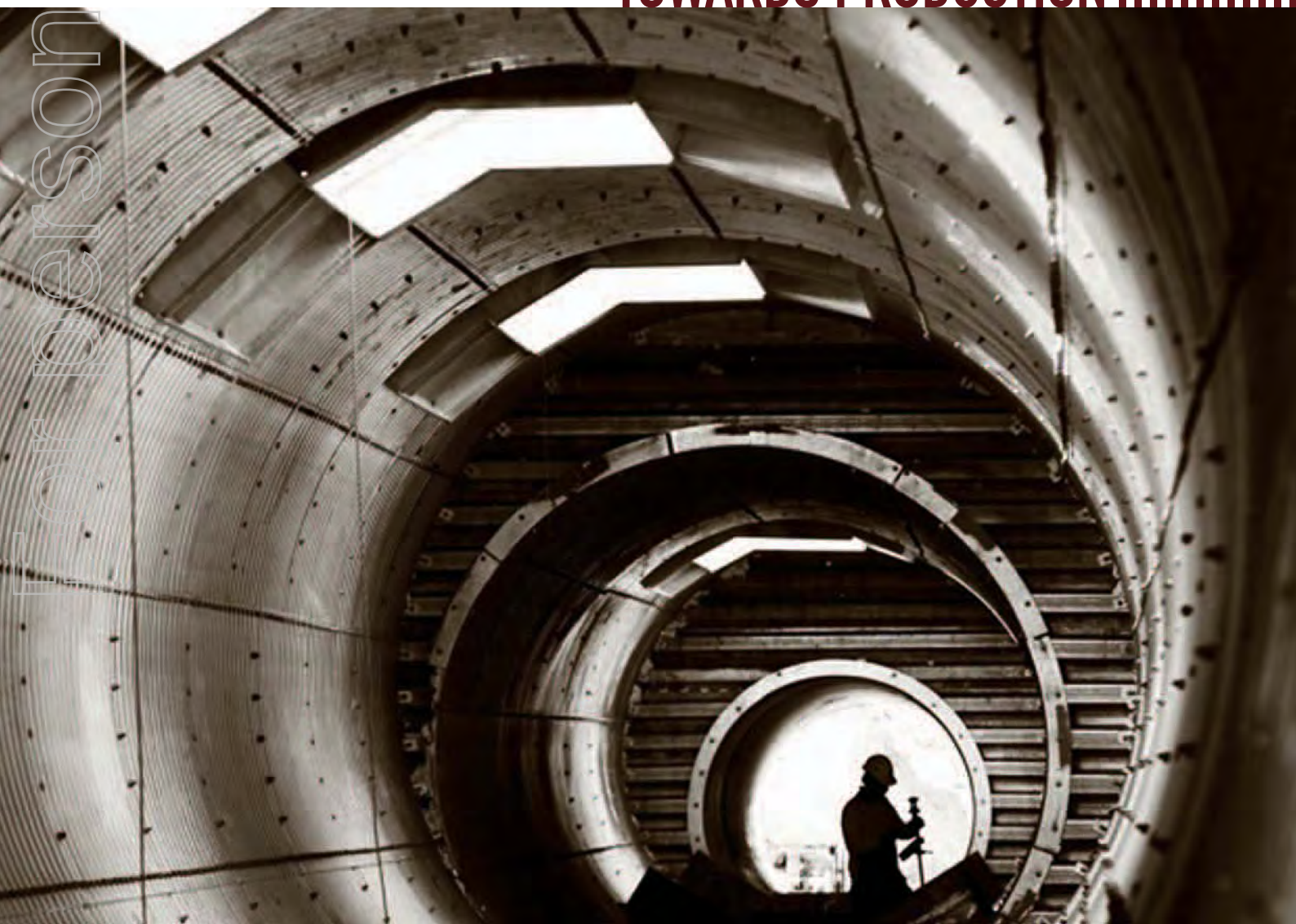
HILLGROVE RESOURCES

2011 ANNUAL REPORT

TOWARDS PRODUCTION



Front cover: Crushed ore stockpile reclaim conveyor tunnel
Inside cover: Flotation cells in the ore processing plant

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CHAIRMAN'S STATEMENT

WITH COMPLETION OF DEBT AND EQUITY FUNDING PACKAGES, AND CONSTRUCTION ON THE KANMANTOO COPPER MINE NOW WELL ADVANCED, HILLGROVE IS POSITIONED TO BECOME A COPPER PRODUCER WITHIN THE NEXT SIX MONTHS.

THE HON. DEAN BROWN, AO

Looking back over the previous year I am delighted with the many achievements Hillgrove Resources has made and the position we are in for shareholders as we head into 2011. The Company has been well served by its team on the ground in Kanmantoo, its management team and Board of Directors.

It was important that we seized the opportunity to build on the excellent groundwork put in place the previous year and not lose momentum. With cash in the bank from the proceeds of the sale of Hillgrove's Eastern Star Gas (ESG) holding, as well as the proceeds of a successful placement and share purchase plan, Hillgrove was well positioned to progress the Kanmantoo Copper Mine project in South Australia and to see the exploration groundwork continued in Indonesia.

Most significantly from a Board perspective, Mr David Archer resigned as Managing Director on the 30 June 2010 for personal reasons. The Board understood his reasons for the decision and reluctantly accepted his resignation. David had been a Director since November 2002 and the Managing Director of Hillgrove since its corporate reconstruction and relisting in early 2003. In that time he led the growth of the group into a well-established, profitable company and the Board thanks him for his outstanding leadership.

Mr Edwin Zemancheff was appointed to the Board of Directors on 23 June 2010 as an independent Non-Executive Director, and adds a wealth of legal and commercial experience. David Archer stayed on as a Non-Executive Director during the recruitment of a new CEO and resigned on the 19 August 2010 following the appointment of Mr Drew Simonsen as CEO and Managing Director.

Hillgrove was able to make these changes without any problems. Mr Drew Simonsen stepped in as interim CEO on the 1 July 2010 and was subsequently appointment as CEO and Managing Director on the 18 August 2010, following an extensive recruitment process. Drew is a mining engineer, financier and a Non-Executive Director of Highlands Pacific Limited.

The finance package for the Kanmantoo Copper Mine was successfully completed with an AUD65 million equity capital raising and AUD30 million of senior funded debt announced on the 29 October 2010. Some AUD14.5 million was committed by institutional investors through the placement of 58.2 million ordinary Hillgrove shares at AUD0.25 per share under an unconditional placement. In addition, AUD50.5 million was committed by institutional investors through the placement of 201.8 million ordinary Hillgrove shares at AUD0.25 per share, under a conditional placement which received shareholder approval at an Extraordinary General Meeting held on 3 December 2010. A portion of the future copper production has been hedged under the financing requirements.

Not only has Hillgrove financed the construction of the Kanmantoo project, but the combination of the two placements increased the institutional shareholding percentage in the group significantly. This was an excellent result for the Company and all its stakeholders.

Since the end of October 2010, the Board and management team have focused on the rapid construction of the processing plant, tailings storage facility, water and electricity infrastructure and the commencement of mining. The objective is to start production in November 2011. The project at Kanmantoo is currently on schedule and budget.

CHAIRMAN'S STATEMENT CONT.

The majority of the water to be used in the processing plant will be treated class A effluent water from the nearby regional centre of Mount Barker. This is a very economical solution and highlights the Company's commitment to sustainability where practical.

The development of Hillgrove Resources has progressed well during the past year and the Company is now very well positioned to continue to build additional shareholder value in 2011 and beyond. We have all the key elements in place that will drive the Company's growth: an enviable suite of high quality resource assets, a healthy financial position and the requisite management skills to deliver both strong future cash flows from the commissioning of the Kanmantoo Copper Mine and potential growth from our highly prospective projects in Indonesia.

The Board and I look forward to another exciting year for Hillgrove Resources Limited and hope that you can join us at our Annual General Meeting in Adelaide to hear more about the upcoming production at the Kanmantoo Copper Mine and exploration plans in Indonesia.

THE HON. DEAN BROWN, AO
CHAIRMAN

MANAGING DIRECTOR'S REPORT

DREW SIMONSEN

DELIVERING THE NEXT AUSTRALIAN COPPER PRODUCER IS SOMETHING WE ARE ON TIME AND ON BUDGET TO ACHIEVE, AND THIS WILL REALISE IMMEDIATE BENEFITS FOR HILLGROVE AND ITS STAKEHOLDERS

Hillgrove is transitioning from an explorer to a copper project developer/producer in Australia, with strong prospects for domestic and international growth in the near term. This is supplemented by a solid platform of cash, people and systems.

HIGHLIGHTS OF 2010/11

- FULL YEAR NET LOSS AFTER TAX OF AUD14.2 MILLION
- MINING AND REHABILITATION PLAN (MARP) APPROVALS ISSUED BY SOUTH AUSTRALIAN GOVERNMENT AND FINAL CONSTRUCTION AND OPERATING LICENCES OBTAINED FOR THE KANMANTOO COPPER MINE DEVELOPMENT
- SURPLUS SAG MILL SOLD FOR AUD7.0 MILLION
- SUCCESSFULLY IMPLEMENTED SWAPTIONS STRATEGY SUPPORTS BANK FINANCING REQUEST AND SUBSEQUENT COPPER PRICE HEDGING PROGRAM
- 40,000 TONNES OF COPPER HEDGES (FORWARDS OR "SWAPS") EXECUTED, COMMENCING IN JUNE 2012, AT THEN RECORD PRICES
- 7,000 TONNES OF COPPER "PUTS" TO MINIMISE REVENUE RISK DURING RAMP-UP PHASE
- AUD50 MILLION OF PROJECT FINANCE FACILITIES ARRANGED, AUD77.7 MILLION OF EQUITY RAISED AND FINAL INVESTMENT DECISION (FID) FOR THE KANMANTOO COPPER PROJECT DEVELOPMENT
- CONSTRUCTION OF THE KANMANTOO PROJECT COMMENCED ON 1 NOVEMBER 2010, AND IS NOW 40% COMPLETE FOR FIRST COPPER CONCENTRATE IN NOVEMBER 2011
- MAJOR FIELD EXPLORATION CAMPAIGNS UNDERWAY IN INDONESIA TOTALLING AUD10 MILLION THROUGH JANUARY 2012
- CASH AT FINANCIAL YEAR END OF AUD117.9 MILLION

MANAGING DIRECTOR'S REPORT CONT.

The year to 31 January 2011 represents a turning point for Hillgrove Resources Limited, and I consider myself both fortunate and enriched from the experience of my first seven months with the Company. I have been fortunate in that the Company was in such good financial shape when I had albeit brief handover sessions with the former Managing Director, David Archer, and also that I have a very supportive Board of Directors. I have been enriched in the sense of experience with, and support from, my executive team and the Board, and our individual and collective contributions to our many achievements during the year.

In July 2010, Hillgrove presented attractive features, as well as significant challenges – an experienced executive team, an Australian copper–gold project nearing a Final Investment Decision (FID) and significant greenfield assets promising future growth potential for the Group. These were the key elements that made my decision to join the Company easy. I have made it my mission to ensure Hillgrove focuses on developing its fully permitted Kanmantoo Copper Mine project in Australia – scheduled for first production in November 2011 – as well as continuing to target the discovery of world class copper–gold resources in Indonesia. All else became secondary.

I joined at a pivotal time in the Company's development. We were fully permitted to commence construction, but needed project debt finance to complete the construction of Kanmantoo. An application for debt finance to project financiers was suffering delays. Significant financial analysis indicated that ramp-up and working capital needs would require not only debt but additional equity to complete the financing plan for Kanmantoo. I was familiar with the bankers' needs and by working with our CFO, Russell Middleton, and the Finance team, our advisers and the banks, we reached a view with the Board as to the level of equity we would need to raise to complement the debt facilities and complete the financing plan for the Kanmantoo Copper Mine project.

In the event, Hillgrove raised AUD127.5 million through a combination of senior debt, performance guarantees and equity, as well as commodity hedging facilities which, together with existing financial resources, enabled the Board to reach a FID and commence long-awaited construction at Kanmantoo on 1 November 2010, with a 12 month construction timetable.

MANAGING DIRECTOR'S REPORT CONT.

FINANCIAL PERFORMANCE

The past financial year has been a foundation year which has provided the building blocks to establish Hillgrove as a copper producing company in late 2011. The financial result is primarily a consequence of a number of significant transactions that enabled Hillgrove to move its flagship Kanmantoo Copper Mine project into the development and construction phase.

Hillgrove posted a net loss after tax for the 12 months ended 31 January 2011 of AUD14.2 million (2010 profit of AUD55.6 million) which is attributable to a few key transactions:

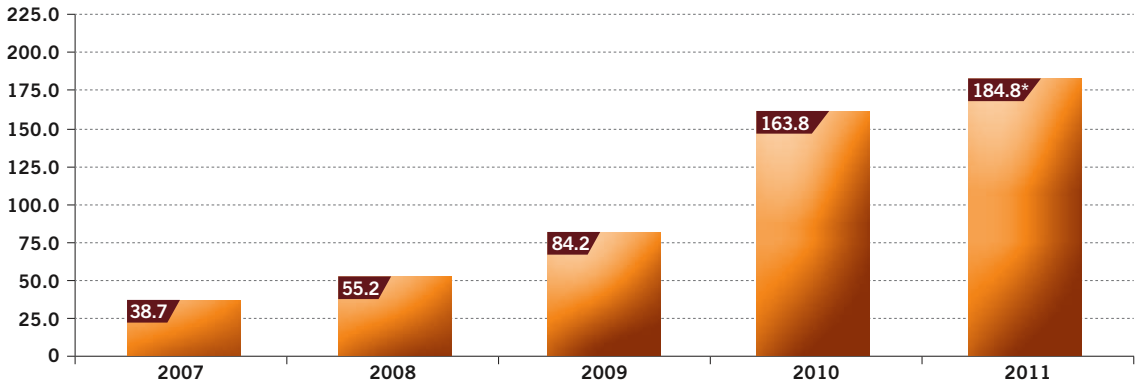
- Write-off of goodwill associated with the oxide ore treatment business SA Mining Resources Pty Ltd (SAMR), purchased in August 2009. This business will be discontinued later in 2011 as our mining operations will progress through the current location;
- Sale of 15,000 tonnes of copper swaptions, purchased in early 2010. While the return from the sale of the swaptions was significantly impacted by the rise in copper prices over the course of the year, the swaptions played a very important role in providing a floor price for a portion of our production during evaluation of the project by our project financiers, and their ultimate decision to support the Kanmantoo project;
- Write-down of InterMet Resources Limited (ASX:ITT) exploration. This followed a thorough and complete review of each and every property within the InterMet exploration portfolio.

RESULTS FOR THE YEAR ENDED	31 JANUARY 2011 AUDM	31 JANUARY 2010 AUDM	31 JANUARY 2009 AUDM
Revenue and other income	9.0	98.2	46.8
Profit/(loss) after tax	(14.2)	55.6	11.1
Earnings per share – diluted (cents)	(2.5)	12.7	3.4

Net assets increased to AUD185 million (2010: AUD164 million), impacted by the inclusion of a AUD58.6 million non-current liability as a result of hedge accounting.

This non-current liability reflects the difference in value between the contracted settlement price of the copper price hedges ("swaps") and the copper price as at Hillgrove's balance date of 31 January 2010. This non-current liability is unrealised, and will fluctuate at our balance dates according to the prevailing price of copper relative the price at which the hedges/swaps were executed last year. Contemporary accounting treatment does not recognise or reflect the additional revenue from the unhedged portion of production that would be realised at the time of settlement, should the same copper price prevailing at balance date remain at those levels.

NET ASSETS (AUDM)



* Includes an unrealised hedge liability amounting to AUD58.6m

KANMANTOO COPPER MINE FID AND PROJECT FINANCING

The Board of Directors of Hillgrove reached a Final Investment Decision (FID) and approved the development of the Kanmantoo Copper Mine project on the 29 October 2010. At this time, Hillgrove secured project finance and associated commodity hedging facilities for the development of Kanmantoo.

