HILLGROVE RESOURCES

QUARTERLY REPORT

PERIOD ENDING 31 DECEMBER 2016

Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 December 2016

HIGHLIGHTS

- There were significant improvements in nearly all physical production and unit cost metrics:
  - Copper production increased from 3,103t last quarter to 3,765t this quarter;
  - Gold production increased from 2,187oz last quarter to 2,316oz this quarter;
  - Mining movements increased from 959kBCM last quarter to 1,328kBCM this quarter;
  - Processing throughput increased from 675kt last quarter to 898kt this quarter;
  - Mining unit cost decreased from $16.88/BCM last quarter to $15.13/BCM this quarter; and
  - Processing unit cost decreased from $7.68/t last quarter to $6.09/t this quarter.
- The successful $5.0m capital raising and the continued completion of initiatives in the quarter have placed the Company in a much stronger financial position, easing the cash constraint that had hampered operations in recent quarters.
- Cash on hand was $1.9 million, with debt at $12.8 million (recognising the convertible notes as debt and the deferral of creditor balances with the drilling contractor).
- Revenue for the quarter of $28.3 million at an average realised price for copper of $3.00/lb (USD2.25/lb).
- The copper price increased from US$2.08/lb to US$2.45/lb during the quarter, and has further increased in January to around US$2.63/lb.
- C1 cost for the quarter increased from US$1.90/lb last quarter to USD2.20/lb as a result of a lower proportion of capitalised pre-strip work in the quarter.

LOOKING FORWARD

- The Company has completed documentation to replace the $1.64m Electranet Bond with a life of mine bond from Swiss Re, which unlike the current bond, does not require cash backing.
- Liquidity will remain a challenge to April 2017, with the deferral of the Emeco Holdings Limited, Orionstone, and Andy's Earthmovers (Asia Pacific) Pty Ltd merger (the Emeco Extraordinary General Meeting is scheduled on 13 March 2017). Emeco and HGO have formally extended the sunset date of the original agreement until 31 May 2017 to cater for this delay.
- By December 2017, we anticipate having reduced creditor balances and a healthy cash buffer.

EXECUTIVE SUMMARY

Thank you to all participating shareholders who supported the Company in the recent successful capital raising. As can be seen by the improved production results in this Quarterly Report, the injection of liquidity has led to improved outcomes. Significantly, there has been a step change in mining movements since the middle of December which has continued into the New Year.

We are pleased with the significant progress we have made in restructuring the balance sheet and improving our liquidity. In the recent prospectus, the Company announced that pursuant to a proposed merger transaction between Emeco Holdings Limited, Orionstone, and Andy's Earthmovers (Asia Pacific) Pty Ltd (Merger), the Company had reached an agreement for the Company to:

- Defer payments of existing creditor balances, with first repayment occurring in November 2017; and
- To receive substantially discounted charge rates for future services provided.

At the time, the Merger was due to be completed in early January 2017. Completion of that transaction has been delayed and the extraordinary general meeting to approve the transaction is now due to take place on 13 March 2017. The sunset date of the agreement between the Company and Emeco has been extended until 31 May 2017 to cater for this delay.

The Merger will significantly increase Hillgrove's liquidity, but the deferral has meant that managing the Company's liquidity will remain a challenge until April 2017 when the transaction is scheduled to be completed and/or the copper production increases.

Hillgrove has worked extremely hard with employees, suppliers and other stakeholders since March 2016, when we announced the potential cash shortfalls. Whilst the worst is behind us, without the benefits of either the Emeco or the Andy's agreement, liquidity will remain a challenge through to April 2017. Hillgrove's liquidity is manageable, with the continued support of our suppliers and service providers, and the Company continues to develop and implement initiatives to manage its cash position.

In September 2016, the Company highlighted the need for $5m to $10m of liquidity, of which $5m was received from the Convertible Note entitlement offer, and the remainder from the Merger. The deferment of the Merger has prolonged the liquidity challenge and the Company will continue to work closely with the greatly appreciated support of contractors and suppliers for the first half of this year.

