

Tuesday, 8 November 2011

KANMANTOO CONSTRUCTION AND COMMISSIONING UPDATE

Hillgrove Resources Limited (ASX:HGO) is pleased to advise that construction of the Company's Kanmantoo Copper Mine project is now essentially complete, and commissioning of the plant has commenced.



Completed processing plant currently undergoing testing in preparation for commissioning

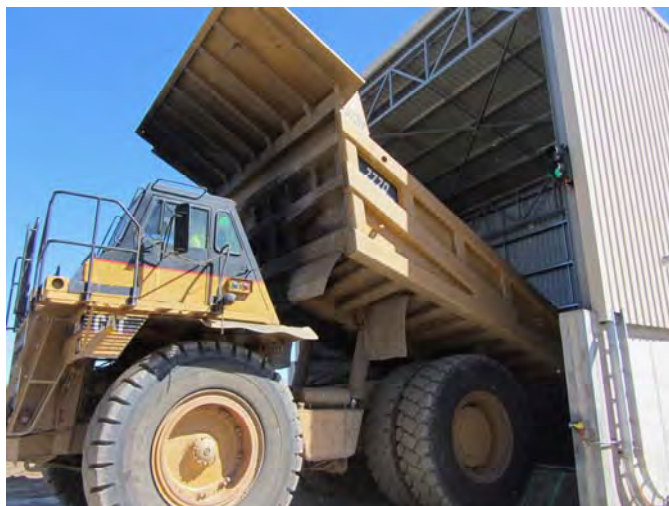
Ore crushing, wet-testing and general commissioning activities are now well advanced, with rotation of the ball mill and full end-to-end wet testing of the plant imminent. The original timetable of one year for construction and first production has been substantially maintained, and first concentrate production is expected in mid-November 2011.

With project construction expected to be completed shortly, the estimated capital costs to complete construction are expected to be approximately 10% higher (+\$10 million, to circa \$135 million) than the previous guidance due to a late, unexpected claim from a contractor.

Hillgrove is in discussions with the contractor with respect to this claim, which has only recently been received within weeks of previously scheduled Practical Completion of the plant. Importantly, the parties are working towards a mutually acceptable outcome, and scheduled commissioning activities on the site remain unaffected.



Due to the estimated timeframe for first concentrate production in mid-Nov 2011 now being 2-4 weeks later than anticipated, Hillgrove expects that the associated working capital requirements in connection with the project ramp-up will increase by approximately \$10 million. Hillgrove has developed and is progressing a number of options to address any potential working capital requirements which may arise during the Kanmantoo ramp-up period.



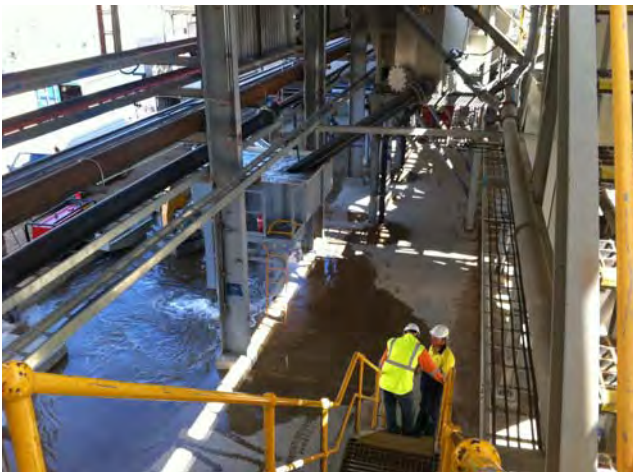
Clockwise: Ore being loaded into the Jaw Crusher, crushed ore on conveyor from Jaw to Secondary Crusher and through to ore stockpile

Status of activities

The following is a brief status of activities on the Kanmantoo site:

- Hand-over of the crushing facility from the construction contractor to Hillgrove has occurred and crushing of low-grade ore (circa 90,000t @ 0.40% Cu) to be used for process plant commissioning is underway. Early results indicate throughput in the crusher and screening complex appears to be at or above design capacity;

- There are approximately 250,000 tonnes of higher grade ore (circa 0.7% to 0.9% Cu) on the Run-Of-Mine (ROM) pad, ready for crushing and mill-feed, following commissioning on lower grade ore;
- The mining rate has ramped up to meet expected mill throughput rates, once commissioning has been completed;
- Construction of the Tailings Storage Facility is complete, and the State regulatory authority (PIRSA) has provided approval for usage – the dam can now receive tailings from the mill;
- The Return Water Dam is complete and has been filled to its planned operating level, taking water from the pipeline constructed from the District Council of Mt Barker's water treatment facility. The pipeline was officially opened in the local town of Callington on Sunday 30 October, 2011 by the Hon Paul Caica, the SA Minister for Water and the River Murray;
- Wet-testing of the plant is a key part of commissioning activities and has now commenced. Full end-to-end wet-testing of the process plant is expected this week;
- All services for the processing plant circuits (including process water, fire water and air) have been tested satisfactorily;
- All flotation pumps and agitator motors in the plant have been tested satisfactorily;
- The ball mill motor has been tested, and the mill is expected to be rotation tested today;
- First ore through the mill and concentrate production is now expected to occur in the next 7-10 days;
- First revenue from the Early Payment Facility with JP Morgan Metals & Concentrates LLC is expected in early December, and first concentrate shipment from Port Adelaide is expected in December;
- 450 concentrate haulage and storage containers have now been manufactured, and are currently in transit to Adelaide.



Mixing, scavenger, rougher and flotation cells – wet testing



Tailings Thickener – wet testing

The Kanmantoo Project is now essentially complete and in final testing and commissioning.

Hillgrove's revenue is supported by a floor price of AUD7,500/tonne for 100% of production through the critical ramp-up period to June 2012 (via Put Options), and a hedged price of AUD 8,320/tonne for 50-55% of copper production for 40 months thereafter.

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. Kanmantoo 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

With completion of construction targeted for November 2011, Kanmantoo will be an open-cut mine with an initial throughput of 2.4MT per annum, producing approximately 80,000 tonnes of concentrate, containing about 20,000 tonnes of copper metal and 10,000 ounces of gold per annum.

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'. Mr Green consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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