HILLGROVE
RESOURCES

ASX RELEASE

Friday, 25 February 2022

ASX Market Announcement
Australian Securities Exchange
Level 4 Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir or Madam

## LODGEMENT OF APPENDIX 4E – YEAR ENDED 31 DECEMBER 2021

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Please find attached the Preliminary Final Report – 31 December 2021 (Appendix 4E) under Listing Rule 4.3A relating to Hillgrove Resources Limited's results for the 12-month period from 1 January 2021 to 31 December 2021 ("CY21").

The full annual report together with the financial report of Hillgrove Resources Limited ("the Company") and the consolidated entity, being the Company and its controlled entities, for the year ended 31 December 2021 and the auditors' report are also attached as per ASX Guidelines.

Yours Faithfully

**Joe Sutanto**
Company Secretary

# Appendix 4E: Preliminary final report for period ending 31 December 2021

| | |
|---|---|
| **Name of entity** | Hillgrove Resources Limited |
| **ABN** | 73 004 297 116 |
| **Financial year ended** | 12 Months to 31 December 2021 (CY21) |
| **Previous corresponding reporting period** | 12 Months to 31 December 2020 (CY20) |

| **Results for announcement to the market** | **31 Dec 2021** | **31 Dec 2020** | **Change** | |
|---|---|---|---|---|
| | | | **$** | **%** |
| Revenue from ordinary activities | **Nil** | **$20.2m** | ($20.2m) | N/A |
| Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited | **($5.9m)** | **($5.9m)** | $0.0m | 0% |
| Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited | **($5.9m)** | **($5.9m)** | $0.0m | 0% |

## Dividends

No dividend was paid in the current or prior period.

| **NTA backing** | **31 Dec 2021** | **31 Dec 2020** |
|---|---|---|
| Net tangible asset backing per ordinary security (undiluted) | **3.2 cents** | 3.5 cents |

| **Earnings per share** | **31 Dec 2021** | **31 Dec 2020** |
|---|---|---|
| Basic EPS | **(0.6) cents** | (1.0) cents |
| Diluted EPS | **(0.6) cents** | (1.0) cents |

## Subsidiaries

The consolidated results incorporate the assets, liabilities and results of the Company's subsidiaries. The proportion of ownership interest is equal to the proportion of voting power held. International Accounting standards have been used in consolidating foreign entities. There are no associates or joint venture entities. During the period ended 31 December 2021 Hillgrove subsidiaries Hillgrove Singapore Holdings Pte Ltd, Hillgrove Singapore No. 2 Pte Ltd, Hillgrove Singapore No. 3 Pte Ltd, and Hillgrove Singapore No. 4 Pte Ltd were struck off.

## Additional Appendix 4E disclosure requirements

Refer to the attached Directors Report and Financial Statements at the following page references;

Review of results (Directors Report) - page 11, Consolidated Statement of Profit or Loss and Other Comprehensive Income – page 24, Consolidated Statement of Financial Position – page 25, Consolidated Statement of Changes in Equity – page 26, Consolidated Statement of Cash Flows – page 27, Independent Auditors Report – page 50.

This report is based on the consolidated financial statements for the year ended 31 December 2021, which have been audited by PricewaterhouseCoopers.

HILLGROVE
RESOURCES

# ANNUAL REPORT 2021

for the year ended 31 December

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
440 Mine Road
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
Fax: + 61 2 9279 0664

### 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

### GENERAL ENQUIRIES
Info@hillgroveresources.com.au

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*Cover photos by Duy Dash, courtesy of the Department for Energy and Mining, South Australia.*

# Chairman and Managing Director's Statement

***Dear Shareholders,***

*It has been an exciting year for the Company, which has seen us achieve some significant milestones to progress the development of the Kanmantoo Underground Project. Following on from the capital raising which was completed in February 2021, Hillgrove embarked on a 17 kilometre drilling program – with the results of this drilling very encouraging in demonstrating that there is mineralisation containing grades, widths, and continuity that will support underground mining.*

*The success of this drilling enabled the Company to release an updated Mineral Resource Estimate which saw the Resource increase by 82% from 34.4kt to 62.5kt of copper metal, as well as increase the geological confidence of this Resource, with 72% of the Kavanagh Resource now classified as Indicated. This updated Kavanagh Resource now covers an area 500m long by 200m wide by 500m deep and is only constrained by the extent of the drilling, in both the along strike and dip directions.*

*With the success of this drilling and the updated Mineral Resource Estimate, the Company released a study which highlighted the excellent economics of the project. This included almost $200m of free cash flows within the initial three years, as well as confirmation that the Kanmantoo Underground Project is one of the lowest capital intensive copper development projects in the world.*

*The study reinforced the decision earlier in the year to commence the decline development ahead of the final investment decision, utilising the Komatsu MC51 mechanical cutting machinery. Supported by the award of a $2m grant from the South Australian Government, the decline commenced in October and the MC51 has already created a portal at the base of the open pit, which will initially be used to create access to underground drill platforms. The decline will also serve as the future underground mine access, further reducing what is already a very low cost and short time frame to copper production.*

***Mr Derek Carter***
*Independent Non-Executive Chairman*

***Mr Lachlan Wallace***
*Chief Executive Officer and Managing Director*

*At the site itself, all infrastructure is in place. This includes an operational processing plant that is being maintained for a fast restart and a permitted and operational tailings storage facility with ample storage capacity. This not only reduces the timeframes and capital costs to first copper production, but importantly, at over 3Mtpa, the processing capacity is far greater than the expected annual production from the Kanmantoo Underground. The spare processing capacity enables Hillgrove to respond to changing commodity prices by flexing the cut-off grade to maximise value from the Kanmantoo Underground, without the need for additional capital expenditure. Whilst most other producers would need to consider permitting, capital costs and lengthy construction times to expand production to take advantage of changing prices, the Kanmantoo project can react quickly, which may prove valuable as the world continues to decarbonise through electrification, fuelling the demand for copper.*

*In addition, as we head towards restarting operations, the site is also on very firm footing from a regulatory and community standpoint. Kanmantoo is fully permitted and enjoys strong support from the local Kanmantoo and Callington communities where the company has a long-standing positive presence. We are also proud of our record on environmental stewardship. Through our native revegetation program, we have rehabilitated over 120 hectares of land on and around the mine site, re-introducing native plants and grasses, and connecting with regional regeneration projects to create a green corridor that will be protected in perpetuity and provide a safe-haven for wildlife. As we prepare for the restart of the Kanmantoo Underground, we are also proud to present the Company's inaugural Sustainability Report which outlines our activities to date and commitments towards a sustainable future in line with the UN's Sustainabile Development Goals and the GRI framework[1].*

*Finally, we would like to thank all our stakeholders that are involved with Hillgrove during this exciting period, as we look to transition from a developer to become Australia's next copper mine.*

***Mr Derek Carter***
*Chairman*

***Mr Lachlan Wallace***
*Managing Director*

*1 The Sustainability Report is available at the Hillgrove Resources website.*

# Hillgrove Projects

## KANMANTOO UNDERGROUND DEVELOPMENT

Hillgrove Resources Limited's (Hillgrove) 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 re-opened the mining operations in 2011 and operated an open pit until 2019. With the completion of the open pit, care and maintenance of the existing processing plant has continued, to enable a rapid low-cost restart should the Kanmantoo Underground (Underground) operation proceed.

Following on from the drilling and the release of the Mineral Resource Estimate ("MRE") in 2020, Hillgrove continued the drilling campaigns throughout 2021. A total of 52 diamond drill holes have been drilled to the end of the year, with drilling continuing. Highlights of this drilling[2] include:

### CENTRAL AND EAST KAVANAGH

- KTDD205 170.65m @ 1.01% Cu and 0.11 g/t Au from 339m downhole.
- KTDD208 166.3m @ 0.90% Cu and 0.13 g/t Au from 332m downhole.
- KTDD202_W3 20.0m @ 1.53% Cu and 0.36 g/t Au from 624m downhole.
- KTDD198_W5 11.0m @ 1.59% Cu and 0.05 g/t Au from 393m downhole.
- KTDD203_W4 4.55m @ 1.50% Cu and 0.24 g/t Au from 843.45m downhole (equal deepest hole).

### SPITFIRE AND SOUTH WEST KAVANAGH

- KTDD206 16.0m @ 1.19% Cu and 0.08 g/t Au from 427m downhole.
- KTDD206_W2 7.5m @ 1.87% Cu and 0.08 g/t Au from 328.5m downhole.
- KTDD206_W4 4.6m @ 3.71 g/t Au from 410m downhole.

These drill holes demonstrated that the mineralisation extends for at least 500m below the extent of the Kavanagh open pit completed in 2019 and led to the release of an updated MRE in December 2021[3]:

- A total Kanmantoo Resource tonnage of over 5.6Mt at 1.1% Cu, 0.33 g/t Au for 62.5kt of copper metal, an 82% increase in copper metal over the previous Kanmantoo MRE due to the additional successful drill intercepts and a change in copper cut-off grade resulting from the engineering economic assessment studies.
- 72% of the Kavanagh MRE is now classified as Indicated.
- The updated Kavanagh MRE now covers an area 500m long by 200m wide by 500m deep.
- The MRE is constrained by the extent of the drilling and not by the geology, in both the along strike and dip directions.

With the completion of the updated MRE, an economic assessment was undertaken, which confirmed the Underground's outstanding potential from Stage 1 operations[4]. The highlights of this economic assessment included:

- Post-tax free cash flow of $196 million.
- $NPV_8$ of $166 million.
- Internal rate of return of 389%.
- Payback period of 7 months post the completion of pre-production works.
- Low capital costs of only $26M, resulting in one of the lowest capital intensity projects in the world, at just US$1,550/t (US$0.70/lb) of annual copper produced, an order of magnitude below other development projects which AME estimate to average US$7.26/lb of annual copper production[5].
- All in sustaining cost of $6,991/t copper (US$2.22/lb), providing good margins at current and projected copper prices.
- An initial three year mine plan of 3.3Mt, targeting production of 36k tonnes of copper and 10k ounces of gold.

The strong potential project economics reinforced the decision to commence the development of the Underground decline ahead of the final investment decision. The initial decline is partially funded by a $2m grant from the South Australian Government that was awarded in late August 2021.

