

Hillgrove Resources Limited and it's Controlled Entities

Half Year Financial Report
31 July 2004

Contents

Directors Report	1
Statement of financial performance	3
Statement of financial position	4
Statement of cash flows	5
Notes to the financial statements	6
Directors' declaration	12
Independent review report	13

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 2004.

Directors

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

Name and qualifications	Age	Experience and special responsibilities
David Stuart Archer Qualifications Experience	48	Chairman/Managing Director B.Ec. Dip. Law (BAB) 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 Qualifications Experience	49	Director/Company Secretary B.Bus. CPA Ron has been a Certified Practising Accountant (CPA) for over 16 years and has his own practice in Crows Nest, Sydney. Ron has extensive knowledge of accounting and taxation law in Australia. Appointed 11 November 2002
Anthony James Grist Qualifications Experience	41	Director B.Com., ASIA, FAICD Anthony graduated from the University of Western Australia with a Bachelor of Commerce in 1985. Anthony is currently 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

Principal activities

The activities of the consolidated entity have been focused on mineral and energy exploration including 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, 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 \$346,946 (half year to 31 July 2003 profit: \$37,242,708). During the period the consolidated entity commenced exploration drilling at its Emily Star prospect in March 2004, followed by the preparation of a scoping study and its first resource statement for Kanmantoo, before starting a 4 month drilling program in July 2004 to further define the Kanmantoo copper gold resources.

On 4 July 2004 the Gunnedah Gas Joint Venture (Hillgrove 15% but acquiring a 32.5% interest) commenced a \$4 million (Hillgrove \$750,000) coal seam gas exploration programme on PEL 238.

State of affairs

Since 31 January 2004 the company has raised funds as follows:

- On 25 February 2004 the company raised \$4.37 million from its Prospectus dated January 2004.
- On 11 May 2004 option holders exercised 1,187,500 options raising a total of \$118,750.
- On 17 May 2004 the Company placed 5 million ordinary shares raising \$960,000.

Subsequent to the end of the half year period, the company has raised funds as follows:

- On 20 August 2004 option holders exercised 300,000 options and on 1 October 2004 option holders exercised a further 8,912,000 options raising a total of \$1.842 million.
- On 4 October 2004 the Company announced that it placed 18.75 million ordinary shares and 9.375 million options expiring 31 December 2006 raising \$3.75 million, subject to shareholder approval of resolutions to be considered at a General Meeting called for 20 October 2004.

Dividends

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

Dated at Sydney this 12th day of October 2004.

Signed in accordance with a resolution of the directors:

David Stuart Archer
Director

Ronald David Belz
Director

Statement of Financial Performance For The Half Year Ended 31 July 2004

	Note	Consolidated	
		July 2004	July 2003
		\$	\$
Revenue from sale of goods		-	-
Other revenues from ordinary activities		806,317	39,739,116
Total revenue		806,317	39,739,116
Employee expenses		(125,374)	-
Exploration and development costs written off		(3,389)	-
Travel		(112,223)	(40,100)
Accounting fees		(59,832)	(19,336)
ASX expenses		(13,078)	(9,490)
Consulting		(57,418)	-
Professional fees		(108,888)	(3,224)
Rent		(73,284)	(21,767)
Share registry fees		(9,987)	(38,670)
Write down of assets to recoverable amount		(15,000)	-
Written down value of assets sold		(500,000)	-
Loss on sale of controlled entities	7	-	(2,030,965)
Project costs		-	(326,986)
Other expenses from ordinary activities		(74,790)	(5,870)
Profit / (Loss) from ordinary activities before related income tax expense		(346,946)	37,242,708
Income tax expense relating to ordinary activities		-	-
Net Profit / (Loss) attributable to members of the parent entity		(346,946)	37,242,708
Basic earnings / (loss) per share:			
Ordinary shares	3(b)	\$ (0.0036)	\$0.47
Diluted earnings / (loss) per share:			
Ordinary shares		\$ (0.0036)	\$0.40

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 6 to 11.

