

HILLGROVE RESOURCES

Wednesday, 23 June 2008

EASTERN STAR GAS ENTERS PIPELINE AGREEMENT

Hillgrove Resources Limited (ASX:HGO) advises that Eastern Star Gas Limited together with its joint venture partner, Gastar Exploration Ltd, has entered into a Heads of Agreement with APA Group (APA), the owner of the Moomba to Sydney and the Central West Pipelines, to investigate the connection of the Narrabri coal seam gas project to APA's existing gas transmission pipeline system which would bring early direct access to the wider NSW market.

APA Group, comprising Australian Pipeline Trust and APT Investment Trust, is the leading ASX-listed energy transmission business in Australia with interests in more than 10,000 km of natural gas pipeline infrastructure, over 2,300 km of gas distribution networks in south east Queensland, coal seam gas processing plants, gas-fired power stations, gas storage facilities and two high voltage direct current electricity interconnector systems.

Hillgrove is a long standing supporter of the Narrabri gas project originally as a 32.5% joint venture partner and more recently as a strategic shareholder in Eastern Star Gas Limited with a fully diluted, direct interest of 22.6% valued at some \$100 million.

About Hillgrove

Hillgrove is an Australian resources company listed on the Australian Securities Exchange (ASX: HGO) focused on developing its South Australian base and precious metals projects. The Company has an exploration portfolio of over 970km² within the Kanmantoo Trough and the Gawler Craton which are recognised as being amongst Australia's most prospective regions for copper and gold.

Hillgrove's key asset is the Kanmantoo Copper Gold Project, located less than 60kms from Adelaide. Kanmantoo currently hosts a Mineral Resource of 31.8Mt (21.4MT Indicated and 10.4MT Inferred) grading 0.9% copper and 0.20g/t gold, containing 290,700 tonnes of copper, 189,300 ounces of gold and 3,218,400 ounces of silver. With production targeted for the second half of 2009, Kanmantoo will be a 2Mtpa open-cut mine producing approximately 17,000t of copper in concentrate and 8,000 ounces of gold per annum.

Hillgrove also holds a portfolio of strategic positions in emerging energy and resources companies. These include a fully diluted direct 22.6% shareholding in coal seam gas company Eastern Star Gas Limited (ASX:ESG) and a fully diluted direct 42.03% shareholding in Queensland and South Australian-focussed minerals explorer InterMet Resources Limited (ASX:ITT).

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The information in this report that relates to Exploration Results is based on information compiled by Mr Dale Ferguson, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Ferguson is the Director – Exploration and Operations of Hillgrove Resources 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 Ferguson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The Mineral Resource estimate 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.

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Heads of Agreement with Pipeline Company APA

ASX Release: 22 July 2008

Narrabri Coal Seam Gas Secures Early Access to NSW Gas Market

Eastern Star Gas Limited (ASX: ESG) together with its joint venture partner, Gastar Exploration Ltd (AMEX: GST & TSX: YGA.TO) is pleased to announce it has entered into a Heads of Agreement with the APA Group (APA), owner of the Central West and Moomba Sydney Gas Pipelines. Under the HoA, options for early delivery of coal seam gas from the Narrabri area into the NSW gas market are to be investigated.

Mr David Casey, Managing Director of ESG said “we are going to work with APA to develop arrangements that it is envisaged will involve construction of a new pipeline lateral to connect the Narrabri coal seam gas project into APA’s existing gas transmission pipeline system”.

“By making use of existing infrastructure, early market access can be secured whilst complimenting later large-scale gas supply arrangements envisaged by our existing MoU’s with Macquarie Generation and Babcock & Brown” Mr Casey said.

“Securing early market access is of particular interest since, on present projections, gas production rates from the multi-lateral pilot production wells to be drilled by the joint venture later this year will, by around mid 2009, be in excess of what can be used in the Wilga Park Power Station, even with the proposed expansion of the power station. Having direct access to the NSW market will allow other opportunities to be pursued”.

Initially gas will be delivered to market via APA’s Central West Pipeline with APA’s NSW pipeline system subsequently expanded as gas production and markets grow. By matching gas production, pipeline and market requirements in this manner, capital efficiency is maximised and favourable gas transportation tariffs realised.

Mr Casey commented that “the Narrabri coal seam gas joint venture is delighted to be working with the APA Group, which is uniquely well placed to provide gas transportation services at an early opportunity”.

Drilling highlights:

- Dewhurst-4 corehole intersected 15.6m of Bohena coal and is 8km south of the Bibblewindi pilot area.
- Dewhurst-3 corehole intersected 16.2m of Bohena coal and is 8.6km east of the Bibblewindi pilot area.
- Dewhurst-2 corehole intersected 18.2m of Bohena coal including 14.7m in a single ply. Dewhurst-2 is 4.9km east of the Bibblewindi pilot area.
- Bibblewindi-11c corehole intersected 20.1m of Bohena coal including 11.8m in a single ply. Bibblewindi-11c is 4.5km south of the Bibblewindi pilot area.

