

Wednesday, 24 June 2009

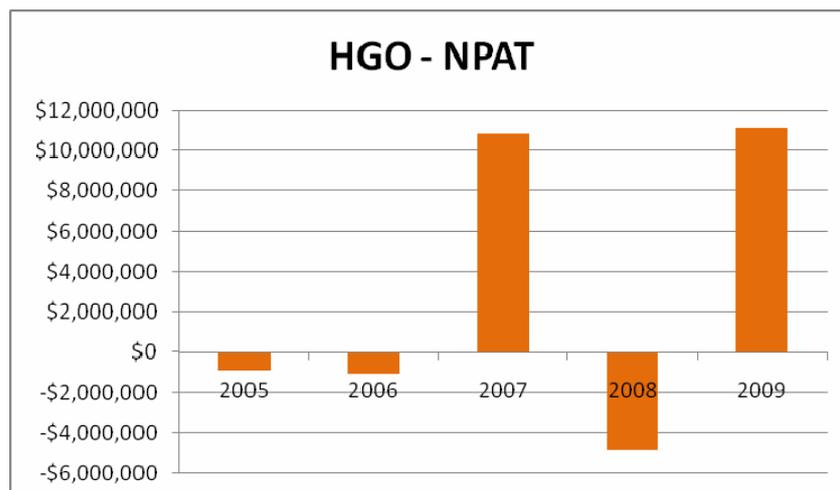
**Chairman's Address**  
**Hillgrove Resources Limited**  
**Annual General Meeting**  
**Stamford Plaza, Terrace 3, Level 2, 150 North Terrace, Adelaide**

Ladies and Gentlemen,

Welcome to the 2009 Annual General Meeting of Hillgrove Resources Limited.

Following the excellent attendance and participation at last year's Annual General Meeting – the first Hillgrove AGM to be held in Adelaide – the Board was unanimous in its decision to hold the meeting here again this year.

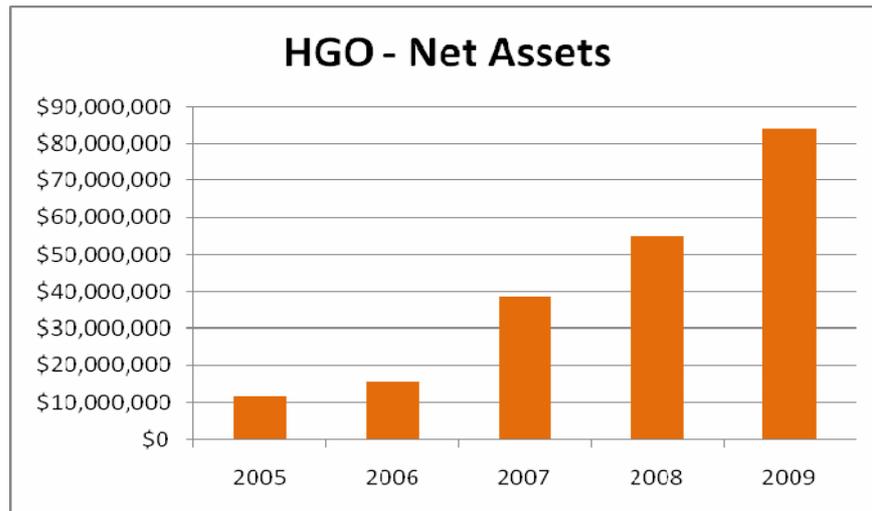
It is pleasing to be able to report that the company recorded a net profit after tax of \$11.1 million for the year ended 31 January 2009. The profit reflected the increase in the book value of Hillgrove's investment in Eastern Star Gas Limited which rose from \$52.0 million at 31 January 2008 to \$77.3 million as at balance date. The profit was recorded after taking into account two major non-cash items: a net unrealised foreign exchange loss of \$13.2 million and a write down of goodwill on the acquisition of a subsidiary, InterMet Resources Limited, of \$5.2 million.



Hillgrove's investment in Eastern Star has continued to increase in value since balance date and is currently worth approximately \$145 million at the closing price of \$0.845 per share on Friday.

The unrealised foreign exchange loss was booked at the prevailing exchange rate at balance date of USD\$0.64 to the Australian dollar. The Australian dollar has since climbed to approximately USD\$0.80 and, if maintained at this level, should result in the company recording an unrealised foreign exchange rate profit in its half year accounts to 31 July 2009.

From 1 February 2008 to 31 January 2009 the net assets of the company increased by 52% to \$84.228 million and current assets exceeded current liabilities by \$86.252 million. Cash and cash equivalents stood at \$7.675 million at balance date.



On 30 June 2008 Hillgrove issued US\$30 million 4% coupon/9% yield to maturity, secured, Convertible Bonds, due 30 June 2011. Shareholders approved the issue and allotment of these Bonds in accordance with their terms at a General Meeting held on 13 August 2008. The Convertible Bonds refinanced a maturing, short term facility with Macquarie Bank and provided additional working capital for the company.

