

Wednesday, 22 June 2011

CHAIRMAN'S ADDRESS TO AGM

Please find following the Chairman's Address made at the Annual General Meeting of Hillgrove Resources Limited (ASX:HGO) at the Stamford Hotel in Adelaide today.

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 Mine, located less than 55km from Adelaide in South Australia. 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 completion of construction targeted for 2011, Kanmantoo will be a 2.4MT per annum open-cut mine producing approximately 20,000 tonnes of copper in concentrate 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 Paul Payne, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Payne 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 Payne consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

For more information contact:

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Chairman's Address

Hillgrove Resources Limited Annual General Meeting 2011

Ladies and Gentlemen,

Welcome to the 2011 Annual General Meeting of Hillgrove Resources Limited.

As of today, construction of the copper-gold-silver project at Kanmantoo is more than 65% completed. The project is on schedule to be completed, and for production to start in early November 2011. At this stage, with all the major items of plant and equipment either installed or on site, and barring unforeseen events, we are forecasting total construction costs to be on or within the budget of AUD121.3 million, that we announced at FID in November 2010. In the current environment, I am sure you will agree that anything close to this number will be a significant achievement of the Company.

On the 29 October 2010, the finance package for the Kanmantoo Copper Mine was successfully completed with an AUD65 million equity capital raising and AUD50 million of senior funded debt, guarantees and associated commodity hedging facilities. This enabled the Board to announce the Final Investment Decision, and for construction to start within weeks. This was a tremendous milestone for Hillgrove.

The first truckloads of copper concentrate from the site are expected before the end of November 2011. This will transform Hillgrove Resources from an explorer to a producer of minerals.

I refer you to the Annual Report to see the significant progress that has been made. Recently there have been over 300 workers on site each day. Of the 69 Hillgrove workers, about 72% live in the local region. So this project is a major boost to the regional economy.

On behalf of the Board, I thank the entire Hillgrove team, and the many contractors for the rapid progress made so far on constructing the project.

The Kanmantoo Copper Mine will be starting production when copper prices are near record highs, and potentially very volatile. The Board has taken a conservative approach by protecting our price for a proportion of copper contained in our concentrate product. The Company sold forward 40,000 tonnes of copper concentrate over the debt term of about 40 months, commencing in June 2012. This represents approximately 50-55% of the projected copper production during this period. The Company achieved an average hedge price for copper of AUD\$8,230/tonne, net of the credit margin. The Company also purchased 7,000 tonnes of put options to underpin revenue during the important ramp-up phase following commissioning. There is more detail about this in the Annual Report.

Hillgrove Resources posted a net loss after tax for the twelve months ended 31 January 2011 of AUD14.2 million. As you know, recent years' results were influenced by the extraordinary gains on the sale of our Eastern Star Gas shareholding. The 2010-11 results are primarily a consequence of the structure of the finance package, as well as one-off items associated with discontinued or revalued businesses. Hillgrove is now poised with the basis for a very healthy future.

During the past year net assets increased to AUD185 million, from AUD164 million in 2010. However the AUD185 million has been impacted by the inclusion of a AUD58.6 million non-current liability as a result of hedge accounting policies. While bringing to account the potential liability associated with forward sales at prices below the prices at balance date, contemporary accounting treatment does not recognise or reflect the additional revenue from the unhedged portion of production that would be realised at the time of settlement.

Kanmantoo is the core asset of your company, and our strategic focus is on extending the life of mine. This will add critical value to the Company and is clearly aligned to shareholder interests and value. There has been limited resource investigation at Kanmantoo for the past two years, and the Company believes the potential for additional resources is very high.

In addition, from a strategy perspective, the identification of other potential sources of cash flow in the medium term is essential to achieve the growth expected by our shareholders, and is consistent with the strategy reviewed and endorsed by the Board.

While the Company has exciting initiatives in Indonesia at Birds Head and Sumba, and we expect that these will take on more significance in the next couple of years, they will require patience, application and significant investment to realise any potential.

At Sumba a shallow drilling program has been completed and the aeromagnetic and radiometric survey is underway.

At Birds Head surface mapping continues and drill pads are being prepared as the Company awaits clearance to permit drilling to commence.

However, the main focus of the Company will remain on the Kanmantoo Project for the coming year and the medium term. The Board sees its first duty is to support management in achieving strong cash flow from Kanmantoo, while also driving our exploration pipeline for future growth.

This brings me to one of today's resolutions regarding Hillgrove's Long Term Incentive Performance Rights Plan. The extensive notes in the Notice of Annual General Meeting provide a rather legalistic view of the resolution and I would like to explain this initiative a little more.