There is an additional source of funding that can assist during this period. Since the end of 2016, a number of shareholders have elected to exercise their options. These options can raise up to $5.6 million on conversion (expiring in September 2017). Whilst option holders have no obligation to convert prior to September 2017, doing so now offers the following potential upside:

1. Immediately increases the liquidity and robustness of the Company's balance sheet.
2. Avoids expensive fees and charges for a small short-term loan.
3. Lower costs, increased productivity, increased revenue and thus increased value.
4. Potential rerating of the stock.
5. Increases robustness and likelihood of unlocking future value through exploration.

I therefore encourage all option holders to convert their options, to assist us in overcoming this challenge, and maximising the likelihood of delivering improved value to shareholders.

We look forward to the post June 2017 period when the Giant Pit Pre-strip is completed, and:

- Waste to ore ratio is forecast to reduce from 4.6 to 2.1,
- Copper grade is forecast to increase from 0.47% to 0.65%, and
- Costs decline as the benefits which accrue from the proposed Emeco merger are realised.

By year end, the Company anticipates that, based on the current copper price, debt will be reducing along with amounts owing to creditors and a healthy cash balance will be restored, unlocking value for shareholders.

KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

Overview

In the latter half of December 2016 we saw an easing of the constraints that have affected operations throughout most of 2016 (including working in confined areas, needing to prioritise ore bearing zones, adverse weather and cash constraints). As a result, mining significantly improved, and this improvement which has continued into 2017 is expected to be sustained into the future.

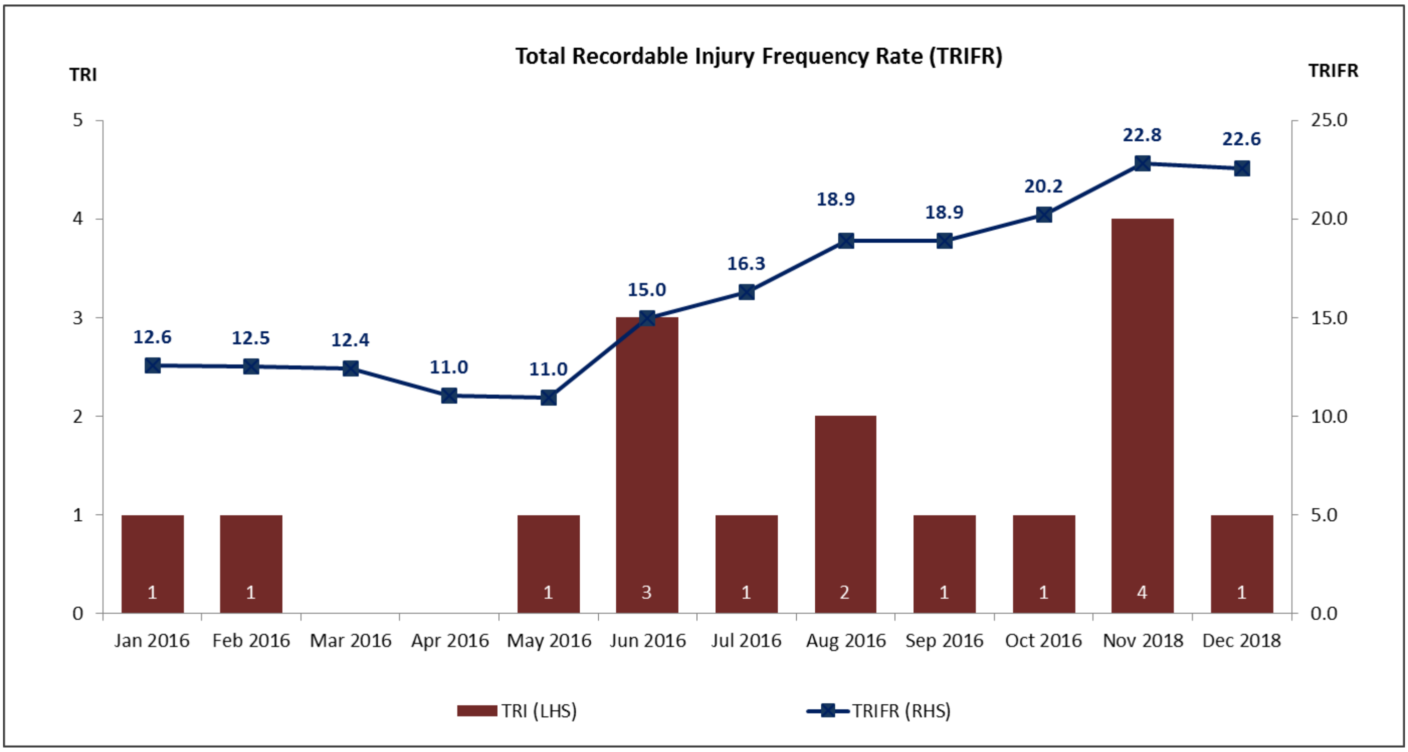
Mining continued in the Giant pit, and with the opening up of the pit, focus was on the development of the ore bearing benches in the southern and western zones, with waste stripping on the eastern wall. Backfilling in the Nugent pit is now complete and backfilling of the Emily pit is well progressed. This removes an environmental obligation, and along with it, the added benefit of extending the ore stockpile area.