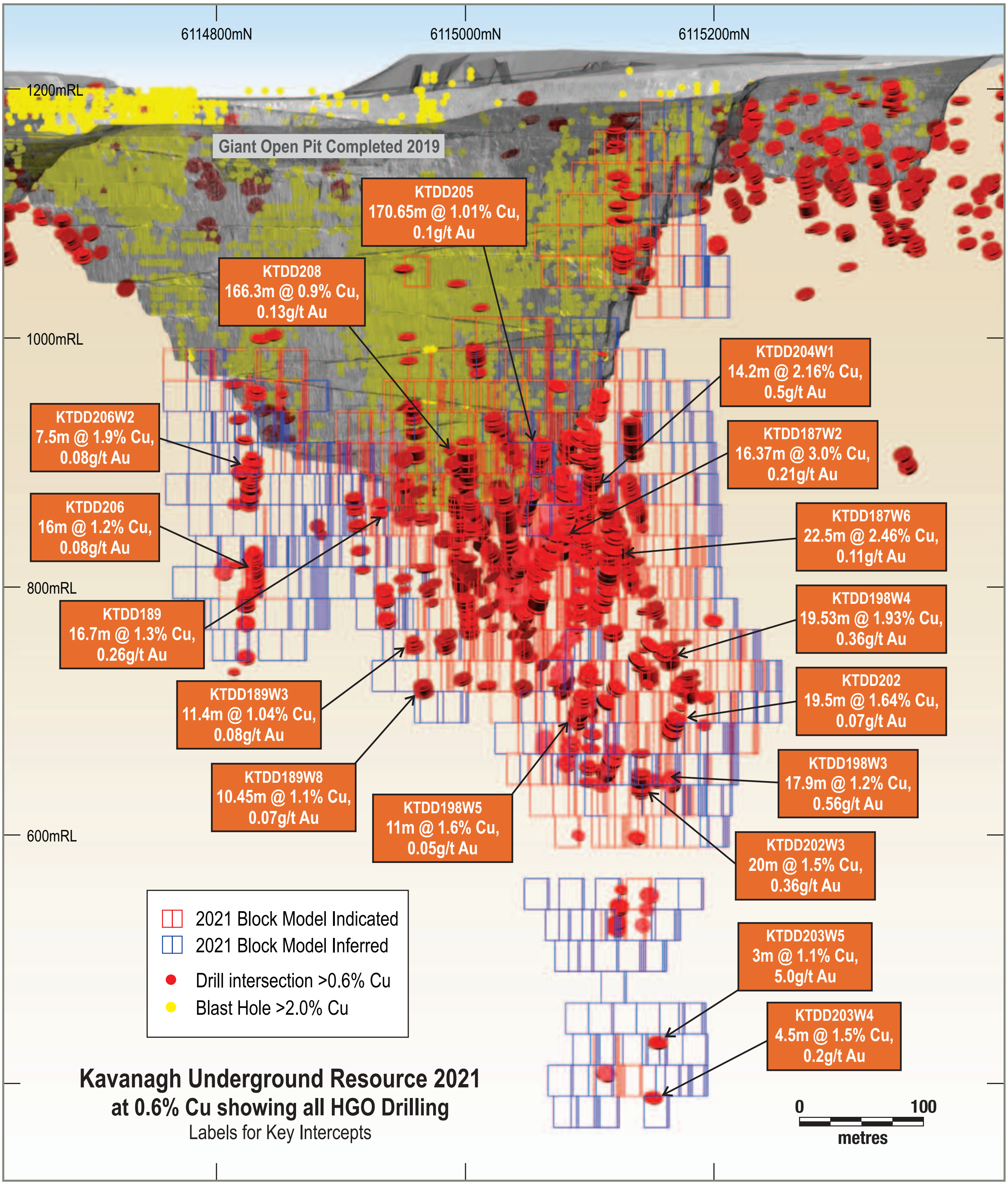
2 *Refer ASX announcement of 6 May 2021, 24 June 2021, and 1 September 2021.*

3 *Refer ASX announcement of 14 December 2021.*

4 *Refer ASX announcement of 14 December 2021.*

5 *AME, 2017, Copper - Capital Intensity of New Copper Mines.*

## KANMANTOO UNDERGROUND DEVELOPMENT (cont.)




*Longitudinal section through the Kavanagh lodes with best intersections from the 2021 drilling.*

Following the completion of the successful capital raising in September 2021, the next major drilling program of 16,000 metres has commenced, which will potentially increase the geological confidence and annual production ahead of a planned commencement of Underground operations in 2022. Initial work will be conducted in the Nugent area, with the aim of bringing this area into the initial Underground mine plan, which will create an additional work area to increase the annual production potential. The program will then expand to include drilling at Spitfire and South West Kavanagh.

# Hillgrove Projects *(cont.)*

## 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[6] Stella and North West Kanmantoo geochemical and geophysical targets.

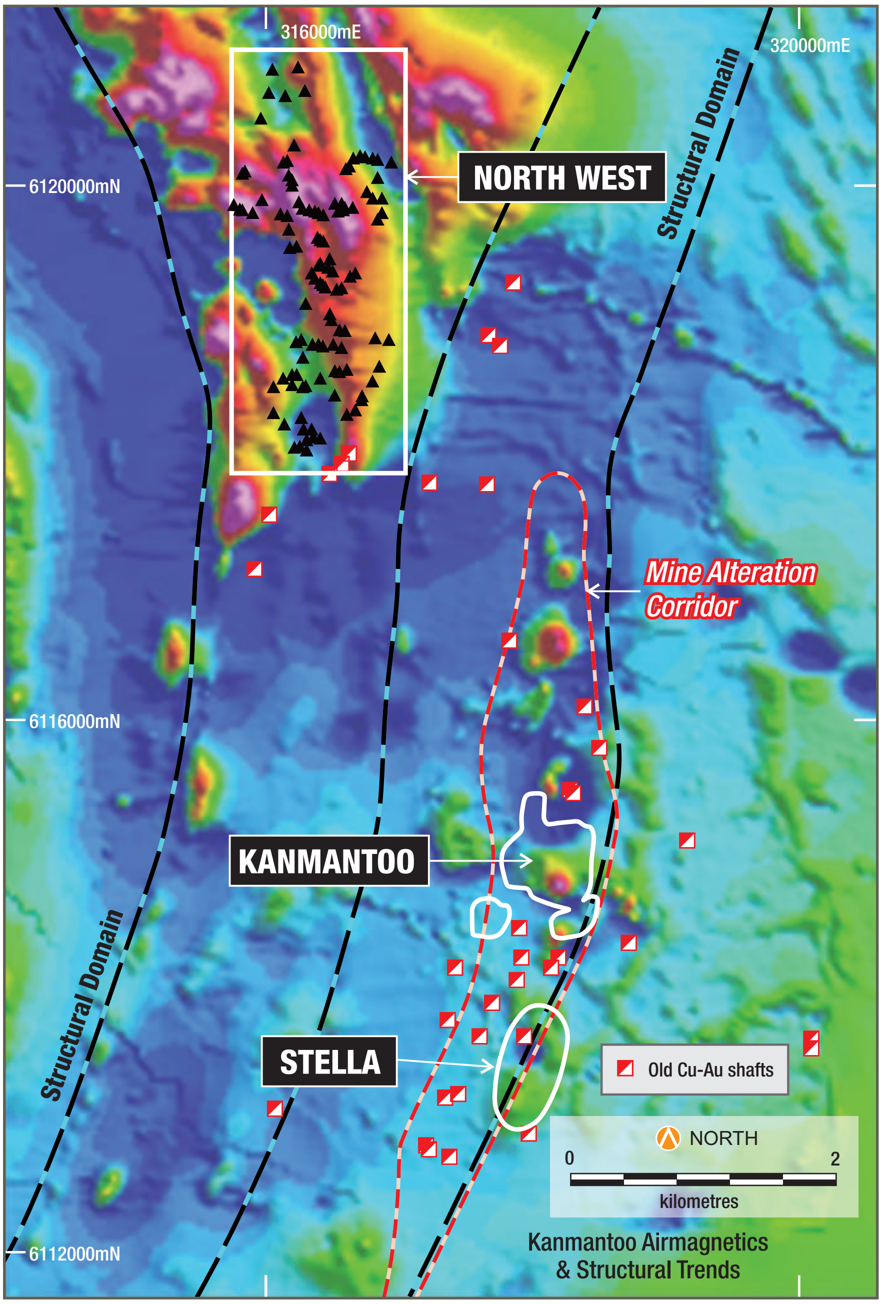
### Stella

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).

In May 2021, Hillgrove was awarded a grant up to $229,500 by the South Australian Government, under the ADI Scheme to drill test this anomaly. The first diamond drill hole (SLDD001) confirmed a new gold discovery, with an 82.35m wide alteration zone intersected, which included copper and gold veining from 315m downhole. In total, three alteration zones with copper gold veining over a combined 158m was intersected[7].

### 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. Recent re-logging of historic government drill core in the area has identified locally intense albitisation and veining.




*Plan view of the location of projects within 10km of Kanmantoo Copper Mine.*

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.

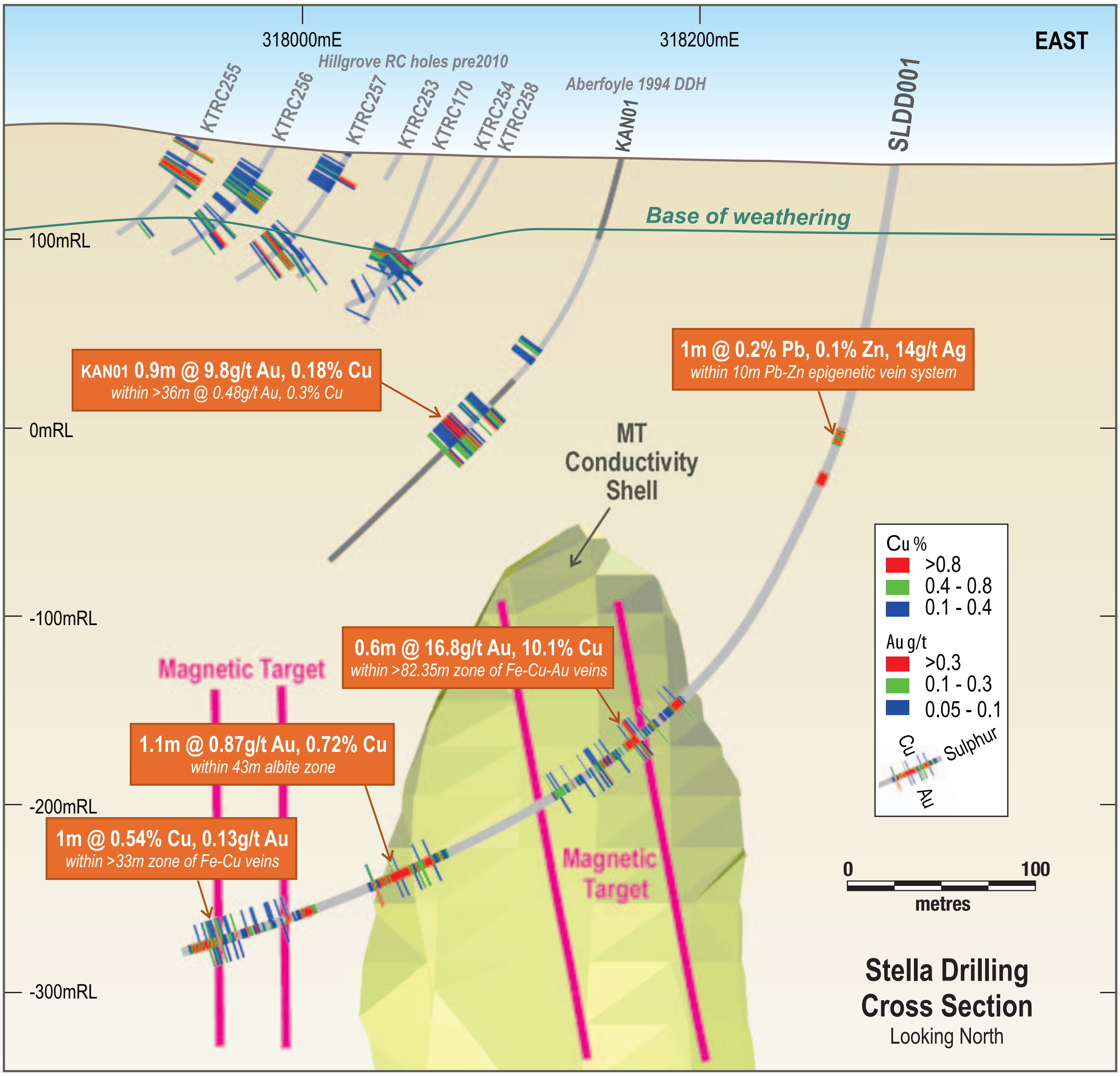
The area has not been subjected to electrical geophysical methods for drill targeting and has not been drilled by Hillgrove.

