



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 31 January 2014

HIGHLIGHTS

Kanmantoo Copper Mine, South Australia

- **Revenue** for the Quarter was AUD46.8 million at an average realised price for copper of AUD3.59/lb (USD3.33/lb).
- **C1 cost for the Quarter** of USD2.00/lb was the best performance for the site to date.
- **C1 unit cost** for the Financial Year ended 31 January 2014 (FY14) was USD2.39/lb, which is within the previous guidance of USD2.25/lb to USD2.50/lb.
- Hillgrove's Kanmantoo Copper Mine **produced 5,838t copper in concentrate** for the Quarter, a **36% increase over Q3** and another record production for the mine.
- **4,362kt total material mined** for Q4 after implementation of the new owner operator mining plan; an increase of 80% over Q3.
- **Mill throughput was a record, with 760kt** of ore milled for the Quarter (at 3Mtpa rates).
- **Record recovery of 92.4%**, as the process plant beds down operating and maintenance improvements at the higher head grade.
- **Significant areas of higher grade ore** were extracted through the Quarter from the Kavanagh Pit below the old Kanmantoo Pit, allowing an average Quarter **processing grade of 0.83% Cu**.
- Total copper produced for the Financial Year ending 31 January 2014 (FY14) of **17,184t contained copper in concentrates** was within guidance of 16,500t to 18,000t.
- **Copper production guidance** for the coming Financial Year ending 31 January 2015 (FY15) has been increased to between 22,300t and 24,600t copper contained in concentrates.
- The Total Recordable Injury Frequency Rate of 15.8 was maintained at a low level for the Quarter, and reduced by nearly 40% over FY14.

Indonesia

- Hillgrove has continued to pursue Joint Venture and investment interest into its advanced stage exploration projects. There is continued interest in the projects from a major mining group and potentially from SE Asian investors which Hillgrove continues to pursue.

Corporate

- **Cash on hand** as at 31 January 2014 of AUD16.5 million, with debt reducing from AUD44.5 million to AUD40.8 million at the end of the Quarter.

KANMANTOO COPPER MINE, SOUTH AUSTRALIA

Mining Lease 6345 (Hillgrove 100%)

Executive Summary

Record copper production for the quarter ending 31 January 2014 has been achieved at the Kanmantoo Copper mine, with full year production of 17,184t contained copper in concentrates, within guidance for the year. In addition to increased production levels, the mine also achieved record mill throughput, head grade and recovery in the processing plant, as well as achieving record quarterly sales volume.

New mining operations continued ramp up during the quarter, with the commissioning of one new Liebherr 9350 300t excavator completed in December and the second under construction as at end of January (commissioned and operating as at time of writing report). These new excavators purchased by Hillgrove's equipment supply contractor will allow the planned increase of mining tonnes early in the new financial year in line with the life of mine plan. The change in mine practices through the Hillgrove operated mining fleet has continued to improve the operating performance. This can be seen in the reduction in mining dilution and increased mining tonnes, resulting in much improved feed grades to the mill. Our processing team have also continued to improve their throughput rates, run time and copper recovery, all resulting in an increase in copper produced.

Higher grade areas of ore within the Kavanagh pit were augmented with initial primary ore from the Nugent pit, offset by some low grade ore processed, and overall resulting in a substantial lift in grades. These were reflected in the head grade processed of 0.83% Cu.

The processing plant is achieving volumes required to meet the production target of 22,300t – 24,600t of copper contained within concentrates for the coming year, with focus continuing on ore feed and dilution control. Copper recoveries through the plant continued to increase in line with ore grades.

Cash on hand was AUD16.5M at quarter end, with total debt reducing from AUD44.5M to AUD40.8M through payments to both Senior Debt and the Gold Loan.

