



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 30 April 2013

## HIGHLIGHTS

### Kanmantoo Copper Mine, South Australia

- Kanmantoo Copper Mine **produced 3,590t of copper** during the quarter, in line with the previous quarter and while key improvement tasks were completed.
- The **new primary crusher circuit** replacement project has been successfully completed, with all underperforming elements of the crusher circuit replaced. **Throughput increased from 2.4Mt to 2.8Mt per annum**, with the quarter seeing a record annualised throughput rate of 2.83Mtpa despite downtime for the crusher installation.
- **Mining dilution and Run of Mine (ROM) mill feed was in line with resource estimation, resulting in a ROM grade of 0.67% Cu.**
- With **mill performance being better than expected**, blended feed to the mill (direct from pit and from lower grade stockpiles) was used to ensure continuity of feed and rapid movement to LOM Plan, resulting in a mill feed grade of 0.57% Cu.
- **C1 costs were USD3.15 per pound**, using an average exchange rate of AUD/USD1.035, and were impacted by the additional activity on the ROM in the changeover for the primary crusher system.
- **Revenue for the quarter was AUD29.6 million** at an average realised price for copper of USD3.62/lb.

### Indonesia

- Hillgrove has taken the decision to wind down the activity for both **Bird's Head and Sumba exploration assets** in order to preserve cash.
- There is interest in the projects from major mining groups, however all companies are currently reviewing their investment in greenfield areas. A number of **potential funding partners** have reviewed the data for both assets, with meetings held in Australia and Indonesia as well as two site tours conducted.

### Corporate

- **Company revenue** and other income of AUD29.8 million.
- Significant **positive hedge book** in place.
- Re-structured and **revised finance arrangements** agreed with financing partners, with the aim to better match cash flow in LOM plan, flexibility provided for future distributions from Kanmantoo Project to the Parent Company, and removal of the previous Completion Test condition.
- **Mezzanine Facility** of AUD10 million saw maturity extended for two years.
- **Cash** on hand as at 30 April 2013 was AUD 16.8 million.



**KANMANTOO COPPER MINE, SOUTH AUSTRALIA**

**Mining Lease 6345 (Hillgrove 100%)**

**Executive Summary**

Mining performance for the quarter focused on the Kavanagh pit with only minor feed from Spitfire, with the pit now positioned at the top of the Kavanagh higher grade zone. The mining rate was impacted by shovel repairs in February but has seen the strip ratio progressively reducing to approx. 4.1 for the quarter. However waste mining is no longer deferred capital as in previous reporting periods, with all costs attributed either to C1 costs or to the value of the inventory.

Milling for the quarter was 708,000t which is an annualised rate of 2.83Mtpa. This was an exceptional performance for a transition period of changing out the primary crusher and related infrastructure. With the performance being better than expected, it has meant that supplementary feeding of ROM ore with lower grade stockpiles continued during the quarter. In addition, it is anticipated that increased milling rates through a finer product to the coarse ore stockpile will result in higher tonnes being fed at a lower grade due to supplement feed, but will increase copper output and lower unit costs.

Dilution was in line with model expectations.