6 *Refer ASX announcement of 29 April 2019.*

7 *Refer ASX announcement of 26 August 2021.*

# Hillgrove Projects *(cont.)*

## NEAR MINE EXPLORATION *(cont.)*




*Above: Cross section of the Stella drilling and 2021 drill intercepts.*

# Hillgrove Projects *(cont.)*

## REGIONAL EXPLORATION

### South East Cambro-Ordovician Project

The Regional area comprises 5,652 sq kms of exploration licences in the south-east of South Australia over a mineralised sequence of Cambro-Ordovician sediments, volcanics and felsic intrusives. In a recent publication by the Geological Survey of South Australia[8], the Survey notes the similarities between the tectonic setting and its high-level granitic to dioritic intrusives in south-east 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 and the award of a grant totalling up to $74,300 under the ADI Scheme. These funds will be used to undertake geochemical analysis of the regolith to identify prospective targets for Cu-Au mineralisation under cover of the Murray Basin.

### Kanappa Copper-Gold Exploration

Kanappa is approximately 65 kms by road from the Kanmantoo operation.

Hillgrove has previously reported the results of the diamond drilling at Kanappa that intersected copper-gold mineralisation within a skarn mineralising system. KPDDH003[9] interesected 45 metres at 0.2% copper, from 47 metres, including two higher grade zones:

- 5.5m @ 0.47% Cu from 69.5m downhole; and
- 4.5m @ 0.65% Cu from 85.0m downhole.

The geology of these drill holes confirm the Company's view that the Kanappa area is prospective for large scale magmatic related copper-gold mineral deposits.

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 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 in conjunction with the entire South-East South Australian magmatic related copper-gold exploration program.

### Mt Rhine Copper-Gold Exploration

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

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. Further work is continuing in the area in conjunction with the entire South-East South Australian and Kanappa magmatic related copper-gold exploration program.

8 *Mesa Journal 93, 2020, p47-53.*

9 *Refer ASX announcement of 30 January 2019.*

# Mineral Resource

## MINERAL RESOURCES FOR KANMANTOO

### *As at 31 December 2021*

On 14 December 2021, the Company released an updated Underground MRE for the first of its underground opportunities on a portion of the deeper Kavanagh mineralisation beneath the Giant Open Pit. The Table below summarises the Kanmantoo MRE which includes this updated 2021 Kavanagh MRE and includes the 2020 Nugent MRE[10] below the Giant and Nugent open pits respectively.

### MINERAL RESOURCE ESTIMATE FOR THE UNDERGROUND

| | JORC 2012 | Tonnage | Cu | Au | Cu Metal |
|---|---|---|---|---|---|
| **Deposits** | **Classification** | **(kt)** | **(%)** | **(g/t)** | **(kt)** |
| **Kavanagh 2021** (0.6% Cu COG) | Indicated | 3,530 | 1.1 | 0.11 | 38.9 |
| | Inferred | 1,480 | 1.01 | 0.1 | 15 |
| | **Sub-Total** | **5,010** | **1.08** | **0.11** | **53.9** |
| **Nugent 2020** (0.8% Cu COG) | Indicated | 202 | 1.4 | 0.47 | 2.8 |
| | Inferred | 457 | 1.3 | 0.7 | 6 |
| | **Sub-Total** | **659** | **1.32** | **0.61** | **8.7** |
| **Totals** | Indicated | 3,732 | 1.12 | 0.13 | 42 |
| | Inferred | 1,937 | 1.08 | 0.73 | 21 |
| | **Total** | **5,669** | **1.10** | **0.33** | **62.5** |

*Note: Due to appropriate rounding, numbers may not sum.*

The information in this report that relates to the MRE on the Kavanagh underground project was reported by the Company to the ASX on 14 December 2021. 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 MRE for the Kavanagh and Nugent 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.

*10 The Nugent deposit was not drilled in 2021 and the 2020 Nugent MRE has not been updated.*

HILLGROVE RESOURCES

# FINANCIAL REPORT for the year ended 31 December 2021

## 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 Australian dollars.

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 25 February 2022. 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 the Investors page on our website www.hillgroveresources.com.au

# Directors' Report

**The Directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Hillgrove Resources Limited (Hillgrove or the Company) and the entities it controlled during the 12 months ended 31 December 2021.**

## 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<br> | 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).<br>Derek is a member of the Audit and Risk Committee.<br>Appointed 24 April 2020. |
| **Mr Murray Boyte** | **Independent Non-Executive Director / Chairman Audit and Risk and Treasury Committees** |
| Qualifications | *BCA, CA, MAICD* |
| Experience<br> | 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), Chairman of National Tyre & Wheel Limited (ASX: NTD), and a Non Executive Director of Eumundi Group (ASX: EBG).<br>Murray is a member of the Nomination and Remuneration Committees.<br>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<br> | 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.<br>Lachlan is a member of the Treasury Committee.<br>Appointed 24 May 2019. |

# Directors' Report *(cont.)*

## DIRECTORS AND OFFICERS *(CONT.)*

| Name/Qualifications | Experience and Special Responsibilities |
|---|---|
| **Mr Joe Sutanto** | **Company Secretary and Chief Commercial Officer** |
| 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 Company Secretary and Chief Commercial Officer 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.<br>Appointed 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 & Risk Committee | | Nomination Committee | | Treasury Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Director*** | ***A*** | ***B*** | ***A*** | ***B*** | ***A*** | ***B*** | ***A*** | ***B*** | ***A*** | ***B*** |
| Mr D Carter | 15 | 15 | 3 | 3 | 3 | 3 | 2 | 2 | - | - |
| Mr M Boyte | 15 | 15 | 3 | 3 | 3 | 3 | 2 | 2 | 1 | 1 |
| Mr L Wallace | 15 | 15 | - | - | - | - | - | - | 1 | 1 |

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

*B – Number of meetings attended*

# Directors' Report *(cont.)*

## RESULTS

| | CY21 | CY20 |
|---|---|---|
| Revenue from ordinary activities | **-** | $20.2m |
| Profit / (Loss) from ordinary activities after tax attributable to the owners of Hillgrove Resources Limited | **($5.9m)** | ($5.9m) |
| Profit / (Loss) for the period attributable to the owners of Hillgrove Resources Limited | **($5.9m)** | ($5.9m) |

For the year ended 31 December 2021, the net loss after tax was $5.9 million compared to a net loss after tax of $5.9 million for the year ended 31 December 2020.

The underlying EBITDA for the year was a loss of $5.4 million compared to a loss of $3.7 million for 2020. This reflects the costs associated with processing plant care and maintenance, and other site costs, together with costs of running the corporate head office.

## Income Statement Overview

| | 12 mths to Dec 2021 | 12 mths to Dec 2020 | Change |
|---|---|---|---|
| | $ million | $ million | $ million |
| Copper revenue | **-** | 19.6 | (19.6) |
| Gold revenue | **-** | 1.7 | (1.7) |
| Silver revenue | **-** | 0.4 | (0.4) |
| Less: Treatment and refining costs | **-** | (1.5) | 1.5 |
| **NET REVENUE FROM SALE OF CONCENTRATE** | **-** | 20.2 | (20.2) |
| Mining costs | **-** | - | - |
| Pre-strip and deferral | **-** | - | - |
| Processing costs | **-** | (6.5) | 6.5 |
| Transport and shipping costs | **-** | (1.5) | 1.5 |
| Other direct costs | **(1.3)** | (2.3) | 1.0 |
| Care and maintenance costs | **(1.2)** | (1.3) | 0.1 |
| Inventory movements | **-** | (9.2) | 9.2 |
| Royalties | **-** | (0.9) | 0.9 |
| Corporate costs | **(3.0)** | (4.2) | 1.2 |
| **TOTAL COSTS** | **(5.5)** | (25.9) | 20.4 |
| Net realised gains/(losses) | **-** | 1.9 | (1.9) |
| Other income | **0.1** | 0.1 | - |
| **EBITDA** | **(5.4)** | (3.7) | (1.7) |
| Depreciation and amortisation | **(0.1)** | (1.9) | 1.8 |
| Exploration and project costs written off | **-** | (0.1) | 0.1 |
| **EBIT** | **(5.5)** | (5.7) | 0.2 |
| Net interest and financing charges | **-** | (0.2) | 0.2 |
| Income tax benefit/(expense) | **(0.4)** | - | (0.4) |
| **NET PROFIT AFTER TAX** | **(5.9)** | (5.9) | - |

There was no revenue generated during the year, with the Company's focus being on exploration and development activities.

Total costs were $5.5 million compared to $25.9 million for the previous year. The significant reduction in costs was the result of the completion of stockpiles processing in early 2020.

# Directors' Report *(cont.)*

## RESULTS *(Cont.)*

### Cash Flow Overview

| | 12 mths to Dec 2021 | 12 mths to Dec 2020 | Change |
|---|---|---|---|
| | $ million | $ million | $ million |
| Net cash inflows from operating activities | **(4.9)** | (3.0) | (1.9) |
| Net cash used in investing activities | **(9.4)** | (2.7) | (6.7) |
| Net cash inflows/ (outflows) from financing activities | **19.4** | 2.0 | 17.4 |
| Net increase/(decrease) in cash held | **5.1** | (3.7) | 8.8 |
| **Cash and cash equivalents at the end of the year** | **10.7** | 5.6 | 5.1 |

#### Operating Activities Cash Flow

Cash received in the course of operations amounted to $0.1 million and relates to the sale of excess seed produced for the rehabilitation activities.

Cash payments in the course of operations totalled $5.0 million and include payments for corporate and administration costs and the costs relating to care and maintenance activities.

Trade creditors and other payables are on normal commercial terms.

#### Investing Activities Cash Flow

Net cash outflow from investing activities was $9.4 million compared to an outflow of $2.7 million in the previous corresponding period. Of the $9.4 million, $8.4 million related to underground exploration and expansion works, which are classified as mine development (2020: $2.7 million). Expenditure on regional exploration licences amounted to $1.0 million (2020: $0.7 million).

#### Financing Activities Cash Flow

In 2021, there was a net cash inflow of $19.4 million from financing activities. This relates to capital raisings completed in February 2021 (from a Placement and non renounceable entitlement offer) and September / October 2021 (from a Placement and share purchase plan).

### Consolidated Statement of Financial Position Overview

| | 31 December 2021 | 31 December 2020 | Change |
|---|---|---|---|
| | $ million | $ million | $ million |
| Cash | **10.7** | 5.6 | 5.1 |
| Receivables | **0.9** | 0.8 | 0.1 |
| Inventories | **1.9** | 1.8 | 0.1 |
| Property, Plant & Equipment | **33.4** | 24.4 | 9.0 |
| Exploration | **4.4** | 3.2 | 1.2 |
| **Total Assets** | **51.3** | 35.8 | 15.5 |
| Trade Payables | **1.8** | 1.1 | 0.7 |
| Provisions | **10.1** | 10.5 | (0.4) |
| Employee Benefits | **1.5** | 1.0 | 0.5 |
| **Total Liabilities** | **13.4** | 12.6 | 0.8 |
| **Net Assets / Equity** | **37.9** | 23.2 | 14.7 |

Total assets increased by $15.5 million to $51.3 million, largely as a result of an increase in property plant and equipment. This was mainly due to the capitalisation of mine development.