FIGURE 1. KANMANTOO COPPER MINE

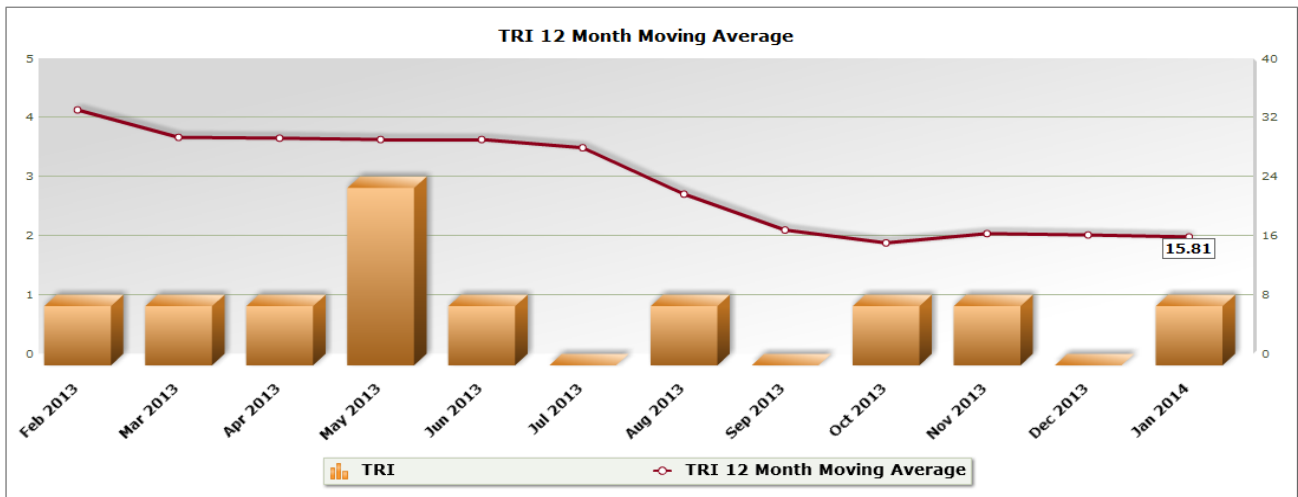


Safety and Community

Hillgrove's workforce has continued to operate effectively and safely through the ramp up of mining and increased mill throughput. Kanmantoo management increased its interaction with the community consultative committee (KCCCC) in regard to improvements to dust management and other community concerns, and to ensure common understanding of the life extension application currently with the SA Government.

The quarter saw the improved safety performance for the site maintained with the 12 month rolling average Total Recordable Injury Frequency Rate (TRIFR) sitting at 15.8, achieving a 40% reduction over the full year.

