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ASX RELEASE

Tuesday, 18 December 2007

KANMANTOO COPPER/GOLD PROJECT MOVES TO MINE DEVELOPMENT

The Board of Hillgrove Resources Limited (ASX:HGO) is pleased to report the Definitive Feasibility Study (DFS) of the Kanmantoo Copper Gold project in South Australia is now complete, and confirms Kanmantoo is an attractive 2 million tonne per annum new mine development with an estimated net cash flow after tax (NCFAT) of $167 million (base case) from the currently defined resource.

Hillgrove's Managing Director, Mr. David Archer, said today "We are delighted by the positive findings of the DFS and can now proceed with the development of the company's first mine and South Australia's next major copper gold operation following Prominent Hill.

A key finding of the DFS is that the Kanmantoo Mine can be successfully developed as a two pit open cut operation, (Figure 1). The mine will have an operating life of at least six and a half years and considerably longer if underground operations occur.

"The development of the Kanmantoo mine is anticipated to cost $130 million, with plant commissioning and first copper concentrate production planned to occur in the second quarter of 2009. Kanmantoo will be one of a very small group of new Australian copper mines launched this decade to meet burgeoning metals demand from newly industrialising countries.

"The mine will bring a series of benefits to the Adelaide Hills' community, including direct employment of approximately 150 people and indirect employment of approximately 300 during the mine's operation. Furthermore, in an example of community co-operation, the mine will take the majority of its process water from the District Council of Mt Barkers's Laratinga Water Treatment Plant via a 15km pipeline, providing environmental and other benefits through sustainable water resources management.

The feasibility studies were based around an 11.1Mt Probable Ore Reserve and 0.9Mt of Inferred Resource contained within a Mineral Resource of 31.8Mt at 0.9% copper, 0.2g/t gold and 3.1g/t silver containing 290,700 tonnes of copper, 189,300 ounces of gold and 3,218,400 ounces of silver (see Tables 1 and 2 below).The ore as modelled is amenable to conventional treatment methods and will produce an export concentrate in high demand by overseas smelters. Production can commence within a year and a half. The project's location in South Australia, 55km by road from the Adelaide GPO, brings significant operating cost and employment advantages matched with an exceptionally supportive regulatory environment.

The base case financial model shows an NPV of AUD$72 million using the forward curves as at 30 November 2007 for the copper price (see section 7), the AUD/USD exchange rate at 3 December 2007, a US$780 per ounce gold price and A$16.70 for silver price for a project IRR of 21%. Using the same assumptions and varying the copper price gives the following results:

Flat US$3.50 Copper price: NPV $152 million – NCFAT $287 million - IRR 34%

Flat US$4.00 Copper price: NPV $216 million – NCFAT $382 million - IRR 43%

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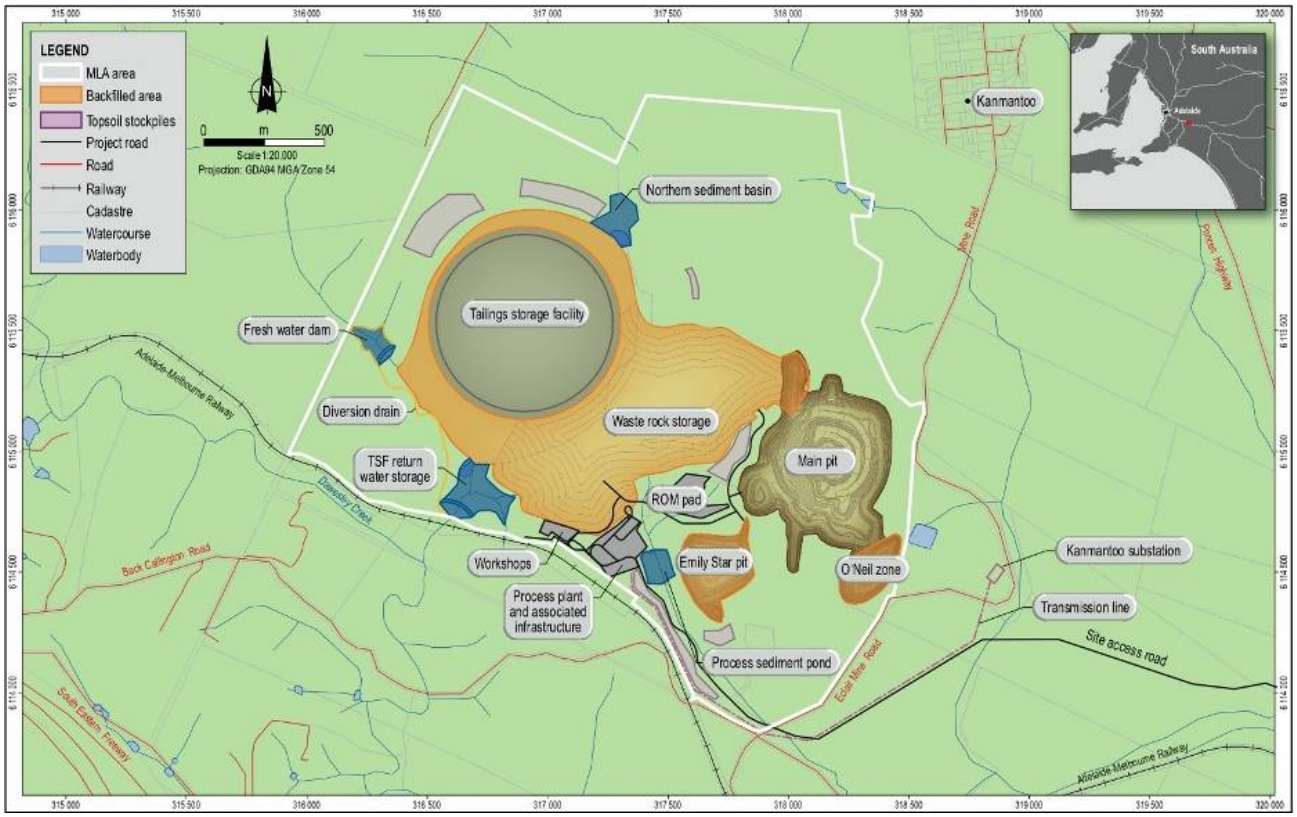
Hillgrove will now move to issue a tender for contract mining of the deposit and project financing. Due to the current long lead times associated with mill deliveries and the threat to the overall project schedule, Hillgrove has ordered a 7.3m X 3.8m SAG mill. The mill is currently being manufactured and is scheduled to be delivered in September 2008 which will allow construction to be completed in April 2009.