Total liabilities increased by $0.8 million to $13.4 million and are the result of normal fluctuations in the timing of payables.

## OPERATING REVIEW

During the year, the Company continued to advance the Underground project, with drilling conducted and the commencement of the development decline. The successful drilling led to an updated MRE, with a resource tonnage of over 5.6Mt at 1.1% Cu, 0.33g/t Au for a total of 62.5kt of copper metal. Moreover, it also led to the completion of an economic assessment, which confirmed the outstanding potential of the project.

In addition to the development activities for the Underground, Hillgrove advanced the exploration of the near mine and regional prospects – with drilling undertaken at Stella and geochemical analysis undertaken in the South East Delamerian.

## 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;
- Reach a final investment decision; and
- Subject to a positive final investment decision, complete the financing 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.

## CAPITAL RAISINGS

In February 2021, the Company completed:

- A pro rata non renounceable entitlement offer, raising $2.8 million through the issue of 90.1 million new fully paid ordinary shares at $0.031 per share; and
- Following the approval at the Extraordinary General Meeting, raised $5.7 million through the issue of 185.1 million new fully paid ordinary shares at $0.031 per share.

In addition, on 22 September 2021, the Company announced an equity raising of $12.0 million at $0.052 per share. The raising was undertaken through the following:

- Placement – the issue of 192.3 million new fully paid ordinary shares pursuant to the Company's available placement capacity under ASX Listing Rules 7.1 and 7.1A raising gross proceeds of $10.0 million; and
- Share purchase plan – the issue of 38.9 million new fully paid ordinary shares raising gross proceeds of $2.0 million.

Proceeds from all tranches were received in the current period.

## IMPACT OF COVID-19 ON OPERATIONS

With the continued outbreak of COVID-19, the Company was fortunate that the outbreak did not have a material impact to its exploration and development activities. However, 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.

During the year ended 31 December 2021, the Group received government assistance through JobKeeper of $108,000 (2020: $583,800) which was treated as a reduction in expenses.

## 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

There were no events subsequent to balance date.

## 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 of the Kanmantoo Underground. For further details on each of these, refer to the Hillgrove Projects 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.

## ENVIRONMENTAL REGULATION *(Cont.)*

The consolidated entity has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration and development activities. There have been no reports of material breaches of environmental regulations in the financial period at the date of this report, however elevated iron in groundwater detected in a borehole on the mining lease has been reported to the Regulator. Whilst this is currently immaterial, Hillgrove continues to monitor the borehole to ensure that it does not lead to a material breach of any environmental regulations.

## 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.

### 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 23.

## CORPORATE GOVERNANCE

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

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

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

## REMUNERATION REPORT (AUDITED)

The Directors of Hillgrove Resources and its Consolidated Entities present the Remuneration Report for the Company for the year ended 31 December 2021, 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 and the Executive Director (KMP). Details of the KMP are set out in the table below.

| Non-Executive Directors | Title (At Year End) | Change in 2021 Financial Year |
|---|---|---|
| Mr D Carter | Chairman<br>Chairman Nomination Committee<br>Chairman Remuneration Committee<br>Member Audit and Risk Committee | Full Year |
| Mr M Boyte | Director<br>Chairman Audit and Risk Committee<br>Chairman Treasury Committee<br>Member Nomination Committee<br>Member Remuneration Committee | Full Year |
| **Executive Director** | | |
| Mr L Wallace | CEO and Managing Director<br>Member Treasury Committee | Full Year |

### 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.

### 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 on the Company's website www.hillgroveresources.com.au.

### 2.2 USE OF REMUNERATION CONSULTANTS

The Remuneration Committee is briefed by management however, makes all decisions 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 2021, the Committee engaged remuneration advisors Egan Associates. Their analysis relating to the remuneration for the Chief Executive Officer and Managing Director (CEO & MD) was considered by the Remuneration Committee and the Board in forming their views on remuneration matters. The work completed did not constitute a remuneration recommendation in accordance with the Corporations Act 2001.

## REMUNERATION REPORT (AUDITED) *(cont.)*

## 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 2021 is within the aggregate amount approved by shareholders of $450,000 a year. | |
| **Board/Committee Fees Per Annum** | Board Chairman Fee | $120,000 |
| | Board NED Base Fee | $75,000 |
| | Remuneration Committee Chairman Fee | $5,000 |
| | Audit and Risk Committee Chairman Fee | $5,000 |
| **Post-Employment Benefits** | **Details** | |
| **Superannuation** | Superannuation contributions were made at a rate of 9.5% until 30 June 2021 and have been made at a rate of 10.0% of base fee from 1 July 2021 (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 may receive performance related remuneration or performance rights. | |
| **Other Fees/ Benefits** | No payments were made to Non-Executive Directors during the 2021 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

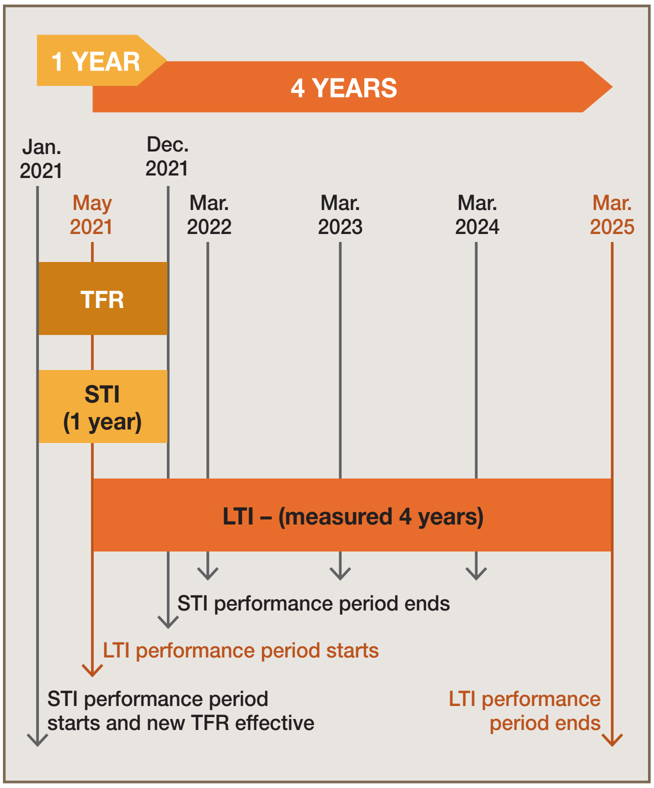
The Company endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and 'at risk'. The broad remuneration composition mix of the Company's Executive KMP can be illustrated as follows:

#### Remuneration Mix (Actual) CY 2021

| Position | TFR (Cash) | STI (Cash) | LTI (Equity) |
|---|---|---|---|
| CEO & MD | 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.

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



## REMUNERATION REPORT (AUDITED) *(cont.)*

### 4.4 VARIABLE 'AT RISK' REMUNERATION

As set out in Section 4.3, variable remuneration forms a portion of the CEO & MD's 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 Programme** | |
|---|---|
| **Purpose** | The STI arrangements are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI programme is reviewed annually by the Remuneration Committee and approved by the Board. |
| **Performance Target Areas** | The key performance objectives of the Company vary by level but are currently directed to achieving ambitious targets. |
| **Rewarding Performance** | The Board adopted a Balanced Scorecard approach to determine 2021 STI performance. The Balanced Scorecard measures performance against the Company's internal goals, which includes ESG metrics, resource and reserves, mine plan, and securing funding.<br>A threshold and target are set for each STI outcome. Specific targets are not provided in detail due to commercial sensitivity.<br>Validation of performance against the Balanced Scorecard measures set for the CEO & MD and KMPs involves a review calculation and recommendation by the CEO & MD, reviewed and approved by the Remuneration Committee with final Board sign-off. |

#### 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.

| | **2021 Performance** | | |
|---|---|---|---|
| **KMP** | **Opportunity ($)** | **Awarded (%)** | **Forfeited (%)** |
| Mr L Wallace | 210,000 | 0% | 0% |

At the time of signing the Remuneration Committee and the Board had not approved the award of the STI cash bonus related to 2021 performance.

#### 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 share price hurdles over the vesting period, along with other performance criteria.

As at the end of the 2021 financial year, there were two LTI Plans granted and outstanding to Executive KMP:

- 2020 Option and Performance Rights Plan (2020 OPRP) = 5,000,000 performance rights; and
- 2021 Option and Performance Rights Plan (2021 OPRP) = 5,000,000 performance rights.

In addition to the above, 70% of the 2019 Option and Performance Rights Plan vested in 2021, with a total of 2,185,135 shares issued to KMP.

## REMUNERATION REPORT (AUDITED) *(cont.)*

### 2020 and 2021 OPRP Description

| Detail | 2020 OPRP | 2021 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). | |
| **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 is determined in accordance with the Board approved remuneration strategy mix. See Section 4.3. | |
| **Service Period** | To the later of 1 March 2023 or when the Performance Hurdles are met | To the later of 1 March 2024 or when the Performance Hurdles are met |
| **Performance Hurdles** | | |
| **- Measurement Price** | 6.0 cents | 8.0 cents |
| **- Price Calculation Methodology** | 10 day VWAP | 10 day VWAP |
| **- Start of Testing Date** | 1 March 2022 | 1 March 2023 |
| **- First Exercise Date** | 1 March 2023 | 1 March 2024 |
| **- Last Exercise Date** | 30 March 2024 | 30 March 2025 |

### 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 2017 to 31 December 2021)

| | 12 Months to 31 Dec | | | | |
|---|---|---|---|---|---|
| | 2017 restated | 2018 | 2019 | 2020 | 2021 |
| Sales Revenue ($M) | 113.3 [(1)] | 180.1 | 113.5 | 20.4 | **-** |
| Underlying EBITDA ($M) | 16.2 | 44.3 | 12.1 | (3.7) | **(5.4)** |
| Reported net profit / (loss) ($M) | (14.1) | 29.5 | (10.0) | (5.9) | **(5.9)** |
| Return on equity (ROE) % [(2)] | (88.3%) | 101.7% | (28.4%) | (24.0%) | **(19.1%)** |
| Basic earnings per share (EPS) (cents) | (4.8) | 5.1 | (1.7) | (1.0) | **(0.6)** |
| Diluted EPS (cents) | (4.8) | 4.9 | (1.7) | (1.0) | **(0.6)** |
| Dividends paid (cents per share) | - | - | 1.5 | - | **-** |
| Share price as at 31 December (cents) | 9.0 | 9.0 | 6.0 | 3.2 | **5.4** |
| Total shareholder return (TSR) % (Annual) | 125.0% | 0% [(3)] | (16.7%) [(4)] | (46.7%) | **68.8%** |

