HILLGROVE RESOURCES

Annual Report

for the year ended 31 December

2020

www.hillgroveresources.com.au

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
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Kanmantoo S.A. 5252, Australia

Tel: + 61 8 8538 6800

Share Registry
Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney N.S.W. 2000, Australia

Tel: + 61 2 9290 9600
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Bankers
Westpac Banking Corporation
31 Willoughby Road
Crows Nest N.S.W. 2065, Australia

Auditors
PricewaterhouseCoopers
70 Franklin Street
Adelaide S.A. 5000, Australia

Web Site
www.hillgroveresources.com.au

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Chairman and Managing Director's Statement

Dear Shareholders,

2020 marked a year of transition for Hillgrove as the Company completed processing the remaining low-grade ore stockpiles, placed the Kanmantoo site to care and maintenance, and pivoted the business strategy from pumped hydro energy storage (PHES) towards the development of the Kanmantoo Underground.

Safety is a fundamental consideration to everything we do at Hillgrove. It is pleasing to note that safety continues to improve, with 2020 resulting in the lowest number of injuries since operations commenced in late 2011 despite the material change in activities, including the decommissioning of fixed plant and demobilisation of heavy earth moving equipment.

The processing of stockpiles was completed in March 2020. A total of 1,855 tonnes of copper and 776 oz of gold was produced from the stockpiles in 2020 at a C1 cost of $US2.52/lb. This was either in line with or better than the production and costs guidance for the second consecutive year. Prior to equipment demobilising in March, a further 45 hectares of native vegetation was planted as part of the progressive rehabilitation program, effectively covering all of the available areas not required for the underground development.

The cessation of processing resulted in the workforce downsizing from 55 people at the start of the year to 8.8 full time equivalent employees by year end. A focus on cost reduction also resulted in the successful withdrawal from Indonesia, renegotiating key contracts, shrinking the Board from 4 to 2 non-executive directors and reducing board fees.

Mr Derek Carter
Independent Non-Executive Chairman

Mr Lachlan Wallace
Chief Executive Officer and Managing Director

The termination of the PHES agreement in February 2020 enabled the Company to advance the Kanmantoo Underground without the time or technical restrictions associated with the PHES project. A drilling program that commenced in March confirmed depth extensions of the mineralisation at grades and widths that support underground mining, and resulted in the announcement of a maiden underground Mineral Resource Estimates (MRE) for West Kavanagh and Nugent, and an update to the Kavanagh MRE which increased the total estimated Cu metal in the Resources below the open pits by 110% from 16.2k tonnes to 34.4k tonnes of copper.

Following the substantial MRE increase, a successful placement and oversubscribed rights issue was initiated in December and concluded in early 2021, raising $10.9M which enables drilling to further increase the Kanmantoo Underground MRE and advance the feasibility assessment studies. The strong investor support from existing shareholders and institutional investors for the Kanmantoo Underground supports the Board's view that the Kanmantoo Underground is well positioned to take advantage of the strong commodity prices with regulatory approval to commence operations received in 2020, the key infrastructure in place and being well maintained for quick restart, and a relatively short time and low-cost capital development ahead of first ore production.

We would also like to take this opportunity to recognise John Gooding, Phil Baker and Tony Breuer who resigned from the Board during the year. On behalf of the Hillgrove Resources Board, we thank them for their contribution to the Company during their respective tenures and wish them well in the future.

Mr Derek Carter
Chairman

Mr Lachlan Wallace
Managing Director

Hillgrove Projects

KANMANTOO COPPER MINE OPEN PIT OPERATIONS

Hillgrove's flagship project is the Kanmantoo Copper Mine in South Australia, located 55 kilometres from Adelaide. The site is in an enviable position, being close to road, rail, power, water, port facilities and enjoying access to a large pool of specialised contractors and potential employees. The exploration and mining lease is scattered with historical copper and base metal operations and includes the former Kanmantoo Copper Mine, a medium sized copper mine that operated from 1971 to 1976 as an open pit and underground operation. Hillgrove Resources re-opened the mining operations in 2011 and operated a copper-gold mine until 2020.

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 Port Adelaide, permitting the trucking of copper concentrate. The mine site is connected to the electricity grid and has access to mains and recycled water. 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.

Production for the 2020 year was 1,885 tonnes of copper in concentrate and 776 ounces of gold in concentrate.

The Company completed processing of the stockpiled open pit ore in March 2020, on time and without injury. As a result, the number of full time equivalent employees was reduced from 55 at the beginning of the year to 8.8 at the end of the year. The remaining employees are focussed on the development of the Kanmanto Underground Project (Underground), rehabilitation in order to reduce future liabilities, and care and maintenance of the existing processing plant in order to enable a rapid low-cost restart should the Underground operation proceed.

GUIDANCE

The Company's actual performance against its 2020 guidance is summarised in the table below. Copper production was in line with 2020 guidance, while gold production and C1 costs were better than guidance.

CY20	2020 Guidance	Actuals
Copper produced	1,650 to 2,150 tonnes	1,855 tonnes
Gold produced	450 to 700 ounces	776 ounces
C1 costs	US$2.55 to US$2.75 per lb	US$2.52 per lb

EXPLORATION AND DEVELOPMENT SUMMARY

Whilst the focus during the year was on the Kanmantoo Underground development, the Company continues to advance the near mine and regional exploration areas.

KANMANTOO UNDERGROUND DEVELOPMENT

With the completion of mining and processing of the Giant open pit, the Company is advancing a number of opportunities for organic growth around the Kanmantoo infrastructure, with a focus on the down-dip extensions of the copper-gold lodes previously mined within the Giant and Nugent open pits. Hillgrove is executing a staged strategy for the evaluation of the Underground opportunity, which is designed to efficiently drill test the dominant Cu-Au lodes to confirm depth, width and grade continuity.

The Stage 1 drilling undertaken in the difficult COVID-19 pandemic circumstances of 2020 was aimed at confirming that the key Cu-Au lodes of Kavanagh and Nugent extend at least 150m below the extent of the respective pits with adequate grade and width to support underground mining. A total of 14 diamond drill holes were drilled with the highlights from this drilling[1] including:

Central and East Kavanagh

- **KTDD190_W2** 20.3m @ 2.07% Cu, 0.67 g/t Au, 7.0 g/t Ag from 490.0m downhole
- **KTDD197** 20.65m @ 2.01% Cu, 0.42 g/t Au, 6.0g/t Ag from 326.6m downhole

Nugent

- **KTDD192** 10m @ 1.43% Cu, 0.46 g/t Au, 1.6 g/t Ag from 295m downhole
- **KTDD194** 6.0m @ 1.13% Cu, 1.86 g/t Au, 1.9 g/t Ag from 281m downhole
- **KTDD195** 11m @ 1.15% Cu, 0.58 g/t Au, 2.9 g/t Ag from 301m downhole

West Kavanagh

- **KTDD189** 16.7m @ 1.27% Cu, 0.08 g/t Au, 2.7 g/t Ag from 496m downhole

1 *Intersections at a 0.6% Cu cut-off grade over a minimum of 3m horizontal width.*

Hillgrove Projects *(cont.)*

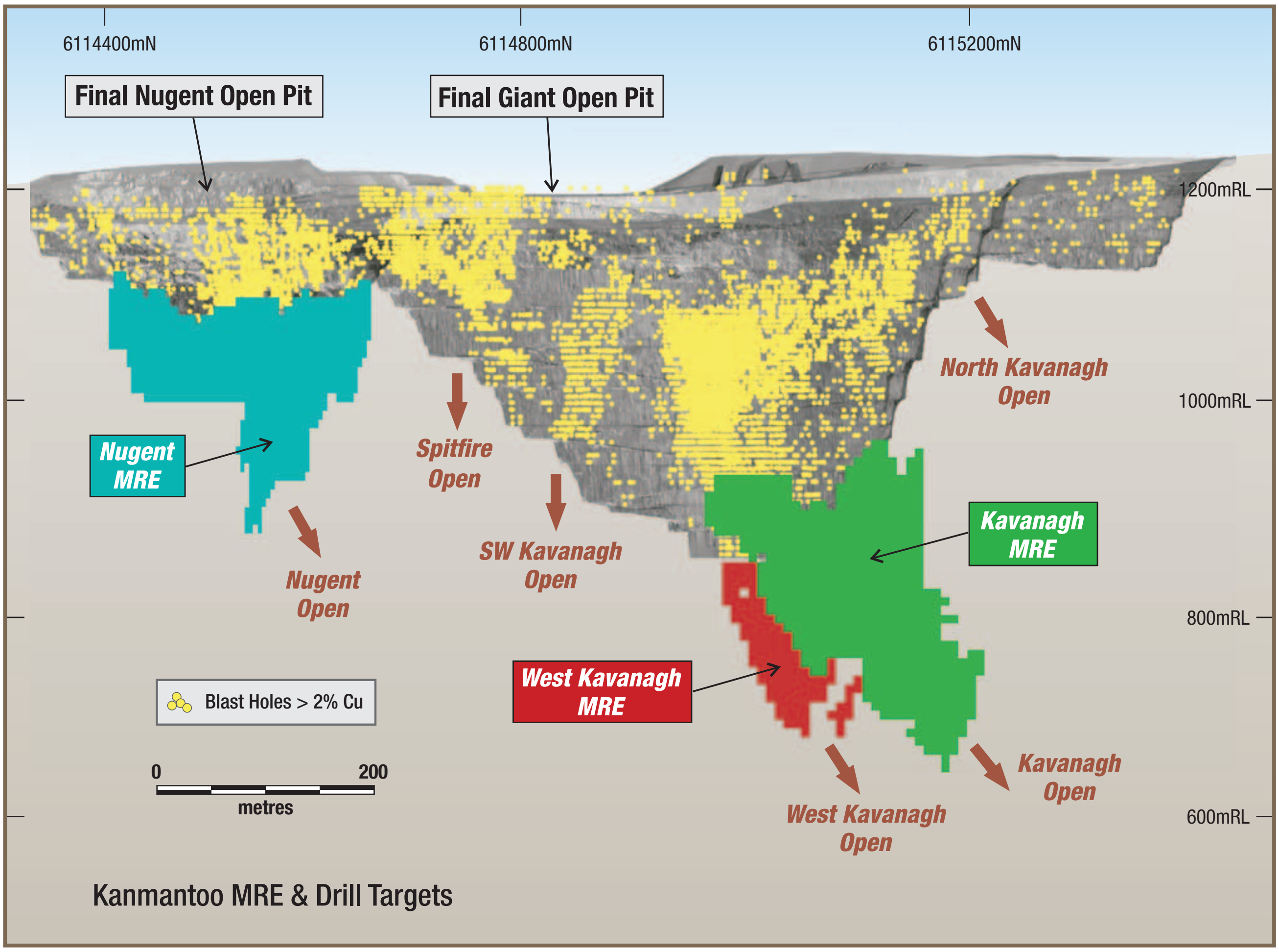
KANMANTOO UNDERGROUND DEVELOPMENT *(cont.)*

These drill holes demonstrate that the mineralisation extends for at least 150m below the extent of the respective pits and led to the release of a maiden Mineral Resource Estimate (MRE) for West Kavanagh and Nugent, and an updated MRE for the Kavanagh Zone during the December 2020 Quarter[2]. The highlights of the 2020 MRE include:

- A 110% increase in the total estimated Cu metal from 16.2k tonnes to 34.4k tonnes of copper in the Resources below the open pits within 12 months.
- The copper and gold grades of the resource estimates continue to support the Company's investigations of the economic viability for an underground operation at Kanmantoo.
- The resource estimates only cover a portion of the Nugent, the West Kavanagh, and Kavanagh areas and there is considerable opportunity to increase the resources with further drilling on these and adjacent mineralised lodes.
- The resource estimates are all constrained by the extent of the drilling and not by the geology, in both the along strike and dip directions.

Following the capital raise in December 2020, the 2021 Kanmantoo drilling program commenced in January 2021, focussing initially on the Kavanagh lodes. The drilling program seeks to expand the Underground MRE and infill drill to improve the geological and engineering confidence such that an initial Ore Reserve Estimate may be prepared. The aim is to define sufficient Ore Reserves to support the capital investment required to develop the Underground mining areas.

If an Underground operation is developed, cash flows from the Underground operation will enable the drill testing of the proximal Cu-Au lodes which were mined within the open pits (for example North Kavanagh, Spitfire, SW Kavanagh as shown in the figure below). These lodes have the potential to significantly uplift the value of the Underground operation for relatively low incremental capital cost as they would potentially utilise the development infrastructure from the main Kavanagh lodes.



Sectional View Looking West of 2019-2020 MREs

2 *Refer ASX announcement of 7 December 2020.*

NEAR MINE EXPLORATION

The Company continues to advance the exploration of its Cu-Au targets within 10 kms of the Kanmantoo processing plant. These include the previously announced[3] Stella and North West Kanmantoo geochemical and geophysical targets.

Stella

The 2019 3D MT (magneto-telluric) geophysical survey has identified the Stella zone as a coincident magnetic high, conductivity high and gravity low target commencing at around 200m below surface. Nearby drilling has intersected a 60m wide zone of chlorite-pyrrhotite-garnet alteration with attendant Cu-Au mineralisation (ASX release of 29 April 2019).

This target is now ready for drill testing.

