



Hillgrove Resources Limited (ASX: HGO) reports for the quarter ended 30 April 2014

### HIGHLIGHTS

#### Kanmantoo Copper Mine, South Australia

- **Revenue** for the quarter was AUD45.5 million at an average realised price for copper of AUD3.71/lb (USD3.34/lb).
- **C1 cost for the quarter** of USD2.11/lb (AUD2.32/lb) was at the lower end of guidance provided.
- A record **5,259kt (1,702k bcm) total material mined** for Q1 after introduction of two larger excavators and other continuing improvements delivered increased truck productivity.
- **Copper recovery remains consistent with the previous quarter at 92.1%**, with the process plant operating with higher average feed grades.
- Total copper produced for Q1 of **5,554t contained copper in concentrates** was ahead of the first quarter guidance, and reaffirms FY15 guidance of between 22,300t and 24,600t copper.
- Continued significant community engagement and good progress with the South Australian Government on the Kanmantoo mine **two year life extension**.

#### 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 major exploration and investment groups.

#### Corporate

- The Company has outlined a **clear strategy for continued value enhancement** for shareholders and investors from existing operations
- **Cash on hand** as at 30 April 2014 of AUD14.1 million, with total debt reducing from AUD40.8 million to AUD33.4 million at the end of the quarter. Net debt of AUD19.3m against a hedge book mark to market surplus of AUD14.3M as at 30 April 2014.
- With continued **significant debt repayment**, the Company will in time have the opportunity for evaluation of capital management options to potentially enable commencement of return of value to shareholders.

### HILLGROVE RESOURCES LIMITED

#### Executive Summary

Hillgrove Resources (ASX: HGO) is pleased to report that last year's investment and improvements at the company's Kanmantoo Copper Mine continue to deliver a positive impact on the mine's operating performance and the company's financial position. The material improvements in operating performance at Kanmantoo and the consistency in the processing operations, with improved throughput rates, run time and copper recovery, have allowed the Company to continue with its strategy to reduce debt, whilst also focussing on planning for the potential return of value to shareholders.



At a recent Executive and Board Strategy session, the Board has confirmed a clear strategy for the Company going forward. The strategic focus is on further improvements in performance of the Kanmantoo Mine, expansion of the Kanmantoo region Resource through exploration, realisation of value from the Indonesian assets, and the continued creation of, and potential to return value to shareholders.

With a continuing reduction in debt, the Company will consider the evaluation of various capital management options to potentially enable a commencement of return of value to shareholders, which would start to utilise the franking credits of approximately \$21 million within the group. The stability of and outlook for the Kanmantoo operations have created the financial platform to explore these alternatives. Any value return option (including the potential for future dividends) is subject to full payment of the existing debt (and associated facilities) to our financiers, which under the current schedule is due to be complete by the end of July 2015, as well as being subject to available free cash and Board approval.

Hillgrove has previously paid a dividend to shareholders when the opportunity arose from the sale of assets and as a result paid 2.0 cps dividends in the 2009 calendar year.

The Company wishes to advise that the Board has resolved to change the financial year end date to 31 December in order to align all reporting quarters with its peers. Accordingly, the current financial year will be modified to an 11 month financial year ending 31 December 2014, with the first half ending 31 July 2014, followed by an interim two month third quarter (August and September) and a three month final quarter (October to December). Further information on this will be provided at the upcoming Annual General Meeting.

This change of financial year and quarter end will also allow the Company to revert to a single Quarterly report for future reports, rather than an early separate Production report.

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

**Executive Summary**

The change last year in mine practices through the newly configured mining fleet continues to reap dividends for the Kanmantoo operating performance. The material improvement at Kanmantoo can be seen in the control of mining dilution, increased mining tonnes, lower unit costs and improved feed grades to the mill. The processing operation has continued to improve throughput rates, run time and copper recovery, and this has continued to lower unit costs.

The mining operations have moved from being predominantly Kavanagh based, to now include mining in Nugent and pre-stripping in Emily Star. The mining of three areas leads to increased productivity, resilience and flexibility.