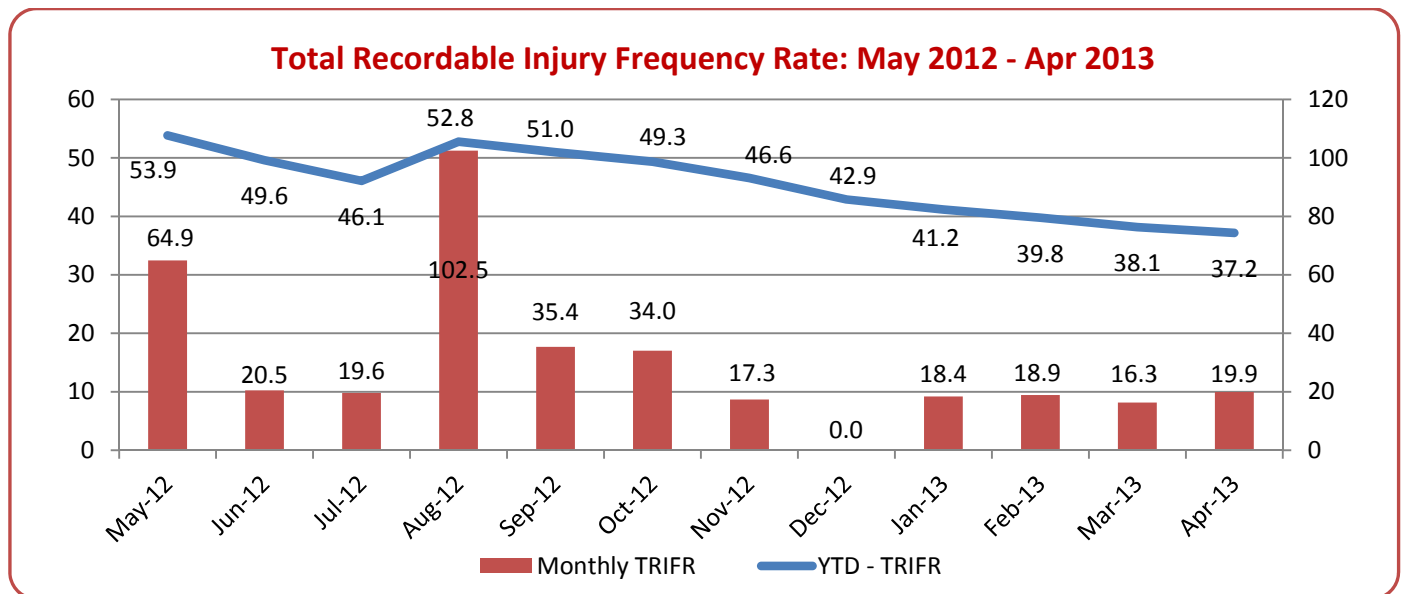
At the end of the quarter, the new crusher installation was complete with only minor punch list items remaining. All of the interim crushing equipment has been decommissioned and is being removed from site.

The run of mine stockpile area is now clear of crushing and rehandling equipment, with only intermittent rock breaking occurring as per plan. Some direct tipping recommenced with encouraging outcomes. Grizzlies into the primary ore are currently being modified to allow an increase in feed size in line with the original project expectations.



**Safety**

TABLE 1. 12 MONTH ROLLING KANMANTOO TRIFR

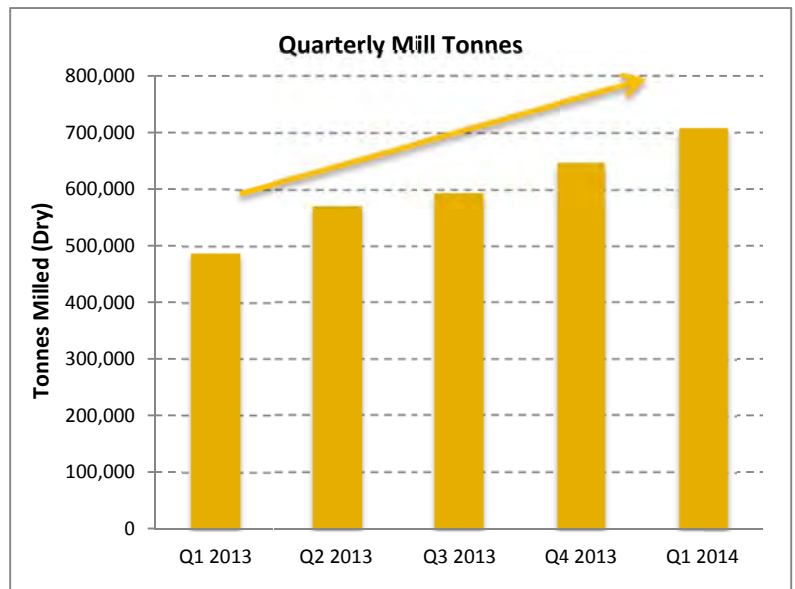


The Quarter saw an improved safety performance for the site with the 12 month rolling Total Recordable Injury Frequency Rate (TRIFR) reducing to 37. Focus remains on implementing the integrated risk management system and developing a risk aware workforce. The safety performance during the major crusher construction work was well managed.