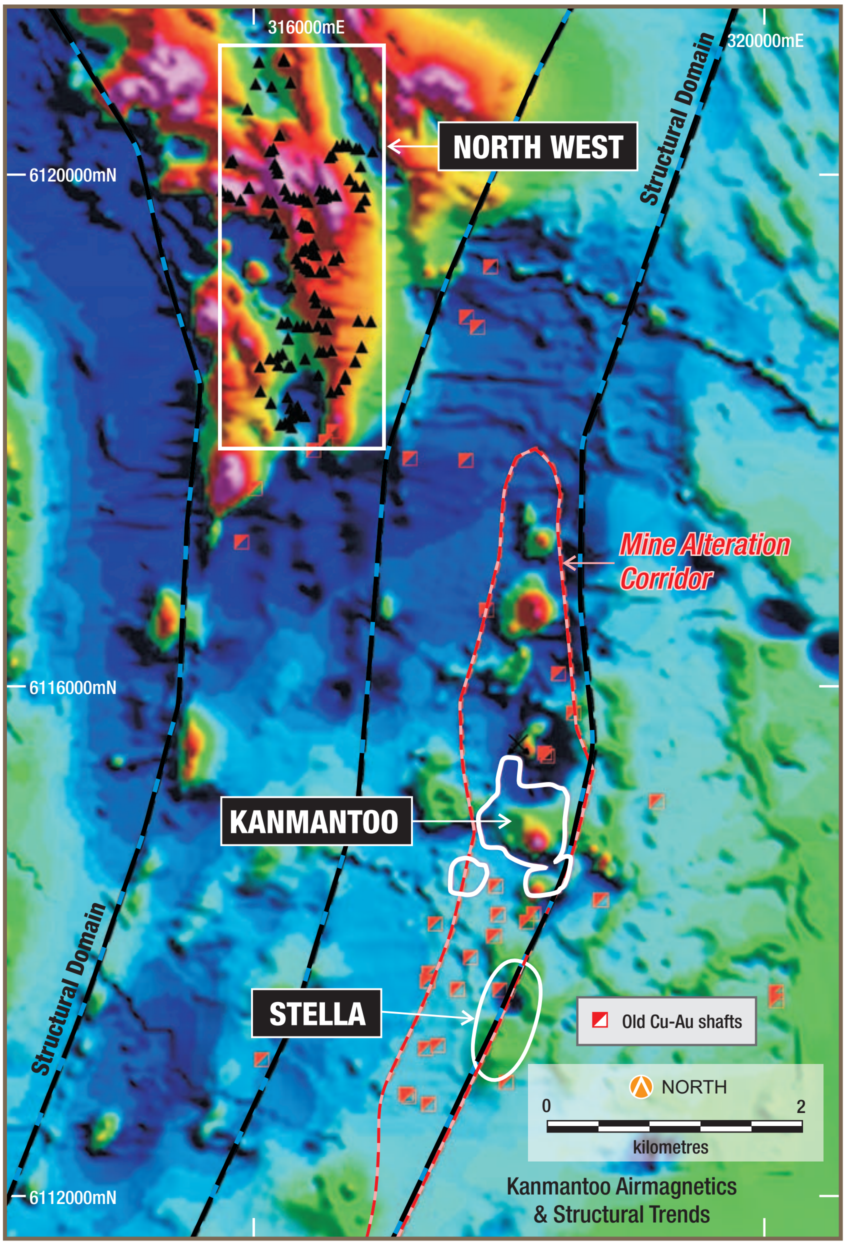
North West

Mapping and sampling has identified a 2.4km long zone of Cu-Au anomalism coincident with a strong magnetic high and broad widths of iron-oxide alteration and iron-oxide brecciation at surface, within 4.5kms of the Kanmantoo processing plant.

The rock chip sampling, where possible, across the North-West Kanmantoo area has identified mineralisation with a strong magmatic association including:

- Rock chip samples to 2.2 g/t Au, 0.1% Cu (not the same sample).
- Elevated Mo, Bi, Co, Sn, U, La.

The area has not previously been drilled by Hillgrove or its predecessors.



Plan View of the Location of Projects Within 10km of Kanmantoo Copper Mine

3 *ASX release of 29 April 2019 Cu-Au and Cu-Mo zones uncovered by exploration*

REGIONAL EXPLORATION

South East Delamerian

The Regional area comprises 5,652 sq kms of exploration licences in the south-east of South Australia, within the Delamerian Orogen. In a recent publication by the Geological Survey of South Australia[4], the Survey notes the similarities between the Delamerian Orogen tectonic setting and its high-level granitic to dioritic intrusives in South Australia, with the geology of the large Porphyry Cu-Mo-Au deposits in south-east China (e.g. Dexing, 9.7Mt of Cu metal, 265 t Au).

These observations support Hillgrove's exploration activities in this Orogen.

Kanappa Copper-Gold Exploration

Hillgrove has previously reported the results of the diamond drilling at Kanappa that intersected copper-gold mineralisation within a skarn mineralising system. Kanappa is approximately 65 kms by road from the Kanmantoo operation.

The petrology work on a suite of samples from all drill holes by internationally respected alteration petrologist, Dr Roger Taylor, has clearly identified the mineralisation as an overprinting Cu-Au rich skarn with attendant alteration stages including garnet-pyroxene, amphibole-magnetite, and copper and iron sulphides.

A review of the whole rock geochemistry of the monzonites intersected by the drill holes shows that the magmatic system is classified as a Volcanic Arc Granite and classified within the Loucks (2014) porphyry fertility field.

These drill results confirm the Company's view that the Kanappa area is prospective for large scale magmatic related copper-gold mineral deposits and further work is continuing in the area.

Mt Rhine Copper-Gold Exploration

The Company had previously identified two significant zones of copper-gold at Mt Rhine through a systematic soil and rock chip sampling program. In 2018, the stronger copper-gold zone was covered with a program of ground magnetics and pole-dipole IP which indicated a 1.7km long anomaly for drill targeting.

Field inspection of the copper-gold and conductivity anomaly has located a series of carbonate Cu-Fe skarns over a strike length of 1km. These have never been drilled and present as a large scale Cu-Au magmatic target similar to the Kanappa style mineralisation.

The Mt Rhine Project is 80kms via existing roads from the Kanmantoo processing plant and 12kms north of the Kanappa copper-gold project.

PUMPED HYDRO ENERGY STORAGE PROJECT

In February 2020, Hillgrove announced that Hillgrove and AGL have mutually agreed to terminate the PHES Project Agreement and associated project documents and effect a clean break without any further obligations on either party. The termination of the agreement enabled Hillgrove to advance the Kavanagh Underground project.

Hillgrove may seek to promote the PHES in the future as a post mining land use at Kanmantoo as the Kanmantoo PHES project remains competitive due to the difference in elevation between the base of the pit and an upper reservoir, its proximity to the South Australian Electricity Interconnector, water availability, its land holding on surrounding properties, and the South Australian electricity market requirements. Hillgrove also believe the rationale for large energy storage solutions remains sound as Australia tackles climate change through energy policy.

INDONESIAN PROJECTS

In October 2020, Hillgrove successfully withdrew from Indonesia, through the sale of its Indonesian subsidiaries PT Akram Resources and PT Fathi Resources. With the carrying value of these assets being fully impaired in 2015, the transaction resulted in an improvement of the balance sheet (through a reduction in liabilities) of $2.2M.

4 *Mesa Journal 93, 2020, p47-53*

Mineral Resource, Ore Reserve & Exploration Target

MINERAL RESOURCES FOR KANMANTOO

As at 31 December 2020

On 7 December 2020, the Company released an updated Mineral Resource Estimate for the first of its underground opportunities on a portion of the deeper Kavanagh mineralisation beneath the Giant Open Pit. The Mineral Resource Estimate does not include any Ore Reserve and is estimated at a cut-off grade and geologic continuity suitable for eventual underground studies for its exploitation.

The Table below summarises the Mineral Resource Estimate ("MRE") for the Kavanagh, West Kavanagh and Nugent underground areas at 0.8% Cu cut-off grade.

MINERAL RESOURCE ESTIMATE FOR THE KANMANTOO UNDERGROUND AREA

Mine	JORC 2012 Classification	Tonnage (kt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu Metal (kt)
Kavanagh	Indicated	583	1.97	0.24	6.0	11.5
	Inferred	560	1.7	0.2	5	9
	Sub-Total	**1,143**	**1.83**	**0.24**	**5.6**	**20.9**
West Kavanagh	Indicated	105	1.42	0.06	2.0	1.5
	Inferred	300	1.1	0.06	2.0	3
	Sub-Total	**406**	**1.18**	**0.06**	**2.0**	**4.8**
Nugent	Indicated	202	1.40	0.47	3.2	2.8
	Inferred	457	1.3	0.7	2.7	6
	Sub-Total	**659**	**1.32**	**0.61**	**2.8**	**8.7**
Totals	Indicated	890	1.77	0.27	4.9	15.8
	Inferred	1,318	1.4	0.4	3.5	19
	Total	**2,208**	**1.56**	**0.32**	**4.1**	**34.4**

The information in this report that relates to the Mineral Resources on the Kavanagh underground project were initially reported by the Company to ASX on 7 December 2020. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimate in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The 2020 Mineral Resource Estimate for the Nugent, West Kavanagh and Kavanagh underground area is based upon information compiled by Mr Peter Rolley, who is a Member of The Australian Institute of Geoscientists. Mr Rolley is a full-time employee of Hillgrove Resources Limited and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mr Rolley has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.

STATEMENT OF ORE RESERVES

As at 31 March 2020

As a result of the cessation of open pit mining operations at Kanmantoo in May 2019 resulting from the depletion of all Ore Reserves within the Giant Open Pit, and the completion of milling of all stockpiles in March 2020, there is no longer an Ore Reserve reported for the Kanmantoo District.

The information in this release that relates to the Ore Reserve is prepared by a Competent Person in accordance with the JORC Code 2012. Further information on the Kanmantoo Ore Reserves is available in the Hillgrove Updated Ore Reserve Estimate released to the ASX on 18 October 2016. 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 Ore Reserves for open pit mining that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed except for open pit mining and processing depletion. Hillgrove Resources confirms that the form and context in which the findings of the Competent Person Lachlan Wallace in relation to the Ore Reserve estimates are presented, have not been materially modified from the original market announcement apart from mining and processing depletion. Mr Wallace (MAusIMM) is a full-time employee of Hillgrove Resources Limited. Mr Wallace has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the 'Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Mr Wallace consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

STATEMENT OF EXPLORATION TARGETS

As at 31 December 2020

The Kanmantoo Exploration Target was reported on 23 February 2021. These Exploration Targets are all located within Hillgrove's Kanmantoo Mining Lease and are all extensions of along strike or down dip Cu-Au lodes mined by the Company's open pits or intersected by diamond drilling undertaken by Hillgrove.

In summary, Hillgrove has approximated an Exploration Target for the Kanmantoo Mine Lease area of between eight and sixteen million tonnes with a target grade of between 1.0% and 2.0% Cu and 0.2 g/t to 0.4 g/t Au. The Exploration Target is in addition to the Mineral Resource Estimate.

Kanmantoo Exploration Target By Zone

	Maximum RL Depth	Tonnage Range	Grade Range	Grade Range
Zone	**Metres**	**Mt**	**Cu%**	**Au g/t**
Coopers	600	0.1 - 0.3	1.5 – 2.0	0.4 – 0.8
North Kavanagh	600	0.1 - 0.7	1.5 – 2.0	0.4 – 0.8
Kavanagh	400	2.0 - 3.5	1.0 – 2.0	0.2 – 0.4
West Kavanagh	400	1.0 - 2.0	0.8 – 1.5	0.02 – 0.05
South-West Kavanagh	600	0.8 - 1.0	1.8 – 2.2	0.1 – 0.4
Spitfire	600	0.4 - 0.7	1.5 – 2.0	1.5 - 3.0
Nugent	600	1.5 - 2.5	0.8 - 1.5	0.2 - 0.6
Paringa	900	0.5 - 1.5	1.1 - 2.2	0.1 - 0.2
Emily Star	900	2.0 - 4.5	1.2 - 2.2	0.1 - 0.3
TOTAL		**8 - 16**	**1.0 – 2.0**	**0.2 – 0.4**

The information that relates to Exploration Target and Exploration Results was first reported by the Company to the ASX on 23 February 2021 and is based on and fairly represents information and supporting documentation compiled by Peter Rolley, a Competent Person, a full time employee of Hillgrove Resources Limited, and a member of the Australian Institute of Geoscientists. Mr Rolley has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the 'Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Mr Rolley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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.

KAN-DO

Our attitude at Kanmantoo

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.

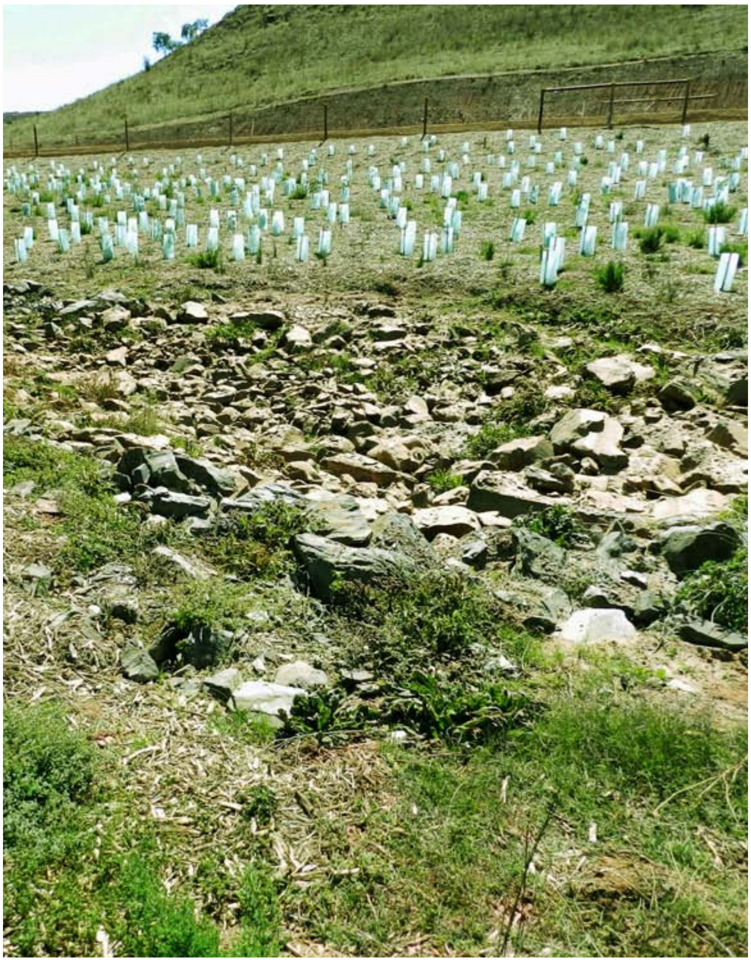
We continue to produce and harvest native seed as well as conduct wild seed collection to ensure there are sufficient propagules to enable this important work.

Strategic community engagement continues utilising the long established Community Engagement Plan. 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. 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.

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 continued in 2020, including shaping and seeding of additional areas of the site including the Integrated Waste Landform (IWL) – comprised of our waste rock and the tailings storage facility, and the backfilled Emily pit. The wetter than average weather conditions experienced in 2020 assisted in advancing the growth of vegetation on these seeded areas. The only disturbed areas on the site required to be rehabilitated that remain unseeded are: the top of the Tailings Storage Facility (TSF), rock stockpiles required for future TSF expansion and mine closure, site access roads and the processing plant area. The establishment of high quality native vegetation on adjacent land is assisting us 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 has been integrated into a "Community Master Plan" to ensure the presence of the mine delivers real benefit to the impacted community and the natural environment.