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

*(2) Based on average total equity.*

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

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

## REMUNERATION REPORT (AUDITED) *(cont.)*

### 4.6 KMP REMUNERATION TABLES – AUDITED

| | | Fixed Remuneration | | | | | |
|---|---|---|---|---|---|---|---|
| | | Short-term | | Long-term | | | Total |
| | Year | Salary and Fees | Non-monetary Benefits | Super-annuation Benefits | Termination Benefits | Long Service Leave | Total |
| **Non-Executive Directors** | | | | | | | |
| Mr D Carter (1) | **CY21** | **113,896** | **-** | **11,104** | **-** | **-** | **125,000** |
| | CY20 | 74,745 | - | 7,101 | - | - | 81,846 |
| Mr M Boyte | **CY21** | **72,893** | **-** | **7,107** | **-** | **-** | **80,000** |
| | CY20 | 68,493 | - | 6,507 | - | - | 75,000 |
| Mr J Gooding (2) | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 43,555 | - | 4,138 | - | - | 47,693 |
| Mr P Baker (3) | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 30,254 | - | 2,874 | - | - | 33,128 |
| Mr A Breuer (4) | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 21,777 | - | 2,069 | - | - | 23,846 |
| **Total** | **CY21** | **186,789** | **-** | **18,211** | **-** | **-** | **205,000** |
| | CY20 | 238,824 | - | 22,689 | - | - | 261,513 |
| **Executive Directors** | | | | | | | |
| Mr L Wallace | **CY21** | **404,166** | **-** | **15,834** | **-** | **9,875** | **429,875** |
| | CY20 | 395,000 | - | 24,997 | - | 9,875 | 429,872 |
| **Total** | **CY21** | **404,166** | **-** | **15,834** | **-** | **9,875** | **429,875** |
| | CY20 | 395,000 | - | 24,997 | - | 9,875 | 429,872 |
| **Other Key Management Personnel** | | | | | | | |
| Mr P Kiley (5) | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 203,603 | - | 13,269 | 111,186 | - | 328,058 |
| Mr G Norris (6) | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 114,583 | - | 10,416 | - | - | 124,999 |
| **Total** | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 318,186 | - | 23,685 | 111,186 | - | 453,057 |
| **Total** | **CY21** | **590,955** | **-** | **34,045** | **-** | **9,875** | **634,875** |
| | CY20 | 952,010 | - | 71,371 | 111,186 | 9,875 | 1,144,442 |

*(1) Mr D Carter was appointed on 24 April 2020.*
*(2) Mr J Gooding resigned on 24 April 2020.*
*(3) Mr P Baker resigned on 20 May 2020.*
*(4) Mr A Breuer resigned on 24 April 2020.*
*(5) Mr P Kiley resigned on 10 July 2020.*
*(6) The table shows the period Mr G Norris was a part of the KMP (to 31 May 2020, post the completion of processing stockpiled ore).*

## 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 | **CY21** | **-** | **259,793** | **259,793** | **384,793** | **32%** | **68%** |
| | CY20 | - | - | - | 81,846 | 100% | 0% |
| Mr M Boyte | **CY21** | **-** | **259,793** | **259,793** | **339,793** | **24%** | **76%** |
| | CY20 | - | - | - | 75,000 | 100% | 0% |
| Mr J Gooding | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | - | - | - | 47,693 | 100% | 0% |
| Mr P Baker | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | - | - | - | 33,128 | 100% | 0% |
| Mr A Breuer | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | - | - | - | 23,846 | 100% | 0% |
| **Total** | **CY21** | **-** | **519,586** | **519,586** | **724,586** | **28%** | **72%** |
| | CY20 | - | - | - | 261,513 | 100% | 0% |
| **Executive Directors** | | | | | | | |
| Mr L Wallace | **CY21** | **178,500** (7) | **228,241** | **406,741** | **836,616** | **51%** | **49%** |
| | CY20 | 180,180 | 133,334 | 313,514 | 743,386 | 58% | 42% |
| **Total** | **CY21** | **178,500** | **228,241** | **406,741** | **836,616** | **51%** | **49%** |
| | CY20 | 180,180 | 133,334 | 313,514 | 743,386 | 58% | 42% |
| **Other Key Management Personnel** | | | | | | | |
| Mr P Kiley | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 51,075 | 97,213 | 148,288 | 476,346 | 69% | 31% |
| Mr G Norris | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 67,218 | 53,080 | 120,298 | 245,297 | 51% | 49% |
| **Total** | **CY21** | **-** | **-** | **-** | **-** | **-** | **-** |
| | CY20 | 118,293 | 150,293 | 268,586 | 721,643 | 63% | 37% |
| **Total** | **CY21** | **178,500** | **747,827** | **926,327** | **1,561,202** | **41%** | **59%** |
| | CY20 | 298,473 | 283,627 | 582,100 | 1,726,542 | 66% | 34% |

*(7) At the time of signing, the Remuneration Committee and the Board had not approved the award of the STI cash bonus related to 2021 performance however, an expense has been accrued.*

# Directors' Report *(cont.)*

## 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 31/12/20 | Granted | Number Vested | % Vested | Number Forfeited | % Forfeited | Balance held at 31/12/21 (1) |
|---|---|---|---|---|---|---|---|---|
| Mr L Wallace | May 21 | - | 10,000,000 | - | 0% | - | 0% | 10,000,000 |
| | Aug 20 | 3,121,622 | - | 2,185,135(2) | 70% | 936,487 | 30% | - |
| **TOTAL** | | **3,121,622** | **10,000,000** | **2,185,135** | | **936,487** | | **10,000,000** |

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

(2) *Vested in December 2021, with Ordinary Shares issued in January 2022.*

### 5.3 EXERCISE OF PERFORMANCE RIGHTS GRANTED AS REMUNERATION

During the financial year, no shares which were previously granted as part of remuneration exercised (the exercise of 2,185,135 performance rights occurred in January 2022).

### 5.4 VALUE OF PERFORMANCE RIGHTS GRANTED AND ON FOOT TO EXECUTIVE KMP AS AT 31 DECEMBER 2021

| Mr L Wallace | Number Granted | Face Value per right (1) | Fair Value per right (2) | Intrinsic Value (3) | Fair Value |
|---|---|---|---|---|---|
| 2020 OPRP | 5,000,000 | $0.054 | $0.0787 | $270,000 | $393,500 |
| 2021 OPRP | 5,000,000 | $0.054 | $0.0737 | $270,000 | $368,500 |
| **TOTAL** | **10,000,000** | | | **$540,000** | **$762,000** |

(1) *The Face Value is the closing share price on 31 December 2021.*

(2) *The Fair Value 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 ($0.054) and the exercise price ($0.00).*

### 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:

| Directors | | Held as at 31/12/20 | Exercise of Rights | Net Other Changes | Held as at 31/12/21 |
|---|---|---|---|---|---|
| Mr D Carter | Shares | - | - | 1,805,210 | 1,805,210 |
| Mr M Boyte | Shares | - | - | 3,482,216 | 3,482,216 |
| Mr L Wallace | Shares | 12,205,197 | - | 2,005,977 (1) | 14,211,124 |

(1) *Acquired as part of the entitlement offer and share purchase plan. The exercise of 2,185,135 performance rights which vested in 2021 occurred in January 2022.*

# Directors' Report *(cont.)*

## REMUNERATION REPORT (AUDITED) *(cont.)*

### 6.0 Service Contracts and Employment Agreements

The Company does not enter into service contracts for KMP Executives. The following sets out details of the employment contract for the Executive KMP as at 31 December 2021.

| **Employee** | **Mr L A 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.<br>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 |

## 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 2021 may be accessed from the Company's website at www.hillgroveresources.com.au/Corporate-Governance.

## ROUNDING OF AMOUNTS

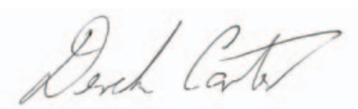
The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest hundred thousand 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 23.

Signed in accordance with a resolution of the Directors:

Dated at Adelaide this 25th day of February 2022.



**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 2021, 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.

Julian McCarthy
Partner
PricewaterhouseCoopers

Adelaide
25 February 2022

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T: +61 8 8218 7000, F: +61 8 8218 7999, www.pwc.com.au

# Consolidated Statement of
# Profit or Loss and Other Comprehensive Income
*For the year ended 31 December 2021*

| | Note | 31 Dec 2021<br>$'000 | 31 Dec 2020<br>$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Concentrate revenue | *5* | **-** | 20,248 |
| Other income | *6* | **59** | 124 |
| Expenses | *7(a)* | **(5,446)** | (27,624) |
| Interest and finance charges | *7(b)* | **(42)** | (167) |
| Impairment charges | *7(c)* | **(4)** | (51) |
| (Loss) before income tax | | **(5,433)** | (7,470) |
| Income tax (expense) / benefit | *9* | **(422)** | - |
| **Loss from continuing operations** | | **(5,855)** | (7,470) |
| Profit / (loss) from discontinued operations | *8* | **-** | 1,525 |
| **Loss for the period** | | **(5,855)** | (5,945) |
| | | | |
| **Comprehensive income** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange difference on translation of discontinued operations | | **-** | 177 |
| **Total comprehensive income for the period attributable to equity holders of Hillgrove Resources Limited** | | **(5,855)** | (5,768) |
| | | | |
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:** | | **Cents** | Cents |
| Basic earnings per share | *11* | **(0.6)** | (1.3) |
| Diluted earnings per share | *11* | **(0.6)** | (1.3) |
| | | | |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | *11* | **(0.6)** | (1.0) |
| Diluted earnings per share | *11* | **(0.6)** | (1.0) |

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 28 to 48.

# Consolidated Statement of **Financial Position**

*As at 31 December 2021*

| | Note | 31 Dec 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | *12* | **10,737** | 5,601 |
| Trade and other receivables | *13* | **923** | 832 |
| Inventories | *14* | **100** | 50 |
| | | **11,760** | 6,483 |
| **Non-current assets** | | | |
| Inventories | *14* | **1,816** | 1,782 |
| Property, plant and equipment | *15* | **33,284** | 24,390 |
| Exploration and evaluation expenditure | *16* | **4,434** | 3,236 |
| | | **39,534** | 29,408 |
| **Total assets** | | **51,294** | 35,891 |
| **Current liabilities** | | | |
| Trade and other payables | *17* | **1,800** | 1,122 |
| Provisions | *18* | **736** | 775 |
| Employee benefits payable | *20* | **1,501** | 1,035 |
| | | **4,037** | 2,932 |
| **Non-current liabilities** | | | |
| Provisions | *21* | **9,314** | 9,736 |
| | | **9,314** | 9,736 |
| **Total liabilities** | | **13,351** | 12,668 |
| **Net assets** | | **37,943** | 23,223 |
| **Equity** | | | |
| Contributed equity | *22* | **256,118** | 236,550 |
| Reserves | *23* | **28,762** | 27,755 |
| Accumulated losses | *24* | **(246,937)** | (241,082) |
| **Total equity** | | **37,943** | 23,223 |

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 28 to 48.

# Consolidated Statement of **Changes in Equity**

*For the year ended 31 December 2021*

| | Note | Contributed equity $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance 1 January 2020** | | 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 payments | *33* | - | 465 | - | 465 |
| **Balance 31 December 2020** | | **236,550** | **27,755** | **(241,082)** | **23,223** |
| Profit/(Loss) for the period | | - | - | (5,855) | (5,855) |
| Transactions with owners: | | | | | |
| Contributions of equity, net of transaction costs and tax | *22* | 19,568 | - | - | 19,568 |
| Share-based payments | *33* | - | 1,007 | - | 1,007 |
| **Balance 31 December 2021** | | **256,118** | **28,762** | **(246,937)** | **37,943** |

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 28 to 48.

