

**The Board of Directors of Hillgrove Resources Limited (Hillgrove)  
(ASX: HGO) reports for the quarter ended 31 July 2009**

During the second quarter of 2009 the Company sold its investment in Eastern Star Gas Limited. At the same time, Hillgrove bought back the Convertible Bonds on issue. Hillgrove's key operating assets now comprise the Kanmantoo Copper Gold Project, its Indonesian exploration acreage where it is targeting the discovery of Tier 1 gold and copper gold ore bodies and cash of \$127 million.

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**HIGHLIGHTS**

- Hillgrove sold a 19.99% interest in Eastern Star Gas Limited to Santos Limited for \$171,986,050 cash.
- Significant upside retained if change of control of ESG occurs within 18 months.
- Convertible bonds bought back for USD\$39 million and cancelled clearing all debt.
- Cash balance at 31 July of \$127 million or \$0.31 per Hillgrove share before tax.
- Permitting of Kanmantoo Copper/Gold Mine Project development is nearing completion.
- A programme to identify potential joint venture partners for the development of Kanmantoo is at an early stage with an Information Memorandum expected to be issued in early September.
- Preparation starting in earnest for the exploration programmes to be undertaken at Bird's Head and Sumba Projects in eastern Indonesia.
- Investment portfolio and cash totalled \$130.1 million at the end of the quarter.

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**KANMANTOO PROJECT, SOUTH AUSTRALIA**

Hillgrove's near term objective for the Kanmantoo Copper Gold Project is to team with a joint venture partner to assist with the development (subject to financing and the completion of permitting) of the project. Kanmantoo is ideally positioned to be in production at the front end of the next major metals price cycle.

The main Kanmantoo deposit remains open at depth and along strike providing real potential to continue upgrades of the resource and reserves base as the project moves forward.

**KANMANTOO MINE PROJECT,  
MINING LEASE 5776 AND EXPLORATION LICENSE 3277  
(Hillgrove 100%)**

Kanmantoo is located on the site of a former mine, which was operated in the 1970's (Plate 1). With road, power and water infrastructure in place, and combined with the project's Adelaide Hills' setting, Kanmantoo possesses major operating and capital cost advantages to that of its more remote peers.

A Mining and Rehabilitation Plan is being assessed by PIRSA, and pending any required changes, approvals are expected to be granted during the fourth quarter of 2009.



**Plate 1. Kanmantoo and immediate surrounds**

### **Joint Venture Partner**

Hillgrove is in the process of arranging a short list due to the level of interest generated by the Kanmantoo Project being one of the only copper projects in Australia coming on line in the next two years. Hillgrove's aim is to team with a joint venture partner to assist the development while Hillgrove continues to manage it. Final financing arrangements can be undertaken for the Project once a Joint Venture is in place and permitting is completed.

### **WHEAL ELLEN, SOUTH AUSTRALIA, EXPLORATION LICENSE 3232 (Hillgrove 100%)**

The Wheal Ellen Prospect (EL 3232) is located 40km east south east of Adelaide and 10km north of Strathalbyn and 7km along strike from the Angus silver-lead-zinc mine. It is named after the historical silver-lead-zinc mine at the centre of the tenement which was worked primarily in the 1850's and produced an estimated 75,000 tons at an overall grade of 25% zinc, 20% lead and 12oz/t silver.

The review of exploration results has been completed as a prelude to further exploration work.

*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 General Manager – 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.*

INDONESIAN INITIATIVE



Plate 2. Exploration project locations in Indonesia

Hillgrove is undertaking a major new exploration initiative into the highly prospective Pacific ‘Ring of Fire’; a setting which hosts numerous large scale copper/gold porphyry systems and epithermal gold deposits. To date, Hillgrove has entered into two joint ventures over two areas: a large KP on the island of Sumba, adjacent to the island of Sumbawa which hosts Newmont’s major Batu Hijau copper-gold mine, and the Birds Head Project, in West Papua. The Bird’s Head Project is located along the westward continuation of the New Guinea mineral belt that hosts Grasberg and Ertzberg in West Papua and Pongera and OK Tedi in Papua New Guinea (Plate 2-3).

This exploration initiative introduces Hillgrove to a new geological setting which hosts world class deposits and it is hoped that any major discoveries made will place Hillgrove in an excellent overall position to grow into a mid-tier resources group.

