take agreement.

Directors and Officers

The Directors and Officers of the Company at any time during the 12 month period or since the end of 31 December 2016 are:

Name/Qualifications	Experience and special responsibilities
The Hon. Dean Craig Brown, AO	**Independent Non-Executive Chairman / Chairman Nomination Committee**
Qualifications	*B.Rur.Sc.,Grad.Dip. Bus.Admin.,M.Rur.Sc., D.Sc.(Hon), FAICD*
Experience 	Former Premier and Minister of the South Australian Government and Member of South Australian Parliament from 1973-1985 and 1992-2006. Dean was also Deputy Premier and Leader of the Opposition during that time. He was a Director of AACM International Pty Ltd (1986-92), a Senior Agricultural Scientist, the Premier's Special Advisor on Drought (2007-11), a Director of the National Youth Mental Health Advisory Board (Headspace) (between 2006-09) and Chairman of InterMet Resources Limited between (2008-13). Dean undertakes corporate advisory consulting to a variety of companies and is also a Director of Scantech Limited (2007-), Chairman of the Playford Memorial Trust (member since 2008 and Chairman since 2011), a Director of Foodbank SA (2006-), a Director of Mission Australia (2012-), Chairman of Skills IQ and a member of several advisory Boards. Dean Chairs the Nomination and the Remuneration Committees and is a member of the Audit and Risk Committee. Appointed 1 September 2006.
Mr John Edwin Gooding	**Independent Non-Executive Director**
Qualifications	*Assoc Dip. Mining Eng., FIE Aust., F. Aus. IMM, MAICD*
Experience 	John is a Mining Engineer with over 40 years' experience in the resources industry. He has held executive management positions with CRA, Normandy Mining, MIM, Xstrata (CEO Xstrata Copper Australia), Ok Tedi Mining and Roche Mining. John has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia and internationally. He was the Managing Director and CEO of Highlands Pacific for nine and a half years until November 2016, and was a Board member of the PNG Chamber of Mines and Petroleum from 2009. He has recently accepted the position as Chairman of the Board for Kasbah Resources Ltd. John is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 31 May 2007.

Directors' Report *(cont.)*

Directors and Officers *(cont.)*

Name/Qualifications	Experience and special responsibilities
Mr Maurice William Loomes	**Non-Executive Director**
Qualifications	*B.Comm (Econ Hons), F.Fin.*
Experience 	Maurice has a Bachelor of Commerce (Econ Hons) and over 40 years' experience in investment analysis and strategy gained across many industries, including roles at Bain and Company, Industrial Equity Limited, Westmex Limited, Guinness Peat Group PLC and many others. He has also held numerous directorships of public companies including CIC Australia Limited (1994-2013), Guinness Peat Group PLC (1996-2000) and Tower Limited (2003-2005). Maurice is currently a Non-Executive Director of Ariadne Australia Limited (2004-) (a significant shareholder of Hillgrove Resources) and was formerly a Non-Executive Director of Calliden Group Ltd from 2000-2014. Maurice is a member of the Remuneration, Audit and Risk and Nomination Committees. Appointed 25 November 2013.
Mr Philip Baker	**Independent Non-Executive Director**
Qualifications	*CPA, MAICD, BBus, PGDipBA*
Experience 	Phil is a Certified Practising Accountant with over 36 years in the mining industry. He started with MIM Holdings in 1980 undertaking various roles before leading the development and construction of the Ernest Henry copper/gold mine from 1995-97, and then responsible for the copper refinery and other operations in north Queensland. He became Group Treasurer and later EGM - Strategy, Planning and Development, before leaving MIM in 2003. Phil was then CFO and Company Secretary at Peplin Limited and later QMAG Limited before joining Lihir Gold Limited in 2007 as CFO, serving as CEO for three months in 2010 before the takeover by Newcrest Ltd. After a period consulting to the resources industry, Phil joined Rio Tinto in 2012 as CFO of Pacific Aluminium to help prepare it for divestment, leaving in late 2013 when it was reintegrated into Rio Tinto Alcan. Phil is a member of the Remuneration and Nomination Committees and Chairs the Audit and Risk Committee. Appointed 29 October 2014.
Mr Steven McClare	**Chief Executive Officer and Managing Director**
Qualifications	*BEng (Mining Hons), M.Aus.IMM*
Experience 	Steve joined Hillgrove in September 2012 as the General Manager Operations at the Kanmantoo Copper Mine and in May 2015 he was promoted to Chief Executive Officer and Managing Director. Previously the Deputy General Manager, then Head of Mining Operations for Newcrest Mining's Cadia Valley Operations, Steve has spent a significant portion of his career constructing, ramping up and optimising mining operations, including Telfer, Cadia Hill, Ridgeway Deeps and Cadia East for Newcrest, and Callie for Newmont. With a background that includes management of Normandy's White Devil Mine, and also various roles within Mount Isa Mines and a work/study Mining Engineering Cadetship with Western Collieries when he joined the industry in 1989. Steve boasts significant experience within industry ranging from underground operations to 150ktpa to 26mtpa, to open pit operations of 2mtpa to 24mtpa. Steve is a member of the Treasury Committee. Appointed 27 May 2015.
Mr Paul Kiley	**Chief Financial Officer & Company Secretary**
Qualifications	*B.Ec, CPA*
Experience 	Paul has over thirty years of experience in the mining, oil and gas industries. He spent 13 years with Newmont (and previously Normandy) in a number of executive roles including Director for Corporate Development for Newmont's Asia Pacific region and the Group Risk Manager. He also spent six years in senior roles with Occidental Oil & Gas, working in both Australia and the United States of America. Paul is also an independent non-executive director of Sipa Resources Limited. Paul is a member of the Treasury Committee. Appointed 12 June 2015.

Directors' Report *(cont.)*

Directors and Officers *(cont.)*

Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the twelve month period are:

Meetings Held	Board		Remuneration Committee		Audit Committee		Nomination Committee		Treasury Committee	
Director	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*	*A*	*B*
Hon. D C Brown, AO	41	41	4	4	3	3	1	1	-	-
Mr J E Gooding	41	40	4	4	3	3	1	1	-	-
Mr M W Loomes	41	38	4	4	3	3	1	1	-	-
Mr P Baker	41	41	4	4	3	3	1	1	0	0
Mr S P McClare	41	40	4	4	3	3	1	1	0	0

A – Number of meetings held during the Directors time in office

B – Number of meetings attended

In March 2016, the Company announced it was adopting a revised life of mine plan which would result in the deferral of near term metal production. This deferral coupled with the need to continue the pre-strip and cut-back of the Giant pit meant the Company was likely to face a cash shortfall in 2016 and 2017 at the then, current performance levels and commodity prices, unless cost-reduction measures were implemented to improve the cashflow from operations.

The Board agreed a process to address these anticipated cashflow shortfalls, including a range of measures which would be implemented to reduce costs and generate proceeds from asset sales.

The management of cash throughout the remainder of 2016 required close monitoring by the Board and resulted in a high number of Board meetings.

Following the March 2016 announcement, the Company's financiers would not allow any hedging activity (either closing out existing copper hedging, nor allowing additional copper hedging to be put in place). As the management of the hedging programme was the principal function of the Treasury Committee, the two scheduled Treasury Committee meetings for 2016, were cancelled.

The Treasury Committee members include Mr P Baker, Mr S McClare, Mr P Kiley and Mr J Sutanto.

Results for announcement to the market

Revenue from ordinary activities	**$113.1m**	CY15: $139.5m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	**($109.1m)**	CY15: ($130.1m) restated [1]
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	**($109.1m)**	CY15: ($130.1m) restated [1]

1 *Restatement: the financial statements for CY15 have been restated to reflect the inclusion of an accounting liability for a contractor rate variation estimated at $2.8 million. Further details are in the note 1(a) to the financial statements.*

Review of consolidated financial results

Revenue from the sale of concentrate (including realised hedging gains) decreased from $139.5 million in 2015 to $113.1 million in 2016. Total concentrate sold in 2016 was 60,213 dry tonnes (CY15: 75,028 tonnes) at an average realised price of AUD $7,327 per tonne of payable copper (CY15: AUD $7,824 per tonne).

The volume of concentrate produced in 2016 was lower than the previous year because of the higher than normal waste stripping required to advance the Giant Pit cut-back. At times during the year, cash constraints limited the ability of the Company to mine at the desired volumes of waste and ore. However by late in the fourth quarter, with the benefit of new capital and improved copper prices, the Company was able to increase mining rates to 20,000 BCM's per day which it has been sustained into 2017. This mining rate will enable the Giant Pit cut-back to be completed by mid-2017.

Although revenue was lower in 2016, this was more than offset by lower cash costs of production. This is reflected in improvements to both EBITDA and operating activities cash flow from 2015, with cashflow from operating activities increasing from $12.7 million to $21.0 million. As this cash was used to fund the cutback development, capital expenditure rose from $21.6 million in 2015 to $28.3 million.

The loss after tax for CY16 of $109.1 million includes half year 30 June 2016 impairment write downs of Kanmantoo mine assets of $67.1 million and deferred tax assets of $19.2 million. No further impairment adjustments to the carrying value of assets were made at 31 December 2016.

During 2016, the Company has successfully completed a number of initiatives aimed at providing additional cash flow for the completion of the Giant Pit cut-back. These include a capital raising of approximately $5.0 million through a convertible note offer to all shareholders, the sale and leaseback of concentrate containers to the value of $2.5 million and securing a $4.0 million working capital loan provided by the South Australian Government.

In addition, the copper hedge book was cashed-out in August 2016 for $14.4 million which in addition to access to the restricted cash enabled the Company to fully repay the USD debt early. This restructure occurred before the sustained rise in copper prices, which by the end of 2016 would have negated the value of the hedge book. As a consequence, Hillgrove remained unhedged at a time when copper prices rose from a year low of around AUD $6,300 per tonne to AUD $7,602 at 31 December 2016.

Review of operations for the CY16 year and outlook

During the reporting period and particularly since March 2016 when the Consolidated Entity (Hillgrove) announced forecast cash shortfalls, Hillgrove has worked hard with employees, suppliers and other stakeholders to successfully implement a number of measures to restructure its balance sheet and to improve its liquidity.

These measures have included:

- A number of cost reduction/payment deferral initiatives, including a 10% salary deferral for all employees,
- The close out of the copper hedge book at a near year-low spot copper price of $6,300 per tonne which allowed the repayment of its US dollar debt to Freepoint subsidiary, Ventures Australia LLC,
- The replacement of Macquarie Bank's environmental rehabilitation performance bond with a bond from the South Australian Government which is secured against Hillgrove's assets,
- A $4.0 million working capital loan from the South Australian Government Financing Authority,
- A successful capital raising of $5.0 million through a convertible note offer to all shareholders (including free attaching options with an expiry date of September 2017), and
- The negotiation of significant cost savings and working capital improvements with the cooperation of the main mining contractors.

The balance sheet restructure has placed the Company on a significantly stronger financial footing with the Giant Pit pre-strip nearing completion and higher grade ore to be available from the middle of 2017. With over $60 million invested in the cutback of the Giant Pit, the Company will complete the final pre-stripping by the middle of 2017 and then should be in a position to generate significant free cash-flows over the remainder of the Life of Mine.

This will be driven by the strip ratio which will materially reduce in mid-2017 (percentage of waste moved decreases with depth) allowing enhanced cash generation and the accumulation of ore stockpiles which will increase operational flexibility and reliability and optimise the processing plant performance.

Directors' Report *(cont.)*

Review of operations for the CY16 year and outlook *(cont.)*

Kanmantoo Copper Mine Production Statistics

			CY15	Mar-16 Qtr	Jun-16 Qtr	Sep-16 Qtr	Dec-16 Qtr	CY16
			12 Mths	3 Mths	3 Mths	3 Mths	3 Mths	12 Mths
Ore to ROM from Pit		kt	3,290	665	595	700	878	**2,838**
Ore to long term stockpiles		kt	252	1	-	-	-	**1**
Mined Waste		kt	17,350	3,843	3,000	2,265	3,224	**12,332**
Total Tonnes Mined		kt	20,892	4,509	3,595	2,965	4,102	**15,171**
To ROM from LT Stockpiles		kt	784	427	-	-	-	**427**
Mining Grade to ROM		%	0.59	0.58	0.52	0.47	0.44	**0.50**
Ore Milled		kt	4,104	865	759	675	898	**3,197**
Milled Grade	- Cu	%	0.52	0.54	0.56	0.51	0.46	**0.52**
	- Au	g/t	0.11	0.32	0.20	0.19	0.14	**0.21**
Recovery	- Cu	%	80.3	72.6	78.8	91.0	91.4	**82.7**
	- Au	%	47.1	51.2	49.7	52.1	59.4	**52.7**
Cu Concentrate Produced		Dry mt	74,971	16,148	14,221	13,134	16,339	**59,842**
Concentrate Grade	- Cu	%	23.1	21.0	23.6	23.6	23.0	**22.8**
	- Au	g/t	2.8	8.8	5.3	5.2	4.4	**6.0**
Contained Metal in Concentrate								
- Cu		t	17,306	3,397	3,359	3,103	3,765	**13,624**
- Au		oz	6,790	4,587	2,428	2,187	2,316	**11,518**
- Ag		oz	114,399	29,828	23,569	22,598	28,047	**104,042**
Total Concentrate Sold		Dry mt	75,028	15,382	15,765	12,829	16,237	**60,213**

During 2016, Hillgrove achieved production of 59,842 tonnes of dry concentrate containing 13,624 tonnes of copper and 11,518 oz of gold from the Kanmantoo Copper Mine. Key operational aspects included:

- Ore processed was ahead of guidance at 3,197kt, (CY15: 4,104kt) but below CY15 due to lower ore production associated with constrained working areas, high strip ratios and low mining movements caused by working capital constraints.
- Nugent pit was backfilled and Emily pit was partially backfilled.

Mining unit costs increased from $11.27 per BCM in CY15 to $14.01 per BCM in CY16, as a direct result of declining productivity associated with the low mining movements. The highest cost period was in the third quarter but this position was reversed in the last quarter as capital funding eased cash constraints and the operation reverted to more productive mining sequencing.

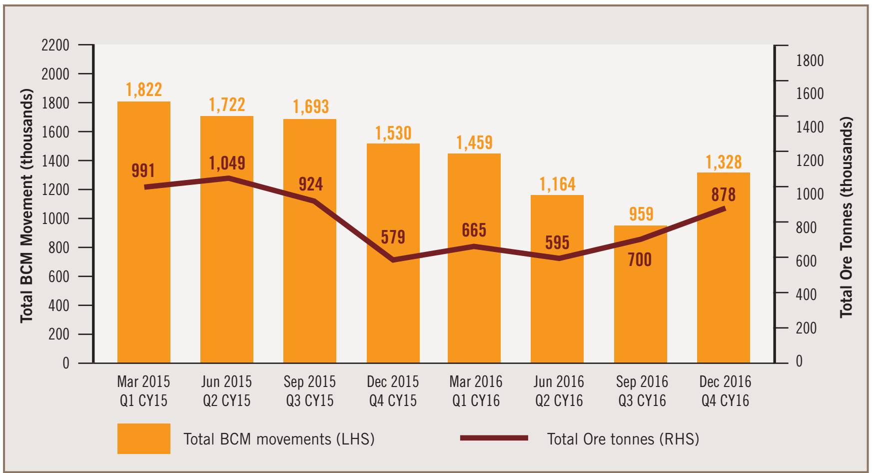
Mill throughput decreased 22%, and processing unit costs increased from $5.99 per tonne in CY15 to $6.98 per tonne in CY16. This was predominantly due to processing harder primary ore and a lack of ore feed from mine output and depleted ore stockpiles which led to lower processing rates and higher unit costs associated with lower economies of scale.

The majority of capital expenditure was represented by the $23.7 million spent on pre-strip capitalisation (where the strip ratio exceeds 10:1) in respect of the Giant Pit cut-back.

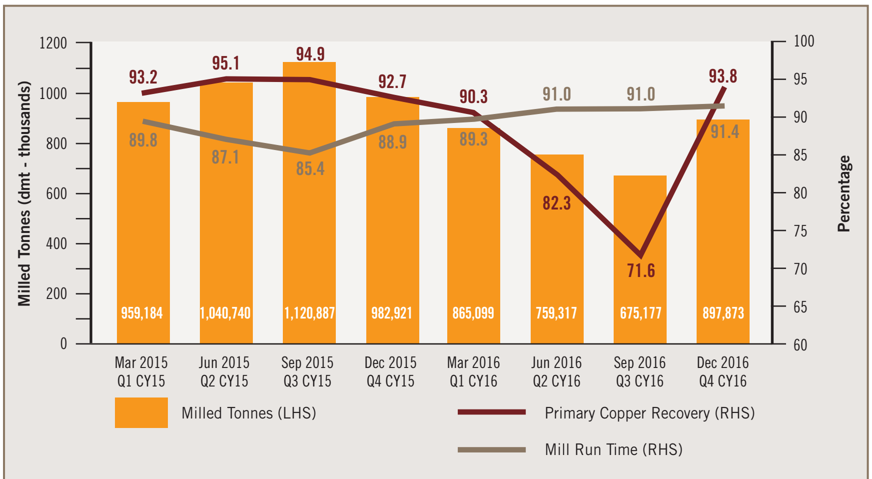
The C1 cash cost for CY16 was US$1.73/lb (CY15: US$2.11/lb) which was lower than guidance.

Review of operations for the CY16 year and outlook (cont.)

