

HILLGROVE

RESOURCES

Hillgrove Resources Limited
and its Controlled Entities

Interim Report
for the Half-Year Ended
31 July 2010



Hillgrove Resources Limited and its Controlled Entities

Interim Report 31 July 2010

ACN 004 297 116

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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 2010 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.

Directors' Report

Your directors present their report on the consolidated entity consisting of Hillgrove Resources Limited and the entities it controlled at the end, or during, the half-year ended 31 July 2010.

Directors

The following persons were directors of Hillgrove Resources Limited during the half-year and up to the date of the report:

- D C Brown
- D S Archer (resigned as Executive Director and appointed as Non-Executive Director 30 June 2010, resigned as Non-Executive Director 19 August 2010)
- D A Simonsen (appointed 18 August 2010)
- R D Belz
- J E Gooding
- J A Quirke
- E Zemancheff (appointed 23 June 2010).

Review of operations

The loss of the consolidated entity for the half-year was \$2,664,000 (half year to 31 July 2009: profit of \$53,846,000).

During the period the consolidated entity entered into a hedging strategy purchasing copper swaptions at a cost of \$8,707,000. These hedging instruments were marked to market value of \$7,824,000 at 31 July 2010 giving rise to a loss of \$882,000 for the 6 months ended 31 July 2010.

On 6 August 2010 the consolidated entity entered in to an agreement to sell its SAG Mill and surplus spares to Conquest Mining for \$6,950,000 plus GST. These funds were received in full by 3 September 2010. The assets were impaired to this recoverable value as at 31 July 2010 giving rise to an impairment loss of \$2,080,000 during the 6 months ended 31 July 2010.

The tax liability of \$19,453,000 as at 31 July 2010 which arose on the sale of an investment in Eastern Star Gas was paid in full on 4 August 2010.

Development

During the period the group continued with the development of the Kanmantoo project. The decommissioned Lennard Shelf Pillara Mine process plant facility has been dismantled and transported to the Kanmantoo site. Process plant construction is expected to commence later in the year.

Exploration

The group has undertaken drilling at its Masu Project in Sumba and discovered promising gold mineralisation. The consolidated entity also successfully converted its Bird's Head KP to an Exploration Business Mining (IUP Eksplorasi) for a term of seven years. Drill testing of the West Delta copper/gold porphyry target is planned for the second half of 2010.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded in accordance with that Class Order to the nearest thousand dollars.

Directors' report (continued)

Auditor's Independence Declaration

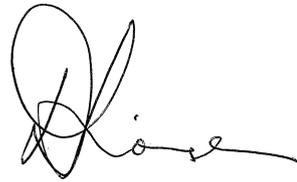
A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3.

This report is made in accordance with a resolution of the directors:

Dated this 28th day of September 2010.



The Hon. Dean Brown AO
Chairman



Mr D A Simonsen
CEO and Managing Director

Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half year ended 31 July 2010, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



DA Turner
Partner
PricewaterhouseCoopers

Newcastle
28 September 2010

Consolidated Income Statements
For the half year ended 31 July 2010

	Half Year	
	July 2010 \$'000	July 2009 \$'000
Revenue from continuing operations	4,327	135
Other income	29	93,715
Cost of goods sold	(1,041)	-
Accounting, ASIC & audit	(197)	(149)
Finance Costs	(121)	(13,961)
Computing & communications	(132)	(24)
Consultants fees	(389)	(286)
Depreciation	(183)	(128)
Directors fees	(216)	(142)
Entertainment	(11)	(15)
Insurance	(51)	(53)
Public company expenses	(173)	(132)
Rent	(120)	(55)
Employee benefits expense	(2,552)	(2,146)
Travel	(330)	(124)
M2M loss on derivative financial instruments	(883)	(75)
Impairment of plant and equipment	(2,080)	-
Net foreign exchange (loss)/gain	(66)	6,176
Exploration expenditure written off	(161)	(1,455)
Other expenses	(149)	(264)
(Loss)/profit before income tax	(4,499)	81,017
Income tax benefit/(expense)	1,835	(27,171)
Net (loss)/profit attributable to ordinary equity holders of Hillgrove Resources Limited	(2,664)	53,846
	Cents	Cents
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	(0.006)	0.131
Diluted earnings per share	(0.006)	0.131

The Consolidated Income Statements above should be read in conjunction with the accompanying notes.

