

HILLGROVE RESOURCES

Wednesday, 9 September 2009

HALF YEAR FINANCIAL RESULTS

- Net Profit after Tax of \$53.97 million for the six months ended 31 July 2009.
- Maiden dividends declared totalling 2 cents per ordinary share fully franked.
- Sale of Eastern Star Gas Limited shares and options completed.
- Cash of \$127.5 million or 31 cents per share.
- Net assets of \$146.7 million or 35 cents per share.

Hillgrove Resources Limited (ASX: HGO) is pleased to announce a net profit after tax (NPAT) for the six months ended 31 July 2009 of \$53,973,885 (2008 6 months: \$2,208,242 loss) after tax expense of \$27,170,778. The results reflect the impact of the sale of the company's share and option holdings in Eastern Star Gas Limited on 15 July 2009 for a total of \$171,986,050 cash.

Net assets have increased by over 300% over the last two years to \$146,728,581 (2008 6 months: \$70,342,219) or 35 cents per share with cash of \$127,551,154 (31 cents per share) representing 87% of net assets. All borrowings together with accumulated interest (together \$49,795,888) were paid off during the half.

On the basis of the half year results the Board of Directors has declared the payment of fully franked dividends totalling 2 cents per share. Mr. Dean Brown A.O., the Chairman of Hillgrove said today "With our strong financial position, the board of directors is delighted to mark what has been a very successful investment in Eastern Star Gas with the payment of maiden dividends to our loyal base of shareholders".

The dividend arrangements are as follows:

October Dividend of 1 cent per share:

15 September 2009	Last day HGO shares traded with entitlement to dividend
16 September 2009	Shares trade ex-dividend
22 September 2009	Record date to identify shareholders entitled to dividend
6 October 2009	Dividend payment date – 1 cent per share fully franked

November Dividend of 1 cent per share:

9 November 2009	Last day HGO shares traded with entitlement to dividend
10 November 2009	Shares trade ex-dividend
16 November 2009	Record date to identify shareholders entitled to dividend
30 November 2009	Dividend payment date – 1 cent per share fully franked

Commenting on the results, Mr. David Archer, the Managing Director of Hillgrove said today "Whilst we are very happy with the profit result, the real significance is that Hillgrove is now exceptionally well placed with a large cash balance, no debt and a copper project poised to

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move into development. In addition, we are leveraged to the discovery of Tier 1 gold and copper/gold ore bodies from our exploration properties in Indonesia and our cash balance means we are ideally positioned to capitalise on gold and copper/gold opportunities in particular”.

“The sell down strategy around our share and option holdings in Eastern Star Gas earlier this year crystallised the value of these holdings while the company maintains upside exposure to Eastern Star via the ‘top-up’ arrangements with Santos if there is a takeover of Eastern Star Gas Limited within 18 months of 15 July 2009”.

Outlook

Summary

Hillgrove has been demonstrably successful in achieving superior returns with its resources investments. Over the coming 12 months Hillgrove has four key elements to driving growth in shareholder value:

- A large cash balance;
- The Kanmantoo Copper/Gold Mine development;
- Indonesian gold and copper gold exploration;
- Eastern Star Gas Limited share ‘top-up’.

In summary, the company is targeting achieving a series of identified value adding outcomes around these assets to drive an increase in the enterprise value of Hillgrove.

New Business

Whilst the Hillgrove business base case is to drive growth through its existing resources portfolio, Hillgrove believes the current equity and debt constrained environment will throw up a range of attractive opportunities. As a result, Hillgrove has established a small team to evaluate resources opportunities that are now being presented to us. Our strategy is based around the following target parameters:

- Commodities: Gold and copper/gold that plays to the company’s experience in these areas.
- Geography: Australasia.
- Maturity: Exploration stage projects with potential for major discoveries and existing operations. Hillgrove will not be seeking to invest in development projects until such time as Kanmantoo is successfully in operation.
- Key characteristic: Clear value adding element Hillgrove can introduce or influence.