### Operations – Mine

Mining performance for the quarter focussed on the Kavanagh pit with only minor feed from Spitfire, with the pit now positioned at the top of the Kavanagh higher grade zone. The mining rate was impacted by shovel repairs in February but has seen the strip ratio progressively reducing through the quarter.

The average waste plus oxide ore to primary ore strip ratio for the quarter reduced to 4.1. The Waste to Primary Ore strip ratio is forecast to continue to fall over the next 12 months and to average below 4.0, due to increased ore tonnes per bench in the Kavanagh pit. With the Kavanagh pit now established, work will commence on the stripping of Nugent by the end of the current quarter.



### Operations – Crushing and Processing

The mill and wet plant continued to perform well throughout the quarter with the new crusher allowing milling of 350 tonnes per operating hour, 17% above nameplate capacity.

TABLE 2. KANMANTOO COPPER MINE PRODUCTION STATISTICS

Period		FY 2012	FY 2013	Jan-13 QTR	Apr-13 QTR
Ore to ROM from Pit	(kt)	495	2,221	639	689
Ore to/(from) long term stockpiles	(kt)	1,267	849	98	(137)
Mined Waste	(kt)	7,446	11,777	3,650	2,728
<b>Total Tonnes Mined</b>	(kt)	<b>9,208</b>	<b>14,847</b>	<b>4,387</b>	<b>3,417</b>
Mining Grade to ROM	(%)	0.75	0.76	0.70	0.67
Ore Milled	(kt)	331	2,303	648	708
Milled Grade	(%)	0.56	0.66	0.62	0.57
	Au (g/t)	0.11	0.16	0.20	0.18
	Ag (g/t)	2.22	2.96	2.50	3.21
Recovery	Cu (%)	69.6	89.9	90.1	89.1
	Au (%)	67.5	54.7	53.0	54.0
	Ag (%)	46.6	55.4	62.5	38.7
<b>Cu Concentrate Produced</b>	Tonnes (t)	<b>4,774</b>	<b>56,431</b>	<b>15,827</b>	<b>15,510</b>
Concentrate Grade	Cu (%)	30.2	24.4	22.7	23.1
	Au (g/t)	6.0	3.6	4.4	4.5
	Ag (g/t)	79.9	67.0	64.0	56.8
Contained Metal in Concentrate	Cu (t)	1,481	13,744	3,595	3,590
	Au (oz)	816	6,570	2,226	2,237
	Ag (oz)	12,194	121,656	32,576	28,304
<b>Total Concentrate Sold</b>	Dry metric (t)	<b>4,263</b>	<b>56,526</b>	<b>16,182</b>	<b>16,184</b>

### New Crusher Installation

During the quarter, the installation and commissioning of the new primary crusher circuit for the Kanmantoo Copper Mine was completed. The circuit is now operating in line with the expected performance, an increase from 2.4M to above 2.8M tonnes per annum, and targeting to produce between 75,000 and 80,000 dry metric tonnes of copper concentrate per annum.

Crushing will continue to be optimised and provide significantly lower costs and increased throughput. The smaller product from the new primary crusher, along with less screen load, allows the secondary crusher gap to be reduced, resulting in a finer coarse ore feed to the mill and greatly increase milling rates.

Replacement of the previous circuit was required following an assessment by Hillgrove that the crusher circuit failed to perform to expected levels during ramp-up of the processing plant in 2012. The circuit arrangement constrained overall performance at the mine and required temporary work-around solutions to maintain throughput levels. All the interim crushing equipment has been decommissioned and is being removed from site.

PLATE 1. KANMANTOO COPPER MINE



**Costs**

The C1 cash costs of production for the quarter were USD3.15/lb (using an average AUD/USD exchange rate of 1.035). C1 costs were higher than previous quarters, primarily as a result of the increased activity on the ROM to manage the changeover of the primary crusher system. The additional equipment has been removed and a reduction in operating costs will be realised from May 2013 onwards.