The key terms of the project financing facility agreement with Macquarie Bank Limited and Barclays Bank PLC included a Project Finance Facility comprising an AUD30 million cash advance term loan facility maturing on the 30 September 2015, and an AUD20 million Performance Bond and Guarantee Facility (which may be increased up to a maximum of AUD29 million subject to cash collateralisation of the excess above AUD20 million) maturing on 31 March 2016.

Hillgrove satisfied the Conditions Precedent (CP) to enable access to the Performance Bonding and Guarantee Facility, and this has now occurred. Hillgrove is now working towards satisfaction of the CPs to enable drawdown of the funded loan facility of AUD30 million, which is not expected to be required until July 2011. The key CP is a review and re-optimisation of the mine plan, with the results incorporated into the Company's financial model for the project, and subsequent submission of the Bank Base Case for review and endorsement by an Independent Technical Expert (ITE). In addition, the Company is required to provide confirmation to the ITEs satisfaction that the Cost-to-Complete the project is adequately covered by available funds, which includes the funded debt facility from the project lenders. We expect the ITE process to be completed in May 2011.

The early access hedging provided for the Kanmantoo Copper Mine project underpinned the mitigation of the largest risk for the project – commodity pricing, and maximised the debt available from the funded debt facility. The hedging was in the form of copper forwards (or "swaps") and, when combined with the swaptions purchased in late April 2010, allowed Hillgrove to underpin project cashflows at very attractive prices in the cycle. The early access hedging was facilitated by Hillgrove's hedging adviser, Noah's Rule Pty Ltd, and executed with the project finance lenders, Macquarie and Barclays.

PROJECT FINANCING HEDGING AND SWAPTIONS

A key feature of the banking offer was to allow Hillgrove to undertake hedging for the project prior to financial close (execution of complete project finance documentation) – a highly unusual occurrence. With the assistance and support of the participating banks and the level of documentary work undertaken prior to FID, Hillgrove's commodity hedging program commenced immediately after FID, and in advance of the formal loan documentation which was ultimately signed on 1 December 2010. All hedging was completed on 3 December 2010.

MANAGING DIRECTOR'S REPORT CONT.

The Project Financing Facility terms and conditions required the Company to sell forward 40,000 tonnes of copper in concentrate over the debt term of about 40 months, commencing in June 2012. This represents approximately 50-55% of the projected output of copper metal for Hillgrove during this period. Production is scheduled to commence in November 2011, which provides a significant buffer of approximately seven months prior to Hillgrove's first forward sales commitments under the hedging program.

The Company achieved an average hedge price for copper of AUD8,230/tonne, net of credit margin to the Project Finance banks. The gross price achieved was at or about all-time highs for copper price at the time.

The Company also purchased 7,000 tonnes of put options to underpin revenue during the important ramp-up phase following commissioning. These put options were executed on a deferred premium basis at AUD7,500/tonne for 3,500 tonnes, and outright for the residual at the same strike, with the premium for the outrights offset by cashing in the swaption previously purchased by the Company.

While the swaption purchased earlier had decayed to not much more than time value given the ramp-up in copper price during the period, the importance of the original decision to purchase the swaption cannot be understated – it was significant in that it underpinned the whole hedging execution strategy which we developed with Noah's Rule and the banks. Without it, the project debt package may not have been achievable.

All hedging has been executed back into Australian dollars (AUD). Debt will be drawn in AUD, and it is proposed the Company will convert unhedged revenue, albeit USD based, into AUD as and when received, within strict policy guidelines established by the Board.

No gold or silver hedging has been undertaken. Historical operations provide no data on gold and silver recoveries to the concentrate – no doubt a function of relatively little interest in these by-products because of low prices at the time (early to mid-1970s). It is also possible that the operation received no credit for gold and silver in the concentrate it sold. As a result, we have concluded that empirical evidence from operations should be obtained before giving any consideration of hedging of precious metals contained in the concentrate, notwithstanding the recent strong price performance of these by-products.

With the hedging prices we have achieved, and applying prevailing copper, gold and silver prices for the unhedged portion of production, the financial outlook for the project appears very robust.

EQUITY RAISING

Hillgrove successfully completed an AUD65 million Equity Raising on the 3 December 2010, with a total of 260,000,000 ordinary shares in the Company issued at AUD0.25 per share. The Equity Raising consisted of two components, an unconditional component that was not subject to shareholder approval and a conditional component that was subject to shareholder approval.

The Company completed the unconditional component of the Equity Raising with the placement of 58,185,021 shares to institutional investors, raising approximately AUD14.5 million on the 1 November 2010.

Following shareholder approval at Hillgrove's Extraordinary General Meeting (EGM) held on 3 December 2010, the conditional component of the Equity Raising was completed and the Company issued a further 201,814,979 shares to institutional investors, raising approximately AUD50.5 million. The allotment of the new shares pursuant to the conditional component was completed on 8 December 2010.

The offer price represented a 16.7% discount to Hillgrove's closing price on Thursday 28 October and a 16.7% discount to the 5-day VWAP.

The Equity Raising was fully underwritten by JP Morgan and Wilson HTM Corporate Finance Limited, who acted as Joint Underwriters to the offer. JP Morgan acted as Sole Bookrunner to the Equity Raising.

Following completion of the unconditional placement and the conditional placement, the total number of shares on issue rose from 540,803,911 to 742,618,890.

MANAGING DIRECTOR'S REPORT CONT.

SHARE PURCHASE PLAN

In addition to the conditional and unconditional equity placements, on the 28 October 2010 Hillgrove announced an offer to eligible shareholders with registered addresses in Australia and New Zealand (who had not participated fully in the January 2010 offer) to purchase up to AUD15,000 worth of shares under a non-underwritten Share Purchase Plan (SPP). The SPP closed on 14 December 2010 with the Company receiving strong support from existing shareholders, and raising AUD12.7 million.

Hillgrove received an outstanding level of support with over 1,285 applications, or approximately 18.4% of all shareholders complying with the SPP terms and conditions on this occasion. The Company's goal will be to continue to provide existing shareholders with the same opportunity to participate in any capital raisings as those afforded to larger, institutional investors.

The SPP funds raised provided the Company with additional comfort that construction of Kanmantoo can be achieved within available cash resources. In addition, the funds allow Hillgrove the opportunity to consider additional strategic investments in the Company's asset portfolio. These opportunities include exploration in and around the Kanmantoo Copper Mine project, and further investments that fit within Hillgrove's tightened strategic focus in Australia and in Indonesia.

The price for shares issued under the SPP was AUD0.25 per share, with the new shares allotted on 21 December 2010. A total of 50,932,000 new shares were issued to participating eligible shareholders, taking the total issued shares to 793,550,890 at that time.

KANMANTOO COPPER MINE FUNDING PACKAGE

The Project Finance Facility, together with existing cash reserves and the proceeds of the Equity Raising, completed the immediate future financing plan for the Company, allowing the development of Kanmantoo to proceed. Approximately AUD121 million from the total funding package will be used to bring the Kanmantoo Copper Mine project to production (including AUD10 million in contingency). The financing plan was devised to:

(i) fund the Kanmantoo Project through to production;

(ii) fund activities at our Indonesian exploration projects;

(iii) fund other general corporate expenses.

The expected capital costs for Kanmantoo at Final Investment Decision were as follows:

	TOTAL CAPITAL COSTS AUD MILLION	CAPITAL COSTS SPENT TO DATE AUD MILLION	REMAINING CAPITAL COSTS AUD MILLION
Capital Costs			
Pre Strip	26.7	-	26.7
Tailings Storage Facility (TSF)	17.1	0.1	17.0
Pillara processing plant	67.9	21.3	46.6
Other infrastructure	9.3	0.4	8.9
Project management costs	13.2	1.1	12.1
Subtotal	**134.2**	**22.9**	**111.3**
Contingency	10.0		10.0
Total (including contingency)	**144.2**	**22.9**	**121.3**

Source: *HGO ASX release on 29 October 2010*

MANAGING DIRECTOR'S REPORT CONT.

KANMANTOO COPPER MINE DEVELOPMENT

The focus of the Company is currently on successfully bringing the Kanmantoo Copper Mine project into production, on time and on budget. At this stage there is no reason to believe that commissioning cannot commence in November 2011, as scheduled, and that costs to complete will be within the total budget of AUD121 million (including contingency).

Construction of the plant is progressing well and in parallel across a number of discrete components of the plant. Construction was identified as a key risk for the Company at a very early stage (prior to FID) and as a result, and to mitigate this exposure, Parsons Brinckerhoff was appointed on a fee and incentive based contract to provide project management oversight of construction.

The Company has embarked upon a complete review of the exploration programs undertaken by both Hillgrove and previous owners of the Kanmantoo licence areas. As a result, an Exploration Geologist was hired for the site and a program through to January 2012 has been defined. While numerous copper and other base metal/gold occurrences have been identified within the Kanmantoo tenure package, the primary objective of the current exploration program is to add to open pit resources for the Kanmantoo mine and process plant. The obvious target priorities fall within the mining lease ML6345, as the grade hurdle will be less sensitive to transportation costs and in all probability easier to accommodate as a development proposal by way of variation to existing granted mining/environmental permits.

The exploration review has concluded that the prospects for adding to reserves and providing an extension of mine life at Kanmantoo appear very good. Subject to identification of sufficient resources, a very cost-effective expansion of process plant throughput to 3.5mtpa may also be considered.

INDONESIA

The Company has two exploration prospects in Indonesia – a highly prospective geological provenance for the Company's target commodities: copper and gold.

On Sumba Island, Hillgrove holds an IUP (exploration license) covering approximately 1,000km². A major structural corridor has been identified with intensive hydrothermal alteration, silicification and gold mineralisation. Surface sampling has identified 17 high prority gold targets in the southern (Masu) area, and scout drilling has been undertaken on a vein system which, while confirming attractive widths and grades, was judged likely to be uneconomic on a stand-alone basis. While surface exploration is continuing at Masu, the scout drilling has been discontinued following independent consulting geologist advice, pending completion of a large airborne geophysical survey. One of the scout drills was relocated to the northern (Tanah Daro) prospect area where an eight-hole scout drilling program has recently been completed. As a result of this program, a decision has been made to extend the airborne geophysical survey to this northern area. Progress on the airborne geophysical survey has been disappointingly slow due to weather and contractor delays. The first contractor was replaced, and a second has now been contracted to commence in the near term.

At Bird's Head in West Papua, Hillgrove holds an IUP, also covering approximately 1,000km². Review of historical Normandy exploration data, including 5,000 metres of shallow (less than 150m) drilling data, airborne geophysical data, together with extensive surface sampling and mapping by Hillgrove has identified multiple overlapping hydrothermal systems in the northern (Delta) area of the IUP, about 3km from the coast, Hillgrove's work has identified all the classic signatures of sub-surface copper porphyry mineralisation, including magnetic anomalies, widespread copper soil anomalies with grades commonly between 0.5% and 1.0%, and often exceeding 1%, and the existence of low to high temperature alteration systems. Structural interpretation has been aided by the presence of widespread land slips from a major earthquake several years ago.

Hillgrove has now undertaken sufficient surface exploration of the Delta prospect, and the next step is to undertake a campaign of 5,000 metres of drilling (circa 500m deep holes). An application for a drilling permit (pinjam pakai eksplorasi) is progressing.

INDONESIA (CONTINUED)

Hillgrove initially held beneficial 80% interests in both the Sumba and Bird's Head exploration prospects through joint venture agreements. The companies holding the licence areas must undergo a status conversion process before direct foreign ownership interest in the shares of the tenement holding companies is permitted. This has now occurred for Sumba, with Hillgrove now owning 80% of the shares in PT Fathi Resources Pte Ltd, and is progressing with a similar process for the Bird's Head tenement holder, PT Akram Resources Pte Ltd.

Conversion of our beneficial joint venture interests to direct ownership is a significant milestone for Hillgrove, and represents the culmination of much hard work. We have now developed significant intellectual expertise that can facilitate the expansion of our interests in Indonesia should we choose.

In addition, Hillgrove has now established PT Hillgrove Indonesia Pte Ltd as a 100% owned business consulting company to provide management support services such as accounting, IT and tenement management for all our current and future Indonesian ventures. This is Hillgrove's only direct operating entity in Indonesia and is a significant milestone for our presence in Jakarta and Indonesia.

COMET VALE MINE

Hillgrove was acquired in late 2002. The assets of the Company included the disused Comet Vale Mine near Armidale in Northern NSW.

After extensive consultation over several years with the NSW Department of Industry & Investment (DI&I), and with the assistance of our environmental consultants, Hyder Consulting Pty Ltd, and our legal advisers, law firm Baker & Mackenzie, DI&I approved our submission for the Mine Operations Plan for Mine Closure for the former Comet Vale Mine on 21 February 2011. The plan involves a detailed schedule of works for rehabilitation work to be undertaken at the site. The works are likely to continue for up to two years, and Hillgrove is required to post an AUD366 thousand bond to DI&I as security against the required works, which have been estimated to cost AUD165 thousand. The Company has provisioned approximately AUD1.1 million against the liability to complete the rehabilitation works.

The next step is negotiation of a site access agreement to the old lease with the local landowner to enable the Company to undertake the approved works, which the Company hopes to commence before spring 2011.

MANAGING DIRECTOR'S REPORT CONT.

INVESTOR RELATIONS

Since the debt and equity capital raisings late last year, investor relations activities have focused on showcasing the Company's strategy and progress at Kanmantoo, together with our ongoing exploration activities in Indonesia. We have met with strong interest from an increasing number of brokers, funds and institutional investors. These efforts have resulted in the broadening and deepening of the Company's share register, with a number of new Australian, European and North American investors joining the register. It is clear from our investor presentations and meetings, however, that significant investor interest awaits execution and delivery of Kanmantoo, and progress on our exploration prospects in Indonesia.

STRATEGY AND VISION

The financial result for the 2011 year masks significant achievements for Hillgrove. The Company has:

- executed a project finance debt facility agreement;
- raised equity;
- hedged approximately 50% of the first 40 months of copper production from June 2012, at then all-time high copper prices;
- announced a Final Investment Decision;
- commenced construction at Kanmantoo, which is currently about 40% complete and on time, on budget for first production in November 2011;
- announced a near mine exploration program at Kanmantoo with the objective of extending mine life and potentially increasing plant throughput in future years;
- continued with a significant exploration program on its high quality prospects in Indonesia;
- commenced and partially completed the process of corporatising the Indonesian investment structure to convert our beneficial interests to direct shareholdings in the relevant licence holders;
- gained approval for the Comet Vale Mine rehabilitation plan.

Hillgrove's immediate strategic focus is on copper–gold prospects in Australia and Indonesia. Our primary focus will remain on successfully bringing the Kanmantoo project into production on time and on budget, as a demonstration of the capabilities within the Company. Several non-core assets have either been disposed of, or are in the process of being disposed of. Several strategic review sessions have been undertaken by the Executive Team and a formal submission to the Board will be made during the coming year.

MANAGING DIRECTOR'S REPORT CONT.

OUTLOOK

Hillgrove has been demonstrably successful in achieving a strong balance sheet, the prospect of near term copper revenues commencing in late 2011 from the proposed development of Kanmantoo, and a strong pipeline of exploration properties that could produce Tier 1 discoveries in Indonesia in the near term. This is supplemented by a solid platform of cash, people and systems.

