

For personal use only

**Hillgrove Resources Limited  
and its Controlled Entities**

**Half Year Financial Report  
31 July 2007**

For personal use only

# Hillgrove Resources Limited and its Controlled Entities

ACN 004 297 116

## Contents

Directors Report	1
Auditors' Independence Declaration	5
Consolidated Income Statement	6
Consolidated Balance Sheet	7
Consolidated Statement of Changes in Equity	8
Consolidated Cash Flows Statements	9
Notes to the Financial Statements	10
Directors' Declaration	12
Independent Review Report	13

## Directors' Report

The directors present their report together with the financial report of the consolidated entity, being Hillgrove Resources Limited (the "Company") and its controlled entities, for the half-year ended 31 July 2007.

### Directors

The directors of the Company at any time during the half year or since the end of the half year are:

<b>Name and qualifications</b>	<b>Age</b>	<b>Experience and special responsibilities</b>
The Hon. Dean Craig Brown Qualifications Experience	64	<b>Chairman</b> B Rur. Sc., Grad. Dip Bus. Admin, M. Rur. Sc. Former Premier and Minister of the South Australian Government, Member of the South Australian Parliament 1973-1985 and 1992-2006. Has held various portfolios including health, aboriginal affairs, public works, industrial relations, and information technology. Also Deputy Premier and Leader of the Opposition. Currently a Member of the National Youth Mental Health Advisory Board, Director of Foodbank SA and Scantech Limited, and a member of several advisory boards. Previously a Director of AACM International Pty Ltd (1986-92) and a Senior Agricultural Scientist, SA Government. Appointed 1 September 2006
Mr David Stuart Archer Qualifications Experience	51	<b>Managing Director</b> B.Ec., Dip. Laws (BAB), F.Aus.I.M.M.. David has held executive and non-executive roles in a number of Australian companies and has been actively involved in the Australian resources industry for over 25 years. He is a barrister (non-practising) of the Supreme Court of New South Wales and was the founder and former Executive Chairman of PowerTel Limited and was the founder and Deputy Chairman of Savage Resources Ltd. C David is currently a director of Crusader Holdings N.L., Eastern Star Gas Limited and InterMet Resources Limited. Appointed 11 November 2002

Name and qualifications	Age	Experience and special responsibilities
<p>Mr Ronald David Belz</p> <p>Qualifications</p> <p>Experience</p>	52	<p><b>Director</b></p> <p>B.Bus., CPA</p> <p>Ron became a Registered Tax Agent in 1978, and has been a member of CPA Australia since 1982 and a Certified Practising Accountant since 1987. He founded and currently operates a specialized tax accounting practice in Edgecliff, Sydney and has extensive knowledge and experience in accounting and taxation law in Australia.</p> <p>He has served in a range of executive functions. Previously a Director of Hostworks Limited, Ron is currently a Board Member of Academy BJE, the NSW Board of Jewish Education and a Director of Green Light Media International Pty Ltd, the publisher of the Green Pages directory.</p> <p>Ron is Chairman of the Remuneration Committee.</p> <p>Appointed 11 November 2002</p>
<p>Mr John Edwin Gooding</p> <p>Qualifications</p> <p>Experience</p>	54	<p><b>Director</b></p> <p>Assoc. Dip. - Mining Eng., FIE Aust. CPEng. FAusIMM</p> <p>A mining engineer with over 30 years experience in gold and base metal resources. John has held management and executive positions with CRA, Normandy Mining, MIM, Xstrata, Ok Tedi Mining and Roche Mining. He has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia and internationally. He is a Fellow of both the Institute of Engineers Australia and Australasian Institute of Mining &amp; Metallurgy, a former board member of the Queensland Resource Council, and has held directorships in a number of companies within the resources industry. He is currently Managing Director and CEO of Highlands Pacific Group.</p> <p>Appointed 31 May 2007</p>
<p>Dale John Ferguson</p> <p>Qualifications</p> <p>Experience</p>	36	<p><b>Director</b></p> <p>B.App.Sc(Geol) Hons, MAusIMM</p> <p>Dale has an extensive industry background developed over 14 years – working previously with Thundelarra Exploration, Resource Exploration and Resource Service Group. He has been associated with a number of discoveries in Australia including Eileen Bore, Copernicus and Salk Ni-PGM, Big Ben PGM and three new kimberlites at the Aries project with Thundelarra, the discovery of the Fields Find and Dauphin Ni-PGM bearing Layered Ultramafic complex's, and with Resource Exploration the Weiro and Raven Gold Prospects. Dale is currently a Director at InterMet Resources Limited.</p> <p>Appointed 14 May 2007</p>

