



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 July 2013

HIGHLIGHTS

Kanmantoo Copper Mine, South Australia

- **Hillgrove successfully takes over the mining operations** at the Kanmantoo Copper Mine, with Hillgrove management, supervision and operators, and Equipment Supply & Maintenance and Drill & Blast services contracted out. This will provide greater control over ore and stockpile feed.
- Hillgrove Copper executed a Settlement Deed with Exact Mining Services to allow a mutual termination of the Mining Services Contract at the Kanmantoo Copper Mine, subject to approval by Hillgrove's finance partners. As a result Exact commenced de-mobilising equipment and personnel.
- **Revenue for the quarter was AUD27.6 million** at an average realised price for copper of USD3.56/lb.
- Kanmantoo **produced 3,450 tonnes of copper** in concentrate during the quarter, in line with previous quarters. Production for the quarter was impacted by the changeout of mining services.
- **C1 costs for the quarter were USD2.40 per pound.** A revision of C1 costs for the 12 months to July 31 was undertaken, resulting from an adjustment this quarter to accurately allocate operational costs at the Kanmantoo Copper Mine as a result of the settlement with the former mining services contractor.
- **Year to date C1 costs were USD2.41 per pound**, and are projected to be maintained within previous guidance throughout the remainder of the financial year.
- Areas of **high grade ore reached** in the Kavanagh Pit.
- **Run of Mine (ROM) mill feed** was impacted by the mining services changeover, **resulting in a ROM grade of 0.67 % Cu.** **Blended feed to the mill** (direct from pit and from lower grade stockpiles) continued to be used to ensure continuity of feed, resulting in a **mill grade of 0.54% Cu.**
- The new **primary crusher circuit continued to perform** as planned with throughput maintained at 2.8Mt per annum target.
- Safety at Kanmantoo has improved with no recordable injuries for the last two months of the quarter. A focus on skills assessment and training was initiated in conjunction with the new mining operations.

Indonesia

- Hillgrove has progressed the **winding back of activities** at both Bird's Head and Sumba projects, and closed the Perth exploration office. The Company is continuing to pursue **interest from potential investors** for these projects.

Corporate

- **Cash** on hand as at 31 July 2013 was AUD17.1 million.



KANMANTOO COPPER MINE, SOUTH AUSTRALIA
Mining Lease 6345 (Hillgrove 100%)

Executive Summary

As reported last quarter, the new primary crusher circuit installation and commissioning for the Kanmantoo Copper Mine was successfully completed. The circuit rapidly met its expected performance criteria, an increase from 2.4M to above 2.8M tonnes per annum, and the mill similarly stepped up, performing better than expected, maintaining continuity of feed by utilising ore direct from the pit along with lower grade stockpiles.

With the new crusher circuit and processing plant achieving volumes required to meet nameplate production targets of 75,000 to 80,000 dry metric tonnes of copper concentrate per annum, focus turned to ore feed and dilution control.

Discussions with our mining services contractor culminated on 26 July with an announcement that Hillgrove Copper Pty Ltd had executed a Settlement Deed with Exact Mining Services Pty Ltd (Exact) to allow a mutual termination of the Mining Services Contract at the Kanmantoo Copper Mine. As a result Exact commenced demobilising equipment and personnel immediately upon finalisation of terms on 29 July 2013. The Settlement Deed is subject to final consideration and approval by Hillgrove’s finance partners and Board.

Hillgrove had put in place alternate contract arrangements to continue ore feed into the plant from run-of-mine and low grade stockpiled material to maintain mill throughput, and produce copper at approximately 60% of nameplate capacity during the changeover period.