Kanmantoo Copper Mine Performance



Kanmantoo Quarterly Milled Tonnes, Copper Recovery (%) and Mill Run Time (%)



Exploration Programme

Expenditure on exploration was reduced during the year and efforts concentrated on assessing the data accumulated in previous years. This assessment has allowed targets to be prioritised and modest expenditure is budgeted to recommence in the second half of 2017. The intent is to focus on near mine extensions and regional targets within trucking distance of the existing infrastructure at Kanmantoo.

Indonesia

The focus on Kanmantoo operations has meant the Company's Indonesian advanced exploration projects at Bird's Head in West Papua and Sumba Island are no longer considered core assets. Hillgrove believes there is inherent value in these assets and continues to receive enquires from interested parties.

Directors' Report *(cont.)*

Review of operations for the CY16 year and outlook *(cont.)*

Statement of profit or loss

$million	12 months to 31 Dec 2016	12 months to 31 Dec 2015 (restated)	Change
TOTAL REVENUE	**113.1**	**139.5**	**(26.4)**
Cash costs of production			
Mining	**(73.6)**	(81.7)	8.1
Pre-strip and deferral	**32.8**	32.3	0.5
Processing	**(22.3)**	(24.6)	2.3
Transport and shipping	**(5.0)**	(6.4)	1.4
Treatment and refining	**(12.4)**	(17.9)	5.5
Other direct costs	**(5.8)**	(7.9)	2.1
Inventory movements and NRV write downs	**(1.0)**	(9.5)	8.5
Royalties	**(1.3)**	(1.6)	0.3
Corporate costs	**(4.1)**	(4.3)	0.2
Gain/(loss) on disposal of assets	**0.1**	(0.5)	0.6
Other income	**0.5**	0.2	0.3
Net foreign exchange gain/(loss) realised	**1.2**	(1.5)	2.7
TOTAL CASH COSTS OF PRODUCTION	**(90.9)**	**(123.4)**	**32.5**
UNDERLYING EBITDA	**22.2**	**16.1**	**6.1**
Depreciation and amortisation	**(46.1)**	(36.4)	(9.7)
Net foreign exchange gain/(loss) unrealised	**-**	(1.0)	1.0
UNDERLYING EBIT	**(23.9)**	**(21.3)**	**(2.6)**
Net interest and financing charges	**(4.2)**	(3.9)	(0.3)
Income tax (expense)/benefit	**(13.9)**	8.0	(21.9)
UNDERLYING NPAT	**(42.0)**	**(17.2)**	**(24.8)**
Non-underlying items, net of tax	**(67.1)**	(112.9)	45.8
Reported net profit/(loss) after tax	**(109.1)**	**(130.1)**	**21.0**
Non-underlying Items			
Impairment - long term stockpiles write down	**-**	(11.8)	11.8
Impairment - Indonesian exploration write down	**-**	(29.9)	29.9
Impairment - Australian exploration write down	**-**	(1.4)	1.4
Impairment - Kanmantoo assets write down	**(67.1)**	(69.8)	2.7
Total Non-underlying Items	**(67.1)**	**(112.9)**	**45.8**

For the year ended 31 December 2016, the net loss after tax was $109.1 million compared to a net loss after tax of $130.1 million for the year ended 31 December 2015. The net losses after tax are predominantly due to the inclusion of non-cash asset impairment charges from the first half of 2016 which arose as a result of consensus forecast lower future commodity prices.

In addition, at 30 June 2016 there was a $19.2 million write down of deferred tax assets. Before the impairment charges, the result for 2016 was a net EBIT loss of $23.9 million compared to a net EBIT loss of $21.3 million in 2015. Depreciation in CY16 was $9.7 million higher with the change in the useful life estimation of the tailings storage facility. With non-cash depreciation added back, underlying EBITDA in 2016 improved by $6.1 million to $22.2 million.

Revenue for the 12 months to 31 December 2016 was $113.1 million (CY15: $139.5 million). The drop was primarily due to copper production decreasing from 17,306 tonnes in CY15 to 13,624 tonnes in CY16 and the realised copper price of $3.55/lb in CY15 compared to $3.30/lb in CY16. Cash production costs were $32.5 million lower in CY16, more than offsetting the lower revenue.

During the period, 60,213 tonnes of dry concentrate containing 13,002 tonnes of payable copper was sold from the Kanmantoo Copper Mine (CY15: 75,028t / 16,132t) supplemented by the production of 11,518oz of gold (CY15 6,790oz).

At 30 June 2016 there was an impairment charge of $67.1 million reducing the carrying value of the Kanmantoo mine assets to $61.4 million. Since then, the Company announced a revised Mineral Resource and Reserve Statement which added 5,400 copper tonnes, net of depletion. In addition, the copper price has staged a recovery late in the year which has continued into 2017.

Applying methodology consistent with that used at June 2016, the calculated recoverable amount as at 31 December 2016 comfortably exceeds the carrying value in line with the AUD copper price sensitivities noted in the accounts for the half year ended 30 June 2016, where a 5% change to June 2016 AUD copper prices would result in a change in the recoverable amount of approximately $18 million.

Review of operations for the CY16 year and outlook *(cont.)*

Statement of profit or loss *(cont.)*

Notwithstanding the decision to not write back past impairment charges at this time, it follows that the carrying values of Hillgrove fixed assets as at 31 December 2016 are more reflective of the forward consensus prices and exchange rate used to assess impairment at 30 June 2016 (refer note 6 (c)).

Cash flow Overview

Operating activities cash flow

$ million	12 months to 31 Dec 2016	12 months to 31 Dec 2015	Change
Receipts from customers	**97.3**	119.4	(22.1)
Payment to suppliers, employees and contractors	**(76.3)**	(106.7)	30.4
Net cash inflows from operating activities	**21.0**	**12.7**	**8.3**

Net cash inflows from operating activities for the 12 months ended 31 December 2016 were $21.0m compared with $12.7m in CY15. The decrease in customer receipts is driven by the reduced copper production which was more than offset by lower cash costs of production. The balance sheet restructure initiatives and support from key stakeholders helped to increase the overall cash inflow from operating activities.

Investing activities cash flow

$ million	12 months to 31 Dec 2016	12 months to 31 Dec 2015	Change
Payments for exploration activities	**(0.4)**	(1.0)	0.6
Payments for property, plant and equipment	**(28.3)**	(21.6)	(6.7)
Proceeds on sale of plant and equipment	**0.6**	0.7	(0.1)
Net cash inflows from investing activities	**(28.1)**	**(21.9)**	**(6.2)**

Cash flows from investing activities amounted to an outflow of $28.1m in CY16 compared to an outflow of $21.9m in CY15. The increase is largely due to the increase in capitalised pre-strip in the year (CY16 - $23.7 / CY15 - $18.1m).

Financing activities cash flow

$ million	12 months to 31 Dec 2016	12 months to 31 Dec 2015	Change
Proceeds from early termination of derivatives	**14.4**	-	14.4
Net proceeds from issue of shares	**-**	9.2	(9.2)
Repayment of borrowings	**(18.4)**	(18.0)	(0.4)
Proceeds from new borrowings (net of costs)	**8.5**	17.2	(8.7)
Net interest paid	**(1.6)**	(1.9)	0.3
Net cash inflows from financing activities	**2.9**	**6.5**	**(3.6)**

The early close out of the hedge book in August 2016 generated $14.4 million which, along with access to the restricted cash, was used to fully repay the USD debt from Freepoint subsidiary Ventures Australia LLC.

A $4.0 million loan from the South Australian Government was drawn down in June 2016 and in December 2016 $5.0 million of convertible notes were issued to shareholders.

Statement of Financial Position

Cash and cash equivalents at 31 December 2016 of $1.9 million had reduced by $4.2 million from the 31 December 2015 balance of $6.1 million. During the year the repayment of the USD loan (see below) removed the requirement to retain restricted cash of $5.5 million. As a consequence of raising debt in December 2016, the Company was required to cash-back the bond to Electranet for the power transmission infrastructure at Kanmantoo to the value of $1.6 million which was shown as restricted cash.

Trade and other receivables increased by $0.5 million principally due to the accounting treatment of the container sale and leaseback transaction with Flinders Ports.

The value of inventories decreased by $1.9 million from $6.9 million to $5.0 million at 31 December 2016. This is because of lower holdings of ROM stocks and finished goods at port ($0.9 million), reduced levels of spares ($0.5 million) and the processing of the remaining value of long-term stockpiles ($0.5 million).

The hedge book was closed out during the year and therefore the mark to market values of derivatives shown in current and non-current assets at 31 December 2015 no longer exist on the balance sheet.

During the year, the carrying value of property, plant and equipment decreased by $78.5 million to $67.1 million. This is a result of impairment charges of $67.1 million, depreciation of $45.6 million, disposals of $2.5 million offset by capital additions of $36.6 million which mainly relate to pre-strip of the Giant pit cut-back.

Directors' Report *(cont.)*

Review of operations for the CY16 year and outlook *(cont.)*

Statement of Financial Position *(cont.)*

The carrying value of the net deferred tax assets decreased from $15.6 million to $4.9 million as a result of an impairment charge taken at half year in June.

Trade and other payables increased by $2.2 million over and above the $2.8 million restatement adjustment to the 2015 balance with the recognition of the deferred rate liability to AEM, otherwise the balance was largely unchanged.

Current and non-current provisions have increased by $2.4 million in aggregate over the year due to the introduction of a provision to cover expected losses on provisionally-invoiced shipments of copper and the unwind of the Kanmantoo rehabilitation provision.

Total borrowings (current and non-current) as at 31 December 2016 were $13.4 million, compared to $18.9 million at 31 December 2015. The overall reduction reflects the repayment of USD denominated loan (AUD18.4 million) from the cash generated by closing out the hedge book and access to the restricted cash. New financing arrangements put in place during 2016 included the conversion of two mine contractors creditor balances into debt ($3.9 million), a loan from the South Australian Government ($4.0 million) and the issue of convertible notes ($5.0 million less $0.6 million transaction costs).

Employee benefits payable (both current and non-current) have increased from $2.5 million at December 2015 to $3.7 million at December 2016. The increase is mainly due to accumulated salary deferrals, which are due to be commence repayment from December 2017. There has also been an increase in eligible long service leave provisions particularly as the Kanmantoo mine approaches its sixth year of production.

For the year ended 31 December 2016, total equity decreased by $114.9 million reflecting the loss for the year of $109.1 million, a $1.3 million increase in issued capital and a $7.1 million decrease in reserves mainly relating to the recycling through profit and loss of deferred hedging gains. Issued capital increased by $1.3 million as a result of shares issues in lieu of creditor balances.

Guidance

The guidance Hillgrove provided in February 2016 was revised in March 2016 with the release of the 2015 Annual Report. The Company's actual performance against its revised 2016 guidance is summarised in the table below.

CY16	Guidance	Actuals Achieved
Ore Mined	2,500kt - 2,700kt	**2,838kt**
Ore Processed	2,850kt - 3,050kt	**3,197kt**
Copper contained in concentrates produced	14,500kt - 16,500t	**13,624t**
Gold contained in concentrates produced	8,000oz - 10,000oz	**11,518oz**
Copper equivalents in concentrates produced	16,500t to 19,000t	**16,505t**
C1 Costs	US$1.85 - $2.15 per lb	**US$1.73 per lb**
Capital Projects (excludes pre-strip)*	$1.0M - $1.4M	**$3.8M**

** In addition to the capital projects, $23.7 million of pre-strip was completed.*

Copper produced was below guidance and gold produced was above guidance, with production on a copper equivalents basis at the lower end of guidance.

Life of Mine Plan and Outlook for 2017

In February 2016 Hillgrove re-optimised its geological model and has since outperformed against it. The key to 2017 remains removing or managing the liquidity constraints to enable the step change in mining productivity, which has been achieved post the convertible note capital raising, to be sustained. Completion of the Giant cutback by mid-2017 allows unit costs to be reduced, stockpiles of ore to be built and transitions the operation into a period of cash generation.

With an increased mining rate, lower unit costs in both mining and processing, a robust geological model, minimal further capital requirements and a favourable outlook for commodity prices, there is potential to create significant value for shareholders.

The company provides the following guidance for the current Financial Year ending 31 December 2017 (CY17) for the Kanmantoo Copper Mine:

- Copper produced — 18,000t to 20,000t copper contained in concentrates
- Gold produced — 5,500oz to 7,500oz gold contained in concentrates
- C1 Costs — US$1.75 to US$2.05 per lb (at a 0.75 exchange rate)
- Capital Projects (excl. pre-strip) — $1.8 million to $2.5 million

Review of operations for the CY16 year and outlook (cont.)

Guidance (cont.)

Life of Mine Plan and Outlook for 2017 (cont.)

In addition to the above forecast capital expenditure, Hillgrove plans to complete capital development in the Giant Pit for $4.2 million in CY17 (pre-strip and deferred mining), significantly lower than the $32.8 million spent on pre-strip and deferred mining in CY16.

The 2017 financial year will be one of step change, with copper production forecast to be significantly higher than the previous year as higher grade ore is made available for processing and stockpiled ore adds to resilience following the completion of the Giant Pit cut back, leading to strong cash generation.

Environmental Regulation

The consolidated entity's operations are subject to significant environmental and other regulations. The consolidated entity has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration and development activities. There have been no reports of material breaches of environmental regulations in the financial period and at the date of this report.

Risks

The Company currently has a single operation asset, the Kanmantoo Copper Mine in South Australia. The operation provides the Company with all of its income. The operation consists of an open pit mine and processing plant located close to regional communities. Concentrate is transported by road in containers to the Port of Adelaide and then loaded onto ship via the port rotainer operation.

The concentrate is then shipped to the receiver, typically located in China. Should any of these elements be subject to failure, the Company's expected financial result could be impacted.

The Company's annual budget and related mine plans and production and operation outcomes are subject to a range of assumptions and expectations, all of which contain a level of uncertainty and therefore risk. The Company adopts a risk management framework in order to identify, analyse, treat and monitor the risks applicable to the Group. The risks are formally reported and discussed by the Executive on a regular basis and with the Board and Audit and Risk Committee twice a year.

The prices received for the Company's commodities (copper, gold and silver) are dictated by global markets over which Hillgrove and its offtake partner, Freepoint Commodities LLC, have no influence.

Following the Company's decision to close out the hedge book (at near copper price lows for 2016) the Company did not have copper hedging lines in place at balance date. However, since then as a result of the Company's improving financial position and credit worthiness, and to capitalise on an increasing copper price it has been able to resume hedging with 2,000 tonnes of copper hedging (at an average price after margins of A$7,510) in place along with orders for a further 2,000 tonnes. This hedging allows the Company to mitigate copper price and exchange rate risk on revenues until late June 2017.

Capital Raisings

In December 2016, the Company raised approximately $5.0 million (before transaction costs of $0.6 million), through the issue of 5.0 million redeemable, convertible notes (Notes) at a price of $1.00 per Note on the basis of 1 Note for every 37.62 Shares held (together with 37.62 free attaching Options for every 1 Note subscribed for and issued).

The Notes can be converted to Shares based on a formula with a maximum conversion price of $0.03. The Options are exercisable at $0.03 each and will expire on 20 September 2017. The Options, if exercised, will raise up to a further $5.4 million in additional funds.

In the prior year, the Company raised $10.08 million, as part of the refinancing package, through a non-renounceable entitlement issue on a 3 for 11 basis, which resulted in the issue of 40,310,719 shares at 25.0 cents.

Dividends

There were no dividends declared or paid during the current period or in the prior year.

Significant Changes in the State of Affairs

Other than those matters listed in this report there have been no significant changes in the affairs of the Group during the period.

Review of operations for the CY16 year and outlook *(cont.)*

Events Subsequent to Reporting Date

Since the Balance Date the Company has successfully completed the following cash management initiatives which will improve the Company's liquidity during the first half of 2017.

New mining rates and payment terms

On 16 March 2017, lodgement of the Federal Court approved documentation made the third-party merger (Emeco Transaction) with the Company's mining fleet contractor Andy's Earthmovers (Asia Pacific) Pty Ltd (AEM) legally binding and effective. As a result completion of the revised contract terms with AEM and the Company will be 31 March 2017, including:

- All monies owing to AEM as at 31 March 2017 will be deferred and paid on the previously agreed and advised payment plan with first repayment occurring in November 2017 and the last payment in June 2018.
- The Company will now receive substantially discounted charge rates for the period commencing November 2016 through to September 2019, lowering future cash costs at the Kanmantoo mine;
- An amount of $5.3 million recognised as a liability as at 31 December 2016, will be reduced by an estimated $4.1 million being the discount earned from November 2016 to March 2017, and
- The Company will be effectively treated as a new account with the next payment to AEM for the April 2017 invoice due in mid-June 2017, with the payment holiday improving the Company's cash position over that time.

PetroBond

On 20 March 2017, the Company negotiated a $2.7 million PetroBond which will allow it to return to normal creditor terms with its fuel supplier instead of paying cash up front. The bond is secured and constitutes a 'Permitted New Debt' under Note Terms included in the Prospectus.

Electranet bond

In February 2017, the Company replaced the $1.64 million Electranet security bond, for electricity infrastructure and transmission services, with a bond from Swiss Re, which unlike the previous bond does not require cash backing by the Company. This has improved the Company's available cash by $1.64 million.

Hedging

In March 2107 the Company was able to take advantage of its improving financial position and credit worthiness, and capitalise on prevailing higher copper prices, by hedging 2,000 tonnes of copper at an average price after margins of AUD $7,510. This will mitigate copper price and exchange rate risk on revenues until mid-May 2017. Hedging for an additional 2,000 tonnes is available.

Operations

The step change in operational performance which occurred from mid-December 2016 has been sustained to the end of February 2017. The performance in early March was impacted by a mid-life rebuild on the primary excavator. The rebuild was completed in mid-March and mining rates have returned to pre-rebuild rates.

