Hillgrove Resources Limited
and it's Controlled Entities

Half Year Financial Report
31 July 2005

Hillgrove Resources Limited and its Controlled Entities
ACN 004 297 116

Contents

Directors' Report

The directors present their report together with the financial report of the consolidated entity, being the Company and its controlled entities, for the half-year ended 31 July 2005.

Directors

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

Name and qualifications	Age	Experience and special responsibilities
David Stuart Archer	49	**Chairman/Managing Director**
Qualifications		B.Ec.,Dip. Law (BAB), F.Aus.I.M.M.
Experience		David has held executive and non-executive roles in a number of Australian companies. David is the Chairman and Director of Hostworks Group Ltd, a listed internet hosting services company that offers infrastructure services. 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 Savage Resources Limited and has an extensive range of business interests.
		Appointed 11 November 2002
Ronald David Belz	50	**Director**
Qualifications		B.Bus., CPA
Experience		Ron has been a Certified Practising Accountant for over 18 years and operates his own practice in Edgecliff, Sydney. Ron has extensive knowledge and experience in accounting and taxation law in Australia.
		Appointed 11 November 2002
Anthony James Grist	42	**Director**
Qualifications		B.Com.
Experience		Anthony graduated from the University of Western Australia with a Bachelor of Commerce in 1985. Anthony is currently Executive Chairman of Amcom Telecommunications Limited, a publicly listed telecommunications carrier and has previously been the manager of the corporate underwriting division of a Corporate Member of the Australian Stock Exchange before forming a private investment group based in Perth, Western Australia. Anthony has extensive international experience in the management of public companies.
		Appointed 11 November 2002
		Resigned 20 April 2005

Directors Report

Name and qualifications	Age	Experience and special responsibilities
John Andrew Quirke	55	**Director**
Qualifications		B.A & Dip Ed. Adelaide University
Experience		Starting his career as a secondary school teacher, he became a Private Secretary to a Federal Senator before being elected the Member for Playford in 1989. In 1997 he became a Federal Senator and then Deputy Chief Whip before resigning in 2000. John gained extensive State and Federal committee experience which included competition policy, public works, social development, economics and finance, and since has been an active member of numerous legislative committees specialising in mining and economics, a Trustee to the Australia/ Cambodia Foundation and Board Member of Operation Flinders.
		Appointed 19 April 2005
Pearce Macarthur Bowman	56	**Director**
Qualifications		B.Eng, M.EngSc, MBA (AGSB)
Experience		Pearce was CEO of Generation Victoria from 1993-94 playing a key role in the transition of the State Electricity Commission to corporatised Generation Victoria. From 1994-2000 he served as Executive GM Copper/Uranium for WMC Limited, responsible for expansion of Olympic Dam and Nifty Copper operations. From 2001-02 Pearce was CEO Elect of Australian Power and Energy Ltd. He is Executive Chairman of PMI Ventures Ltd., a Canadian based gold exploration company with extensive assets in Ghana.
		Appointed 20 April 2005

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 $501,686 (half year to 31 July 2004 loss: $357,854). During the period the consolidated entity commenced exploration drilling at its Emily Star prospect at Kanmantoo to further define the Kanmantoo copper gold and garnet resources.

Funds Raised
Since 31 January 2005 the company has raised funds as follows:

- On 14 March 2005 the Company placed 7.5 million ordinary shares with Macquarie Bank raising $1,500,000.
- On 14 April 2005 the Company placed 7.5 million ordinary shares raising $1,500,000.

Dividends

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

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 24.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 30th day of September 2005.

David Stuart Archer
Director

Ronald David Belz
Director

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
8 Auckland Street
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
www.pwcglobal.com/au
Telephone 61 2 4925 1100
Facsimile 61 2 4925 1199

Auditors' Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half-year ended 31 July 2005, 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 to Hillgrove Resources Limited and the entities it controlled during this period.