A Mining Lease Proposal has been lodged with Primary Industries and Resources South Australia as a lead up to the anticipated issue of Mining Leases in the second quarter of 2008. The development of the project is subject to its successful permitting.

The potential for further discoveries and growth of the global copper/gold resource at Kanmantoo is high. Further additions to the Mineral Resources at depth and along strike of the open pit, if converted to Ore Reserves, would result in expansion of the open pit or subsequent or concurrent underground mining and increases in the mining rate. There is significant potential for the discovery of new satellite copper/gold ore bodies and lead/zinc mineralisation both in the immediate Kanmantoo Mine Corridor and also in 497km² of exploration area held in the Kanmantoo Trough (by Hillgrove 100% and in joint venture with Kelaray Pty Limited (10%) and Hillgrove (90%)), which will be a major area of focus over the next two years. Hillgrove has already outlined high grade lead/zinc mineralisation at its Wheal Ellen Prospect, 13km south west of Kanmantoo.

"With today's decision to proceed with the development of Kanmantoo, Hillgrove Resources is firmly on the path to attaining its goal of becoming a mid-tier copper and gold producer in the near term," Mr. Archer added.

Figure 1. Proposed Site layout for the Kanmantoo Project



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Kanmantoo Definitive Feasibility Study Highlights

Mineral Resources: 31.8 Mt at 0.91% copper, 0.2g/t gold and 3.1g/t silver

Kanmantoo Deposit Updated Resource Estimate
(0.25%Cu cut-off)

Type	Indicated				Inferred				Total						
	Tonnes T	Cu %	Au g/t	Ag g/t	Tonnes T	Cu %	Au g/t	Ag g/t	Tonnes T	Cu %	Au g/t	Ag g/t	Cu Metal Tonnes	Au Cut Ounces	Ag Ounces
Oxide	895,000	0.9	0.2	3.6	207,000	0.6	0.2	2.9	1,103,000	0.8	0.2	3.4	9,100	7,000	121,900
Transitional	1,043,000	0.8	0.2	3.3	513,000	0.7	0.2	2.3	1,556,000	0.8	0.2	3.0	12,300	9,200	147,700
Primary	19,421,000	1.0	0.2	3.3	9,764,000	0.9	0.2	2.8	29,185,000	0.9	0.2	3.1	269,300	173,100	2,948,800
Total	21,359,000	0.9	0.2	3.3	10,484,000	0.8	0.2	2.8	31,844,000	0.9	0.2	3.1	290,700	189,300	3,218,400

Note: These Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves

Contained metal: 290,700t copper 189,300oz gold 3,218,400oz silver

Kanmantoo Ore Reserves: After pit design and optimisation

Classification	(Mt)	Copper (%)	Gold (g/t)	Silver (g/t)
Probable Reserve	11.1	0.93	0.20	3.33

Mine Planning Considerations: 0.9Mt of Inferred Resource (non-reserves) material at 0.68% copper, 0.24g/t gold and 3.53g/t silver has been included in the production and cash flow calculations primarily in order to obtain the best representation of the ore body for equipment selection and costing purposes. It is important to note that the Probable Ore Reserves are not reliant on the inclusion of the Inferred Resource for pit economics.