Recent highlights:

- 2008 CSG exploration and appraisal programme is NSW’s largest ever.
- All new website online.
- Cash \$40.86m at 31 March 2008.

Upcoming PEL238 news:

- First two multi laterals to spud late August 2008.
- 180km seismic programme on track for 3rd quarter.
- Schramm TXD-180 state-of-the-art drilling rig in field by August.

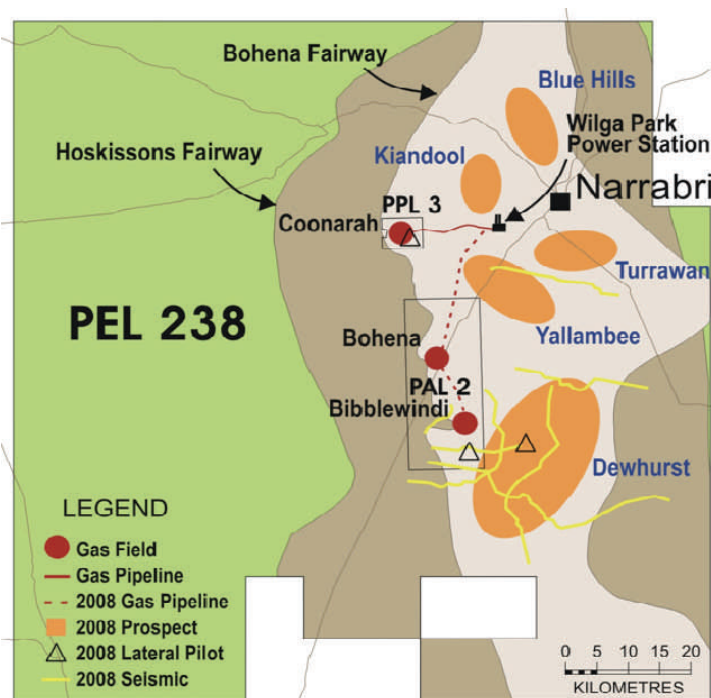
About ESG

ESG is focussed on exploration, development and production of coal seam gas.

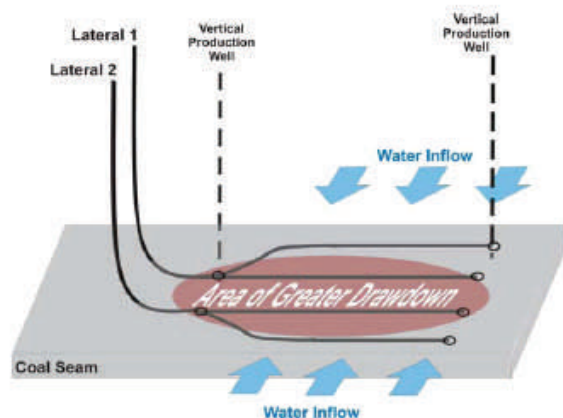
The company's main activity, the Narrabri Coal Seam Gas Project, is located in Petroleum Exploration Licence 238 adjacent to the township of Narrabri in New South Wales. ESG holds a 65.0% interest in the PEL 238 and is the operator. The remaining 35% interest is held by Gastar Exploration Limited (AMEX: GST & TSX: YGA). PEL 238 covers 9,100 kms² of the Gunnedah Basin, the most lightly explored portion of the Bowen-Gunnedah-Sydney Basin complex which presently supplies the dominant proportion of Australia's coal seam gas production. Production testing is underway at two locations (Bibblewindi and Bohena) and, on the basis of the production pilots, 2P gas reserves of 185 Petajoules and 3P gas reserves of 1,300 Petajoules were independently certified and announced on 24 January 2008.

Further reserves will be generated in 2008/09 in PEL238 through the 20 well corehole programme and the completion of 4 multi-lateral production pilot wells at Bibblewindi, Dewhurst and Coonarah. The in-seam, or horizontal, section of the multi-lateral wells will have a notional length of around 1 km, and will be drilled perpendicular to the fracture system within the target coal seams to maximise connectivity resulting in many times greater flow rates than can be achieved from vertical, fracture-stimulated wells.

Gas from the production pilots will be connected into ESG's Wilga Park Power Station which will, be expanded to take production test gas in addition to gas currently supplied from ESG's Coonarah gas field. MOU's for the supply of gas from PEL 238 have been signed with Macquarie Generation (up to 500 PJ) and Babcock & Brown (up to 40 PJ/a).



Multi-lateral Well Layout



- ✓ Exploits coal geology
- ✓ Maximises return on investment
- ✓ Minimises environmental impacts

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