J A Campion
Partner
PricewaterhouseCoopers

Newcastle
30 September 2005

Consolidated Income Statement

For the half year ended 31 July 2005

	Note	Half Year July 2005 $	July 2004 $
Revenue from continuing operations		70,000	-
Other Income		164,309	306,317
Accounting, ASIC & Audit		(28,447)	(69,398)
Bank Interest & Charges		(1,261)	(8,506)
Computing & Communications		(19,204)	(9,223)
Consultants Fees		(24,855)	(166,306)
Depreciation		(30,687)	(3,806)
Directors Fees		(38,750)	(15,000)
Entertainment		(466)	(2,490)
Insurance		(1,349)	-
Other Expenses		(14,607)	(14,860)
Promotion		(62,029)	(16,933)
Public Co. Expenses		(51,504)	(35,860)
Rent		(84,732)	(73,284)
Employee benefits expense		(257,397)	(136,282)
Travel		(89,045)	(112,223)
Loss before income tax		(470,022)	(357,854)
Income tax expense		-	-
Net Loss attributable to members of the Hillgrove Resources Limited		(470,022)	(357,854)
Earnings per share for loss attributable to the ordinary equity holders of the company:			
Basic earnings per share		(0.0030)	(0.0036)
Diluted earnings per share		(0.0030)	(0.0036)

The consolidated income statement is to be read in conjunction with the notes to the financial statements set out on pages 9 to 23.

Consolidated Balance Sheet

As at 31 July 2005

	Note	Consolidated 31 July 2005 $	Consolidated 31 January 2005 $
Current assets			
Cash and cash equivalents		3,683,947	4,469,831
Receivables		1,029	23,433
Other financial assets at fair value through profit or loss		178,500	33,437
Other current assets		317,203	165,549
Total current assets		4,180,680	4,692,250
Non current assets			
Investments accounted for using the equity method		33,722	
Other non current assets		71,680	65,000
Property, plant and equipment		217,265	209,121
Exploration & evaluation expenditure		10,646,576	8,225,973
Total non current assets		10,969,243	8,500,094
Total assets		15,149,923	13,192,344
Current liabilities			
Payables		719,191	1,233,414
Provisions		15,221	5,489
Other		22,837	28,337
Total current liabilities		757,249	1,267,240
Non current liabilities			
Other		64,706	76,125
Total Non current liabilities		64,706	76,125
Total liabilities		821,955	1,343,365
Net Assets		14,327,967	11,848,979
Equity			
Contributed equity		20,729,281	17,821,781
Reserves		68,052	26,544
Accumulated losses		(6,469,365)	(5,999,346)
Total equity		14,327,967	11,848,979

The consolidated balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 8 to 23.

Consolidated Statement of Changes In Equity

For The Half Year Ended 31 July 2005

	Half Year	
	July 2005	**July 2004**
Total equity at the beginning of the half year	11,848,979	1,588,136
Adjustments on adoption of AASB132 and AASB139	5,563	-
Employee share options	41,507	-
Net income recognised directly in equity	47,070	-
Loss for the half year	(475,582)	(346,946)
Total recognised income and expense for the year	(428,512)	(346,946)
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	2,907,500	5,722,109
Total equity at the end of the half year	14,327,967	6,963,299

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 9 to 23.

Consolidated Cash Flows Statement

For The Half Year Ended 31 July 2005

	Half Year	
	July 2005	**July 2004**
	$	**$**
Cash Flows From Operating Activities		
Receipts from customers (inclusive of GST)	70,000	-
Payments to suppliers and employees (inclusive of GST)	(1,263,067)	(563,447)
	(1,193,067)	(563,447)
Interest received	121,345	34,517
Net cash outflow from operating activities	(1,071,722)	(528,930)
Cash Flows From Investing Activities		
Exploration /mine development	(2,436,240)	(953,418)
Payments for plant and equipment	(38,830)	(39,146)
Payments for financial assets	-	(597,500)
Proceeds on sale of investments	17,868	771,559
Payments for investment	(164,458)	(2,560,697)
Security deposits refunded / (paid)	-	(5,000)
Net cash outflow from investing activities	(2,621,661)	(3,384,202)
Cash Flows From Financing Activities		
Proceeds from issue of shares	3,000,000	6,116,250
Transaction costs arising from issue of shares	(92,500)	(394,142)
Net cash inflow from financing activities	2,907,500	5,722,108
Net increase in cash and cash equivalents	(785,883)	1,808,976
Cash and cash equivalents at the beginning of the financial period	4,469,830	182,216
Cash and cash equivalents at the end of the financial period	3,683,947	1,991,192

The consolidated cash flows statement is to be read in conjunction with the notes to the financial statements set out on pages 9 to 23.