FIGURE 1. KANMANTOO COPPER MINE – KAVANAGH PIT WITH NUGENT PIT IN LHS BACKGROUND (30/03/14)



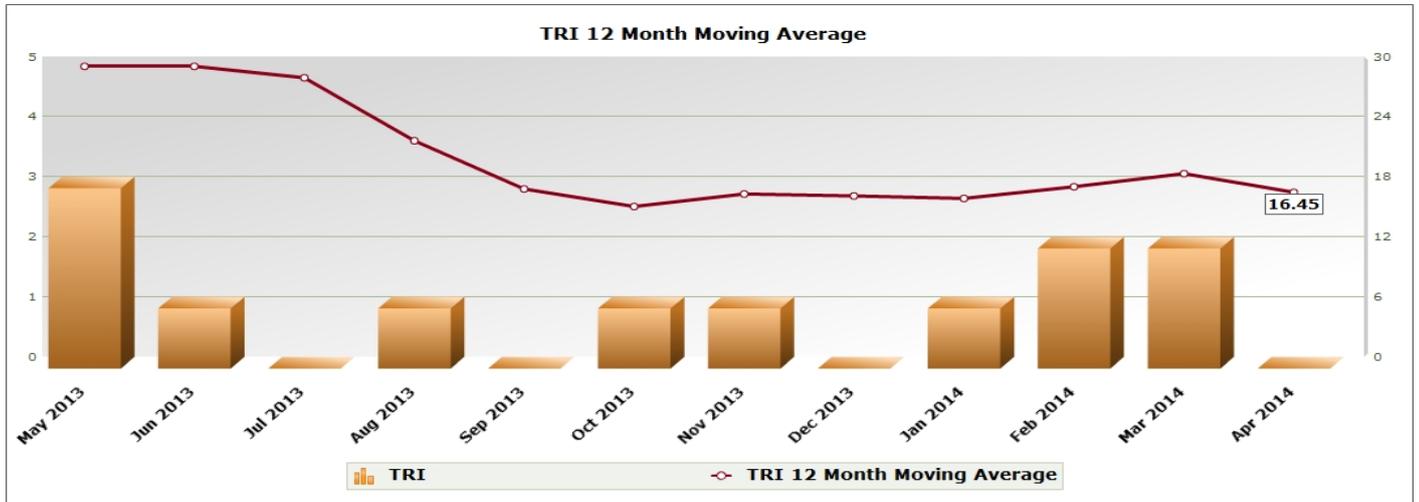
Drill and blast operations have successfully completed large scale field trials of larger holes and deeper benches. Load and haul activities have been improved through truck load studies in the three pit sources, leading to increased payloads with reduced variation. Geotechnical management and controls have been enhanced with a key Principal Engineer now completing further optimisation studies.

The processing operations successfully installed and commissioned a multi stream analyser and bulk lime delivery system, leading to increased control and management of the flotation circuit. Following a successful trial, the remainder of the tails pumps were converted to a multi staged rubber lined system.

### Safety and Community

The quarter saw a small increase in the 12 month rolling average for the Total Recordable Injury Frequency Rate (TRIFR) to now sit at 16.4. This was due to two minor incidents resulting in restricted work following soft tissue injury. Kanmantoo is continuing to focus on employee training and education in quality and safety.