Indemnification and Insurance of Officers

Officers' Indemnity

Article 7.3(a) of the Company's Constitution provides that "To the extent permitted by law, the Company must indemnify each Relevant Officer against: (i) a Liability of that person; and (ii) Legal Costs of that person". The Company indemnifies every officer against any liability or costs and expenses incurred by the person in his or her capacity as officer of the Company:

- in defending any proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or
- in connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Law.

Directors' and Officers' Insurance

During the financial year, the Company paid a premium in respect of a contract for directors' and officers' liability insurance. It is a condition of this Policy that each Insured and/or any persons at their direction or on their behalf shall not disclose the existence of any Coverage Section, its Limits of Liability, the nature of the liability indemnified, or the premium payable.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (Deloitte Touche Tohmatsu) for audit and non-audit services provided during the period are set out in Note 6.

The Audit and Risk Committee has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

None of the services provided undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards. A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 34.

The Board is committed to following ASX Corporate Governance Council Corporate Governance Principles and Recommendations. The Company adopts these best practice recommendations in its policies and procedures where it is appropriate to do so, given the size and type of Company and its operations.

The Board has a process of reviewing all policies and corporate governance processes. Charters are reviewed and updated periodically. These charters provide the framework and roles of respective committees for the appointment of Non-Executive Directors to undertake specific responsibilities on behalf of the Board.

Details of the corporate governance policies adopted by the Company and referred to in this statement are available on the Company's website at www.hillgroveresources.com.au.

Remuneration Report (audited)

The Directors of Hillgrove Resources and its Consolidated Entities present the Remuneration Report for the Company for the year ended 31 December 2016, which forms part of the director's report and has been audited in accordance with section 308 (3C) of the *Corporations Act 2001*.

During the year a number of remuneration related, cost reduction decisions were implemented to assist the Company to address the cash constraints it faced, including:

- Continuing the pay freeze which was instituted in 2014, with salaries remaining at 2013 levels;
- Further reducing these 2013 salaries when all staff agreed to a 10% salary deferral from May 2016 to December 2017;
- Not granting any Short Term Incentives (STI's) during 2016, and;
- Reducing staff through natural attrition and absorbing their roles into remaining roles where possible.

1.0 Key Management Personnel

Key management personnel comprise the Non-Executive Directors, the Executive Director and Executivesl (KMP). Details of the KMP are set out in the table below.

Non-executive Directors	Title (at year end)	Change in 2016 Financial Year
The Hon. Dean Brown, AO	Chairman Chairman Remuneration Committee Member Audit and Risk Committee Chairman Nomination Committee	Full Year
Mr J E Gooding	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Full Year
Mr M W Loomes (Non-independent)	Director Member Remuneration Committee Member Audit and Risk Committee Member Nomination Committee	Full Year
Mr P Baker	Director Chairman Audit and Risk Committee Member Remuneration Committee Member Nomination Committee	Full Year
Executive Directors		
Mr S P McClare	CEO and Managing Director Member Treasury Committee	Full Year
KMP Executives		
Mr P Kiley	Chief Financial Officer and Company Secretary Member Treasury Committee	Full Year
Mr L Wallace	General Manager, Kanmantoo	Full Year

Key Management Departures during the 2016 Financial Year

There were no Key Management Personnel departures during the 2016 Financial Year.

Remuneration Report (audited) (cont.)

2.0 Role of the Board and the Remuneration Committee

The Board is responsible for the Company's remuneration strategy and policy. Consistent with this responsibility, the Board has established a Remuneration Committee which comprises a majority of independent non-executive Directors.

The role of the Remuneration Committee is set out in its Charter and in summary is to:

- Review and approve the Company's remuneration strategy and policy;
- Consider and propose to the Board the remuneration of the CEO and consider and approve the remuneration of all designated senior executives;
- Review and approve Hillgrove Resources' short term incentive (STI) and long term incentive (LTI) schemes, including amounts, terms and offer processes and procedures;
- Determine and approve equity awards in accordance with policy and shareholder approvals, including testing of vesting and termination provisions; and
- Review and make recommendations to the Board regarding remuneration of Non-Executive Directors.

Further information on the Remuneration Committee's role, responsibilities and membership is contained in the Corporate Governance Statement which is available on the Company's website www.hillgroveresources.com.au.

2.1 Remuneration and Benefits Policy

The Company's approach to remuneration is outlined in our Remuneration and Benefits Policy and is based on providing competitive rewards that motivate talented employees to deliver superior results.

The Remuneration and Benefits policy aims to:

- Align employee remuneration to the principles and measurement of Total Shareholder Return (TSR);
- Present progressive incentive structures to encourage outstanding performance, and hence improved TSR;
- Mitigate the business risks associated with poor performance, market movements and employee turnover.

The Remuneration Committee Charter and Remuneration and Benefits Policy can be viewed in the Corporate Governance section of the Company's website www.hillgroveresources.com.au.

2.2 Use of Remuneration Consultants

During the year no remuneration consultancy contracts were entered into by the Company and no disclosure is required under section 300A (1) (h) of the *Corporations Act 2001.*

3.0 Non-executive Director Remuneration

Elements	Details	
Aggregate Board and Committee Fees	The total amount of fees paid to non-executive directors in the year ended 31 December 2016 is within the aggregate amount approved by shareholders at the AGM in 2009 of $450,000 a year. The individual amounts paid to directors have not increased since January 2011 (1).	
Board/Committee fees per annum*	Board Chairman Fee	$120,000 (1)
	Board NED Base Fee	$60,000 (1)
Post-employment Benefits	**Details**	
Superannuation	Superannuation contributions are made at a rate of 9.5% of base fee (but only up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. Contributions are included in the base fee.	
Other Benefits	**Details**	
Equity Instruments	Non-Executive directors do not receive any performance related remuneration or performance rights.	
Other fees/benefits	No payments were made to non-executive directors during the 2016 financial year for extra services or special exertions. Directors are entitled to be reimbursed for approved Company related expenditure e.g. flights and airfares to attend Board meetings.	

(1) *Effective 1 December 2015, the Board agreed to a temporary 20% fee reduction in the light of the economic conditions and low commodity price environment, which reduced the Chairman's fee from $150,000 to $120,000 and the NED fee from $75,000 to $60,000. The fee reduction was a voluntary initiative put in place by the directors. Director's fees will revert to the pre-reduction fees once the Giant Pit cutback is completed (expected to be in mid-2017).*

* *Fees include all committee memberships with no extra payments made for committee memberships.*

Remuneration Report (audited) *(cont.)*

4.0 Executive Remuneration

4.1 Executive KMP Remuneration Framework

Hillgrove Resources' executive remuneration strategy is designed to attract, retain and motivate a highly qualified and experienced group of executives. The Company has reduced its Executive and Corporate team size over the past years, resulting in the remaining smaller team undertaking much broader roles.

4.2 Total Fixed Remuneration

Total Fixed Remuneration (TFR) includes all remuneration and benefits paid to an Executive KMP calculated on a Total Employment Cost (TEC) basis and includes base salary and superannuation benefits paid in line with the prevailing statutory Superannuation Guarantee legislation.

There has been no increases in TFR during the last three years and salaries have remained at 2013 levels. In May 2016 given the Company's cashflow position was forecast to be very tight throughout the remainder of 2016 and continue into 2017. All Hillgrove employees agreed to defer 10% of their salaries from 19 May 2016 until 1 December 2017, when the deferred amounts will be progressively repaid to all employees.

4.3 Remuneration Composition Mix and timing of receipt

The Company endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and 'at risk'. The broad remuneration composition mix of the Company's Executive KMP can be illustrated as follows:

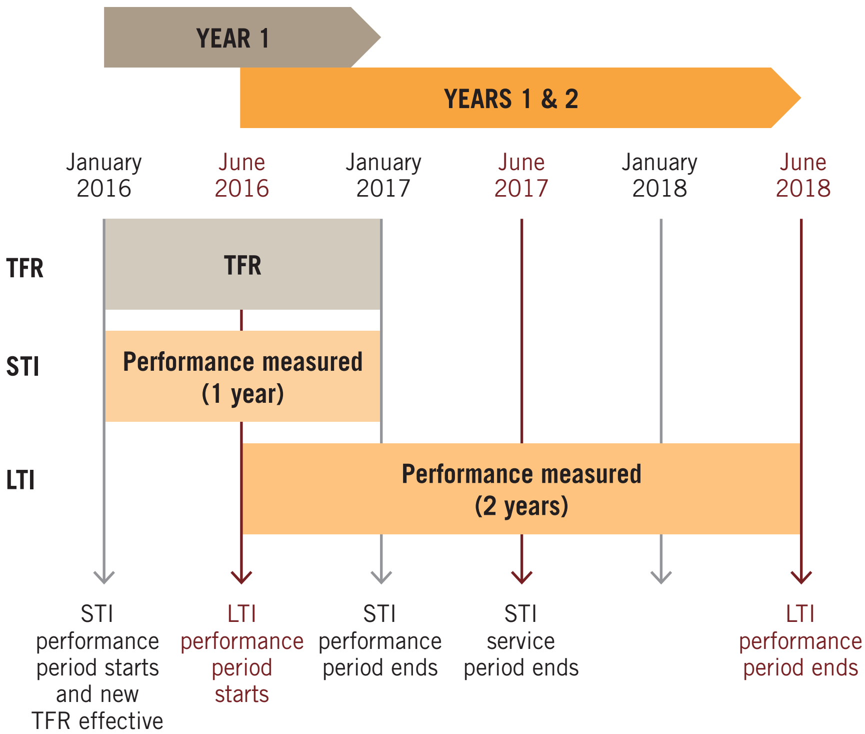
Remuneration Mix (Actual) CY 2016

Position	TFR (Cash)	STI (Cash) [1]	LTI (Equity)
CEO/MD	100%	Up to 60% of TFR	Up to 60% of TFR
Senior Executives (KMP)	100%	Up to 50% of TFR	Up to 50% of TFR

(1) Note no STI's were offered or paid in 2016

Note KMPs are classified as Executives for the purposes of remuneration disclosures under the Corporations Act.

The three complementary components of Executive KMP remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart.



4.4 Variable 'at risk' remuneration

As set out in the Section 4.3, variable remuneration forms a portion of the CEO/MD and other Executive KMP remuneration opportunity. Apart from being market competitive the purpose of variable remuneration is to direct executive's behaviours towards maximising Hillgrove Resources' value and return to shareholders, by targeting short, medium and long term performance measures. The key aspects are summarised below.

Remuneration Report (audited) (cont.)

4.4.1 Long Term Incentives (LTI)

The LTI provides an annual opportunity for selected executives and key staff to receive an equity award with a two year vesting period and that is intended to align a significant portion of an executive's overall remuneration to shareholder value over the longer term. All LTI awards remain at risk and subject to claw back (forfeiture or lapse) until vesting and must meet or exceed relative TSR performance hurdles over the vesting period, along with other performance criteria.

Long Term Incentives (LTI)		
Purpose	To retain key executives and align their remuneration with shareholder value.	
Types of equity awarded	LTI has been provided under the Company's Executive Long Term Incentive Plan. See Section 5.1 for further details. Under the LTI selected senior executives and key staff are offered performance rights (to acquire ordinary shares of Hillgrove Resources Limited).	
Time of grant	In 2017 equity grants will be made after the 2017 AGM.	
Time restrictions	Equity grants awarded to the CEO/MD and other KMPs are tested against the performance hurdles at the vesting date which is two years after the grant date. If the performance hurdles are not met at the vesting date, performance rights lapse, subject to Board evaluation. A service and performance requirement is imposed on all equity grants.	
Performance hurdles and vesting schedule	Equity grants were made in 2016 and were subject to the Company's Total Shareholder Return (TSR) ranked against the S&P/ASX Small Resources Index as follows:	
	Ranking of TSR Against S&P/ASX Small Resources Index (2 Years) [1]	
	Performance	% of equity to vest
	at the 50th percentile	0%
	Between the 50th to 75th percentile	3% vesting on a straight line interpolation for each percentile ranking above the 50th percentile
	At or above 75th percentile	100%
	Performance rights vest as shares if the time restrictions and relevant performance hurdles are met. Special provisions, in accordance with company policies, may apply in the event of termination of employment or a Change of Control.	
Voting rights	There are no voting rights attached to performance rights.	
LTI Allocation	The size of individual LTI grants for the CEO/MD and other KMPs is determined in accordance with the Board approved remuneration strategy mix. See Section 4.3. The target LTI $ value for each executive is then converted into a number of performance rights based on a valuation methodology determined at the grant date, as follows: **Performance right allocation** = LTI $ value determined /Hillgrove Resources share price at grant date.	

(1) The vesting period was reduced to two years to reflect the current approved PEPR mine life.

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

4.4.2 Short Term Incentives (STI)

STI Programme	
Purpose	The STI arrangements are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI programme is reviewed annually by the Remuneration Committee and approved by the Board. All STI awards to the CEO/MD and other KMP are approved by the Remuneration Committee and the Board.
Performance Target Areas	The key performance objectives of the Company vary by level but are currently directed to achieving ambitious targets, complemented by the achievement of individual performance goals and Company performance.
Rewarding Performance	Based on the performance target areas set out above, a number of targets are set for each area which generally includes a Threshold, Target and Stretch target. An STI measure can only start to be accumulated provided the Threshold level is achieved. A "gate opener" principle applies whereby an STI will only start to be awarded to the CEO and KMPs if a threshold level of EBITDA is achieved. All targets are set having regard to prior year performance, market conditions and Board approved budgets. Specific targets are not provided in detail due to commercial sensitivity. Validation of performance against the measures set for the CEO/MD and KMPs involves a review calculation and recommendation by the CEO, reviewed and approved by the Remuneration Committee with final Board sign-off.

The Remuneration Committee determined that given the Company's tight cashflow position no STI awards would be granted for the 2016 year.

4.4.3 Hedging and Margin Lending Prohibition

Under the Company's Share Trading Policy and in accordance with the *Corporations Act 2001*, equity granted under the Company's equity incentive schemes must remain at risk until vested, or exercised. It is a specific condition of the policy that no schemes are entered into, by an individual or their associates, that specifically protects the unvested value of shares, options or performance rights allocated.

The Company, as required under the ASX Listing Rules, has a formal policy outlining how and when employees may deal in Hillgrove Resources securities.

Hillgrove Resources Limited's Share Trading Policy is available on the Company's website www.hillgroveresources.com.au under Investor Centre, Corporate Governance.

4.5 Relationship between Performance and Executive KMP Remuneration

4.5.1 Hillgrove Resources Financial Performance (31 January 2013 to 31 December 2016)

	12 Months to 31 January		11 Months to	12 Months to	
	2013	2014	31 Dec 2014	31 Dec 2015 (restated)	31 Dec 2016
Sales Revenue ($M)	115.4	139.2	166.8	139.5	**113.1**
Underlying EBITDA ($M)	17.1	37.8	52.3	16.1	**22.2**
Reported net profit / (loss) ($M)	(11.8)	1.5	3.8	(130.1) (1)	**(109.1)** (4)
Return on equity (ROE) % (2)	(5.3%)	0.7%	1.6%	(69.1%) (1)	**(67.7%)** (4)
Basic earnings per share (EPS) (cents)	(1.2)	1.1	2.6	(77.0) (1)	**(57.8)** (4)
Diluted EPS (cents)	(1.2)	1.1	2.5	(77.0) (1)	**(57.8)** (4)
Share price as at 31 December (cents) (3)	100	70	45	16	**4**
Total shareholder return (TSR) % (Annual)	(43.2%)	(30.4%)	(35.3%)	(64.4%)	**(75%)**

(1) Includes impairment charge of $112.9m.

(2) Based on average total equity

(3) After 8 for 1 share consolidation effective on 17 September 2014.

(4) Includes impairment charge of $67.1m.

Remuneration Report (audited) (cont.)

4.6 KMP Executive Remuneration Tables – Audited

		Fixed Remuneration					
		Short-term		Long-term			Total
	Year	Salary and Fees	Non-monetary benefits	Super-annuation Benefits	Termination Benefits	Long Service Leave	
Non-Executive Directors							
The Hon. D C Brown	**CY16**	**100,000**	**-**	**20,000**	**-**	**-**	**120,000**
	CY15	122,500	-	25,000	-	-	147,500
Mr J E Gooding	**CY16**	**60,000**	**-**	**-**	**-**	**-**	**60,000**
	CY15	73,750	-	-	-	-	73,750
Mr M W Loomes	**CY16**	**55,191**	**-**	**5,243**	**-**	**-**	**60,434**
	CY15	66,955	-	6,361	-	-	73,316
Mr P Baker	**CY16**	**54,795**	**-**	**5,205**	**-**	**-**	**60,000**
	CY15	67,351	-	6,398	-	-	73,749
Mr D N Snedden	**CY16**	**-**	**-**	**-**	**-**	**-**	**-**
	CY15	28,539	-	2,711	-	-	31,250
Total	**CY16**	**269,986**	**-**	**30,448**	**-**	**-**	**300,434**
	CY15	359,095	-	40,470	-	-	399,565
Executive Directors							
Mr S McClare	**CY16**	**430,436**	**-**	**12,306**	**-**	**-**	**442,742**
	CY15	435,088	-	30,006	-	-	465,094
Mr G C Hall	**CY16**	**-**	**-**	**-**	**-**	**-**	**-**
	CY15	408,219 (1)	-	15,630	-	-	423,849
Total	**CY16**	**430,436**	**-**	**12,306**	**-**	**-**	**442,742**
	CY15	843,307	-	45,636	-	-	888,943
Other key management personnel							
Mr P G Kiley	**CY16**	**342,770**	**-**	**32,010**	**-**	**-**	**374,780**
	CY15	26,227	-	2,492	-	-	28,719
Mr L A Wallace	**CY16**	**288,696**	**-**	**26,931**	**-**	**-**	**315,627**
	CY15	283,675	-	26,949	-	-	310,624
Mr R L S Middleton	**CY16**	**-**	**-**	**-**	**-**	**-**	**-**
	CY15	330,557 (2)	-	12,485 (2)	-	-	343,042
Mrs S Smith	**CY16**	**-**	**-**	**-**	**-**	**-**	**-**
	CY15	184,417 (3)	-	22,500 (3)	-	-	206,917
Total	**CY16**	**631,466**	**-**	**58,941**	**-**	**-**	**690,407**
	CY15	824,876	-	64,426	-	-	889,302
KMP Total	**CY16**	**1,331,888**	**-**	**101,695**	**-**	**-**	**1,433,583**
	CY15	2,027,278	-	150,532	-	-	2,177,810

(1) Includes $136,349 termination pay.