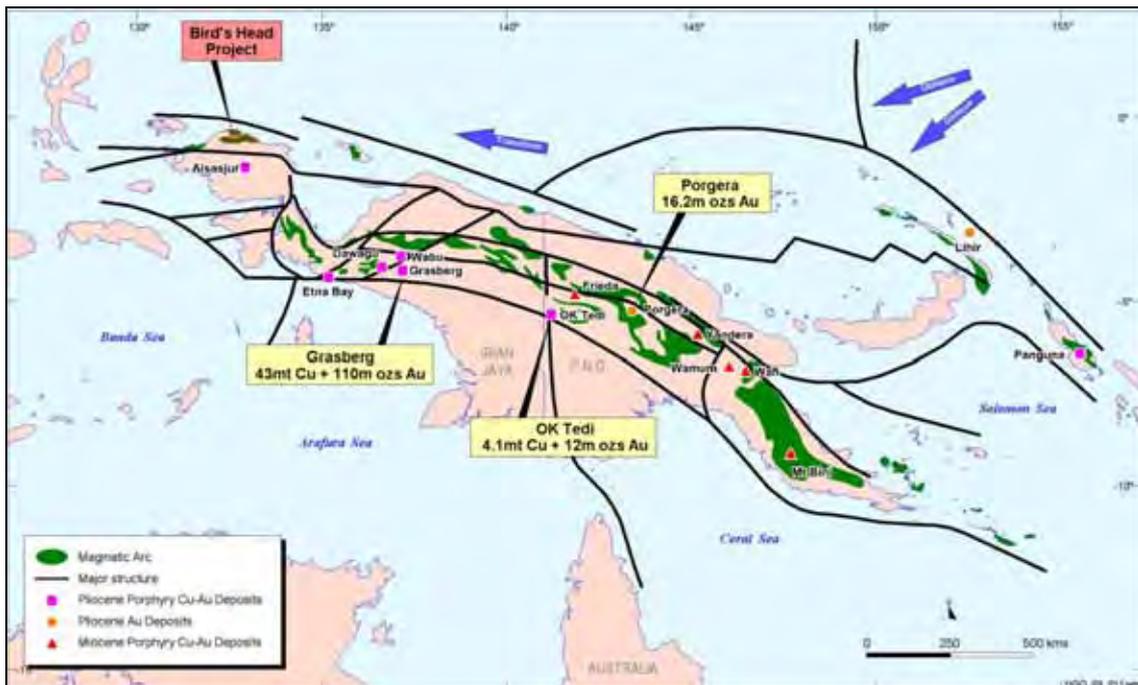


Plate 3. Bird’s Head Project in West Papua, Indonesia

**BIRD'S HEAD, WEST PAPUA, INDONESIA, KP254****(Hillgrove 80%, PT Akram Resources 20%)**

P.T. Akram Resources was awarded an exploration license or Kuasa Penambangan (KP) over 1,815km<sup>2</sup> of the Bird's Head Peninsula (Kepala Burung) in West Papua, Indonesia on the 4 December 2008. In consideration of the grant of an 80% indirect interest, Hillgrove will undertake exploration work, feasibility studies if justified, and steps to advance the KP to exploration status.

The Bird's Head Project is located in north-western West Papua in the Indonesian province of Papua Barat. The regional centre of Sorong, located approximately 130km to the southwest, is supported by regular commercial air and sea services. The KP license area is sparsely populated and covers areas ranging from the coast through to moderate elevations of around 2,500m within 40km of the coast.

The KP covers a number of mineralised areas explored between 1986 and early 1993 and shown to contain extensive porphyry style copper-gold and epithermal gold mineralisation, with five major zones identified. Three stream drainages showing detrital gold were named Alpha, Bravo and Golf and prioritised as epithermal style gold targets and an additional two, Foxtrot and Delta, as porphyry style copper-gold targets.

The extensive gold and base metal mineralisation already identified plus the excellent geology, matched with a large exploration data base, means Hillgrove is in the hunt for a potential major discovery. The attractiveness of the Project is highlighted by the fact that on the same basis as Hillgrove, two international majors were concurrently awarded KP's in the same area.