HILLGROVE
RESOURCES

Financial Report

Contents

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 26 February 2021. 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

for the year ended 31 December

2020

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 2020.

PRINCIPAL ACTIVITIES

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) and focused on the development of the Kanmantoo Underground Copper Mine in South Australia and mineral exploration in the south-east of South Australia. The Kanmantoo Copper Mine is located less than 55 kilometres from Adelaide in South Australia.

DIRECTORS AND OFFICERS

The Directors and Officers of the Company during the whole of the financial year and up to the date of this report are:

Name/Qualifications	Experience and Special Responsibilities
Mr Derek Carter	**Independent Non-Executive Chairman / Chairman Nomination and Remuneration Committees**
Qualifications	*BSc, MSc, FAusIMM*
Experience 	Derek has over 40 years' experience in exploration and mining geology and management. He held senior positions in Burmine Ltd and the Shell Group of Companies where he was responsible for discovering the Los Santos tungsten deposit in Spain, before founding Minotaur Gold NL in 1993. He resigned as Chairman of Minotaur Exploration Ltd in November 2016. Derek was awarded AMEC's Prospector of the Year Award (jointly) in 2003 for the discovery of the Prominent Hill copper-gold deposit, the AusIMM President's Award and is a Centenary Medallist. Derek is currently the Chairman of Petratherm Limited (ASX: PTR). Derek is a member of the Audit and Risk Committee. Appointed 24 April 2020.
Mr Murray Boyte	**Non-Executive Director / Chairman Audit and Risk and Treasury Committees**
Qualifications	*BCA, CA, MAICD*
Experience 	Murray joined the Board in May 2019, as a Non-Executive Director replacing Maurice Loomes. Murray has over 35 years' experience in merchant banking and finance, undertaking company reconstructions, mergers and acquisitions in Australia, New Zealand, North America and Hong Kong. Murray holds a Bachelor of Commerce and Administration from the Victoria University in Wellington and is a member of the Australian Institute of Company Directors, the Institute of Directors of New Zealand and Chartered Accountants Australia & New Zealand. In addition, Murray has held executive positions and directorships in the transport, horticulture, finance service, investment, health services and property industries. Murray is currently the Chairman of Eureka Group Holdings (ASX: EGH) and National Tyre & Wheel Limited (ASX: NTD). Murray is a member of the Remuneration and Nomination Committees. Appointed 10 May 2019.
Mr Lachlan Wallace	**Chief Executive Officer and Managing Director**
Qualifications	*BEng (Mining Hons), MSc (Mineral & Energy Economics), MBA, MAusIMM, GAICD*
Experience 	Since joining Hillgrove in 2012, Lachlan held various operational roles at the Kanmantoo Copper Mine including General Manager before becoming the Chief Executive Officer and Managing Director in 2019. Previously, Lachlan was responsible for Stemcor's global mining assets, developing their iron ore and manganese portfolio in India and nickel project in Indonesia at a time when Stemcor's annual turnover exceeded £6Bn. In addition, Lachlan chaired a JV between Stemcor and an Indonesian partner to facilitate thermal coal trade flows ex-Indonesia. Lachlan has held technical, managerial and consulting roles in Africa and Australia, including Anglo Gold Ashanti's Siguiri gold project in Guinea, the Lumwana copper mine in Zambia, and the Savage River iron ore mine in Tasmania. Lachlan is a member of the Treasury Committee. Appointed 24 May 2019.

DIRECTORS AND OFFICERS (CONT.)

Mr Joe Sutanto	Chief Commercial Officer & Company Secretary
Qualifications	*BCom, MBA, CPA*
Experience 	Joe joined Hillgrove in 2011 and has held a number of roles within the finance team, which spanned commercial and planning to financial control before becoming the Chief Commercial Officer and Company Secretary in 2020. Prior to Hillgrove, Joe held a number of roles which included as a corporate finance executive at PwC Corporate Finance, commodities trader at Glencore, and as an auditor at KPMG. A CPA qualified accountant, Joe completed his MBA at HKUST and London Business School. Joe is a member of the Treasury Committee. Appointed 10 July 2020.

Retired Directors and Officers

Mr John Gooding	Independent Non-Executive Chairman / Chairman Nomination and Remuneration Committees
	Resigned 24 April 2020.

Mr Philip Baker	Independent Non-Executive Director / Chairman Audit and Risk and Treasury Committees
	Resigned 20 May 2020.

Mr Antony (Tony) Breuer	Independent Non-Executive Director
	Resigned 24 April 2020.

Mr Paul Kiley	Chief Financial Officer & Company Secretary
	Resigned 10 July 2020.

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***
Mr D Carter	12	12	4	4	2	2	-	-	-	-
Mr M Boyte	18	18	6	6	4	4	2	2	-	-
Mr L Wallace	18	18	6	6	4	4	-	-	-	-
Mr J E Gooding	6	6	2	2	2	2	2	2	-	-
Mr P Baker	7	7	2	2	3	3	2	2	-	-
Mr A Breuer	6	6	2	2	2	2	2	2	-	-

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

B – Number of meetings attended

RESULTS

	CY20	CY19
Revenue from ordinary activities	**$20.2m**	$113.5m
Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited	**($5.9m)**	($10.0m)
Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited	**($5.9m)**	($10.0m)

For the year ended 31 December 2020, the net loss after tax was $5.9 million compared to a net loss after tax of $10.0 million for the year ended 31 December 2019.

The underlying EBITDA for the year was a loss of $3.7 million compared to an EBITDA of $12.1 million for 2019. The lower level of EBITDA profitability compared to the previous year was a result of the Company's transition from a producer (with the processing of low grade stockpiles) to an explorer and developer in March 2020.

As a result of the costs associated with exploration and development along with site optionality costs such as care and maintenance as well as rehabilitation, the closing cash balance decreased from $9.3 million at the end of 2019 to $5.6 million at the end of 2020.

Income Statement Overview

	12 mths to Dec 2020	12 mths to Dec 2019	Change
	$ million	$ million	$ million
Copper revenue	**19.6**	116.1	(96.5)
Gold revenue	**1.7**	6.3	(4.6)
Silver revenue	**0.4**	2.0	(1.6)
Less: Treatment and refining costs	**(1.5)**	(10.9)	9.4
NET REVENUE FROM SALE OF CONCENTRATE	**20.2**	113.5	(93.3)
Mining costs	**-**	(21.2)	21.2
Pre-strip and deferral	**-**	(7.9)	7.9
Processing costs	**(6.5)**	(31.4)	24.9
Transport and shipping costs	**(1.5)**	(7.0)	5.5
Other direct costs	**(2.3)**	(4.4)	2.1
Care and maintenance costs	**(1.3)**	-	(1.3)
Inventory movements	**(9.2)**	(20.9)	11.7
Royalties	**(0.9)**	(5.4)	4.5
Corporate costs	**(4.2)**	(4.9)	0.7
TOTAL COSTS	**(25.9)**	(103.1)	77.2
Gain on sale of Indonesian operations	**1.9**	-	1.9
Other income	**0.1**	1.7	(1.6)
EBITDA	**(3.7)**	12.1	(15.8)
Depreciation and amortisation	**(1.9)**	(14.7)	12.8
Exploration and project costs written off	**(0.1)**	(3.0)	2.9
EBIT	**(5.7)**	(5.6)	(0.1)
Net interest and financing charges	**(0.2)**	(0.7)	0.5
Income tax benefit/(expense)	**-**	(3.7)	3.7
NET PROFIT AFTER TAX	**(5.9)**	(10.0)	4.1

Revenue for the year was from the sale of 4,056dmt of copper concentrate containing 1,885 copper tonnes (for the year to 31 December 2019: 59,172dmt and 13,073 copper tonnes).

Total costs were $25.9 million compared to $103.1 million for the previous year. The significant reduction in costs were a result of the completion of stockpiles processing.

Directors' Report *(cont.)*

RESULTS *(Cont.)*

Cash Flow Overview

	12 mths to Dec 2020	12 mths to Dec 2019	Change
	$ million	$ million	$ million
Net cash inflows from operating activities	**(3.0)**	21.8	(24.8)
Net cash used in investing activities	**(2.7)**	(5.4)	2.7
Net cash inflows/ (outflows) from financing activities	**2.0**	(9.5)	11.5
Net increase/(decrease) in cash held	**(3.7)**	6.9	(10.6)
Cash and cash equivalents at the end of the year	**5.6**	9.3	(3.7)

Operating Activities Cash Flow

Cash received in the course of operations amounted to $20.2 million and relates to the sale of copper concentrate during 2020 together with the receipt of trade receivables from 2019.

Cash payments in the course of operations totalled $23.2 million and include payments for copper concentrate production, corporate and administration costs and the costs relating to care and maintenance activities.

With the completion of processing operations in March 2020, direct comparison between 2019 and 2020 cashflows would provide little benefit and has not been provided.

Trade creditors and other payables are on normal commercial terms.

Investing Activities Cash Flow

Net cash outflow from investing activities was $2.7 million compared to an outflow of $5.4 million in the previous corresponding period. Of the $2.7 million, $2.0 million related to underground expansion works, which are classified as mine development (2019: $2.0 million). Expenditure on regional exploration licences amounted to $0.7 million (2019: $0.9 million).

Financing Activities Cash Flow

In 2020 there was a net cash inflow of $2.0 million from financing activities. Net receipts of $2.2m relating to Tranche 1 of the capital raising were offset by payments totalling $0.2 million for the repayment of leases. The net cash outflow of $9.5 million in 2019 was largely driven by the payment of a dividend to shareholders.

Balance Sheet Overview

	12 mths to Dec 2020	12 mths to Dec 2019	Change
	$ million	$ million	$ million
Cash	**5.6**	9.3	(3.7)
Receivables	**0.8**	3.1	(2.3)
Inventories	**1.8**	12.1	(10.3)
Property, Plant & Equipment	**24.4**	24.2	0.2
Exploration	**3.2**	2.6	0.6
Total Assets	**35.9**	51.3	(15.4)
Trade Payables	**1.1**	8.6	7.5
Provisions	**10.5**	12.3	1.8
Borrowings	**-**	0.3	0.3
Employee Benefits	**1.0**	3.3	2.3
Deferred Income	**-**	0.5	0.5
Total Liabilities	**12.7**	25.0	12.3
Net Assets / Equity	**23.2**	26.3	(3.1)

Directors' Report *(cont.)*

RESULTS *(Cont.)*

Total assets decreased by $15.4 million to $35.9 million, largely as a result of the decrease in inventories. This was due to the processing of the low grade stockpiled ore as well as the sale of copper concentrate on hand.

Total liabilities decreased by $12.3 million to $12.7 million. This decrease was largely due to the pay down of trade creditors and employee benefits, both driven by the completion of processing of stockpiled ore (ie pay down of creditors related to processing and employee benefits of processing staff). In addition to this, provisions decreased as a result of rehabilitation works completed during the year.

OPERATING REVIEW

Production for the year was 1,885 tonnes of copper in concentrate and 776 ounces of gold in concentrate.

Completion of processing the stockpiled ore occurred in March 2020, on time and without injury. As a result, the number of employees was reduced from 55 at the beginning of the year to a full-time equivalent of 8.8 at the end of the year. The remaining employees are focussed on the development of the Kanmantoo Underground Project (Underground), rehabilitation in order to reduce future liabilities, and care and maintenance of the existing processing plant in order to enable a rapid low-cost restart for the Underground.

OUTLOOK AND FUTURE DEVELOPMENTS

The focus of the Company will predominantly be directed towards further advancing the Underground project, with the key steps to be undertaken as follows:

- Expansion of the Underground Resource;
- Infill drill to improve the geological confidence such that an initial Ore Reserve Estimate may be prepared for the Underground;
- Drill test depth extensions;
- Completion of a feasibility study; and
- Reach a final investment decision.

Subject to a positive final investment decision, assess the optimal financing structure for the development of the Underground.

In addition to the activities related to the Underground, the Company will also continue to explore and evaluate its near mine as well as regional prospects.

GUIDANCE

The Company's actual performance against its 2020 guidance is summarised in the table below. Copper production was in line with 2020 guidance, while gold production and C1 costs were better than guidance.

CY20	2020 Guidance	Actuals
Copper produced	1,650 to 2,150 tonnes	1,855 tonnes
Gold produced	450 to 700 ounces	776 ounces
C1 costs	US$2.55 to US$2.75 per lb	US$2.52 per lb

CAPITAL RAISINGS

On 17 December 2020, the Company announced a combined equity raising of up to $10.9 million at $0.031 per share. The raising consisted of the following:

- Placement Tranche 1 – the issue of 76,209,676 new fully paid ordinary shares pursuant to the Company's available placement capacity under ASX Listing Rules 7.1 raising gross proceeds of $2.4 million (before transaction costs of $0.2 million);
- Placement Tranche 2 – subject to shareholder approval, the issue of 185,080,646 new fully paid ordinary shares to raise $5.7 million; and
- Entitlement Offer – non underwritten non-renounceable offer to raise gross proceeds of up to $2.8 million through the issue of approximately 90.1 million shares.

Proceeds from Placement Tranche 1 was received in the current period.

IMPACT OF COVID-19 ON OPERATIONS

With the outbreak of COVID-19 in the first quarter of 2020, the Company implemented controls such that there was no material impact to stockpile processing operations, which was completed in March 2020. It did however, impact Kanmantoo Underground exploration and development activities, with the suspension of drilling and ground works for approximately two months. These activities recommenced in June 2020.

As the impact of COVID-19 continues to evolve, the Directors cannot reasonably estimate the effects that the COVID-19 pandemic could have on future periods. There is uncertainty about the length and potential impact of any resultant disturbance. As a result, we are unable to estimate the potential impact on the Group's future operations as at the date of these Financial Statements.

IMPACT OF COVID-19 ON OPERATIONS *(cont.)*

During the year ended 31 December 2020 the group received government assistance through JobKeeper of $583,800 which was treated as a reduction in expenses and $100,000 COVID Cash Boost which has been recognised as other income.

DIVIDENDS

There were no dividends paid during the current period.

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.

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to year end, the Company completed and received the funds from the capital raising that was contemplated in the announcement of 17 December 2020. Whilst the Placement Tranche 1 was completed in the current period, the following was completed subsequent to the balance date:

- Placement Tranche 2 – shareholder approval for the issue of 185,080,646 new fully paid ordinary shares to raise gross proceeds of $5.7 million; and
- Entitlement Offer – the non underwritten non-renounceable offer closed oversubscribed, with $3.4m of subscriptions. As there were applications for more shortfall shares than what was available under the Top Up Facility, it was necessary for the Company to scale back applications. The entitlement offer raised gross proceeds of $2.8 million through the issue of 90,090,541 shares.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the group in the short to medium term will largely be focussed on the exploration and development potential of Hillgrove's tenements. For further details on each of these, refer to the review of operations section of this report.