(2) Includes $55,039 salary and $485 superannuation paid on termination.

(3) Includes $33,417 salary and $2,500 superannuation paid on termination.

Remuneration Report (audited) *(cont.)*

4.6 KMP Executive Remuneration Tables – Audited *(cont.)*

		Variable Remuneration				Total	Proportion of Total Remuneration	
		Short-term	Equity Compensation		Total		Performance Related	Equity Related
	Year	Bonus	Value of Option	Value of Performance Shares			%	%
Non-Executive Directors								
The Hon. D C Brown	**CY16**	**-**	**-**	**-**	**-**	**120,000**	**0%**	**0%**
	CY15	-	-	-	-	147,500	0%	0%
Mr J E Gooding	**CY16**	**-**	**-**	**-**	**-**	**60,000**	**0%**	**0%**
	CY15	-	-	-	-	73,750	0%	0%
Mr M W Loomes	**CY16**	**-**	**-**	**-**	**-**	**60,434**	**0%**	**0%**
	CY15	-	-	-	-	73,316	0%	0%
Mr P Baker	**CY16**	**-**	**-**	**-**	**-**	**60,000**	**0%**	**0%**
	CY15	-	-	-	-	73,749	0%	0%
Mr D N Snedden	**CY16**	**-**	**-**	**-**	**-**	**-**	**0%**	**0%**
	CY15	-	-	-	-	31,250	0%	0%
Total	**CY16**	**-**	**-**	**-**	**-**	**300,434**	**-**	**-**
	CY15	-	-	-	-	399,565	-	-
Executive Directors								
Mr S P McClare	**CY16**	**-**	**83,799**	**-**	**83,799**	**526,541**	**0%**	**16%**
	CY15	-	87,500	-	87,500	552,594	0%	16%
Mr G C Hall	**CY16**	**-**	**-**	**-**	**-**	**-**	**0%**	**0%**
	CY15	-	(451,423) (4)	-	(451,423)	(27,574)	0%	0%
Total	**CY16**	**-**	**83,799**	**-**	**83,799**	**526,541**	**-**	**-**
	CY15	-	(363,923)	-	(363,923)	525,020	-	-
Other key management personnel								
Mr P G Kiley	**CY16**	**-**	**29,813**	**-**	**29,813**	**404,593**	**0%**	**7%**
	CY15	-	-	-	-	28,719	-	-
Mr L A Wallace	**CY16**	**-**	**46,454**	**-**	**46,454**	**362,081**	**0%**	**7%**
	CY15	-	-	-	-	310,624	0%	0%
Mr R L S Middleton	**CY16**	**-**	**-**	**-**	**-**	**-**	**0%**	**0%**
	CY15	-	(265,446) (4)	-	(265,446)	77,596	15%	17%
Mrs S Smith	**CY16**	**-**	**-**	**-**	**-**	**-**	**0%**	**0%**
	CY15	-	(82,644) (4)		(82,644)	124,273	10%	10%
KMP Total	**CY16**	**-**	**76,267**	**-**	**76,267**	**766,674**	**-**	**-**
	CY15	-	(348,090)	-	(348,090)	541,212	-	-
Total	**CY16**	**-**	**160,066**	**-**	**160,066**	**1,593,649**	**-**	**-**
	CY15	-	(712,013)	-	(712,013)	1,465,797	-	-

(4) The value of the performance rights forfeited on termination.

Remuneration Report (audited) (cont.)

5.0 Equity plan disclosures

5.1 Employee Share Schemes (ESS) operated by the Group

Plan Details	Type of Instruments	Details	Purpose
Employee share plan and share issues	General Employee Share Plan (GESP)		To incentivise and align part of employee remuneration to shareholder value
Hillgrove Resources Option and Performance Rights Plan	Option and Performance Rights Plan (OPRP)	Refer 4.4.2	To provide equity incentive subject to meeting predetermined service and performance conditions.

5.2 Analysis of share-based payments granted as remuneration to KMP

Details of the vesting profile of the performance rights granted as remuneration to each Key Management Personnel, and the movements during the period are set out below:

Key Executives	Grant Date	Balance held at 31/12/15	Granted	Number vested	Number forfeited	Balance held at 31/12/16
Mr S P McClare	Jul 16	-	2,500,000	-	-	2,500,000
	Jul 14	300,000	-	-	-	300,000
	Jul 13	312,500	-		(312,500)	-
TOTAL		**612,500**	**2,500,000**	**-**	**(312,500)**	**2,800,000**
Mr P Kiley	Jul 16	-	1,500,000	-	-	1,500,000
TOTAL		**-**	**1,500,000**	**-**	**-**	**1,500,000**
Mr L A Wallace	Jul 16	-	1,200,000	-	-	1,200,000
	Jul 14	112,500	-	-	-	112,500
	Jul 13	93,750	-	-	(93,750)	-
TOTAL		**206,250**	**1,200,000**	**-**	**(93,750)**	**1,312,500**

5.3 Exercise of Performance Rights granted as remuneration

No performance rights held by executive KMP were exercised during the financial year.

Directors' Report *(cont.)*

Remuneration Report (audited) *(cont.)*

5.4 Value of performance rights granted to Executive KMP, and on foot as at 31 December 2016

Key Executives	Grant Date	Number Granted	Vesting Date	Face Value per right	Fair Value [1]	Intrinsic Value [2]	Total Fair Value
Mr S P McClare	Jul 16	2,500,000	Jun 18	$0.042	[3]$0.0321	$105,000	$80,250
	Jul 14	300,000	Mar 17	$0.042	$0.544	$12,600	$163,200
TOTAL		**2,800,000**				**$117,600**	**$243,450**
Mr P Kiley	Jul 16	1,500,000	Jun 18	$0.042	[4]$0.0678	$63,000	$101,700
TOTAL		**1,500,000**				**$63,000**	**$101,700**
Mr L A Wallace	Jul 16	1,200,000	Jun 18	$0.042	$0.0678	$50,400	$81,360
	Jul 14	112,500	Mar 17	$0.042	$0.544	$4,725	$61,200
TOTAL		**1,312,500**				**$55,125**	**$142,560**

(1) The fair value at grant date has been based on a valuation in accordance with accounting standard AASB 2 "Share Based Payments". The fair values are used for accounting purposes only.

(2) Intrinsic value at year end is the difference between the exercise price and the share price ($0.042) on 31 December 2016.

(3) Valued at 26 May 2016 when approved by shareholders at the AGM.

(4) Valued at Grant Date on 11 July 2016.

5.5 Movement in equity held

The movement during the reporting period in the number of ordinary shares, convertible notes and options over ordinary shares of Hillgrove Resources Limited held, directly, indirectly or beneficially, by each specified Director and executive KMP, including their personally-related entities:

		Held as at 31/12/15	Exercise of Rights	Convertible Note/ Options Issue [1]	Net Other Changes	Held as at 31/12/16
Directors						
The Hon. D C Brown	Shares	367,678	-		-	**367,678**
	Notes	-		48,875		**48,875**
	Options	-		1,838,678		**1,838,678**
Mr J E Gooding	Shares	23,490	-		-	**23,490**
	Notes	-		1,000		**1,000**
	Options	-		37,621		**37,621**
Mr M W Loomes	Shares	1,050,569	-		-	**1,050,569**
	Notes	-		127,926		**127,926**
	Options	-		4,812,577		**4,812,577**
Mr P Baker	Shares	100,000	-		-	**100,000**
	Notes	-		8,000		**8,000**
	Options	-		300,960		**300,960**
Mr S P McClare	Shares	852,273	-		(375,000) [2]	**477,273**
	Notes	-		55,000		**55,000**
	Options	-		2,069,100		**2,069,100**
Other KMP						
Mr P Kiley	Shares	-	-		10,000 [3]	**10,000**
	Notes	-		50,000		**50,000**
	Options	-		1,881,000		**1,881,000**
Mr L A Wallace	Shares	23,864				**23,864**
	Notes	-		100.000		**100.000**
	Options	-		3,762,000		**3,762,000**

(1) Changes resulted from the directors and KMP participating in the convertible note/options rights issue in December 2016.

(2) Indirect holding no longer associated with Mr McClare.

(3) On market purchase.

Remuneration Report (audited) *(cont.)*

6.0 Service Contracts and Employment Agreements

The Company does not enter into service contracts for KMP Executives. The following sets out details of the employment contracts for Executive KMPs as at 31 December 2016.

Employee	Mr S P McClare	Mr P G Kiley	Mr L A Wallace
Position	Chief Executive Officer and Managing Director	Chief Financial Officer and Company Secretary	General Manager, Kanmantoo Copper Mine
Commencement	25 May 2015	12 June 2015	1 August 2015
Fixed Remuneration (1)	$487,414 p.a. (2)&(3) reviewed periodically	$360,000 p.a. (4) reviewed periodically	$297,000 p.a. (4) reviewed periodically
Short-term Incentive	Up to 60% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Long-term Incentive	Up to 60% of fixed remuneration	Up to 50% of fixed remuneration	Up to 50% of fixed remuneration
Contract Length	Indefinite	Indefinite	Indefinite
Notice periods for resignation or termination	6 months	3 months	3 months
Redundancy Benefit	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy	National Employment Standards and Group Redundancy Policy
Death or Total and Permanent Disability Benefit	No specific benefit	No specific benefit	No specific benefit
Change of Control	No effect	No effect	No effect
Termination for serious misconduct	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI	No notice required, remuneration to the day less advance payments and return of Company property. No payment STI/LTI
Statutory entitlements	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards	All leave and benefits due per National Employment Standards
Post-Employment restraints	For 6 months: Must not interfere in Company business: Recruit employees: Make adverse comments or actions by either party.	No adverse comments or actions by either party	No adverse comments or actions by either party

(1) On 19 May 2016 all Hillgrove employees, as part of a cost reduction initiative, agreed to defer 10% of the salary from 19 May 2016 until 1 December 2017, when the deferred amounts will be progressively repaid.

(2) On 1 December 2015, Mr McClare agreed to a temporary 15% salary reduction from $500,000 pa to $425,000 pa.

(3) In December 2016 Mr McClare's salary reduction was adjusted to align it with the 10% deferrals agreed with all Hillgrove employees, so that Mr McClare would defer 10% of his salary from 19 May 2016 until 1 December 2017.

(4) As a result of the 10% salary deferral, Mr P Kiley's salary was reduced from $400,000 pa to $360,000 pa and Mr Wallace's salary was reduced from $330,000 pa to $297,000 pa.

Directors' Report *(cont.)*

Corporate Governance Statement

The Company's Board is committed to achieving the highest standards of corporate governance.

The Company's Corporate Governance Statement for the year ended 31 December 2016 may be accessed from the Company's website at www.hillgroveresources.com.au/article/Corporate_Governance/Corporate_Governance.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

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 34.

Signed in accordance with a resolution of the Directors:

Dated at Adelaide this 31st day of March 2017

Dean Brown

The Hon. Dean C Brown, AO
Chairman

S McClare

Mr Steve McClare
Managing Director

Auditor's Independence Declaration

Deloitte.

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31 March 2017

The Board of Directors
Hillgrove Resources Limited
5-7 King William Road
UNLEY SA 5061

DearDirectors

Hillgrove Resources Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Hillgrove Resources Limited.

As lead audit partner for the audit of the financial statements of Hillgrove Resources Limited for the year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Darren Hall
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

		2016	2015
	Note	$'000	$'000 (restated)
Revenue	*4*	**113,127**	139,501
Other income	*5*	**565**	160
Expenses	*6*	**(137,614)**	(161,015)
Impairment charges	*6*	**(67,117)**	(112,915)
Interest and finance charges	*6*	**(4,209)**	(3,856)
Profit / (Loss) before income tax		**(95,248)**	(138,125)
Income tax (expense) / benefit	*7*	**(13,886)**	7,999
Profit / (Loss) for the year		**(109,134)**	(130,126)
Other comprehensive income			
Items that may not be reclassified subsequently to profit or loss			
Other financial assets	*24*	**-**	389
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	*24*	**-**	(28)
Unrealised gain/(loss) on cash flow hedges taken to equity	*24*	**(10,550)**	19,220
Income tax relating to components of other comprehensive income	*26*	**3,165**	(5,766)
Other comprehensive income for the period (net of income tax)		**(7,385)**	13,815
Total comprehensive income for the period		**(116,519)**	(116,311)
Total comprehensive income for the period is attributed to:			
Equity holders of Hillgrove Resources Limited		**(116,519)**	(116,311)
Non-controlling interests		**-**	-
Total comprehensive income		**(116,519)**	(116,311)
Earnings per share for profit attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic earnings per share	*8*	**(57.8)**	77.0
Diluted earnings per share	*8*	**(57.8)**	77.0

The Consolidated Statement of Profit and Loss is to be read in conjunction with the notes to the financial statements set out on pages 39 to 66.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	31 Dec 2016 $'000	31 Dec 2015 $'000 (restated)
Current assets			
Cash and cash equivalents	9	**1,942**	6,100
Trade and other receivables	10	**3,994**	3,434
Other financial assets	11	**324**	-
Inventories	12	**4,991**	6,904
Derivative financial instruments	26	**-**	10,212
Total current assets		**11,251**	26,650
Non-current assets			
Property, plant and equipment	13	**67,105**	145,632
Exploration and evaluation expenditure	14	**802**	792
Deferred tax assets	15	**4,856**	15,577
Derivative financial instruments	26	**-**	9,382
Total non-current assets		**72,763**	171,383
Total assets		**84,014**	198,033
Current liabilities			
Trade and other payables	16	**36,425**	34,247
Provisions	17	**3,027**	2,504
Borrowings	18	**3,158**	3,826
Employee benefits payable	19	**2,768**	2,360
Deferred income		**229**	-
Total current liabilities		**45,607**	42,937
Non-current liabilities			
Provisions	20	**8,574**	6,660
Borrowings	21	**10,193**	15,116
Employee benefits payable	22	**927**	126
Deferred income		**468**	-
Total non-current liabilities		**20,162**	21,902
Total liabilities		**65,768**	64,839
Net assets		**18,246**	133,194
Equity			
Contributed equity	23	**217,538**	216,272
Reserves	24	**10,280**	16,122
Retained earnings / (accumulated losses)	25	**(209,572)**	(99,200)
Total equity		**18,246**	133,194

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 39 to 66.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital	Reserves	Retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance 31 December 2014	206,860	2,464	30,926	240,250
Profit / (Loss) previous stated	-	-	(127,356)	(127,356)
Prior period adjustment	-	-	(2,770)	(2,770)
Profit / (Loss) for year restated	-	-	(130,126)	(130,126)
Other comprehensive income	-	13,815	-	13,815
Total comprehensive income	-	13,815	(130,126)	(116,311)
Share placement	9,412	-	-	9,412
Share based compensation	-	(157)	-	(157)
Balance 31 December 2015	216,272	16,122	(99,200)	133,194
Profit / (Loss) for year	-	-	(109,134)	(109,134)
Other comprehensive income	-	(7,385)	-	(7,385)
Total comprehensive income	-	(7,385)	(109,134)	(116,519)
Shares issued to creditors	1,266	-	-	1,266
Share based compensation	-	305	-	305
Transfer	-	1,238	(1,238)	-
Balance 31 December 2016	**217,538**	**10,280**	**(209,572)**	**18,246**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 39 to 66.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000 (restated)
Cash flows from operating activities			
Cash receipts in the course of operations		**97,302**	119,379
Cash payments in the course of operations		**(76,270)**	(106,720)
Net cash generated by operating activities	*29*	**21,032**	12,659
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		**(383)**	(1,042)
Payments for property, plant and equipment		**(28,319)**	(21,589)
Proceeds on sale of available for sale financial assets		**-**	235
Proceeds on disposal of plant and equipment		**611**	454
Net cash used in investing activities		**(28,091)**	(21,942)
Cash flows from financing activities			
Proceeds from early termination of derivatives		**14,434**	-
Proceeds from issue of shares	*23*	**-**	10,078
Transaction costs for issue of shares		**-**	(830)
Proceeds from borrowings		**8,930**	18,051
Transaction costs of borrowings		**(526)**	(896)
Repayment of borrowings		**(18,354)**	(18,000)
Interest received from investments		**80**	144
Interest paid on borrowings		**(1,663)**	(2,018)
Net cash from / (used) in financing activities		**2,901**	6,529
Net decrease in cash and cash equivalents		**(4,158)**	(2,754)
Cash and cash equivalents at the beginning of financial period		**6,100**	8,854
Cash and cash equivalents at the end of the financial period	*9*	**1,942**	6,100

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 39 to 66.

1. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. The financial statements are for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, Hillgrove Resources Limited is a for-profit entity.