**Exploration Programme**

The KP is in a 12 month general survey phase aimed at advancing prospects to drill definition. Work continues on compiling previous exploration reports and historic data, and establishing support for ground activities. Logistical and geological services have been established in Jakarta and Sorong, which includes geologists and staff highly experienced in working in West Papua. Contact continues to be made with local workers who were involved in earlier exploration, which will substantially shorten the time required to establish access and on-ground facilities.

Work has begun on forestry permitting and commencement of forestry mapping and an exploration budget and programme is being prepared.

**SUMBA, INDONESIA, KP350****(Hillgrove 80%, PT Fathi Resources 20%)**

Hillgrove's Indonesian partner, PT Fathi Resources was granted an extension for General Survey activities within the Sumba Exploration License for a further year. In consideration of the grant of an 80% indirect interest, Hillgrove will undertake exploration work, feasibility studies if justified, and steps to advance the KP to exploration status.

The Sumba KP covers 331,300 hectares and is split into three project areas that coincide with the volcanic basement. These project areas were originally defined through exploration conducted by PT BHP Sumba Minerals. The work was conducted under a sixth generation Contract of Work (COW) agreement covering 346,500 hectares granted in 1997. Hillgrove's KP matches the COW boundaries after the first relinquishment (Plate 4).

**Exploration Programme**

A field crew is currently in Sumba and work has commenced on field mapping and surface sampling programs primarily at Pahandanjal Prospect within the Masu Project Area. Results from these programs will be released in the coming months.



Plate 4. Map showing basic geology and tenement boundary for Sumba

The information in this report that relates to Exploration Results is based on information compiled by Mr. Adam Freeman, who is a Member of The Australasian Institute of Geoscientists. Mr. Freeman is an Exploration Manager for 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. Freeman consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

## INTERMET RESOURCES LIMITED (Hillgrove 84.8% Shareholder)

Activities during the last quarter have again focused on the need to prioritise projects following the tenement review. Preparations have also commenced on planning for field activities primarily focused on the Munderra Project.

Highlights include:

- Work is continuing on the Wanilla Project (EL 3702) at Coultas to identify potential DSO iron targets. Drill testing of a number of these targets has been completed and results are pending.
- Exciting new uranium exploration target defined at the Corrunna North Project.

## Queensland Projects

### **Munderra Project** (EPM 15481, ML 3945 and 20428 - InterMet 100%) *Iron, Copper, Gold and Base Metals*

During the last quarter, InterMet has been active on the Munderra Project with the following work.

A detailed review of the Munderra Project was completed with a view to evaluate the prospectivity of the project and determine the best way forward. This work has highlighted good potential for copper, gold and base metals and a detailed work program including soil sampling, rock chip sampling and geological mapping has now been devised for this project. This work is expected to be completed during the coming quarter.