A change of Australian Tax Law drives the new format which is why it might be unfamiliar to some. As a result of these changes in law, all LTIs for all companies will now create a tax event for the LTI holder on vesting, irrespective of whether or not the holder actually exercises the options or securities. The zero priced options (ZEPO's) structure, on which our program is based, has been developed to avoid this issue. The particular structure, of which there are several, that Hillgrove has settled on are termed "Performance Rights" within the industry.

The Board took extensive advice from a number of parties before recommending the adoption of the current structure and plan. LTI's are meant to be exactly that: Long Term Incentives. They are designed to provide an incentive to executives to stay with the Company for the medium term, yet ensure that any personal gains are aligned with shareholder interests. The award conditions attaching to Hillgrove's Performance Rights are closely aligned with shareholder gains which might be expected over the same period of the award. If the conditions are not met, the Performance Rights will not vest.

To offset the zero exercise price we have set some high hurdles and conditions on if, and when, the Performance Rights may vest.

- In the first Tranche issued last year, as well as those requested for approval this year, an executive must stay with the company for 3 years from award;
- 50% will be eligible to vest, subject to Total Shareholder Return (TSR) being above the median for a selected Peer group, measured over the three year period. For all of the 50% to vest, Hillgrove's TSR must be above the 75th percentile in the peer group comparison;
- For the remaining 50% to vest, the Completion Guarantee required by the banks financing the project has to be released by 30 June 2013.

While the Kanmantoo Copper Mine may perform as expected, Hillgrove will be unable to access any cash from the mine until that Completion Guarantee has been released by the banks. The condition of release of the Completion Guarantee was inserted in the plan to ensure our Managing Director is focussed on achieving the conditions required for release. The Board consider this a critical condition, and closely aligned to shareholders' interests.

- For the second Tranche of Performance Rights, which has been proposed for this year, and which is included as Resolution 4 in the Notice of Meeting, the executive again must stay with the Company for 3 years from award;
- Again like the previous issue, for 50% to vest Total Shareholder Return (TSR) must be above the 75th percentile for a selected Peer group, measured over the three year period.

However the remaining 50% is split as follows:

- For 30% of the Performance Rights to vest, the Kanmantoo reserve must be increased from 14.8 to 24.0 million tonnes – a 62% increase; and
- For the final 20% to vest, another JORC resource outside the Kanmantoo mining lease must be identified.

The Board believes the conditions attaching to both the first and second Tranche Performance Rights are strongly aligned to shareholders' interests, and represent current best practice for a company at Hillgrove's stage of development and growth. We urge you to support the resolution.

During the past year Mr David Archer resigned for personal reasons. I take this opportunity of thanking David for his leadership of Hillgrove Resources. His foresight in directing the Company into coal seam gas and then Eastern Star Gas provided a secure financial platform for the development of the Kanmantoo Copper Project.

With our new Managing Director Mr Drew Simonsen, who is experienced in project financing, at the helm, we were able to gain impetus and vigour in our efforts to obtain the Kanmantoo project financing, which as mentioned earlier, was completed by the end of October 2010. With the equity raising completed concurrently, your Board was able to announce a Final Investment Decision (FID) and the Company began construction.

I wish to thank our new Managing Director for throwing himself wholeheartedly into the Hillgrove family. His passion and drive has seen dramatic changes and we look forward to him developing Hillgrove Resources as a copper producer. Drew will provide a presentation on all our projects following the AGM.

The Board is very aware that there needs to be renewal as well as stability, amongst its Directors. Twelve months ago Mr Edwin Zemancheff was appointed as a non-executive director. Edwin has brought significant commercial, corporate and legal experience to the Board.

Mr Ron Belz, a founding Director of the Company with extensive financial and audit experience, has notified me of his intention to retire from the Board on the 30th December 2011, once the plant is commissioned and production commences. I take this opportunity to thank Ron for the huge contribution he has made to the development and success of Hillgrove. In a short period of time it has grown from a newly floated explorer to a mineral producer with a major net asset value. Ron will be replaced with a non-executive director with similar financial skills.

I would also like to commend and thank the staff of Hillgrove for their hard work and commitment to the success of the Company over the past year. We are a small but growing company and the Board is aware of the work load and the stresses and strains placed upon the relatively few during the past year of achievement.

We thank our shareholders for the support they have shown us during the development of the Kanmantoo project. Hillgrove is about to become a production company, and I certainly look forward to reporting back to you in a year's time.

The Hon. Dean Brown, AO
Chairman