Statement of Financial Position

As at 31 July 2004

	Note	Consolidated 31 July 2004 \$	Consolidated 31 January 2004 \$
Current assets			
Cash assets		1,991,192	182,216
Receivables		-	-
Other financial assets		182,500	65,000
Other current assets		<u>92,254</u>	<u>78,166</u>
Total current assets		<u>2,265,946</u>	<u>325,382</u>
Non current assets			
Property, plant and equipment		152,611	3,084
Investment		-	1,317,806
Exploration, evaluation & development expenditure		<u>4,953,736</u>	<u>121,815</u>
Total non current assets		<u>5,106,347</u>	<u>1,442,705</u>
Total assets		<u>7,372,293</u>	<u>1,768,087</u>
Current liabilities			
Payables		298,614	168,451
Other		<u>22,836</u>	<u>11,500</u>
Total current liabilities		<u>321,450</u>	<u>179,951</u>
Non current liabilities			
Other		<u>87,544</u>	<u>-</u>
Total Non current liabilities		<u>87,544</u>	<u>-</u>
Total liabilities		<u>408,994</u>	<u>179,951</u>
Net Assets		<u>6,963,299</u>	<u>1,588,136</u>
Equity			
Contributed equity	3	12,399,033	6,676,924
Accumulated losses	5	<u>(5,435,734)</u>	<u>(5,088,788)</u>
Total equity		<u>6,963,299</u>	<u>1,588,136</u>

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 6 to 11.

Statement of Cash Flows

For The Half Year Ended 31 July 2004

	Consolidated	
	July 2004	July 2003
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts in the course of operations	-	-
Cash payments in the course of operations	(563,447)	(494,535)
Interest received	34,517	18,950
	<u> </u>	<u> </u>
Net cash (used) by operating activities	(528,930)	(475,585)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets	771,559	-
Exploration/mine development	(3,514,112)	-
Payments for property, plant and equipment	(39,146)	(2,728)
Payment for financial assets	(597,500)	(2,500)
Security deposits paid	(5,000)	(10,000)
	<u> </u>	<u> </u>
Net cash (used) by investing activities	(3,384,199)	(15,228)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	6,116,250	1,200,000
Transaction costs arising from issue of shares	(394,141)	(152,243)
	<u> </u>	<u> </u>
Net cash provided by financing activities	5,722,109	1,047,757
	<u> </u>	<u> </u>
Net increase in cash held	1,808,976	556,944
	<u> </u>	<u> </u>
Cash at the beginning of the financial period	182,216	196,975
	<u> </u>	<u> </u>
Cash at the end of the financial period	1,991,192	753,919
	<u> </u>	<u> </u>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 6 to 11.

Notes to the Financial Statements For The Half Year Ended 31 July 2004

1. Statement of significant accounting policies

Basis of preparation of half year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 31 January 2004 Annual Financial Report and any public announcements by Hillgrove Resources Limited and its controlled entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those applied in the 31 January 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

	Note	July 2004 \$	July 2003 \$
2. Individually Significant Items			
Individually significant items included in profit from ordinary activities before income tax expense: -			
Extinguishment of Related Party Loan		-	39,720,166
Loss on Sale of Controlled Entities	7	-	(2,030,965)
3. Contributed equity			
Issued and paid-up capital			
105,755,681 ordinary shares, fully paid			
(2003 – 55,408,626 ordinary shares, fully paid)	3 (a)	12,399,033	5,388,616

Notes to the Financial Statements

For The Half Year Ended 31 July 2004

	Note	July 2004 \$	July 2003 \$
3(a) Ordinary Shares			
Movements During the Year			
Balance as at beginning of half year		6,676,924	44,659,303
Shares Issued			
- 15,000,000 for cash pursuant to a prospectus (16 Feb 2003)		-	1,500,000
- 35,000,000 for loan extinguishment (16 Feb 2003)		-	3,500,000
- 2,726,222 for cash pursuant to a SPP (25 Feb 2004)		458,000	-
- 28,200,000 for cash pursuant to a prospectus (17 Feb 2004)		4,230,000	-
- 1,187,500 for cash to exercise options (11 May 2004)		118,750	-
- 5,000,000 for cash pursuant to a placement (17 May 2004)		1,000,000	-
- 200,000 for a 40% interest in EL2663 (18 March 2004)		48,000	-
- 250,000 for an option over ML5776 (22 March 2004)		57,500	-
- 500,000 for an access agreement over ML5776 (17 May 2004)		85,000	-
- 700,000 for identification of the Kanmantoo mine opportunity (17 May 2004)		119,000	-
- transaction costs arising from share issues		(394,141)	(152,243)
- reduction in value of share capital		-	(44,118,444)
Balance at end of half-year		<u>12,399,033</u>	<u>5,388,616</u>
3 (b) Earnings per share			
Weighted average number of shares			
- basic earnings per share		<u>95,791,971</u>	<u>79,197,031</u>
- diluted earnings per share		<u>113,053,573</u>	<u>92,871,065</u>
4. Dividends			
The company has not paid or declared a dividend since the end of the previous half year.			
5. Accumulated Losses			
Accumulated losses at beginning of half-year		(5,088,788)	(86,183,505)
Reduction in value of share capital		-	(44,118,444)
Net profit/(losses) attributable to members of the parent entity		<u>(346,946)</u>	<u>37,242,708</u>
Accumulated losses at end of half-year		<u>(5,435,734)</u>	<u>(4,822,353)</u>