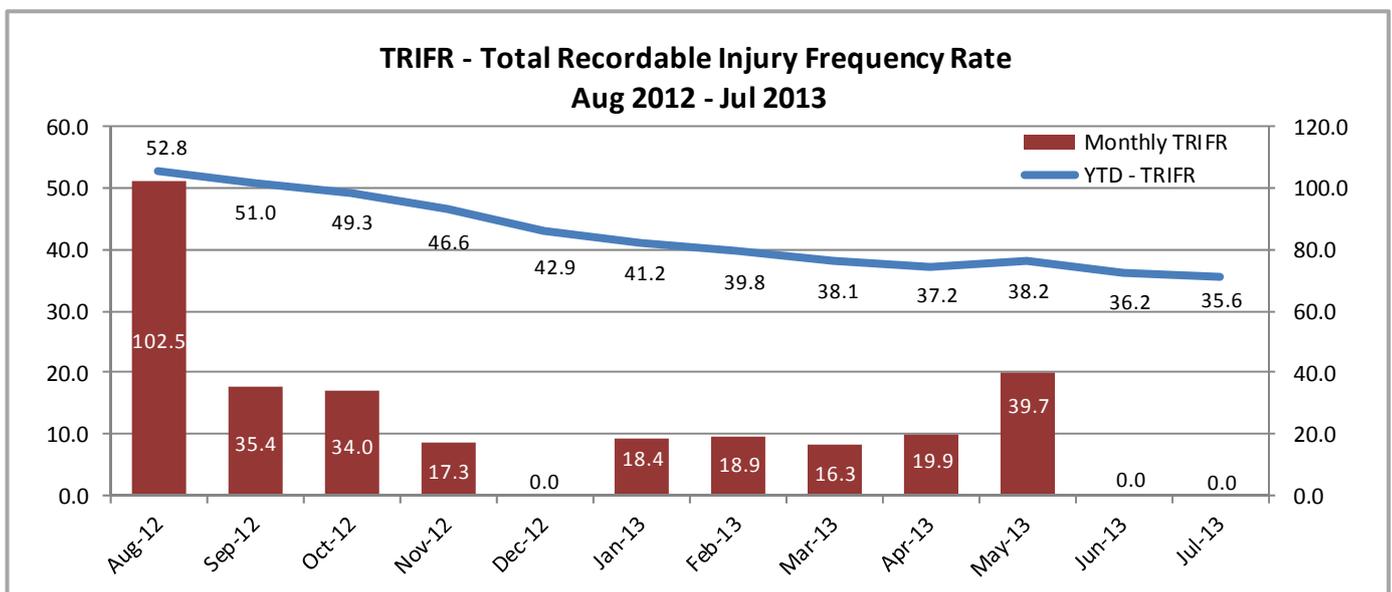
Hillgrove immediately commenced mobilisation of an alternate mining fleet that enabled a resumption of pit mining operations within two weeks, while suitable longer term mining services arrangements are implemented. Plans for the new mining services are currently being finalised, along with negotiated long term contracts, which will be implemented once approved by the Hillgrove Board and our finance partners. These longer term arrangements are anticipated to see pit mining ramp up to normal operations by the middle of the quarter.

Establishment of an initial mining team, using existing experienced Hillgrove employees and recruitment of additional experienced operators is complete, along with competency training and assessment. Emphasis has been on selecting the appropriate mix of experienced and local people. The combination of specialised contract skills and experienced Hillgrove employees will allow a high level of quality control in the critical areas of blasting and dilution control during mining operations.

Safety

The quarter saw a marked improvement in safety performance for the site with the 12 month rolling Total Recordable Injury Frequency Rate (TRIFR) reducing to 35.6, and the three month rolling average down to 14.3. Focus remains on implementing the integrated risk management system and developing a risk aware workforce.

PLATE 1. 12 MONTH ROLLING KANMANTOO TRIFR



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.

A high level of induction, skills assessment and training has been instigated for all staff accessing the Kanmantoo Mine, including new mining services staff and all contracted services.

PLATE 2. KANMANTOO COPPER MINE



Photo: View of Kavanagh Pit showing base of old Kanmantoo Mine pit and the original Kanmantoo Pit wall .