Open pit: 1.2km long X 600m wide X 270m deep
Ore mined 2Mtpa
Initial minimum mine life 6.5 years at a strip ratio of 5.0

Processing: Conventional crushing, grinding and flotation
Mill throughput 2Mtpa with potential to expand to 2.5Mtpa

Average head grade: 0.91% copper 0.2g/t gold 3.34g/t silver

Average Recovery: Copper - 92% Gold - 60% Silver – 67%

Concentrate: 56,000 – 76,000 dry tonnes p.a.
High quality, medium copper content, low impurities

Average Concentrate grade: 25% copper 3.5g/t gold 66g/t silver

Average metal in concentrates: 15,000 - 19,000 tonnes p.a. copper
7,000 - 9,000 ounces p.a. gold
110,000 -140,000 ounces p.a. silver

Pre Production Capex: A$130 million

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Background

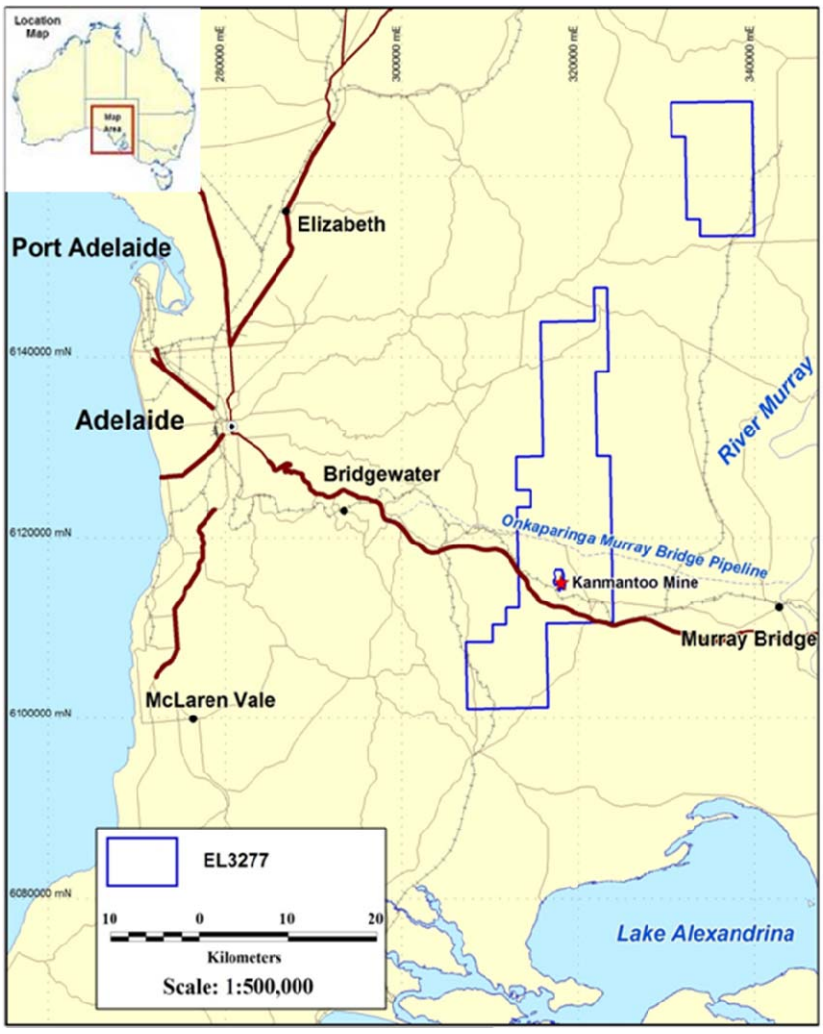
Kanmantoo is located 55km east of Adelaide's CBD and is one of Australia's oldest mining provinces. Figure 2 shows the project location and major nearby infrastructure.

Copper was discovered at Kanmantoo in the 1840's with intermittent mining occurring until the 1930's. In the 1960's there was renewed interest in the area and extensive drilling proved a major ore body. In 1970 the newly formed Kanmantoo Mines Limited, a consortium of North Broken Hill, South Broken Hill and EZ Industries Limited developed a 900,000tpa operation which produced a total of 4.1Mt at 0.9% copper until it closed in 1976. Hillgrove commenced its involvement in the region in April 2003 and has completed extensive drilling and feasibility studies that have resulted in a current Mineral Resource of 31.8Mt at 0.9% copper and 0.2g/t gold and 3.1g/t silver. The Kanmantoo resource database comprises data from 909 holes totalling 129,200 metres.