The processing plant continues to perform well, with improvements in key measures including throughput, run time and copper recoveries. Gold recoveries also significantly improved from 52.1% to 59.4%, with the step change due to continue with the successful installation of the skim air capital project (a pre float circuit which will increase recovery from gravity gold).

Safety and Community

The Total Recordable Injury Frequency Rate (TRIFR) for the quarter was 22.6, with the higher level a result of injuries associated with handling large oversize rocks in the load and haul process. The large rocks originate from a combination of rill material that has been blasted into the old Kavanagh Pit over the past two years and suboptimal blasting practices in tight working areas as areas of the pit were accelerated to sustain ore supply. In December, the pit working areas opened up, enabling free flowing operations with sufficient room which will improve blasting outcomes and reduce and improve blasted rock size. In addition, management of oversize rocks will be further enhanced by additional secondary rock breaking capacity in early 2017.

FIGURE 1. TOTAL RECORDABLE INJURY FREQUENCY RATE



Operations

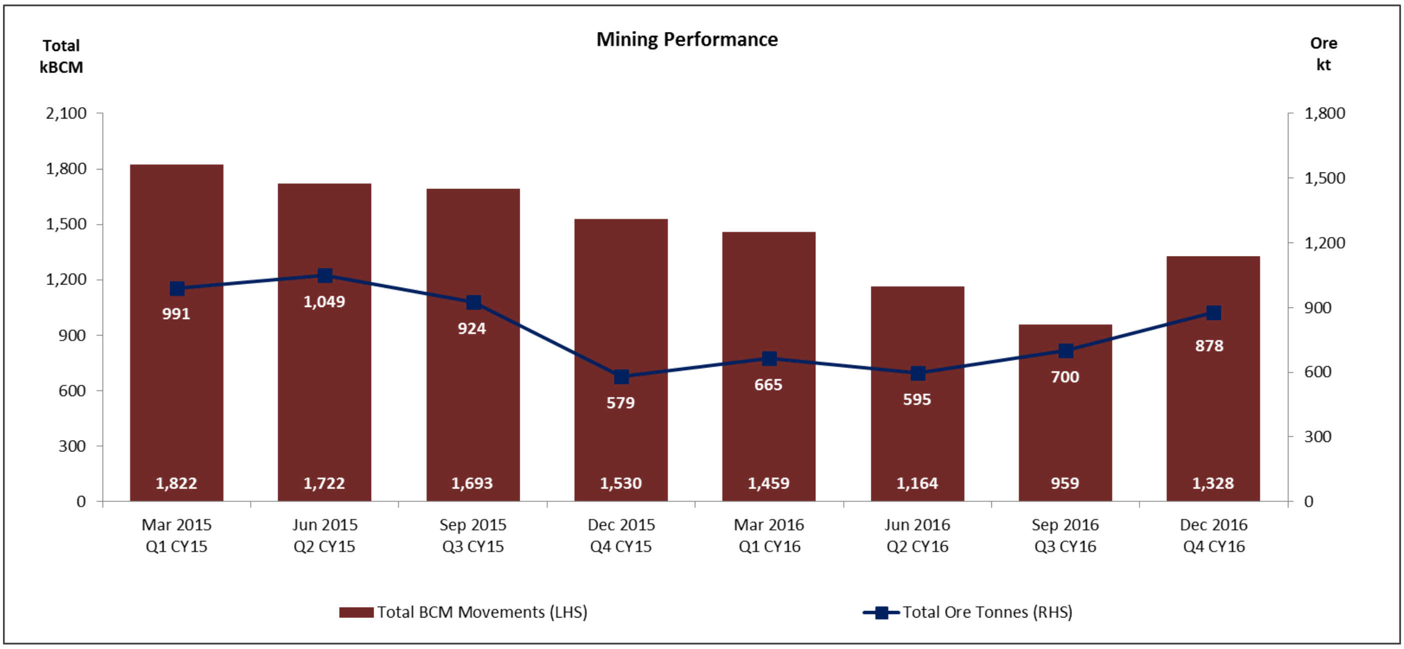
Although the mined and milled grade has decreased during the quarter, in line with the recently updated geological model, this has been offset by the increased ore throughput in the plant. Grades are expected to significantly increase in the coming quarters, as the heart of the ore body is exposed and mined.