Operations – Mine

Mining performance for the quarter focussed on the Kavanagh pit, with the pit now positioned at the top of the Kavanagh higher grade zone. The mining rate was impacted by the mining services changeover.

The average waste to ore strip ratio for the quarter reduced to 3.9. The Waste to Primary Ore strip ratio is forecast to average below 4.0 over the next 6 months, due to increased ore tonnes per bench in the Kavanagh pit. Work commenced during the current quarter on the waste removal of Nugent as planned.

Based on the re-scheduled mining ramp up, revised production guidance for the year to end January 2014 is 16,500 to 18,000 tonnes copper.



Operations – Crushing and Processing

The mill and wet plant continued to perform well throughout the quarter, with a mill reline completed. Copper recovery was impacted by treatment of low grade stockpiled material which required additional quantities of lime. Revised lime addition arrangements have been put in place which provides much improved lime reactivity for treatment of low grade stockpile material.

During the mining services changeover in late July, Hillgrove put in place alternate contract arrangements to continue ore feed into the plant from run-of-mine and low grade stockpiled material to maintain mill throughput and produce copper at approximately 60% of nameplate capacity.

Copper production continued running to the revised plan, with lower copper production offset by lower expenditure incurred during the transition period. Gold grade was reduced due to completion of the Spitfire pit in the previous quarter, which had a higher level of gold. There is no known association between copper and gold grades within the Kanmantoo ore bodies.

Shipping

During the quarter, two copper concentrate shipments were made to China in May and July. These were Hillgrove's ninth and tenth shipments for a total of approximately 22,000WMT. Hillgrove is currently producing copper concentrates for its next shipment, and continues to be engaged in the vessel chartering market to ensure exposures to freight rates are minimised.

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

Period		FY 2012	Oct-12 QTR	Jan-13 QTR	FY 2013	Apr-13 QTR	Jul-13 QTR
Ore to ROM from Pit	kt	495	552	639	2,221	689	555
Ore to/(from) long term stockpiles	kt	1,267	205	98	849	(137)	(84)
Mined Waste	kt	7,446	2,805	3,650	11,777	2,728	2,158
Total Tonnes Mined	kt	9,208	3,562	4,387	14,847	3,417	2,713
Mining Grade to ROM	%	0.75	0.83	0.70	0.76	0.67	0.67
Ore Milled	kt	331	595	648	2,303	708	720
Milled Grade - Cu	%	0.56	0.74	0.62	0.66	0.57	0.54
- Au	g/t	0.11	0.17	0.20	0.16	0.18	0.09
- Ag	g/t	2.22	3.08	2.50	2.96	3.21	2.11
Recovery - Cu	%	69.6	91.3	90.1	89.9	89.1	89.5
- Au	%	67.5	56.7	53.0	54.7	54.0	57.8
- Ag	%	46.6	61.5	62.5	55.4	38.7	56.0
Cu Concentrate Produced	Dry mt	4,774	17,007	15,827	56,431	15,510	15,699
Concentrate Grade - Cu	%	30.2	23.5	22.7	24.4	23.1	22.0
- Au	g/t	6.0	3.3	4.4	3.6	4.5	2.5
- Ag	g/t	79.9	66.2	64.0	67.0	56.8	54.1
Contained Metal in Concentrate - Cu	t	1,481	3,994	3,595	13,744	3,590	3,450
- Au	oz	816	1,852	2,226	6,570	2,237	1,268
- Ag	oz	12,194	36,222	32,576	121,656	28,304	27,302
Total Concentrate Sold	Dry mt	4,263	16,292	16,182	56,526	16,184	14,134

Revenue

Revenue for the quarter was AUD27.6 million at an average realised price for copper of USD3.56/lb.