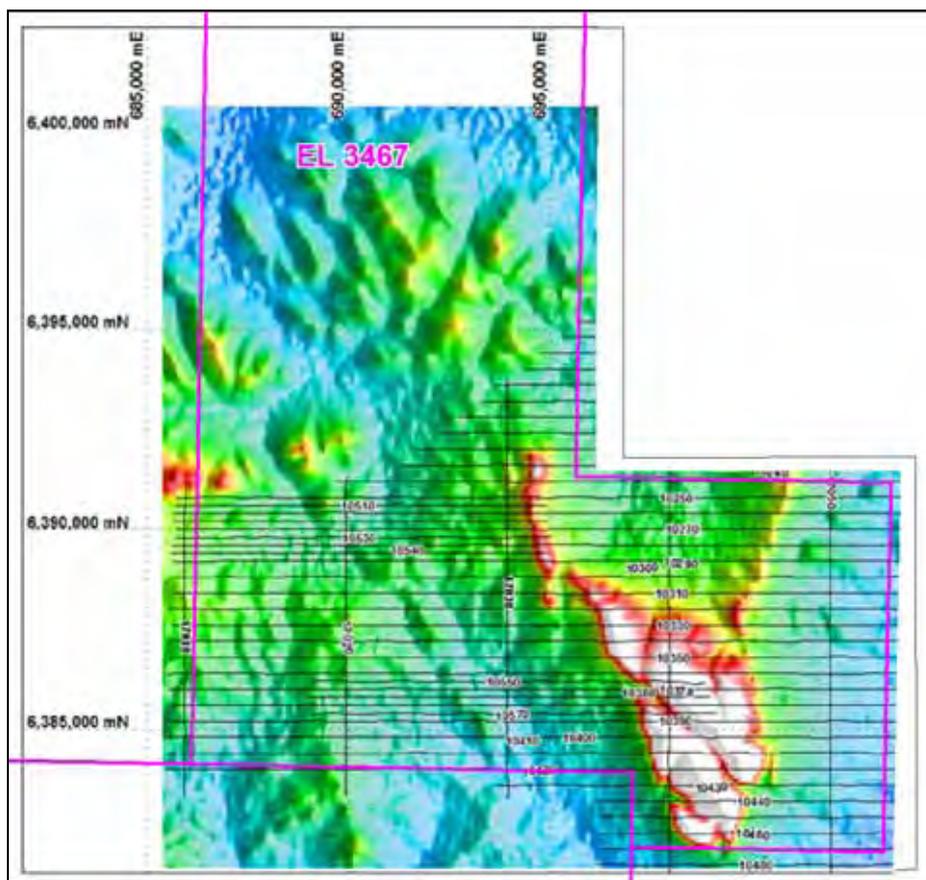


Figure 1. Location of the Tempest Flight Lines over a Digital Terrain Model (SRTM)

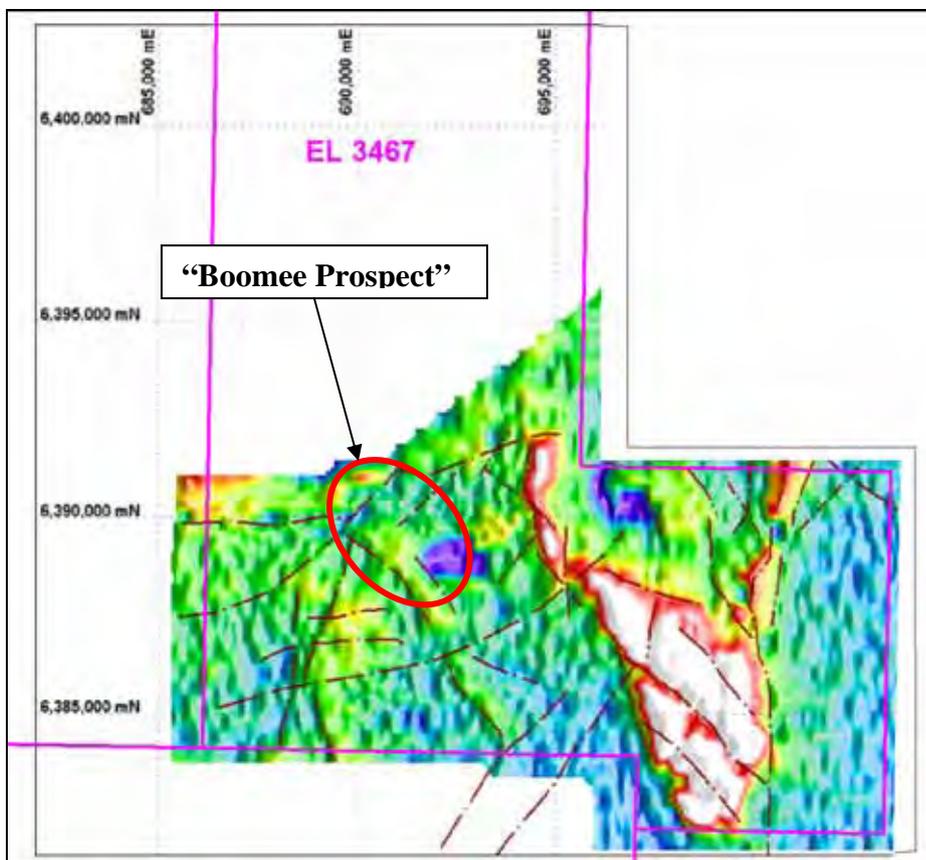


Figure 2. Image displaying the top of the crystalline basement interpretation from the geo-electric model sections, with the interpretation of the regional basement structures

This system aids in the development of geological models in areas of transported cover which is fundamental to the development of exploration targets.