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

		FY15	MAR-16 QTR	JUN-16 QTR	SEP-16 QTR	DEC-16 QTR
		12 MTHS	3 MTHS	3 MTHS	3 MTHS	**3 MTHS**
Ore to ROM from Pit	kt	3,290	665	595	700	**878**
Ore to long term stockpiles	kt	252	1	0	0	**0**
Mined Waste	kt	17,350	3,843	3,000	2,265	**3,224**
Total Tonnes Mined	kt	20,892	4,509	3,595	2,965	**4,102**
To ROM from LT Stockpiles	kt	784	427	0	0	**0**
Mining Grade to ROM	%	0.59	0.58	0.52	0.47	**0.44**
Ore Milled	kt	4,104	865	759	675	**898**
Milled Grade - Cu	%	0.52	0.54	0.56	0.51	**0.46**
- Au	g/t	0.11	0.32	0.20	0.19	**0.14**
Recovery - Cu	%	80.3	72.6	78.8	91.0	**91.4**
- Au	%	47.1	51.2	49.7	52.1	**59.4**
Cu Concentrate Produced	Dry mt	74,971	16,148	14,221	13,134	**16,339**
Concentrate Grade - Cu	%	23.1	21.0	23.6	23.6	**23.0**
- Au	g/t	2.8	8.8	5.3	5.2	**4.4**
Contained Metal in Con. - Cu	t	17,306	3,397	3,359	3,103	**3,765**
- Au	oz	6,790	4,587	2,428	2,187	**2,316**
- Ag	oz	114,399	29,828	23,569	22,598	**28,047**
Total Concentrate Sold	Dry mt	75,028	15,382	15,765	12,829	**16,237**