Over the coming year we see several key objectives to drive growth in shareholder value:

- Commission the Kanmantoo Copper Mine development in the final quarter of calendar 2011;
- Expand resource and reserve inventory at Kanmantoo by completing a 7,500m Reverse Circulation (RC) drilling program, initially targeting extension of reserves and mine life, and then through an ongoing drilling program, targeting sufficient resources to expand throughput to 3.5mtpa;
- Provide "proof-of-concept" of potential major copper–gold porphyry system at West Delta on Bird's Head in Indonesia by completing a 5,000m deep diamond drilling program;
- Widen the Company's project portfolio with potential new investment opportunities;
- Continued rationalisation of non-core assets in the portfolio.

I look forward to working with the Board, staff and all stakeholders in the Company and its activities over the coming year to achieve these goals.

I believe the Company has significant potential and together with the Hillgrove team I will be seeking to further unlock this potential. My first priority was to develop and execute the financing for Kanmantoo, to enable construction to commence. I have since been able to turn my attention to our Indonesian structure, to ensure that our interests are held in the most effective way and that we are properly resourced and serviced to achieve our objectives of executing our current plans and also growing the business. In parallel with this, we have been looking at ways to maximise the value of the Kanmantoo asset through mine life extension and expansion, and commencing a broader review of the significant potential in the Kanmantoo exploration tenements.

2011 has been a year of significant achievement for the Company, but it is crucial for all our stakeholders that we focus on these specific initiatives and execute them very well.

I thank you for your continued support and look forward with great anticipation to the next year.

DA SIMONSEN
MANAGING DIRECTOR

KEY PROJECT OVERVIEWS

KANMANTOO COPPER MINE, SOUTH AUSTRALIA
AUSTRALIA'S NEXT COPPER DEVELOPER WITH PRODUCTION ON SCHEDULE TO START IN NOVEMBER 2011

HIGHLIGHTS

- MARP AND ALL APPROVALS ACHIEVED FOR PROJECT
- PROJECT DEBT AND EQUITY FINANCING OF AUD121M ARRANGED
- PROCESSING PLANT CONSTRUCTION 40% COMPLETE
- TAILINGS STORAGE FACILITY (TSF) 70% COMPLETE
- PRIVATE ACCESS ROAD 90% COMPLETE
- TREATED WATER PIPELINE 80% COMPLETE
- PROJECT ON TIME AND ON BUDGET FOR NOVEMBER 2011 COMMISSIONING
- CONSTRUCTION OF THE KANMANTOO PROJECT COMMENCED

Hillgrove's flagship development is the Kanmantoo Copper Mine project in South Australia. It is located less than 55km from Adelaide and close to road, rail, power infrastructure and the Port of Adelaide. It has been part of Hillgrove's portfolio since early 2003 when exploration activities recommenced in the area and the Company consolidated its holdings, which included the former Kanmantoo Mine that was the subject of a medium sized copper operation from 1971 to 1976.

The project 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.

KEY PROJECT OVERVIEWS CONT.

CURRENT RESOURCE

Kanmantoo Resource – November 2008 Resource 0.25% Cu Cut-off

CLASS	TONNES	%Cu	Au g/t	Ag g/t	Cu (T)	Au (OZ)	Ag (OZ)
Measured	2,290,000	0.9	0.2	3.5	21,700	12,100	255,300
Indicated	22,525,000	0.9	0.2	3.3	204,400	139,900	2,381,200
Inferred	7,376,000	0.9	0.2	2.9	66,100	39,100	677,100
Total	**32,192,000**	**0.9**	**0.2**	**3.2**	**292,200**	**191,100**	**3,313,600**

CURRENT RESERVES

CATEGORY	TONNES Mt	Cu %	Au g/t	Ag g/t
Proven	2.3	0.87	0.13	3.2
Probable	12.5	0.84	0.18	3.1
Ore reserve	**14.8**	**0.85**	**0.17**	**3.1**

With completion of construction of the processing plant targeted for November 2011, Kanmantoo will be an open-cut mine with initial throughput of 2.4Mtpa, and producing approximately 20,000 tonnes of copper in concentrate and 10,000 ounces of gold per annum. The project has potential to expand to 3.5Mtpa with modest additional augmentation of plant and mining equipment.

Hillgrove's primary objective in 2011 is bringing the Kanmantoo Copper Mine into production. Debt and equity financing for development of the project was completed in October 2010, with the Board of Directors of Hillgrove reaching a Final Investment Decision (FID) and approval of the development of the project on the 29 October 2010. The processing plant is now under construction (about 40% complete) and the Tailings Storage Facility (TSF) well underway for completion in July. Mining and stockpiling of ore has commenced, with first production scheduled for November 2011. The project has an estimated life of mine of 10 years based on current resources, with future potential to expand through further exploration. LOM average cash costs are expected to be USD1.61/lb, after by-product credits.

The Kanmantoo project has seen a successful ramp-up of construction activities, both on and off site, and of personnel (both employees and contractors) since the announcement of FID, including the addition of over 20 direct Hillgrove employees and 200 contractor employees. Over 200,000 hours have been worked to date and we are proud to report there have been no serious injuries or industrial relations incidents.

KEY PROJECT OVERVIEWS CONT.

The safety of our workforce and the communities that we operate in is our highest priority. An ongoing program of maintaining high housekeeping standards and the identification and rectification of hazards within the changing workplace is a priority for all. The project has also had no breaches of environmental licence or lease conditions.

Parsons Brinckerhoff has been retained as Project Managers of all aspects of plant reassembly/construction and infrastructure construction. They have a team of eight on site, with Administration, Contracts, Controls, Safety, Electrical and Mechanical supervisors. While safety is paramount, tight cost and schedule control is critical.

The principal contractor for the reassembly, construction and commissioning of the former Pillara processing plant is Abesque Engineering, who were responsible for dismantling and transporting the Pillara plant to site. Abesque, together with their major subcontractors, York Civil and Cimeco Construction, mobilised to site within two weeks of FID. Physical progress for the processing plant is at 40% and on schedule, and financial performance is on budget within contingency allowances.

The purchase of the Pillara plant removed a key element of construction risk – scheduling delivery and logistics for plant components – since almost all the plant is located on site and is being moved, refurbished and re-erected as required. All the offsite procurement and construction activities (including the secondary cone crusher, regrind mill, the Cyclone Cluster and the refurbishment of HV electrical equipment) are also on schedule, with no identified delays likely to impact the construction program.

KEY PROJECT OVERVIEWS CONT.

The major offsite infrastructure is also progressing well. The 15km reclaimed water pipeline from Mt Barker's Laratinga Water Treatment Plant to Callington, via the site, is nearly complete; our private site access road (to bypass the township of Kanmantoo) is in the final stages; and the major long lead items for the power connection are all on site.

The ElectraNet Transmission Connection Agreement (TCA) was executed with ElectraNet in December 2010. ElectraNet and their contractors started construction in early February, with the scheduled date for "energisation" of the site set for 31 August 2011, well in advance of plant commissioning scheduled for November 2011.

The Mining contractor, Exact Mining Services (EMS), also mobilised to site within two weeks of FID, with the first blast within the pit area occurring on the 1 December 2010. Major milestones to date include the establishment of all major mining haul roads; completion of the mining hard stand and initial workshop facilities; and site clearing and preparation of the foundations, and laying of the initial piping system for the Tailings Storage Facility (TSF).

The focus of the pre-strip activity has been to access clean rock-fill to be used for the construction of the earth embankment walls for the TSF, whilst establishing access to the initial sulphide ore feed to be used for commissioning of the plant. Approximately 250,000 tonnes of oxide ore has been recovered to date and stockpiled on top of the old waste dump for later processing.

Exploration programs undertaken by both Hillgrove and previous owners have identified numerous copper and other base metal/gold occurrences within the Kanmantoo tenure package. With the immediate future of Kanmantoo secured, Hillgrove has now recommenced exploration to ensure potentially economically viable copper resources within the area are evaluated, prioritised and explored/developed, with highest priority given to opportunities capable of delivering resources for additional mill feed for the Kanmantoo ore processing operation.

Priority will be given to further exploration of potential extensions to, or the closing off of, the existing Kanmantoo/Emily Star resources within the mining lease ML6345. This effort will be particularly relevant if successful drilling has the potential to influence the current or re-optimised mine plan/schedule.

Given that the grade profile of copper mineralisation discovered to date is circa 1% Cu or less, the initial focus on definition of additional resources will principally be in the top 150m profile and not on the down dip/plunge extensions of known mineralised bodies which may be amenable to possible underground development. The resource appears open at depth, but underground potential will fall into a deferred category for the time being, with commitment to review opportunities in the future.

Through Kanmantoo, Hillgrove will be the next Australian copper producer and will be well positioned with positive cash flow and the potential for expansion of the resource, and hence mine life, to over 10 years.

KEY PROJECT OVERVIEWS CONT.

INDONESIAN EXPLORATION

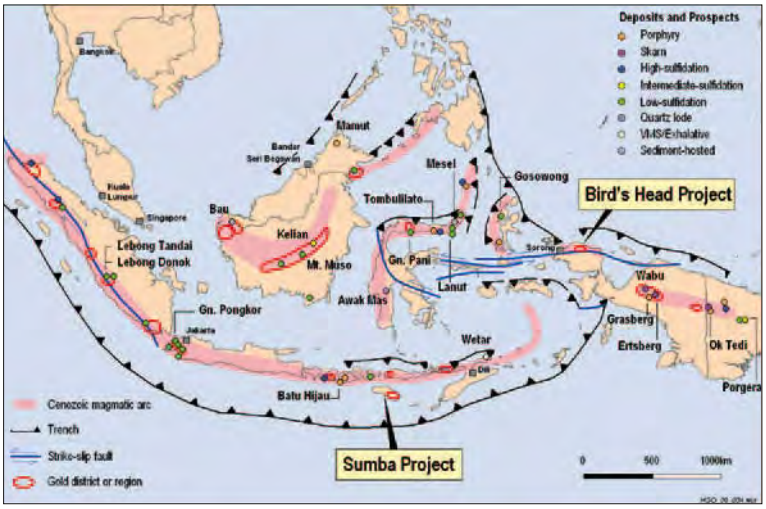
DESPITE INDONESIA BEING ONE OF THE MOST PROSPECTIVE COUNTRIES IN THE WORLD, IT HAS REMAINED RELATIVELY UNDER-EXPLORED. EQUALLY, ITS RECENTLY RE-ELECTED CONSERVATIVE PRO-DEVELOPMENT GOVERNMENT, COUPLED WITH ITS PROXIMITY TO THE MAJOR INDIAN AND CHINESE MARKETS AND HILLGROVE'S BASE IN AUSTRALIA, MAKES IT A VERY ATTRACTIVE OPTION FOR INVESTMENT.

In 2008, Hillgrove undertook a major new initiative in Indonesia, the world's second largest democracy. Investor friendly changes to the country's mining legislation regime were imminent, which would provide greater certainty and security to foreign nationals regarding their ability to make direct investment in mineral exploration, resources development projects and mining.

Hillgrove began a systematic search for opportunities in the region, particularly along convergent tectonic plate margins that within the broader region host five of the top 20 known gold-rich porphyry copper deposits. The Company was particularly focused on ground that came with a significant legacy of data from previous exploration and proven exploration potential.

In conjunction with, its joint venture partners, Hillgrove secured the Sumba and Bird's Head projects as general survey licences (Kuasa Pertambangans) or KPs in 2008 and 2009 respectively, which meant the joint venture was well positioned to be granted follow-on titles when the newly enacted laws and accompanying promulgating regulations came into effect. This ensured the joint venture was not subject to the uncertainty of open tenders and there was a defined process for the conversion of the KPs to the more secure follow-on titles of Exploration Mining Business Licences (IUP Eksplorasi), which subsequently occurred.

Since the Final Investment Decision on Kanmantoo in late October 2010, considerable work has been undertaken at a corporate level to convert the current joint venture arrangements, where Hillgrove has an 80% beneficial interest in the Sumba and Bird's Head prospects, into a formal corporate ownership structure. This involves conversion of the Indonesian "PT" companies holding the exploration licences into a different form of company ("PMA"), allowing direct foreign ownership, as permitted under Indonesian law, and acquisition of the shares in those companies by subsidiaries of Hillgrove. Agreements giving effect to this structure were signed on 22 February 2011.



Work has progressed very steadily on gold exploration activities on Sumba, with ongoing geochemical surface sampling and drilling programs continuing to define gold occurrences.

KEY PROJECT OVERVIEWS CONT.

At the Masu Project in East Sumba, the prime focus over the last year was to generate drill targets within a 10km long by 4km wide corridor containing zones of epithermal gold mineralisation, as defined by geochemical surface sampling. To date surface exploration has identified 17 high priority gold anomalies with associated epithermal quartz vein systems within an 8km corridor, and these are currently being assessed by trenching as a prioritisation process ahead of drill testing.

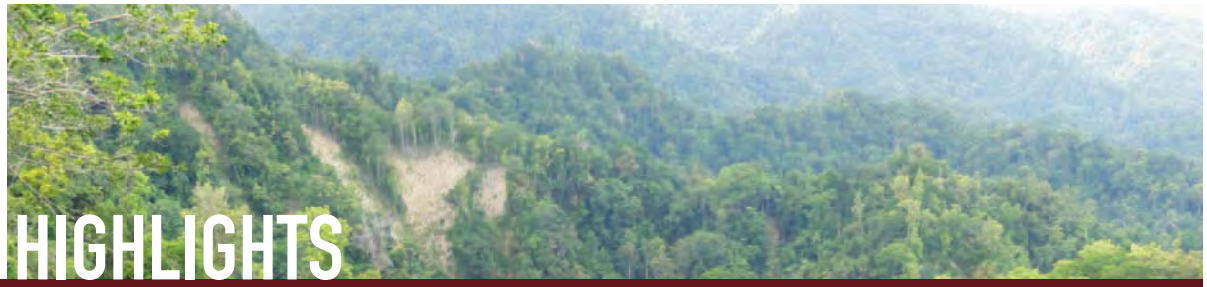
Drilling of initial targets at Masu has confirmed the presence of gold mineralisation within epithermal vein systems, but to date has yet to define mineralisation over sufficient widths or grade to justify a resource drill out. However, as surface exploration continues, better targets are presenting themselves. Given the sheer size of the Masu alteration corridor, the widespread, high grade nature of gold mineralisation being encountered and the favourable geological environment, the Company feels confident that the chance of discovering a significant gold deposit at Masu remains high.

In Central Sumba, first-pass reconnaissance work identified significant gold and base metal mineralisation at the Pelitalira Prospect. A base camp was established in the area to facilitate expanded surface exploration and drilling of defined targets. Initial assessment of Pelitalira indicates that it represents the uppermost portion of a high sulphidation epithermal system, with good potential for gold and base mineralisation at depth.

Bird's Head may be a more remote and challenging location than Sumba, but presents a unique and very exciting opportunity to undertake exploration for world-class porphyry copper–gold deposits. Hillgrove has been operational on the ground since 2009 and has steadily built up strong relationships with local landowners and a quality workforce. Work to date has defined a high quality porphyry copper–gold target at the West Delta prospect that is ready for drill testing. Beyond West Delta there are several significant copper–gold targets that look extremely promising.

KEY PROJECT OVERVIEWS CONT.