Notes to the Financial Statements

For The Half Year Ended 31 July 2005

1. Statement of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 July 2005 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 2005 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.*

(a) Basis of preparation of half-year financial report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

This interim financial report is the first Hillgrove Resources Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Hillgrove Resources Limited until 31 January 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Hillgrove Resources Limited interim financial report for the half year ended 31 July 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 February 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 7.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hillgrove Resources Limited ("company" or "parent entity") as at 31 July 2005 and the results of all subsidiaries for the half-year then ended. Hillgrove Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(f)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(iii) Joint ventures

Joint venture operations

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Hillgrove Resources Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue is recognised as it accrues, taking into account the effective yield or the financial asset.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(h) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(i) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Non-current assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(m) Investments and other financial assets

From 1 February 2004 to 31 January 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 February 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 31 January 2005.

Adjustments on transition date: 1 February 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 February 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 February 2005
The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(o) Property, plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on plant and equipment assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Machinery	10-15 years
- Vehicles	3-5 years
- Furniture, fittings and equipment	3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(l)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through the sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(r) Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions for close down and restoration and for environmental clean up costs.
Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financial cost, rather than as an operating cost. Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within fixed assets. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance sheet date. All other costs of continuous rehabilitation are charged to the income statement as incurred.

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date. These costs are charged to the income statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwind of the discount which is shown as a financing cost.

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Share-based payments
Share-based compensation benefits are provided to employees via the Hillgrove Employee Share Option Plan and an employee share scheme.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005
The fair value of options granted under the Hillgrove Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(t) Contributed equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(u) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half-year, adjusted for bonus elements in ordinary shares issued during the half-year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(v) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 February 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

	Note	July 2005	July 2004
		$	$
2. Contributed equity			
Issued and paid-up capital			
158,089,015 ordinary shares, fully paid			
(2004 – 105,755,681 ordinary shares, fully paid)	3 (a)	20,729,281	12,399,033
3. Ordinary Shares			
Movements During the Year			
Balance as at beginning of half year		17,821,781	6,676,924
Shares Issued			
- 2,726,222 for cash pursuant to a SPP		-	458,000
- 28,200,000 for cash pursuant to a prospectus		-	4,230,000
- 1,187,500 for cash to exercise options		-	118,750
- 5,000,000 for cash pursuant to a placement		-	1,000,000
- 200,000 for a 40% interest in EL2663		-	48,000
- 250,000 for an option over ML5776		-	57,500
- 500,000 for an access agreement over ML5776		-	85,000
- 700,000 for identification of the Kanmantoo mine opportunity		-	119,000
- 15,000,000 for cash pursuant to a placement		3,000,000	-
- transaction costs arising from share issues		(92,500)	(394,141)
Balance at end of half-year		20,729,281	12,399,033

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

Completion of Farm-in

On 16 August 2005 Hillgrove announced that it had completed the expenditure obligations to earn a 32.5% undivided interest in the Gunnedah Coal Seam Gas Joint Venture. Hillgrove spent a total of AUD$6.1 million over an eighteen month period to earn the interest comprising US$3 million to acquire a total of 15% directly from Gastar Limited and AUD$2.250 million as contributions to work programmes to earn 17.5%.

7. Explanation of transition to Australian equivalents to IFRSs

(a) Reconciliation of equity

Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(i) At the date of transition to AIFRS: 1 February 2004 and at 31 July 2004 there were no differences between AGAAP and AIFRS for the Group.

(ii) At the end of the last reporting period: 1 February 2005 the differences between AGAAP and AIFRS for the Group were as follows.

Notes to the Financial Statements
For The Half Year Ended 31 July 2005

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$	$	$
Current assets				
Cash and cash equivalents		4,469,831	-	4,469,831
Receivables		23,433	-	23,433
Other financial assets		33,437		33,437
Other current assets		165,549	-	165,549
Total current assets		4,692,250	5,563	4,692,250
Non current assets				
Other non current assets		65,000	-	65,000
Property, plant and equipment		209,121	-	209,121
Exploration & evaluation expenditure	(b)	8,210,337	15,636	8,225,973
Total non current assets		8,484,458	15,636	8,500,094
Total assets		13,176,708	15,636	13,192,344
Current liabilities				
Payables		1,233,414	-	1,233,414
Provisions		5,489	-	5,489
Other		28,337	-	28,337
Total current liabilities		1,267,240	-	1,267,240
Non current liabilities				
Other		76,125	-	76,125
Total Non current liabilities		76,125	-	76,125
Total liabilities		1,343,365	-	1,343,365
Net Assets		11,833,343	15,636	11,848,979
Equity				
Contributed equity		17,821,781	-	17,821,781
Reserves	(b)	-	26,544	26,544
Accumulated losses	(b)	(5,988,438)	(10,908)	(5,999,346)
Total equity		11,833,343	15,636	11,848,979