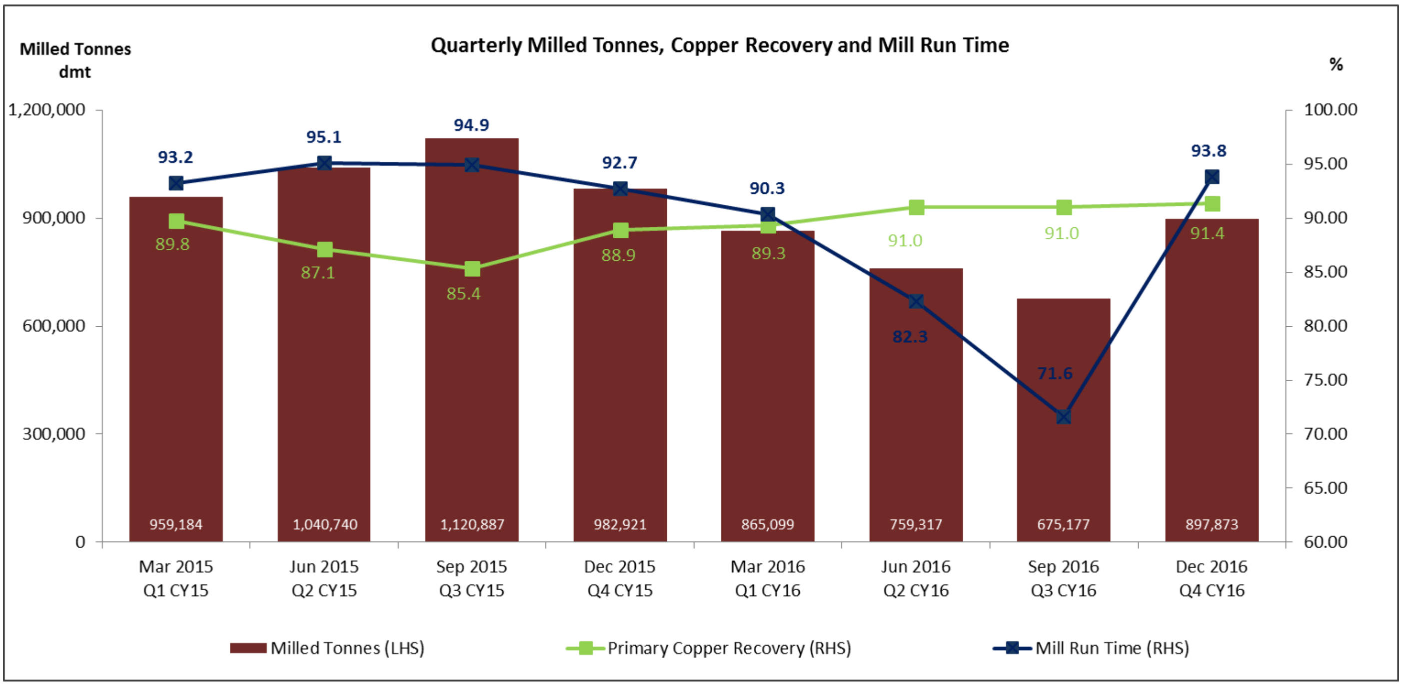
Mining production was 4,102kt (1,328k BCM) for the December 2016 quarter, of which 878kt was ore. Mining movements improved in the quarter, with the constraints in the previous quarters being mitigated. In addition to this, the recent completion of the capital raising improved liquidity and this has allowed more efficient mining practices to be used, which increased movements in the month of December 2016. The increase in mining movements has increased production and consequently reduced unit costs for both mining and processing.

FIGURE 2. KANMANTOO COPPER MINE TOTAL BCM



Mill run time saw a significant improvement during the quarter, which led to increased milled tonnes. This was driven by ore availability, as a result of the improved mining movements.

FIGURE 3. KANMANTOO QUARTERLY MILL TONNES, COPPER RECOVERY AND MILL RUN TIME



Costs

Quarterly mining unit costs decreased to $15.13/bcm this quarter, with processing unit costs decreasing to $6.09/tonne. The reductions in both these unit costs are mostly volume related, driven mainly by the higher mining movements and in turn ore availability.