The average exchange rate for the quarter has continued to inflate the C1 costs on a USD basis with the C1 cost in AUD terms of \$3.04/lb. The recent decrease in the AUD against the USD, along with the forecast higher copper production and lower cost profile is expected to provide a further reduction in the C1 costs in USD terms going forward.

TABLE 3. KANMANTOO COPPER MINE COSTS

Period US cents per lb	FY 2013	Jan-13 QTR	Apr-13 QTR
Mining Costs	120	155	191
Processing Costs	97	94	97
Other Direct Cash Costs	23	19	24
<b>Total Onsite Costs</b>	<b>240</b>	<b>268</b>	<b>312</b>
Transport & Shipping	18	18	18
Treatment, Refining & Smelter Charges	36	37	39
<b>Total Offsite Costs</b>	<b>54</b>	<b>55</b>	<b>57</b>
Precious Metals Credits	(46)	(49)	(54)
<b>Total Direct Operating Costs (C1 Cash Costs)</b>	<b>248</b>	<b>274</b>	<b>315</b>
Royalties	5	6	5
D&A	96	30	122
<b>TOTAL</b>	<b>349</b>	<b>310</b>	<b>442</b>

C1 costs reflect the application of the revised interpretation of IFRIC 20 accounting standard for deferred waste.

**Exploration**

There was no exploration at Kanmantoo conducted in the quarter, with the focus being on defining the 2013 Resource and Reserves.

Note: HGO has a 31 January Year End, therefore quarter references are Q1 Feb-Apr, Q2 May-Jul, Q3 Aug-Oct and Q4 Nov-Jan.

**Next Steps**

Focus will continue to be on:

- Optimising mine to mill feed and blending;
- Complete demobilisation of all supplementary crushing equipment and dispose of mobile crushing assets; and
- Enhance mining performance to allow the increases in mill capability to be converted into increased copper production and lower costs.

The company remains on track to release an updated JORC compliant Mineral Resource estimate in Q2 2013 and an updated JORC compliant Ore Reserves estimate including these areas is anticipated to be released in early Q3 2013.

**INDONESIAN GOLD AND GOLD/COPPER EXPLORATION**

PLATE 2. INDONESIA ARCHIPELAGO

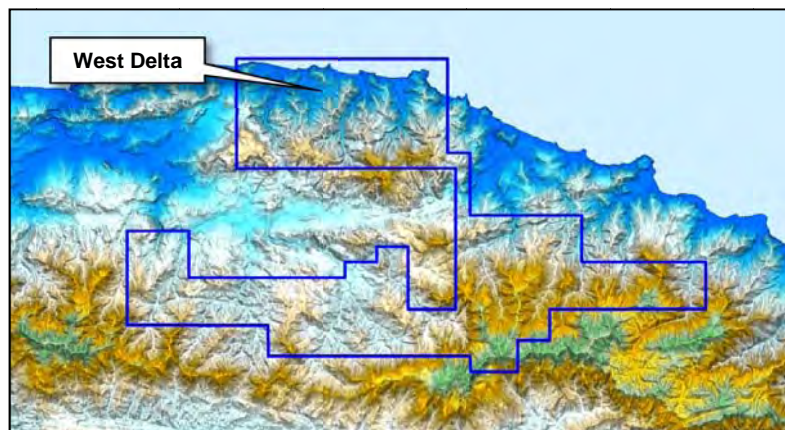


**BIRD'S HEAD COPPER/GOLD PROJECT, WEST PAPUA, INDONESIA IUP40/2010 (Hillgrove 80%)**

Hillgrove has an 80% beneficial interest in PT. Akram Resources through an executed Joint Venture Agreement. PT. Akram Resources holds IUP40/2010 in the Bird's Head region of West Papua. Hillgrove is responsible for the management of exploration and development activities up to a decision to mine. The IUP covers 992.3km<sup>2</sup> and is valid until March 2017.

The IUP overlies a variety of forestry class designations, with exploration within the licence restricted to an Izin Pinjam Pakai area of ~8000ha, which covers the primary porphyry target of West Delta.