FIGURE 2. 12 MONTH ROLLING KANMANTOO TRIFR

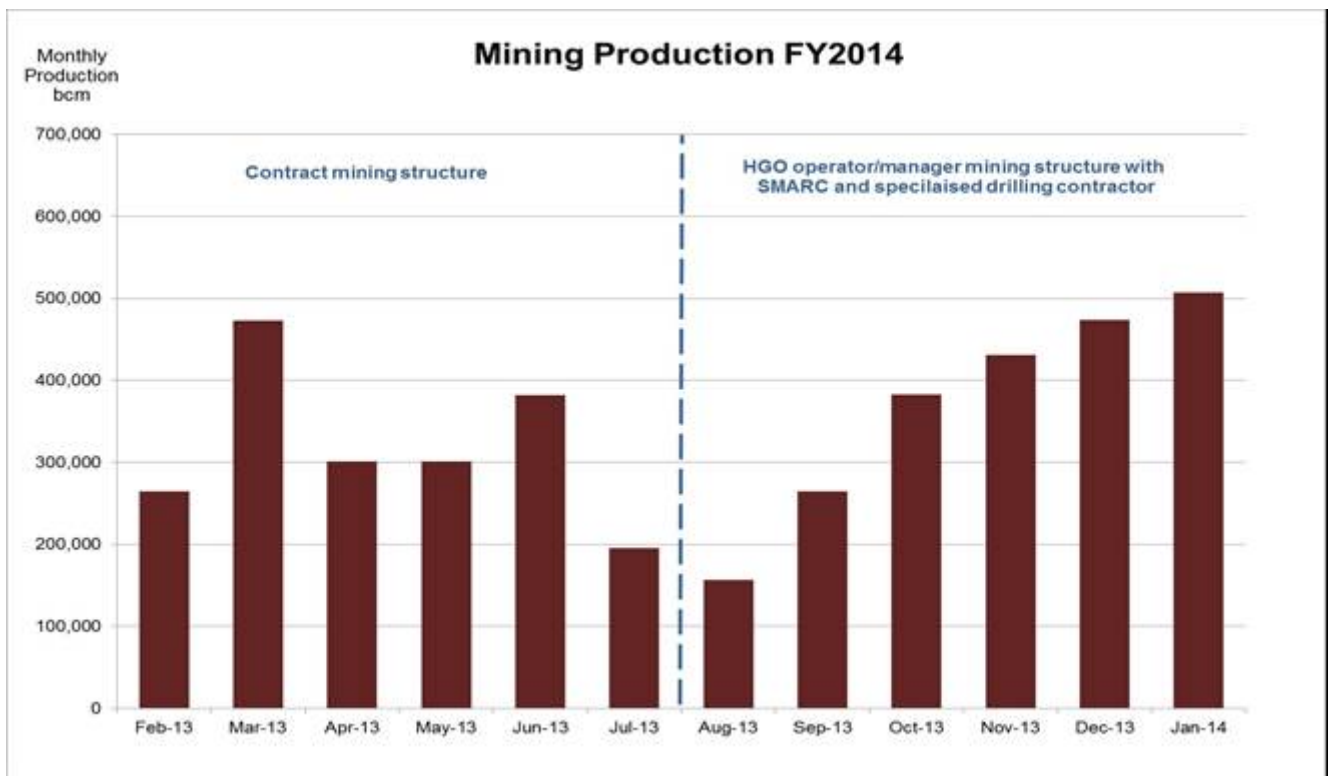


Operations – Mine

The management and operation of mining by Hillgrove is continuing to provide improvements to productivity and mining quality. Initial equipment fleets were augmented with the arrival and commissioning of the first of two new Liebherr 9350 300 tonne excavators during the quarter (second under construction at quarter end, and now commissioned and operating as at time of writing this report), which has provided improved productivity and will continue to lower costs and allow a ramp up in the volume of tonnes moved from the mining pits.

Mining rates reached 507k bcm for the month of January, and will be lifted further during the coming months in line with long term plans, including increased stripping requirements for the life of mine plan early this year. Mining costs have improved following the mining changeover and continued ramp up, and by quarter end were under first half rates and still improving. Pre-stripping of the Nugent pit is nearing completion, and will be commenced in the Emily Star pit in the coming quarter. The overall strip ratio for FY15 is around 5:1, which factors in the commencement of the Giant cutback late in the year.

FIGURE 3. KANMANTOO COPPER MINE BCM RATES



Higher grade areas of ore within the Kavanagh pit were augmented with initial primary ore from the Nugent pit, with some low grade ore processed (and some stockpiled), resulting in a substantial lift in grades. These were reflected in the improved processing grade of 0.83% Cu.

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.



Two New Excavators at Kanmantoo

During the quarter one new Liebherr 9350 300t excavator was delivered, constructed and commissioned for use at the Kanmantoo Copper Mine by our equipment supply contractor Andy’s Earthmovers (Asia Pacific) Pty Limited. A second Liebherr 9350 excavator was delivered and was under construction at Quarter end, and now operating successfully.

Operator training has been completed and the first excavator was operating successfully in the Kavanagh and Nugent pits at Kanmantoo.

The arrival and commissioning of these excavators have and will provide both improved productivity and ultimately lower costs by allowing a further ramp up in the volume of tonnes moved from the mining pits in line with long term mine plans.

Revised drill and blast practices along with re-configured bench arrangements are being introduced and trialled with the aim of maintaining low operating costs and achieving further improvements.