FIGURE 2. TOTAL RECORDABLE INJURY FREQUENCY RATE

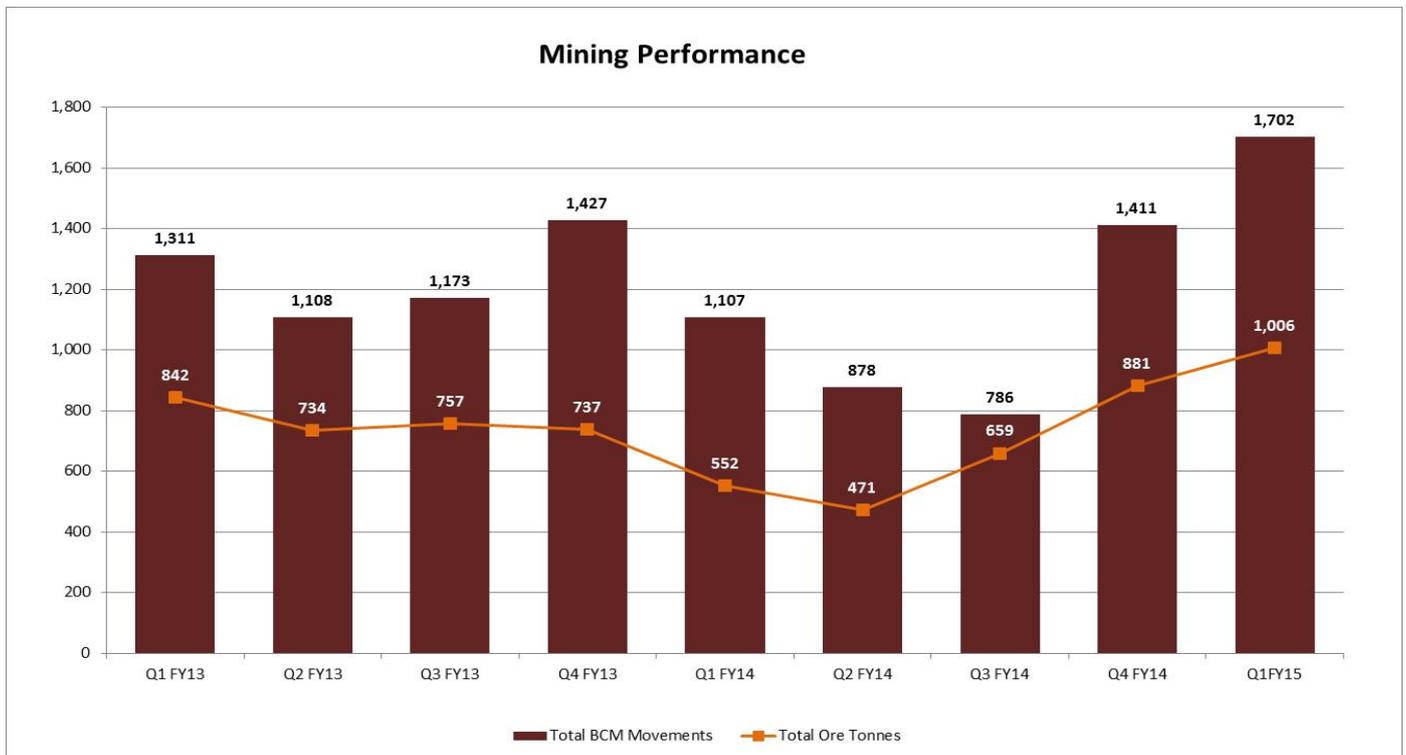


### Operations – Mine

The management and operation of mining by Hillgrove is continuing to deliver improvements to productivity and mining quality.

Mining production reached 5,259kt (1,702k bcm) total movements for the quarter ended April which was a quarterly record. This was due to the recent commissioning of two new Liebherr 9350 300 tonne excavators by our equipment supply contractor, Andy’s Earthmovers (Asia Pacific), along with other mining productivity initiatives. Total ore tonnes mined of 1,006kt included oxide and transitional ore from the Nugent and Emily pits.

FIGURE 3. KANMANTOO COPPER MINE BCM RATES



Note: The chart above includes total Bank Cubic Metres (BCM) mined, and total ore tonnes (kt) mined. Total BCM mined of 1,702k is equivalent to 5,259kt.

The increased capability of the mining operations will enable selective processing of higher grade ore which will support the processing grade to meet guidance in the current financial year.

Pre-stripping of the Nugent pit is nearing completion with the stockpiling of oxide and transition ore being complete and fresh primary ore now being accessed. The overall strip ratio for FY15 is approximately 5:1, mainly due to the introduction of the Giant Pit stripping commencing late in the calendar year.