Hillgrove wholly owns tenements over the main part of the ore body and its immediate environs. The balance of the project area, encompassing the Emily Star satellite ore body and the proposed process plant site, is held in a joint venture with Kelaray Pty Limited (Hillgrove 90% and Keleray 10%), a wholly owned subsidiary of Argonaut Resources N.L.

Following the successful completion of the Preliminary Feasibility Study in 2006, Hillgrove commissioned Lycopodium to coordinate a Definitive Feasibility Study to more precisely define the economics of a new mining and concentrating operation. The study was conducted in conjunction with Enesar Consulting, Snowden Mining Industry Consultants, Coffey Mining and Resource Evaluations.

Figure 2. Kanmantoo Project Location Map



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1. Geology

The Kanmantoo copper deposit is located in the Cambrian Kanmantoo Trough, part of the Adelaide Geosyncline. Mineralisation in the vicinity of the deposit occurs as discordant Cu-Au stockworks within a host rock consisting of quartz–biotite–andalusite±garnet±chlorite schist. The deposits commonly exhibit pipe-like dimensions, with podiform lenses and veinlets of chalcopyrite, pyrrhotite, pyrite, magnetite, chalcocite and covellite. Mineralisation is grossly discordant to bedding and lodes occur parallel to the local and regional axial plane schistosity (S2) with local thickening due to folding. There are also some discordant 020-045 degree striking mineralised shears / faults with shearing and remobilisation of mineralisation. Structural studies conducted by Hillgrove indicate that the main controls on mineralisation are the N-S striking shear zones (parallel to S2) and the NNE-NE striking cross shears and it appears that the intersection of these shear zones define the steep NE plunge of ore shoots. Shallow oxide mineralisation in the upper part of the deposits moves into a chalcopyrite dominant assemblage in the primary zone. Gold is co-incident with the copper and also occurs as gold only zones.

2. Mineral Resource and Ore Reserves

The Mineral Resource used in this study represents a decrease of approximately 1.6Mt or 4.7% from the Mineral Resource of 33.4Mt reported to the ASX on 30 April 2007. Overall copper grade has increased by 9% and hence total contained copper metal has increased by 700 tonnes. This change was primarily a result of refinement of the wireframes used to model the individual mineralised zones in the deposit.

Table 1. Mineral Resources

Kanmantoo Deposit Updated Resource Estimate
(0.25%Cu cut-off)

Type	Indicated				Inferred				Total						
	Tonnes T	Cu %	Au g/t	Ag g/t	Tonnes T	Cu %	Au g/t	Ag g/t	Tonnes T	Cu %	Au g/t	Ag g/t	Cu Metal Tonnes	Au Cut Ounces	Ag Ounces
Oxide	895,000	0.9	0.2	3.6	207,000	0.6	0.2	2.9	1,103,000	0.8	0.2	3.4	9,100	7,000	121,900
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Total	21,359,000	0.9	0.2	3.3	10,484,000	0.8	0.2	2.8	31,844,000	0.9	0.2	3.1	290,700	189,300	3,218,400

The above table represents Mineral Resources that are inclusive of those Mineral Resources modified to produce the Ore Reserves.