# Consolidated Statement of **Cash Flows**

*For the year ended 31 December 2021*

| | Note | 31 Dec 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts in the course of operations (inclusive of GST) | | **53** | 20,211 |
| Cash payments in the course of operations (inclusive of GST) | | **(4,955)** | (23,211) |
| **Net cash (used) / generated by operating activities** | *28* | **(4,902)** | (3,000) |
| **Cash flows from investing activities** | | | |
| Payments for exploration and evaluation expenditure | | **(987)** | (687) |
| Payments for property, plant and equipment | | **(8,407)** | (2,346) |
| Proceeds on disposal of plant and equipment | | **-** | 348 |
| Payment on disposal of Indonesian subsidiaries | | **-** | (91) |
| **Net cash used in investing activities** | | **(9,394)** | (2,776) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares (net of transaction costs) | | **19,421** | 2,251 |
| Repayment of finance leases | | **-** | (206) |
| Interest received | | **11** | 3 |
| **Net cash from/(used) in financing activities** | | **19,432** | 2,048 |
| **Net increase / (decrease) in cash and cash equivalents** | | **5,136** | (3,728) |
| Cash and cash equivalents at the beginning of financial period | | **5,601** | 9,329 |
| **Cash and cash equivalents at the end of the financial period** | *12* | **10,737** | 5,601 |

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 28 to 48.

## 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) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business.

Whilst the Group has $10.7 million in cash and cash equivalents at 31 December 2021, it recorded an operating loss of $5.9 million, had net cash outflows from operating activities of $4.9 million and there are no forecasted cash inflows from operating activities in the next 12 months. The Group continues to have ongoing expenditure including care and maintenance costs, rehabilitation activities, corporate costs, exploration, and development of the Underground project. Whilst the Group has the option to reduce discretionary expenditure to manage cash flow, the Board does not expect to pursue this option and expects further funding will need to be obtained to progress development of the underground project.

In light of these circumstances, particularly the fact that as at the date of this report the sources and the required amount of additional funding had not been secured to fund operations of the group for the next twelve months and onwards, there is a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address this uncertainty, the Group is assessing funding alternatives to optimise shareholders' returns. The Directors are confident that the required amount of financing will be secured to support the cash flow needs of the group as required for twelve months from the date of this report. Therefore, the financial report has been prepared on a going concern basis.

As such, the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

### (b) 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) 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).

#### (ii) 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.

#### (iii) 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.

### (c) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (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.

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

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).

### (d) 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.

The recoverable amount is the higher of an assets fair value less costs to sell and its value-in-use (VIU). In its impairment assessment, the Group determined the recoverable amount based on VIU. The 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 VIU, 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".

### (e) 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 consolidated statement of financial position.

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

### (f) 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.

### (g) Rounding of amounts

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

### (h) 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 recoverable amount is based on value in use calculations which require the use of assumptions. The estimates of discounted future cash flows for the Kanmantoo CGU are based on significant assumptions including:

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

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

Separate to the CGU, 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 18 and 21.

The provision represents management's best estimate of the costs that will be incurred, but significant judgement is required on cost estimates including inflation and discount rates and changes to the lives of operations, as many of these costs will not crystallise until the end of the life of the mine.

## 3. DIVIDENDS

| | 31 Dec 2021<br>$'000 | 31 Dec 2020<br>$'000 |
|---|---|---|
| Franked dividends paid | **-** | - |
| 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 in the resources industry, in Australia. The Group also had exploration tenement interests overseas which were sold during the prior 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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Copper in concentrate | - | 19,643 |
| Gold in concentrate | - | 1,796 |
| Silver in concentrate | - | 393 |
| Treatment and refining deductions | - | (1,584) |
| **Concentrate revenue** | - | 20,248 |

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.

With the completion of open-cut mine related processing operations in March 2020, there has been no revenue in FY21.

## 6. OTHER INCOME

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Interest | **11** | 13 |
| Other – excess rehabilitation seed sale income | **48** | - |
| Other – services provided to third parties | - | 11 |
| Other – government cashflow boost | - | 100 |
| **Total other income** | **59** | 124 |

## 7. EXPENSES

Profit or loss before income tax includes the following expenses:

### (a) Expenses per profit or loss

| | Note | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|---|
| | | $'000 | $'000 |
| Costs of production | | - | 10,564 |
| Depreciation and amortisation | | - | 1,891 |
| Inventory movement | | - | 9,211 |
| **Cost of goods sold** | | - | 21,666 |
| Government royalties | | - | 907 |
| Corporate and other costs | *(i)* | **2,895** | 3,777 |
| Care and maintenance costs and other direct site costs | *(ii)* | **2,583** | 1,335 |
| Rehabilitation adjustment | *(iii)* | **(106)** | (166) |
| Depreciation and amortisation | | **74** | - |
| (Gain) / Loss on sale of fixed assets | | - | (92) |
| Foreign exchange loss / (gain) | | - | 197 |
| **Total expenses** | | **5,446** | 27,624 |

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

*(ii) 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.*

*(iii) 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 2021 | 31 Dec 2020 |
|---|---|---|---|
| | | $'000 | $'000 |
| Discount on unwind of rehabilitation provision | | **34** | 109 |
| Borrowing costs, bank fees and charges | | **8** | 6 |
| Other interest payable | *(i)* | - | 52 |
| **Total Interest and finance charges** | | **42** | 167 |

*(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 disclosed as a financing activity cashflow in the consolidated statement of cashflows.*

## 7. EXPENSES (cont.)

### (c) Impairment charges

| | Note | 31 Dec 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|---|
| Exploration assets | (i) | **4** | 51 |
| | | **4** | 51 |

(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.*

### (d) Other required disclosures

| | 31 Dec 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|
| Employee benefits (excluding share-based payments) | **3,167** | 4,256 |
| Employee share based payments (see note 33) | **821** | 587 |

### (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 2021 $ | 31 Dec 2020 $ |
|---|---|---|
| **(i) Audit Services** | | |
| **PricewaterhouseCoopers:** | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | **113,189** | 149,928 |
| | **113,189** | 149,928 |
| **(ii) Taxation Services** | | |
| **Services by PricewaterhouseCoopers:** | | |
| Tax advice including research and development | **15,576** | 6,171 |
| **Services by other firms:** | | |
| Crowe Horwath Singapore | **-** | 3,812 |
| | **15,576** | 9,983 |

## 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 consolidated statement of financial position (through a reduction in liabilities) of $2.2 million.

### (b) Financial performance

| | 31 Dec 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|
| Expenses | - | (373) |
| Loss before income tax | - | (373) |
| Income tax expense | - | - |
| Loss after income tax of discontinued operation | - | (373) |
| Gain on sale of subsidiaries after income tax (see (d) below) | - | 1,898 |
| Profit from discontinued operation | - | 1,525 |
| Exchange differences on translation of discontinued operations | - | 177 |
| Other comprehensive income from discontinued operations | - | 1,702 |

### (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

| | 31 Dec 2020 $'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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **(a) Income tax expense** | | |
| Income tax expense comprises: | | |
| - Current tax expense | **-** | - |
| - Deferred tax expense / (benefit) | **422** | - |
| Income tax expense / (benefit) | **422** | - |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit/(loss) from continuing operations before income tax expense/(benefit) | **(5,433)** | (5,945) |
| Tax at the Australian tax rate of 30% | **(1,630)** | (1,783) |
| Tax effect of amounts which are not deductible in calculating taxable income: | | |
| - Share based payments | **246** | 176 |
| - Non-deductible expenses | **2** | 3 |
| - Non-assessable income | **-** | - |
| - Losses from non-resident foreign operations | **-** | (458) |
| - Exploration deductable | **(2,500)** | (186) |
| - Tax temporary differences (recognised) / not recognised | **4,304** | 2,248 |
| **Income tax expense/(benefit)** | **422** | - |
| **(c) Amounts recognised directly in equity** | | |
| Deferred tax – (credited) / debited directly in equity | **(422)** | - |

### (d) Tax consolidation legislation

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

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

## 10. 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.

## 10. DEFERRED TAX *(cont.)*

The balance of deferred tax assets comprises temporary differences attributable to:

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Tax losses and credits | **66,682** | 58,434 |
| Business related costs | **562** | 421 |
| Exploration expenditure / PPE | **-** | 1,080 |
| Provisions and accruals | **3,458** | 3,460 |
| **Total deferred tax assets** | **70,702** | 63,395 |

The balance of deferred tax liabilities comprises temporary differences attributable:

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Exploration expenditure / PPE | **5,430** | - |
| **Total deferred tax liabilities** | **5,430** | - |
| Net deferred tax assets | **65,272** | 63,395 |
| Deferred tax assets not recognised | **(65,272)** | (63,395) |
| Recognised net deferred tax assets | **-** | - |

The company has unrecognised capital losses of $11.3 million (2020: $11.3 million).

## 11. 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. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

### 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 2021 | 31 Dec 2020 |
|---|---|---|
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic and dilutive EPS | **960,997,490** | 586,213,187 |

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

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **(i) Basic earnings** | | |
| (Loss) attributable to the ordinary equity holders of the Company: | | |
| From continuing operations | **(5,855)** | (7,470) |
| From discontinued operations | **-** | 1,525 |
| | **(5,855)** | (5,945) |
| **(ii) Diluted earnings** | | |
| (Loss) attributable to the ordinary equity holders of the Company | | |
| From continuing operations | **(5,855)** | (7,470) |
| From discontinued operations | **-** | 1,525 |
| | **(5,855)** | (5,945) |

### (c) Basic earnings per share

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | Cents | Cents |
| From continuing operations attributable to the ordinary equity holders of the Company | **(0.6)** | (1.3) |
| From discontinued operations | **-** | 0.3 |
| Total basic earnings per share attributable to the ordinary equity holders of the company | **(0.6)** | (1.0) |

## 11. EARNINGS PER SHARE (cont.)

### (d) Diluted earnings per share

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | Cents | Cents |
| From continuing operations attributable to the ordinary equity holders of the Company | **(0.6)** | (1.3) |
| From discontinued operations | **-** | 0.3 |
| Total diluted earnings per share attributable to the ordinary equity holders of the company | **(0.6)** | (1.0) |

## 12. CASH AND CASH EQUIVALENTS

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Cash at bank and on hand | **10,178** | 5,042 |
| Restricted cash | **559** | 559 |
| | **10,737** | 5,601 |

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, office rental security deposits, and foreign exchange pre settlement risk.