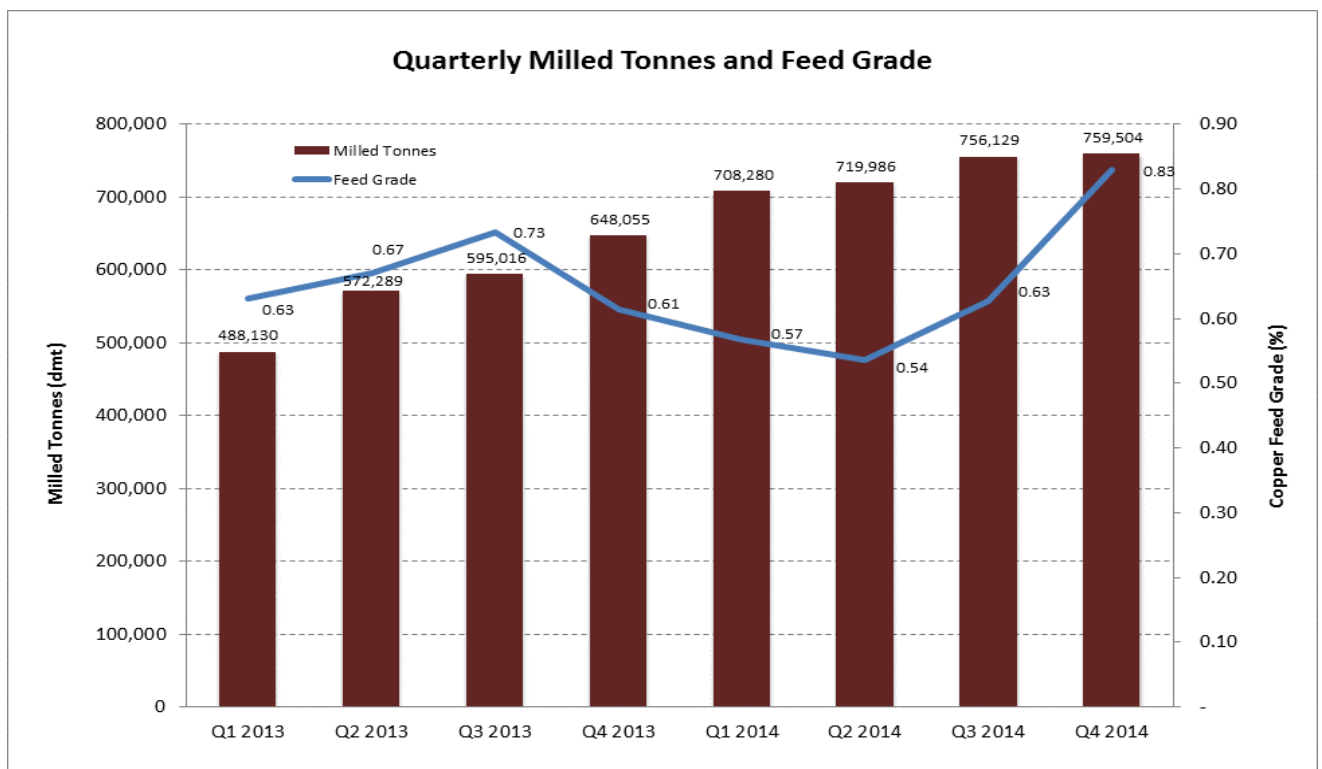


Operations – Crushing and Processing

Mill throughput and reliability were maintained at a high level during the quarter. A Multi-Stream Analysis unit has been installed in the process plant and is currently being commissioned, with this unit expected to provide additional improvements to recovery and costs.

The mill and wet plant continued to perform well. Mill throughput was another record for the quarter, with 760kt of ore milled at an average grade of 0.83% copper, resulting in continued low milling costs per tonne of ore.

FIGURE 4. KANMANTOO QUARTERLY MILL TONNES AND FEED GRADE



Copper production continued running to the revised plan, producing 5,838t copper in concentrate for the quarter; a record production rate for the mine and a 36% increase over the previous best performance in Q3. This was above the production guidance for the quarter of 5,400t to 5,600t copper contained within concentrates.

Copper recoveries continued to lift with a record recovery of 92.4% achieved as the process plant continues to bed down operating and maintenance improvements at the higher head grade.