Kanmantoo Copper/Gold Mine Project

Hillgrove now has Kanmantoo well positioned to move into development, targeting production in the first quarter of 2011. The key value drivers to shareholder value around the Kanmantoo Project are:

- The finalisation of permitting. This involves the approval of the Mining and Rehabilitation Plan for the Mine development by PIRSA in South Australia, expected to occur in November this year;
- Bringing a partner to the project to provide the equity capital component to underwrite the mine’s development. There has been a high level of interest from both Australian and overseas parties in investing in the project. It is clear that Australia continues to be seen

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as a premier mining investment destination with a vibrant and successful mining sector. As a result, a structured process is now underway to identify a preferred investor and this process is expected to conclude by the end of the year;

- Finalising the overall financing of the project leading to a development go-ahead early next year.

Kanmantoo is almost unique in Australia, as one of the few Australian deposits ready to go into development and production at what is believed to be the front end of the next cyclical lift in copper prices. The current copper price already provides an excellent backdrop for the project. In addition the project has the following key characteristics:

- Kanmantoo's build cost per annual tonne of copper produced is less than half that of the next generation of greenfields copper mine developments and a head grade greater than the global weighted average;
- Kanmantoo's location 60km from the city of Adelaide makes for a low operating cost setting for power, water, labour and transport;
- Project scalable above the current headline production rate of 2.0MTPA;
- Excellent metallurgical recoveries with a clean concentrate of 25.9% copper and 2.33g/t gold produced;
- Very high level of project validation from recent studies;
- Low metallurgical and geotechnical risks;
- High potential for the discovery of further ore bodies within Hillgrove's 497km² exploration licence; and
- All long lead time items purchased and a high capacity second hand processing plant has been secured.



Indonesian Exploration

Hillgrove is moving ahead aggressively with its fully funded exploration of the Sumba and Bird's Head projects in Indonesia. Hillgrove is targeting the discovery of world class gold and copper/gold ore bodies. Some \$10 million is expected to be spent on these projects over the next 12 months.

Exploration is currently underway on the Sumba epithermal gold project where recent rock chipping in a gold mineralised zone 2km wide and 10km long has recorded results of up to 164 g/t gold and 71.1 g/t silver. The aim is to define targets for drilling early next year. The area has the potential to host targets of >1Moz. Good grades in rock chips, the significant distribution of mineralisation, evidence of high grade shoots and good access with nearby roads makes this a high priority project for Hillgrove.



The target at the Bird's Head project is the discovery of tier 1 style epithermal gold or porphyry copper/gold ore bodies. The project exhibits exceptionally attractive geochemistry matched by a geological setting that hosts world class ore bodies. The existing extensive database of exploration results from the 1990's in combination with Hillgrove's own work will provide an excellent platform for drilling targets in the first half of 2010. Initial drilling will target gold mineralisation at the Kali Sute epithermal gold prospect (rock chips up to 184 g/t gold and trenching up to 50m @ 4.51/ g/t gold and 1.09% copper) and the West Delta porphyry copper/gold prospect (rock chips up to 17.9% copper).

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On ground exploration is due to commence this month. An office has been established in the regional city of Sorong to act as a logistics hub for exploration. A total of 36 skilled and unskilled workers will be sourced to construct a base camp at the coastal village Warmandi, close to the Delta Prospect, and to undertake field exploration. Exploration will initially focus on the Kali Sute portion of Delta which is located within 1km of the coast. Work will be led by a senior geologist supported by two field geologists.

Both the Indonesian projects offer exceptional potential for growth in shareholder value.

Corporate – Eastern Star

Finally, Hillgrove, through its 'top-up' arrangements negotiated on the sale of its shareholding in Eastern Star Gas Limited is highly leveraged on the upside should a takeover be launched for Eastern Star before 15 January 2011.

About Hillgrove

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO) focused on developing its Indonesian, South Australian and Queensland base and precious metals projects. The Company is targeting the discovery of world class epithermal gold and porphyry copper/gold deposits in Eastern Indonesia.