BIRD'S HEAD PROJECT, INDONESIA
EXPLORING FOR COMPANY-MAKING GIANT ORE BODIES IN A PROVEN WORLD-CLASS GEOLOGICAL SETTING



HIGHLIGHTS

- LANDOWNER ACCESS AGREEMENT COMPLETED
- NEW BASE CAMP ESTABLISHED
- STRONG TECHNICAL TEAM ASSEMBLED
- REMODELLING OF AEROMAGNETIC DATA IDENTIFIED NUMEROUS ANOMALIES FOR ASSESSMENT
- SURFACE SAMPLING AND MAPPING HAS DEFINED A CLASSIC PORPHYRY SIGNATURE WITH HIGHLY ANOMALOUS COPPER AND GOLD VALUES AT SURFACE
- LOGICAL MAPPING, ROCK CHIP SAMPLING AND TRENCHING CONTINUES TO IDENTIFY ADDITIONAL PORPHYRY TARGETS SOUTH OF THE WEST DELTA PROSPECT
- WEST DELTA TARGET DRILL-READY WITH DRILLING CONTRACT AWARDED

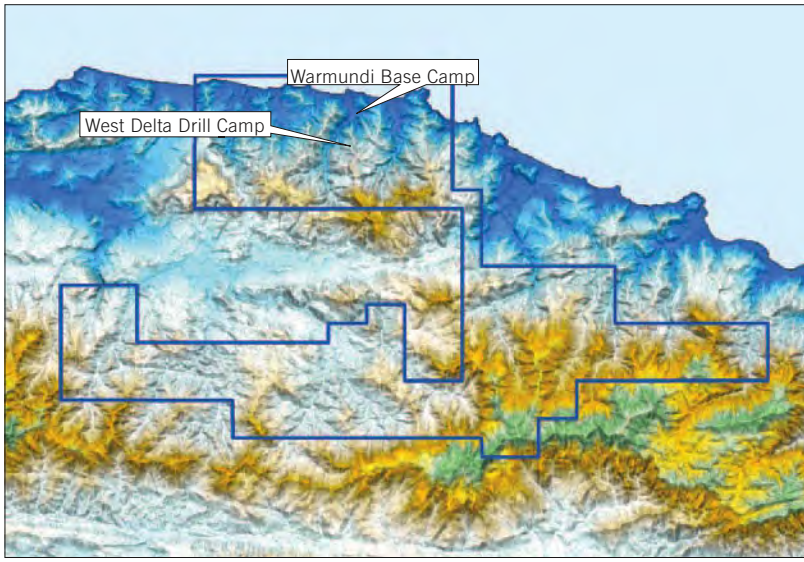
The Bird's Head project (Hillgrove 80% economic interest in operating company PT Akram Resources Pte Ltd) presents an excellent and rare opportunity to explore for world-class porphyry copper–gold and epithermal gold deposits within a geological setting of proven prospectivity for giant ore bodies. The project offers a further advantage: a data package of extensive exploration and drilling information developed by Normandy in the 1990s that has allowed exploration work to be fast-tracked to drill-ready status.

KEY PROJECT OVERVIEWS CONT.

Bird's Head is located in north-western West Papua, Indonesia. The regional centre of Sorong, located approximately 130 kilometres to the south west where an office has been established, is supported by regular commercial air and sea services. The licence area is sparsely populated and covers areas ranging from the coast through to moderate elevations of around 2,500 metres within 40 kilometres of the coast.

PT Akram Resources Pte Ltd was initially awarded an exploration license or KP (Kuasa Pertambangan) over 1,815km² in December 2008. The KP was duly converted to an IUP Eksplorasi (Izin Usaha Pertambangan) covering 992km², granted in March 2010 for seven years.

Prior to the commencement of exploration, Hillgrove invested considerable time establishing strong relationships with local landowners, culminating in the signing of a comprehensive land access agreement for West Delta.



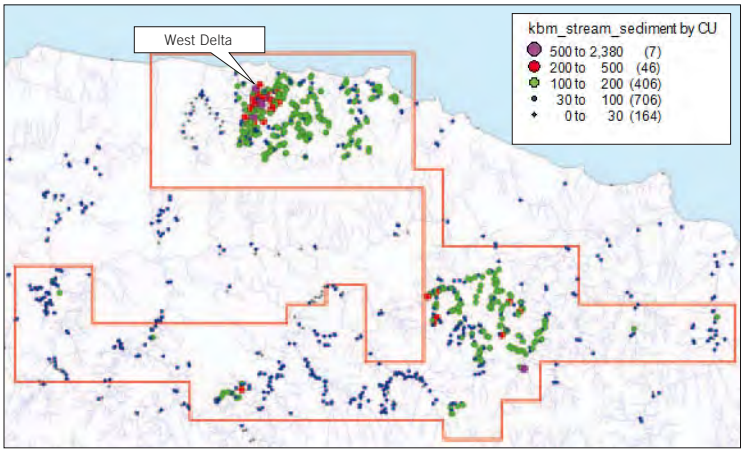
Bird's Head Stream Sediment Sampling Copper Values

Exploration activities undertaken by Hillgrove this past year have focused on the West Delta area, where earlier exploration had discovered significant copper and gold anomalism in surface geochemistry and limited drilling.

The West Delta prospect is located just 2.5km from the coast in low foothills. Earlier exploration had identified strong copper and gold anomalism in stream sediment and soil sampling and in limited, shallow drilling, creating a natural starting point for our exploration focus. Working closely with the landowners of the area, the Company has established a well-appointed base camp from which to run our operations.

Geological mapping has defined a classic porphyry signature comprising a volcanic-hosted, broad propylitic (low temperature) alteration halo surrounding a phyllic alteration assemblage with a small potassic alteration core (highest temperature). Scattered blocks of advanced argillic alteration found on the ridge tops are interpreted to be the remnants of a lithocap, indicating that erosion of the porphyry system is modest.

The actual porphyry itself does not appear to outcrop, but is interpreted as being at shallow depth.



Bird's Head Stream Sediment Sampling Copper Values

KEY PROJECT OVERVIEWS CONT.

Inversion modelling of existing aeromagnetic data has defined several strong, deep magnetic anomalies that coincide with surface porphyry alteration signatures and strongly anomalous copper geochemistry. These anomalies may therefore indicate buried porphyry systems.

At the core of one such magnetic anomaly, the Hillgrove team discovered an area coined Green Cliffs, for the obvious malachite (copper oxide) staining on its walls. The Green Cliffs area, interpreted to be a breccia pipe, was recently exposed in a large landslide and therefore not observed by earlier explorers.

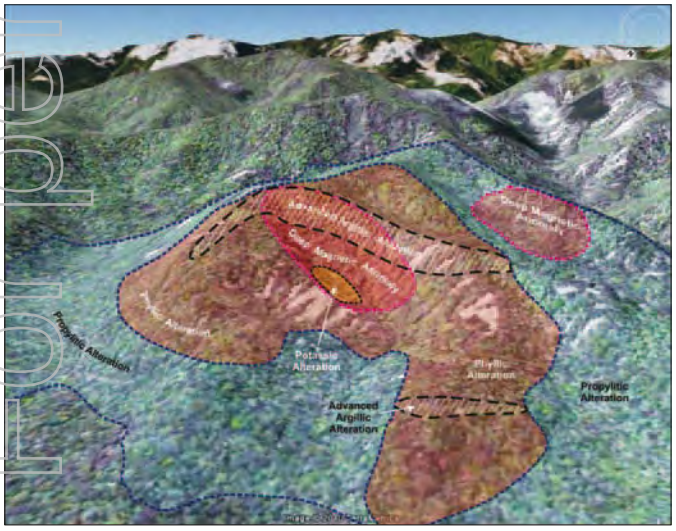
Channel sampling by Hillgrove field teams at the West Delta prospect has identified significant copper anomalism that has included:

- 32m @ 0.73% Cu (including 20m @ 0.95% Cu)
- 52m @ 0.35% Cu
- 132m @ 0.29% Cu
- 54m @ 0.48% Cu.

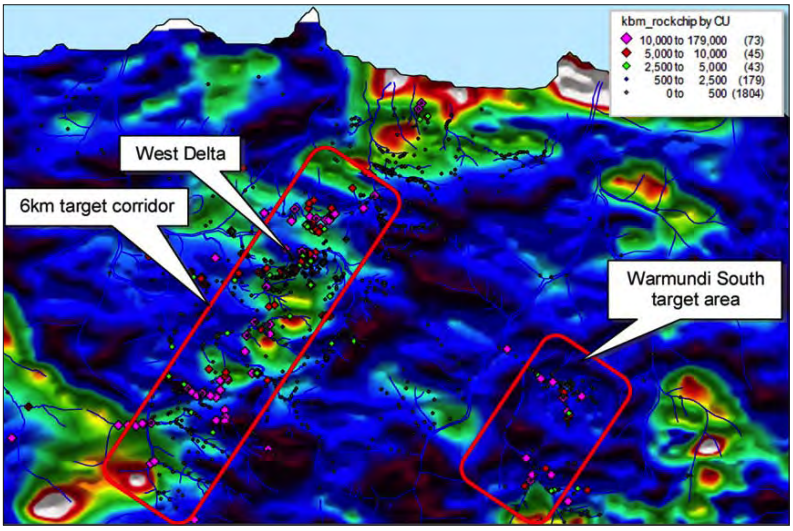
Exploration of drainages to the south of West Delta continues to discover significant copper mineralisation as float rock, within similar alteration assemblages as observed at West Delta. Combined with inversion modelling of magnetic targets, these observations are interpreted as strong evidence of potential additional porphyry systems.

Hillgrove has progressed West Delta to drill-ready status and is currently waiting on regulatory approval from the Department of Forestry to commence drilling. A 5,000m diamond drilling program is proposed and it is intended to continue the regional reconnaissance exploration activities around interpreted additional porphyry targets.

Strong, widespread surface copper anomalism within a classic porphyry alteration signature, supported by deep magnetic signatures, indicates the presence of a significant porphyry copper–gold target.



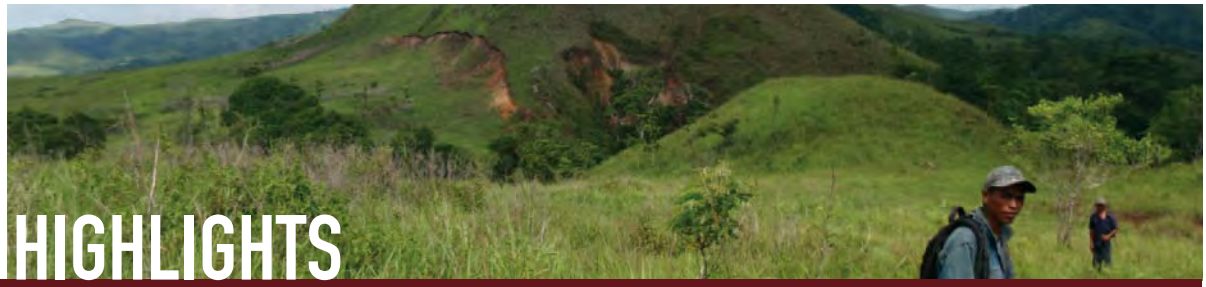
3D Perspective of West Delta porphyry alteration zones



West Delta rock chip copper values on analytical signal aeromagnetic image (purple = >1% Cu)

KEY PROJECT OVERVIEWS CONT.

SUMBA PROJECT, INDONESIA
EXPLORING A LARGE HYDROTHERMAL ALTERATION SYSTEM FOR HIGH GRADE EPITHERMAL GOLD MINERALISATION



HIGHLIGHTS

- GEOLOGICAL MAPPING AT MASU HAS IDENTIFIED A LARGE HYDROTHERMAL ALTERATION SYSTEM SOME 10KM X 4KM IN DIMENSION
- SURFACE GEOCHEMICAL SAMPLING HAS DEFINED 17 HIGH PRIORITY GOLD ANOMALIES WITH STRONG EPITHERMAL AFFINITIES
- DRILLING HAS CONFIRMED GOLD-BEARING EPITHERMAL VEIN SYSTEMS AT EAST AND WEST VEINS, MASU
- DRILLING HAS ALSO IDENTIFIED A POSSIBLE BURIED PORPHYRY AT LAIRONJA HILL, MASU
- TRENCHING OF GOLD ANOMALIES ESTABLISHED NUMEROUS DRILL TARGETS FOR FUTURE TESTING
- SOCIALISATION AND PLANNING FOR REGIONAL EXPLORATION OF SOUTH COAST FOLLOWING UP HIGH GRADE BASE METAL AND POTENTIAL PORPHYRY SYSTEMS WELL ADVANCED
- PELITALIRA PROSPECT (CENTRAL SUMBA) SAMPLING ENCOUNTERED HIGH GRADE GOLD AND BASE METAL VALUES, WHERE DRILL TESTING CONFIRMS HIGH SULPHIDATION EPITHERMAL SETTING

The Sumba project is shaping up to be an exciting exploration initiative with Hillgrove's exploration teams now well established.

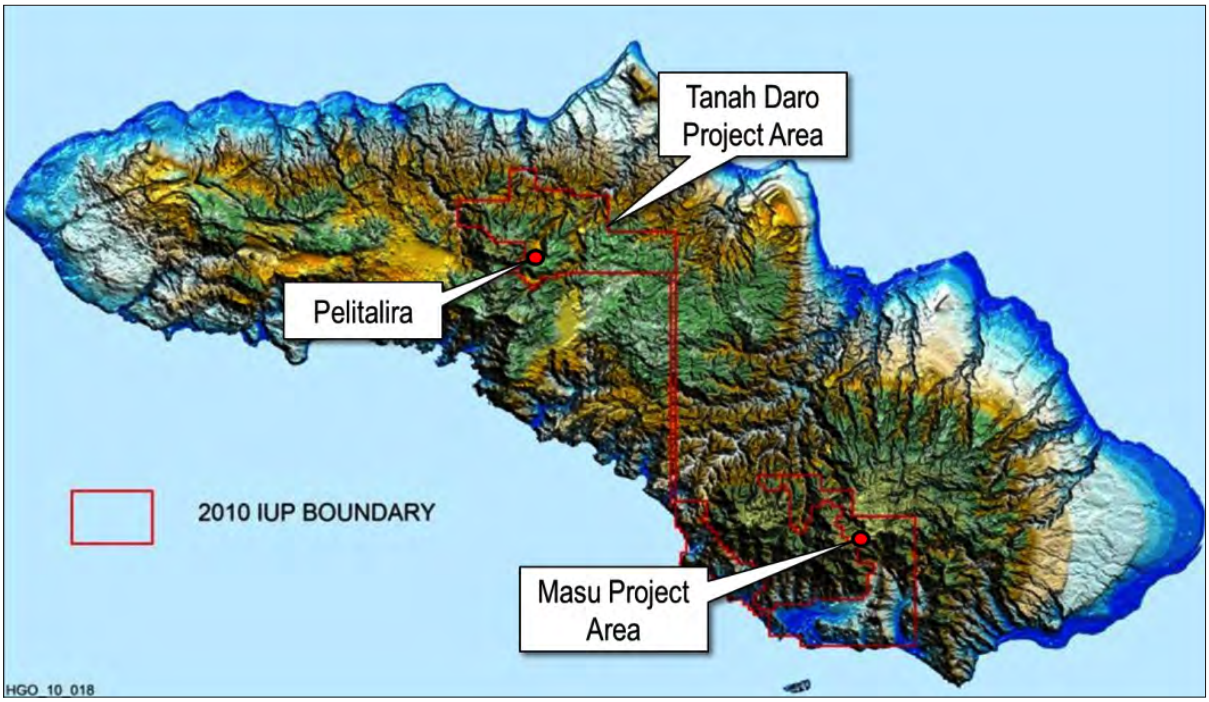
KEY PROJECT OVERVIEWS CONT.

Sumba is one of the least developed islands within the Indonesian archipelago, is sparsely populated and is primarily an agrarian society. The Sumbanese culture is unique, with strong and proud traditions dating back over the millennia forging a strong bond between the people and their land. As such, the Company takes great care and devotes a significant amount of time and energy into the socialisation process ahead of commencement of exploration activities and throughout the exploration process.

Historical exploration on Sumba is extremely limited, with BHP's efforts in the mid 1990s comprising the majority of all work completed. Following up on gold and base metal anomalies identified by BHP, Hillgrove was able to fast track our exploration efforts into the Masu area, located in the south east of the island.

Sumba is therefore unique in Indonesia; it is accessible, highly prospective and virtually unexplored.

Hillgrove is now a direct 80% shareholder in PT Fathi Resources Pte Ltd, which holds IUP 322, covering about 1000km^2 or nearly 10% of the island of Sumba. Hillgrove is responsible for the sole funding and management of all exploration and development activities, up to a decision to mine. The IUP Eksplorasi (Exploration and Mining Business Licence) was granted in December 2010 and is valid for a period of seven years.