For personal use only

## Directors' report (continued)

### Principal activities

The activities of the consolidated entity have been focused on identifying resources opportunities that can either be brought into production readily or those where there is a defined value adding route within a clearly understood risk environment. Commodities that are of particular interest include copper, gold, garnet, natural gas, silver, lead and zinc.

There were no significant changes in the nature of the consolidated entity's principal activities during the half-year.

### Review and results of operations

The loss of the consolidated entity for the half-year was \$2,915,268 after taking account of a \$1,031,478 income tax benefit (half year to 31 July 2006 loss: \$968,574). The loss is \$1,472,679, before taking account of the \$2,474,067 losses of associates accounted for using the equity method.

### Exploration & Feasibility Study

During the period the consolidated entity continued exploration on its two primary projects:

- Lycopodium and Hillgrove staff continued the definitive feasibility study assessment of the Kanmantoo Copper/Gold Mine to evaluate the potential re-development of the mine.
- Kanmantoo's JORC-compliant Inferred Resource was increased to 33.4Mt grading 0.9% copper and 0.20g/t gold, containing 290,000t of copper and 216,900oz of gold.
- The nine well production pilot, held by Eastern Star Gas Limited continues dewatering with gas production steadily increasing. The consolidated entity has a 25% fully diluted interest in Eastern Star Gas Limited.

### Investments

The market value of Hillgrove's investments on 31 July 2007 was \$85m whilst the book value was approximately \$27.7m.

### Capital Raising

The following funds were raised during the period:

- On 10 July 2007 the Company completed a Share Purchase Plan issuing 12.44 million shares to raise \$6.47m.
- On 6 February 2007 the Company placed 22 million ordinary shares raising \$5.0 million.

### Debt Funding

Subsequent to the period end the Company borrowed a further \$10,000,000 under its Macquarie Bank Debt Facility now totalling \$13,000,000.

### Dividends

No dividends have been paid or declared by the Company since the end of the previous financial year.

Directors' report (continued)

**Auditors independence declaration**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

Signed in accordance with a resolution of the directors:

Dated this 10<sup>th</sup> day of October 2007.



The Hon. Dean Brown  
*Chairman*



D S Archer  
*Managing Director*

For personal use only

PricewaterhouseCoopers  
ABN 52 780 433 757

PricewaterhouseCoopers Centre  
26 Honeysuckle Drive  
PO Box 798  
NEWCASTLE NSW 2300  
DX 77 Newcastle  
Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
Telephone +61 2 4925 1100  
Facsimile +61 2 4925 1199  
[www.pwc.com/au](http://www.pwc.com/au)

## Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half year ended 31 July 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hillgrove Resources Limited and its controlled entities during the period.