ENVIRONMENTAL REGULATION

Closure of an operation brings with it potential significant financial, environment, and social impacts. Recognising this, a closure management plan for Kanmantoo has been prepared, which includes long term monitoring to verify that controls are effective and standards are maintained.

The consolidated entity engages 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.

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.

Indemnity of Auditors

Hillgrove Resources Limited has agreed to indemnify their auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from Hillgrove Resources Limited's breach of their agreement. The indemnity stipulates that Hillgrove Resources Limited will meet the full amount of any such liabilities including a reasonable amount of legal costs.

INDEMNIFICATION AND INSURANCE OF OFFICERS *(cont.)*

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 (PricewaterhouseCoopers) for audit and non-audit services provided during the period are set out in Note 7 (e).

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 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 28.

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.

Directors' Report *(cont.)*

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 2020, which forms part of the director's report and has been audited in accordance with section 308 (3C) of the *Corporations Act 2001*.

1.0 Key Management Personnel

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

Non-Executive Directors	Title (At Year End)	Change in 2020 Financial Year
Mr D Carter	Chairman Chairman Nomination Committee Chairman Remuneration Committee Member Audit and Risk Committee	Part Year Appointed 24 April 2020
Mr M Boyte (Non-independent)	Director Chairman Audit and Risk Committee Chairman Treasury Committee Member Nomination Committee Member Remuneration Committee	Full Year
Executive Directors		
Mr L Wallace	CEO and Managing Director Member Treasury Committee	Full Year

KMP Departures During the 2020 Financial Year

Non-Executive Directors	Title (Prior to Departure)	Change in 2020 Financial Year
Mr J Gooding	Chairman Chairman Nomination Committee Chairman Remuneration Committee Member Audit and Risk Committee	Part Year Resigned 24 April 2020
Mr P Baker	Director Member Nomination Committee Member Remuneration Committee Chairman Audit and Risk Committee Chairman Treasury Committee	Part Year Resigned 20 May 2020
Mr T Breuer	Director Member Nomination Committee Member Remuneration Committee Member Audit and Risk Committee	Part Year Resigned 24 April 2020
KMP Executives		
Mr P Kiley	Chief Financial Officer and Company Secretary Member Treasury Committee	Part Year Resigned 10 July 2020
Mr G Norris [1]	General Manager, Kanmantoo	Part Year Until 31 May 2020

1 *Mr Norris remains an employee with Hillgrove Resources however following completion of ore processing and transition to care and maintenance, his role is no longer regarded as KMP.*

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 is chaired by an Independent Non-Executive Director.

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 Company's website www.hillgroveresources.com.au.

REMUNERATION REPORT (AUDITED) (cont.)

2.1 Remuneration and Benefits Policy

The Company's approach to remuneration is outlined in the 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; and
- 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 Company's website www.hillgroveresources.com.au.

2.2 Use of Remuneration Consultants

The Remuneration Committee is briefed by management however, makes all decision free of influence of management.

Further to the management briefings, to assist in its decision making, the Committee may, from time to time, seek independent advice from remuneration consultants, and in so doing will directly engage with the consultant without management involvement.

In the year ending 31 December 2020, the Committee engaged remuneration advisors Egan Associates and received advice relating to future remuneration levels, in particular to future LTI plans.

No remuneration recommendations, as defined under section 300A (1) (h) of the *Corporations Act 2001* were made by remuneration advisors during the year ended 31 December 2020.

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 2020 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 decreased during the year.	
Board/Committee Fees Per Annum	Board Chairman Fee	$120,000
	Board NED Base Fee	$75,000
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 total 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 2020 financial year for extra services or special exertions. Directors are entitled to be reimbursed for approved Company related expenditure e.g. flights and expenses to attend Board meetings.	

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.

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.

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:

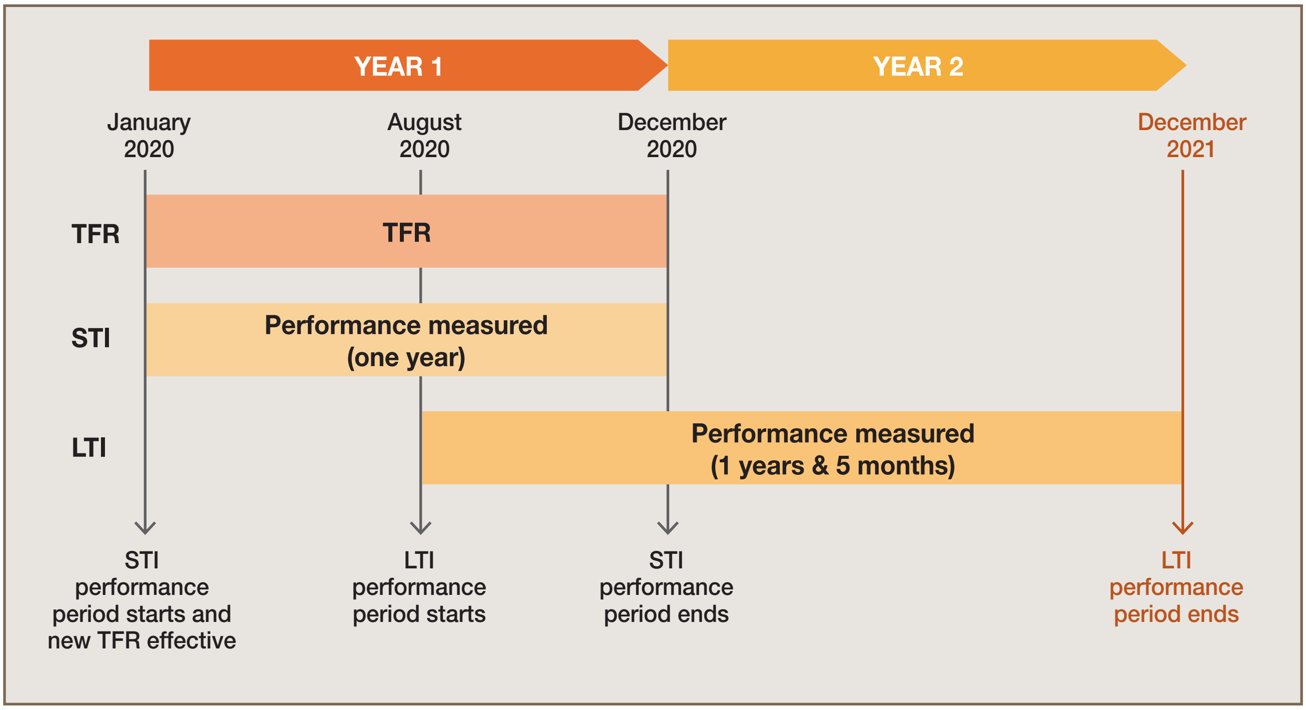
Remuneration Mix (Actual) CY 2020

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

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

REMUNERATION REPORT (AUDITED) *(cont.)*

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

4.4.1 Short Term Incentives (STI)

STI Program	
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 program 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	The Board adopted a Balanced Scorecard approach to determine 2020 STI performance. The Balanced Scorecard measures performance against the Company's internal goals and published key market guidance metrics each year and includes safety, production, cost control, financial performance and growth measures. The Balanced Scorecard also includes an individual performance component which is a subjective assessment that gives the ability to recognise individuals that have performed above expectations to deliver value for shareholders. A threshold and target is set for each STI outcome. Specific targets are not provided in detail due to commercial sensitivity. Validation of performance against the Balanced Scorecard 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.

REMUNERATION REPORT (AUDITED) (cont.)

4.4.2 Performance Based Remuneration Granted and Forfeited During the Year

The following table shows how much of the STI cash bonus was awarded and how much was forfeited for each KMP.

	2019 Performance			2020 Performance		
KMP	**Opportunity ($)**	**Awarded (%)**	**Forfeited (%)**	**Opportunity ($)**	**Awarded (%)**	**Forfeited (%)**
Mr L Wallace	210,000	30%	70%	**210,000**	**56%**	**44%**
Mr P Kiley (1)	204,300	25%	75%	**N/A**	**N/A**	**N/A**
Mr G Norris	150,000	30%	70%	**62,500 (2)**	**36%**	**64%**

(1) Mr Kiley resigned on 10 July 2020.

(2) Apportioned for the period Mr Norris was a KMP.

Board approval for the STI related to the 2019 performance occurred in February 2020, with payment made in March 2020. Board approval and payment for the STI related to the 2020 performance occurred in January 2021.

4.4.3 Long Term Incentives (LTI) Plans

The LTI provides an annual opportunity for executives and key staff to receive an equity award 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 clawback (forfeiture or lapse) until vesting and must meet or exceed relative TSR performance hurdles over the vesting period, along with other performance criteria.

Following the termination of the agreement with AGL Energy Limited (AGL) to sell the pumped hydro energy storage project in February 2020, and pivoting the business strategy towards the development of the Kanmantoo Underground, the Board decided that the cash based Key Employees Plan (KEP) granted in July 2019 was no longer an appropriate LTI scheme for the revised business strategy. As such, the cash based KEP was replaced with the Option & Performance Rights Plan in August 2020 (2019 OPRP), which enables the Company to focus the Company's cash resources towards the exploration and development activities associated with the Kanmantoo Underground.

Details of the 2019 OPRP along with the cessation of the KEP are outlined in more detail below.

Cessation of KEP

When the KEP was implemented in 2019, the Company was focussed on completing the Kanmantoo open pit, processing the remaining stockpiles, and monetising the pumped hydro energy storge opportunity which had been sold to AGL. The KEP was designed to align Executive remuneration with delivering these outcomes.

During 2019, drilling was undertaken which culminated in the maiden underground mineral resource estimate for Kanmantoo and demonstrated the potential value of underground mining at Kanmantoo. In addition, the agreement with AGL was terminated and the Company commenced a 5.3km drilling program aimed at evaluating the depth extensions for the underground. The successful drill program increased the estimated copper metal by 110% and demonstrated that the mineralisation continued for at least 150m below the open pit.

Additional funds that were raised in late 2020 are expected to complete the drilling program and studies to enable an investment decision towards the end of 2021, which in turn will require additional funds to be raised around the same time as when the cash based KEP would have vested. The Board determined that it was not in the best interest of Shareholders, the Kanmantoo Underground, or the Company to be obliged to potentially make a significant cash-based incentive payment to employees during the exploration or development phase of the Kanmantoo Underground and successfully negotiated with eligible employees to replace the KEP with the 2019 OPRP.

The replacement of the KEP with the 2019 OPRP in respect of the Managing Director is subject to approval by Shareholders at the upcoming Annual General Meeting. Given the KEP has or is expected to be replaced in respect of the Managing Director, further details of this plan has not been disclosed. The 2019 annual report includes a summary of the key terms of the KEP plan.

The details of the 2019 OPRP that replaced the KEP are explained below.

Directors' Report *(cont.)*

REMUNERATION REPORT (AUDITED) *(cont.)*

OPRP Status

5,620,219 performance rights relating to the 2019 OPRP are on issue. The 2019 OPRP for Mr Wallace has not been issued and will be put forward at the upcoming Annual General Meeting.

During 2020, 0% of the OPRP performance rights granted in 2018 vested and as such no shares were issued to employees.

2019 OPRP Description

The KEP granted in July 2019 was replaced with the 2019 OPRP in August 2020. The 2019 OPRP consists of both Performance Rights and a cash incentive.

Long Term Incentives (2019 OPRP)	
Purpose	To retain key executives and align their remuneration with shareholder value.
Award	Under the LTI, executives and key staff are offered performance rights (to acquire ordinary shares of Hillgrove Resources Limited) and a cash incentive.
Grant Date	10 August 2020.
Vest Date	31 December 2021.
Service Period	1 June 2019 to 31 December 2021.
Performance Hurdles and Vesting Schedule	Award grants are 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 (17 Months)	
Performance	**% of equity to vest**
Below the 50th percentile	0%
at the 50th percentile	50% vest
Between the 50th to 75th percentile	2% vesting on a straight line interpolation for each percentile ranking above the 50th percentile
At or above 75th percentile	100% vest

Performance rights vest as shares if the time restrictions and relevant performance hurdle are met. Special provisions, in accordance with company policies, may apply in the event of termination of employment or a change of control.

If the TSR performance hurdle is not met at the vesting date, performance rights lapse, subject to Board discretion.

Exercise Price	Exercise price of nil in the event performance hurdles are met.
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 dollar value for each executive is then converted into a number of performance rights equivalent to 55% of target LTI dollar value based on a valuation methodology determined at the grant date, as follows: Performance right allocation = 55% x LTI dollar value determined / Hillgrove Resources share price at grant date. A cash incentive is also allocated as follows: Cash incentive = 9 ÷ 11 x Number of Performance Rights that vest x Share Price using 15-day Volume Weighted Average Price (VWAP) at Vesting Date.

Review of Future LTI Plans

The Board has engaged remuneration consultants Egan Associates to conduct an independent review of future LTI plans. This will be used by the Board in connection with a proposal for future LTI plans at the upcoming Annual General Meeting.

REMUNERATION REPORT (AUDITED) *(cont.)*

4.4.4 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.