FIGURE 4. KANMANTOO QUARTERLY MINING UNIT COSTS

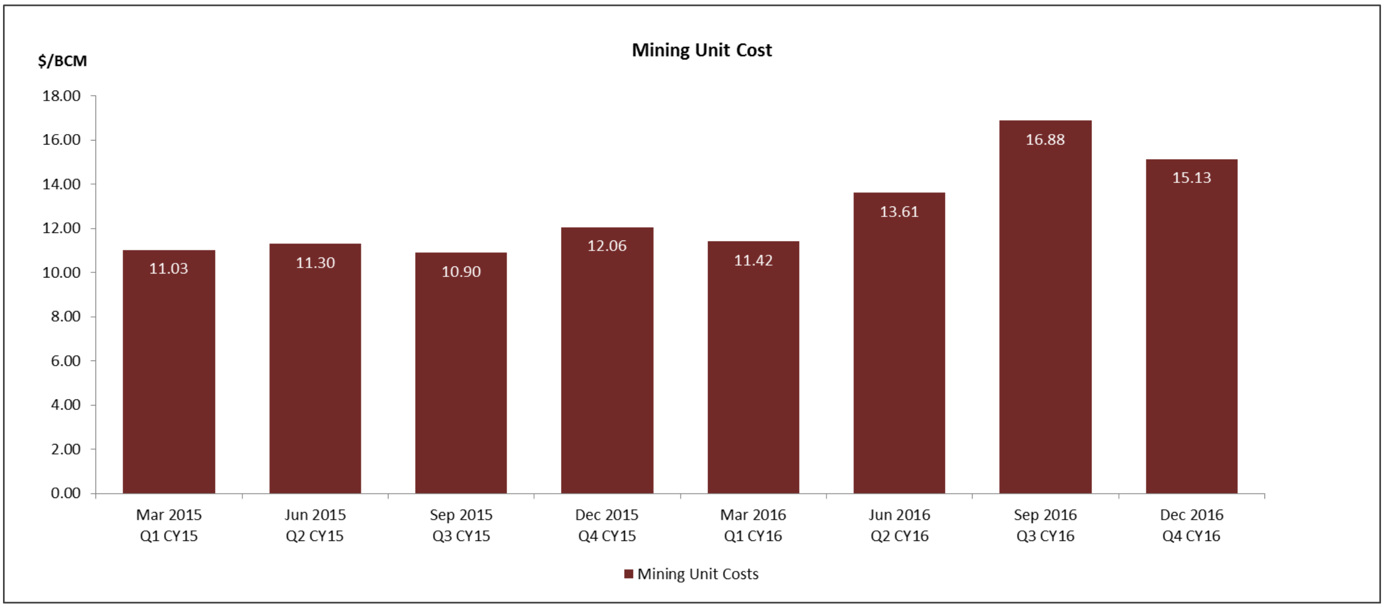
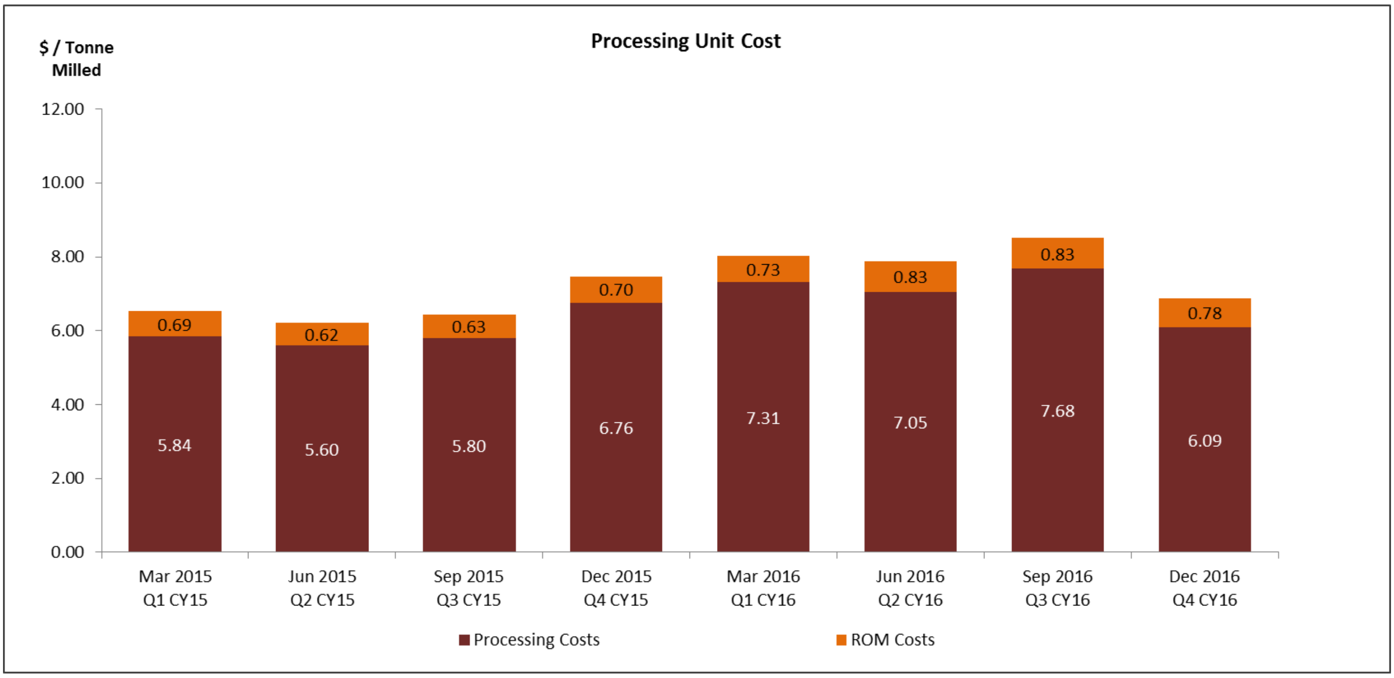