The AEM completed over EL 3467 has been very successful in delineating the underlying geology and structure and defining a high order exploration target, the "Boomee" prospect which is the circled area in Figure 2. It is interpreted that the AEM models are delineating a fault bounded easterly dipping mudstone unit that plunges to the south. This mudstone is considered a good reducing unit. The eastern bounding structure presents an excellent fluid path with hot granites (source rocks) in close vicinity. The geological setting of the Boomee project area presents itself as an excellent potential uranium trap and host site.

Work is currently under way to define the next steps in the exploration program to further define the uranium potential of the Boomee prospect.

### **Coulta Project**

**(EL 3314, 3671, 3702, 3948 – InterMet 100%; Lincoln Minerals earning an 80% interest in all minerals except uranium on EL 3702)**

*Komatiite Hosted Nickel, Volcanic Hosted Massive Sulphide,  
Archaean Orogenic Gold and Palaeochannel Hosted Rollfront Uranium*

Joint venture partner Lincoln Minerals has completed a detailed gravity survey over selected targets on the Wanilla Project at EL 3702. The aim of the gravity survey was to identify potential direct shipping (DSO) style hematite iron mineralisation targets. The results of this survey have been interpreted with a number of the targets drill tested during the quarter as part of a RC/aircore drilling program. A total of 34 vertical RC/air core holes, for a total of 1446.5m, were completed. Ongoing interpretation of drill logs and portable XRF assays is currently underway. Results are expected during the coming quarter.

### **Other Tenements**

Work has continued on the review process for the whole InterMet portfolio with a view to reducing it to a manageable size and defining a number of key projects on which to focus InterMet's exploration efforts. Two key focus areas have now been identified – the Mt Garnet area in Queensland and the Lake Gilles area in South Australia. This work is ongoing and is expected to be largely completed during the next quarter.

During the quarter InterMet declined to exercise its option over the Big Reef. Mining Leases numbered 3278, 3279 and 3280 and the option has now lapsed in Queensland and EL 4001, 4002 and 4135 were relinquished in South Australia.

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### **EASTERN STAR GAS LIMITED**

Hillgrove reported during the quarter that it had entered into a securities sale agreement with Santos Limited for the sale by Hillgrove of a 19.99% interest in Eastern Star Gas for a total consideration of \$171,986,050 cash, which was settled on 15 July 2009.

## CORPORATE

### Sale of Eastern Star Gas Investment

The sale of 151,823,529 shares and 23,720,614 options, exercisable at \$0.15 per option, in Eastern Star Gas Limited to Santos Limited resulted in \$171,986,050 cash equating to a price of \$1.00 per Eastern Star share and \$0.85 per Eastern Star Gas option.

It is anticipated that Hillgrove will book a profit on the transaction of approximately \$94 million before tax for the half year ending 31 July 2009. Tax payable on the transaction is estimated to be approximately \$23 million after utilising anticipated carry forward tax losses.

Santos is required to make an additional payment to Hillgrove in the event that Santos or a third party completes the acquisition of a beneficial interest of more than 50% in Eastern Star Gas at a bid price in excess of AUD\$1.00 per share and within 18 months of Santos' acquisition of Hillgrove's interest in Eastern Star Gas shares and options. Upon the completion of the acquisition, the calculation of the additional payment would be as follows:

- i. if the change of control transaction is undertaken by Santos, 100% of the excess multiplied by 175,544,143 shares; or
- ii. if the change of control transaction is undertaken by a third party, 50% of the excess multiplied by 175,544,143 shares.

### Convertible Bonds

In conjunction with the sale of the ESG investment, on the 15 July Hillgrove purchased all of the convertible bonds on issue to the Stark Investments Group for a total of USD\$39 million (approximately AUD\$49.86 million). This has resulted in both the cancellation of the debt and, importantly, the elimination of the potential for these to be converted into 168.4 million new Hillgrove shares.

### Share Placement and Share Purchase Plan

Further to the capital raising of \$4.1 million completed in February, an additional share placement to a number of sophisticated shareholders was finalised on the 18 May raising \$5.15 million. A total of 34,333,333 new fully paid Hillgrove ordinary shares were issued at a price of \$0.15 per share. Hillgrove was also pleased to welcome the Copulos Group as a substantial shareholder.