Consolidated Statements of Comprehensive Income
For the half year ended 31 July 2010

	Half Year	
	July 2010	July 2009
	\$'000	\$'000
(Loss)/Profit for the half year	(2,664)	53,846
Other comprehensive income		
Available for sale financial assets	69	(497)
Employee share option plan	159	110
Total comprehensive income for the year	<u>(2,436)</u>	<u>53,459</u>
Total comprehensive income for the year is attributable to:		
Equity holders of Hillgrove Resources	(2,386)	53,587
Minority interest	(50)	(128)
	<u>(2,436)</u>	<u>53,459</u>

The Consolidated Statements of Comprehensive Income above should be read in conjunction with the accompanying notes.

Consolidated Balance Sheets
As at 31 July 2010

	31 July 2010	31 January 2010
	\$'000	\$'000
Current assets		
Cash and cash equivalents	93,710	130,354
Receivables	609	1,124
Available-for-sale financial assets	3,991	3,357
Inventory	128	118
Derivative financial instruments	7,824	-
Total current assets	<u>106,262</u>	<u>135,133</u>
Non-current assets		
Property, plant and equipment	46,262	31,881
Exploration & evaluation expenditure	43,270	40,559
Goodwill	3,546	3,546
Total non-current assets	<u>93,078</u>	<u>75,986</u>
Total assets	<u>199,340</u>	<u>211,119</u>
Current liabilities		
Payables	7,075	13,653
Employee benefits payable	1,041	680
Borrowings	-	2,500
Income tax payable	19,453	18,858
Total current liabilities	<u>27,569</u>	<u>35,691</u>
Non-current liabilities		
Provisions	1,190	1,190
Deferred tax liability	7,960	10,416
Other	-	25
Total Non-current liabilities	<u>9,150</u>	<u>11,631</u>
Total liabilities	<u>36,719</u>	<u>47,322</u>
Net Assets	<u>162,621</u>	<u>163,797</u>
Equity		
Contributed equity	105,830	104,570
Reserves	1,767	1,539
Accumulated profits	54,730	57,344
Minority interest	294	344
Total equity	<u>162,621</u>	<u>163,797</u>

The Consolidated Balance Sheets above should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity
For the half years ended 31 July 2009 and 31 July 2010

Consolidated	Contri- buted equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non- con- trolling interests \$'000	Total equity \$'000
Half year ended 31 July 2009						
Balance at 1 February 2009	71,773	1,902	10,042	83,717	511	84,228
Total comprehensive income for the year	-	(387)	53,974	53,587	(128)	53,459
Transactions with owners:						
Contributions of equity, net of transaction costs	9,042	-	-	9,042	-	9,042
	9,042	-	-	9,042	-	9,042
Balance 31 July 2009	80,815	1,515	64,016	146,346	383	146,729
Half year ended 31 July 2010						
Balance at 1 February 2010	104,570	1,539	57,344	163,453	344	163,797
Total comprehensive income for the year	-	228	(2,614)	(2,386)	(50)	(2,436)
Transactions with owners:						
Contributions of equity, net of transaction costs	1,260	-	-	1,260	-	1,260
	1,260	-	-	1,260	-	1,260
Balance 31 July 2010	105,830	1,767	54,730	162,327	294	162,621

*The Consolidated Statements of Changes in Equity above should be read
in conjunction with the accompanying notes.*

Consolidated Cash Flow Statements
For the half year ended 31 July 2010

	Half Year	
	July 2010	July 2009
	\$'000	\$'000
Cash Flows From Operating Activities		
Receipts from customers (inclusive of GST)	1,905	-
Payments to suppliers and employees (inclusive of GST)	(6,818)	(3,697)
Net interest received	2,886	139
Net cash outflow from operating activities	<u>(2,027)</u>	<u>(3,558)</u>
Cash Flows From Investing Activities		
Exploration /mine development	(3,159)	(2,120)
Payments for plant and equipment	(21,073)	(5,517)
Proceeds from sale of plant and equipment	1,337	-
Proceeds on sale of investments	168	171,986
Payments for investment	(569)	(160)
Net cash (outflow)/inflow from investing activities	<u>(23,296)</u>	<u>164,189</u>
Cash Flows From Financing Activities		
Repayment of borrowings	(2,500)	(49,796)
Proceeds from issue of shares	1,300	9,281
Transaction costs arising from issue of shares	(1,414)	(240)
Payments for hedging instruments	(8,707)	-
Net cash outflow from financing activities	<u>(11,321)</u>	<u>(40,755)</u>
Net increase in cash and cash equivalents	(36,644)	119,876
Cash and cash equivalents at the beginning of the financial period	<u>130,354</u>	<u>7,675</u>
Cash and cash equivalents at the end of the financial period	<u>93,710</u>	<u>127,551</u>

The Consolidated Cash Flow Statements above should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For the half year ended 31 July 2010**1. Basis of preparation of half-year report**

This general purpose financial report for the interim half year reporting period ended 31 July 2010 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 2010 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 are consistent with those of the previous financial year and corresponding interim reporting periods.