PLATE 3. BIRD'S HEAD PROJECT IUP BOUNDARY

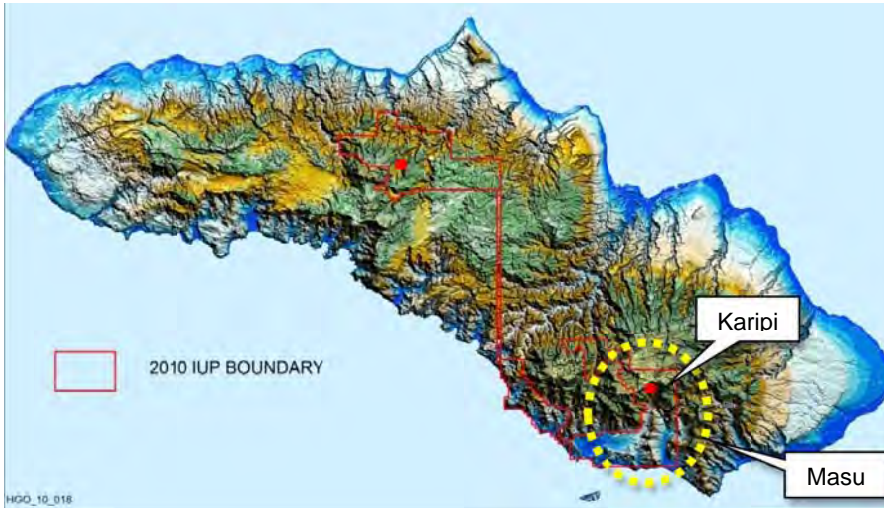


Exploration activities in the quarter focused on reconnaissance geological mapping within the West Delta corridor at Rak Rak, Daun and Tawon prospects. As previously reported, a number of drill targets have now been generated and progress on these will be determined by successful alternate funding arrangements.

**SUMBA GOLD PROJECT, INDONESIA**  
**IUP 322/KEP/HK/2009 (Hillgrove 80%)**

Hillgrove is an 80% shareholder in PT Fathi Resources, which holds IUP 322 on the island of Sumba. Hillgrove is responsible for the management of exploration and development activities, up to a decision to mine. The IUP Explorasi (Exploration and Mining Business Licence) covers 750km<sup>2</sup> and is valid until December 2016.

PLATE 4. SUMBA ELEVATION MODEL AND IUP BOUNDARY



Exploration activities in the quarter focused on detailed mapping at Laironja Prospect to assess for porphyry potential. Laironja is characterised by significant silica/ clay alteration along with isolated stockwork float samples that suggest porphyry mineralisation may be present below the thin veneer of sedimentary cover.

At this stage there are now a number of porphyry and epithermal targets which require drill testing and the timing for this is now dependant on the company’s current assessment of alternative funding arrangements.

**Next Steps**

Hillgrove has been successful in acquiring and advancing projects in Indonesia with an excellent geological provenance. Through the Company’s focused exploration programs, it has also been able to delineate prospective Tier One targets which have attracted interest from major mining companies.

In doing so, this has provided Hillgrove with an alternative to raise the level of investment needed to realise the potential of discovery and future development of these projects.

There is interest in the projects from major mining groups, however all companies are reviewing their investment into greenfield areas. A number of potential funding partners have reviewed the data for both assets, with meetings held in Australia and Indonesia as well as two site tours conducted.

Hillgrove has taken the decision to wind down the exploration activity for both Bird’s Head and Sumba exploration assets in order to preserve cash. The very important relationships with the local landowners will be maintained, as will the tenement management.

**HILLGROVE CORPORATE**

**Annual General Meeting**

The mail out to shareholders of the Notice of Meeting and Proxy Form, in addition to the Annual Report for those who elected to receive it, was undertaken this week. The AGM is being held at 2:00pm on Wednesday, 26 June 2013 at the Crowne Plaza Hotel in Adelaide. We hope you can join us at the meeting in person but if not we encourage you to complete and return your Proxy Form.