4.5 Relationship Between Performance and Executive KMP Remuneration

4.5.1 Hillgrove Resources Financial Performance (31 December 2016 to 31 December 2020)

	12 Months to 31 Dec				
	2016	**2017 restated**	**2018**	**2019**	**2020**
Sales Revenue ($M)	113.1	113.3 (1)	180.1	113.5	**20.4**
Underlying EBITDA ($M)	22.2	16.2	44.3	12.1	**(3.7)**
Reported net profit / (loss) ($M)	(109.1) (3)	(14.1)	29.5	(10.0)	**(5.9)**
Return on equity (ROE) % (2)	(144.3%) (3)	(88.3%)	101.7%	(28.4%)	**(24.0%)**
Basic earnings per share (EPS) (cents)	(57.8) (3)	(4.8)	5.1	(1.7)	**(1.0)**
Diluted EPS (cents)	(57.8) (3)	(4.8)	4.9	(1.7)	**(1.0)**
Dividends paid (cents per share)	0	0	0	1.5	**0**
Share price as at 31 December (cents)	4	9	9	6	**3.2**
Total shareholder return (TSR) % (Annual)	(75.0%)	125.0%	0% (4)	(16.7%) (5)	**(46.7%)**

(1) *Restatement for changes in accounting policies.*

(2) *Based on average total equity.*

(3) *Includes impairment charge of $68.5m.*

(4) *Share price as at 31 December was 9c in 2017 and 2018, which results in a 0% TSR.*

(5) *Hillgrove's TSR performance includes the $0.015 dividend.*

Directors' Report *(cont.)*

REMUNERATION REPORT (AUDITED) *(cont.)*

4.6 KMP Remuneration Tables – Audited

		Fixed Remuneration					
		Short-term		Long-term			
	Year	Salary and Fees	Non-monetary benefits	Super-annuation Benefits	Termination Benefits	Long Service Leave	Total
Non-Executive Directors							
Mr D Carter (1)	**CY20**	**74,745**	**-**	**7,101**	**-**	**-**	**81,846**
	CY19	-	-	-	-	-	-
Mr M Boyte (2)	**CY20**	**68,493**	**-**	**6,507**	**-**	**-**	**75,000**
	CY19	44,169	-	4,196	-	-	48,365
Mr J Gooding (3)	**CY20**	**43,555**	**-**	**4,138**	**-**	**-**	**47,693**
	CY19	136,986	-	13,014	-	-	150,000
Mr P Baker (4)	**CY20**	**30,254**	**-**	**2,874**	**-**	**-**	**33,128**
	CY19	77,626	-	7,374	-	-	85,000
Mr A Breuer (5)	**CY20**	**21,777**	**-**	**2,069**	**-**	**-**	**23,846**
	CY19	68,493	-	6,507	-	-	75,000
Mr M Loomes (6)	**CY20**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	CY19	24,675	-	2,344	-	-	27,019
Total	**CY20**	**238,824**	**-**	**22,689**	**-**	**-**	**261,513**
	CY19	351,949	-	33,435	-	-	385,384
Executive Directors							
Mr L Wallace	**CY20**	**395,000**	**-**	**24,997**	**-**	**9,875**	**429,872**
	CY19	368,953	-	29,484	-	25,662	424,099
Mr S McClare (7)	**CY20**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	CY19	165,803	-	7,500	496,574	21,693	691,570
Total	**CY20**	**395,000**	**-**	**24,997**	**-**	**9,875**	**429,872**
	CY19	534,756	-	36,984	496,574	47,355	1,155,669
Other Key Management Personnel							
Mr P Kiley (8)	**CY20**	**203,603**	**-**	**13,269**	**111,186**	**-**	**328,058**
	CY19	383,681	-	24,998	-	-	408,679
Mr G Norris (9)	**CY20**	**114,583**	**-**	**10,416**	**-**	**-**	**124,999**
	CY19	163,547	-	15,067	-	13,447	192,061
Total	**CY20**	**318,186**	**-**	**23,685**	**111,186**	**-**	**453,057**
	CY19	547,228	-	40,065	-	13,447	600,740
Total	**CY20**	**952,010**	**-**	**71,371**	**111,186**	**9,875**	**1,144,442**
	CY19	1,433,933	-	110,484	496,574	60,802	2,101,793

(1) Mr D Carter was appointed on 24 April 2020.
(2) Mr M Boyte was appointed on 10 May 2019.
(3) Mr J Gooding resigned on 24 April 2020.
(4) Mr P Baker resigned on 20 May 2020.
(5) Mr A Breuer resigned on 24 April 2020.
(6) Mr M Loomes resigned on 10 May 2019.
(7) Mr S McClare resigned on 2 May 2019.
(8) Mr P Kiley resigned on 10 July 2020.
(9) The table shows the period Mr G Norris was a part of the KMP (23 May 2019 to 31 May 2020).

REMUNERATION REPORT (AUDITED) (cont.)

4.6 KMP Remuneration Tables – Audited (cont.)

		Variable Remuneration			Total	Proportion of Total Remuneration	
	Year	Short-Term	Long-Term	Total	Fixed and Variable	Fixed %	Variable %
Non-Executive Directors							
Mr D Carter	**CY20**	**-**	**-**	**-**	**81,846**	**100%**	**0%**
	CY19	-	-	-	-	-	-
Mr M Boyte	**CY20**	**-**	**-**	**-**	**75,000**	**100%**	**0%**
	CY19	-	-	-	48,365	100%	0%
Mr J Gooding	**CY20**	**-**	**-**	**-**	**47,693**	**100%**	**0%**
	CY19	-	-	-	150,000	100%	0%
Mr P Baker	**CY20**	**-**	**-**	**-**	**33,128**	**100%**	**0%**
	CY19	-	-	-	85,000	100%	0%
Mr A Breuer	**CY20**	**-**	**-**	**-**	**23,846**	**100%**	**0%**
	CY19	-	-	-	75,000	100%	0%
Mr M Loomes	**CY20**	**-**	**-**	**-**	**-**	**0%**	**0%**
	CY19	-	-	-	27,019	100%	0%
Total	**CY20**	**-**	**-**	**-**	**261,513**	**100%**	**0%**
	CY19	-	-	-	385,384	100%	0%
Executive Directors							
Mr L Wallace	**CY20**	**180,180**(10)	**133,334**(13)	**313,514**	**743,386**	**58%**	**42%**
	CY19	52,500	117,966(11)	170,466	594,565	71%	29%
Mr S McClare	**CY20**	**-**	**-**	**-**	**-**	**-**	**-**
	CY19	89,381	101,184(11)(12)	190,565	882,135	78%	22%
Total	**CY20**	**180,180**	**133,334**	**313,514**	**743,386**	**58%**	**42%**
	CY19	141,881	219,150	361,031	1,476,700	76%	24%
Other Key Management Personnel							
Mr P Kiley	**CY20**	**51,075**	**97,213**(13)	**148,288**	**476,346**	**69%**	**31%**
	CY19	51,075	142,929(11)	194,004	602,683	68%	32%
Mr G Norris	**CY20**	**67,218**(10)	**53,080**(13)	**120,298**	**245,297**	**51%**	**49%**
	CY19	37,500	71,106(11)	108,606	300,667	64%	36%
Total	**CY20**	**118,293**	**150,293**	**268,586**	**721,643**	**63%**	**37%**
	CY19	88,575	214,035	302,610	903,350	67%	33%
Total	**CY20**	**298,473**	**283,627**	**582,100**	**1,726,542**	**66%**	**34%**
	CY19	230,456	433,185	663,641	2,765,434	76%	24%

(10) Includes payments related to 2019 and 2020 performance, please refer to section 4.4.2 for further details.

(11) Includes the value of forfeited 2017 performance rights.

(12) Includes the value of 2018 performance rights forfeited on termination.

(13) Includes the value of forfeited 2018 performance rights.

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 4.4.3	To provide equity and cash 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:

KMP	Grant Date	Balance Held at 31/12/19	Granted (1)	Number Vested	% Vested	Number Forfeited	% Forfeited	Balance held at 31/12/20 (2)
Mr L Wallace	Aug 20	-	3,121,622 (3)	-	0%	-	0%	3,121,622
	Jun 18	1,900,000	-	-	0%	1,900,000	100%	-
TOTAL		**1,900,000**	**3,121,622**	**-**		**1,900,000**		**3,121,622**
Former KMP								
Mr S McClare	Jun 18	1,608,755	N/A	N/A	N/A	N/A	N/A	N/A (4)
TOTAL		**1,608,755**	**-**	**-**		**-**		**-**
Mr P Kiley	Aug 20	-	3,032,432	-	0%	1,731,442	57%	N/A (5)
	Jun 18	2,300,000	-	-	0%	2,300,000	100%	-
TOTAL		**2,300,000**	**-**	**-**		**2,300,000**		**-**
Mr G Norris	Aug 20	-	2,229,730	-	0%	-	0%	N/A (6)
	Jun 18	1,350,000	-	-	0%	1,350,000	100%	-
TOTAL		**1,350,000**	**-**	**-**		**1,350,000**		**-**

(1) *Relates to the conversion of the 2019 Key Employees Plan to Option & Performance Rights Plan in August 2020.*

(2) *None of these rights are exercisable and have not vested.*

(3) *Subject to Shareholder approval at the Annual General Meeting in 2021.*

(4) *Mr S McClare resigned on 2 May 2019.*

(5) *Mr P Kiley resigned on 10 July 2020.*

(6) *Mr G Norris was no longer a member of the KMP from 1 June 2020.*

5.3 Exercise of Performance Rights Granted as Remuneration

During the financial year, there were no shares issued on the exercise of performance rights, which were previously granted as part of remuneration.

5.4 Value of Performance Rights Granted and on Foot to Executive KMP as at 31 December 2020

KMP	Grant Date	Number Granted	Vesting Date	Face Value per right (1)	Fair Value (2)	Intrinsic Value (3)	Total Fair Value
Mr L Wallace	Aug 20	3,121,622	Dec 21	$0.032	$0.030	$99,892	$93,649

(1) *The Face Value is the closing share price on 31 December 2020.*

(2) *The Fair Value at grant date (10 August 2020) 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.*

(3) *Intrinsic value is the difference between the Face Value ($0.032) and the exercise price ($0.00).*

REMUNERATION REPORT (AUDITED) (cont.)

5.5 Movement In Equity Held

The movement during the reporting period in the number of 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 31/12/19	Exercise of Rights	Net Other Changes	Held as at 31/12/20
Directors					
Mr D Carter	Shares	-	-	-	**-**
Mr M Boyte	Shares	-	-	-	**-**
Mr L Wallace	Shares	12,205,197	-	-	**12,205,197**
Former Directors					
Mr J Gooding	Shares	94,444	-	-	**N/A** (1)
Mr P Barker	Shares	667.626	-	-	**N/A** (1)
Mr A Breuer	Shares	20,166,800	-	-	**N/A** (1)
Former KMP					
Mr P Kiley	Shares	6,027,666	-	-	**N/A** (1)
Mr G Norris	Shares	5,287,019	-	-	**N/A** (2)

(1) Resigned during 2020 and as such, no longer a current Director or KMP.

(2) Mr G Norris was no longer a member of the KMP from 1 June 2020.

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 contract for the Executive KMP as at 31 December 2020.

Employee	Mr LA Wallace
Position	Chief Executive Officer and Managing Director
Commencement	24 May 2019
Fixed Remuneration	$420,000 p.a. reviewed periodically
Short-term Incentive	Up to 50% of fixed remuneration
Long-term Incentive	Up to 50% of fixed remuneration
Contract Length	Indefinite
Notice periods for resignation or termination	6 months
Redundancy Benefit	National Employment Standards and Group Redundancy Policy
Death or Total and Permanent Disability Benefit	No specific benefit
Change of Control	No effect
Termination for serious misconduct	No notice required, remuneration to the day less advance payments and return of Company property. No payment of STI/LTI
Statutory entitlements	All leave and benefits due per National Employment Standards
Post-Employment restraints	For 6 months: must not recruit employees or make adverse comments or actions by either party

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 2020 may be accessed from the Company's website at www.hillgroveresources.com.au/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 28.

Signed in accordance with a resolution of the Directors:

Dated at Adelaide on 26 February 2021

Mr Derek Carter
Chairman

Mr Lachlan Wallace
Managing Director

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Hillgrove Resources Limited for the year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
26 February 2021

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Consolidated Statement of
Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Continuing operations			
Concentrate revenue	*5*	**20,248**	113,537
Other income	*6*	**124**	1,703
Expenses	*7(a)*	**(27,624)**	(117,017)
Interest and finance charges	*7(b)*	**(167)**	(788)
Impairment charges	*7(c)*	**(51)**	(3,048)
(Loss) before income tax		**(7,470)**	(5,613)
Income tax (expense) / benefit	*9*	**-**	(3,685)
Loss from continuing operations		**(7,470)**	(9,298)
Profit / (loss) from discontinued operations	*8*	**1,525**	(729)
Loss for the period		**(5,945)**	(10,027)
Comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange difference on translation of discontinued operation		**177**	-
Total comprehensive income for the period attributable to equity holders of Hillgrove Resources Limited		**(5,768)**	(10,027)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic earnings per share			
Diluted earnings per share	*10*	**(1.3)**	(1.6)
	10	**(1.3)**	(1.6)
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share			
Diluted earnings per share	*10*	**(1.0)**	(1.7)
	10	**(1.0)**	(1.7)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 33 to 54.

Consolidated **Balance Sheet**

As at 31 December 2020

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Current assets			
Cash and cash equivalents	*11*	**5,601**	9,329
Trade and other receivables	*12*	**832**	3,075
Inventories	*13*	**50**	10,182
		6,483	22,586
Non-current assets			
Inventories	*13*	**1,782**	1,899
Property, plant and equipment	*14*	**24,390**	24,163
Exploration and evaluation expenditure	*15*	**3,236**	2,616
		29,408	28,678
Total assets		**35,891**	51,264
Current liabilities			
Trade and other payables	*16*	**1,122**	8,640
Provisions	*17*	**775**	4,132
Lease liabilities	*18*	**-**	253
Employee benefits payable	*19*	**1,035**	3,322
Deferred income	*20*	**-**	479
		2,932	16,826
Non-current liabilities			
Provisions	*21*	**9,736**	8,140
		9,736	8,140
Total liabilities		**12,668**	24,966
Net assets		**23,223**	26,298
Equity			
Contributed equity	*22*	**236,550**	234,322
Reserves	*23*	**27,755**	27,113
Accumulated losses	*24*	**(241,082)**	(235,137)
Total equity		**23,223**	26,298

The Consolidated Balance Sheet is to be read in conjunction with the notes to the consolidated financial statements set out on pages 33 to 54.

Consolidated Statement of **Changes in Equity**

For the year ended 31 December 2020

	Note	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance 1 January 2019		234,327	34,986	(225,110)	44,203
Profit/(Loss) for the period		-	-	(10,027)	(10,027)
Other comprehensive income		-	-	-	-
Transactions with owners:					
Options exercised	*22*	(5)	-	-	(5)
Dividend paid	*3*	-	(8,784)	-	(8,784)
Share-based compensation	*33*	-	911	-	911
Balance 31 December 2019		**234,322**	**27,113**	**(235,137)**	**26,298**
Profit/(Loss) for the period		-	-	(5,945)	(5,945)
Other comprehensive income		-	177	-	177
Transactions with owners:					
Contributions of equity, net of transaction costs	*22*	2,228	-	-	2,228
Share-based compensation	*33*	-	465	-	465
Balance 31 December 2020		**236,550**	**27,755**	**(241,082)**	**23,223**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 33 to 54.