Table 2. Kanmantoo Ore Reserves

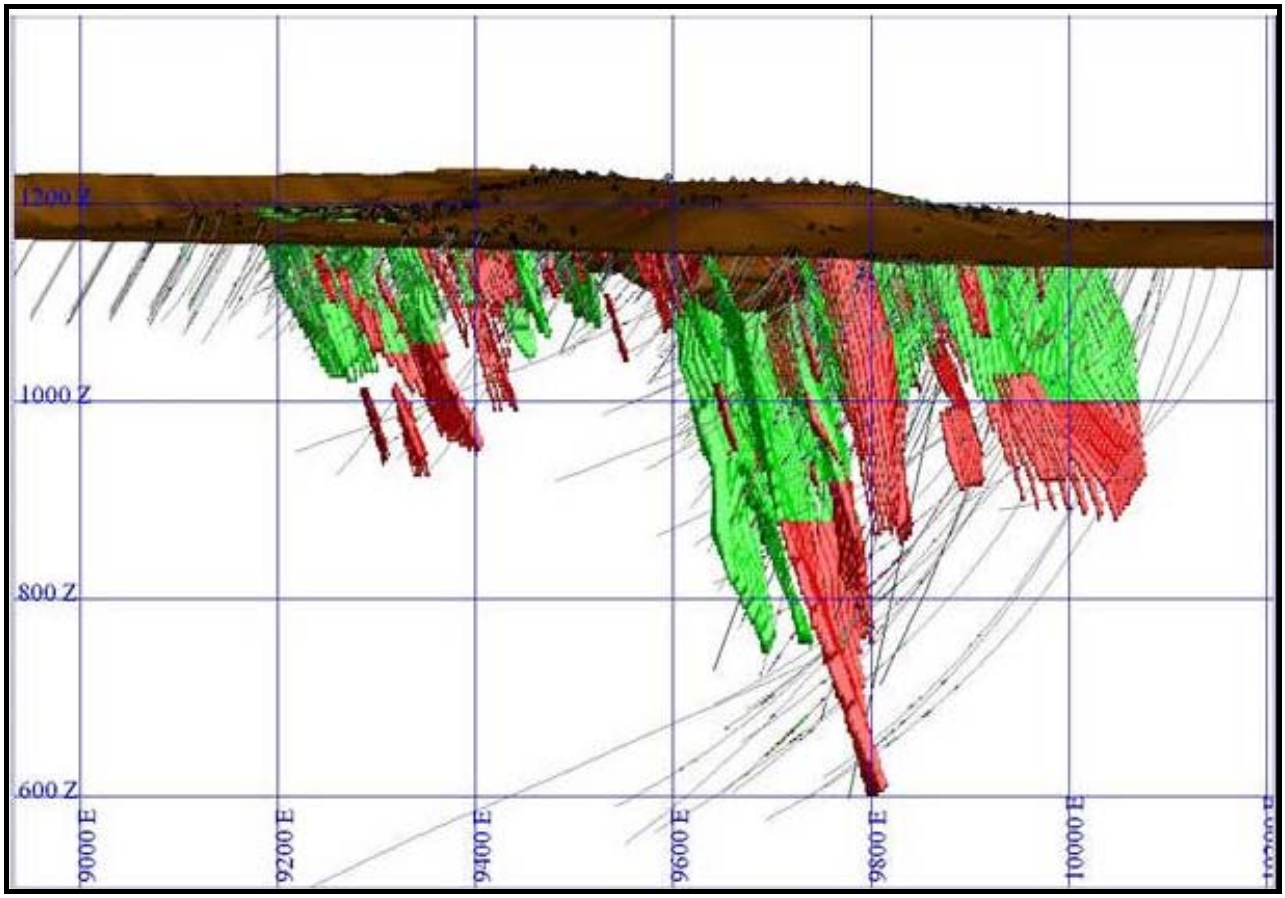
Classification	(Mt)	Cu (%)	Au (g/t)	Ag (g/t)
Proved Reserve	0.0	0.00	0.00	0.00
Probable Reserve	11.1	0.93	0.20	3.33
Total	11.1	0.93	0.20	3.33

The deposit is classified into an Indicated and Inferred Mineral Resource (Figure 3). The Indicated portion of the resource is defined where the drill spacing is generally less than 30m by 30m, and where there is a significant proportion of recent (Hillgrove) drillholes and lode continuity is good. The Inferred portion included areas of the resource where sampling is greater than 30m by 30m, and where small isolated pods of mineralisation occur outside the main mineralised zones (generally defined by three or less holes), or are geologically complex zones and deep zones where the accuracy of old down hole surveys is uncertain.

The Mineral Resource estimate follows guidelines and recommendations made in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (2004) by the Joint Ore Reserves Committee (JORC).

The mineralisation identified in the Kanmantoo Mine Corridor now extends for approximately 3km of strike, is some 800m wide and extends to a depth of 800m. The mineralisation remains open in all directions.

Figure 3: Mineral Resource Classification in Cross Section (red = Inferred, green = Indicated)



3. Mining

Based on the current open pit optimisation, Kanmantoo would comprise two open pits producing 2MTPA with an initial mine life of six and a half years. The ultimate larger pit would be 1.2km long and 600m wide on the surface and 270m deep. Mining would employ conventional open pit drill, blast, load and truck haul.

It is important to note that in addition to the Probable Ore Reserves (11.1Mt) within the pit designs, there is also a quantity of Inferred Resource (0.9Mt) which cannot be classified as Ore Reserves under the JORC code. For the purposes of this study the non-reserves material has been included in the production and cash flow calculations primarily in order to obtain the best representation of the ore body for equipment selection and costing purposes. The Probable Ore Reserves are not reliant on the inclusion of the Inferred Resource for pit economics. Infill drilling is currently underway to provide additional samples and geological information for the Inferred Mineral Resources to try and convert them into part of the Ore Reserve. The mine life on the basis of the currently stated Ore Reserves is estimated to be 5.5 years and when the Inferred Resource tail is included this extends to 6.5 years. Figure 4 illustrates the distribution of Indicated and Inferred material within the designed open pit.