Planning and design work is currently underway for the Giant Pit cutback, with a number of options being evaluated. An increased stripping ratio is anticipated for FY16 and FY17 while this occurs, reducing significantly after this. However the increase in stripping will be offset by continuing ore production from Nugent and Emily, by localised ore zones which will be mined as part of the pre-strip, and by the planned Controlled Potential Sulphidisation (CPS) plant which will allow processing of oxide ore during calendar year 2015.

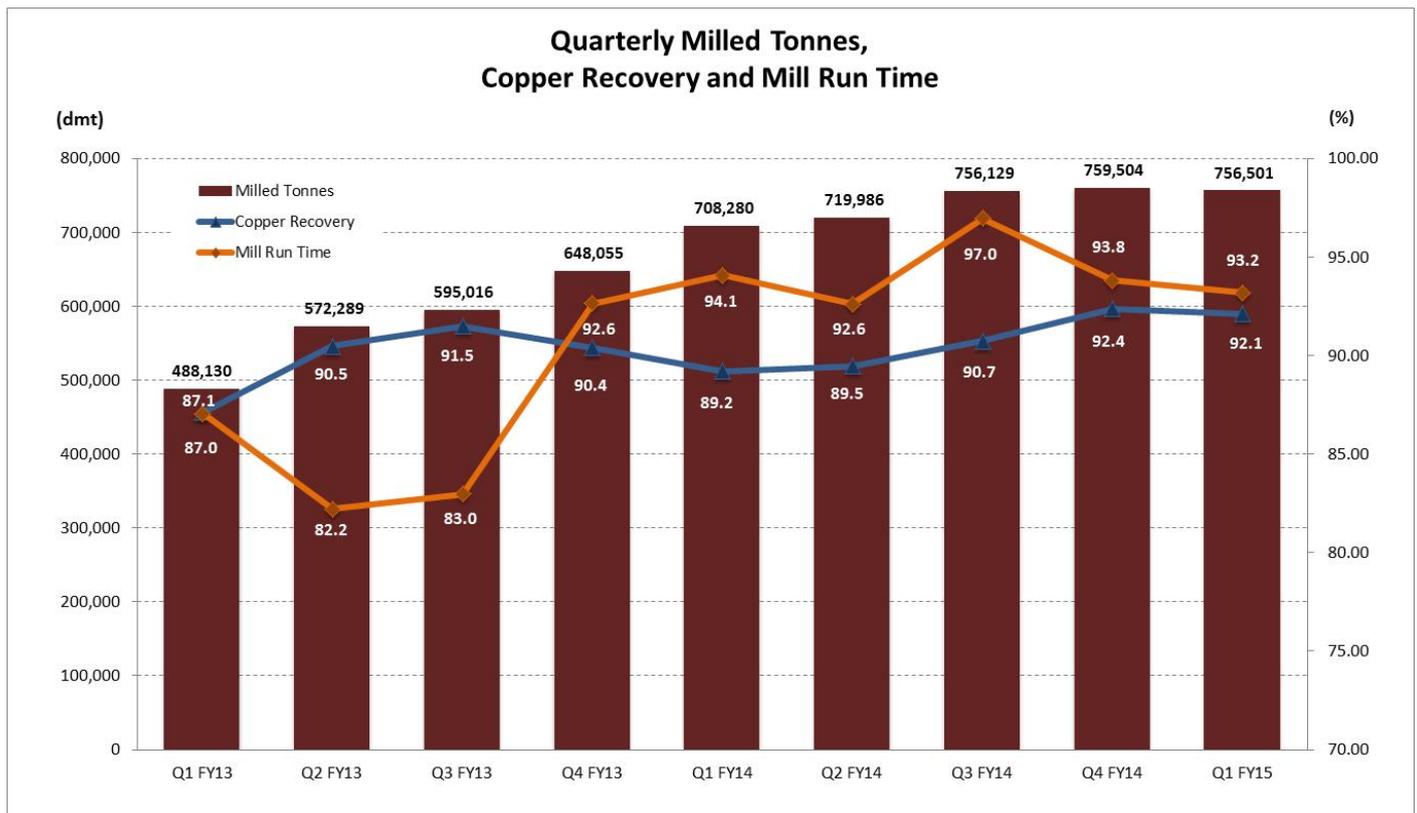
FIGURE 4. KANMANTOO COPPER MINE – NUGENT PIT (30/03/14)