Consolidated Statement of **Cash Flows**

For the year ended 31 December 2020

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Cash flows from operating activities			
Cash receipts in the course of operations (inclusive of GST)		**20,211**	116,772
Cash payments in the course of operations (inclusive of GST)		**(23,211)**	(94,957)
Net cash (used) / generated by operating activities	*28*	**(3,000)**	21,815
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		**(687)**	(950)
Payments for property, plant and equipment		**(2,346)**	(4,574)
Proceeds on disposal of plant and equipment		**348**	96
Payment on disposal of Indonesian subsidiaries		**(91)**	-
Net cash used in investing activities		**(2,776)**	(5,428)
Cash flows from financing activities			
Dividends paid		**-**	(8,784)
Proceeds from issue of shares (net of transaction costs)		**2,251**	-
Repayment of borrowings		**-**	(430)
Repayment of leases		**(206)**	(225)
Interest received		**3**	4
Interest paid		**-**	(76)
Net cash from/(used) in financing activities		**2,048**	(9,509)
Net increase / (decrease) in cash and cash equivalents		**(3,728)**	6,878
Cash and cash equivalents at the beginning of financial period		**9,329**	2,451
Cash and cash equivalents at the end of the financial period	*11*	**5,601**	9,329

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 33 to 54.

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) Working capital

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business. Cash generating activities from the processing of copper ore ceased during 2020, however, based on projected cashflows, the directors consider that cash on hand at the date of the report plus cash generated from the capital raise will be sufficient for the Group to cover forecast expenditure for the next twelve months including its ongoing rehabilitation and compliance requirements and to meet expenditure commitments under exploration leases.

(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 when necessary by the revaluation of certain financial assets and liabilities to fair value through other comprehensive income or through profit or loss.

(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.

(b) 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.

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

(c) Impairment of assets

The carrying value of property, plant and equipment is assessed for impairment whenever there is an indicator that the asset may be impaired. Determining whether property, plant and equipment is impaired requires an estimation of the recoverable value of the Cash Generating Unit ("CGU") to which property, plant and equipment has been allocated. Impairment is recognised when the carrying amount exceeds the recoverable amount.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

In its impairment assessment, the Company determined the recoverable amount based on a fair value less cost of disposal ("FVLCOD") calculation. The FVLCOD assessment was undertaken using a discounted cash flow approach. Cash flow projections are based on the CGU's life of mine plan. In assessing the FVLCOD, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessment of the time value of money and business risk. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. Assets that have undergone 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".

(d) 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 balance sheet.

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.

(e) Government grants

The Group was eligible for the Australian Government's JobKeeper wage subsidy scheme. Receipts from the JobKeeper Program are accounted for as government grants under AASB 120 Accounting for Government Grants and Disclosures of Government Assistance.

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Where the grant relates to an expense item, it is recognised as a reduction of the expense to which it relates. Where the grant relates to capitalised expenses, it is recognised as a reduction to the carrying amount of the related asset.

(f) 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.

(g) Standards and interpretations in issue

(i) 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.

(ii) Early adoption of standards

There are no standards on issue that are expected to have a material impact on the group in the current or future reporting periods.

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 are discussed below:

(a) Recoverability of non-current assets

The Group has a single Cash Generating Unit (CGU) being the Kanmantoo copper mine. The estimates of discounted future cash flows for the Kanmantoo CGU are based on significant assumptions including:

- Estimates of the quantities of resources and exploration targets and the timing of access to those resources and exploration targets;
- Future production levels based on plant throughput and recoveries;
- Future copper, gold and silver prices based on spot pricing;
- Future exchange rates for the Australian dollar to US dollar based on spot prices;

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(cont.)*

- Future operating costs of production, capital expenditure and rehabilitation expenditure; and
- The discount rate most appropriate to the CGU.
- The timing and amounts to be received from the sale of processing equipment and land following completion of mining and processing activities.

Annual assessments of the discounted future cash flows for the Kanmantoo CGU have resulted in no adjustments to the carrying values. Separate to the CGU there have been impairments of carrying values of some exploration assets.

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.

(b) Restoration, rehabilitation and environmental obligations

Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in Notes 17 and 21.

The provision represents management's best estimate of the costs that will be incurred, but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine.

3. DIVIDENDS

	31 Dec 2020 $'000	31 Dec 2019 $'000
Franked dividend paid for 2019: 1.5 cents per share	-	8,784
Amount of franking credits available to shareholders for subsequent financial years	**17,556**	17,556

4. FINANCIAL REPORTING BY SEGMENT

Through its ownership of the Kanmantoo copper mine, the Group has one operating segment being in the resources industry, in Australia. The Group also had exploration tenement interests overseas which were sold during the year as part of the sale of the Indonesian subsidiaries.

These tenements were previously fully written down, incurring minimal care and maintenance costs and were therefore considered to be immaterial, not requiring separate segment disclosure. The Indonesian business has been disclosed as discontinued in Note 8.

5. CONCENTRATE REVENUE

	31 Dec 2020 $'000	31 Dec 2019 $'000
Copper in concentrate	**19,643**	116,152
Gold in concentrate	**1,796**	6,325
Silver in concentrate	**393**	2,011
Treatment and refining deductions	**(1,584)**	(10,951)
Concentrate revenue	**20,248**	113,537

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

The group sells copper concentrate under an offtake contract and the Group trades using CIF terms (i.e. Seller's cost, insurance and freight) for vessel chartering. Under AASB 15, the Company has three performance obligations relating to the sale of concentrate which include delivery and transfer of title of concentrate at the port of loading, loading of concentrate onto the ship and transporting the shipment to the port of destination. The transaction price applied to the delivery of concentrate to the port is the value of the concentrate delivered adjusted for treatment and refining charges. The transaction price allocated to the final two performance obligations are cost of loading and chartering a vessel for shipment to destination at cost recovery.

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.

The group has recognised the following assets and liabilities related to contracts with customers:

	31 Dec 2020 $'000	31 Dec 2019 $'000
Deferred income (contract liability)	-	(479)
Trade and other receivables (contract asset)	-	479

During 2020, the performance obligations relating to the group's final shipment of copper concentrate were satisfied and all associated revenues received.

6. OTHER INCOME

	31 Dec 2020 $'000	31 Dec 2019 $'000
Interest	**13**	12
Grant income	**-**	275
PHES project	**-**	1,000
Other – services provided to third parties	**11**	416
Other – government cashflow boost	**100**	-
Total other income	**124**	1,703

7. EXPENSES

Profit or loss before income tax includes the following expenses:

(a) Expenses per profit or loss

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Costs of production	*(i)*	**10,564**	72,583
Depreciation and amortisation		**1,891**	14,664
Inventory movement		**9,211**	20,859
Cost of goods sold		**21,666**	108,106
Government royalties		**907**	5,388
Corporate and other costs	*(ii)*	**3,777**	4,216
Care and maintenance costs	*(iii)*	**1,335**	-
Rehabilitation adjustment	*(iv)*	**(166)**	(702)
(Gain) / Loss on sale of fixed assets		**(92)**	(47)
Foreign exchange loss / (gain)		**197**	56
Total Expenses per Profit or Loss		**27,624**	117,017

(i) Costs of production represent costs for mining, processing, transport of concentrate to port, and site overheads.

(ii) Corporate and other costs reflect the costs incurred in running the corporate head office.

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

(iv) The decrease in the required rehabilitation provision has been fully expensed as the associated rehabilitation asset in Mine Development has been written down to nil in prior reporting periods.

(b) Interest and finance charges

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Discount on unwind of rehabilitation provision		**109**	257
Borrowing costs, bank fees and charges		**6**	6
Interest on borrowings		**-**	3
Other interest payable	*(i)*	**52**	522
Total Interest and finance charges		**167**	788

(i) Includes interest charged on sales proceeds received in advance of ship loading. The cost is netted-off against revenue as it is received and therefore is not dislcosed as a financing activity cashflow in the Statement of Cashflows.

(c) Impairment charges

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Exploration assets	*(i)*	**51**	232
PHES project costs	*(ii)*	**-**	2,816
		51	3,048

(i) Expenditure on exploration areas of interest where the prospect of recoupment of costs capitalised through successful development and commercial exploitation is no longer considered likely, is charged to the profit or loss as an impairment charge.

(ii) Costs accumulated in connection with the PHES project development by AGL were impaired at 31 December 2019 due to mutual agreement to terminate the contract by both parties in February 2020.

(d) Other required disclosures

	31 Dec 2020 $'000	31 Dec 2019 $'000
Employee benefits (excluding share-based payments)	**4,256**	19,023
Share based payments (see Note 33)	**587**	911

7. EXPENSES (cont.)

(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 2020	31 Dec 2019
	$	$
(i) Audit Services		
Fees paid to PricewaterhouseCoopers:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**149,928**	226,355
Fees paid to other firms:		
Crowe Horwath Singapore	**-**	19,900
	149,928	246,255
(ii) Taxation Services		
Services by PricewaterhouseCoopers:		
Tax advice	**6,171**	24,299
Services by other firms:		
Crowe Horwath Singapore	**3,812**	-
	9,983	24,299

8. DISCONTINUED OPERATIONS

(a) Description

In October 2020, Hillgrove successfully withdrew from Indonesia, through the sale of its Indonesian subsidiaries, PT Akram Resources and PT Fathi Resources. With the carrying value of these assets being fully impaired in 2015, the transaction resulted in an improvement of the balance sheet (through a reduction in liabilities) of $2.2 million.

(b) Financial performance

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Expenses	**(373)**	(729)
Loss before income tax	**(373)**	(729)
Income tax expense	**-**	-
Loss after income tax of discontinued operation	**(373)**	(729)
Gain on sale of subsidiaries after income tax (see (d) below)	**1,898**	-
Profit from discontinued operation	**1,525**	(729)
Exchange differences on translation of discontinued operations	**177**	-
Total comprehensive income from discontinued operations	**1,702**	(729)

(c) Cashflow information

There was no consideration received on the sale of the subsidiaries. A negotiated payment of US$60,000 was made in full settlement of the outstanding liabilities of the companies which subsequently allowed the accrued balances of $2.2 million to be reversed.

(d) Details of the sale of the subsidiaries

	$'000
Consideration received/(paid)	**(91)**
Carrying amount of net liability sold	**2,166**
	2,075
Reclassification of foreign currency translation reserve	**(177)**
Gain on sale	**1,898**

9. INCOME TAX

	31 Dec 2020 $'000	31 Dec 2019 $'000
(a) Income tax expense		
Income tax expense comprises:		
- Current tax expense	**-**	-
- Deferred tax expense / (benefit)	**-**	3,685
Income tax expense / (benefit)	**-**	3,685
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense/(benefit)	**(5,945)**	(6,342)
Tax at the Australian tax rate of 30%	**(1,783)**	(1,903)
Tax effect of amounts which are not deductible in calculating taxable income:		
- Share based payments	**176**	273
- Non-deductible expenses	**-**	10
- Non-assessable income	**-**	(172)
- (Profit)/Losses from non-resident foreign operations	**(458)**	225
- Tax temporary differences not recognised	**2,065**	5,252
Income tax expense	**-**	3,685
(c) Amounts recognised directly in equity		
Deferred tax – (credited)/ debited directly in equity	**-**	-

(d) Deferred Tax

(i) No deferred tax assets or liabilities have been recognised.

(ii) 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.

(iii) 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 $230.6 million (tax benefit at the Australian tax rate of 30%: $69.2 million). In addition, the total value of unrecognised deductible temporary differences is $59.4 million (tax benefit at the Australian tax rate of 30%: $17.8 million) of which the unrecognised deductible temporary difference on plant and equipment is approximately $44.8 million (tax benefit at the Australian tax rate of 30%: $13.4 million).

(e) 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.

9. INCOME TAX (cont.)

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.

10. 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. Where there is a loss after tax, diluted earnings per share is equivalent to basic earnings per share.

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.

(a) Weighted average number of shares used as the denominator

	31 Dec 2020	31 Dec 2019
	Number	Number
Weighted average number of ordinary shares used in calculating basic and dilutive EPS	**586,213,187**	581,988,390

(b) Reconciliation of earnings used in calculating earnings per share

	31 Dec 2020	31 Dec 2019
	$'000	$'000
(i) Basic earnings		
(Loss) attributable to the ordinary equity holders of the Company:		
From continuing operations	**(7,470)**	(9,298)
From discontinued operations	**1,525**	(729)
	(5,945)	(10,027)
(ii) Diluted earnings		
(Loss) attributable to the ordinary equity holders of the Company		
From continuing operations	**(7,470)**	(9,298)
From discontinued operations	**1,525**	(729)
	(5,945)	(10,027)

(c) Basic earnings per share

	31 Dec 2020	31 Dec 2019
	Cents	Cents
From continuing operations attributable to the ordinary equity holders of the Company	**(1.3)**	(1.6)
From discontinued operations	**0.3**	(0.1)
Total basic earnings per share attributable to the ordinary equity holders of the company	**(1.0)**	(1.7)

(d) Diluted earnings per share

	31 Dec 2020	31 Dec 2019
	Cents	Cents
From continuing operations attributable to the ordinary equity holders of the Company	**(1.3)**	(1.6)
From discontinued operations	**0.3**	(0.1)
Total diluted earnings per share attributable to the ordinary equity holders of the company	**(1.0)**	(1.7)

11. CASH AND CASH EQUIVALENTS

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Cash at bank and on hand	5,042	8,971
Restricted cash	559	358
	5,601	9,329

Cash and cash equivalents include 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 consent and comprises deposits to cash back environmental bonds and office rental security deposits.

12. TRADE AND OTHER RECEIVABLES

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Trade receivables	-	1,135
Prepayments	385	1,230
Other receivables	404	424
GST receivable	43	286
	832	3,075

Trade receivables are for concentrate sales and the Group has a single customer under the terms of an offtake agreement. Sales are denominated in US dollars. Revenue is recognised in accordance with the policy described in Note 5 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 period end are revalued using the appropriate end of period exchange rate.

First progress payment is received three business days after concentrate is delivered to port in minimum tonnage lots. First provisional payment covering 95% of the value is received three business days after ship loading. Second provisional payment for the remaining 5% is received 45 days after ship loading. Refer to note 5 for additional information. Prepayments include contract assets recognised under AASB 15 of $Nil (CY19: $479,000).

The group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in note 25(c).

13. INVENTORIES

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Current Assets		
Concentrates	-	1,976
Run-of-mine (ROM) stockpile	-	7,313
Stores and consumables	50	893
Total current inventory	50	10,182
Non-Current Assets		
Stores inventory	1,782	1,899
Total non-current inventory	1,782	1,899

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.