Notes to the Financial Statements For The Half Year Ended 31 July 2004

	Note	July 2004 \$	July 2003 \$
6. Total Equity Reconciliation			
Balance at beginning of half year		1,588,136	(41,524,202)
Transactions with owners as owners:			
Share Capital	3 (a)	5,722,109	4,847,757
Net Profit / (loss)		<u>(346,946)</u>	<u>37,242,708</u>
Balance at end of half year		<u>6,963,299</u>	<u>566,263</u>

7. Acquisition / disposal of controlled entities

The following controlled entities were acquired or disposed of during the period:

Acquisition

2004

The consolidated entity did not gain control over any entities during the 2004 half-year.

		Consolidated entity's interest	Consideration	Contribution to consolidated net profit/ (loss)
2003				
Name	Date Acquired	%	\$	\$
Hillgrove Mining Pty Limited	10 December 2003	100	100	(76)
Hillgrove Copper Pty Limited	12 June 2003	100	100	-
				<u>(76)</u>

Notes to the Financial Statements For The Half Year Ended 31 July 2004

7. Acquisition / disposal of controlled entities (continued)

Disposal

2004

The consolidated entity did not lose control over any entities during the 2004 half-year.

2003 Name	Date of Disposal	Consolidated entity's interest %	Consideration	Contribution to consolidated net profit/ (loss)	
				2004 \$	2003 \$
New England Antimony Mines NL	7 April 2003	100	Nil	-	(2,005,965)
Centfield Mining Pty Limited	7 April 2003	100	Nil	-	(25,000)
Hydro Mineral Development Limited	7 April 2003	100	Nil	-	-
T & T Mining Corporation Pty Limited	7 April 2003	100	Nil	-	-
Nymagee Mining Pty Limited	7 April 2003	100	Nil	-	-
				<u>-</u>	<u>(2,030,965)</u>

Contributions to net profit for the previous period from sale of interest leading to loss of control was a loss of \$2,030,965.

8. Segment Reporting

The consolidated entity operates predominantly in the mineral exploration business in Australia.

9. Events subsequent to reporting date

Funds Raised

Since the reporting date the company has raised funds as follows:

- On 20 August 2004 option holders exercised 300,000 options and on 1 October 2004 option holders exercised a further 8,912,000 options raising a total of \$1.842 million.
- On 4 October 2004 the Company announced that it placed 18.75 million ordinary shares and 9.375 million options expiring 31 December 2006 raising \$3.75 million, subject to shareholder approval of resolutions to be considered at a General Meeting called for 20 October 2004.

Notes to the Financial Statements

For The Half Year Ended 31 July 2004

9 Events subsequent to reporting date - continued

IFRS

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. This summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS. Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the company's financial reports in the future.

The potential impact on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, has not been quantified as at the transition date of 1 July 2004 due to the short time between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- financial instruments must be recognised in the statement of financial position, and all derivatives and most financial assets must be carried at fair value
- income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and as the tax effect follows the underlying transaction, some tax effects will be recognised in equity
- impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

The impact of exposure draft ED 6 *Exploration for and Evaluation of Mineral Resources* on the consolidated entity's accounting policy for the treatment of exploration and evaluation expenditure cannot be determined until the final standard is issued by the International Accounting Standards Board, and the equivalent Australian accounting standard is subsequently issued by the Australian Accounting Standards Board.

Recent announcements from the AASB indicate that the IASB will amend ED6 and will grandfather Australia's existing areas of interest method of accounting for exploration and evaluation expenditure. Until these proposed changes are enacted it is not possible to determine the potential impact in respect to extractive industries.

Notes to the Financial Statements

For The Half Year Ended 31 July 2004

9 Events subsequent to reporting date - continued

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

10. Contingent liabilities

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

Directors' declaration

- I In the opinion of the directors of Hillgrove Resources Limited ("the Company"):
- (a) the financial statements and notes, set out on pages 3 to 11, 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 2004 and of its performance, as represented by the results of its operations and cash flows, for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; 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 at Sydney this 12th day of October 2004.

Signed in accordance with a resolution of the directors:

David Stuart Archer
Director

Ronald David Belz
Director

Independent Review Report

To the Members of Hillgrove Resources Limited

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 the Hillgrove Resources Limited, Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 July 2004. The Consolidated Entity comprises Hillgrove Resources Limited ("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.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "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 of 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 were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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.

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

A review cannot guarantee that all material misstatements have been detected.

Independence

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

Statement

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

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 July 2004 and of its performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

J A Campion
Partner

Newcastle 13th October 2004