This initiative was designed and has provided the company with stable, long term financing. This is an important feature in the current environment.

The Bonds are secured against the company's share and option holdings in Eastern Star Gas. It is important to note that the Bonds are not associated with any margin requirements.

The price at which the Bonds could be converted into Hillgrove shares was initially set at \$0.38. Pursuant to the terms of the Bonds and as outlined in the Notice of Extraordinary Meeting, the initial conversion price of the Bonds was to be reset to, effectively, the greater of \$0.19041 (equal to 50% of the Initial Conversion Price) or the average of the daily volume weighted average share price of Hillgrove Resources Limited's shares for the 20 consecutive dealing days ending in the date immediately prior to 15 December 2008. As a result of the reset of the Initial Conversion Price, the conversion price was reset to an amount equal to 50 per cent of the Initial Conversion Price, being A\$0.18592. The recent share placements have meant the conversion price has now been adjusted to 0.18592 due to the share issues being issued at greater than 5% discount to the 10 day VWAP immediately preceding the announcements.

Moving to the corporate front, on 13 August 2008, Hillgrove finalised the takeover of InterMet Resources Limited and closed its offer with a final direct holding of 84.8% in the issued ordinary capital of InterMet.

Post the takeover, InterMet undertook a comprehensive review of its exploration portfolio and relinquished a number of tenements and allowed various options over tenements to lapse. InterMet's portfolio now consists of a number of base metal projects in South Australia and North Queensland and a very prospective group of paleochannel exploration properties in South Australia. Hillgrove currently funds the operations of InterMet via loans.

The Board of Hillgrove believes the amalgamation of the two companies has brought Hillgrove's exploration expertise to InterMet's assets, provides a solid financial base for the continuation of InterMet's exploration activities and augments the group's pipeline of projects

A major focus for Hillgrove remains the Kanmantoo Copper Gold Project, just 60km from where we are today. Copper has made a strong price recovery from lows experienced earlier this year and the majority of analysts continue to support the view that it has an excellent mid to long term price outlook. It is believed that as the world economy moves towards recovery there will be strong demand for copper on the back of renewed growth. There are very few projects nearing production start up and with lower grades from major producing mines and mine closures it is expected that supply may become tight which will only strengthen the copper price.

Our current objective is to secure financing for the development of the project. We are looking to do this by way of forming a joint venture with an incoming investment partner, with Hillgrove remaining the majority partner and operator. This process is progressing very well, with particular interest from groups that recognise that Kanmantoo is one of the few copper projects poised for near term development in Australia.

Hillgrove's positive outlook is based on the fact that, in addition to the Kanmantoo Project, we are fortunate to have exposure to two other commodities that have enjoyed a superior performance over the year – coal seam gas and gold. Our investment in Eastern Star Gas has gone from strength to strength and we have complemented this by securing two highly prospective gold and copper/gold exploration projects in Indonesia.

Eastern Star Gas has further progressed exploration, appraisal and production across its licence areas in northern New South Wales. The focus has continued to be on the commercialisation and development of Petroleum Exploration Licence 238 near Narrabri. Eastern Star has a target to book 1,300 PJs of 2P gas reserves by the end of 2009. The recently announced performance of Eastern Star's lateral production pilot wells shows that this interim reserve target is moving closer to being realised.

As Kanmantoo nears start-up and production next year, it is important that Hillgrove looks to its project pipeline. As part of our strategy to see continued value for our shareholders and take significant steps towards becoming a successful medium size diversified resources company, Hillgrove launched a major initiative into Indonesia late last year.

Hillgrove was able to secure two very exciting exploration permits in Indonesia, known as KP's, which represent excellent opportunities to explore for large scale epithermal and porphyry style mineralisation within a geological setting that has been proven to host world class deposits.

The first KP is on the island of Sumba and the second, and potentially more exciting area, is in Indonesia's eastern most province West Papua and is known as the Bird's Head Project. Hillgrove has been able to acquire extensive exploration and drilling information developed by BHP and Normandy in the 1990's, which will allow exploration work to be fast-tracked and drilling to commence quickly. Drilling of the promising Delta target at the Bird's Head project is planned for early next year.

In summary, the Company has had a very active year despite a difficult and challenging economic climate. The credit for the positive performance of Hillgrove under such conditions must go to the vision, commitment and leadership of our Managing Director, David Archer, the dedicated staff and the experience of the other Board Directors. The company cut its costs quickly and raised additional equity to weather the economic uncertainty of the past year.

Hillgrove continues to be supported by its major shareholders. RBS Sempra remains a long term supporter of the company and is our major shareholder with a 12% shareholding. Our European shareholders have continued their strong support with 9% and RAK Minerals & Mining, which joined the register in April last year, has a 5% shareholding. I am also pleased to report we have recently acquired a new member of this key group and welcome the Copolus Group with holdings of 6.5%.

We are a small explorer with big aspirations – building a diversified minerals portfolio matched with a valuable portfolio of investments.

**The Hon. Dean Brown, AO**  
Chairman