## 13. TRADE AND OTHER RECEIVABLES

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Prepayments | **400** | 385 |
| Other receivables | **368** | 404 |
| GST receivable | **155** | 43 |
| | **923** | 832 |

## 14. INVENTORIES

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **Current assets** | | |
| Stores and consumables | **100** | 50 |
| Total current inventory | **100** | 50 |
| **Non-current assets** | | |
| Stores inventory | **1,816** | 1,782 |
| Total non-current inventory | **1,816** | 1,782 |

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

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.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **Land and buildings** | | |
| At cost | **5,277** | 5,277 |
| Accumulated depreciation | **(379)** | (379) |
| | **4,898** | 4,898 |
| **Plant and equipment** | | |
| At cost | **73,559** | 73,490 |
| Accumulated depreciation and impairment | **(59,887)** | (59,817) |
| | **13,672** | 13,673 |
| **Motor vehicles** | | |
| At cost | **436** | 477 |
| Accumulated depreciation | **(369)** | (399) |
| | **67** | 78 |
| **Mine development** | | |
| At cost | **174,357** | 165,451 |
| Accumulated depreciation and impairment | **(159,710)** | (159,710) |
| | **14,647** | 5,741 |
| **Total property, plant and equipment** | **33,284** | 24,390 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(cont.)*

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) (ii) 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 recoverable amount is the higher of an asset's fair value less costs to sell (FVLCOD) and its value-in-use (VIU). The VIU methodology is used to estimate the recoverable amount, rather than the FVLCOD method, as VIU 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 11.38% (2020: 12.53%)

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

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

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **Land and buildings** | | |
| Carrying amount at beginning of period | **4,898** | 5,145 |
| Disposals | **-** | (247) |
| Carrying amount at end of period | **4,898** | 4,898 |
| **Plant and equipment** | | |
| Carrying amount at beginning of period | **13,673** | 13,749 |
| Additions | **66** | 179 |
| Depreciation | **(67)** | (255) |
| Carrying amount at end of period | **13,672** | 13,673 |
| **Motor vehicles** | | |
| Carrying amount at beginning of period | **78** | 123 |
| Disposals | **-** | (18) |
| Depreciation | **(11)** | (27) |
| Carrying amount at end of period | **67** | 78 |
| **Mine development** | | |
| Carrying amount at beginning of period | **5,741** | 5,146 |
| Additions | **8,906** | 2,138 |
| Depreciation | **-** | (1,543) |
| Carrying amount at end of period | **14,647** | 5,741 |
| **Total property, plant and equipment** | **33,284** | 24,390 |

## 16. 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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **Exploration and evaluation expenditure** | **4,434** | 3,236 |
| Carrying amount at beginning of period | **3,236** | 2,616 |
| Additions | **1,202** | 671 |
| Impairment loss | **(4)** | (51) |
| Carrying amount at end of period | **4,434** | 3,236 |

## 17. TRADE AND OTHER PAYABLES

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Trade payables | **567** | 218 |
| Other payables and accruals | **1,233** | 904 |
| | **1,800** | 1,122 |

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

## 18. PROVISIONS – CURRENT

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Rehabilitation provision | **736** | 775 |
| | **736** | 775 |
| **Movement in provisions** | | |
| Carrying value at the beginning of the period | **775** | 4,132 |
| Payments charged against provisions: | | |
| Rehabilitation provision | **(389)** | (1,159) |
| Make good provision | **-** | (244) |
| Unsettled ship provision | **-** | (124) |
| Increase / (reduce) provision recognised: | | |
| Make good provision | **-** | (176) |
| Transfer from / (to) non-current provisions: | | |
| Rehabilitation provision | **350** | (1,654) |
| Balance at end of period | **736** | 775 |

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.

## 19. LEASE LIABILITIES

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Lease liabilities | **-** | - |
| Total lease liabilities | **-** | - |

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.

## 19. LEASE LIABILITIES *(cont.)*

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.

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

## 20. EMPLOYEE BENEFITS PAYABLE – CURRENT

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Employee benefits payable | **1,501** | 1,035 |

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 $1.5 million (2020: $1.0 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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Leave obligations expected to settle after 12 months | **176** | 123 |

## 21. PROVISIONS – NON-CURRENT

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Rehabilitation provision | **9,314** | 9,736 |
| **Movement in provisions** | | |
| Carrying value at the beginning of the period | **9,736** | 8,140 |
| Discount on unwind of rehabilitation provision | **34** | 109 |
| Transfer (to)/from current provisions | **(350)** | 1,654 |
| (Reduce)/increase provision recognised | **(106)** | (167) |
| Balance at end of period | **9,314** | 9,736 |

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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Issued and paid up capital for 1,168,169,769 fully paid shares (31 December 2020: 661,798,194) | **256,118** | 236,550 |

### Ordinary shares issued – movements during the period

| | 31 Dec 2021 | 31 Dec 2020 | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|---|---|
| | No. of shares | No. of shares | $'000 | $'000 |
| Opening balance | **661,798,194** | 585,588,518 | **236,550** | 234,322 |
| Employee option schemes / issues | **-** | - | **-** | - |
| Capital raises | **506,371,575** | 76,209,676 | **20,553** | 2,362 |
| Less – transaction costs (net of tax) | **-** | - | **(985)** | (134) |
| **Balance at end of period** | **1,168,169,769** | 661,798,194 | **256,118** | 236,550 |

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

In February 2021, the Company completed:

- A pro rata non renounceable entitlement offer, raising gross proceeds of $2.8 million through the issue of 90,090,541 new fully paid ordinary shares at $0.031 per share; and
- Following the approval at the Extraordinary General meeting, raised gross proceeds of $5.7 million through the issue of 185,080,646 new fully paid ordinary shares at $0.031 per share.

In addition, on 22 September 2021, the Company announced an equity raising of $12.0 million at $0.052 per share. The raising was undertaken through the following:

- Placement – the issue of 192,307,693 new fully paid ordinary shares pursuant to the Company's available placement capacity under ASX Listing Rules 7.1 and 7.1A raising gross proceeds of $10.0 million; and
- Share purchase plan – the issue of 38,892,695 new fully paid ordinary shares raising gross proceeds of $2.0 million.

## 23. RESERVES

| | 31 Dec 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|
| Share based payments reserve | **6,680** | 5,673 |
| Profit reserve | **22,082** | 22,082 |
| Foreign currency translation | **-** | - |
| | **28,762** | 27,755 |
| **Movements:** | | |
| **Share based payments reserve** | | |
| Opening balance | **5,673** | 5,208 |
| Share based compensation expense | **1,007** | 465 |
| Closing balance | **6,680** | 5,673 |
| **Profit reserve** | | |
| Opening balance | **22,082** | 22,082 |
| Transfer of current year profit | **-** | - |
| Dividend paid | **-** | - |
| Closing balance | **22,082** | 22,082 |
| **Foreign currency translation** | | |
| Opening balance | **-** | (177) |
| Reclassified to profit and loss on disposal of discontinued operations | **-** | 177 |
| Closing balance | **-** | - |

### Nature and purpose of reserves

#### (i) Share based payments reserve

The share based payments reserve is used to recognise the fair value of:

- Share performance rights issued to employees
- Options granted to the non-executive directors
- Unlisted options issued to the joint lead managers of the 2021 placement and share purchase plan.

#### (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(c) 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 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|
| At beginning of the period | **(241,082)** | (235,137) |
| Net loss (not carried forward to profit reserve) | **(5,855)** | (5,945) |
| **Accumulated losses at end of the period** | **(246,937)** | (241,082) |

## 25. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, foreign exchange 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

At the end of the reporting period, the Group was not exposed to any market risk.

### (b) Foreign exchange risk

At the end of the reporting period, the Group was not exposed to any foreign exchange risk.

### (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 2020: $Nil). 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 2021 $'000** | | | | | | |
| **Trade and other payables** | **1,800** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **1,800** | **-** | **-** | **-** | **-** | **-** |
| 31 December 2020 $'000 | | | | | | |
| Trade and other payables | 1,122 | - | - | - | - | - |
| Total | 1,122 | - | - | - | - | - |

## 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 2021 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 2021 (%) | Equity holding 31 Dec 2020 (%) |
|---|---|---|---|---|
| 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 |
| Hillgrove Singapore No 2 Pte Ltd | Singapore | Ordinary | **-** | 100 |
| Hillgrove Singapore No 3 Pte Ltd | Singapore | Ordinary | **-** | 100 |
| Hillgrove Singapore No 4 Pte Ltd | Singapore | Ordinary | **-** | 100 |
| PT Hillgrove Indonesia | Indonesia | Ordinary | **100** | 100 |

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

On 8 November 2021, ACRA (the Accounting and Corporate Regulatory Authority in Singapore) advised that the four Singaporean companies had, at Hillgrove's request, been struck off from the register. All inter-company loan balances were written off in 2020.

## 27. COMMITMENTS

### (a) Non-cancellable commitments

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

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | **13** | 30 |
| One to five years | **-** | 13 |
| | **13** | 43 |

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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | **704** | 1,010 |
| One to five years | **445** | 1,106 |
| | **1,149** | 2,116 |

### (c) Capital commitments

At 31 December 2021 there were no contracted capital commitments (31 December 2020: Nil).

# 28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

## (a) Reconciliation of cash

For the purposes of the consolidated 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 consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as set out in Note 12.

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

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **Operating profit/(loss) after income tax** | **(5,855)** | (5,945) |
| **Add/(less) items classified as investing/financing activities** | | |
| Net (gain)/loss on sale of fixed assets | **-** | (92) |
| Net interest expense | **8** | 58 |
| Finance lease payments | **-** | 206 |
| Payment on disposal of Indonesian subsidiaries | **-** | 91 |
| Tax expense on capital raise costs | **422** | - |
| **Add/(less) non-cash items** | | |
| Depreciation and amortisation | **74** | 1,891 |
| Impairment asset write downs | **4** | 51 |
| Employee share options | **820** | 587 |
| Discount on unwind of rehabilitation provision | **34** | 109 |
| Rehabilitation adjustment | **(106)** | (166) |
| **Changes in operating assets and liabilities** | | |
| Increase / (decrease) in deferred revenue | **-** | (479) |
| (Increase) / decrease in receivables, prepayments and inventories | **(176)** | 12,492 |
| Increase / (decrease) in trade creditors and accruals | **(205)** | (7,812) |
| Increase / (decrease) in provisions and employee benefits | **78** | (3,991) |
| **Net cash used by operating activities** | **(4,902)** | (3,000) |

## (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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| Cash and cash equivalents | **10,737** | 5,601 |
| Borrowings – repayable within one year | **-** | - |
| Borrowings – repayable after one year | **-** | - |
| Net funds / (debt) | **10,737** | 5,601 |

## 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** | **Finance leases due within 1 year** | **Finance leases due after 1 year** | **Borrowings due within 1 year** | **Borrowings due after 1 year** | **Total** |
| Net debt as at 1 January 2020 | 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** |
| Cash flows | 5,136 | - | - | - | - | - | 5,136 |
| Other non-cash movements | - | - | - | - | - | - | - |
| **Net funds/(debt) as at 31 December 2021** | **10,737** | **-** | **-** | **-** | **-** | **-** | **10,737** |

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 2021** | **31 Dec 2020** |
|---|---|---|
| | **$** | **$** |
| Short-term employee benefits | **590,955** | 952,010 |
| Post-employment benefits | **43,920** | 81,246 |
| Cash bonus | **178,500** | 298,473 |
| Termination payments | **-** | 111,186 |
| Share based payments | **747,827** | 283,627 |
| | **1,561,202** | 1,726,542 |

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.

Hillgrove Copper Pty Ltd is the banker for the Group and re-allocates via loan account all costs that relate to the Group. Some assets and liabilities previously recognised in the parent Company, mainly consisting of property, plant, equipment and exploration related assets, have been transferred to the controlled entities via loan account. All these transactions were recorded at carrying value.

## 31. EVENTS AFTER THE REPORTING PERIOD

There were no subsequent events since the balance date.

## 32. CONTINGENT LIABILITIES

### Guarantees

| | 31 Dec 2021 $'000 | 31 Dec 2020 $'000 |
|---|---|---|
| Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site | **338** | 338 |
| Security bonds on rental properties | **16** | 16 |
| | **354** | 354 |

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 2021.