Shareholders who have not received their Notice of Meeting and personalised Proxy Form by now should contact our registry, Boardroom Pty Limited, to check their address and other details. Telephone numbers are listed below to request a new copy or alternatively you are able to go online at [www.investorserve.com.au](http://www.investorserve.com.au) and update your preferences.

**New Financing Arrangements**

On 22 April 2013, Hillgrove announced it had executed a revised funding package with Macquarie Bank Limited and Barclays Bank PLC. Following the installation of the new primary crusher circuit, process improvements and implementation of the new LOM plan (see previous quarterly), the cash flows generated from the project will provide sufficient cash generation to enable the Project Loan Facility, Gold Loan and Mezzanine Facility to be paid down before the end of 2015.

The Company agreed to allot 50,000,000 options each exercisable at \$0.135 per share, with half to expire on 30 April 2015 and the remainder on 31 July 2015, in partial consideration for the provision of the \$10,000,000 mezzanine debt facility on extended terms to the Company. These options replace the previous issue of 27,777,777 exercisable at \$0.27 per option to Macquarie Bank Limited.

This is a very positive development for the Company and shareholders as the updated agreements remove the previous conditions of the bank Completion Test and puts in place a more flexible financing arrangement, better suited to the Kanmantoo Project and Parent Company needs. The updated financing agreements are now aligned with the increased early cash flow profile and allow Hillgrove Resources, as the Parent, future access to free cash flows from the operation based on agreed production and cost metrics from Q3 2013.

**Annual Financial Accounts**

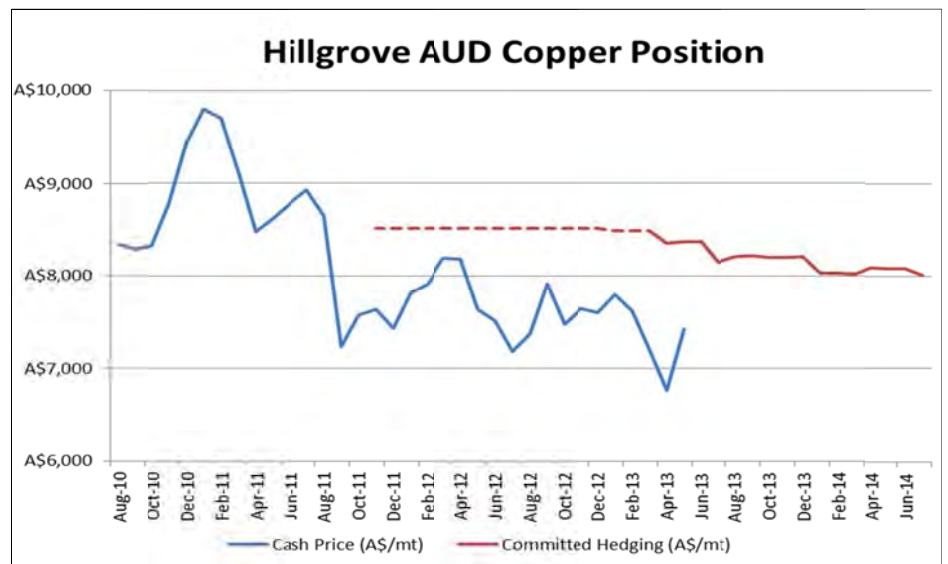
On 30 April, the Company announced its full year financial results for the year ended 31 January 2013. The company has successfully completed one full year of operations at the Kanmantoo Copper Mine with Revenue of \$115.4 million. Investment in infrastructure, including the acquisition of a new primary jaw crusher and the continued expansion of the Tailings Storage Facility, had also shown results with a significant improvement to the second half profit performance.

The results showed a full year EBITDA of \$17.1 million, which included a second half EBITDA of \$15.6 million. The full year Net Loss after tax was \$11.8 million, which included a second half Profit After Tax of \$2.9 million. It is the continued investment in new equipment, improved methods, safety and people which will continue to show improving results over the coming year.

Further details regarding the key metrics can be found on the release on the ASX and our website, in addition to the interactive 2013 Annual Report and can be found at [www.hillgroveresources.com.au/AR2013/](http://www.hillgroveresources.com.au/AR2013/).