John Champion  
Partner  
PricewaterhouseCoopers

Newcastle  
10 October 2007

Liability limited by a scheme approved under Professional Standards Legislation

**Consolidated Income Statement**  
**For the half year ended 31 July 2007**

	Note	Half Year	
		July 2007	July 2006
		\$	\$
<b>Revenue from continuing operations</b>		212,988	125,356
Other Income		271,288	144,406
Accounting, ASIC & Audit		(69,839)	(59,762)
Bank Interest & Charges		(424,572)	(128,087)
Computing & Communications		(56,033)	(31,028)
Consultants Fees		(163,368)	(73,488)
Depreciation		(49,093)	(41,064)
Directors Fees		(68,635)	(45,000)
Entertainment		(2,183)	(291)
Insurance		(35,650)	(24,025)
Public Co. Expenses		(142,903)	(67,944)
Rent		(62,134)	(84,138)
Employee benefits expense		(695,521)	(387,580)
Travel		(123,799)	(75,653)
Promotion		(40,596)	(71,614)
Rehabilitation expenditure		(2,107)	(17,763)
Loss on sale of shares		-	(53,300)
Other Expenses		(20,522)	(21,185)
Share of net profits/(losses) of associates accounted for using the equity method		(2,474,067)	(56,414)
<b>Loss before income tax</b>		(3,946,746)	(968,574)
Income tax benefit		1,031,478	-
<b>Net Loss attributable to ordinary equity holders of Hillgrove Resources Limited</b>		(2,915,268)	(968,574)
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic earnings per share		(0.012)	(0.005)
Diluted earnings per share		(0.012)	(0.005)

The consolidated income statement above should be read in conjunction with the accompanying notes

## Consolidated Balance Sheet

As at 31 July 2007

	Note	31 July 2007 \$	31 January 2007 \$
<b>Current assets</b>			
Cash and cash equivalents		6,970,153	8,019,314
Receivables		844,269	843,391
Available-for-sale financial assets		2,701,129	2,622,381
<b>Total current assets</b>		<b>10,515,551</b>	<b>11,485,086</b>
<b>Non current assets</b>			
Investments accounted for using the equity method		25,948,141	27,215,468
Property, plant and equipment		5,912,941	506,955
Exploration & evaluation expenditure		20,836,997	13,863,689
<b>Total non current assets</b>		<b>52,698,079</b>	<b>41,586,112</b>
<b>Total assets</b>		<b>63,213,630</b>	<b>53,071,198</b>
<b>Current liabilities</b>			
Payables		1,868,431	1,016,210
Borrowings		3,000,000	3,000,000
Provisions		28,258	28,258
Other		22,837	22,837
<b>Total current liabilities</b>		<b>4,919,526</b>	<b>4,067,305</b>
<b>Non current liabilities</b>			
Borrowings		6,000,000	6,000,000
Provisions		150,000	150,000
Deferred tax liability		2,929,920	4,035,278
Other		113,303	124,722
<b>Total Non current liabilities</b>		<b>9,193,223</b>	<b>10,310,000</b>
<b>Total liabilities</b>		<b>14,112,749</b>	<b>14,377,305</b>
<b>Net Assets</b>		<b>49,100,881</b>	<b>38,693,893</b>
<b>Equity</b>			
Contributed equity		46,462,054	33,315,841
Reserves	2	1,787,321	1,611,283
Accumulated profits/(losses)		851,506	3,766,769
<b>Total equity</b>		<b>49,100,881</b>	<b>38,693,893</b>

*The consolidated balance sheet above should be read in conjunction with the accompanying notes.*

**Consolidated Statement of Changes In Equity**  
**For the half year ended 31 July 2007**

	Half Year	
	July 2007	July 2006
<b>Total equity at the beginning of the half year</b>	38,693,893	15,772,246
Employee share options	151,302	131,483
Changes in fair value of available for sale financial assets, net of tax	24,741	-
<b>Net income recognised directly in equity</b>	176,043	131,483
<b>Loss for the half year</b>	(2,915,268)	(968,574)
<b>Total recognised income and expense for the half year</b>	(2,739,225)	(837,091)
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	13,146,213	2,983,772
Minority interest on disposal of subsidiary	-	(27,346)
<b>Total equity at the end of the half year</b>	49,100,881	17,891,581

*The consolidated statement of changes in equity above should be read in conjunction with the accompanying notes.*