**Operations – Crushing and Processing**

Mill throughput and reliability were maintained at a high level during the quarter, with planned shuts for required maintenance completed. The copper recovery of 92.1% was achieved as the process plant started to realise the benefits of the Multi-Stream Analyser on process control in the plant in the latter half of the quarter. This will continue to reduce the potential of losses to the tailings stream. This improvement was partly offset by a period of lower recovery during adjustment of mill grind size due to the new primary ore feed mix from multiple pits.

FIGURE 5. KANMANTOO QUARTERLY MILL TONNES AND FEED GRADE



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.

The mill and wet plant continued to perform well. Mill throughput was 757kt of ore milled at an average grade of 0.80% copper, with process improvements continuing to provide excellent milling costs per tonne of feed ore.

TABLE 1. KANMANTOO COPPER MINE PRODUCTION STATISTICS

Period		FY 2013 (to 31/01/13)	FY 2014 (to 31/01/14)	JAN-14 QTR	APR-14 QTR
Ore to ROM from Pit	kt	2,221	2,633	733	812
Ore to/(from) long term stockpiles	kt	849	(70)	148	169
Mined Waste	kt	11,777	10,027	3,483	4,164
<b>Total Tonnes Mined</b>	kt	<b>14,847</b>	<b>12,922</b>	<b>4,362</b>	<b>5,259</b>
Mining Grade to ROM	%	0.76	0.71	0.85	0.87*
Ore Milled	kt	2,303	2,944	760	757
Milled Grade - Cu	%	0.66	0.64	0.83	0.80*
- Au	g/t	0.16	0.12	0.11	0.10
- Ag	g/t	2.96	2.86	3.12	2.83
Recovery - Cu	%	89.9	90.7	92.4	92.1
- Au	%	54.7	52.9	48.5	52.0
- Ag	%	55.4	49.0	58.0	56.5
<b>Cu Concentrate Produced</b>	Dry mt	<b>56,431</b>	<b>75,423</b>	<b>25,053</b>	<b>24,335</b>
Concentrate Grade - Cu	%	24.4	22.8	23.3	22.8
- Au	g/t	3.6	2.5	1.6	1.7
- Ag	g/t	67.0	54.8	54.8	49.7
<b>Contained Metal in Concentrate - Cu</b>	t	<b>13,744</b>	<b>17,184</b>	<b>5,838</b>	<b>5,554</b>
- Au	oz	6,570	5,962	1,279	1,327
- Ag	oz	121,656	132,854	44,151	38,864
<b>Total Concentrate Sold</b>	Dry mt	<b>56,526</b>	<b>74,051</b>	<b>24,814</b>	<b>24,425</b>

\*Ore grade to ROM is undiluted based on the blockout model within pit (calculated after blast hole samples and after grade control have blocked out ore to be mined). Ore dilution from blockout to Rom was 10.2% for the quarter. Ore grade milled includes the quarter dilution, with a slight variation due to opening and closing ROM calculations.

Total copper produced was 5,554t contained copper in concentrates which was ahead of forecast guidance for the first quarter, and reinforces the FY15 copper production target guidance of 22,300t to 24,600t for the year.

### Shipping

During the quarter, Hillgrove shipped its fifteenth and sixteenth shipments of copper concentrate of 11,891WMT and 10,509WMT respectively.

### Revenue

Revenue for the quarter was AUD45.5M at an average realised price for copper of AUD3.71/lb (USD3.34/lb).