(i) Going concern

The consolidated financial statements have been prepared on the going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business. The Group incurred a net loss of $109.1 million during the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its current assets by $34.4 million.

While liquidity remains tight in the short term, it is manageable and is much improved since the half year financial report was released in August 2016. During the past six months the Group has reached the following agreements with three of its largest mining contractors, Andy's Earthmovers (Asia Pacific) Pty Ltd ("AEM") and Roc-Drill Pty Ltd ("RD") and Maxam Australia Pty Ltd ("Maxam").

a) On 23 September 2016 Emeco Holdings Limited ("EHL") an ASX-listed company, announced AEM will become a wholly owned subsidiary of EHL, subject to a merger proposal. On 22 November 2016, the Company announced that the Group had entered into an agreement with EHL to vary the AEM supply agreement to include among other things:

- an agreed payment plan in respect of the outstanding balance payable to AEM expected to be $14 million on 31 March 2017 (inclusive of work yet to be invoiced) with monthly instalments commencing from 1 November 2017 until 30 June 2018,
- substantial discounts in charge rates, from November 2016 until September 2019 (the discount from November 2016 until March 2017 is estimated at $4.1 million),
- from 1 April 2017, the Company will be effectively treated as a new customer by AEM with no cash outlays for 45 days from the date of invoice, which will be a payment-free period coinciding with the completion of the Giant Pit cut-back, and
- in addition to the $14 million outstanding balance above, payment of a premium by the Group in instalments from 1 November 2017 to 30 June 2018 amounting to $5.3 million in recognition of past and continuing support by AEM, less the November 2016 to March 2017 discount (expected to be around $4.1 million)

The EHL agreement is unconditional following the completion of the merger between EHL and AEM which was approved by creditors and shareholders on 13 March 2017, by the Federal Court on 15 March 2017 and the merger became effective on 16 March 2017.

b) The Group has entered into an agreement with RD on 21 November 2016 to amend the payment terms on its creditor balance of approximately $4.5 million, under which:

- RD has agreed to defer payment of $1,350,000 of its outstanding creditor balance until December 2017, with the amount to be paid determined by the copper price;
- the Company issued 10,157,905 Shares to RD on 16 December 2016 in return for a $1,015,790 debt for equity swap;
- an agreed weekly payment plan for the period from 25 November 2016 to 27 January 2017 of which all payments totalling $3.1 million were made (which represented a combination of the residual $2 million of the $4.5 million and $1.1 million being a contribution towards December 2016 and January 2017 invoices); and
- the Group has agreed to pay the remaining balance in the normal course of business with the current outstanding balance within normal trading terms.

c) The Group has also reached agreement with Maxam Australia Pty Ltd to defer the commencement of the monthly repayments due on the $2.5 million promissory note by twelve months, from April 2017 to April 2018.

In addition, the previously advised forecast cash shortfall has been mitigated through a number of other initiatives including:

1. Statement of Significant Accounting Policies *(cont.)*

(a) Basis of preparation *(cont.)*

(i) Going concern *(cont.)*

- The $5.0 million convertible note issue in December 2016, which matures in December 2019.
- The revised reserve and resource statement (announced in October 2016) which added 5,400 tonnes of copper to the project.
- The payment-free period during the Giant Pit cut-back and substantially discounted mining rates which will flow from the EHL merger.
- Obtaining a $2.7 million PetroBond which has allowed the Company to return to normal creditor terms with its fuel supplier instead of paying cash up front for fuel, which it has been doing since May 2016.
- As a result of its improving financial position and credit worthiness, the Group has been able to put 2,000 tonnes of copper hedging in place at an average price after margins of AUD7,510, with approvals in place for a further 2,000 tonnes.

Moreover, the Group's financial position and outlook have been strengthened by the sustained increase in the spot copper price which has risen from around AUD6,300 per tonne in mid-last year to AUD7,602 per tonne at 31 December 2016. This increase has generally been maintained during 2017 with the average copper price for Feb-Mar 2017 shipment expected to be around AUD7,300.

The Group continues to work closely and cooperatively with suppliers and service providers and will rely on their ongoing support to defer the payment of amounts that are outside normal payment terms to assist in managing the Group's cash balance. In order for the Group to continue as a going concern, the Group must achieve the following;

- Complying with the payment plans agreed with the Company's largest mining contractors.
- Continuing to receive the support of the Group's creditors, lenders, shareholders and suppliers. As at the date of signing this report the Group has a large number of trade creditors (excluding the largest mining contractors) with balances outstanding which are outside normal payment terms.
- Completion of the Giant Pit Pre-strip on schedule and within budget (with the remaining capital expenditure estimated to be $2 million) and achieve planned production so as to enable the Group to achieve its cash flow forecast.

If the Group is unable to achieve the outcomes noted above then there is material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

(ii) Compliance with International Financial Reporting Standards

Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of Hillgrove Resources Limited comply with International Financial Reporting Standards (IFRSs).

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets to fair value through other comprehensive income and financial assets and liabilities (including derivative instruments) at fair value through profit or loss – as explained in note (e) below.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(v) Restatement of prior period

Group

The financial statements for the year ended 31 December 2015 have been restated. This has resulted in an increase in operating expenses, and in the loss for the period of $2.8 million and an increase in current liabilities of $2.8 million, and a decrease in net assets of $2.8m as at 31 December 2015.

1. Statement of Significant Accounting Policies *(cont.)*

(a) Basis of preparation *(cont.)*

(v) Restatement of prior period *(cont.)*

Effective 1 July 2015, charge rates for use of mining equipment by Hillgrove were reduced by Andy's Earthmovers (Asia Pacific) Pty Ltd ("AEM") in the amount of $5.3 million by a variation to the contract between the parties. This included a reduction in payments by Hillgrove of $2.8 million for the 6 months ended 31 December 2015. Under the variation, AEM was able to increase their monthly invoices from 1 July 2016 to enable the full recovery of the $5.3 million.

In September 2016, AEM entered into a merger arrangement with Emeco Holdings Limited ("EHL") and another mine equipment supplier. This merger was subject to shareholder and other approvals which were forthcoming for ratification in mid-March 2017. In November 2016, the Company entered into an agreement with EHL, which inter alia recognises an amount of $5.3 million to be paid by the Company from 1 November 2017 until 1 June 2018 offset by substantially discounted AEM charge rates, subject to the merger proceeding. Please refer to the note 1(a)(i) on going concern for more details.

As a fall back and in the event the EHL merger did not proceed, in December 2016 the Company also entered into an alternative agreement with AEM, under which AEM became entitled to charge a higher rate during the 12 month period commencing 1 July 2017 in the amount of $5.3 million, subject to satisfactory ongoing performance by AEM.

The entering into these two agreements in late 2016 clarified the existence of a liability of $5.3 million as at 31 December 2016 of which $2.8 million should have been recognised as at 31 December 2015.

Parent

As at 31 December 2015 the parent entity's net assets ($222.6 million) exceeded the Group's net assets ($133.2 million) by $89.4 million. The parent entity should have recognised an impairment charge of $89.4 million against its assets during the year end 31 December 2015.

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited (the ''parent entity") as at 31 December 2016 and the results of all subsidiaries for the period then ended.

Hillgrove Resources Limited and its subsidiaries together are referred to in this financial report as the Group. Subsidiaries are all entities controlled by the Group. Control is achieved when the Group has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and each component of other comprehensive income are attributed to owners of Hillgrove Resources Limited and to the non-controlling interests where applicable.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Parent Entity

The financial information for the parent entity, Hillgrove Resources Limited, disclosed in Note 35 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates are accounted for at cost in the financial statements of Hillgrove Resources Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Hillgrove Resources Limited's functional and presentation currency.

1. Statement of Significant Accounting Policies *(cont.)*

(c) Foreign currency translation *(cont.)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

For the purpose of presenting consolidated financial statements, the assets and liabilities of Hillgrove Resources Limited's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(d) Impairment of assets

The Group's non-current assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows called cash generating units or CGUs. Assets that have suffered an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

The specific methods and assumptions used to estimate the discounted future cash flows of the Group's CGU are outlined in more detail in Note 2 "Critical accounting estimates and judgements".

(e) Financial Instruments

The Group measures financial instruments, such as over-the-counter derivatives, at fair value at each balance sheet date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which are detailed further in Note 26.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular cash flow risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.
The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 26. Movements on the hedging reserve in other comprehensive income are shown in Note 24.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(g) Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

2. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Recoverability of non-current assets

In accordance with the Group's accounting policy in Note 1, non-current assets are assessed for impairment when there is an indication that their carrying amount may not be recoverable. The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs of disposal estimated on the basis of discounted present value of future cash flows. The estimates of discounted future cash flows for each CGU are based on significant assumptions including;

- Estimates of the quantities of ore reserves and the timing of access to those reserves;
- Future production levels based on plant throughput and recoveries;
- Future copper, gold and silver prices based on broker consensus pricing;
- Future exchange rates for the Australian dollar to US dollar based on forward curve data;
- Future operating costs of production including capital expenditure and rehabilitation;
- The discount rate most appropriate 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.

An impairment charge of $67.1 million against the Kanmantoo operations was recorded at half year 30 June 2016 in light of weaker consensus commodity prices. A further assessment of the discounted future cash flows for the Kanmantoo CGU at year end has resulted in no further adjustment to the 31 December 2016 carrying values. Key rate and price assumptions are provided in Note 6 to the financial statements.

(b) Recoverability of deferred tax assets

The Group's ability to recognise deferred tax assets relies on assumptions about the generation of future taxable profits. These taxable profit estimates are based on estimated future production, commodity prices, exchange rates, operating costs, rehabilitation costs and capital expenditures and as a consequence of the impairment write downs at June 2016, the Group has not recognised all of the potential tax benefits as a deferred tax asset. At 30 June 2016 the Group derecognised $19.2 million of deferred tax assets as it was considered recoverability was not probable.

(c) Pre-strip mine development and deferred mining costs

The Group capitalises pre-strip mining costs associated with the development of pit structures prior to normal production. The amount deferred is calculated according to the waste removal ratio when that ratio is significantly higher than the normal waste removal ratio expected to be experienced during ore production, as indicated by the mine plan. Capitalised pre-strip mining costs are classified under Mine Development within Property Plant and Equipment in the balance sheet and are being amortised to the Income Statement over the remaining life of the Kanmantoo mine.

Deferred mining costs represent the mining costs which are normalised for the impact of waste removal ratios and copper grades over the productive life of specific pits. Costs are usually deferred in the upper benches of the pit when the waste removal ratio is generally higher and the copper grade is generally lower than the average of all the ore-producing benches in the pit. The deferred costs are returned to the cost of production as the relevant pit reaches its floor depth.

(d) Balance sheet restructurings

During 2016 the Group has undertaken a number of initiatives with the objective of improving short term cash flow and liquidity during the time of peak mine development. As a consequence there are some new assets and liabilities on the December 2016 balance sheet which are recorded at fair value and may ultimately be settled at a different value to the December 2016 book value, if at all.

Convertible notes issued to raise $5 million in December 2016 are separated into two items on the balance sheet under the classification of debt (see Note 21). Convertible notes shown as debt at fair value on initial recognition and amortised cost there after plus an embedded derivative at fair value which reflects the estimated market value of the optionality contained within the instrument. The debt component itself has a life of three years but, at the option of the holder, could be converted into equity before expiry.

2. Critical Accounting Estimates and Judgements *(cont.)*

(d) Balance sheet restructurings *(cont.)*

There is a liability to a contractor creditor which is subject to a copper price index factor that could go up or down. This has been split into two instruments, an unsecured current loan and an embedded derivative. The value of the derivative at 31 December 2016 has been adjusted based on future consensus copper pricing which has given rise to a temporary deferred gain asset (see Note 11).

As explained in Note 1(a) the Group has recognised a liability at 31 December 2016 for deferred mine equipment hire rates of $5.3 million, however following the approval of the EHL merger in mid-March 2017, the net charge to the Group will be reduced to approximately $1.2 million.

(e) Ore reserve estimates

The Group's disclosed reserves are its best estimate of product that can be economically and legally extracted from the relevant mining properties. Estimates are developed after taking into account a range of factors including quantities, ore grades, production techniques and recovery rates, exchange rates, forecast commodity prices and production costs.

The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each ore body. Significant judgement is required to generate an estimate based on the geological data available.

Changes in reported reserves can impact the carrying value of property, plant and equipment including deferred mining expenditure, provision for mine rehabilitation, recognition of deferred tax assets and the amount of depreciation and amortisation charged to the profit or loss.

In October 2016 a revised Mineral Resource Estimate and Ore Reserve Estimate was announced for the Kanmantoo Copper Mine. The 2016 Mineral Resource Estimate resulted in 34.5Mt at grades of 0.60% copper, 0.10g/t gold and 1.2g/t silver using a cut-off grade of 0.20% copper, while the 2016 Ore Reserve Estimate increased by 5.4kt copper metal, net of mining depletion since 30 June 2016.

(f) Restoration, rehabilitation and environmental obligations

Expenditures related to ongoing restoration, rehabilitation and environmental obligation activities are accrued and expensed as incurred and included in the relevant exploration activity cost or as part of the cost of exploration activities. These expenditures are estimated either on the basis of detailed cost estimates or are in accordance with statutory provision requirements.

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 as outlined in Note 17 and 20.

The provision recognised 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.

3. Financial Reporting by Segment

Through its ownership of the Kanmantoo copper mine, the Group has one operating segment being the Kanmantoo operation. The Group also has exploration tenement interests overseas, but these tenements are fully written down, under minimal care and maintenance and therefore are considered to be immaterial, not requiring separate segment disclosure.

4. Revenue from Sale of Concentrates

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Revenue from sale of concentrates	**113,127**	139,501
Total revenue	**113,127**	139,501

Revenue is measured at the fair value of the consideration received or receivable.

The Group sells copper concentrate and sales of the metals contained in the product are recognised when a group entity has delivered the concentrate to the customer. Delivery does not occur until the product has either been sold at the port to the customer or has been loaded onto a ship on the basis of a CIF sale.
The market price of the copper metal in the concentrate is declared by the customer one calendar month prior to the month of shipment. The price can be declared as either one of: one month before the month of shipment or synthetically spread adjusted to five months after the month of arrival at the discharge port.

Concentrate sales revenue represents gross proceeds receivable from the customer. Buyer deductions such as treatment charges, refining charges, price participation and bismuth penalty charges are classified as costs of production.

Revenue also includes the net value realised from the close out of commodity forward sale contracts designated as cash flow hedges.

5. Other Income

	31 Dec 2016 $'000	31 Dec 2015 $'000
Interest	**76**	154
Other income	**13**	6
Unrealised gain on embedded derivative (a)	**324**	-
Grant income (b)	**152**	-
Total other income	**565**	160

(a) The Group has an embedded derivative associated with a current liability where the future amount repayable is dependent on the average AUD copper price after July 2017. Using forecast consensus pricing to value the embedded derivative component, an unrealised gain has been recognised as other income and a corresponding asset classified as Other Financial Assets in Note 11.

(b) Grant income received to assist with construction of a water pipeline was deferred to the balance sheet and is recognised in the profit or loss on a systematic basis over the life of the asset.

6. Expenses

Profit before income tax includes the following expenses:

(a) Expenses per Profit or Loss

	Note	31 Dec 2016 $'000	31 Dec 2015 $'000 (restated)
Costs of production	*(i)*	**86,590**	106,238
Inventory movement		**2,170**	9,617
Inventory write down to net realisable value		**(1,202)**	-
Depreciation and amortisation		**46,107**	36,347
Cost of goods sold		**133,665**	**152,202**
Government royalties		**1,250**	1,586
Corporate and other costs	*(ii)*	**3,976**	4,283
Loss on sale of fixed assets and investments		**(32)**	492
Foreign exchange losses		**(1,245)**	2,497
Net (gain)/loss on derivative financial instruments		**-**	(45)
Total Expenses per Profit or Loss		**137,614**	**161,015**

(i) Cash costs of production represent costs for mining, processing, transport of concentrate to port, site overheads and treatment/refining charges.

(ii) Corporate and other costs reflect the costs incurred in running the corporate head office, together with Indonesian care and maintenance costs.

(b) Interest and finance charges

	31 Dec 2016 $'000	31 Dec 2015 $'000
Discount on unwind of rehabilitation provision	**1,036**	1,135
Bank fees and charges	**1,538**	968
Interest on borrowings	**1,181**	1,470
Interest payable on financial liabilities	**454**	283
Total Interest and finance charges	**4,209**	3,856

(c) Other required disclosures

	31 Dec 2016 $'000	31 Dec 2015 $'000
Employee benefits (excluding share-based payments)	**22,897**	24,564
Share based payments	**305**	(157)
Operating leases (included in cost of goods sold)	**18,469**	20,525

(d) Impairment charges

	31 Dec 2016 $'000	31 Dec 2015 $'000
Non-current inventories	**-**	11,797
Property, plant and equipment (Kanmantoo CGU)	**67,083**	69,816
Exploration assets	**34**	31,302
	67,117	112,915

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit (CGU) or area of interest to which the asset belongs. At 31 December 2016 the Group had a single CGU being the Kanmantoo copper mine. In accordance with the consolidated entity's accounting policies, impairment testing is carried out to ensure assets are not carried at more than their recoverable amount at balance date. As the recoverable amount can vary with market conditions and the future estimated price of copper, impairment testing is done at balance date to reflect prevailing market conditions.

6. Expenses (cont.)

An impairment is not a write off but a provision which can be reversed in the event of improvements in market outlook or operational performance including mine life extensions. Hillgrove has elected to use a value in use methodology to estimate the recoverable amount rather than the fair value less cost of disposal method as the value in use methodology more closely portrays Kanmantoo's current life of mine plan.