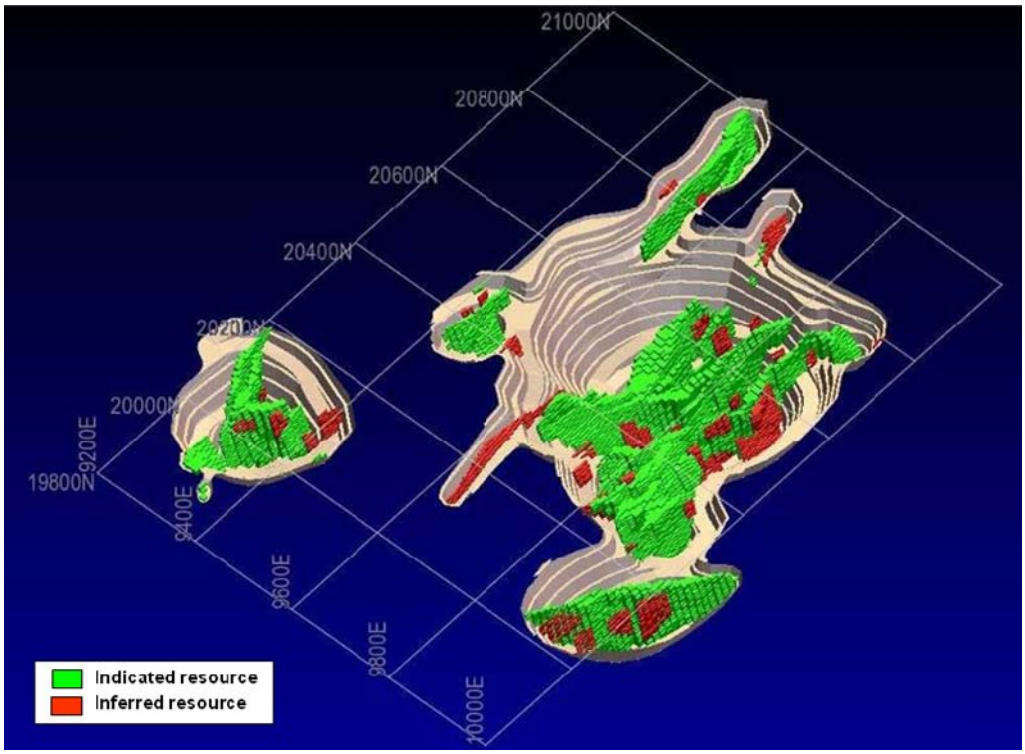
Hillgrove Resources (90%) and Kelaray (10%) hold the Emily Star resource in joint venture (Figure 1). The total mineral resource for Emily Star is currently 3.43Mt including 2.22Mt Indicated and 1.21Mt Inferred Resources. Within the optimised pit at Emily Star there is currently 1.243Mt of Probable Ore Reserve and 53,000t of Inferred Resource. The remainder of the Ore Reserves and Inferred Resources which currently fall inside the optimised pits are 100% owned by Hillgrove.

With further additions to the resources at Kanmantoo the open pit could be expanded or extended. Underground mining either concurrent with or subsequent to open pit mining would be a future option although not presently modelled.

Allowance was made in the pit optimisation for 6% mining dilution and 95% mining recovery based on an assumed dilution skin thickness estimated from the average thickness of the mineralised zones.

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Figure 4. Proposed open pits showing the location of indicated and inferred resources



4. Processing – Concentrates

The proposed treatment route is a conventional copper and gold flotation plant producing concentrates for sale to custom smelters.

This study envisages the following unit operations:

- Single stage crushing;
- Closed circuit grinding in a SAG milling circuit;
- Rougher flotation and regrind before cleaning; and
- Concentrate dewatering and filtration.

Metallurgical test work shows that recoveries of copper from the ore will range from 63% in the oxide resource to 95% in the primary ore. Gold recoveries range from 39% in the oxide to 78% in the primary ore, although further studies will be directed to this. The concentrates produced will be high quality, with moderate copper grades around 25%, with low impurities. It is important to note that approximately 90% of the mining inventory is sulphide ore with average recoveries of 95% copper, 60% gold and 69% silver.

All metallurgical test work has been conducted by Ammtec in Perth. The recoveries and concentrate grades noted in the release will vary depending on the final water source secured for the Kanmantoo project. The financial modelling was completed using the assumption that re-treated effluent water was the primary water source and an appropriate reduction was applied to the recoveries and concentrate grade to reflect the testwork completed using this water source to date.

The amount of concentrate produced varies depending on the grade being mined from 56,000 – 76,000 dry tonnes p.a. high quality, medium copper content concentrate with low impurities. The concentrate produced has been accurately modelled on a monthly basis for the life of mine.

5. Capital Cost

The Kanmantoo project will have an initial capital cost of $130 million including a contingency of $11.0 million. The capital cost has increased by 30% since the October 2006 Preliminary Feasibility Study estimate of $99.8 million reflecting tight construction market conditions and higher costs for materials and equipment impacting the resources sector in general.