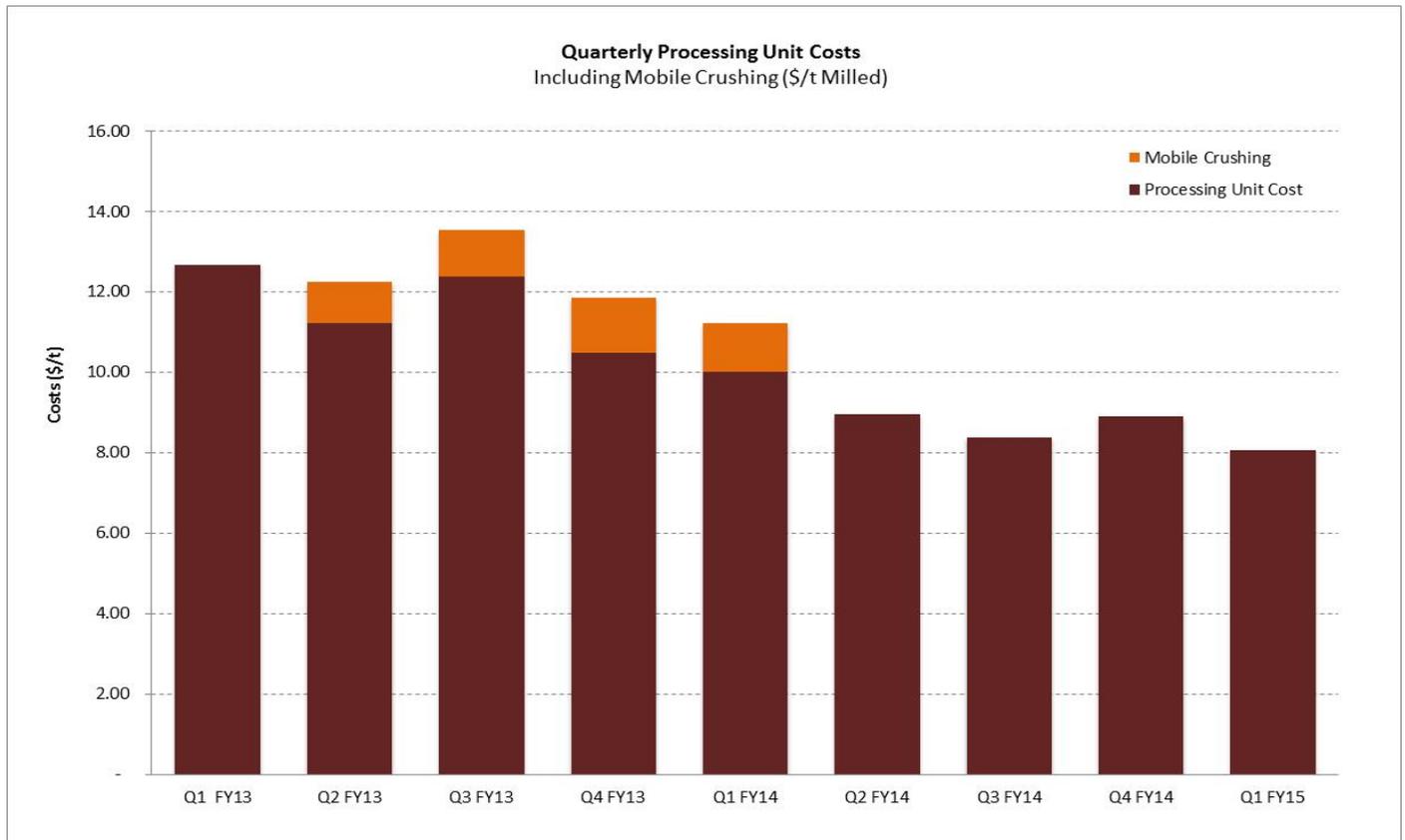
The Company's hedging strategy continues to provide strong support for Kanmantoo's production revenue.

The Company put in place additional hedging in January this year with approximately 10,200t of copper now hedged in the first half of the year (90% of payable copper) at an average price of AUD8,107 per tonne (AUD3.68/lb) compared to the current spot copper price of AUD7,225 (AUD3.28/lb). The mark to market value of the hedge book was AUD14.3m as at 30 April 2014.

### Costs

The C1 cash cost of USD2.11/lb (AUD2.32/lb) for the quarter is a result of continued good copper production performance, along with continued improvement in operating costs.