Notes to the Financial Statements
For The Half Year Ended 31 July 2005

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$	$	$
Total revenue	(c)	806,317	(500,000)	306,317
Accounting, ASIC & Audit		(69,398)	-	(69,398)
Bank Interest & Charges		(8,506)	-	(8,506)
Computing & Communications		(9,223)	-	(9,223)
Consultants Fees		(166,306)	-	(166,306)
Depreciation		(3,806)	-	(3,806)
Directors Fees		(15,000)	-	(15,000)
Entertainment		(2,490)	-	(2,490)
Insurance		-	-	-
Other Expenses		(14,860)	-	(14,860)
Promotion		(16,933)	-	(16,933)
Public Co. Expenses		(35,860)	-	(35,860)
Rent		(73,284)	-	(73,284)
Employee benefits expense	(b)	(125,374)	(10,908)	(136,282)
Travel		(112,223)	-	(112,223)
Written down value of assets sold	(c)	(500,000)	500,000	-
Profit/ (Loss) from ordinary activities before related income tax expense		(346,946)	(10,908)	(357,854)
Income tax expense relating to ordinary activities		-	-	-
Net Profit / (Loss) attributable to members of the parent entity		(346,946)	(10,908)	(357,854)

(b) Share-based payments

Under AASB 2 *Share-based Payment* from 1 February 2004 the Group is required to recognise an expense for those options that were issued to employees under the Hillgrove Share Option Plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 February 2004
No effect, options were not issued until October 2004.

(ii) At 31 July 2004
No effect, options were not issued until October 2004.

(iii) At 31 January 2005
For the Group there has been an increase in accumulated losses of $10,908 for administrative personnel and an increase in exploration expenditure of $15,636 for exploration personnel and a corresponding $26,544 increase in reserves.

(iv) For the half-year ended 31 July 2004
No effect, options were not issued until October 2004.

(v) For the year ended 31 January 2005
For the Group there has been an increase in employee benefits expense of $10,908.

(c) Revenue disclosures in relation to sale of non-current assets

Under AASB the revenue recognised on sale of non-current assets is the net gain or sale.

(i) At 1 February 2004
No effect on Balance Sheet.

(ii) At 31 July 2004
No effect on Balance Sheet.

(iii) At 31 January 2005
No effect on Balance Sheet.

(iv) For the half-year ended 31 July 2004
For the group there has been a decrease in revenue of $500,000 and a decrease in written down value of assets sold expense of $500,000.

(v) For the year ended 31 January 2005
For the group there has been a decrease in revenue of $500,000 and a decrease in written down value of assets sold expense of $500,000.

8. Contingent liabilities

At the date of this report, no contingent liabilities existed.

Directors' Declaration

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

(a) the financial statements and notes, set out on pages 4 to 23, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the consolidated entity as at 31 July 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and

(ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the company will be able to pay it's debts as and when they become due and payable.

Dated at Sydney this 30th day of September 2005.

Signed in accordance with a resolution of the directors:

David Stuart Archer
Director

Ronald David Belz
Director

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

8 Auckland Street
PO Box 798
NEWCASTLE NSW 2300
DX 77 Newcastle
Australia
www.pwc.com/au
Telephone 61 2 4925 1100
Facsimile 61 2 4925 1199

Independent Review Report

To the members of Hillgrove Resources Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Hillgrove Resources Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Hillgrove Resources Group (the consolidated entity) as at 31 July 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Hillgrove Resources Limited (the company) and the Hillgrove Resources Group (the consolidated entity), for the half-year ended 31 July 2005. The consolidated entity comprises both the company and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel/the responsible entity's personnel, and
- analytical procedures applied to financial data.

PRICEWATERHOUSECOOPERS

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and 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.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
30 September 2005