The Kanmantoo cash generating unit has been reviewed by updating Life of Mine Plans and assumptions, including planned production, operating costs, capital costs, and production activity in line with actual operating and cost performances. At 30 June 2016 the consensus future copper prices had decreased significantly from the consensus future copper prices at 31 December 2015, which when applied to the recoverable amount for the Company's Kanmantoo assets, resulted in an impairment charge of $67.1 million, reducing Kanmantoo's carrying value to $61.4 million.

Since 30 June 2016, the Company announced a revised Mineral Resource and Reserve Statement which added 5,400 copper tonnes, net of depletion. In addition the copper price has staged a recovery late in the year which has continued into 2017. Applying methodology consistent with that used at June 2016, the calculated recoverable amount as at 31 December 2016 exceeds the carrying value.

However, given that the copper price had only risen appreciably in the last few months of 2016, and a desire to see improved operational improvements and production sustained well into 2017, past impairment charges have not been written back at this time.

It follows that the carrying values of Hillgrove fixed assets as at 31 December 2016 are more reflective of the forward consensus prices and exchange rate used to assess impairment at 30 June 2016 which are shown below.

	2017	2018	2019	2020
Assumptions for 30 June 2016				
Ave. market price of analysts forecast copper price per tonne (real AUD)	6,719	7,263	7,811	8,253
Consensus pricing as at 31 December 2016				
Ave. market price of analysts forecast copper price per tonne (real AUD)	7,159	7,292	7,541	7,853

A 5% change to the December 2016 AUD copper prices would not give rise to additional impairment charges.

The AUD:USD foreign exchange forward curve in December 2016 beginning at 0.72 in January 2017 as well as a discount rate of 9.50% (real) have been utilised in considering impairment (30 June 2016: 0.75 and 9.5%).

(e) Assurance services

The following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	31 Dec 2016	31 Dec 2015
	$	$
(i) Audit Services		
Fees paid to Deloitte Touche Tohmatsu:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	260,000	285,582
Review of prospectus for convertible note issue	20,000	-
Fees paid to other firms:		
Audit and review of Singapore financial reports (Crowe Horwath)	15,902	18,040
	295,902	303,622
(ii) Taxation Services		
Services by Deloitte Touche Tohmatsu:		
Tax compliance services, including review of income tax returns	20,107	25,000
Tax advice for inclusion in convertible note prospectus	12,777	-
Review of fuel tax credits	-	49,475
Services by other firms:		
Tax compliance services in Singapore, including income tax returns (Crowe Horwath)	8,563	9,710
Research and development concession claims (Shinewing)	-	102,069
	41,447	186,254
(iii) Other Services		
Fees paid to other firms:		
Other services	-	-
	-	-

7. Income Tax Expense

	31 Dec 2016 $'000	31 Dec 2015 $'000 (restated)
(a) Income tax expense		
Deferred income tax expense comprises:		
- (Increase)/decrease in deferred tax assets	**15,196**	(9,823)
- (Decrease)/increase in deferred tax liabilities	**(1,274)**	3,829
	13,922	(5,994)
Adjustments for income tax of prior periods	**(36)**	(2,005)
Income tax expense/(benefit) attributable to profit from continuing operations	**13,886**	(7,999)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense/(benefit)	**(95,248)**	(138,125)
Tax at the Australian tax rate of 30%	**(28,574)**	(41,438)
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	**91**	(68)
- Non-assessable income	**(242)**	-
- Non-deductible expenses	**3**	207
- Tax losses not recognised (Indonesia)	**246**	9,247
- Accounting loss on sale of available for sale assets	**-**	114
- Tax losses and temporary differences not recognised (Australia)	**23,183**	26,196
- Impairment of deferred tax asset	**19,215**	-
- Research and development concession	**-**	(1,542)
- Tax loss on sale of available for sale assets	**-**	(114)
- Adjustment for income tax of prior periods	**(36)**	(601)
Income tax expense/(benefit)	**13,886**	(7,999)
(c) Amounts recognised directly in equity		
Deferred tax – (credited)/ debited directly to equity	**(3,165)**	5,480

(d) Tax consolidation legislation

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Hillgrove Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Hillgrove Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The entities in the tax-consolidated group entered into a tax sharing agreement and a tax funding agreement. On adoption of the legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity. The entities have also entered a tax funding agreement under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to it under the tax consolidation legislation.

8. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

8. Earnings Per Share *(cont.)*

Classification of securities as ordinary shares

Ordinary shares have been classified as ordinary shares and included in basic earnings per share.

Classification of securities as potential shares

Outstanding performance rights have been classified as potential ordinary shares and included in diluted earnings per share.

	31 Dec 2016	31 Dec 2015
	$'000	$'000 (restated)
(a) Basic earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**(109,134)**	(130,126)
Profit attributable to ordinary equity holders of the Company	**(109,134)**	(130,126)
(b) Diluted earnings		
Profit from continuing operations attributable to the ordinary equity holders of the Company.	**(109,134)**	(130,126)
Profit attributable to ordinary equity holders of the Company	**(109,134)**	(130,126)

	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	**188,874,010**	168,995,974
Number for diluted earnings per share		
Ordinary shares	**188,874,010**	168,995,974
Adjustment for calculation of diluted earnings per share:		
Options on issue	**-**	-
	188,874,010	168,995,974

	Cents	Cents (restated)
(a) Basic earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(57.8)**	(77.0)
(b) Diluted earnings per share		
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the Company	**(57.8)**	(77.0)

9. Cash and Cash Equivalents

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Cash at bank and on hand	**88**	298
Restricted cash	**1,838**	5,598
Bank guarantees	**16**	204
	1,942	6,100

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash cannot be accessed without prior consent from financiers. At 31 December 2016 restricted cash comprised $1.6 million cash backing of the Electranet security bond for electricity infrastructure and transmission services. The bond was subsequently replaced with an insurance bond in February 2017 which does not require cash backing by the Company.

Bank guarantees relate to amounts required for the security deposit of the lease of the Adelaide office Unley. The maximum exposure to credit risk and interest rate risk at the reporting date is the carrying amount of each class of asset reported above. The maximum exposure to foreign exchange risk is $721 (31 December 2015: $1,895).

10. Trade and Other Receivables

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Trade receivables	**585**	1,385
Prepayments	**1,593**	785
Other receivables	**813**	373
GST receivable	**1,003**	891
	3,994	3,434

Trade receivables are recognised initially at the value of the invoice sent to the customer. For concentrate sales, the Group has a single customer under the terms of an offtake agreement. First progress payment is received within three days of a minimum tonnage arriving at Port Adelaide. First provisional payment covering 95% of the value is received three days after ship loading. Second provisional payment for the remaining 5% is made 45 days after ship loading. Sales are generally denominated in US dollars. Revenue is recognised using spot exchange rates on the date of the sale, with trade receivables subsequently being translated at the exchange rate applicable on the date when settled. Unsettled balances at periods ends are revalued using the appropriate end of period exchange rate.

11. Other Financial Assets

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Embedded derivative (see Note 5 "Other Income")	**324**	-

The underlying liability to which this embedded derivative relates, is disclosed at face value in Note 18. The Group's sensitivity to copper commodity price risk relating to the underlying liability is disclosed in Note 26.

12. Inventories

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Concentrates	**807**	1,043
ROM stockpile	**808**	1,486
Oxide and transition ore	**-**	492
Stores and consumables	**3,376**	3,883
	4,991	6,904

Inventory is recognised at the lower of cost and net realisable value.

The cost of inventory is determined using the allocation of costs between production and development activities. Costs and activities are monitored at each stage of the production process and allocated to physical units.

Net realisable value is based on the estimated amount expected to be received when the inventory is completely processed and sold. The estimation of net realisable value of inventories involves judgements about the quantity of metal that can be recovered, future commodity prices, production costs and selling costs.

13. Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and costs incurred in bringing assets into use. Costs for repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred, except when repair work demonstrably extends the useful life of the asset in question in which case it is added to the cost of the asset.

The straight line method of depreciation to allocate cost, net of residual values, is used for buildings and motor vehicles over estimated useful lives of 10 years and 3 years respectively. Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Plant and equipment and Mine development are depreciated based on units of production, proportionate to the forecast output of the mine. Changes in factors such as estimates of proven and probable reserves that affect the unit of production calculations are applied on a prospective basis.

Mine development includes the Kanmantoo mine rehabilitation asset (see Note 2(f)).

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(d)).

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Land and building		
At cost	**5,524**	9,362
Accumulated depreciation	**(379)**	(267)
	5,145	9,095
Plant and equipment		
At cost	**72,896**	88,188
Accumulated depreciation and impairment	**(56,713)**	(52,701)
	16,183	35,487
Motor vehicles		
At cost	**1,261**	1,323
Accumulated depreciation	**(633)**	(761)
	628	562
Mine development		
At cost	**152,314**	164,600
Accumulated depreciation and impairment	**(119,836)**	(81,126)
	32,478	83,474
Deferred mining costs		
At cost (net of impairment)	**12,671**	17,014
	12,671	17,014
Total property, plant and equipment	**67,105**	145,632

13. Property, Plant and Equipment *(cont.)*

Reconciliations of the carrying amounts for each class of asset are set out below:

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Land and Buildings		
Carrying amount at beginning of period	**9,096**	9,829
WDV of disposals	**-**	(579)
Depreciation	**(105)**	(155)
Impairment losses	**(3,846)**	-
Carrying amount at end of period	**5,145**	9,095
Plant and equipment		
Carrying amount at beginning of period	**35,487**	66,058
Additions	**351**	3,312
WDV of disposals	**(2,310)**	(81)
Depreciation	**(6,680)**	(12,740)
Impairment losses	**(10,665)**	(21,062)
Carrying amount at end of period	**16,183**	35,487
Motor vehicles		
Carrying amount at beginning of period	**562**	566
Additions	**401**	199
WDV of disposals	**(161)**	(46)
Depreciation	**(174)**	(157)
Carrying amount at end of period	**628**	562
Mine development		
Carrying amount at beginning of period	**83,474**	134,937
Additions	**26,755**	20,414
Transfers from exploration	**97**	-
WDV of disposals	**-**	(439)
Depreciation	**(38,710)**	(21,945)
Impairment losses	**(39,138)**	(48,754)
Reduce provision for rehabilitation	**-**	(739)
Carrying amount at end of period	**32,478**	83,474
Deferred Mining Costs		
Carrying amount at beginning of period	**17,014**	-
Additions	**9,091**	17,014
Impairment losses	**(13,434)**	-
Carrying amount at end of period	**12,671**	17,014
Total property, plant and equipment	**67,105**	145,632

14. Exploration and Evaluation Expenditure

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Exploration, evaluation and expenditure	**803**	792
Balance at beginning of financial period	**792**	31,330
Additions	**142**	791
Transfers to mine development	**(97)**	-
Impairment losses	**(34)**	(31,302)
Movement due to foreign exchange revaluation	**-**	(27)
Carrying amount at end of period	**803**	792

The Group accumulates certain costs associated with exploration activities on specific areas of interest where the Group has rights of tenure and where exploration and evaluation activities in the area of interest have not reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves.

15. Deferred Tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Deferred tax asset (DTA)		
DTA amounts recognised in profit or loss		
Employee benefits	**915**	668
Rehabilitation provisions	**968**	479
Tax revenue losses (incl. R&D credits)	**21,973**	21,973
Property, plant & equipment	**22,821**	18,694
Other	**1,141**	890
	47,818	42,704
DTA/(DTL) amounts recognised directly in equity		
Derivatives	**(3,212)**	(6,449)
Other	**356**	369
Set-off deferred tax liabilities pursuant to set-off provision	**(20,891)**	(21,047)
Impairment of DTA	**(19,215)**	-
Net deferred tax assets	**4,856**	15,577

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable future taxable amounts will be available to utilise those temporary differences and losses. Unused tax losses and offsets for which no deferred tax asset has been recognised are approximately $231,113,000 (tax benefit at the Australian tax rate of 30%; $69,334,000).

Deferred tax assets of $2,933,000 (2015: $2,403,000) and deferred tax liabilities of $7,013,000 (2015: $8,614,000) are expected to be recovered in less than 12 months of the balance sheet date.

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Deferred tax liability (DTL)		
DTL amounts recognised in profit or loss		
Deferred mining costs	**3,801**	5,104
Property, plant & equipment	**16,815**	15,705
Other	**275**	238
	20,891	21,047
Amount offset to deferred tax assets pursuant to set-off	**(20,891)**	(21,047)
Net deferred tax liabilities	**-**	-
Movements in net deferred tax balance		
Opening balance	**15,577**	13,058
Credited/(charged) to profit or loss	**(13,922)**	5,994
Credited/(charged) directly in equity for cash flow hedges	**3,165**	(5,480)
Over/(under) provision in prior years	**36**	2,005
Closing balance	**4,856**	15,577

16. Trade and Other Payables

	31 Dec 2016	31 Dec 2015
	$'000	$'000 (restated)
Trade payables	**26,904**	24,749
Other payables and accruals	**9,521**	9,498
	36,425	34,247

Information about the Group's exposure to liquidity risk is provided in Note 26.

17. Provisions – Current

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Rehabilitation provision	**1,302**	1,944
Make good provision	**708**	560
Unsettled ship provision	**1,017**	-
	3,027	2,504
Movement in provisions		
Carrying value at the beginning of the period	**2,504**	1,316
(Reduce)/increase provision recognised	**1,165**	382
Transfer from/(to)non-current provisions	**(642)**	806
Balance at end of period	**3,027**	2,504

The current balance of the rehabilitation provision is the expenditure expected to occur over the next twelve months at the Kanmantoo mine and the Comet Vale tenement. The policy for determining the full value of the rehabilitation provision is set out in Note 20.

The make good provision of $0.7 million is in respect of repairs to damaged equipment and repairs to vehicles.

The unsettled ship provision represents estimated outflows for shipments of concentrate that have been invoiced using provisional pricing. Settlement is expected to occur in the first quarter of 2017.

18. Borrowings – Current

Borrowings are classified as current liabilities. Where the Group has an unconditional right to defer settlement of the liability at least 12 months after the reporting period, that part of the deferred settlement is classified as a non-current liability.

Leases of property, plant and equipment where the Group substantially holds all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the liability balance outstanding. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight line basis over the lease period.

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Secured		
Pre-export facility (a)	-	3,832
Less transaction costs on loans	-	(479)
	-	3,353
Unsecured		
Lease liabilities	**443**	473
Promissory note (b)	**1,365**	-
Other liabilities (c)	**1,350**	-
	3,158	473
Total current borrowings	**3,158**	3,826

(a) The Group's Pre-export Facility was repaid in full during the year ended 31 December 2016. See also Note 21.

(b) During the year ended 31 December 2016, the Group agreed with a mining contractor to convert $2.5 million of their creditor balance to an interest-bearing promissory note agreement with a market-based interest rate. See also Note 21 for the non-current portion.

(c) The Group entered into an agreement with another mining contractor to defer repayment of $1.35 million of their creditor balance. Under the terms of the deferral agreement, the face value of the obligation will be scaled up or down according to the future copper price. The earliest date for repayment is estimated to be around December 2017. Applying the consensus forecast copper price for the time of repayment has resulted in a reduction in the estimated repayment amount.
The unrealised gain from reduction has been included in other income (see Note 5) and the corresponding embedded derivative is measured at fair value (see Note 11).

19. Employee Benefits Payable – Current

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Employee benefits payable	**2,768**	2,360

The current provision for employee benefits includes accrued annual leave and long service leave and also includes the current portion of deferred salaries. The portion of the current provision relating to eligible long service leave is classified as current since the Group does not have an unconditional right to defer settlement beyond 12 months. Also includes current portion of deferred salaries.

20. Provisions – Non current

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Rehabilitation provision	**8,574**	6,660
Movement in provisions		
Carrying value at the beginning of the period	**6,660**	8,434
Discount on unwind of rehabilitation provision	**1,035**	1,136
Transfer (to)/from current provisions	**642**	(806)
Expenditure charged to provision	**(226)**	(1,570)
(Reduce)/increase provision recognised	**426**	(534)
Balance at end of period	**8,574**	6,660

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to remediate land disturbed by exploration and mining activities. Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the statement of profit or loss and shown as a financial cost.

21. Borrowings – Non-current

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Secured		
South Australian Government loan (b)	**4,086**	-
Convertible notes– debt component (a)	**3,526**	-
Convertible notes– embedded derivative component (a)	**1,474**	-
Less transaction costs on convertible notes	**(621)**	-
Pre-export facility (c)	**-**	15,330
Less transaction costs on loans	**-**	(718)
	8,465	14,612
Unsecured		
Lease liabilities	**515**	504
Promissory note (see Note 18)	**1,213**	-
	1,728	504
Total non-current borrowings	**10,193**	15,116

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption amount is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost in relation to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

(a) In December 2016 $5.0 million of convertible notes were issued with a maturity date of December 2019. AASB132 requires the debt component of a compound financial instrument to be valued separately from the conversion feature of the instrument (embedded derivative). The debt component will be amortised to future P&L according to the unwinding of present value whilst the embedded derivative will be measured periodically at fair value as affected by future changes in the Hillgrove share price.

(b) A medium term secured loan facility of $4.0 million was obtained from the South Australian Government Financing Authority to provide the Group with working capital. The loan facility has a fixed interest rate of 4.2% and is repayable in early 2018.

(c) The Pre-export facility was a secured loan of USD $14 million from Ventures Australia LLC, a subsidiary of the Group's offtake partner Freepoint. The loan was fully repaid in August 2016.