FIGURE 5. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



C1 cost for the quarter increased from US$1.90/lb last quarter to USD2.20/lb as a result of a lower proportion of capitalised pre-strip work in the quarter. It is US$1.73/lb for the 2016 year, below the 2016 guidance (US$1.85/lb to US$2.25/lb). Total mining cost of US$1.96/lb for the quarter reflects the higher BCM's of waste relative to ore.

TABLE 2. KANMANTOO COPPER MINE COSTS (USC/lb)

US cents per lb	CY15	MAR-16 QTR	JUN-16 QTR	SEP-16 QTR	DEC-16 QTR
	12 MTHS	3 MTHS	3 MTHS	**3 MTHS**	**3 MTHS**
Total Mining Cost	163	174	173	**194**	**196**
Deferred Mining	-29	-36	-16	**-19**	**-22**
Pre-strip	-37	-64	-110	**-48**	**-26**
Ore Inventory Adjustment	18	2	15	**-6**	**0**
Mining Costs	115	76	62	**121**	**148**
Processing Costs	51	63	56	**60**	**52**
Other Direct Cash Costs	16	16	15	**18**	**11**
Total Onsite Costs	182	155	133	**199**	**211**
Transport & Shipping	12	11	11	**11**	**12**
Treatment, Refining & Smelter Charges	41	39	35	**31**	**31**
Total Offsite Costs	53	50	46	**42**	**43**
Precious Metals Credits	-24	-64	-42	**-51**	**-34**
Total Direct Operating Costs (C1 Cash Costs)	211	141	137	**190**	**220**
Royalties	3	3	4	**3**	**3**
D&A	71	201	211	**24**	**27**
TOTAL COSTS	285	345	352	**217**	**250**

NOTES TO TABLE 2:

Deferred Mining: *Within each pit, the cost of higher waste benches, proportional to the copper contained in the ore, is normalised for the impact of strip ratios and copper grades over the life of specific pits.*

Pre-Strip: *Upper levels of pits where the strip ratio is greater than 10:1 (waste:ore) are capitalised and amortised over the life of the mine based on metal.*

Ore Inventory Adjustment: *Mining costs per tonne of ore added to (-'ve) or processed from (+'ve) long term stockpiles.*

Shipping

During the quarter, Hillgrove despatched its 37th shipment of copper concentrate of 10,126WMT (9,284DMT).

Revenue

Revenue for the quarter was $28.3 million at an average realised price for copper of $3.00/lb (USD2.25/lb). The copper price rose significantly during the quarter, and has continued to further increase in January to around US$2.63/lb.

Exploration Programme

There was minimal exploration expenditure during the quarter.

INDONESIAN GOLD AND GOLD/COPPER ASSETS

The focus on its Kanmantoo operations means the Indonesian assets are no longer considered core assets. Hillgrove believes there is inherent value in Bird's Head Copper/Gold Project and the Sumba Gold Project.

HILLGROVE CORPORATE

Balance Sheet Restructure

During the quarter, the Company continued the balance sheet restructure which was put in place to address the forecast cash shortfall first announced on 31 March 2016. The initiatives completed over the last three quarters of 2016 have placed the Company on a significantly stronger financial footing with the Giant pre-strip now nearing completion and higher grade ore to be available by the middle of the year.