Costs

The C1 cash costs of production for the quarter were USD2.40/lb (using an average AUD/USD exchange rate of 0.9513). The removal of additional equipment from the ROM for much of the quarter and a reduction in overall operating costs saw a reduction in C1 costs from previous quarters, particularly in relation to processing costs (shown in the graph to the right). The average exchange rate for the quarter has continued to influence the C1 costs positively on a USD basis with the C1 cost in AUD terms of \$2.53/lb.

A revision of C1 costs for the 12 months to July 31 was undertaken, to reflect the actual mining costs over the period as a result of the settlement with the mining services contractor. These adjustments are reflected in the table below. Note that the October 2012, January 2013 and April 2013 quarters have now been restated. In addition, a review of the

Depreciation and Amortisation costs has been finalised for the last two quarters to align with the accounting treatment for cash costs. As a result, the April 2013 quarter Depreciation and Amortisation has been restated.

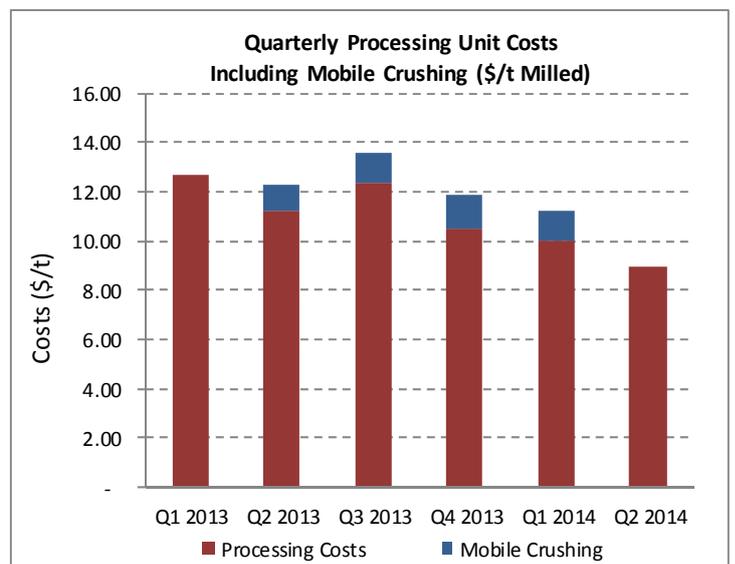


TABLE 2. KANMANTOO COPPER MINE COSTS

Period US cents per lb	Oct-12 QTR	Jan-13 QTR	FY 2013	Apr-13 QTR	Jul-13 QTR	FY 2014 To Date
Mining Costs	26	115	92	117	102	109
Processing Costs	97	94	97	97	84	90
Other Direct Cash Costs	19	19	23	24	28	26
Total Onsite Costs	142	228	212	238	214	225
Transport & Shipping	17	18	18	18	17	18
Treatment, Refining & Smelter Charges	35	37	36	39	44	42
Total Offsite Costs	52	55	54	57	61	60
Precious Metals Credits	(46)	(49)	(46)	(54)	(35)	(44)
Total Direct Operating Costs (C1 Cash Costs)	148	234	220	241	240	241
Royalties	5	6	5	5	4	5
D&A	112	30	96	86	75	81
TOTAL	265	270	321	332	319	327

Exploration

There was no exploration at Kanmantoo conducted in the quarter.

New Mining Operations

Towards the end of the quarter and subsequent to quarter end, Hillgrove instigated new mining operations at Kanmantoo. The new mining operational arrangements comprise a combination of specialist contractors and Hillgrove personnel. New Hillgrove employee positions for mine and pit supervision, mining operators, and drill and blast supervisors and operators have been created. Interim arrangements using experienced pit supervisory personnel are in place while permanent recruitment is underway. Mine management and supervision of contractors will continue as previously by Hillgrove, including long and short term mine design, planning and drill and blast design.