## 33. SHARE-BASED PAYMENTS

### (i) Movements in performance rights during the year – employees and non-executive directors

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Number of performance rights | Weighted average exercise price ($) | Number of performance rights | Weighted average exercise price ($) |
| Balance at beginning of year | **11,741,840** | **-** | 18,875,000 | - |
| Granted – employees | **28,500,000** | **-** | 10,473,282 | - |
| Granted – non-executive directors | **14,000,000** | **0.121** | - | - |
| Forfeited during the year | **-** | **-** | (3,622,687) | - |
| Exercised during the year | **-** | **-** | - | - |
| Expired during the year | **(3,000,000)** | **-** | (13,983,755) | - |
| Balance at end of year | **51,241,840** | **-** | 11,741,840 | - |
| Exercisable at end of year | **6,119,288** | **-** | - | - |

## 33. SHARE-BASED PAYMENTS *(cont.)*

At the end of the year there were 51,241,840 performance rights outstanding and the weighted average remaining contractual life at the end of the period was 2.56 years (31 December 2020: 0.89 years).

### (ii) Movements in rights during the year – capital raise lead managers

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Number of performance rights | Weighted average exercise price ($) | Number of performance rights | Weighted average exercise price ($) |
| Balance at beginning of year | **-** | **-** | - | - |
| Granted | **20,000,000** | **0.078** | - | - |
| Forfeited during the year | **-** | **-** | - | - |
| Exercised during the year | **-** | **-** | - | - |
| Expired during the year | **-** | **-** | - | - |
| Balance at end of year | **20,000,000** | **0.078** | - | - |

At the end of the year there were 20,000,000 rights outstanding and the weighted average remaining contractual life at the end of the period was 2.75 years (31 December 2020: Nil).

### 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 2021 | 31 Dec 2020 |
|---|---|---|
| | $'000 | $'000 |
| **Performance rights issued under the OPRP:** | | |
| Equity based | **647** | 465 |
| Cash based | **174** | 122 |
| | **821** | 587 |

The consolidated statement of changes in equity excludes cash based payments of $174k but includes $360k for non-employee share based payments.

During the period, the share based payment amounts that were expensed was calculated based on an adjusted form of the Black Scholes Model, third party valuation using a Monte Carlo simulation approach, or share price on the date of issue against the probability that they will vest.

## 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 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 2021** | **31 Dec 2020** |
| | **$'000** | **$'000** |
| Profit / (loss) after income tax | **(3,309)** | (4,525) |
| Total comprehensive income | **(3,309)** | (4,525) |
| **Statement of Financial Position** | | |
| Total current assets | **10,864** | 5,755 |
| Total assets | **33,797** | 16,222 |
| Total current liabilities | **1,525** | 1,216 |
| Total liabilities | **1,525** | 1,216 |
| **Net assets** | **32,272** | 15,006 |
| **Shareholder's Equity** | | |
| Contributed equity | **256,118** | 236,550 |
| Reserves | **13,547** | 12,539 |
| Accumulated losses | **(237,393)** | (234,083) |
| **Total equity** | **32,272** | 15,006 |

### 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 2021** | **31 Dec 2020** |
|---|---|---|
| | **$'000** | **$'000** |
| Security bond on rental properties | **16** | 16 |

# Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 24 to 48 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 2021 and of its performance for the financial year ended on that date; and

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

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

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

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

Dated at Adelaide this 25th day of February 2022.

**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 2021 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 statement of financial position as at 31 December 2021
- 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.

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T: +61 8 8218 7000, F: +61 8 8218 7999

Independent auditor's report – Hillgrove Resources Limited (continued)

## Material uncertainty related to going concern

We draw attention to Note 1(a) in the financial report, which indicates that the Group incurred an operating loss of $5.9 million and net cash outflows from operating activities of $4.9 million during the year ended 31 December 2021, and that there are no expected cash inflows from operating activities for twelve months from the date of this report. As a result, the Group will require additional funding over the next twelve months. These conditions, along with other matters set forth in Note 1(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## 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 $513,000, which represents approximately 1% of the Group's total assets.<br>• 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.<br>• We chose Group total assets because, in our view, it is a benchmark against which the performance of the Group is most commonly measured.<br>• 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.<br>• The Group's accounting records are held and managed at the Kanmantoo site and the corporate head office, located in Adelaide.<br>• Through its ownership of the Kanmantoo copper mine, the Group has one operating segment being in the resources industry, in Australia. We performed an audit of this operating segment given its financial significance to the Group during the year. |

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## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. 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.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter(s) described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Carrying value of assets of Kanmantoo cash generating unit<br>***(Refer to note 15)***<br><br>**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 ($33.3 million) and the judgemental assumptions included in the Group's discounted cash flow models for the Kanmantoo mine, as disclosed in Note 2(a).** | We performed the following procedures, amongst others:<br><br>• Assessed the appropriateness of the CGU identification in accordance with the requirements of Australian Accounting Standards.<br><br>• Evaluated the Group's ability to forecast future results by comparing budgets with reported actual results for the previous financial year.<br><br>• Evaluated the Group's plans for the Kanmantoo mine and considered whether these are feasible. This included a comparison of a sample of resource estimates and exploration target tonnages to the assessment prepared by the Group's expert. We also assessed the competence of the Group's expert.<br><br>• Evaluated whether judgements made in selecting the method, significant assumptions and data for developing the discounted cash flow model give rise to indicators of possible bias by the Group.<br><br>• Assessed the appropriateness of significant assumptions and data in the context of Australian Accounting Standards. This included:<br><br>- compared the data utilised to determine the total forecast ore to be processed to historical volumes processed and processing plant capacity.<br><br>- compared the data utilised in forecasting the ore production to historical recovery levels. |

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| | |
|---|---|
| | - compared copper pricing data used to independent industry forecasts.<br><br>- compared the foreign exchange rate data utilised by management to current market information.<br><br>- compared the forecast operating cost assumptions to historical costs incurred.<br><br>- compared the forecast capital costs to external cost estimates.<br><br>- evaluated the appropriateness of the discount rate applied by the Group by comparing to current market information.<br><br>- assessed the timing and amounts to be received from the sale of processing plant and land following expected completion of mining and processing activities to external valuation reports. This included an assessment of the competence of the external firms who prepared the valuations.<br><br>• Evaluated the reasonableness of disclosures made in the financial report, including those regarding significant assumptions, considering the requirements of Australian Accounting Standards. |
| Rehabilitation provision<br>***(Refer to note 18 and 21)***<br><br>**As a result of its mining and processing operations, the Group is obligated to restore and rehabilitate the environment disturbed by these operations.**<br><br>**Rehabilitation activities are governed by a combination of legislative requirements and Group policies. At 31 December 2021, the consolidated statement of financial position included provisions for such obligations of $10.0 million.**<br><br>**This was a key audit matter due to the judgement applied by the Group in assessing the nature and extent of the** | We performed the following procedures, amongst others.<br><br>• Compared the actual rehabilitation costs incurred in the current year against management's prior year forecast assumptions to assess management's ability to forecast future costs.<br><br>• Assessed the nature, timing and extent of rehabilitation work to be performed by comparing the area in management's rehabilitation models to the area requiring rehabilitation under the state and federal government mining leases.<br><br>• Assessed the completeness of cash flow data based on our understanding of the Group's rehabilitation obligations. |

| | |
|---|---|
| **rehabilitation work to be performed, estimating the future cost and timing of performing this work and applying assumptions, as disclosed in Note 2(b).** | • Assessed the appropriateness of significant assumptions and data in the context of Australian Accounting Standards. This included:<br>- evaluated the integrity of the rehabilitation provision, including assessing the mathematical accuracy of the underlying models used in determining the Group's rehabilitation estimate.<br>- evaluated the appropriateness of discount rates and inflation rates utilised in calculating the closing provision by comparing them to current market information.<br>• Evaluated the reasonableness of disclosures made in the financial statements, considering 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 2021 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.

Independent auditor's report – Hillgrove Resources Limited (continued)

### 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 15 to 22 of the directors' report for the year ended 31 December 2021.

In our opinion, the remuneration report of Hillgrove Resources Limited for the year ended 31 December 2021 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

Julian McCarthy
Partner

Adelaide
25 February 2022

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# Shareholder Information for Listed Public Companies

The following additional information is required by the Australian 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 7 February 2022, the Company has 1,174,289,057 listed fully paid ordinary shares. Each fully paid share carries on a poll one vote.

The company also has 28,500,000 unquoted performance rights and 34,000,000 options on issue which do not carry voting rights.

## (b) Unmarketable parcels

The number of shareholders holding less than a marketable parcel of ordinary shares was 1,854 as at 7 February 2022.

## (c) Distribution schedule of Fully Paid Ordinary Shares as at 7 February 2022

| Size of holding | Number of shareholders |
|---|---|
| 1 - 1,000 | 445 |
| 1,001 - 5,000 | 1,097 |
| 5,001 - 10,000 | 415 |
| 10,001 - 100,000 | 1,164 |
| 100,001 and over | 696 |
| | **3,817** |

## (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 7 February 2022

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 | 15.2% |
| Munro Family Super Fund | 5.3% |
| Cosoff Group | 5.0% |

# Shareholder Information *(cont.)*

## Twenty largest listed shareholders

The twenty largest shareholders hold 51.3% of the total ordinary shares issued.
The 20 largest shareholdings as at 7 February 2022 are listed below:

| | Shareholder | No. of ordinary shares held | % of issued shares |
|---|---|---|---|
| 1 | Portfolio Services Pty Ltd | 69,812,355 | 5.9% |
| 2 | Mr Raymond Edward Munro | 57,215,000 | 4.9% |
| 3 | Bell Potter Nominees Pty Ltd | 57,022,134 | 4.9% |
| 4 | BNP Paribas Nominees Pty Ltd | 55,087,354 | 4.7% |
| 5 | Portfolio Services Pty Ltd | 42,337,067 | 3.6% |
| 6 | J P Morgan Nominees Australia | 38,448,524 | 3.3% |
| 7 | UBS Nominees Pty Ltd | 35,501,868 | 3.0% |
| 8 | Portfolio Services Pty Ltd | 30,961,163 | 2.6% |
| 9 | Citicorp Nominees Pty Ltd | 29,941,303 | 2.5% |
| 10 | BNP Paribas Nominees Pty Ltd Six Sis Ltd | 25,368,008 | 2.2% |
| 11 | Proco Pty Ltd | 23,200,000 | 2.0% |
| 12 | Proco Pty Ltd | 23,000,000 | 2.0% |
| 13 | Portfolio Services Pty Ltd | 17,546,894 | 1.5% |
| 14 | Mr Antony Gordon Breuer | 17,346,365 | 1.5% |
| 15 | Portfolio Services Pty Ltd | 15,322,581 | 1.3% |
| 16 | HSBC Custody Nominees | 14,536,165 | 1.2% |
| 17 | National Nominees Pty Ltd | 14,322,295 | 1.2% |
| 18 | Cosell Pty Limited | 14,000,000 | 1.2% |
| 19 | Papaiola Holdings Pty Ltd | 13,500,000 | 1.1% |
| 20 | Jarhamche Pty Ltd | 8,235,762 | 0.7% |
| | | **602,704,838** | **51.3%** |

## (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 5628 | 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

ACN 004 297 116

**Adelaide Office**
Ground Floor
5-7 King William Road
Unley, SA 5061
Australia

P.O. Box 372
Unley, SA 5061
Australia

**T:** +61 8 7070 1698
**E:** info@hillgroveresources.com.au
**W:** www.hillgroveresources.com.au