Reduced Mining Contractor Charges

In the recent prospectus, the Company announced that pursuant to a proposed transaction between Emeco Holdings Limited, Orionstone, and Andy's Earthmovers (Asia Pacific) Pty Ltd, the Company has reached an agreement for the Company to:

- Defer payments of existing creditor balances, with first repayment occurring in November 2017; and
- To receive substantially discounted charge rates for future services provided.

At the time, the Merger was due to be completed in early January 2017. Completion of that transaction has been delayed and the extraordinary general meeting to approve the transaction, as announced by Emeco Holdings Limited, is now due to take place on 13 March 2017. The sunset date of the agreement between the Company and Emeco has been extended until 31 May 2017 to cater for this delay.

Amended Terms with Drilling Contractor

In mid-December, the Company reached an agreement with Roc-Drill Pty Ltd to amend the payment terms on its creditor balance of approximately $4.5 million as follows:

- An agreed weekly payment plan to 31 January 2017;
- A deferral of $1.35m of outstanding creditor balance until 1 July 2017, with the payable amount linked to the Australian Dollar copper price; and
- A debt for equity swap, with 10,157,905 shares issue for a reduction of $1,015,790 in creditor balance.

Pro-Rata Entitlement Offer

The pro-rata entitlement offer was completed in the quarter, with the successful fully underwritten convertible notes issue. This raised $5.0M (or $4.4M after costs) for the Company.

Electranet Bond Refinancing

Under the terms of the $1.6m Electranet Bond (provided by Macquarie Bank) we were required to cash back the bond from any proceeds of any debt raising. As a result $1.6M of the convertible notes proceeds were used to cash back the bond. We have been working to eliminate the need for cash backing the bond by sourcing from an alternative bond supplier. The Company has completed documentation to replace the Macquarie Bank bond with an unsecured Swiss Re life of mine Bond, with no cash backing requirement.

Guidance

The Company's actual performance against its 2016 guidance is summarised in the table below.

CY16	Guidance	Actuals Achieved
Ore Mined	2,500kt to 2,700kt	**2,839kt**
Ore Processed	2,850kt to 3,050kt	**3,197kt**
Copper contained in concentrates produced	14,500t to 16,500t	**13,625t**
Gold contained in concentrates produced	8,000oz to 10,000oz	**11,518oz**
Copper equivalents in concentrates produced	16,500t to 19,000t	**16,505t**
C1 Costs	US$1.85 to US$2.15 per lb	**US$1.73 per lb**

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

While 2017 guidance will be provided in February 2017 with the 2016 full year results, copper production is expected to be within the previously indicated 18,000t to 20,000t range.

Cash and Investments

Cash as at 31 December 2016 was $1.9 million, with debt at $12.8 million. The increase in debt balance in the quarter was a result of the completion of the convertible note entitlement offer ($4.4m net of costs) as well as the deferral of creditor balances with the drilling contractor ($1.8m).

CORPORATE INFORMATION	
Issued Share Capital at 31 December 2016	
Ordinary shares	206,767,247
Employee Performance Rights	9,410,500
Convertible Notes	5,000,248
Options	188,109,433
Share price activity for the Quarter	
High	0.08
Low	0.04
Last 31 December 2016	0.04

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ABOUT HILLGROVE

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

The Company has approximately 245 site based employees and contractors at Kanmantoo and at head office.

Presently the Company is mining at the rate of more than 20 million tonnes per annum and produces up to 20,000 tonnes of copper per annum.

Annual export earnings are in a range of [$140 to 170 million] dollars per annum.

With over $60 million invested in the cutback of the Giant Pit, the Company will complete the final stripping in the next six months and then generate significant free cash-flows at very low stripping ratios.

The Company's goal is to become a mid-tier gold and copper/gold resources group. The Company's growth will come from the Kanmantoo Copper Mine operation in South Australia and exploration discoveries from its highly prospective near mine and greenfield exploration projects..

Mineral Resource Estimate for All Deposits 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**

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**

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.