Due to the processing plant entering a phase of care and maintenance, an assessment has been made of the estimated cost or net realisable value of stores inventory which is unlikely to be consumed in the next financial year but still has future economic value in conjunction with the plant itself. This has been reclassified to non-current stores inventory.

14. PROPERTY, PLANT AND EQUIPMENT

	31 Dec 2020 $'000	31 Dec 2019 $'000
Land and buildings		
At cost	**5,277**	5,524
Accumulated depreciation	**(379)**	(379)
	4,898	5,145
Plant and equipment		
At cost	**73,490**	73,370
Accumulated depreciation and impairment	**(59,817)**	(59,621)
	13,673	13,749
Motor vehicles		
At cost	**477**	763
Accumulated depreciation	**(399)**	(640)
	78	123
Mine development		
At cost	**165,451**	163,313
Accumulated depreciation and impairment	**(159,710)**	(158,167)
	5,741	5,146
Total property, plant and equipment	**24,390**	24,163

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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred. The units of production basis is used when depreciating mine specific assets which results in a depreciation charge proportional to the depletion of the forecast remaining life of mine production. Changes in factors such as estimates of proven and probable reserves that affect the unit of production calculations are applied on a prospective basis.

The straight line method of depreciation to allocate cost, net of residual values, is used for all remaining assets over estimated useful lives between 3-10 years from inception. The duration reflects the specific nature of the assets. Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. During the period of care and maintenance, depreciation of the processing plant ceased. Refer to note 7 (a) (iii) for further information.

Mine development includes development costs related to the Kanmantoo mine.

In accordance with the Group's accounting policies, regular impairment testing is carried out to ensure assets are not carried at more than their recoverable amount. The fair value less cost of disposal (FVLCOD) methodology is used to estimate the recoverable amount, rather than the value in use method as FVLCOD is considered more appropriate given the cessation of open pit operations and the intent to develop the underground project.

The impairment calculations were performed using a discount rate of 12.53% (2019 12.03%).

No impairment charges were taken against the Group's Kanmantoo assets in the current year.

14. PROPERTY, PLANT AND EQUIPMENT *(cont.)*

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

	31 Dec 2020 $'000	31 Dec 2019 $'000
Land and buildings		
Carrying amount at beginning of period	**5,145**	5,145
Disposals	**(247)**	-
Depreciation	**-**	-
Carrying amount at end of period	**4,898**	5,145
Plant and equipment		
Carrying amount at beginning of period	**13,749**	15,152
Additions	**179**	106
Disposals	**-**	-
Depreciation	**(255)**	(1,509)
Carrying amount at end of period	**13,673**	13,749
Motor vehicles		
Carrying amount at beginning of period	**123**	520
Additions	**-**	-
Disposals	**(18)**	(39)
Depreciation	**(27)**	(358)
Carrying amount at end of period	**78**	123
Mine development		
Carrying amount at beginning of period	**5,146**	15,286
Additions	**2,138**	2,488
Depreciation	**(1,543)**	(12,399)
(Decrease) / Increase provision for rehabilitation	**-**	(229)
Carrying amount at end of period	**5,741**	5,146
Total property, plant and equipment	**24,390**	24,163

15. EXPLORATION AND EVALUATION EXPENDITURE

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.

Expenditure on exploration areas of interest where the prospect of recoupment of costs capitalised through successful development and commercial exploitation is no longer considered likely, is charged to the profit or loss as an impairment charge.

	31 Dec 2020 $'000	31 Dec 2019 $'000
Exploration and evaluation expenditure	**3,236**	2,616
Carrying at beginning of period	**2,616**	2,034
Additions	**671**	814
Impairment loss	**(51)**	(232)
Carrying amount at end of period	**3,236**	2,616

16. TRADE AND OTHER PAYABLES

	31 Dec 2020 $'000	31 Dec 2019 $'000
Trade payables	**218**	2,608
Other payables and accruals	**904**	6,032
	1,122	8,640

Information about the Group's exposure to liquidity risk is provided in Note 25(d).

17. PROVISIONS – CURRENT

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Rehabilitation provision	**775**	3,588
Make good provision	**-**	420
Unsettled ship provision	**-**	124
	775	4,132
Movement in provisions		
Carrying value at the beginning of the period	**4,132**	3,277
Payments charged against provisions:		
Rehabilitation provision	**(1,159)**	(2,200)
Make good provision	**(244)**	(402)
Unsettled ship provision	**(124)**	(528)
Increase / (reduce) provision recognised:		
Make good provision	**(176)**	273
Unsettled ship provision	**-**	124
Transfer from / (to) non-current provisions:		
Rehabilitation provision	**(1,654)**	3,588
Balance at end of period	**775**	4,132

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration and mining activities. The current balance is in respect of the Kanmantoo mine and Comet Vale tenement.

18. LEASE LIABILITIES

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Lease liabilities	-	253
Total lease liabilities	-	253

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of; fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option, and payments of penalties for terminating the lease, if the lease term reflects the group exercising that option. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Lease payments are allocated between principal and finance cost. The finance cost is charged to 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.

Right-of-use assets are measured at cost comprising; the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with new short-term leases of equipment and vehicles and all leases of low-value assets are to be recognised on a straight-line basis as an expense in profit or loss.

As at 31 December 2019, the Group was a lessee under finance leases for 12 motor vehicles. As these were due to expire in mid 2020, management treated these contracts as exempt from AASB 16. At 31 December 2020 these leases had expired. The Group has no other material lease obligations that require the disclosure of "lease liabilities" and "right-to-use" assets under AASB 16.

19. EMPLOYEE BENEFITS PAYABLE – CURRENT

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Employee benefits payable	**1,035**	3,322

The current provision for employee benefits includes accrued annual leave, long service leave, bonuses and other accrued remuneration.

The entire amount of employee benefits payable of $1.0 million (2019: $3.3 million) is presented as current since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Leave obligations expected to settle after 12 months	**123**	276

20. DEFERRED INCOME

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Deferred revenue (contract liability)	**-**	479
	-	479

Deferred revenue relates to the delivery of concentrate to the local port and transfer of title being completed, however loading of concentrate onto vessels and the shipping of concentrate to the destination port had not yet been performed. Refer to Note 5 for additional information.

21. PROVISIONS – NON-CURRENT

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Rehabilitation provision	**9,736**	8,140
Movement in provisions		
Carrying value at the beginning of the period	**8,140**	12,402
Discount on unwind of rehabilitation provision	**109**	257
Transfer (to)/from current provisions	**1,654**	(3,588)
(Reduce)/increase provision recognised	**(167)**	(931)
Balance at end of period	**9,736**	8,140

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 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.

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

22. CONTRIBUTED EQUITY

Share capital

	31 Dec 2020 $'000	31 Dec 2019 $'000
Issued and paid up capital for 661,798,194 fully paid shares (31 December 2019: 585,588,518)	**236,550**	234,322

Ordinary Shares Issued – movements during the period

	31 Dec 2020 No. of shares	31 Dec 2019 No. of shares	31 Dec 2020 $'000	31 Dec 2019 $'000
Opening balance	**585,588,518**	577,477,118	**234,322**	234,327
Employee option schemes / issues	**-**	8,111,400	**-**	-
Capital Raise	**76,209,676**	-	**2,362**	-
Less – transaction costs	**-**	-	**(134)**	(5)
Balance at end of period	**661,798,194**	585,588,518	**236,550**	234,322

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.

Capital Raise

On 17 December 2020, the Company announced a combined equity raising of up to $10.9 million at $0.031 per share. The raising was to be undertaken through the following:

- Placement Tranche 1 – the issue of 76,209,676 new fully paid ordinary shares pursuant to the Company's available placement capacity under ASX Listing Rules 7.1 raising ~$2.4 million;
- Placement Tranche 2 – subject to shareholder approval, the issue of 185,080,646 new fully paid ordinary shares to raise ~$5.7 million; and
- Entitlement Offer – non underwritten non-renounceable offer to raise gross proceeds of up to ~$2.8 million through the issue of approximately 90.1 million shares.

Proceeds from Placement Tranche 1 was received in the current period.

23. RESERVES

	31 Dec 2020 $'000	31 Dec 2019 $'000
Employee share options reserve	**5,673**	5,208
Profit reserve	**22,082**	22,082
Foreign currency translation	**-**	(177)
	27,755	27,113
Movements:		
Employee share options reserve		
Opening balance	**5,208**	4,297
Share based compensation expense	**465**	911
Closing balance	**5,673**	5,208
Profit reserve		
Opening balance	**22,082**	30,866
Transfer of current year profit	**-**	-
Dividend paid	**-**	(8,784)
Closing balance	**22,082**	22,082
Foreign currency translation		
Opening balance	**(177)**	(177)
Reclassified to profit and loss on disposal of discontinued operations	**177**	-
Closing balance	**-**	(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.

(ii) Foreign currency translation reserve

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

(iii) Profit reserve

The profit reserve is used to accumulate distributable profits, preserving the characteristics of profit by not appropriating against prior year accumulated losses. The reserve can be used to pay taxable dividends.

24. ACCUMULATED LOSSES

	31 Dec 2020 $'000	31 Dec 2019 $'000
At beginning of the period	**(235,137)**	(225,110)
Net loss (not carried forward to profit reserve)	**(5,945)**	(10,027)
Accumulated losses at end of the period	**(241,082)**	(235,137)

25. 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 program 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 2020. The prices for copper concentrate supplied under these contracts is 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 approximately 95% of the copper concentrate sales value and gold represents about 5%.

As at 31 December 2020, all fixed price contracts had been delivered into, and there were no fixed price arrangements in place at 31 December 2020.

(b) Foreign exchange risk

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

The current fixed pricing arrangements on a ship by ship basis with Freepoint include conversion from US$ into A$ to the extent of the aggregate of the early drawdown values for each ship. Provisional and final invoicing is settled at spot foreign exchange rates.

At 31 December 2020, the Group has no US$-denominated trade receivables (31 December 2019: US$749,281). The table below details the Group's foreign exchange sensitivity on its net USD-denominated trade receivables and final invoice ship provisions:

25. FINANCIAL RISK MANAGEMENT (CONT.)

	Impact on profit or loss			
	31 December 2020		31 December 2019	
	$'000 Increase	$'000 Decrease	$'000 Increase	$'000 Decrease
Impact of 10% increase/decrease in A$/US$ exchange rate on US$ denominated trade receivables	-	-	(97)	107

The Group and parent entity also hold a bank account denominated in US$ which had a carrying value of $NIL at 31 December 2020 (31 December 2019: $866,645).

(c) 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 Commonwealth Bank of Australia which are considered to be appropriate financial institutions.

The Group has trade receivables of $NIL (31 December 2019: $1,135,058). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Applying the principles of the expected credit loss model and historical recovery rates, the Consolidated entity has not recognised a provision against trade receivables and contract assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments.

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 counterparty, taking into account its financial position, past experience and other relevant factors.

(d) 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 regular basis to ensure adequate funds are in place to maintain uninterrupted production and to meet its payment obligations when they fall due. 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 2020 $'000						
Trade and other payables	1,122	-	-	-	-	-
Total	**1,122**	**-**	**-**	**-**	**-**	**-**
31 December 2019 $'000						
Trade and other payables	8,640	-	-	-	-	-
Lease liabilities	253	-	-	-	-	-
Total	8,893	-	-	-	-	-

26. SUBSIDIARIES

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited (the "parent entity") as at 31 December 2020 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.

The proportion of ownership interest is equal to the proportion of voting power held. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of controlled entity	Country of incorporation	Class of share	Equity holding 31 Dec 2020 (%)	Equity holding 31 Dec 2019 (%)
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	**100**	80
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	**100**	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
PT Fathi Resources	Indonesia	Ordinary	**-**	80
PT Hillgrove Indonesia	Indonesia	Ordinary	**100**	100

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

27. COMMITMENTS

(a) Non-cancellable commitments

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

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Within one year	**30**	22
One to five years	**13**	-
	43	22

The Group has no material lease obligations that require the disclosure of "lease liabilities" and "right-to-use" assets under AASB 16.

(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 SA 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 2020	31 Dec 2019
	$'000	$'000
Within one year	**1,010**	1,365
One to five years	**1,106**	1,965
	2,116	3,330

(c) Capital commitments

At 31 December 2020 there were no contracted capital commitments (31 December 2019: Nil).

28. 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 Balance Sheet as set out in Note 11.

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

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Operating profit/(loss) after income tax	**(5,945)**	(10,027)
Add/(less) items classified as investing/financing activities		
Net (gain)/loss on sale of fixed assets	**(92)**	(47)
Net interest expense	**58**	531
Lease payments	**206**	225
Payment on disposal of Indonesian subsidiaries	**91**	-
Add/(less) non-cash items		
Depreciation and amortisation	**1,891**	14,664
Impairment asset write downs	**51**	3,048
Employee share options	**587**	911
Discount on unwind of rehabilitation provision	**109**	257
Deferred income amortisation	**-**	(275)
Rehabilitation adjustment	**(166)**	(702)
Changes in operating assets and liabilities		
Increase / (decrease) in deferred revenue	**(479)**	(687)
(Increase) / decrease in receivables, prepayments and inventories	**12,492**	23,881
Increase / (decrease) in trade creditors and accruals	**(7,812)**	(18,140)
(Increase) / decrease in net deferred tax assets	**-**	3,685
Increase / (decrease) in provisions and employee benefits	**(3,991)**	(3,414)
(Increase) / decrease in deferred mining costs	**-**	7,905
Net cash generated by operating activities	**(3,000)**	21,815

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Cash and cash equivalents	**5,601**	9,329
Borrowings – repayable within one year	**-**	(253)
Borrowings – repayable after one year	**-**	-
Net funds / (debt)	**5,601**	9,076

28. NOTES TO THE STATEMENT OF CASH FLOWS *(cont.)*

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Other Assets		Liabilities from Financing activities				
	Cash & Bank	Liquid Investments	Leases due within 1 year	Leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
Net debt as at 1 January 2019	2,451	-	(333)	(145)	(503)	-	1,470
Cash flows	6,878	-	225	-	506	-	7,609
Other non-cash movements	-	-	(145)	145	(3)	-	(3)
Net funds/(debt) as at 31 December 2019	**9,329**	**-**	**(253)**	**-**	**-**	**-**	**9,076**
Cash flows	(3,728)	-	206	-	-	-	(3,522)
Other non-cash movements	-	-	47	-	-	-	47
Net funds/(debt) as at 31 December 2020	**5,601**	**-**	**-**	**-**	**-**	**-**	**5,601**

Non-cash movements represent accrued interest, repayment timing movements between current and non-current and revaluations.