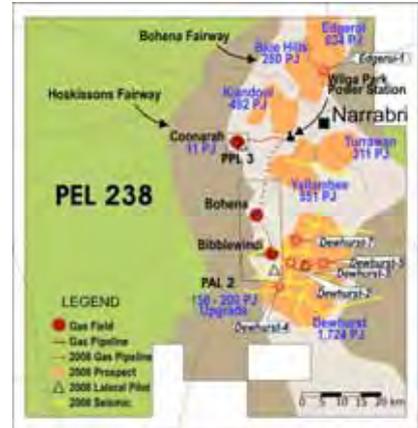
Hillgrove's flagship development is the Kanmantoo Copper Gold Project, located less than 60km from Adelaide in South Australia. Kanmantoo currently hosts a Mineral Resource of 32.2Mt (2.3MT Measured, 22.5MT Indicated and 7.4MT Inferred) grading 0.9% copper and 0.20g/t gold, containing 292,200 tonnes of copper, 191,100 ounces of gold and 3,313,600 ounces of silver. With production targeted for the first quarter of 2011, Kanmantoo will be a 2Mt p.a. open-cut mine producing approximately 17,000 tonnes of copper in concentrate and 8,000 ounces of gold per annum.

The information in this announcement that relates to Exploration Results is based on information compiled by Mr. Dale Ferguson, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr. Ferguson is the General Manager- Exploration and Operations of Hillgrove Resources and has sufficient relevant experience to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Ferguson consents to the inclusion in the announcement of the matters based on his information in the form and context in which it appears. The Mineral Resource estimate is based on information compiled by Mr Paul Payne, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Payne is Manager – WA Mining Consulting Runge Limited and has sufficient relevant experience to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Payne consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.

For more information contact:

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**Hillgrove Resources Limited
and its Controlled Entities**

**Interim Report for the half-year ended
31 July 2009**

Hillgrove Resources Limited and its Controlled Entities

Interim Report 31 July 2009

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 2009 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 2009.

Directors

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

D C Brown
D S Archer
R D Belz
D J Ferguson
J E Gooding
J A Quirke.

Review of operations

The profit of the consolidated entity for the half-year was \$53,973,885 after taking account of an income tax expense of \$27,170,778.

On 15 July 2009, the consolidated entity sold its 19.9% investment in Eastern Star Gas for \$171,986,051, giving rise to a profit on sale before tax of \$93,715,502.

On 15 July 2009, the consolidated entity repaid convertible bond debt of USD 30 million to Stark Investments additionally paying a yield to maturity premium of USD \$8.9m representing interest cost payable.

Development

During the period the consolidated entity continued with development on the Kanmantoo project. The consolidated entity has also, through its locally based partner PT Akram Resources, completed the socialisation phase of its new Bird's Head Project in West Papua, Indonesia (Hillgrove 80%).

Capital Raising

The following funds were raised during the period:

- In February 2009, the consolidated entity raised \$4.1m from a Share Purchase Plan.
- During May 2009, the consolidated entity raised a further \$5.2m from a Share Placement.

Dividends

The Company has not paid a dividend since the end of the previous financial year. On 9 September 2009 the Company declared two fully franked dividends totalling 2 cents per ordinary share.

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 9th day of September 2009.



The Hon. Dean Brown AO
Chairman



D S Archer
Managing Director

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Auditor's Independence Declaration

As lead auditor for the review of Hillgrove Resources Limited for the half year ended 31 July 2009, 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 of Hillgrove Resources Limited and the entities it controlled during the period.