**Hedging Arrangements**

The Company's hedging position continues to be a valuable asset. The total hedging commitment is now approximately 70% of the copper in concentrate production for the next two years at an average price of A\$7,950/tonne, which has made the operation very robust and able to sustain the variable prices copper has experienced over the medium term. The hedge book provides certainty for cashflows and revenue for future reporting periods, and is a valuable asset that provides alternatives in lower price environments.



**Cash and Investments**

Cash on hand as at 30 April 2013 was AUD16.8 million.

Debt as at 30 April 2013 was AUD49.3 million.

The market value of Hillgrove's listed investment portfolio as at 30 April 2013 was approximately AUD0.4 million.

**CORPORATE INFORMATION****Issued Share Capital at 30 April 2013**

Ordinary shares	1,022,760,221
Employee Performance Rights	10,720,000
Unlisted options	77,777,777 (incl. 27,777,777 to be cancelled at AGM)

**Share price activity for the April Quarter**

High	0.135
Low	0.075
Last (30 April 2013)	0.075
Average Daily Volume	2,131,297

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**ABOUT HILLGROVE**

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on the operation of the Kanmantoo Copper Mine in South Australia, and exploration on its Indonesian tenements, where the Company is targeting the discovery of world class epithermal gold and porphyry copper/gold.

The Kanmantoo Copper Mine is located less than 55km from Adelaide in South Australia. With construction now completed, Kanmantoo is an open-cut mine, which has ramped up to an initial throughput of 2.4Mtpa, and is now targeting throughput of 2.8Mtpa, to produce approximately 80,000 dry metric tonnes of concentrate per annum.

**Global Mineral Resource (March 2012)**

	JORC Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Bi (g/t)	Cu Metal (kt)
In Situ Resource	Measured	4.2	0.85	0.13	2.26	173	35.3
	Indicated	20.5	0.87	0.16	2.34	129	178.3
	Inferred	6.5	0.66	0.15	1.73	114	43.0
Long Term Stockpiles	Measured	1.1	0.46	N/A	N/A	N/A	5.0
	Indicated	0.5	0.18	N/A	N/A	N/A	0.9
	<b>Total</b>	<b>32.8</b>	<b>0.80</b>	<b>0.15</b>	<b>2.20</b>	<b>132</b>	<b>262.6</b>

Note: The estimation of Bi is based on limited sampling data. Bi is recognised as a potential penalty element at Kanmantoo.  
In Situ Resource > 0.25% Cu. Long Term Stockpiles > 0.15% Cu. Au, Ag and Bi assays are not available.

**Ore Reserve (April 2010)**

Category	Tonnage Mt	Cu (%)	Au (g/t)	Ag (g/t)
Proved	2.3	0.87	0.13	3.2
Probable	12.5	0.84	0.18	3.1
<b>Ore Reserve</b>	<b>14.8</b>	<b>0.85</b>	<b>0.17</b>	<b>3.1</b>



## Competent Person's Statements

The information in this release that relates to Exploration Results and Exploration Targets for the Kanmantoo Copper Mine is based upon information compiled by Mr Steven McClare, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr McClare 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'.

The information in this report that relates to Indonesian Exploration Results and Exploration Targets is based on information compiled by Mr Adam Freeman, who is a Member of The Australian Institute of Mining and Metallurgy. Mr Freeman is the Geology Manager for Hillgrove Resources 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 (JORC Code)'.

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.

**The information in this release that relates to Mineral Resources and Ore Reserves is based on previously released reports:**

1. 2012 Resource Statement by AMC Consultants Pty Ltd compiled by Mr Aaron Meakin as released to the ASX on 31 May 2012;
2. 2010 Ore Reserve estimates by Mining and Cost Engineering Pty Ltd compiled by Mr Geoff Davidson as released to the ASX on 4 May 2010.

Hillgrove Resources Limited confirms in this announcement that it is not aware of any new information or data that materially affects the information included in the previously released reports. In the case of estimates of Mineral Resources or Ore Reserves, the company confirms that all material assumptions and technical parameters underpinning the estimates in the previously released reports continue to apply and have not materially changed.