FIGURE 6. KANMANTOO QUARTERLY PROCESSING UNIT COSTS



Mining unit costs reflected the increased tonnes moved for the quarter over slightly lower copper produced compared to last quarter. Capitalised pre-strip at AUD11.2 million for the quarter was slightly higher than plan. Processing unit costs were in line with plan, with benefits from the Multi-Stream Analyser and new bulk supply lime silo starting to show through.

TABLE 2. KANMANTOO COPPER MINE COSTS

Period US cents per lb	FY 2013 to JAN 13	FY 2014 to JAN 14	JAN-14 QTR	APR-14 QTR
Mining Costs	92	117	98	111
Processing Costs	97	72	50	47
Other Direct Cash Costs	23	22	15	16
<b>Total Onsite Costs</b>	212	211	163	174
Transport & Shipping	18	17	16	16
Treatment, Refining & Smelter Charges	36	41	39	42
<b>Total Offsite Costs</b>	54	58	55	58
Precious Metals Credits	-46	-30	-18	-21
<b>Total Direct Operating Costs (C1 Cash Costs)</b>	220	239	200	211
Royalties	5	4	3	4
D&A	96	74	68	71
<b>TOTAL</b>	321	317	272	286

Hillgrove is evaluating and developing an all-in-sustaining-cost principal which we intend to report on in the future.

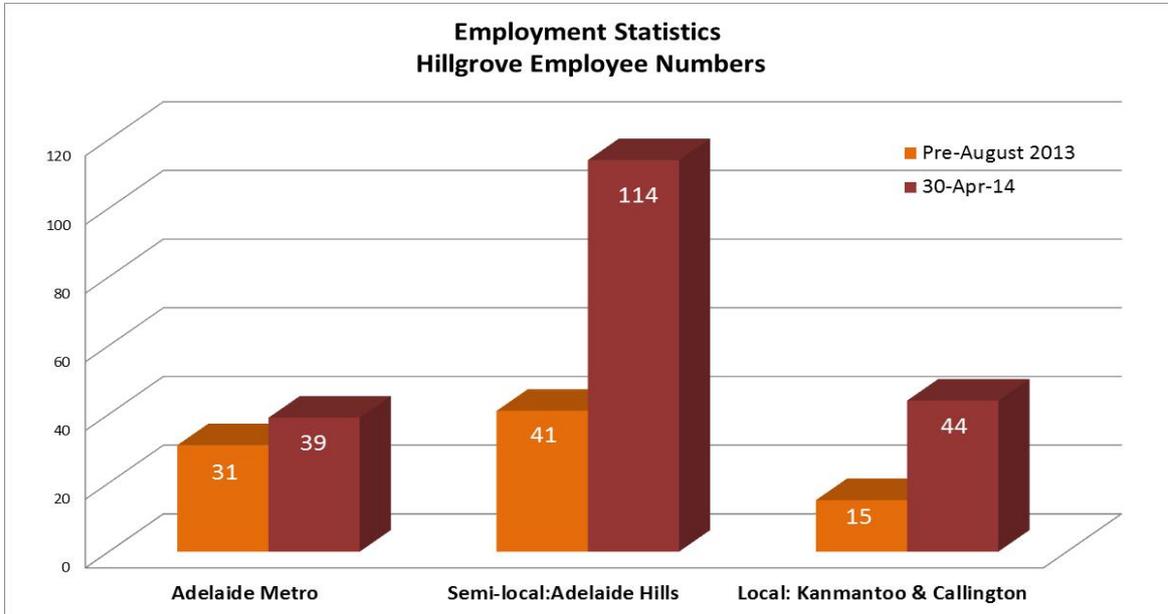
### Staff

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:

- 22% employees from Local Region (Callington / Kanmantoo)
- 58% employees from Adelaide Hills Region
- 20% employees from the Greater Adelaide Region

Along with this direct employment, specialist contract services are being undertaken by Andy’s Earthmovers (equipment supply and maintenance), Roc-Drill (blast hole drilling), and Maxams (in hole explosives supply and delivery), which have a combined permanent workforce of some 50 employees on site.