Sumba Elevation Model and IUP Boundary

Sumba is something of a geological oddity, with its highly prospective basement island arc volcanic lithology being approximately 90 million years old, significantly older than similar island arc settings such as Newmont's Batu Hijau porphyry copper-gold mine on the nearby island of Sumbawa. The island is covered in recent marine sediments that effectively mask and preserve highly prospective underlying volcanic units. Uplift of the island and subsequent erosion of this sedimentary cover has created windows through to the underlying volcanic lithology, where Hillgrove is focusing exploration efforts.

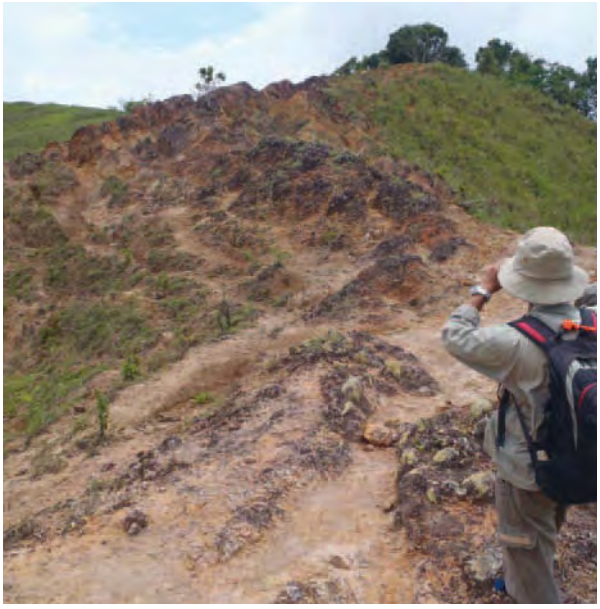
KEY PROJECT OVERVIEWS CONT.

MASU PROJECT

The Masu Project is located in the south-eastern portion of the IUP, where significant gold values were encountered in surface sampling and drilling during the past year. Exploration within the Masu Project has focussed on extending the coverage of geological mapping over untested regions of the project area, extending geochemical soil sampling over prospective volcanic sequences, infill soil sampling and trenching over soil gold anomalies and drilling.

Surface exploration has now delineated widespread gold anomalies within a corridor some 10km long, where younger sedimentary cover is eroded, patchy or thin, exposing the underlying prospective volcanic units. Surface sampling has defined 17 high priority gold targets (the largest of which extends over 1.5km in strike length) as well as numerous secondary-order soil gold targets, confirming the prospectivity of the project area. It is considered highly encouraging that first-pass exploration continues to discover and delineate numerous gold targets for future drill testing. Routine and systematic rock chip sampling undertaken to evaluate soil gold anomalies, in conjunction with regional geological mapping, continues to encounter highly anomalous gold (± silver) values associated with hydrothermal alteration and low sulphidation epithermal veining.

In particular, the Karipi target area looks extremely promising, where significant silicification is evident over a 1.1km strike length in association with very strong gold values in soil up to 9.27ppm Au.

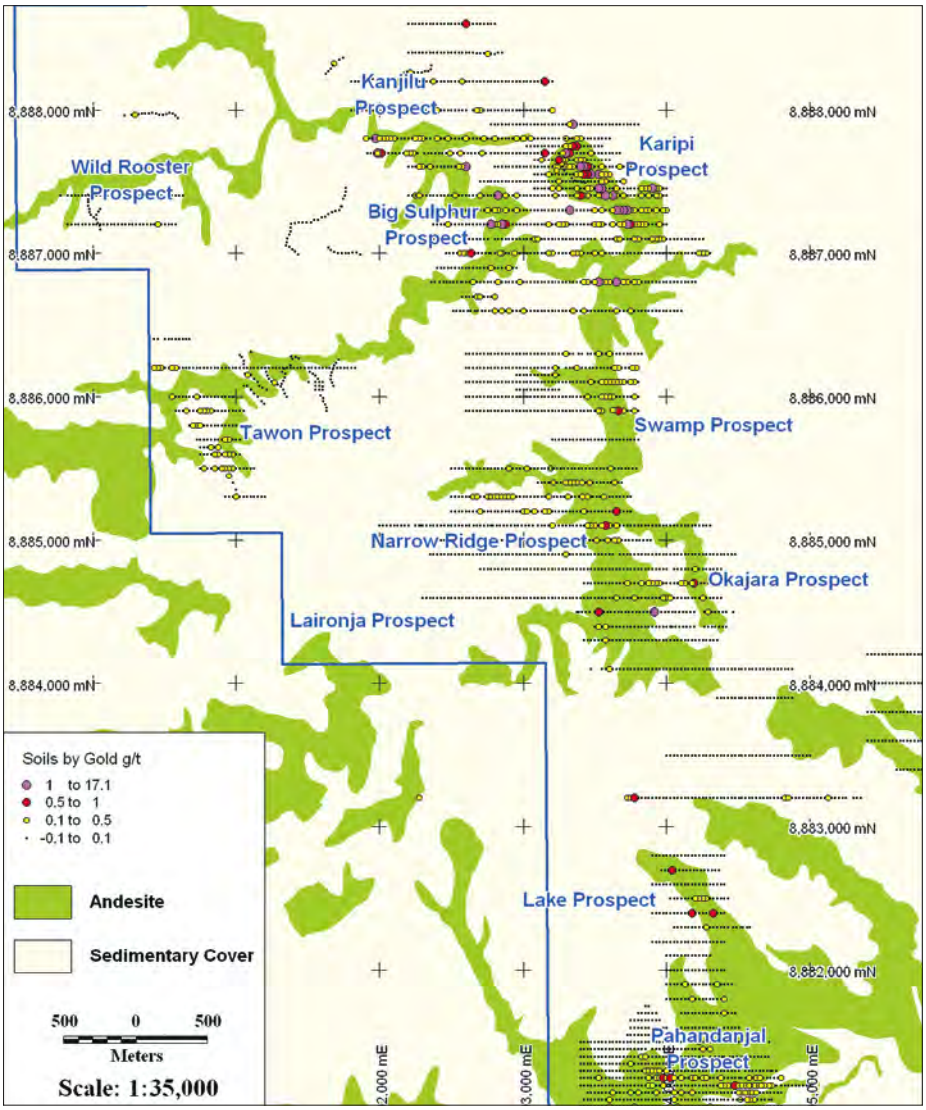


Planned airborne geophysical surveys over the IUP suffered ongoing delays, principally caused by contractor issues and the prolonged and heavier than normal wet season also experienced in the north of Australia this summer. The survey is now expected to be flown in mid-May.

Exploration at Laironja Hill has identified a remnant lithocap, silicification and intense clay alteration that suggests a potential buried porphyry system. Shallow scout drilling encountered modest gold grades at surface and ended in inner-propyliticaly altered porphyritic lithology.

Along the south coast at Masu, intense advanced argillic alteration was observed, also suggesting potential porphyry emplacement in the area. The proposed airborne geophysical survey will include this area and these targets will be assessed over the coming year.

KEY PROJECT OVERVIEWS CONT.



Masu corridor soil gold values and prospect locations

TANAH DARO PROJECT – PELITALIRA PROSPECT

The Pelitalira prospect is located in Central Sumba within the Tana Daro Project area. Pelitalira is easily accessed from the main sealed highway connecting the regional centres of Waingapu and Waikabubak. Exploration commenced this year in the area, beginning with an extensive socialisation program ahead of regional mapping and sampling.

Pelitalira itself is a large, prominent hill comprised almost entirely out of silicified volcanics. High-grade gold values to 72ppm Au and associated base metal values were encountered early on at the base of the main Pelitalira Hill at what has become known as the "waterfall vein". Encouraged by this, Hillgrove completed a soil sampling program, which delineated two distinct gold anomalies over the Pelitalira Hill with gold values up to 19.95g/t Au. Gold anomalism is spatially related to the highly silicified hillside, stockworked with sheeted quartz veins and breccia zones. Strong to very intense hydrothermal alteration of host rock volcanic units is widespread. Trenching across the main soil gold anomalies confirmed the presence of broad, low grade gold anomalism associated with massive and vughy silica.

KEY PROJECT OVERVIEWS CONT.

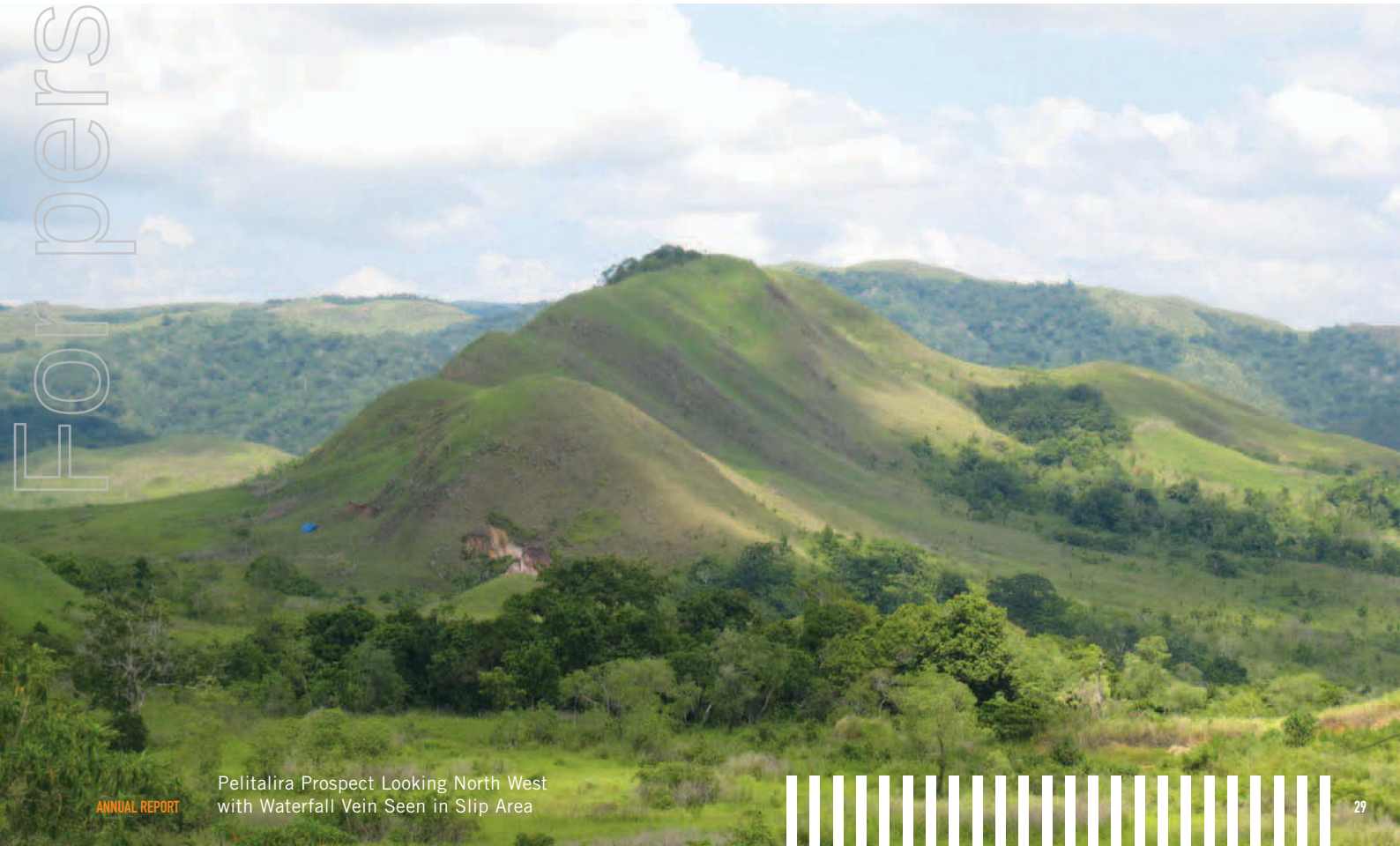
A limited scout drilling program using a small man-portable drill rig completed eight holes over and around the main hill. Drilling encountered extremely altered volcanic lithology and extensive silicification. Alteration observed at surface and in drilling is consistent with the very upper portions of a high sulphidation epithermal system.

Drilling, limited to shallow depths of 150m or less due to the size of the rig, encountered generally lower gold grades. Importantly at the base of hole 6, elevated copper and gold values in association with stockwork quartz veins indicates that we may be close to the primary mineralised zone, which in turn suggests we are looking at the very uppermost portion of a high sulphidation system and that drilling was simply too shallow to intersect cohesive mineralisation.

On completion of socialisation, the Company will undertake assessment of additional targets within volcanic lithology to the north and north east of Pelitalira over the coming year.

Adjacent to Pelitalira are numerous look-alike targets with anomalous gold and base metal signatures. Since exploration of this part of the licence has only just begun, the intention is to extend our mapping and geochemical sampling coverage and trenching over prospective areas of volcanic lithology over the coming year, with the intent of defining numerous targets for drill testing.

Exploration work completed so far indicates that Sumba is developing as a very exciting gold project with numerous zones of mineralisation identified to date. The island has historically received minimal to no exploration, and unlike other similar geological provinces in Indonesia, Sumba has several advantages including very low population density and minimal competing interests such as production forestry and plantations.



Pelitalira Prospect Looking North West with Waterfall Vein Seen in Slip Area

DIRECTORS' REPORT

The directors present their report together with the financial report of Hillgrove Resources Limited ("the Company") and the consolidated entity, being the Company and its controlled entities, for the year ended 31 January 2011 and the auditor's report therein.