A Supply, Maintenance and Repair Contract (SMARC) for the provision of major and minor mobile mining equipment for all waste and ore mining, and other materials handling is being developed with established operator Andy’s Earthmovers (Asia Pacific) Pty Ltd, which is a major equipment and fleet provider to mining and civil companies and contractors. Andy’s Earthmovers have mobilised an initial mining fleet and maintenance support to site while final long term contract arrangements are completed. The mining fleet and ancillary equipment is of a high standard, being either new or low hour, and combined with experienced Hillgrove operators and a focus on skills, training and a quality culture will assist to achieve and maintain targeted mining rates and ore grade.



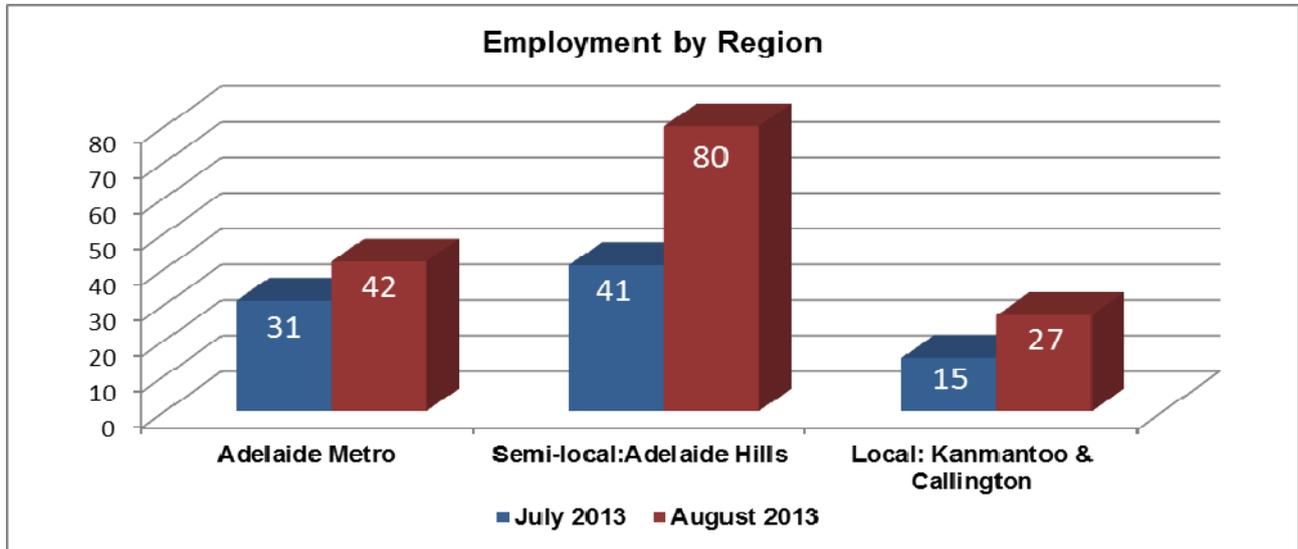
Photos: New mobile mining equipment delivered to site and already in action.

Hillgrove already had experienced personnel for operating major and minor mining equipment, and has undertaken a significant planning and recruitment effort for additional skilled operators, with an emphasis where possible on local people. Competency training and assessment has been instigated for all new staff and contractors accessing the Kanmantoo mine site. The mining operational focus will be on a high level of quality control in the critical areas of blasting and dilution control during mining operations.

Sixty two new Hillgrove Kanmantoo employees have been recruited between the period 1 August and 14 August 2013. This represents the following statistics:

- 80% employee increase from the Local Region (Callington/Kanmantoo);
- 95% employee increase from the Adelaide Hills Region;
- 35% employee increase from the Greater Adelaide Region.

PLATE 4. KANMANTOO COPPER MINE EMPLOYMENT GROWTH



Specialised skills assessment and training has been carried out by Australian Civil and Mining Training Pty Ltd, a registered training organisation, and has totalled 594 hours over the period since the new mining arrangements were instigated, and 72 verifications of competency tests have been completed for various equipment to the NOHSC 7019 Standard.