FIGURE 7. KANMANTOO COPPER MINE EMPLOYMENT GROWTH BY REGION



This represents a total of 247 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 has continued its significant community engagement and made good progress with the South Australia Government on the current Kanmantoo mine two year life extension. At the end of the quarter the Federal Government (EPBC) component was approved, the mine lease expansion had completed public consultation and the new mining lease proposal had been submitted and was on public display. It is anticipated that the majority of this work will be nearing completion within the current quarter.

**Outlook for FY15**

Continued solid performance from the mine and process plant provides confidence for Hillgrove to confirm its copper production guidance for the current financial year of 22,300t to 24,600t copper contained in concentrates. The Company’s continued improvements in performance at Kanmantoo in the operating and cost structures also support the target mine life to 2023.

Hillgrove reconfirms the unchanged annual production guidance for 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.

**Next Steps**

The operating performance this quarter has further demonstrated the capability that is now established at Kanmantoo, with production outcomes being repeated and delivered as forecast and planned.

We will continue to work on the improvements identified through the operating, planning and implementation processes. Focus will be on the continued optimisation of mining services arrangements to ore mining and mill feed and increases in mill capability to increase 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.

Major exploration and investment groups continue to review the projects. Interest has been generated within Indonesia and Hong Kong towards potential investment in these advanced projects. Projects within Indonesia 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 8. 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 992.3km<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. 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.

At this stage there are 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

### Strategy Review

As previously mentioned, the strategic focus of the Company is on further improvements in performance of the Kanmantoo Mine, expansion of the Kanmantoo region Resource through exploration, realisation of value from the Indonesian assets and the continued creation of, and potential to commence return of, value to shareholders.

To achieve the above plan, the Company will focus on the following key tasks:

- Achieve FY15 budget targets and implement operational improvements identified;
- Achieve current two year life extension PEPR approval, and prepare resource and planning work for next life extension approval;
- Continued payment of debt facilities on the current amortisation program from cashflow generated from operations;
- Evaluate future potential capital management options to enable consideration of a return of value to shareholders, including the potential for fully franked dividends post debt repayment;
- Evaluate resource extension potential at Kanmantoo beyond current target life, both within the existing mining lease and exploration lease; and
- Develop options for value extraction from Indonesian exploration assets through joint venture or external investment opportunities.

### Debt Reduction

Hillgrove made a significant reduction to its debt balance during the quarter. Total debt was reduced from AUD40.8M as at 31 January 2014 to AUD33.4 at 30 April 2014. During the period a Gold Loan repayment of AUD1.3M (866 ounces) was made in addition to a further repayment of AUD6.0M principal in relation to the Senior Debt.

### Cash and Investments

Cash on hand as at 30 April 2014 was AUD14.1M.

Debt as at 30 April 2014 was AUD33.4M.

The market value of Hillgrove's listed investment portfolio as at 30 April 2014 was approximately AUD0.2M.

#### CORPORATE INFORMATION

##### Issued Share Capital at 30 April 2014

Ordinary shares	1,180,889,221
Employee Performance Rights	22,610,000
Unlisted options	50,000,000

##### Share price activity for the January Quarter

High	0.094
Low	0.068
Last (30 April 2014)	0.068
Average Daily Volume	1,144,477

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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
		<b>29.46</b>	<b>0.80</b>	<b>0.20</b>	<b>2.11</b>
Long Term Stockpiles	Measured	1.39	0.46	N/A	N/A
	Indicated	0.50	0.18	N/A	N/A
		<b>1.89</b>	<b>0.39</b>	-	-
	<b>Total</b>	<b>31.30</b>	<b>0.78</b>	<b>0.20</b>	<b>2.11</b>

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

**Kanmantoo Global Ore 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
		<b>20.7</b>	<b>0.73</b>	<b>0.18</b>	<b>1.9</b>
Long Term Stockpiles	Proven	1.4	0.46	N/A	N/A
		<b>1.4</b>	<b>0.46</b>	-	-
	<b>Total</b>	<b>22.1</b>	<b>0.71</b>	<b>0.18</b>	<b>1.9</b>

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 Ore 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.