2. Segment information

The consolidated entity operates in the mineral exploration business. Management has determined there to be one operating segment based on the reports reviewed by the Board that are used to make strategic decisions.

3. Loss for the half year

The loss for the half-year includes the following items that are unusual because of their nature, size or incidence:

On 29 April 2010 the consolidated entity purchased swaptions for \$8,707,000 for the purpose of hedging future cash flows. Following an increase in the copper price a mark-to-market loss of \$883,000 was recorded on the swaptions for the 6 months to 31 July 2010.

On 9 August 2010, the consolidated entity entered in to an agreement to sell its surplus SAG Mill and spares for \$6,950,000. At 31 July 2010 the plant had a net book value of \$9,030,000 and consequently the consolidated entity has recorded an impairment loss at 31 July 2010 of \$2,080,000.

4. Dividends

No dividends were declared or paid in the half year to 31 July 2010.

5. Derivative financial instruments

On 29 April 2010 the consolidated entity purchased copper swaptions for \$8,707,000 for the purpose of hedging future cash flows.

Following an increase in the copper price, a mark-to-market loss of \$883,000 in respect of a movement in the time value of the financial instruments was recorded in the income statement for the 6 months ended 31 July 2010.

Notes to the Financial Statements
For the half year ended 31 July 2010

6. Ordinary shares issued

Issues of ordinary shares during the half-year	2010 Shares	2009 Shares	2010 \$'000	2009 \$'000
Share purchase plan	2,893,750	-	1,140	-
Employee share option exercise	416,667	-	-	-
Employee share option exercise	416,667	-	-	-
Employee share option exercise	1,000,000	-	160	-
Transaction costs	-	-	(40)	(240)
Share placement	-	18,982,009	-	2,088
Share placement	-	18,572,728	-	2,043
Share purchase plan deposits	-	34,333,333	-	5,150
Total	4,727,084	71,888,070	1,260	9,041

7. Events occurring after the balance sheet date

On 6 August 2010 the consolidated entity entered in to an agreement to sell its SAG Mill and surplus spares to Conquest Mining for \$6,950,000 plus GST. These funds were received in full by 3 September 2010. The assets are impaired to this recoverable value as at 31 July 2010.

As at 31 July 2010 the consolidated entity had a tax liability of \$19,453,000. This balance was paid in full on 4 August 2010.

On 9 September 2010 the consolidated entity announced that it had entered in to discussions with various banks and financial institutions for the purposes of financing the Kanmantoo project.

There are no further events to report subsequent to the balance sheet date.

8. Contingent asset

Following the sale of its holding in Eastern Star Gas Limited on 15 July 2009, the Group retains upside exposure to the Eastern Star Gas Limited share price should there be a takeover of Eastern Star Gas Limited in the 18 months following the sale.

Santos Limited ("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 Limited 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.

Directors' Declaration

In the directors' opinion:

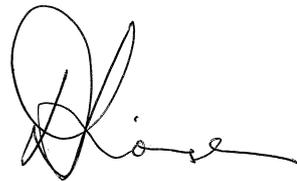
- (a) the financial statements and notes, set out on pages 6 to 10, are in accordance with the Corporations Act 2001, including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 July 2010 and of its performance, for the half year ended on that date; and
- (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 28th day of September 2010.

Signed in accordance with a resolution of the directors:



The Hon. Dean Brown AO
Chairman



Mr D A Simonsen
CEO and 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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

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 2010 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.

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.

**Independent auditor's review report to the members of
Hillgrove Resources Limited (continued)**

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Hillgrove Resources Limited for the half-year ended 31 July 2010 included on Hillgrove Resources Limited's web site. The company's directors are responsible for the integrity of the Hillgrove Resources Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

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 2010 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

PricewaterhouseCoopers



Darren Turner
Partner

Newcastle
28 September 2010