The new mining operations being initiated include blast hole drill rig supply and drilling services through RocDrill Ltd, who are a specialised provider of blast hole drilling services targeting the use of single pass high productivity drilling equipment. In addition to two retained local drilling contractors, RocDrill have mobilised an initial rig to site, while final long term contract arrangements are completed.



With the new mining arrangements there was a significant increase in the number of inductions carried out during August, with 69 contractors (some temporary) and 56 Hillgrove personnel completing the detailed entrance classes.

An interim explosives supply arrangement is in place while Hillgrove evaluates long term contract arrangements with a number of providers.

Next Steps

Pit drilling and mining operations will continue ramping up to targeted mining rates by mid to end September, subject to final negotiation and approvals of long term contracts. Focus will be on optimising the new mining services arrangements to ore mining and mill feed, and increases in mill capability to be converted into increased copper production and lower costs.

The updated JORC compliant Mineral Resource estimate is now expected to be released by the end of August 2013 and the updated JORC compliant Ore Reserves estimate targeted for release during Q3 2013.

INDONESIAN GOLD AND GOLD/COPPER EXPLORATION

Hillgrove has taken the decision to wind back the exploration activity for both Bird’s Head and Sumba exploration assets in order to preserve cash. Activities during the quarter have concentrated on winding back all service contracts and reducing staff levels where appropriate. Experienced core teams are being maintained for both projects, with some continued exploration activity planned. The important relationships with the local landowners will be maintained, as will the tenement management and reporting.

Hillgrove now has an 80% direct interest in both the Bird’s Head and Sumba projects in Indonesia. PT Akram Resources and PT Fathi Resources have both been successfully converted to “PMA” status allowing foreign ownership of shares. PT Fathi was the first company to be converted (approximately 18 months ago) and holds the Sumba IUP. The foreign direct ownership in PT Akram Resources was completed during the last quarter. PT Akram holds the Birds Head IUP in West Papua. All agreements required with our joint venture partners to allow the mechanics of this process to be completed have now been executed.

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. There is some continued interest in the projects from major mining groups which Hillgrove will continue to pursue, who are reviewing their investment into greenfield areas at present.

PLATE 5. INDONESIA ARCHIPELAGO



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

Hillgrove is an 80% shareholder in PT. Akram Resources which 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 992.3km² 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. 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 750km² and is valid until December 2016.

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

Next Steps

Hillgrove continues to look for joint venture interest to raise the level of investment needed to realise the potential of discovery and future development of these projects.

HILLGROVE CORPORATE

Annual General Meeting

The Annual General Meeting was held on 26 June 2013 at the Crowne Plaza Hotel in Adelaide, where we had an excellent shareholder attendance. Our Chairman, The Hon. Dean Brown AO, addressed shareholders before commencing the business of the meeting where all resolutions were passed. The incoming Managing Director, Greg Hall then gave a full presentation on activities.

Financing Arrangements

As a result of the new mining operations at the Kanmantoo Copper Mine, revised forecasts and approvals for new contractual arrangements (including the Settlement Deed) were initiated with our financing partners.

Cash and Investments

Cash on hand as at 31 July 2013 was AUD17.1 million.

Debt as at 31 July 2013 was AUD48.3 million.

The market value of Hillgrove's listed investment portfolio as at 31 July 2013 was approximately AUD0.3 million.

CORPORATE INFORMATION	
Issued Share Capital at 31 July 2013	
Ordinary shares	1,023,760,221
Employee Performance Rights	27,920,000
Unlisted options	50,000,000
Share price activity for the July Quarter	
High	0.078
Low	0.052
Last (31 July 2013)	0.070
Average Daily Volume	2,243,179

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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 construction was completed in late 2011 and is located less than 55km from Adelaide in South Australia. Kanmantoo is an open-cut mine with ore production of 2.8Mtpa, producing approximately 80,000 dry metric tonnes of copper concentrate per annum.