FIGURE 5. KANMANTOO QUARTERLY COPPER PRODUCTION

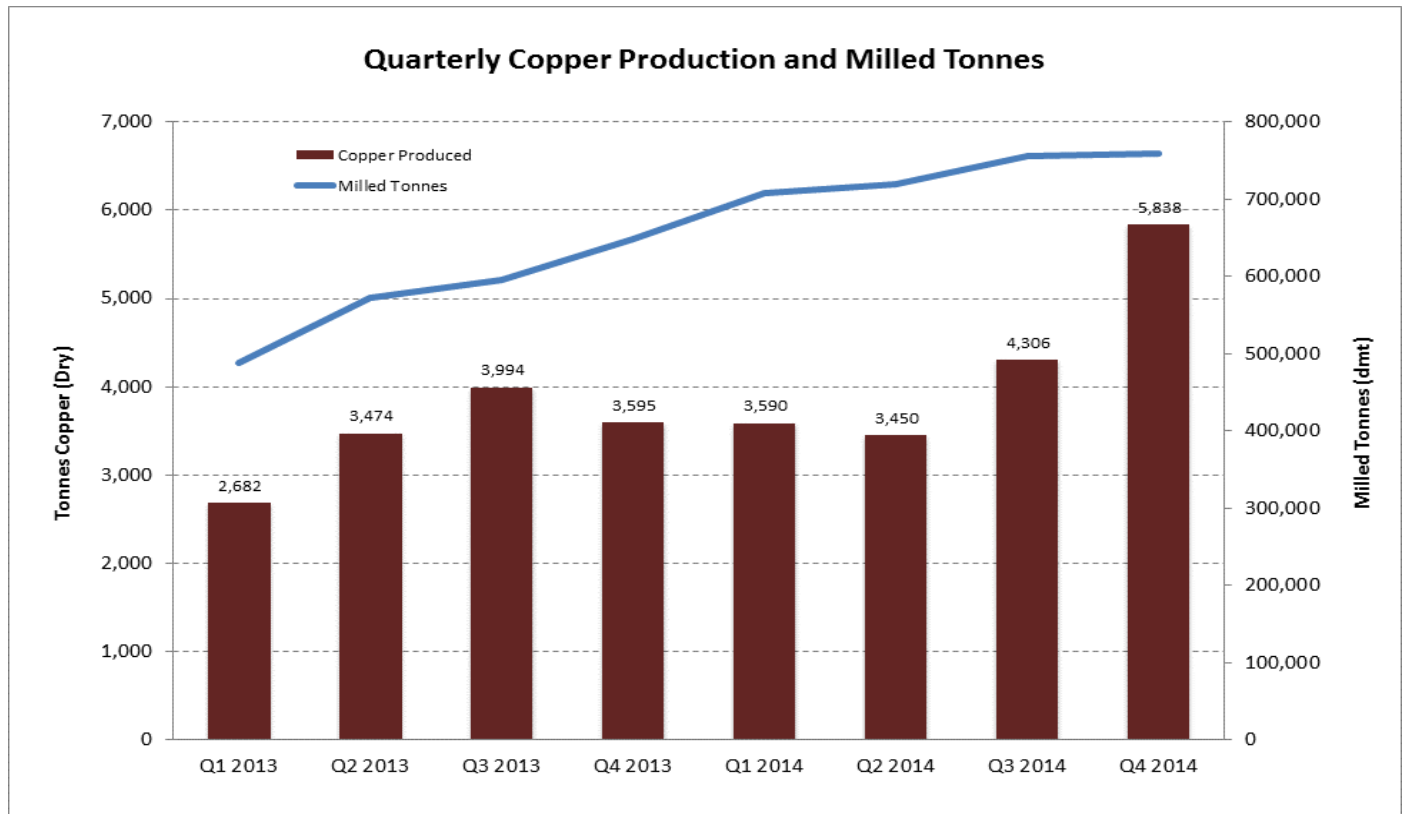


TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

Period		FY 2012	FY 2013	APR-13 QTR	JUL-13 QTR	OCT-13 QTR	JAN-14 QTR	FY 2014
Ore to ROM from Pit	kt	495	2,221	689	555	656	733	2,633
Ore to/(from) long term stockpiles	kt	1,267	849	(137)	(84)	3	148	(70)
Mined Waste	kt	7,446	11,777	2,728	2,158	1,658	3,483	10,027
Total Tonnes Mined	kt	9,208	14,847	3,417	2,713	2,430	4,362	12,922
Mining Grade to ROM	%	0.75	0.76	0.67	0.67	0.63	0.85	0.71
Ore Milled	kt	331	2,303	708	720	756	760	2,944
Milled Grade - Cu	%	0.56	0.66	0.57	0.54	0.63	0.83	0.64
- Au	g/t	0.11	0.16	0.18	0.09	0.10	0.11	0.12
- Ag	g/t	2.22	2.96	3.21	2.11	3.00	3.12	2.86
Recovery - Cu	%	69.6	89.9	89.1	89.5	90.7	92.4	90.7
- Au	%	67.5	54.7	54.0	57.8	50.3	48.5	52.9
- Ag	%	46.6	55.4	38.7	56.0	45.3	58.0	49.0
Cu Concentrate Produced	Dry mt	4,774	56,431	15,510	15,699	19,161	25,053	75,423
Concentrate Grade - Cu	%	30.2	24.4	23.1	22.0	22.5	23.3	22.8
- Au	g/t	6.0	3.6	4.5	2.5	1.9	1.6	2.5
- Ag	g/t	79.9	67.0	56.8	54.1	45.3	54.8	54.8
Contained Metal in Concentrate - Cu	t	1,481	13,744	3,590	3,450	4,306	5,838	17,184
- Au	oz	816	6,570	2,237	1,268	1,178	1,279	5,962
- Ag	oz	12,194	121,656	28,304	27,302	33,097	44,151	132,854
Total Concentrate Sold	Dry mt	4,263	56,526	16,184	14,134	18,919	24,814	74,051

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.

Total copper produced for the Financial Year ending 31 January 2014 (FY14) was 17,184t contained copper in concentrates which was within the copper production guidance of between 16,500t to 18,000t for the year.

With continued operational improvements and increased ore movements the copper production guidance for the coming Financial Year ending 31 January 2015 (FY15) has been increased to 22,300t to 24,600t copper contained in concentrates.

Shipping

During the quarter, Hillgrove shipped its twelfth, thirteenth and fourteenth shipments of copper concentrate of circa 11,200WMT, 11,600WMT and 11,300WMT respectively. Hillgrove is currently producing copper concentrates for its fifteenth shipment and continues to be engaged in the vessel chartering market to manage freight rate exposures.