DIRECTORS

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

NAME AND QUALIFICATIONS	AGE	EXPERIENCE AND SPECIAL RESPONSIBILITIES
The Hon. Dean Craig Brown, AO Qualifications	67	**Non-executive Chairman** BRurSc., GDipBA., MRurSc., FAICD
Experience		Former Premier and Minister of the South Australian Government and Member of the South Australian Parliament from 1973–85 and 1992–2006. Dean was also Deputy Premier and Leader of the Opposition. He is Chairman of InterMet Resources Limited, a Director of Scantech Limited, Foodbank SA and the Playford Memorial Trust; the Premier's Special Adviser on Drought and a member of several advisory boards. Previously he was a Director of AACM International Pty Ltd (1986–92) and a Senior Agricultural Scientist, SA Government. Dean is a member of both the Audit and Remuneration Committees for Hillgrove. Appointed 1 September 2006
Mr Ronald David Belz Qualifications	55	**Non-Executive Director / Chairman Audit Committee** BBus., CPA
Experience		Ron has been a Tax Agent since 1978, a member of CPA Australia since 1982 and a Certified Practising Accountant since 1987. He is in public practice in Edgecliff, Sydney. Ron has extensive knowledge and experience in accounting and taxation and corporate law in Australia. He is currently Treasurer and Board Member of the Academy BJE, the New South Wales Board of Jewish Education, and is also a Director of InterMet Resources Limited. Ron is Chairman of the Audit Committee and a member of the Remuneration Committee for Hillgrove. Appointed 11 November 2002

DIRECTORS (CONTINUED)

NAME AND QUALIFICATIONS	AGE	EXPERIENCE AND SPECIAL RESPONSIBILITIES
Mr John Edwin Gooding Qualifications Experience	58	**Non-Executive Director** AssocDipMEng., FIEAust., FAusIMM, MAICD John is a Mining Engineer with 30 years experience in the resources industry. He has held executive management positions with Normandy Mining, MIM, Xstrata (CEO Xstrata Copper Australia), Ok Tedi Mining and Roche Mining. John has extensive experience in gold and base metal mining (both open cut and underground) through the management and operation of mines in Australia and internationally. He is a Board member of the PNG Chamber of Resources and Petroleum and has held directorships in a number of companies within the resources industry. John is the Managing Director and Chief Executive Officer at Highlands Pacific Limited. John is a member of the Hillgrove Remuneration Committee. Appointed 31 May 2007
Mr John Andrew Quirke Qualifications Experience	60	**Non-Executive Director / Chairman Remuneration Committee** BA & DipEd. Adelaide University Starting his career as a secondary school teacher, John soon became 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 has been an active member of numerous legislative committees specialising in mining and economics since. He is a Trustee to the Australia/Cambodia Foundation and Director of Operation Flinders. John is Chairman of the Remuneration Committee and a member of the Audit Committee for Hillgrove. Appointed 19 April 2005
Mr Edwin James Zemancheff Qualifications Experience	56	**Non-Executive Director** DipLaw (Sydney) Edwin brings significant commercial, corporate and legal experience to the Board having been an international partner of global law firm, Baker & McKenzie. Edwin has over 25 years practice experience in all aspects of commercial real estate and land use law having acted for a wide range of major clients on significant market leading transactions. He has a deep knowledge and understanding of the complex legal, commercial and market issues confronted by leading global and local industry participants in the commercial real estate sector. Edwin is a Non-Executive Director of Fortius Funds Management Limited and is currently Chairman of Waratah Rugby. Edwin is a member of the Hillgrove Remuneration Committee. Appointed 23 June 2010

DIRECTORS' MEETINGS

NAME AND QUALIFICATIONS	AGE	EXPERIENCE AND SPECIAL RESPONSIBILITIES
Mr Drew Simonsen Qualifications	58	**Managing Director** BE (Mining), DipGeoscience (Mineral Economics), GAICD, MAusIMM, MAICD
Experience		Drew has over 30 years of resources, investment banking, commercial banking and advisory experience in Australia, North America and Asia. His finance experience has included 10 years with Bank of America in Sydney, San Francisco and Hong Kong, and 17 years with Westpac Banking Corporation in Sydney and Melbourne; most recently as Global Head of Energy & Resources, Telecommunications & IT. In his banking career he has been involved with many resource and infrastructure related project financings and advisory roles. He originally graduated as a mining engineer, and worked in engineering and operational roles with CRA Ltd (now Rio Tinto) in Broken Hill, NSW. Appointed 18 August 2010
Mr David Stuart Archer Qualifications	54	**Managing Director** BEc., DipLaws (BAB), FAusIMM
Experience		David held executive and non-executive roles in a number of Australian companies and has been actively involved in the Australian resources industry for 30 years. He is currently Chairman of Crusader Resources Limited. 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 founder and Deputy Chairman of Savage Resources Limited. He was a Director of Eastern Star Gas Limited from 2006 to 2009. David resigned as Managing Director of Hillgrove Resources Limited on 30 June 2010 and became a Non-Executive Director. On 19 August 2010, following the appointment of Hillgrove's new Managing Director, he resigned as Managing Director of InterMet Resources Limited and as a Non-Executive Director of Hillgrove Resources Limited. Appointed 11 November 2002 Resigned 19 August 2010
Mr Russell Lee Scott Middleton Qualifications	46	**Chief Financial Officer and Company Secretary** BBus., MBA, FCPA, FFin, GAICD
Experience		Russell has some 20 years experience in the industry, with senior management positions in accounting, commercial and planning roles and significant experience with mine project evaluations and construction of new mines. Russell started his career as a public accountant before joining BHP, where he undertook various roles, then joined Shell as Commercial Manager for the construction, development and production of a major underground mine. More recently, Russell has been Chief Financial Officer for contracting and services companies in the mining sector and currently is also a Director of InterMet Resources Limited. Appointed 30 January 2008

DIRECTORS' REPORT CONT.

DIRECTORS' MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

DIRECTOR	BOARD MEETINGS		REMUNERATION COMMITTEE MEETINGS		AUDIT COMMITTEE MEETINGS	
	A	B	A	B	A	B
The Hon. DC Brown, AO	16	16	2	2	3	3
Mr DS Archer	11	11	-	-	-	-
Mr RD Belz	16	15	2	2	3	3
Mr JA Quirke	16	14	2	2	3	3
Mr JE Gooding	16	16	2	2	-	-
Mr EJ Zemancheff	8	6	1	1	-	-
Mr DA Simonsen	7	7	-	-	-	-

A. Number of meetings held during the director's time in office

B. Number of meetings attended

PRINCIPAL ACTIVITIES

Hillgrove is an Australian mining company listed on the Australian Securities Exchange (ASX: HGO). The Company is focused on developing its fully permitted Kanmantoo copper–gold mine in Australia, scheduled for production in November 2011, and is targeting the discovery of world class copper–gold resources in Indonesia.

Hillgrove's flagship development is the Kanmantoo Copper Mine, located less than 55 km from Adelaide in South Australia, currently hosting 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 completion of construction targeted for 2011, Kanmantoo will be an open-cut mine with initial throughput of 2.4Mtpa, and producing approximately 20,000 tonnes of copper in concentrate and 10,000 ounces of gold per annum.The plant has potential to expand to 3.5Mtpa with modest additional augmentation.

REVIEW AND RESULTS OF OPERATIONS

Earnings per share for profit attributable to the ordinary equity holders of the Company:	2011 $	2010 $
Basic earnings per share	(0.03)	0.14
Diluted earnings per share	(0.03)	0.13

CAPITAL RAISING

The following funds were raised during the year:

- In February 2010, $1.16m was raised from a Share Purchase Plan;
- During October and November 2010, $14.55m and $50.45m respectively, was raised from a Cash Placement;
- In December 2010, $12.73m was raised from a Share Purchase Plan.

DIVIDENDS

There were no dividends declared or paid during the current year.

In the prior year (9 September 2009) the Company declared two separate dividends of 1 cent per ordinary share, fully franked based on tax paid at 30%.The amount of each of the dividends was $4.14m paid on 6 October 2009 and $4.14m paid on 30 November 2009, totalling $8.28m.

STATE OF AFFAIRS

Other than those matters listed in this report there have been no significant changes in the affairs of the consolidated entity during the period.

CORPORATE GOVERNANCE

In March 2003, the Australian Securities Exchange ('ASX') Corporate Governance Council ("Council") published the 10 Principles of Good Corporate Governance and Best Practice. The Board has an ongoing policy to review its governing processes and procedures to ensure they are commensurate with the directions of the recommendations put forward by the Council.

The following policies, which can be found in full at www.hillgroveresources.com.au, have been implemented by the Board:

- Directors Code of Conduct
- Board Charter
- Shareholder Communication Policy
- Continuous Disclosure Policy
- Conflicts of Interest Policy
- Share Trading Policy
- Code of Business Conduct
- Remuneration Policy
- Risk Management Policy
- Fraud and Corruption Policy

The Board is committed to ensuring that the Company adopts the Council's best practice recommendations in its policies and procedures where it is appropriate and practical to do so given the size and type of Company and its operations. The Company has an ongoing process of updating the above policies. Set out below are the departures from the recommendations and the reasons for such departures.

RECOMMENDATION	NOTIFICATION OF DEPARTURE	EXPLANATION FOR DEPARTURE
2.4	The Company does not have a Nomination Committee	The role of the Nomination Committee is assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a committee

During the period the following main corporate governance practices were in place, which comply with the ASX Corporate Governance Council recommendations unless otherwise stated.

CORPORATE GOVERNANCE (CONTINUED)

BOARD OF DIRECTORS

Role of the Board/Directors

The Board is elected by shareholders to represent all shareholders – its primary role being the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals, and defining policies and monitoring the business of the controlled entity to ensure it is conducted appropriately and in the best interests of shareholders.

In respect of all decisions concerning the Company's affairs, it is the responsibility of each director to conscientiously consider the interests of shareholders in light of the circumstances and to take into account the effects of such decisions on the interests of all shareholders.

Composition of the Board

The names of the directors of the Company in office at the date of this statement are set out in the Directors' Report on pages 31 to 33 of the Annual Report. The number of directors is specified in Clause 6.1 of the Company's Constitution as a minimum of three up to a maximum of 10. The chairman may be either an executive or Non-Executive Director.

Retirement and rotation of directors is governed by the Corporations Act 2001 and Clause 6.3 of the Company's Constitution. Each year, one-third of the directors retire and may offer themselves for re-election.

When a Board vacancy exists or where it is considered that a director with particular skills or experience is required, the Board would make an appointment of a candidate with the appropriate skills, qualifications and experience. The majority of the Board members and the chairman are independent to management.

Remuneration Committee

The Remuneration Committee is composed of the following Non-Executive Directors:

- John Andrew Quirke (Chairman)
- Dean Craig Brown
- Ronald David Belz
- John Edwin Gooding
- Edwin James Zemancheff.

Details of these directors' attendance at Remuneration Committee meetings are set out in the Directors' Report on page 34.

The Remuneration Committee advises the Board on remuneration and incentive policies and polices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and Non-Executive Directors. Committee members receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the Remuneration Committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee

The Audit Committee consists of the following Non-Executive Directors:

- Ronald David Belz (Chairman)
- Dean Craig Brown
- John Andrew Quirke.

Details of these directors attendance at Audit Committee meetings are set out in the Directors' Report on page 34.

The Audit Committee has appropriate financial expertise's and all members are financially literate and have an appropriate understanding of the industries in which the Company operates.

The main responsibilities of the Committee are to:

- review, assess and approve the Annual Report, the half-year financial report and all other financial information published by the Company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations;
- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety;
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee will:

- meet with external auditors at least twice a year, or more frequently if necessary;
- review the processes the CEO and CFO have in place to support their certifications to the Board;
- review any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- provide the external auditors with a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

CORPORATE GOVERNANCE (CONTINUED)

Relationship of Board with Management

Management of the day-to-day business of the Company is to be conducted by or under the supervision of the Board and by such other officers and employees to whom the management function is properly delegated by the Board.

As the Company grows, the Board will adopt appropriate structures and procedures to ensure the Board functions independently of management.

Information is formally presented to the Board at regular meetings by way of reports to the Board and review of performance to date.

Conflict of interest

In accordance with the *Corporations Act 2001 and the Company's Constitution*, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Details of director related entity transactions with the Company and consolidated entity are set out in note 34.

Director dealings in Company shares

Directors and senior management may acquire shares in the Company, but are prohibited from dealing in Company securities:

- except between three and 30 days after either the release of the Company's half-year and annual results to the Australian Securities Exchange ("ASX"), the annual general meeting or any major announcement;
- except when approval is received from the Board or its chairman that no important developments are pending; and
- whilst in possession of price sensitive information.

Directors must obtain the approval of the Chairman of the Board and notify the Company Secretary before they sell or buy shares in the Company, and it is subject to Board veto. Directors must advise the ASX of any transactions conducted by them in shares in the Company.

Related party transactions

Directors and senior management will convey to all stakeholders the message that integrity and effective control cannot be compromised when dealing with any supplier, particularly if a supplier is a related party.

A director, or an entity over which a director has control or significant influence, who enters into a transaction with the Company must make full disclosure of all material elements of the transaction to the chairman or, if the director involved is the chairman, to the Board.

Constitution

The directors must adhere to, and the Board must conduct itself in accordance with, the Constitution of the Company.

Independent professional advice and access to Company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice at the consolidated entity's expense. A copy of advice received by the director is made available to all other members of the Board.

THE ROLE OF SHAREHOLDERS

The Board aims to ensure that shareholders are informed of all major developments affecting the consolidated entity's state of affairs as follows.

- The full Annual Financial Report is distributed to all shareholders who elect to receive a copy, including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments, in addition to the other disclosures required by the *Corporations Act 2001*.

CORPORATE GOVERNANCE (CONTINUED)

THE ROLE OF SHAREHOLDERS (CONTINUED)

- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.

All documents that are released publicly are available on the ASX web site at www.asx.com.au aand the consolidated entity web site at www.hillgroveresources.com.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution.

Copies of the Constitution are available to any shareholder who requests it.

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board examines the adequacy of the nature, extent and effectiveness of the internal control processes of the consolidated entity on an ongoing basis and has instigated a control framework that can be described as follows:

- Financial reporting – the Company reports to the ASX yearly and half-yearly.
- Continuous disclosure – procedures are in place to ensure that all price sensitive information is reported to the ASX in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.
- Investment appraisal – the risks involved in a diversified resources exploration, development and production company and the specific uncertainties for the Company are regularly monitored and reviewed. All proposals reviewed by the Board include a conscious consideration of the issues and risks of the proposal.

ETHICAL STANDARDS

All directors, managers and employees of the Company are expected to act with utmost integrity and objectivity, striving at all times to enhance the performance of the consolidated entity.

In maintaining its ethical standards, the Company:

- behaves with integrity in all its dealings with customers, shareholders, employees, government, suppliers and the community;
- ensures that its actions comply with applicable laws and regulations;
- maintains harmonious relations with communities located near Company operations;
- maintains and implements policies that enable the employees of the Company to avoid situations where conflicts of interest could arise;

CORPORATE GOVERNANCE (CONTINUED)

- does not engage in any activity that could be construed to involve an improper inducement;
- achieves a working environment where:
  - equal opportunity is practised
  - harassment and other offensive behaviour is not tolerated
  - the confidentiality of commercially sensitive information is protected
  - employees are encouraged to discuss concerns about ethical behaviour arising from their employment with their supervisor.

DIVERSITY

From 1 January 2011, Hillgrove will be required to meet a new Listing Rule requirement to report annually (in the Annual Report) on the diversity aspects of its employees. Diversity includes gender, age, ethnicity and cultural background.

In light of the new requirements, Hillgrove is now in the process of reviewing its diversity policy and the relevant standards in order to establish appropriate benchmarks against which achievement can be measured. These standards and benchmarks will be reviewed and set by the Board.

Hillgrove already has a diverse workforce. Hillgrove's current employment philosophy promotes a culture that values differences and emphasises tolerance. The recruitment and selection standards and associated training currently employed ensure that Hillgrove personnel interview and select staff in a non-discriminatory manner.

Our workforce in Sydney, Kanmantoo and Perth is gender, culturally and ethnically diverse, and in Indonesia in particular, the vast majority of our employees are Indonesian nationals. At our major employment site of Kanmantoo, programs are in place that are intended to benefit local communities adjacent to the mine. Employment of local residents has been established in the objectives of senior officers at Kanmantoo.

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE GUIDELINES

As the Company's activities develop in size, nature and scope, the Board and management will continuously review the Company's policies and procedures in light of the Corporate Governance Guidelines and recommendations regarding corporate governance and best practice. The Board is committed to identifying enhancements to the Company's policies and procedures (including the implementation of any formal corporate governance committees) to ensure continued investor confidence in the operations of the Company.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to significant environmental and other regulations. The consolidated entity has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration and development activities. There have been no reports of breaches of environmental regulations in the financial year and at the date of this report.

EVENTS SUBSEQUENT TO BALANCE DATE

There are no significant events to disclose subsequent to the balance sheet date.

CORPORATE GOVERNANCE (CONTINUED)

LIKELY DEVELOPMENTS

The consolidated entity is focusing on identifying resource opportunities that can either be brought into production readily or those where there is a clearly defined value adding route within a clearly understood risk environment.

REMUNERATION REPORT (AUDITED)

The Board of Directors of the Company administers the remuneration policies and packages applicable to the Board members and senior executives. The policy is to ensure the remuneration package reflects the relevant person's duties and responsibilities and the competition in attracting, retaining and motivating people of the highest quality.

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and conforms to market practice for delivery of reward.

The Board has established a Remuneration Committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and Non-Executive Directors. The Corporate Governance Statement provides further information on the role of this Committee.

Non-Executive Directors do not receive any form of performance related remuneration. The CEO receives performance bonuses and senior executives receive performance bonuses and further remuneration through the Employee Share Option Plan.

REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES BY CONSOLIDATED ENTITY

Principles used to determine the nature and amount of remuneration

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and executives in accordance with the Company's Remuneration Policy. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration. Options are issued under the Employee Share Option Plan and the Executive Performance Rights Plan, at the discretion of directors. Directors have not received any performance related remuneration during the current financial year.

Each year the Board reviews the director remuneration. The shareholders may be asked to consider and, if they think it appropriate, approve any increase in gross fees. The total amount of remuneration paid to Non-Executive Directors must not exceed the maximum amount the shareholders authorise at the general meeting.

Non-Executive Directors

The Non-Executive Directors' current base fee is $75,000 per annum and the non-executive chairman's current fee is $150,000 per annum, these fees having been reviewed during the financial year. Non-Executive Directors do not receive bonuses nor are they issued options on securities.

Executive pay

Executives who join the Board will receive directors' fees equivalent to 50% of Non-Executive Director's fees.

The executive pay and reward framework has four components:

- Base pay and benefits;
- Short-term performance incentives, which includes cash bonuses, are paid annually on the basis of employees meeting specific KPIs, at the Board's discretion;
- Long-term incentives through participation in the Employee Share Option Plan and Executive Performance Rights Plan;
- Other remuneration such as superannuation.

DIRECTORS' REPORT CONT.

REMUNERATION REPORT (AUDITED) (CONTINUED)

The combination of the above components comprises the executive's total remuneration. Details of all directors of the Company ("specified directors") and the executives of the consolidated entity ("specified executives") and the nature and amount of the elements of their remuneration for the year ended 31 January 2011 is disclosed in the remuneration report.

The consolidated entity has five executives who are deemed specified executives. Specified executives are officers with authority for strategic direction and management of the consolidated entity. No other employees are deemed to be specified executives.

Details of the nature and amount of each element of the emoluments of each director and named officers of the Company and the consolidated entity receiving the highest emolument are:

		SHORT-TERM EMPLOYEE BENEFITS	POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	
2011	**Cash salary and fees $**	**Bonus $**	**Superannuation $**	**Options Issued $**	**Total $**
Directors				A B	
Executive					
Mr DS Archer	833,993	900,000	7,905	-	1,741,898
Mr DA Simonsen	341,134	-	18,566	24,833	384,533
Non-executive					
Hon. DC Brown, AO	144,167	-	27,500	-	171,667
Mr RD Belz	84,382	-	-	-	84,382
Mr JA Quirke	41,250	-	29,583	-	70,833
Mr JE Gooding	64,985	-	5,849	-	70,833
Mr EJ Zemancheff	40,138	-	3,612	-	43,750
	1,550,049	900,000	93,015	24,833	2,567,896

		SHORT-TERM EMPLOYEE BENEFITS	POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	
2011	**Cash salary and fees $**	**Bonus $**	**Superannuation $**	**Options Issued $**	**Total $**
Other key management personnel of Company					
Mr RLS Middleton	352,942	200,000	35,019	63,665	651,626
Mr JG Kerr	220,639	45,872	23,986	17,659	308,155
Mr CJ Schubert	282,530	-	25,428	17,659	325,616
Mr GW Stewart	209,201	22,727	23,193	30,583	285,704
Ms DVB Jones	116,657	-	10,010	12,361	139,028
	1,181,969	268,599	117,636	141,927	1,710,131

DIRECTORS' REPORT CONT.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of the nature and amount of each element of the emoluments for 2010 are as follows:

		SHORT-TERM EMPLOYEE BENEFITS	POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	
2010	**Cash salary and fees $**	**Bonus $**	**Superannuation $**	**Options Issued $**	**Total $**
Directors				A B	
Executive					
Mr DS Archer	501,567	1,771,366	44,996	-	2,317,929
Non-executive					
Hon. DC Brown, AO	73,333	-	75,208	-	148,541
Mr RD Belz	55,000	-	-	-	55,000
Mr JA Quirke	-	-	55,000	-	55,000
Mr JE Gooding	50,459	-	4,541	-	55,000
	680,359	1,771,366	179,745	-	2,631,470

		SHORT-TERM EMPLOYEE BENEFITS	POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	
2010	**Cash salary and fees $**	**Bonus $**	**Superannuation $**	**Options Issued $**	**Total $**
Other key management personnel of Company					
Mr RLS Middleton	321,667	140,000	29,167	30,659	521,493
Mr CJ Schubert	22,169	-	1,995	-	24,164
Mr GW Stewart	204,548	-	20,455	55,809	280,812
Mr DJ Ferguson	303,744	55,046	27,267	12,076	398,133
	852,128	195,046	78,884	98,544	1,224,602

A. Options details are provided below.

B. None of the bonuses or other options issued for the financial year was forfeited by the person (because the person did not meet service and performance criteria for the bonus or grant) in the financial year.

C. No non-monetary benefits have been paid during the year.

D. The Hon. DC Brown, AO is also paid as Chairman of InterMet Resources Limited, a subsidiary of the Company.

E. Mr RLS Middleton is also paid as a Director of InterMet Resources Limited, a subsidiary of the Company.

F. Mr RD Belz was appointed a Director of InterMet Resources Limited on 19 August 2010, a subsidiary of the Company.

G. No termination benefits were paid to Directors or key management personnel during the year.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance including measures of profitability and key project developments. The overall level of executive reward takes into account the performance of the Company over a number of years, with greater emphasis given to the current year.

The relative proportions of remuneration that are linked to performance for key management personnel and those that are fixed are as follows:

	FIXED REMUNERATION		STI – PERFORMANCE BONUSES		LTI – OPTIONS	
NAME	2011	2010	2011	2010	2011	2010
Executive Directors						
Mr DS Archer	48%	24%	52%	76%	-	0%
MR DA Simonsen	94%	-	0%	-	6%	-
Other Key Management						
Mr RLS Middleton	59%	67%	31%	27%	10%	6%
Mr JG Kerr	79%	-	15%	-	6%	-
Mr CJ Schubert	95%	100%	0%	0%	5%	0%
Mr GW Stewart	81%	80%	8%	0%	11%	20%
Ms DVB Jones	91%	-	0%	-	9%	-
Mr DJ Ferguson	-	83%	-	14%	-	3%

SERVICE AGREEMENTS

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Mr DA Simonsen, Chief Executive Officer (appointed 18 August 2010)

- Term: Indefinite contract commencing 18 August 2010
- TFR of $600,000 p.a. as at 31 January 2011 reviewable periodically participation in STI and LTI plans (via ESOP and EPR)
- Termination period: 6 months notice required for termination of employment by employee.
- Termination period: 12 months notice required for termination of employment by the Company.

Mr RLS Middleton, Chief Financial Officer and Company Secretary

- Term: Indefinite contract commencing 22 January 2008
- TFR of $363,649 p.a. as at 31 January 2011 reviewable periodically participation in STI and LTI plans (via ESOP and EPR)
- Termination period: 3 months.

Mr CJ Schubert, General Manager – Kanmantoo Project

- Term: Indefinite contract commencing 4 January 2010
- TFR of $320,122 p.a. as at 31 January 2011 participation in STI and LTI plans (via ESOP and EPR)
- Termination period: 3 months.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Mr JG Kerr, General Manager – Exploration

- Term: Indefinite contract commencing 19 July 2010
- TFR of $275,000 p.a. as at 31 January 2011 participation in STI and LTI plans (via ESOP and EPR)
- Termination period: 3 months.

Mr GW Stewart, General Manager – Business Development

- Term: Indefinite contract commencing 4 June 2007
- TFR of $233,778 p.a. as at 31 January 2011 participation in STI and LTI plans (via ESOP and EPR)
- Termination period: 3 months.

Ms DVB Jones, Human Resources Manager

- Term: Indefinite contract commencing 17 May 2010
- TFR of $190,000 p.a. as at 31 January 2011 participation in STI and LTI plans (via ESOP and EPR)
- Termination period: 3 months.

OPTIONS GRANTED TO DIRECTORS AND SENIOR EXECUTIVES

Employee Share Option Plan and Executive Share Option Plan (ESOP)

The Employee Share Option Plan and the Executive Share Option Plan is designed to provide long-term incentives for senior managers and above (including executive directors) to deliver long-term shareholder returns. Under the Plans, participants are granted options which only vest at certain times in the future. Unless otherwise approved by the Board, the standard vesting period is 50% after 18 months and the remaining 50% after three years. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits. Once vested, the options remain exercisable for a period of two years. Options are granted under the Plan for no consideration.

Options granted under the Plan carry no dividend or voting rights. When exercisable, each option is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The exercise price of options is based on the volume weighted average price of the Company's shares that are traded on the Australian Securities Exchange during the 10 trading days immediately before the options are granted.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black–Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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.

Executive Performance Rights (EPR)

Executive Performance Rights, which will replace the ESOP in time, are designed with the same long-term incentive intention, but will only vest upon the achievement of certain pre-set milestones. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits. Once vested, the options remain exercisable for a period of one month. Options are granted under the Plan for no consideration.

Options granted under the Plan carry no dividend or voting rights. When exercisable, each option is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The exercise price of the options is nil.

Fifty per cent of Performance Rights granted will vest on fulfilment of the Kanmantoo Project Completion Test, as defined by project financiers providing facilities for the construction and hedging transactions associated with the development of the Kanmantoo mine.

REMUNERATION REPORT (AUDITED) (CONTINUED)

The remaining 50% of the Performance Rights granted will vest subject to Hillgrove Resources Limited's relative shareholder return performance against a selected peer group, over the 36 month period following the grant of the Performance Rights as follows:

TOTAL SHAREHOLDER RETURN RELATIVITY	% OF VESTING	INCREMENT
Less than the peer group median	nil	Straight line interpolation
Equal to the peer group median	50%	between the median
At or above the 75th percentile of the	100%	and the 75th percentile

The assessed fair value at grant date of all options granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Binominal Approximation option valuation model and a Monte Carlo simulation model, that takes into account the exercise price, the term of the option, the impact of dilution, 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 model inputs for options granted during the year ended 31 January 2011 included:

A. options are granted for no consideration and is tested for vesting on 24 September 2013;

B. exercise price is nil;

C. expiry date is 24 September 2013;

D. price volatility assumption of the Company's shares is 51.2% which is based on the Group's daily closing share price for the 12 months period prior to the grant;

E. expected dividend yield is nil;

F. risk-free interest rate is determined from Australian Government securities of appropriate term;

G. share price at date of grant is $0.325/$0.255;

H. expected life of instrument is 1096/1026 days.

Since the end of the financial year, there have been no options granted to directors. The Company granted options for no consideration over unissued ordinary shares of Hillgrove Resources Limited to the following key management personnel of the Company as part of their remuneration:

	NUMBER OF OPTIONS GRANTED	DATE GRANTED	EXERCISE PRICE	EXPIRY DATE
Officer				
Mr DA Simonsen	2,000,000	03/12/2010	$0.00	24/9/2013
Mr RLS Middleton	500,000	24/09/2010	$0.00	24/9/2013
Mr JG Kerr	500,000	24/09/2010	$0.00	24/9/2013
Mr CJ Schubert	500,000	24/09/2010	$0.00	24/9/2013
Mr GW Stewart	350,000	24/09/2010	$0.00	24/9/2013
Ms DVB Jones	350,000	24/09/2010	$0.00	24/9/2013

REMUNERATION REPORT (AUDITED) (CONTINUED)

UNISSUED SHARES UNDER OPTION

At the date of this report unissued ordinary shares granted to senior executives of the Company under option are:

	EXERCISE PRICE	NUMBER OF SHARES
Executive		
Mr DA Simonsen	$0.00	2,000,000
Mr RLS Middleton	$0.00	647,685
Mr RLS Middleton	$0.26	1,500,000
Mr JG Kerr	$0.00	500,000
Mr CJ Schubert	$0.00	500,000
Mr GW Stewart	$0.00	350,000
Mr GW Stewart	$0.575	500,000
Ms DVB Jones	$0.00	350,000

	OPTIONS YET TO VEST	GRANT DATE	DATE WHEN OPTIONS MAY VEST	MINIMUM TOTAL VALUE OF GRANT YET TO VEST (A)	VALUE TO EMPLOYEE OF GRANT YET TO VEST (B)
Directors	-	-	-	-	-
Mr DA Simonsen	2,000,000	3/12/2010	24/9/2013	-	n/a
Officers					
Mr RLS Middleton	500,000	24/9/2010	24/9/2013	-	n/a
Mr RLS Middleton	147,685	31/8/2009	1/07/2012	-	n/a
Mr JG Kerr	500,000	24/9/2010	24/9/2013	-	n/a
Mr CJ Schubert	500,000	24/9/2010	24/9/2013	-	n/a
Mr GW Stewart	350,000	24/9/2010	24/9/2013	-	n/a
Ms DVB Jones	350,000	24/9/2010	24/9/2013	-	n/a

A. Minimum value of the options yet to vest is nil as the market price of the shares of Hillgrove Resources Limited on the Australian Securities Exchange may not be above the exercise price during the period in which it can be exercised.

B. Value to employee of the options to vest is not determinable as it depends on the market price of shares of Hillgrove Resources Limited on the Australian Securities Exchange at the date the option is exercised. The values presented are based on the closing share price at 31 January 2011 of $0.295. No value is attributed where the exercise price exceeds the closing share price.

Details of options over ordinary shares in the Company provided as remuneration to each executive director of Hillgrove Resources Limited and each of the key management personnel of the Company are set out below. When exercisable, each option is convertible into one ordinary share of Hillgrove Resources Limited. Further information on the options is set out in note 38 to the financial statements.

DIRECTORS' REPORT CONT.

REMUNERATION REPORT (AUDITED) (CONTINUED)

NAME	OPTIONS GRANTED DURING THE YEAR 2011	OPTIONS GRANTED DURING THE YEAR 2010	OPTIONS EXERCISED DURING THE YEAR 2011	OPTIONS EXERCISED DURING THE YEAR 2010	EXERCISE PRICE 2011	EXERCISE PRICE 2010	OPTIONS VESTED DURING THE YEAR 2011	OPTIONS VESTED DURING THE YEAR 2010
Executive Directors								
Mr DA Simonsen	2,000,000	-	-	-	-	-	-	-
Other Key Management								
Mr RLS Middleton	500,000	295,370	147,685	-	$0.00	-	750,000	750,000
Mr JG Kerr	500,000	-	-	-	-	-	-	-
Mr CJ Schubert	500,000	-	-	-	-	-	-	-
Mr GW Stewart	350,000	416,667	416,667	-	$0.00	-	416,667	-
Mr DJ Ferguson	-	416,667	416,667	2,000,000	-	$0.00	416,667	1,000,000
Ms DVB Jones	350,000	-	-	-	-	-	-	-

DIRECTORS' INTERESTS

The relevant interest of each director and their related entities in the share capital of the Company, as notified by the directors to the Australian Securities Exchange in accordance with section 205G (1) of the Corporations Law, at the date of this report is as follows:

DIRECTORS	HILLGROVE RESOURCES LIMITED ORDINARY SHARES	HILLGROVE RESOURCES LIMITED OPTIONS OVER ORDINARY SHARES
Executive		
Mr DA Simonsen	500,000	2,000,000
Non-executive		
Hon. DC Brown, AO	232,571	-
Mr RD Belz	-	-
Mr JA Quirke	182,955	-
Mr JE Gooding	30,000	-
Mr EJ Zemancheff	185,000	-

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

OFFICERS' AND AUDITORS' INDEMNITY

Article 7.3(a) of the Company's Constitution provides that "To the extent permitted by law, the Company must indemnify each Relevant Officer against: (i) a Liability of that person; and (ii) Legal Costs of that person."

The Company indemnifies every officer and the auditor of the Company (PricewaterhouseCoopers) against any liability or costs and expenses incurred by the person in his or her capacity as officer or auditor of the Company:

- in defending any proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or
- in connection with an application, in relation to such proceedings, in which the court grants relief to the person under the Corporations Law.