D A Turner
Partner
PricewaterhouseCoopers

Newcastle
9 September 2009

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Consolidated Income Statement
For the half year ended 31 July 2009

	Half Year	
	July 2009	July 2008
	\$	\$
Revenue from continuing operations	135,117	98,773
Other Income	93,715,502	1,086,506
Accounting, ASIC & Audit	(149,945)	(49,546)
Bank Interest & Charges	(13,961,443)	(753,849)
Computing & Communications	(23,634)	(54,727)
Consultants Fees	(285,594)	(129,149)
Depreciation	(128,238)	(59,524)
Directors Fees	(141,657)	(117,543)
Entertainment	(14,747)	(8,161)
Insurance	(52,800)	(21,836)
Public Co. Expenses	(132,182)	(167,399)
Rent	(55,197)	(76,657)
Employee benefits expense	(2,146,115)	(853,015)
Travel	(124,013)	(127,046)
Promotion	(31,293)	(68,788)
Impairment loss of AFS Financial Assets	(75,000)	-
Net Foreign Exchange Gain/(Loss)	6,176,361	(787,717)
Exploration Expenditure written off	(1,454,957)	(239,302)
Other Expenses	(105,502)	(143,420)
Share of Net Losses of Associates accounted for using the Equity Method	-	(402,000)
Profit/(Loss) before income tax	81,144,663	(2,874,400)
Income Tax (Expense)/Benefit	(27,170,778)	666,158
Net Profit/(Loss) attributable to ordinary equity holders of Hillgrove Resources Limited	53,973,885	(2,208,242)
Earnings per share for loss attributable to the ordinary equity holders of the Company:		
Basic earnings per share	0.131	(0.008)
Diluted earnings per share	0.131	(0.008)

The consolidated income statement above should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet
As at 31 July 2009

	31 July 2009	31 January 2009
	\$	\$
Current assets		
Cash and cash equivalents	127,551,154	7,675,238
Receivables	231,138	597,262
Available-for-sale financial assets	1,837,746	79,740,545
Total current assets	<u>129,620,038</u>	<u>88,013,045</u>
Non-current assets		
Property, plant and equipment	20,011,187	14,521,902
Exploration & evaluation expenditure	38,080,371	37,724,913
Other financial assets	731,576	605,916
Total non-current assets	<u>58,823,134</u>	<u>52,852,731</u>
Total assets	<u>188,443,172</u>	<u>140,865,776</u>
Current liabilities		
Payables	3,025,240	1,694,934
Employee benefits payable	646,276	65,499
Income tax payable	27,325,766	-
Total current liabilities	<u>30,997,282</u>	<u>1,760,433</u>
Non-current liabilities		
Borrowings	-	44,004,194
Provisions	150,000	150,000
Deferred tax liability	10,472,912	10,627,900
Other	94,397	94,937
Total Non-current liabilities	<u>10,717,309</u>	<u>54,877,031</u>
Total liabilities	<u>41,714,591</u>	<u>56,637,464</u>
Net Assets	<u>146,728,581</u>	<u>84,228,312</u>
Equity		
Contributed equity	80,814,513	71,773,142
Reserves	1,514,589	1,901,572
Accumulated profits/(losses)	64,015,923	10,042,038
Non-controlling Interest	383,556	511,560
Total equity	<u>146,728,581</u>	<u>84,228,312</u>

The consolidated balance sheet above should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes In Equity
For the half year ended 31 July 2009

	Half Year	
	July 2009	July 2008
Total equity at the beginning of the half year	84,228,312	55,239,098
Employee share options	110,535	127,301
Changes in fair value of available for sale financial assets, net of tax	(497,518)	1,893,205
Net income recognised directly in equity	(368,983)	2,020,506
Gain/(loss) for the half year	53,973,885	(2,208,242)
Total recognised income and expense for the half year	53,586,902	(187,736)
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	9,041,371	13,443,587
Minority interest of acquired subsidiary	(128,004)	1,847,270
Total equity at the end of the half year	146,728,581	70,342,219

The consolidated statement of changes in equity above should be read in conjunction with the accompanying notes.