Revenue

Revenue for the quarter was AUD46.8M at an average realised price for copper of AUD3.59/lb (USD3.33/lb).

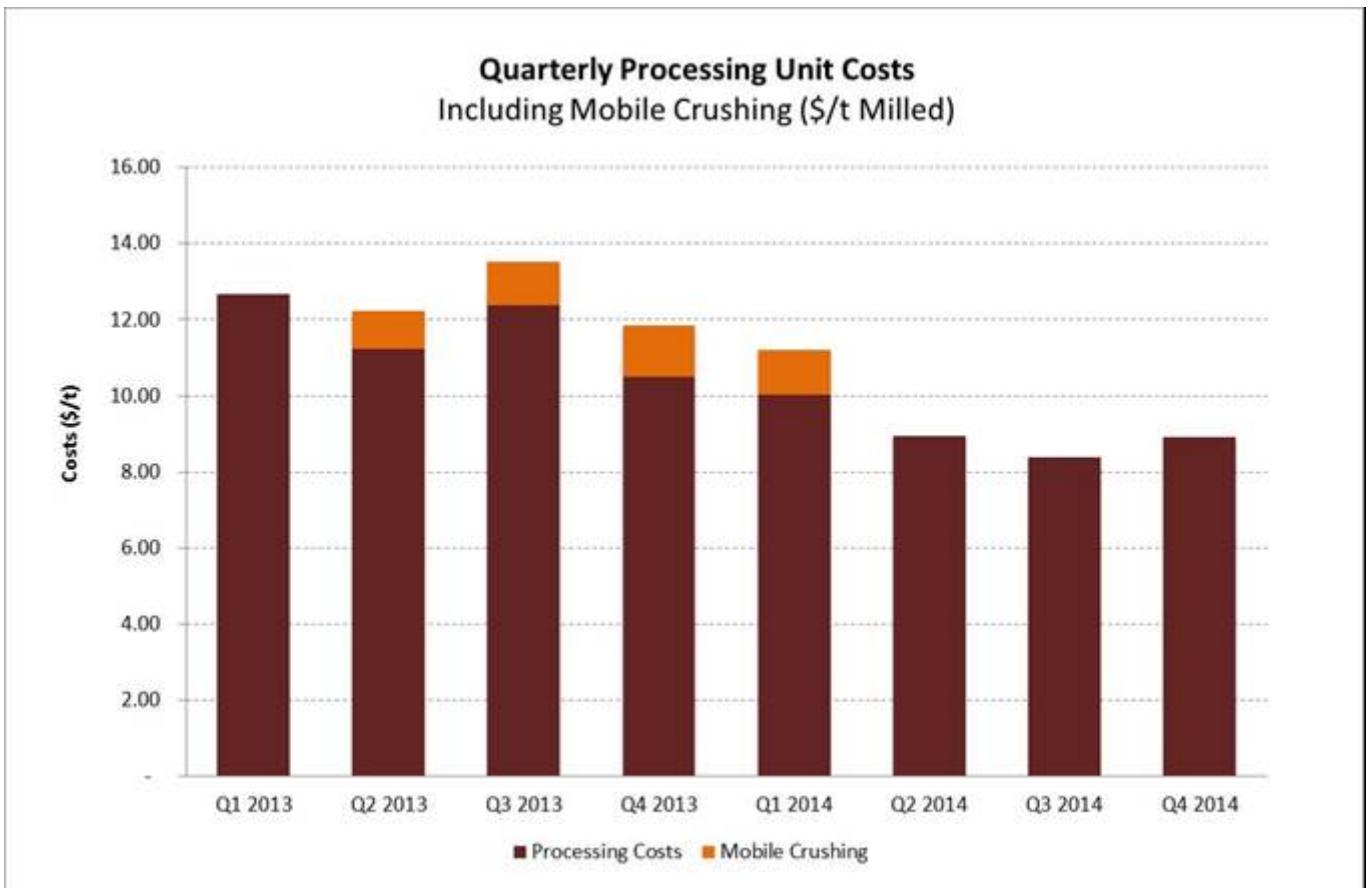
In addition to the improved copper production profile, earlier in the year Hillgrove took advantage of high AUD copper prices and executed additional hedging for the first half of FY15 (1 February – 31 July 2014). Hillgrove’s copper production to end July 2014 has hedging in place representing approximately 90% of payable copper at an average price of AUD8,140 per tonne (AUD3.69/lb) providing certainty of revenue for the company.