22. Employee Benefits Payable – Non current

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Long service leave	331	126
Deferred Salaries	596	-
	927	126

23. Share Capital

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Issued and paid up capital for 206,767,247 fully paid shares (31 December 2015: 188,109,342)	217,538	216,272

Ordinary Shares Issued – movements during the period

	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	No. of shares	No. of shares	$'000	$'000
Opening balance	188,109,342	147,711,123	216,272	206,860
Share issues	18,657,905	40,310,719	1,271	10,078
Employee share schemes/issues	-	87,500	-	-
Share issue costs	-	-	(5)	(951)
Deferred tax credit recognised directly in equity	-	-	-	285
Balance at end of period	206,767,247	188,109,342	217,538	216,272

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings. In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any net proceeds of liquidation.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

24. Reserves

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Employee share options reserve	2,795	2,490
Other financial assets revaluation reserve	-	(1,238)
Cash flow hedges	7,662	15,047
Foreign currency translation	(177)	(177)
	10,280	16,122
Movements:		
Employee share options reserve		
Balance at beginning of year	2,490	2,647
Share based compensation expense	305	(157)
Balance at end of year	2,795	2,490
Other financial assets revaluation reserve		
Balance at beginning of year	(1,238)	(1,627)
Transfer to retained earnings	1,238	-
Revaluation net of amounts transferred to statement of other comprehensive income	-	57
Profit and loss charge on disposal	-	332
Balance at end of year	-	(1,238)
Cash flow hedges		
Balance at beginning of year	15,047	1,593
Gain/(loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges	(1,994)	29,057
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss	(8,556)	(9,837)
Deferred tax (Note 15)	3,165	(5,766)
Balance at end of year	7,662	15,047
Foreign currency translation		
Balance at beginning of year	(177)	(149)
Currency translation differences arising during the period	-	(28)
Balance at end of year	(177)	(177)

Nature and purpose of reserves

(i) Employee share option reserve

The employee share option reserve is used to recognise the fair value of share performance rights issued to employees but not exercised.

(ii) Hedge reserve

The cash flow hedge reserve represents the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges, net of taxes. The amounts are recognised in the profit or loss in the same periods the hedged item is recognised in the profit or loss.

(iii) Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in Other Comprehensive Income as described in Note 1(c)(ii) and accumulated in the foreign currency translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

25. Retained Earnings

	31 Dec 2016	31 Dec 2015
	$'000	$'000 (restated)
At beginning of the period	(99,200)	30,926
Profit attributable to members of the parent entity	(109,134)	(130,126)
Transfer from reserves	(1,238)	-
Retained profits at end of the period	(209,572)	(99,200)

No dividend was paid during the current period (31 December 2015:Nil). The Company has $21.3 million of franking credits available for future periods (31 December 2015: $21.3 million).

26. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by senior management under direction of the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas.

(a) Market risk

(i) Copper and Gold – Commodity price and foreign exchange risk management

The Group has exposure to copper and gold commodity prices arising from sales contracts that commit the Group to supply copper concentrate in future years. The prices for copper concentrate supplied under these contracts will be determined at the time of delivery with respect to the price of copper, gold and silver which is quoted in US dollars. The copper price component represents greater than 90% of the copper concentrate sales value and gold represents about 9%.

In the past, the Group has entered into copper commodity swaps contracted in Australian dollars to hedge both the US dollar copper price risk and AUD/USD exchange rate risk. To a lesser extent the Group has also periodically entered into gold commodity derivative contracts quoted in US dollars. Hedge accounting is applied by hedging the copper component of concentrate sales. The copper component is a separately identifiable and reliably measurable component of copper concentrate, and is hedged on a one-to-one basis with the copper commodity swaps.

The Group has used derivative financial instruments such as commodity swaps and options to provide more predictable cash flows from sales revenues during times when the Group had significant third party secured debt. During the year ended 31 December 2016, the Board made a decision to close out its remaining derivative positions which yielded cash proceeds which in combination with restricted cash balances allowed the Group to retire its US Dollar debt (see also Note 18). For the balance of FY16 the Group managed commodity price and foreign exchange risk on a ship-by-ship basis.

In accordance with hedge accounting, the deferred gains balance in the cash flow hedges reserve account have been preserved at the time of closing out the derivatives positions and are being allocated to profit and loss over the originally designated hedge time periods as specified by the contract maturity dates. As at 31 December 2016 the pre-tax deferred gains remaining to be allocated to profit and loss were $10,827,000.

As shown in Note 18 "Current Liabilities", at reporting date the Group has a new interest-free liability to a mine contractor. The underlying face value of the liability is $1,350,000 but the final amount payable is determined by calculation of a discount/premium which is referable to future spot AUD copper prices.

There were no derivatives positions outstanding as at the current year balance date of 31 December 2016 which required mark to market valuation using hedge accounting.

The following table summarises the commodity and foreign exchange derivatives positions which existed at the previous financial year balance date.

26. Financial Risk Management (cont.)

(a) Market risk (cont.)

	Quantity	Average Contract Rate	Fair Value $'000
Commodity and forward exchange positions at 31 December 2016			
Nil	**Nil**	**Nil**	**Nil**
Commodity and forward exchange positions at 31 December 2015			
Copper forwards (tonnes)			
Maturing less than 1 year	8,479	AUD 7,722	10,132
Maturing 1-2 years	7,997	AUD 7,797	9,382
	16,476		19,514
Gold forwards (ounces)			
Maturing less than 1 year	285	AUD 1,471	2
USD dollar to AUD contracts			
Maturing less than 1 year	4,227,605	0.7169	78
Total carrying value as asset			**19,594**

The fair value of the copper and gold commodity derivative contracts in AUD will be impacted by fluctuations in the spot AUD price for each commodity. Fluctuations in the spot AUD price for each commodity reflect movements in either the underlying spot USD price for the commodity and/or movements in the spot AUD/USD exchange rate.

The fair value of foreign exchange contracts in AUD will be impacted by fluctuations in the spot AUD/USD exchange rate.

The following table details the Group's sensitivity to its derivatives positions from a 10% increase/decrease in the above variables;

	31 December 2016		31 December 2015	
	Profit/(loss)	Equity	Profit/(loss)	Equity
	$'000s	$'000s	$'000s	$'000s
Contractor liability at reporting date				
Increase in USD copper price of 10%	**(1,269)**	-	Not applicable	
Decrease in USD copper price of 10%	**1,350**	-	Not applicable	
Decrease in AUD/USD exchange rate of 10%	**(1,498)**	-	Not applicable	
Increase in AUD/USD exchange rate of 10%	**1,350**	-	Not applicable	
Copper forwards at reporting date				
Increase in USD copper price of 10%	**Not applicable**		-	(10,553)
Decrease in USD copper price of 10%	**Not applicable**		-	10,553
Decrease in AUD/USD exchange rate of 10%	**Not applicable**		-	(11,703)
Increase in AUD/USD exchange rate of 10%	**Not applicable**		-	9,575
Gold forwards at reporting date				
Increase in AUD gold price of 10%	**Not applicable**		-	(41)
Decrease in AUD gold price of 10%	**Not applicable**		-	41
Forward exchange contracts at reporting date				
Increase in AUD/USD exchange rate of 10%	**Not applicable**		683	-
Decrease in AUD/USD exchange rate of 10%	**Not applicable**		(489)	-

26. Financial Risk Management *(cont.)*

(a) Market risk *(cont.)*

The following table summarises the impact of applying hedge accounting for copper swaps;

		2016 $'000s	2015 $'000s
Cash flow hedge reserve at 31 December	gain	**10,945**	21,495
Change in value of hedging instrument recognised in other comprehensive income (pre-tax)	gain/(loss)	**(1,994)**	29,057
Amount reclassified from the cash flow hedge reserve to the line item *"Revenue from sale of concentrates"* in the statement of profit or loss (pre-tax)	(gain)	**(8,556)**	(9,937)
Cumulative hedge ineffectiveness from designation date recognised in the line item *"Net gain/loss on derivative financial instruments"* in the statement of profit or loss	gain	**-**	378

(b) Interest rate risk management

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following borrowings:

	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	Weighted average interest rate		Book value $'000	
Borrowings	**4.9%**	8.5%	**13,351**	18,942

The percentage of total borrowings which are at variable rates is 22% (31 December 2015: 0%).

An analysis by maturities is provided in (e) below.

Details of borrowings have been provided in Note 18 and 21. At 31 December 2016, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been decreased/increased by $25,000 (31 December 2015: $nil).

(c) Foreign exchange risk

The Group sells copper concentrate and sales invoices are denominated in USD.

The Group has previously entered into AUD-denominated copper commodity derivatives to hedge both the USD copper price risk and the AUD/USD exchange rate risk, with the foreign exchange exposure being the USD of the unhedged portion of future sales. Since August 2016, 100% of copper concentrate sales have been unhedged following the closeout of remaining derivatives positions.

Management continues to monitor the potential impact of foreign exchange risk on the unhedged revenue stream and where possible, has subsequently fixed pricing in AUD on a ship-by-ship basis to provide more certainty to cashflows.

At 31 December 2016 the Group has USD-denominated trade receivables of US$423,649 (31 December 2015: US$1,011,788). Offsetting this, at 31 December 2016 the Group has a USD-denominated provision for unsettled shipments of US$735,889 (31 December 2015: Nil). The net carrying amount of the trade receivables and the shipments provision in AUD will be impacted by the AUD/USD exchange rate.

26. Financial Risk Management *(cont.)*

(c) Foreign exchange risk *(cont.)*

The table below details the Group's foreign exchange sensitivity on its USD-denominated balances:

	31 December 2016		31 December 2015	
	Impact on profit or loss		Impact on profit or loss	
	Increase ($'000)	Decrease ($'000)	Increase ($'000)	Decrease ($'000)
Impact of 10% increase/decrease in AUD/USD exchange rate on USD denominated trade receivables and provisions	**(39)**	**(43)**	(126)	138

The Group and parent entity also hold bank accounts denominated in USD and IDR (Indonesian Rupiah) which had carrying values of $200 and $522 respectively at 31 December 2016 (31 December 2015: $Nil and $1,895 respectively). The foreign exchange risk on these cash balances is not material.

(d) Credit risk

Credit risk is managed on a group basis. Credit risk can arise from cash and cash equivalents, deposits with banks and financial institutions, derivative financial instruments and receivables. The Group holds its cash with Westpac Banking Corporation and Macquarie Bank which are considered to be appropriate financial institutions.

The Group has trade receivables of $585,336 (31 December 2015: $1,384,874). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

GST refunds are receivable from a government agency and are deemed to have no significant credit risk.

For banks, financial institutions and third party debtors, management assesses the credit quality of the counter party, taking into account its financial position, past experience and other relevant factors.

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity risk is managed on a Group basis. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group monitors its cash flow on a weekly basis to ensure adequate funds are in place to maintain uninterrupted production . The Group and the parent entity had no undrawn borrowing facilities at the reporting date.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes future interest on borrowings.

	Less than 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
31 December 2016 ($'000)						
Trade and other payables	**36,425**	**-**	**-**	**-**	**-**	**-**
Borrowings	**3,304**	**6,339**	**5,328**	**-**	**-**	**-**
Total	**39,729**	**6,339**	**5,328**	**-**	**-**	**-**
31 December 2015 ($'000) ***restated***						
Trade and other payables	34,247	-	-	-	-	-
Borrowings	5,903	9,589	7,637	-	-	-
Total	40,150	9,589	7,637	-	-	-

26. Financial Risk Management *(cont.)*

(f) Fair value estimation

At the previous year balance sheet reporting date, the Group carried derivative financial instruments (copper commodity swaps and options, and gold embedded derivative) at fair value. There were no derivatives held at fair value at the current reporting date. The fair values of derivative financial instruments were determined to be of Level 2 on the fair value hierarchy definition below.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table details the techniques used for measuring the fair value of the instruments and their level as at 31 December 2016:

Instrument Type	Fair value 31 Dec 2016 ($'000)	Fair value 31 Dec 2015 ($'000)	Level	Valuation techniques and key inputs
Copper commodity swaps	**Not applicable**	19,514	2	Future cash flows are estimated using copper forward rates, US$/A$ forward exchange rates and the contracted rates. Cash flows are discounted at a rate that reflects the time value of money and credit risk (entity and counter party credit risk).
Gold derivative/ Gold embedded derivative	**Not applicable**	2	2	Future cash flows are estimated using gold forward rates, US$/A$ forward exchange rates and the contracted rates. Cash flows are discounted at a rate that reflects the time value of money and credit risk (entity and counterparty credit risk).
Foreign currency forward	**Not applicable**	78	2	Future cash flows are estimated using US$/A$ forward exchange rates and the contracted rates. Cash flows are discounted at a rate that reflects the time value of money and credit risk (entity and counterparty credit risk).
Listed equity securities	**Not applicable**	-	1	Quoted price in an active market.

27. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b)(i).

Name of controlled entity	Country of incorporation	Class of share	Equity holding 31 Dec 2016 (%)	Equity holding 31 Dec 2015 (%)
Hillgrove Copper Pty Ltd	Australia	Ordinary	**100**	100
Hillgrove Copper Holdings Pty Ltd	Australia	Ordinary	**100**	100
Hillgrove Exploration Pty Ltd	Australia	Ordinary	**100**	100
Hillgrove Mining Pty Ltd	Australia	Ordinary	**100**	100
Hillgrove Operations Pty Ltd	Australia	Ordinary	**100**	100
Hillgrove Wheal Ellen Pty Ltd	Australia	Ordinary	**100**	100
Kanmantoo Properties Pty Ltd	Australia	Ordinary	**100**	100
Mt Torrens Properties Pty Ltd	Australia	Ordinary	**100**	100
SA Mining Resources Pty Ltd	Australia	Ordinary	**100**	100
Hillgrove Indonesia Pty Ltd	Australia	Ordinary	**100**	100
Hillgrove Singapore Holdings Pte Ltd	Singapore	Ordinary	**80**	80
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	**80**	80
Hillgrove Singapore No 3 Pte Ltd	Singapore	Ordinary	**100**	100
Hillgrove Singapore No 4 Pte Ltd	Singapore	Ordinary	**100**	100
PT Akram Resources	Indonesia	Ordinary	**80**	80
PT Fathi Resources	Indonesia	Ordinary	**80**	80
PT Hillgrove Indonesia	Indonesia	Ordinary	**100**	100

The proportion of ownership interest is equal to the proportion of voting power held.

Transactions with non-controlling interests

There were no transactions with non-controlling interests during the period.

28. Commitments

(a) Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Within one year	**33**	272
One year or later and no later than five years	**-**	264
	33	536

The group leases one office under a non-cancellable operating lease expiring within five years of the reporting date. The lease has varying terms, CPI escalation clauses and renewal rights. On renewal, the terms of the lease will be renegotiated.

(b) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform exploration work to meet the minimum expenditure requirements under the various exploration licences which are held. These obligations are expected to be fulfilled in the normal course of operations. Mining interests may be relinquished or joint ventured to reduce this amount. The State Government has the authority to defer, waive or amend the minimum expenditure requirements. Eligible exploration expenditure includes an appropriate allocation of overhead costs.

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Within one year	**641**	-
One year or later and no later than five years	**-**	654
	641	654

(b) Capital commitments

At 31 December 2016 there were no contracted capital commitments (31 December 2015: Nil).

29. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as set out in Note 9.

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

	31 Dec 2016	31 Dec 2015
	$'000	$'000 (restated)
Operating profit/(loss) after income tax	**(109,134)**	(130,126)
Add/(less) items classified as investing/financing activities		
Loss on sale of investments	**-**	381
Net (gain)/loss on sale of fixed assets	**(32)**	111
Net interest expense	**3,174**	2,560
Add/(less) non-cash items		
Depreciation and amortisation	**46,107**	36,347
Impairment asset write downs	**67,117**	112,915
Employee share options	**305**	(157)
Unrealised FX (gains)/losses	**(808)**	1,162
NRV write down of inventories	**1,202**	-
Unrealised (gain)/losses on financial derivatives	**(3,648)**	(1,113)
Discount on unwind of rehabilitation provision	**1,035**	1,136
Allocation of deferred mining costs to costs of goods sold	**-**	2,784
Net cash generated by operating activities before change in assets and liabilities	**5,318**	26,000
Changes in operating assets and liabilities		
Decrease/(increase) in receivables, prepayments and inventories	**1,045**	(7,946)
Increase in trade creditors and accruals	**2,661**	4,325
Decrease/(increase) in net deferred tax assets	**10,721**	(7,999)
Increase/(decrease) in provisions	**1,287**	(1,721)
Net cash generated by operating activities	**21,032**	12,659

30. Key Management Personnel Disclosures

(a) Key management personnel compensation

	31 Dec 2016	31 Dec 2015
	$	$
Short-term employee benefits	**1,331,888**	2,027,278
Post-employment benefits	**101,695**	150,532
Share based payments	**160,066**	(712,013)
	1,593,649	1,465,797

Further detail regarding key management personnel compensation can be found in the Remuneration Report.

31. Related Party Transactions

(a) Parent entities

The parent entity within the Group is Hillgrove Resources Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 27.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 30.

(d) Related parties

Loans to controlled entities are eliminated on consolidation.

32. Events After the Reporting Period

On 16 March 2017, lodgement of the Federal Court approved documentation made the third-party merger (Emeco Transaction) with the Company's mining fleet contractor Andy's Earthmovers (Asia Pacific) Pty Ltd (AEM) legally binding and effective. As a result the revised contract terms with AEM and the Company will come into effect on 31 March 2017, when all monies owing to AEM as at 31 March 2017 will be deferred with first repayment occurring in November 2017 and the last payment in June 2018. The Company will receive discounted charge rates for the period commencing November 2016 through to September 2019. An amount of $5.3 million recognised as a liability as at 31 December 2016, will be reduced by an estimated $4.1 million being the discount earned from November 2016 to March 2017.