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Table 3. Capital Cost Estimate Summary (4Q07, +15 -10%)

Cost Centre	**A$M**
Infrastructure, First Fill, Spares	110.5
Mining	1.2
Pre-Stripping	18.3
Total	**130.0**

The capital cost estimates for plant and onsite infrastructure include the open pit mine, concentrator, site infrastructure, services, power augmentation, water supply, access and site roads, pre-operations, tailings storage facility and port facilities. Off-site items comprise mining contractor mobilisation and a number of owner's costs. Contingency and EPCM costs have also been built into these estimates.

The estimate excludes financing charges.

6. Financial Study

The financial study was completed using an SMC model and a summary of the parameters and outcomes are provided below.

Table 4. Summary of Financial Study

Model	**Copper Price**	**Foreign Exchange**	**Discount**	**NPV**	**IRR**	**NCFAT**
Base Case	Forward Curve 30/11/07	Forward Curve 03/12/07	8.5%	$72 million	21%	$167 million
$3.50 Model	$3.50 Flat	Forward Curve 03/12/07	8.5%	$152 million	34%	$287 million
$4.00 Model	$4.00 Flat	Forward Curve 03/12/07	8.5%	$216 million	43%	$382 million

Note. Copper Prices all quoted in US$ and all other figures quoted are A$

Other Credits Price Assumptions: Gold US$780/oz and Silver A$16.70

Table 5. Summary of Copper Price and Foreign Exchange Rates used in Financial Model

Date	**Currency** (US$:A$)	**Copper Price** (US$/lb)	**Copper Price** Price (A$/lb)	**Project Yr** Year
Jul-09	0.829	3.100	3.740	2
Jul-10	0.800	3.000	3.740	3
Jul-11	0.777	2.900	3.730	4
Jul-12	0.758	2.810	3.710	5
Jan-13	0.751	2.770	3.690	6
Jan-14	0.738	2.700	3.660	7
Jan-15	0.729	2.650	3.640	8

7. Water

Hillgrove recognises water resources within the Kanmantoo region are generally limited and of high value to the environment and the community. Hillgrove will place a strong focus throughout the operation's life to maximise water conservation in order to minimise water demand.

The major process water source for the Project will be treated waste water from the Mount Barker District Council's Laratinga Water Treatment Plant. A Memorandum of Understanding has been signed by Hillgrove with the District Council of Mt Barker, whereby Hillgrove will fund the cost of the development of a water pipeline from Mt Barker to Kanmantoo. In turn the council will supply up to 520ML of water per year under a commercial contract to Hillgrove.

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8. Transport to Port

The Kanmantoo Project will produce up to 76,000 tonnes of copper concentrate per annum. Concentrates will be transported by trucks 80km via the Princes Highway, East Terrace at Callington and then the South Eastern Freeway to the Port of Adelaide. Access from the Mine to the Princes Highway will be by way of a private road that bypasses the township of Kanmantoo. Flinders Ports will store and load the concentrate.

9. Markets

Hillgrove proposes to ship mostly in parcels of 10,000 tonnes principally to North Asia under a life-of-mine off-take agreement with Sempra Metals and Concentrates. Concentrates continue to meet with strong demand in the world market.

10. Permitting

A Mining Lease Proposal was lodged on 25 October 2007 followed by a consultative process that is expected to lead to the award of mining authorisations in the second quarter of 2008. The development of the project is subject to its successful permitting.

11. Royalties

The decision to proceed with a mine development is based on the assumption that the Project will be declared a new mine and will pay royalties at the new mine rate equivalent to 1.5 per cent of the value of the minerals produced for the first five years of production.

12. Community

There has been extensive consultation with the Kanmantoo and Callington communities since early 2004. Hillgrove fully accepted 109 of the 129 Kanmantoo Callington Community Consultative Committee recommendations and accepted in principle the remaining 20. This has resulted in the redesign of various elements of the project to reduce the impact on flora and fauna, and minimise potential noise and dust impacts to the surrounding residents. In addition, to deal with community concerns about traffic Hillgrove will construct a private road to by-pass the township of Kanmantoo.

13. Upside Potential

Resource delineation drilling is ongoing and the limits of the Kanmantoo copper gold system are yet to be defined.

Priority untested extensions to the ore body identified to date include copper-gold mineralisation in the Main Zone, North East Zone, Eastern Zone, O'Neil Zone and South Eastern Zone, gold only mineralisation at Venetia Star and depth extensions to the main copper/gold zone below the open cut. Further drilling of these targets could result in additions to the Resource base at Kanmantoo.

Excellent potential also exists to discover nearby smaller satellite deposits like Emily Star and Kanmantoo sized deposits in the wider tenement package.

14. Garnet

Whilst cash flows from the sale of garnet as a by-product have not been factored into the analysis at this stage, following the positive DFS result Hillgrove will now commission a scoping study of this opportunity. The garnet, which early studies show has excellent properties as an industrial abrasive, has potential to be a high value product stream in parallel to the copper/gold.