Costs

The C1 cash cost of USD2.00/lb for the quarter is a result of improved production performance along with continued improvement in operating costs.

The C1 cash cost for the full year was USD2.39/lb in line with previous guidance of USD2.25/lb to USD2.50/lb.

FIGURE 6. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



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.

TABLE 2. KANMANTOO COPPER MINE COSTS

Period US cents per lb	FY 2013	APR-13 QTR	JUL-13 QTR	OCT-13 QTR	JAN-14 QTR	FY 2014
Mining Costs	92	117	102	156	98	117
Processing Costs	97	97	93	65	50	72
Other Direct Cash Costs	23	24	29	25	15	22
Total Onsite Costs	212	238	223	246	163	211
Transport & Shipping	18	18	17	16	16	17
Treatment, Refining & Smelter Charges	36	39	44	41	39	41
Total Offsite Costs	54	57	61	57	55	58
Precious Metals Credits	-46	-54	-35	-23	-18	-30
Total Direct Operating Costs (C1 Cash Costs)	220	241	249	280	200	239
Royalties	5	5	4	4	3	4
D&A	96	86	75	72	68	74
TOTAL	321	332	328	356	272	317

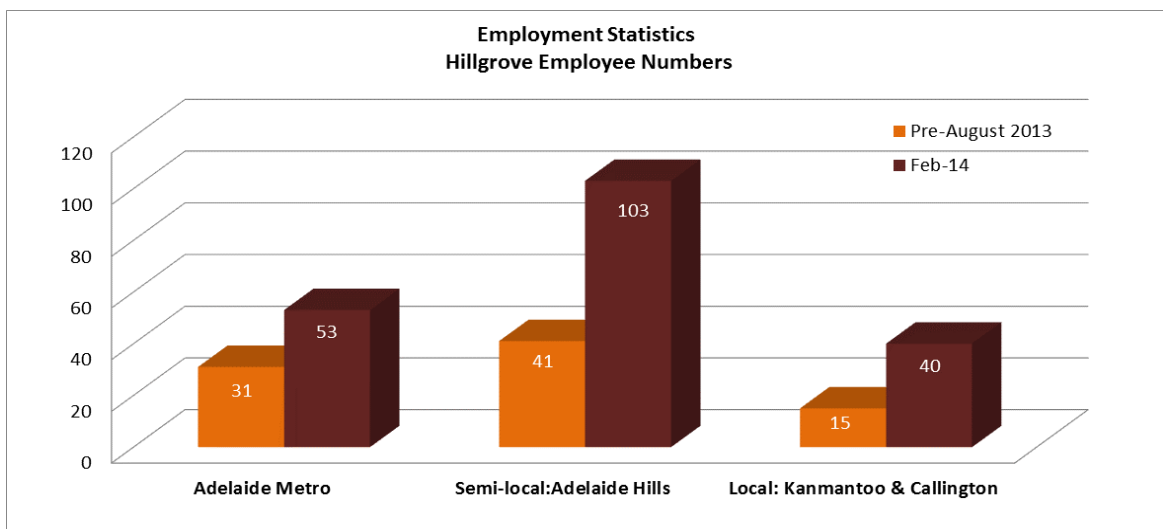
Staff

Hillgrove seeks to support the local community and achieve high safety figures by concentrating recruitment on employees who live within the region wherever possible. Currently our workforce is located as follows:

- 20% employees from Local Region (Callington / Kanmantoo)
- 53% employees from Adelaide Hills Region
- 27% employees from the Greater Adelaide

Along with this direct employment, specialist contract services are being undertaken by Andy’s Earthmovers (equipment supply and maintenance) and Roc-Drill (blast hole drilling), who have a combined permanent workforce of some 56 employees on site.

FIGURE 7. KANMANTOO COPPER MINE EMPLOYMENT GROWTH BY REGION



This represents a total of 252 permanent employees (Hillgrove and Contractors) on site at quarter end.

Mine Extension

Hillgrove previously announced in February 2013 its proposal to extend the life of the Kanmantoo Copper Mine up to ten years to allow access to additional copper resources located within the Mining Lease. The Company last year made application to the SA and Federal Governments for a two year extension to the existing mining approval up to 2019, and continues to work with the local community, DMITRE, other State agencies and the Federal Government (under the EPBC Act) in regard to this application.