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

	31 Dec 2020	31 Dec 2019
	$	$
Short-term employee benefits	**952,010**	1,433,933
Post-employment benefits	**81,246**	171,286
Cash bonus	**298,473**	230,456
Termination payments	**111,186**	496,574
Share based payments	**283,627**	433,185
	1,726,542	2,765,434

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

30. 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 26.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 29.

(d) Related parties

Loans to controlled entities are eliminated on consolidation.

31. EVENTS AFTER THE REPORTING PERIOD

Subsequent to year end, the Company completed and received the funds from the capital raising that was contemplated in the announcement of 17 December 2020. Whilst the Placement Tranche 1 was completed in the current period, the following was completed subsequent to the balance date:

- Placement Tranche 2 – shareholder approval for the issue of 185,080,646 new fully paid ordinary shares to raise ~$5.7 million; and
- Entitlement Offer – the non underwritten non-renounceable offer closed oversubscribed, with $3.4m of subscriptions. As there were applications for more shortfall shares than what was available under the Top Up Facility, it was necessary for the Company to scale back applications. The entitlement offer raised gross proceeds of $2.8 million through the issue of 90,090,541 shares.

32. CONTINGENT LIABILITIES

Guarantees

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	**338**	333
Security bonds on rental properties	**16**	16
	354	349

The consolidated entity has obligations to restore land disturbed under exploration and mining licences. The maximum obligation to the South Australian Government in respect of the Kanmantoo copper mine has been assessed at a value of $9.2 million and is secured by the SA Government on a first ranking basis against the assets of the consolidated entity.

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

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 2020.

33. SHARE-BASED PAYMENTS

Following the termination of the agreement with AGL Energy Limited (AGL) to sell the pumped hydro energy storage project in February 2020, and pivoting the business strategy towards the development of the Kanmantoo Underground, the Board decided that the cash based Key Employees Plan (KEP) granted in July 2019 was no longer an appropriate LTI scheme for the revised business strategy. As such, the cash based KEP was replaced with the Option & Performance Rights Plan in August 2020 (2019 OPRP), which enables the Company to divert cash-based remuneration towards the exploration and development activities associated with the Kanmantoo Underground.

Please refer to section 4.4.3 of the Remuneration Report for the LTI schemes currently in place.

Movements in performance rights during the year

	31 December 2020		31 December 2019	
	Number of performance rights	Weighted average exercise price ($)	Number of performance rights	Weighted average exercise price ($)
Balance at beginning of year	**18,875,000**	**-**	31,165,000	-
Granted during the year	**10,473,282**	**-**	-	-
Forfeited during the year	**(3,622,687)**	**-**	(4,178,600)	-
Exercised during the year	**-**	**-**	(8,111,400)	-
Expired during the year	**(13,983,755)**	**-**	-	-
Balance at end of year	**11,741,840**	**-**	18,875,000	-
Exercisable at end of year	**-**	**-**	-	-

Performance rights outstanding at the end of the year

At the end of the year there are 11,741,840 performance rights outstanding that have been offered under the 2019 OPRP and milestone based hurdles. The exercise price of these performance rights is Nil (31 December 2019: Nil), and the weighted average remaining contractual life at the end of the period was 0.89 years (31 December 2019: 0.41 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 2020	31 Dec 2019
	$'000	$'000
Performance rights issued under the OPRP		
Equity based	**465**	911
Cash based	**122**	-
	587	911

The expense arising from the 2018 Rights was determined using an adjusted form of the Black Scholes Model. A third party valuation was performed on the 2019 rights using a Monte Carlo simulation approach. Key inputs in the valuations were:

	2019 Rights	2018 Rights
Grant date	10 Aug 2020	1 Jun 2018
Expiration date	31 Dec 2021	31 July 2020
Share price at grant date	$0.044	$0.093
Risk free rate	0.15%	1.85%
Expected price volatility	67%	29%
Dividend yield	0%	0%
Carrying amount of liability included in employee benefits payable	$121,592	-

34. PARENT ENTITY INFORMATION

The financial information for the parent entity, Hillgrove Resources Limited, 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.

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

	Parent	
	31 Dec 2020	31 Dec 2019
	$'000	$'000
Profit / (loss) after income tax	**(4,525)**	(5,671)
Total comprehensive income	**(4,525)**	(5,671)
Balance Sheet		
Total current assets	**5,755**	1,101
Total assets	**16,222**	17,467
Total current liabilities	**1,216**	629
Total liabilities	**1,216**	629
Net assets	**15,006**	16,838
Shareholder's Equity		
Contributed equity	**236,550**	234,322
Reserves	**12,539**	12,074
Accumulated losses	**(234,083)**	(229,558)
Total equity	**15,006**	16,838

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, disclosed throughout the report and notes. Investments in subsidiaries are accounted for at cost, less any impairment.

Contingent liabilities

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Security bond on rental properties	**16**	16

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 29 to 54 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 2020 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 on 26 February 2021

Mr Derek Carter
Chairman

Mr Lachlan Wallace
Managing Director

Independent auditor's report

To the members of Hillgrove Resources Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Hillgrove Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	***Audit scope***
• For the purpose of our audit we used overall Group materiality of $359,000, which represents approximately 1% of the Group's total assets. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group total assets because, in our view, it is a benchmark against which the performance of the Group is most commonly measured. • We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group's accounting records are held and managed at the Kanmantoo site and the corporate head office, located in Adelaide. • The Kanmantoo operation was the focus of the audit as it was the Group's only operating site during 2020. The Group has overseas subsidiaries in Indonesia and Singapore which were not operating during 2020. We have performed limited audit procedures over these subsidiaries.

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. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	*How our audit addressed the key audit matter*
Basis of preparation of the financial report *(Refer to note 1(a)(i))* As described in Note 1 (a)(i) to the financial report, the financial statements have been prepared by the Group on a going concern basis, which contemplates that the Group will continue to meet its commitments, realise its assets and settle its liabilities in the normal course of business. Assessing the appropriateness of the Group's basis of preparation for the financial report was a key audit matter due to its importance to the financial report and the level of judgement involved with respect to the Group forecasting future cash flows for a period of at least 12 months from the date of the financial report (cash flow forecasts).	In assessing the appropriateness of the Group's going concern basis of preparation for the financial report, we performed the following procedures amongst others: • Evaluated the appropriateness of the Group's assessment of their ability to continue as a going concern, including whether the assessment is appropriate given the nature of the Group, the period covered is at least 12 months from the date of our auditor's report and relevant information of which we are aware as a result of the audit has been included. • Enquired of management and the board of directors as to their knowledge of events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. • Evaluated the Group's plans for future actions and whether these are feasible in the circumstances. This included consideration of the impacts of post balance date events, in particular the capital raising finalised on 16 February 2021, to ensure these were appropriately included in the cashflow forecasts. • Evaluated selected data and assumptions used in the Group's cash flow forecasts for at least 12 months from the date of signing the auditor's report. • Considered the liquidity of existing assets on the consolidated balance sheet as at 31 December 2020. • Requested written representations from management and the board of directors regarding their plans for future action and the feasibility of these plans. • Evaluated whether, in view of the requirements of Australian Accounting Standards, the financial report provides adequate disclosures.

Key audit matter	***How our audit addressed the key audit matter***

Carrying value of assets of Kanmantoo cash generating unit (Refer to note 14)
 	
The Group's assessment of the carrying value of the Kanmantoo cash generating unit ('CGU') was considered a key audit matter due to the financial significance of property, plant and equipment ($24.4 million) and the judgemental assumptions included in the Group's discounted cash flow models for the Kanmantoo mine, particularly:
 	
• resources and exploration targets;
• processing volumes;
• ore production;
• long term copper prices;
• foreign exchange rates;
• operating costs;
• capital costs;
• discount rate; and
• expected proceeds from sale of property, plant & equipment and land.
	We performed the following procedures, amongst others:
	
	• Assessed the appropriateness of the CGU identification in accordance with the requirements of Australian Accounting Standards.
	
	• Evaluated the Group's ability to forecast future results by comparing budgets with reported actual results for the previous financial year.
	
	• Tested the mathematical accuracy, on a sample basis, of the discounted cash flow model.
	
	• Assessed the completeness of cash flows included within the model based on our understanding of operations from the audit.
	
	• Evaluated the Group's plans for the Kanmantoo mine and considered whether these are feasible. This included:
	  ○ an assessment of resources and exploration targets;
	  ○ an assessment of the competence of the Group's expert; and
	  ○ written representations from management and the board of directors regarding their plans for the Kanmantoo mine.
	
	• Assessed the reasonableness of the forecast ore processing volumes by comparing these volumes to historical processing levels.
	
	• Assessed the reasonableness of the forecast ore production by comparing this to historical recovery levels.
	
	• Compared copper pricing data used to independent industry forecasts.
	
	• Compared foreign exchange rates to current market information.
	
	• Assessed the reasonableness of forecast operating costs by comparing these to historical costs incurred.
	
	• Assessed the reasonableness of forecast capital costs by

pwc

Key audit matter	*How our audit addressed the key audit matter*
	comparing these to external cost estimates. • Evaluated the sensitivity of the CGU recoverable amount to changes in the discount rate by varying the discount rate used in the discounted cash flow model. • Assessed the timing and amounts to be received from the sale of property, plant & equipment and land following expected completion of mining and processing activities by comparing these amounts to external valuation reports. This included an assessment of the competence of the external firms who prepared the valuations; • Evaluated the adequacy of disclosures made in the financial report, including those regarding key assumptions, in light of the requirements of Australian Accounting Standards.
Rehabilitation provision *(Refer to notes 17 and 21)* As a result of its mining and processing operations, the Group is obligated to restore and rehabilitate the environment disturbed by these operations. Rehabilitation activities are governed by a combination of legislative requirements and Group policies. At 31 December 2020 the consolidated balance sheet included provisions for such obligations of $10.5m. This was a key audit matter due to the judgement applied by the Group in assessing the nature and extent of the rehabilitation work to be performed, estimating the future cost and timing of performing this work and applying assumptions such as the discount rate and inflation to future cash outflows associated with rehabilitation activities.	We performed the following procedures, amongst others: • Compared the actual rehabilitation costs incurred against the Group's forecasts to check that rehabilitation estimates take into account current experience. • Assessed the nature, timing and extent of rehabilitation work to be performed by inspecting mine and rehabilitation plans. • Tested the mathematical accuracy, on a sample basis, of the Group's rehabilitation estimate. • Assessed the completeness of cash flows based on our understanding of the Group's rehabilitation obligations. • Evaluated the method, significant assumptions and data used to develop the estimates. • Evaluated the appropriateness of discount rates and inflation rates utilised in calculating the closing provision by comparing them to current market information. • Evaluated the adequacy of disclosures made in the financial statements, in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2020 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 accordingly 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 on the other information that we obtained prior to the date of this auditor's report, 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 directors of 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 directors determine 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 directors either intend to liquidate the Group or to cease operations, or have 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 17 to 26 of the directors' report for the year ended 31 December 2020.

In our opinion, the remuneration report of Hillgrove Resources Limited for the year ended 31 December 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
26 February 2021

Shareholder Information

Shareholder Information for Listed Public Companies

The following additional information is required by the Australia Securities Exchange Limited in respect of listed public companies only.

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 16 February 2021, the Company has 936,969,381 listed fully paid ordinary shares. Each fully paid share carries on a poll one vote.

The company also has 8,620,219 unquoted performance rights on issue which are held by 5 holders which do not carry voting rights.

(b) Unmarketable parcels

The number of shareholdings holding less than a marketable parcel of ordinary shares was 2,049 as at 16 February 2021.

(c) Distribution schedule of Fully Paid Ordinary Shares as at 16 February 2021

Size of holding	Number of shareholders
1 - 1,000	448
1,001 - 5,000	1,183
5,001 - 10,000	346
10,001 - 100,000	821
100,001 and over	407
	3,205

(d) Securities exchange listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited. The ASX code is HGO.

(e) Company Secretary

Mr Joe Sutanto is the Company Secretary.

(f) On-market buy-back

There is no current on-market buy-back.

(g) Substantial shareholders as at 16 February 2021

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	19.5%
Munro Family Super Fund	6.7%

Shareholder Information *(cont.)*

Twenty largest listed shareholders

The twenty largest shareholders hold 61.6% of the total ordinary shares issued.
The 20 largest shareholdings as at 16 February 2021 are listed below:

	Shareholder	No. of ordinary shares held	% of issued shares
1	Portfolio Services Pty Ltd	74,812,355	8.0%
2	Mr Raymond Edward Munro	59,750,000	6.4%
3	Bell Potter Nominees Pty Ltd	55,329,826	5.9%
4	J P Morgan Nominees Australia	53,961,405	5.8%
5	BNP Paribas Nominees Pty Ltd	48,755,990	5.2%
6	Portfolio Services Pty Ltd	42,337,067	4.5%
7	Portfolio Services Pty Ltd	32,258,065	3.4%
8	Portfolio Services Pty Ltd	30,961,163	3.3%
9	UBS Nominees Pty Ltd	29,635,336	3.2%
10	Citicorp Nominees Pty Ltd	28,334,404	3.0%
11	Portfolio Services Pty Ltd	17,546,894	1.9%
12	Proco Pty Ltd	16,500,000	1.8%
13	Proco Pty Ltd	16,300,000	1.7%
14	Mr Antony Gordon Breuer	15,577,134	1.7%
15	National Nominees Pty Ltd	11,995,052	1.3%
16	HSBC Custody Nominees	9,551,081	1.0%
17	Sighet Pty Limited	8,588,144	0.9%
18	Cosell Pty Limited	8,400,000	0.9%
19	Mr Lachlan Wallace	8,214,458	0.9%
20	Mr Malcolm Neil Nichols	8,163,115	0.9%
		576,971,489	**61.6%**

(h) Interests in mining tenements

Tenement	Location	Percentage
ML 6345	Kanmantoo, South Australia	100%
ML 6436	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
EL 6526	Kanmantoo, South Australia	100%
EL 6174	Coomandook, South Australia	100%
EL 6175	Coonalpyn, South Australia	100%
EL 6176	Wheal Ellen, South Australia	100%
EL 6207	Tintinara, South Australia	100%
EL 6208	Carcuma, South Australia	100%
EL 6294	Wynarka, South Australia	100%
EL 6397	Laffer, South Australia	100%
ML 755	Armidale, New South Wales	100%

(i) Other information

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

HILLGROVE
RESOURCES

HILLGROVE RESOURCES LIMITED

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