On 20 March 2017, the Company negotiated a $2.7 million PetroBond which will allow it to return to normal creditor terms with its fuel supplier instead of paying cash up front. The bond is secured and constitutes a 'Permitted New Debt' under Note Terms included in the Prospectus.

In February 2017, the Company replaced the $1.64 million Electranet security bond, for electricity infrastructure and transmission services, with a bond from Swiss Re. Unlike the previous bond, the new bond does not require cash backing by the Company thereby increasing available cash by $1.64 million which was used for working capital purposes.

33. Contingent Liabilities

Guarantees

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	**1,641**	2,087
Environmental bond required under the mining and rehabilitation plan for Kanmantoo	**-**	10,180
Security bonds on rental properties	**16**	198
	1,657	12,465

The Electranet and Environment bonds were provided by Macquarie Bank Limited under the Performance Bond facility agreement.

The security bonds on rental properties and tenements are provided by Westpac Banking Corporation.

The consolidated entity has obligations to restore land disturbed under exploration and mining licences. At 31 December 2015 the consolidated entity had bank guarantees set aside for the maximum obligations to the state government departments which could have been forfeited if the consolidated entity did not meet its obligations under these licence agreements. During 2016 the bank guarantees were released and the environmental obligations of the consolidated entity in respect of the Kanmantoo mine have been directly secured on a first ranking basis to the SA Government.

The Directors are of the opinion that further provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The consolidated entity had no other contingent liabilities at 31 December 2016.

34. Share-based Payments

Options and Performance Rights Plan (OPRP)

Share based compensation benefits are provided by the Options and Performance Rights Plan (OPRP).The securities issued under this plan are referred to as performance rights throughout the financial statements.

The Options and Performance Rights Plan (OPRP) is designed to provide long-term incentives for senior managers and above (including Executive Directors) to deliver ongoing improvements in shareholder returns.

Under the plan, participants are granted rights which vest and can be exercised three years after offer (for the 2014 offer) and two years after offer (for the 2016 offer), subject to the achievement of certain pre-set performance measures and service conditions. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Rights granted under the plan carry no dividend or voting rights. When exercisable, each performance right is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The granting and exercise price of the rights is nil.

The ability for rights to vest and be automatically exercised under the OPRP is dependent on the following:

a) The satisfaction of all the Performance Conditions (KPI's);

b) The invitee achieving an Annual Performance Appraisal Rating of 50% of more;

c) The invitee complying with all Company policy and procedures (e.g. no disciplinary action against the invitee between offer and vesting); and

d) The invitee meeting the Service Condition (continued employment) for the rights.

Collectively the above conditions are referred to as the Vesting Conditions.

Fair value of performance rights granted in the year

The assessed fair value at grant date of performance rights granted to individuals is allocated equally over the period from grant date to vesting date. Fair values for the 2016 grant date are determined using a Binominal Approximation which took into account the exercise price, the term, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights.

The model inputs for the two tranches of performance rights granted during the financial year ended 31 December 2016 included:

Performance rights granted	11 July 2016	26 May 2016
Grant date share price	$0.074	$0.035
Exercise price	$0.00	$0.00
Expected volatility	60%	60%
Expiry date	31July 2018	31July 2018
Option life	750 days	796 days
Expected dividend yield	Nil	Nil
Risk-free interest rate	2.75%	2.75%

There were no performance rights granted during 2015. The total number of performance rights granted during 2016 was 8,548,000 and the weighted fair value was 5.7cents per option

34. Share-based Payments *(cont.)*

Movements in performance rights during the year

	31 December 2016		31 December 2015	
	Number of performance rights	Weighted average exercise price ($)	Number of performance rights	Weighted average exercise price ($)
Balance at beginning of year	**1,813,750**	**-**	4,462,500	-
Granted during the year	**8,548,000**	**-**	-	-
Forfeited during the year	**(220,000)**	**-**	(2,561,250)	-
Exercised during the year	**-**	**-**	(87,500)	-
Expired during the year	**(731,250)**	**-**	-	-
Balance at end of year	**9,410,500**	**-**	1,813,750	-
Exercisable at end of year	**-**	**-**	-	-

Performance rights outstanding at the end of the year

At the end of the year there are 9,410,500 performance rights outstanding that have been offered under the OPRP. The exercise price of these performance rights are Nil (31 December 2015: Nil), and the weighted average remaining contractual life at the end of the period was 1.4 years (31 December 2015: 0.8 years).

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Performance rights issued under the OPRP	**305**	(157)

35. Parent Entity Information

Set out below is the supplementary information about the parent entity.

	Parent	
	31 Dec 2016	31 Dec 2015
	$'000	$'000 (restated)
Loss after income tax	**(116,519)**	(122,937)
Total comprehensive income	**(116,519)**	(127,683)
Balance Sheet		
Total current assets	**854**	426
Total assets	**28,832**	134,290
Total current liabilities	**924**	1,089
Total liabilities	**10,586**	1,096
Shareholders Equity		
Share capital	**217,538**	216,272
Reserves	**1,558**	1,253
Accumulated losses	**(200,850)**	(84,331)
Total equity	**18,246**	133,194

35. Parent Entity Information *(cont.)*

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1. Investments in subsidiaries are accounted for at cost, less any impairment.

Contingent liabilities

	31 Dec 2016	31 Dec 2015
	$'000	$'000
Security bond on rental properties	16	198

36. Standards and interpretations in issue

Mandatory standards adopted in the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The adoption of these mandatory standards has not had a significant impact on the Group's accounting policies or the amounts reported during the year.

Standards and interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective. No material impact on the financial statements is expected.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 (2014) 'Financial Instruments', and the relevant amending standards.	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	31 December 2017
AASB 16 'Leases'	1 January 2019	31 December 2019

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 35 to 66 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 31 December 2016 and of its performance for the financial period ended on that date; and

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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Dated at Adelaide this 31st day of March 2017

The Hon. Dean C Brown, AO
Chairman

Mr Steve McClare
Managing Director

Deloitte.

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Independent Auditor's Report to the members of Hillgrove Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Hillgrove Resources Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the declaration by the directors as set out on pages 35 to 67.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(a)(i) in the financial report, which indicates that the Group incurred a net loss of $109.1 million during the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its current assets by $34.4 million. As stated in Note 1(a)(i), these events or conditions, along with other matters as set forth in Note 1(a)(i), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation and impairment of property, plant and equipment As disclosed in note 13, as at 31 December 2016, the Group has property, plant and equipment with a carrying value of $67.1 million which is net of an impairment charge recognised during the year of $67.1 million The evaluation of the recoverable amount of the assets requires significant judgement in determining the key assumptions supporting the expected future cash flows of the business and the utilisation of the relevant assets.	Our procedures included, but were not limited to: • in conjunction with our valuation experts - assessing the valuation methodology; and - assessing the market based assumptions used by management including forecast commodity prices and exchange rates by comparing to Consensus Economics forecasts; • assessing the discount rate • challenging the forecast production profile, with reference to historic levels and project reserve estimates which underpin the life of mine model • comparing the project forecasts to the Board approved budgets and forecasts • applying sensitivities to the forecast cash flows to quantify the impact of reasonable changes in commodity prices, discount rate and production forecasts, being the factors with the most significant impact on recoverable value • assessing historical budgeting accuracy • on a sample basis testing management's model for mathematical accuracy; and • assessing the appropriateness of the disclosures included in note 6(d).

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Renegotiation of key supplier contracts The Group renegotiated a number of contracts with their key suppliers. We focussed on them due to the complexity of the revised terms and the consequential impact on the accounting associated with these changes.	Our procedures included, but were not limited to: • obtaining a detailed understanding of both the renegotiated contracts and the previous contracts for these suppliers. • assessing the appropriateness of the accounting treatment in respect of the changes to those contracts. In respect of one of the contracts, a restatement was required. The following procedures in respect of the restatement were performed; • assessing the revised accounting treatment against the requirements of Australian Accounting Standards. • recalculating the value of the misstatement with reference to the applicable contract. • we also assessed the appropriateness of the related disclosures included in note 1(a)(v).
Recoverability of deferred tax assets The Group has recognised $4.9 million of deferred tax assets as at 31 December 2016, which is net of an impairment charge recognised during the year of $19.2 million. Australian Accounting Standards require deferred tax assets to be recognised only to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the deferred tax assets to be realised. These benefits are realised by reducing tax payable on future taxable profits. We focussed on this matter due to the significant judgement required to assess whether there will be sufficient future taxable profits to utilise the recognised deferred tax assets.	We assessed the Group's ability to utilise the deferred tax assets recognised as at 31 December 2016, based on the extent to which they can be recovered by future taxable profits, through: • assessing whether the taxable profit forecast is consistent with the model used for impairment • in conjunction with our tax experts evaluating whether the cashflows had been appropriately adjusted for the differences between accounting profits and taxable profits • recalculating deferred tax asset balances which comprise a combination of timing differences between tax and accounting values and tax losses; and • assessing the adequacy of the disclosures in note 15.

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Other Information

The directorsare responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directorsof the Company are responsible for the preparation of the 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 directorsdetermine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directorseither intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directorsregarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directorswith a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report of Hillgrove Resources Limited included in pages 23 to 32 of the director's report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of the Company, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

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Responsibilities

The directorsof the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Darren Hall
Partner
Chartered Accountants
Adelaide, 31 March 2017

Shareholder Information

As at the reporting date the most recent Shareholder information available for disclosure is as follows:

(a) Voting rights and classes of equity securities

As at 23 March 2017, the Company has 217,399,327 listed fully paid ordinary shares. Each fully paid share carries on a poll, one vote.

The company also has 4,958,222 quoted convertible notes, 178,878,216 quoted options and 9,410,500 unquoted options on issue, which do not carry voting rights.

(b) The number of Shareholders holding less than amarketable parcel of ordinary shares was 2,202 as at 23 March 2017

(c) The number of Noteholders holding less than amarketable parcel of notes was 66 as at 23 March 2017

(d) The number of Optionholders holding less than amarketable parcel of options was 85 as at 23 March 2017

(e) Distribution schedule of Fully Paid Ordinary Shares as at 23 March 2017

Size of holding	Number of shareholders
1 - 1,000	504
1,001 - 5,000	1,626
5,001 - 10,000	539
10,001 - 100,000	941
100,001 and over	168
	3,778

(f) Distribution schedule of Notes as at 23 March 2017

Size of holding	Number of noteholders
1 - 1,000	180
1,001 - 5,000	62
5,001 - 10,000	19
10,001 - 100,000	39
100,001 and over	12
	312

(g) Distribution schedule of Options as at 23 March 2017

Size of holding	Number of optionholders
1 - 1,000	8
1,001 - 5,000	42
5,001 - 10,000	50
10,001 - 100,000	119
100,001 and over	99
	318

(h) Company Secretary

Mr Paul Kiley is the Company Secretary.

(i) On-market buy-back

There is no current on-market buy-back.

Shareholder Information *(cont.)*

(j) Substantial shareholders as at 23 March 2016

An extract of the Company's register of Substantial Shareholders (who hold 5.0% or more of the issued capital) in accordance with Form 604 Notices is set out below:

Name	Issued capital
Ariadne Australia Limited	18.9%
Freepoint Metals and Concentrates LLC	10.6%
Craton Capital Management	7.8%

Twenty largest listed shareholders

The twenty largest shareholders hold 60.3% of the total ordinary shares issued. The 20 largest listed shareholders as at 23 March 2017 are listed below:

	Shareholder	No. of ordinary shares held	% of issued shares
1	Bell Potter Nominees Ltd<The Donnelly Super Fund A/C>	23,167,216	10.6%
2	HSBC Custody Nominees	17,001,328	7.8%
3	Portfolio Service Pty Ltd 1	16,610,443	7.6%
4	Helen Ma Pty Ltd <Stevema Super Fund A/C>	9,107,122	4.2%
5	Citicorp Nominees Pty Limited	8,597,778	3.9%
6	Ariadne Capital Pty td	8,500,000	3.9%
7	Portfolio Services Pty Ltd 2	6,171,372	2.8%
8	Weyitin Trading Pty Ltd <Weyitin Super Fund A/C>	5,863,146	2.7%
9	Portfolio Services Pty Ltd 3	5,671,775	2.6%
10	Roc-Drill Pty Ltd	4,657,905	2.1%
11	Mr Raymond Edward Munro	4,506,000	2.1%
12	Mrs Bronwyn Keays	3,500,000	1.6%
13	J P Morgan Nominees Australia Limited	2,617,664	1.2%
14	Cosell Pty Limited	2,550,000	1.2%
15	Mr Steven Paul McClare & Mrs Sandra Lyla Wilkinson	2,546,373	1.2%
16	W Donnelly Services Pty Ltd	2,452,000	1.1%
17	Mrs Rosslyn Judith Brown	2,206,356	1.0%
18	HSBC Custody Nominees (Australia) Limited	2,170,216	1.0%
18	Portfolio Services Pty Ltd 4	2,052,822	0.9%
20	Portfolio Services Pty Ltd 5	1,674,544	0.8%
		131,417,569	**60.3%**

(k) Substantial noteholders as at 23 March 2016

An extract of the Company's register of Substantial noteholders (who hold 5.0% or more of the issued capital) in accordance with Form 604 Notices is set out below:

Name	Issued capital
Ariadne Australia Limited	35.3%
Mr Raymond Edward Munro	7.7%
Supervised Investments Australia Limited ATF The Supervised Fund	7.6%

Twenty largest listed noteholders

The twenty largest convertible noteholders hold 77.5% of the total note issued. The names of the 20 largest convertible noteholders as at 23 March 2017 are listed below:

	Noteholder	No. of notes held	% of issued notes
1	Ariadne Capital Pty Ltd	1,040,647	21.1%
2	JP Morgan Nominees Australia	390,597	7.9%
3	Mr Raymond Edward Munro	380,269	7.7%
4	Portfolio Services Pty Ltd 1	240,222	4.9%
5	Citicorp Nominees Pty Limited	215,138	4.4%
6	Portfolio Services Pty Ltd 2	160,324	3.2%
7	Portfolio Services Pty Ltd 3	153,224	3.1%
8	Portfolio Services Pty Ltd 4	150,765	3.1%
9	Mr Malcolm Neil Nichols	150,000	3.0%
10	Weyitin Trading Pty Ltd <Weyitin Super Fund A/C>	127,926	2.6%
11	Cosell Pty Ltd	120,000	2.4%
12	Rossdale Superannuation Pty Ltd	120,000	2.4%
13	Mr Lachlan Wallace	100,000	2.0%
14	Sighet Pty Limited	94,784	1.9%
15	Mr David Allan Stern	92,199	1.9%
16	W Donnelly Services Pty Ltd	65,179	1.3%
17	Sighet Pty Limited	61,950	1.3%
18	Craton Capital LP	61,943	1.3%
19	Mr Steven Paul McClare	55,000	1.1%
20	Mr Paul Kiley	50,000	1.0%
		3,830,167	**77.5%**

(l) Substantial optionholders as at 23 March 2017

An extract of the Company's register of Substantial optionholders (who hold 5.0% or more of the issued capital) in accordance with Form 604 Notices is set out below:

Name	Issued capital
Ariadne Australia Limited	36.2%
Mr Raymond Edward Munro	8.4%
Supervised Investments Australia Limited ATF The Supervised Fund	8.0%

Twenty largest listed optionholders

The twenty largest optionholders hold 78.4% of the total options issued. The 20 largest optionholders as at 23 March 2017 are listed below:

	Optionholder	No. of options held	% of issued options
1	Ariadne Capital Pty Ltd	39,149,141	21.9%
2	Mr Raymond Edward Munro	15,000,000	8.4%
3	JP Morgan Nominees Australia	14,887,603	8.3%
4	Portfolio Services Pty Ltd 1	8,112,305	4.5%
5	Citicorp Nominees Pty Limited	8,093,492	4.5%
6	Portfolio Services Pty Ltd 2	6,031,389	3.4%
7	Portfolio Services Pty Ltd 3	5,764,287	3.2%
8	Portfolio Services Pty Ltd 4	5,671,780	3.2%
9	Mr Malcolm Neil Nichols	5,643,000	3.2%
10	Cosell Pty Ltd	5,000,000	2.8%
11	Rossdale Superannuation Pty Ltd	4,514,400	2.5%
12	Mr Lachlan Wallace	3,762,000	2.1%
13	Sighet Pty Limited	3,565,765	2.0%
14	W Donnelly Services Pty Ltd	2,452,034	1.4%
15	Mr Antony Gordon Breuer	2,330,559	1.3%
16	Craton Capital LP	2,330,396	1.3%
17	Mrs Susan Roberta Munro	2,328,600	1.3%
18	Mr Lino Fusco	1,950,829	1.1%
19	Mr Paul Kiley	1,881,000	1.1%
20	Mr Christopher Philip Martin	1,750,038	1.0%
		140,218,528	**78.4%**

(m) Interests in mining tenements

Tenement	Location	Percentage
ML 6345	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
EL 5628	Kanmantoo, South Australia	100%
EL 5627	Wheal Ellen, South Australia	100%
ELA 86/11	Aclare South Australia	100%
PM 53	Kitticoola, South Australia	0% (1)
ML 755	Armidale, New South Wales	100%
IUP 322/2009 (2)	Sumba, Indonesia	80%
IUP 40/2010	Bird's Head, Indonesia	80%

(1) The Company has an option to earn 100% by making a Decision to Mine prior to June 2019.

(2) The Company has applied to convert the IUP into a Operasi Produksi licence.

(n) Other information

Hillgrove Resources Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

HILLGROVE RESOURCES

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