Outlook and Guidance for FY15

Based on current performance and ongoing planned operational improvements, Hillgrove provides the following production guidance for the Financial Year ending 31 January 2015 (FY15):

- Ore mined 3,000kt to 3,250kt
- Ore processed 2,900kt to 3,000kt
- Ore grade processed 0.83% to 0.88% Copper
- Copper recovery 92.5% to 93.5%
- Copper produced 22,300t to 24,600t copper contained in concentrates
- Gold produced 7,000oz to 9,000oz gold contained in concentrates
- C1 costs USD 2.10/lb – 2.40/lb (AUD/USD of 0.90)

Next Steps

This quarter has set the foundation for the operating performance for the next twelve months. We will continue to work on the improvements that our employees have identified through the operating planning and implementation processes.

Focus will be on the continued optimisation of 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.

INDONESIAN GOLD AND GOLD/COPPER EXPLORATION

Hillgrove continues to maintain care and maintenance teams at its advanced exploration projects at Bird's Head and Sumba Island.

An exploration evaluation team from a major mining group is continuing its review of the projects, and is planning a third inspection visit for early in the year.

Along with this, during recent investor briefings in Hong Kong and Singapore, interest was generated towards potential investment in these advanced projects, from both a pure investment perspective for future copper discoveries and from a potential direct involvement. Interest in exploration is particularly strong from local Indonesian investors. Projects are continuing to receive support for further exploration expenditure based on the quality of the asset. With the status of the two projects in advanced exploration stage, the recent ban on mining exports does not have an impact on the value or the potential progress of the next stage works.

Local landholder relationships are being maintained at the Projects, and an updated review of next step targets on both projects will be undertaken during the first half.

FIGURE 9. INDONESIAN 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 funding arrangements.

HILLGROVE CORPORATE

Debt Repayments

Hillgrove made a significant reduction to its debt balance during the quarter. Total debt was reduced from AUD44.5M as at 31 October 2013 to AUD40.8m at 31 January 2014. During the period a Gold Loan repayment of AUD1.2M (818 ounces) was made in addition to a further repayment of AUD2.5M principal in relation to the Senior Debt. Debt has been reduced by 19% (AUD9.6M) during the full FY14 and will continue through FY15.

Cash and Investments

Cash on hand as at 31 January 2014 was AUD16.5M.

Debt as at 31 January 2014 was AUD40.8M.

The market value of Hillgrove's listed investment portfolio as at 31 January 2014 was approximately AUD0.2M.

CORPORATE INFORMATION	
Issued Share Capital at 31 January 2014	
Ordinary shares	1,179,889,221
Employee Performance Rights	23,610,000
Unlisted options	50,000,000
Share price activity for the January Quarter	
High	0.093
Low	0.085
Last (31 January 2014)	0.087
Average Daily Volume	1,814,335
SHARE REGISTRY	
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ABOUT HILLGROVE

Hillgrove Resources 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 with exploration projects on its Indonesian tenements. The Kanmantoo Copper Mine is located less than 55km from Adelaide in South Australia. With construction completed in late 2011, Kanmantoo is an open-cut mine which has now ramped up to a throughput of up to 3.0Mtpa, to produce approximately 90,000 dry metric tonnes of copper concentrate, containing approximately 20,000t copper and associated gold and silver per annum over the current life of mine.

Kanmantoo Global Mineral Resource Estimate at End February 2013

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Resource	Measured	2.63	0.88	0.10	1.95
	Indicated	21.77	0.82	0.23	2.21
	Inferred	5.0	0.67	0.13	1.79
		29.46	0.80	0.20	2.11
Long Term Stockpiles	Measured	1.39	0.46	N/A	N/A
	Indicated	0.50	0.18	N/A	N/A
		1.89	0.39	-	-
	Total	31.30	0.78	0.20	2.11

Note: In Situ Resource >0.20% Cu, Long Term Stockpiles >0.15% Cu.

Kanmantoo Global Mineral Reserve Estimate at End February 2013

	JORC 2012 Classification	Tonnage (Mt)	Cu (%)	Au (g/t)	Ag (g/t)
In Situ Reserve	Proven	2.5	0.77	0.08	1.7
	Probable	18.2	0.72	0.20	2.0
		20.7	0.73	0.18	1.9
Long Term Stockpiles	Proven	1.4	0.46	N/A	N/A
		1.4	0.46	-	-
	Total	22.1	0.71	0.18	1.9

Note: In Situ Reserve >0.20% Cu. Long Term Stockpiles >0.15% Cu.

Competent Person's Statement

The information in this release that relates to Mineral Resources is based upon information compiled by Mrs Michaela Wright, who is a Member of The Australasian Institute of Mining and Metallurgy. Mrs Wright 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)'. Mrs Wright has consented to the inclusion in the release 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 Reserves 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mr McClare has consented to the inclusion in the release of the matters based on their information in the form and context in which it appears.