**Consolidated Cash Flows Statement**  
**For the half year ended 31 July 2007**

	Half Year	
	July 2007	July 2006
	\$	\$
<b>Cash Flows From Operating Activities</b>		
Receipts from customers (inclusive of GST)	-	69,397
Payments to suppliers and employees (inclusive of GST)	(880,538)	(482,353)
Interest received	212,988	120,773
<b>Net cash outflow from operating activities</b>	<u>(667,550)</u>	<u>(292,183)</u>
<b>Cash Flows From Investing Activities</b>		
Exploration /mine development	(6,973,308)	(5,827,994)
Payments for plant and equipment	(5,455,079)	(261,953)
Proceeds on sale of investments	973,202	61,659
Payments for investment	(1,952,052)	(725,114)
<b>Net cash outflow from investing activities</b>	<u>(13,407,237)</u>	<u>(6,753,402)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issue of shares	13,048,222	3,005,717
Transaction costs arising from issue of shares	(281,595)	(102,427)
Proceeds from issue of convertible notes	-	2,000,000
<b>Net cash inflow from financing activities</b>	<u>13,019,627</u>	<u>4,903,290</u>
<b>Net increase in cash and cash equivalents</b>	(1,049,160)	(2,142,295)
<b>Cash and cash equivalents at the beginning of the financial period</b>	<u>7,789,760</u>	<u>5,125,486</u>
<b>Cash and cash equivalents at the end of the financial period</b>	<u><u>6,740,600</u></u>	<u><u>2,983,191</u></u>

*The consolidated cash flows statement above should be read in conjunction with the accompanying notes.*

## Notes to the Financial Statements For the half year ended 31 July 2007

### 1. Statement of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 July 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 January 2007 and any public announcements made by Hillgrove Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting periods.

	Note	July 2007 \$	July 2006 \$
<b>2. Contributed equity</b>			
Issued and paid-up capital			
259,598,930 ordinary shares, fully paid			
(2006 181,410,637 ordinary shares, fully paid)	3	46,462,054	25,680,530
<b>3. Ordinary shares</b>			
Movements During the half year			
Balance as at beginning of half year		33,315,841	22,696,758
Shares Issued			
- 7,500,000 for cash pursuant to a placement		-	1,500,000
- 293,035 Convertible Note Interest		-	80,482
- 7,500,000 for cash pursuant to a placement		-	1,500,000
- 25,587 for cash to exercise options		-	5,117
- 3,000 for cash to exercise options		-	600
- 22,000,000 for cash pursuant to a placement		5,060,000	-
- 2,059,087 for land purchase		1,200,000	-
- 12,440,396 for share purchase plan		6,477,197	-
- 842,087 Convertible Note Interest		265,332	-
- 2,124,000 for ESOP option exercise		340,800	-
- transaction costs arising from share issues		(281,595)	(102,427)
- deferred tax credit recognised directly in equity		84,479	-
Balance at end of half-year		46,462,054	25,680,530

## Notes to the Financial Statements For the half year ended 31 July 2007

### 4. Dividends

The Company has not paid or declared a dividend since the end of the previous financial year.

### 5. Segment reporting

The consolidated entity operates predominantly in the mineral exploration business in Australia.

### 6. Events subsequent to reporting date

In the opinion of the directors, no items, transactions or events of a material and unusual nature have arisen in the interval between the end of the financial year and the date of this report which have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years, apart from the following:

- on 12 August 2007 the Company borrowed \$2,000,000 from its Macquarie Bank finance facility.
- on 21 September 2007 the Company purchased 18.8m shares in Eastern Star Gas Limited using \$8,000,000 funds from its Macquarie Bank finance facility.

For personal use only

## Directors' Declaration

In the opinion of the directors of Hillgrove Resources Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 6 to 11, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 July 2007 and of its performance, for the half year ended on that date; and
  - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated this 10<sup>th</sup> day of October 2007.

Signed in accordance with a resolution of the directors:



The Hon. Dean Brown  
*Chairman*



D S Archer  
*Managing Director*

**Independent Auditor's Review Report  
to the members of Hillgrove Resources Limited**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Hillgrove Resources Limited, which comprises the balance sheet as at 31 July 2007 and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Hillgrove Resources Limited Group (the consolidated entity). The consolidated entity comprises both Hillgrove Resources Limited (the company) and the entities it controlled during that half-year.

***Directors' Responsibility for the Half-Year Financial Report***

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 July 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hillgrove Resources Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

#### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

#### **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hillgrove Resources Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 July 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

  
PricewaterhouseCoopers

  
John Champion  
Partner

Newcastle  
10 October 2007