15. Ongoing Schedule

Priority objectives for the Kanmantoo Project are to finalise licensing and project financing of the mine development.

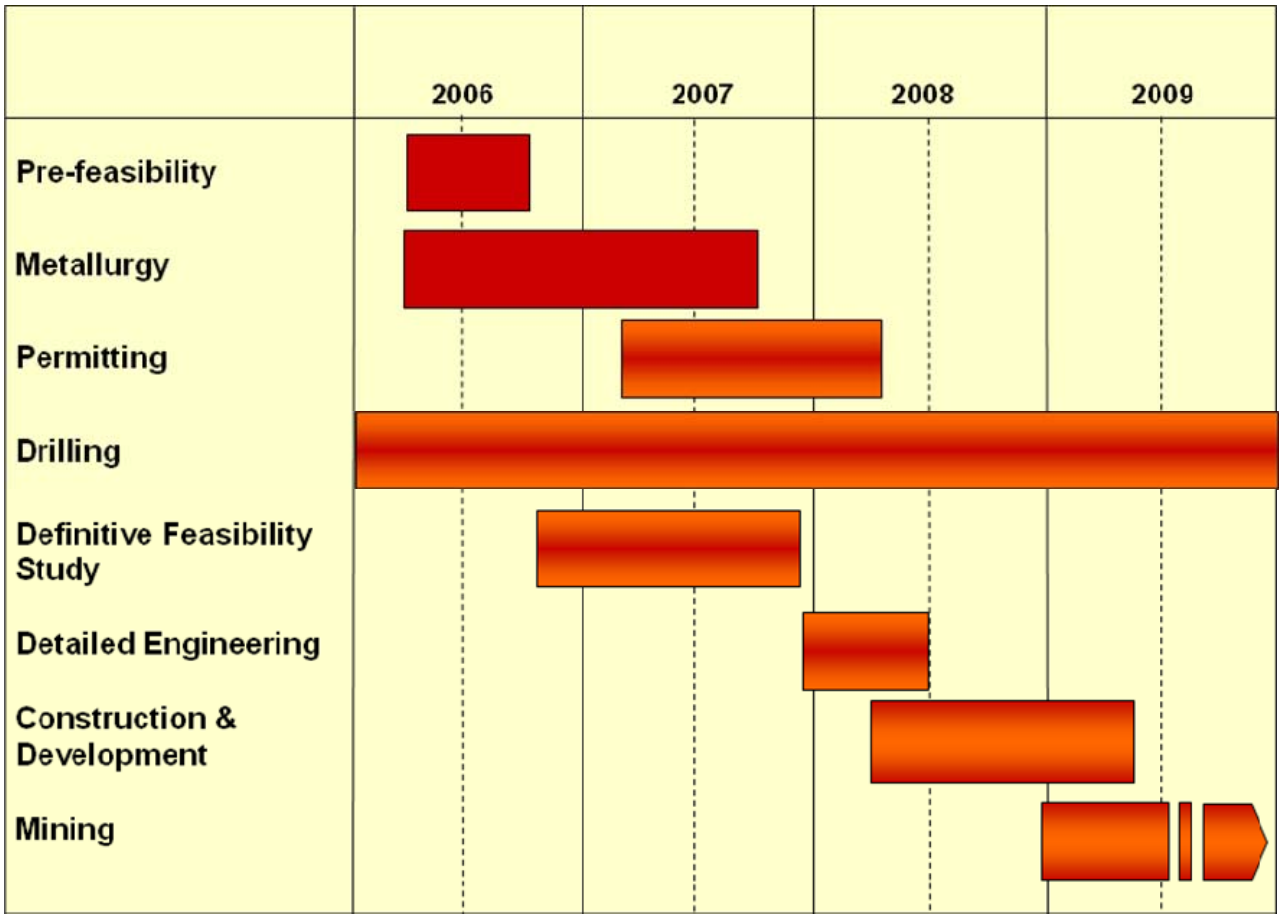
A scoping study of the potential to produce garnet as a by product will be pushed forward.

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A major priority will be progressing permitting to ensure timelines are met.

It is estimated that construction and commissioning would be completed in 15 months from finalisation of permitting and decision to mine. Figure 5 outlines the proposed schedule for the development of the Kanmantoo mine.

Figure 5. Current proposed schedule for the development of the Kanmantoo Project



The information in this report that relates to Mineral Resource estimates is based on information compiled by Mr Paul Payne, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Payne is the Principal of Resource Evaluations Pty Ltd 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 Payne consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Ore Reserve estimates is based on information compiled by Mr Geoff Davidson, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Davidson is a principal consultant with Snowdens Mining Consultants 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 Davidson 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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