Consolidated Cash Flows Statement
For the half year ended 31 July 2009

	Half Year	
	July 2009	July 2008
	\$	\$
Cash Flows From Operating Activities		
Receipts from customers (inclusive of GST)	-	49,500
Payments to suppliers and employees (inclusive of GST)	(3,697,721)	(1,864,287)
Interest received	139,237	53,773
Net cash outflow from operating activities	<u>(3,558,484)</u>	<u>(1,761,014)</u>
Cash Flows From Investing Activities		
Exploration /mine development	(2,120,446)	(4,176,539)
Payments for plant and equipment	(5,516,770)	(4,222,786)
Proceeds on sale of investments	171,986,051	1,656,506
Payments for investment	(159,917)	(4,672,815)
Cash acquired on purchase of subsidiary	-	1,035,557
Net cash outflow from investing activities	<u>164,188,918</u>	<u>(10,546,231)</u>
Cash Flows From Financing Activities		
Repayment of borrowings	(49,795,888)	(15,000,000)
Proceeds from issue of shares	9,281,021	13,687,337
Transaction costs arising from issue of shares	(239,650)	(243,750)
Proceeds from issue of convertible bonds	-	29,206,408
Net cash inflow from financing activities	<u>(40,754,517)</u>	<u>27,649,995</u>
Net increase in cash and cash equivalents	119,875,916	15,342,750
Cash and cash equivalents at the beginning of the financial period	<u>7,675,238</u>	<u>3,362,454</u>
Cash and cash equivalents at the end of the financial period	<u><u>127,551,154</u></u>	<u><u>18,705,204</u></u>

The consolidated cash flows statement above should be read in conjunction with the accompanying notes.

Notes to the Financial Statements For the half year ended 31 July 2009

1. Basis of preparation of half-year report

This general purpose financial report for the interim half year reporting period ended 31 July 2009 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 2009 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 predominantly in the mineral exploration business in Australia.

3. Profit for the half year

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

Gains

On 15 July 2009 the consolidated entity sold its 19.9% investment in Eastern Star Gas for \$171,986,051, giving rise to a profit on sale before tax on \$93,715,502.

Expenses

On 15 July 2009, the consolidated entity repaid convertible bond debt of USD \$30 million to Stark Investments, paying an additional yield to maturity premium of USD \$8.9m, representing interest cost payable. The convertible bond debt gave also gave rise to a net realised gain of \$7.6m in the 6 months to 31 July 2009 (year-ended 31 January 2009: net unrealised loss of \$13.2m).

4. Dividends

The Company has not paid a dividend since the end of the previous financial year.

Since the end of the half-year the directors have declared two separate dividends of 1 cent per ordinary share, fully franked based on tax paid at 30%. The amount of each of the proposed dividends to be paid is \$4.13m on 6 October 2009 and \$4.13m 30 November 2009, totalling \$8.26m. These amounts are to be paid from retained earnings at 31 July 2009 are not recognised as liabilities at the half-year.

Notes to the Financial Statements
For the half year ended 31 July 2009

5. Ordinary shares issued

	2009 Shares	2008 Shares	2009 \$	2008 \$
Issues of ordinary shares during the half-year				
Issues pursuant to cash placement	-	25,500,000	-	6,375,000
Issues for asset acquisition	-	10,000,000	-	2,500,000
Exercise employee options	-	1,550,000	-	284,000
InterMet acquisition	-	13,125,640	-	4,528,346
Share Placement	18,982,009	-	2,088,021	-
Share Placement	18,572,728	-	2,043,000	-
Transaction costs	-	-	(239,650)	(243,759)
Share Purchase Plan Deposits	34,333,333	-	5,150,000	-
Total	71,888,070	50,175,640	9,041,371	13,443,587

6. Events occurring after the balance sheet date

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

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes, set out on pages 6 to 9, 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 2009 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 9th day of September 2009.

Signed in accordance with a resolution of the directors:



The Hon. Dean Brown AO
Chairman



D S Archer
Managing Director

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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 statements of Hillgrove Resources Limited, which comprise the statement of financial position as at 31 July 2009, and the income statement, statement of changes in equity and statement of cash flows for the half-year ended on that date, other 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 and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 2009 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.

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

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 2009 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

D A Turner

D A Turner
Partner

Newcastle
9 September 2009

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