The funds raised from the placement were raised to:

- launch a major exploration initiative at the advanced Alpha and Delta prospects at our Bird's Head Project in Indonesia;
- Fund activities associated with the Kanmantoo Project near Adelaide, South Australia, including the acquisition of long lead time items and costs associated with statutory approvals; and
- Meet the Company's corporate costs and general working capital needs.

The market value of Hillgrove's investment portfolio as at 31 July 2009 was approximately \$2.5 million.

Cash on hand as at 31 July 2009 was \$127.6 million.

## ABOUT HILLGROVE

Hillgrove is an Australian resources company listed on the Australian Securities Exchange (ASX: HGO) focused on developing its Indonesian, South Australian and Queensland 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 Gold Project, located less than 60km from Adelaide. Kanmantoo currently hosts a Mineral Resource of 32.2Mt (2.3MT Measured, 22.5MT Indicated and 7.4MT Inferred) grading 0.9% copper and 0.20g/t gold, containing 292,200 tonnes of copper, 191,100 ounces of gold and 3,313,600 ounces of silver. With production targeted for the first quarter of 2011, Kanmantoo will be a 2Mt p.a. open-cut mine producing approximately 17,000 tonnes of copper in concentrate and 8,000 ounces of gold per annum.

**For more information contact:**

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

HILLGROVE RESOURCES LIMITED

ABN

73 004 297 116

Quarter ended ("current quarter")

31 July 2009

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date:6 months \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	12
1.2 Payments for(a)exploration and evaluation	(239)	(493)
(b) development	(346)	(932)
(c) production		
(d) administration	(254)	(1,538)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
<b>Net Operating Cash Flows</b>	(839)	(2,951)
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects		
(b) equity investments	(358)	(358)
(c) other fixed assets	(1,304)	(1,965)
1.9 Proceeds from sale of(a)prospects		
(b) equity investments	171,986	171,986
(c) other fixed assets		
1.10 Loans to other entities	(120)	(430)
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
<b>Net investing cash flows</b>	170,204	169,233
1.13 Total operating and investing cash flows (carried forward)	169,365	166,282

1.13	Total operating and investing cash flows (brought forward)	169,365	166,282
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	3,456
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings	(49,862)	(49,862)
1.18	Dividends paid		
1.19	Other (provide details if material)		
	<b>Net financing cash flows</b>	(49,862)	(46,406)
	<b>Net increase (decrease) in cash held</b>	119,503	119,876
1.20	Cash at beginning of quarter/year to date	8,141	7,768
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	127,644	127,644

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities		
3.2	Credit standby arrangements		

### Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	250
4.2	Development	750
<b>Total</b>		<b>1,000</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	127,246	7,743
5.2	Deposits at call	398	398
5.3	Bank overdraft		
5.4	Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)		<b>127,644</b>	<b>8,141</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased	EML 6340	0%	100%

### Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> <i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			

7.3	<b>+Ordinary securities</b>	413,027,311	413,027,311		
7.4	Changes during quarter				
	(a) Increases through issues				
	(b) Decreases through returns of capital, buy-backs				
7.5	<b>+Convertible debt securities</b> <i>(description)</i>				
7.6	Changes during quarter				
	(a) Increases through issues				
	(b) Decreases through securities matured, converted	4% Convertible Bonds due June 2011 – repaid July 2009			
7.7	<b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	Unlisted – ESOP ExSOP	2,684,000		\$0.20	28/10/2009
	Unlisted – ESOP ExSOP	1,000,000		\$0.16	8/02/2011
	Unlisted – ESOP ExSOP	200,000		\$0.40	22/5/2012
	Unlisted – ESOP ExSOP	300,000		\$0.55	13/6/2012
	Unlisted – ESOP ExSOP	500,000		\$0.575	27/6/2012
	Unlisted – ESOP ExSOP	990,000		\$0.38	15/8/2012
	Unlisted – ESOP ExSOP	1,500,000		\$0.26	22/1/2013
	Unlisted – ESOP ExSOP	200,000		\$0.34	28/04/2013
	Unlisted	5,000,000		\$0.30	30/06/2010
	Unlisted	10,000,000		\$0.30	24/10/2011
	Unlisted	8,000,000		\$0.40	30/9/2010
	Unlisted	15,384,615		\$0.65	31/12/2009
	Unlisted	2,500,000		\$0.70	31/06/2010
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Company secretary

Date: 31 August 2009

Print name: RUSSELL MIDDLETON

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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