

Wednesday, 4 April 2012

KANMANTOO UPDATE – 31 MARCH 2012

Hillgrove Resources Limited (ASX: HGO) is pleased to provide shareholders with the following update for operations at the Kanmantoo Copper Mine during the month of March 2012.

This information is intended to highlight progress at the recently commissioned mine during the first months of operations, and is intended to supplement the Company's Quarterly Report disclosure program, during ramp-up of the mine to full production:

- Early payment was received for 3,752 dry metric tonnes (dmt) of copper concentrate in the month, for total revenue of USD5.8 million received, with a further 2,333 dmt unsold stockpile at port and 249 dmt of concentrate in the shed at Kanmantoo.
- 142k dmt crushed, representing 71% of design annual throughput rate of 200k dmt per month. As previously advised, crushing for the month was adversely affected by overall crusher downtime, exacerbated by a crown gear failure in the secondary crusher, which has now been repaired.
- Average crushing rate achieved was 353 dry metric tonnes per hour (dmtph), representing 86% of design of 411 dmtph. Availability of the fixed jaw crusher has been an issue, but the purchase of the Lippmann 3252 mobile crusher during the month is expected to reduce downtime and improve throughput.
- 161k dmt milled, representing 80% of annual throughput rate of 200k dmt per month. The plant milled about 20k dmt more than was crushed in the month.
- Average milling rate achieved was 252 dmtph, representing 84% of design throughput of 300 dmtph. Mill throughput was maintained, but at a lower rate during secondary crusher downtime.
- 3,681 dmt of copper concentrate produced, grading 24.15% copper, 4.02 g/t gold and 62.77 g/t Ag.
- Feed grade averaged 0.62% Cu for the month, impacted by feeding residual low-grade crushed ore stockpile to the mill during crusher downtime.
- Copper recovery through the plant averaged 88.0%, indicating good progress towards optimising plant performance.
- The first shipment of 4,839 dmt of concentrate left Port Adelaide on 10 March 2012. The second concentrate shipment, also of approximately 5,000 dmt, is expected in mid to late April 2012.
- Exploration drilling at Kanmantoo, focussed on increasing Resources (after last year's program directed at Resource to Reserve conversion), continues to be very encouraging. Drilling in the old "Paringa" zone (mined in the 1800's – see map in the most recent quarterly) in the southern section of the mining lease has reported the following results:



KTRC866 3m @ 1.90% Cu & 0.32g/t Au from 106m
16m @ 2.47% Cu & 0.25g/t Au from 123m
Including: **7m @ 4.80% Cu & 0.53g/t Au from 123m**

Strong visible chalcopyrite mineralisation has been intersected in several other drill-holes (assay results pending) along strike to both the north and south of KTRC866, and the “Paringa” zone remains open in both directions and down dip. This recent drilling has targeted extensions to the “Paringa” resource and intersected strongly mineralised zones are at shallow depths outside the current pit design. Further infill drilling is expected to add significantly to the “Paringa” resource.

An additional wide zone of strong, visible chalcopyrite mineralisation has also been intersected in recent drilling approximately 100m to the north and east of KTRC866, well outside the “Paringa” resource envelope. This strongly mineralised zone appears to trend north-easterly, parallel to the high-grade Nugent-O’Neil zone, a further 120m to the east, and may represent a structural offset of this zone, or a previously unidentified parallel lens. This is a highly significant result, as the north-easterly extensions of this zone are entirely untested by drilling for more than 250m of strike. Accordingly, wide spaced initial RC drill testing of this potential new zone is currently underway.

Overall operational performance was significantly impacted by low crusher availability. The purchase of the new mobile Lippmann 3252 jaw crusher for AUD1.3 million during the month is expected to alleviate this issue by being able to crush a larger size range and present smaller material to the fixed jaw.

The decision to purchase the Lippmann has paid for itself in two weeks.

The secondary crusher has been repaired and the new mobile crusher has now been successfully commissioned. The crushed ore stockpile is building and plant throughput is once again increasing, commensurate with the overall reduced size distribution being presented from the secondary crusher.

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ABOUT HILLGROVE

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on developing its Indonesian and Australian base and precious metals projects. The Company is targeting the discovery of world class epithermal gold and porphyry copper/gold deposits in Eastern Indonesia.

Hillgrove’s flagship development is the Kanmantoo Copper Mines, located less than 55km from Adelaide in South Australia. With construction now completed, Kanmantoo is an open-cut mine, and will ramp up over the first half of 2012 to an initial throughput of 2.4Mt per annum, producing approximately 80,000 tonnes of concentrate per annum.

HILLGROVE RESOURCES LIMITED

The Project currently hosts a Mineral Resource of:

| Class | Total (0.25% Cu cut off grade model) | | | | | | |
|--------------|--------------------------------------|------------|------------|------------|--------------------|----------------|------------------|
| | Tonnes Kt | Cu % | Au g/t | Ag g/t | Cu Metal Tonnes | Au Ounces | Ag Ounces |
| Measured | 2,290 | 0.9 | 0.2 | 3.5 | 21,700 | 12,100 | 255,300 |
| Indicated | 22,525 | 0.9 | 0.2 | 3.3 | 204,400 | 139,900 | 2,381,200 |
| Inferred | 7,376 | 0.9 | 0.2 | 2.9 | 66,100 | 39,100 | 677,100 |
| Total | 32,192 | 0.9 | 0.2 | 3.2 | 292,200 | 191,100 | 3,313,600 |

and Reserves of:

| Category | Tonnes | Cu | Au | Ag |
|--------------------|-------------|-------------|-------------|------------|
| | Mt | % | g/t | g/t |
| Proved | 2.3 | 0.87 | 0.13 | 3.2 |
| Probable | 12.5 | 0.84 | 0.18 | 3.1 |
| Ore Reserve | 14.8 | 0.85 | 0.17 | 3.1 |

The information in this report that relates to Mineral Resource estimates is based on information compiled by Mr Aaron Green, who is a Member of The Australian Institute of Geoscientists. Mr Green is a full-time employee of Runge Limited and has sufficient relevant experience to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

The information in this report that relates to Ore Reserve estimates is based on information compiled by Mr Geoff Davidson, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Davidson is a Principal Consultant and Director of Mining and Cost Engineering Pty Ltd and has sufficient relevant experience to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

The Competent Persons have consented to the inclusion in the report of the matters based on their information in the form and context in which it appears.