DIRECTORS' AND OFFICERS' INSURANCE

During the financial year, Hillgrove Resources Limited paid a premium of $55,000 (2010: $33,350) to insure the directors and secretaries of the Company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Audit Committee has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

None of the services provided undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards. A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 51.

During the year no fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

ROUNDING OF AMOUNTS

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

DIRECTORS' REPORT CONT.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS (CONTINUED)

AUDITORS INDEPENDENCE DECLARATION

The auditor (PricewaterhouseCoopers) continues as auditor in accordance with section 327 of the *Corporations Act 2001* and has signed an Auditor's Independence Declaration on page 51.

	2011 $	2010 $
ASSURANCE SERVICES		
A. Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	227,727	155,000
Fees paid to auditor of subsidiary:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	-	17,000
Total remuneration for audit services	227,727	172,000
B. Other assurance services		
Fees paid to PricewaterhouseCoopers Australian firm:		
Other accounting services	115,000	-
Total remuneration for other assurance services	115,000	-
Total remuneration for assurance services	342,727	172,000
TAXATION SERVICES		
Fees paid to PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of Company income tax returns	-	-
Fees paid to other firms:		
Tax compliance services, including review of Company income tax returns	23,238	31,880
Total remuneration for taxation services	23,238	31,880

Signed in accordance with a resolution of the directors:

Dated at Sydney this 28th day of April 2011

THE HON. DEAN BROWN, AO
CHAIRMAN

DA SIMONSEN
CEO

AUDITOR'S INDEPENDENCE DECLARATION

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Hillgrove Resources Limited for the year ended 31 January 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

D A Turner

Darren Turner
Partner
PricewaterhouseCoopers

Newcastle
28 April 2011

ANNUAL FINANCIAL REPORT 31 JANUARY 2011

These financial statements are the consolidated financial statements for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Hillgrove Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hillgrove Resources Limited
Suite 4103, Level 41 Australia Square Tower
264–278 George Street
Sydney NSW 2000

The financial statements were authorised for issue by the directors on 28 April 2011.The directors have the power to amend and reissue the financial statements.Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investors' Centre on our website www.hillgroveresources.com.au.

INCOME STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2011

	NOTE	CONSOLIDATED 2011 $'000	2010 $'000
Revenue from continuing operations	4	7,888	3,943
Other income	5	1,095	94,250
Cost of sales		(1,673)	(885)
Accounting, ASIC & audit		(370)	(237)
Finance costs	6	(84)	(14,665)
Computing & communications		(232)	(126)
Consultants fees		(1,214)	(802)
Depreciation	6	(429)	(374)
Directors' fees		(441)	(349)
Insurance		(115)	(147)
Public Co. expenses		(233)	(304)
Rent		(290)	(175)
Employee benefits expense		(4,600)	(4,930)
Travel		(486)	(330)
Promotion		(15)	(52)
Foreign exchange gain/(loss)		(399)	5,868
Write-off of exploration expenditure		(2,686)	(1,877)
Realised losses on financial derivatives		(8,207)	-
Unrealised losses on financial derivatives		(4,253)	-
Impairment of goodwill		(3,546)	-
Impairment of available-for-sale financial instruments		(637)	-
Rehabilitation provisions		-	(1,040)
Other expenses		(298)	-
Loss on disposal of asset		(2,080)	-
Profit from continuing operations before related income tax expense		(23,305)	77,766
Income tax (expense)/benefit	7	9,132	(22,180)
Profit for the year		(14,173)	55,586
Profit is attributable to:			
Equity holders of Hillgrove Resources		(14,163)	55,708
Non-controlling interest		(10)	(122)
		(14,173)	55,586
Earnings per share for profit attributable to the ordinary equity holders of the Company:		cents	cents
Basic earnings per share	8	(0.03)	0.14
Diluted earnings per share		(0.03)	0.13

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 58 to 102.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JANUARY 2011

	NOTE	CONSOLIDATED 2011 $'000	2010 $'000
Profit for the year		(14,173)	55,586
Other comprehensive income			
Available-for-sale financial assets	25	225	(237)
Employee Share Option Plan	25	262	(126)
Unrealised loss on cash flow hedges taken to equity		(55,762)	-
Income tax relating to components of other comprehensive income		16,729	-
Other comprehensive income for the year		(38,546)	(363)
Total comprehensive income for the year is attributable to:		(38,546)	(363)
Equity holders of Hillgrove Resources		(38,536)	(241)
Non-controlling interest		(10)	(122)
		(38,546)	(363)

The statements of comprehensive income are to be read in conjunction with the notes to the financial statements set out on pages 58 to 102.

BALANCE SHEETS
AS AT 31 JANUARY 2011

	NOTE	CONSOLIDATED 2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	9	117,859	130,354
Trade and other receivables	10	1,910	1,124
Derivative financial assets	27	1,207	-
Available-for-sale financial assets	11	2,607	3,537
Inventories	12	75	118
Total current assets		123,658	135,133
Non-current assets			
Other financial assets	13	1,852	-
Property, plant and equipment	15	36,068	31,881
Goodwill	14	-	3,546
Exploration and evaluation expenses	16	39,315	32,959
Development expenses	16	36,732	7,600
Deferred tax asset	17	15,855	-
Total non-current assets		129,822	75,986
Total assets		253,480	211,119
Current liabilities			
Trade and other payables	18	8,673	13,653
Borrowings	19	-	2,500
Current tax liability		22	18,858
Employee benefits payable	20	254	680
Total current liabilities		8,949	35,691
Non-current liabilities			
Provisions	21	1,066	1,190
Deferred tax liability	22	-	10,416
Derivative financial instruments	27	58,624	-
Other	23	-	25
Total non-current liabilities		59,690	11,631
Total liabilities		68,639	47,322
Net assets		184,841	163,797
Equity			
Contributed equity	24	178,343	104,570
Reserves	25	(37,007)	1,539
Accumulated profits	26	43,171	57,344
Non-controlling interest		334	344
Total equity		184,841	163,797

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 58 to 102.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2011

	NOTE	CONSOLIDATED 2011 $'000	2010 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		3,433	1,295
Cash payments in the course of operations		(29,584)	(7,180)
Income tax paid		(19,247)	(3,555)
Interest paid		-	(744)
Interest received	4	4,712	1,776
Net cash used in operating activities	31	(40,686)	(8,408)
Cash flows from investing activities			
Payments for exploration evaluation and development		(15,076)	(4,418)
Payments for plant and equipment		(35,488)	(7,234)
Payments for Investments		(568)	(2,483)
Proceeds on sale of assets held for sale financial assets		2,268	172,422
Cash paid for purchase of subsidiary		-	(4,299)
Proceeds on sale of plant and equipment		8,380	-
Net cash provided by/(used in) investing activities		(40,484)	153,988
Cash flows from financing activities			
Proceeds from issue of shares		79,059	34,705
Transaction costs from issue of shares		(5,286)	(1,908)
Repayment of borrowings		(2,500)	(49,796)
Payments for hedging instruments		(2,598)	-
Dividends paid to shareholders		-	(8,284)
Net proceeds from borrowings		-	2,500
Net cash provided by financing activities		68,675	(22,783)
Net (decrease)/increase in cash held		(12,495)	122,697
Cash at beginning of financial year		130,354	7,657
CASH AT END OF THE FINANCIAL YEAR		117,859	130,354

The cash flow statements are to be read in conjunction with the notes to the financial statements set out on pages 58 to 102.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JANUARY 2011

						CONSOLIDATED	
	NOTES	CONTRIBUTED EQUITY $'000	RESERVES $'000	RETAINED EARNINGS $'000	TOTAL $'000	NON CONTROLLING INTERESTS $'000	TOTAL EQUITY $'000
Balance at 1 February 2009		71,773	1,902	10,042	83,717	512	84,228
Total comprehensive income for the year		-	(363)	55,586	55,223	-	55,223
Transactions with owners:							
Contributions of equity, net of transaction costs		32,797	-	-	32,797	-	32,797
Non-controlling interests						(168)	(168)
Dividends		-	-	(8,284)	(8,284)	-	(8,284)
Total transactions with owners		32,797	-	(8,284)	24,513	(168)	24,345
Balance 31 January 2010		104,570	1,539	57,344	163,453	344	163,797
Total comprehensive income for the year		-	(38,546)	(14,173)	(52,719)	-	(52,719)
Transactions with owners:							
Contributions of equity, net of transaction costs		73,773	-	-	73,773	-	73,773
Non-controlling interests		-	-	-	-	(10)	(10)
Dividends paid		-	-	-	-	-	-
		73,773	-	-	73,773	(10)	73,763
Balance 31 January 2011		178,343	(37,007)	43,171	184,507	334	184,841

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 58 to 102.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2011

CONTENTS

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Hillgrove Resources Limited and its subsidiaries.

(A) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

(i) Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRSs). Compliance with AIFRSs ensures that the consolidated financial statements and notes of Hillgrove Resources Limited comply with International Financial Reporting Standards (IFRSs).

(ii) 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 to fair value through equity and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(iii) Critical accounting estimates

The preparation of financial statements in conformity with AIFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(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 January 2011 and the results of all subsidiaries for the 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 Company 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 Company 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. Non-controlling interests in the results and equity of the subsidiaries are shown separately in the consolidated income statement.

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

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.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Hillgrove Resources Limited.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) PRINCIPLES OF CONSOLIDATION (CONTINUED)

(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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(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.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

(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 recognised in profit and loss 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. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) REVENUE RECOGNITION (CONTINUED)

The Group recognises revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of the revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results taking into account the type of customer, the type of transaction, and the specifics of each arrangement.

The Group sells commodities and sales of goods are recognised when a Group entity has delivered the commodities to the customer. Delivery does not occur until the product has been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the product in accordance with the sales contract.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset. Commodity revenue is recognised at the date of shipping.

(F) 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Hillgrove Resources Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Hillgrove Resources Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, Hillgrove Resources Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) LEASES

Leases of property, plant and equipment where the Group substantially holds 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 are 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.

(H) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for all 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 fair 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

(I) IMPAIRMENT OF ASSETS

Goodwill and intangible 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).

(J) 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.

(K) INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

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 in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(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 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.

Recognition and measurement

Purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially measured at fair value.

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.

Subsequent measurement

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.

Impairment

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 (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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement within 30 days.

(M) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 27. Movements on the hedging reserve in other comprehensive income are shown in note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the ineffective portion is recognised in the income statement within “other gains/(losses) – net”. Changes in the fair value of the derivative attributable to hedged risk are recognised in the income statement within the respective income or expense line item (e.g. “finance cost” if hedging interest rate risk; “revenue” if hedging forecasted future sales).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within “other gains/(losses) – net”.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within “other gains/(losses) – net”.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) INVENTORIES

Inventory in process and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and directly attributable plant hire. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

(O) 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 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 carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. 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.

(P) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is stated at historical cost less accumulated 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:

- Buildings — 10 years
- 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(i)).

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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) TRADE AND OTHER PAYABLES

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

(R) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost in relation to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Redeemable convertible bonds, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these bonds are recognised in the income statement as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(S) BORROWING COSTS

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(T) 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 include mine infrastructure, pre-production development costs, development excavation, project execution costs and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment. Development costs are carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward development costs are to be amortised on a units of production basis over the life of economically recoverable reserves.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, development assets are allocated to cash-generating units to which the development activity relates. The cash-generating unit shall not be larger than the area of interest.

(U) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(V) 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 cleanup 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 where material. 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 cleanup obligations outstanding at the balance sheet date. These costs are charged to the income statement. Movements in the environmental cleanup provisions are presented as an operating cost, except for the "unwind" of the discount which is shown as a financing cost.

(W) EMPLOYEE BENEFITS

(i) Wages and salaries, annual leave, sick leave and superannuation

Liabilities for wages and salaries, including nonmonetary benefits, annual leave, accumulating sick leave, and superannuation 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 nonaccumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iv) Share-based payments

Share based compensation benefits are provided to employees and contractors via the Employee Share Option Plan.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(W) EMPLOYEE BENEFITS (CONTINUED)

Shares options granted before 7 November 2002 and/or vested before 1 January 2006

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 2006

The fair value of options granted under the Employee Share 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 over the vesting period.

(X) 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 for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(Y) DIVIDENDS

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance sheet date.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Z) 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 year, adjusted for bonus elements in ordinary shares issued during the 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.

(AA) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority are presented as operating cash flows.

(BB) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Hillgrove Resources Limited, disclosed in note 39 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Hillgrove Resources Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Hillgrove Resources Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Hillgrove Resources Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Hillgrove Resources Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Hillgrove Resources Limited for any current tax payable assumed and are compensated by Hillgrove Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hillgrove Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(BB) PARENT ENTITY FINANCIAL INFORMATION (CONTINUED)

The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(iv) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(CC) ROUNDING OF AMOUNTS

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

(DD) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning after 31 December 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions;
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues;
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19;
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(A) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Exploration Costs

The Group accumulates certain costs associated with exploration activities on specific areas of interest where the Group has rights of tenure. The Group's policy is to expense any exploration and associated costs relating to non-specific projects and properties. Significant property acquisition, exploration, evaluation and development costs relating to specific properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned or placed into production.

Costs are also deferred where exploration and evaluation activities in the area of interest have not reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves.

No costs are deferred on a mineral property that is considered to be impaired in value. As at 31 January 2011, the Group has capitalised exploration costs of approximately $39.5m (2010: $40.6m).

(ii) Restoration, rehabilitation and environmental expenditure

Expenditures related to ongoing restoration, rehabilitation and environmental obligation activities are accrued and expensed as incurred, and included in the relevant exploration activity cost or as part of the cost of exploration activities. These expenditures are estimated either on the basis of detailed cost estimates or are in accordance with statutory provision requirements.

(iii) Assessment of goodwill arising from a business combination

On 31 August 2009, the Group acquired 100% of the issued share capital of SA Mining Resources Pty Ltd. The transaction gave rise to goodwill which is attributable to the profitability of the acquired business. The initial accounting for this business combination was determined only provisionally as permitted by AASB 3. This allows the Group to revisit the fair values of the net assets and liabilities acquired up to 12 months from the date of acquisition.

3. FINANCIAL REPORTING BY SEGMENT

Management has determined the operating segments based on the reports reviewed by the Executive and Board. The Group is organised into business units based on geography and has two reportable operating segments:

Australia – Mineral exploration and mining development;

Indonesia – Mining exploration in Sumba and Bird's Head.

No operating segments have been aggregated to form the above reportable operating segments.

	AUSTRALIA		INDONESIA		CONSOLIDATED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Revenue						
External customers	3,176	1,435	-	-	3,176	1,435
Interest income	-	-	-	-	4,712	2,508
Other income	-	-	-	-	1,095	94,250
Total Revenue	3,176	1,435	-	-	8,983	98,193
Results						
Depreciation and amortisation	429	374	-	-	429	374
Exploration and evaluation write down	2,686	1,877	-	-	2,686	1,877
Impairment loss of goodwill	3,546	-	-	-	3,546	-
Finance cost	-	-	-	-	84	14,665
Other costs	-	-	-	-	25,543	3,511
Dividends paid	-	-	-	-	-	-
Profit (Loss) before income tax	(3,485)	(816)	-	-	(23,305)	77,766
Income tax expense	9,132	(22,180)	-	-	9,132	(22,180)
Loss for the period attributable to equity Holders of the Company						
	(14,173)	55,586	-	-	(14,173)	55,586
Segment assets	244,781	209,352	8,699	1,767	253,480	211,119
Segment liabilities	59,147	45,201	9,492	2,121	68,639	47,322

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, income taxes, interest income and interest expense are managed on a Group basis and are not allocated to operating segments.

There are no transactions other than cash funding between reportable segments.

4. REVENUE

	CONSOLIDATED	
	2011 $'000	2010 $'000
Sale of goods	3,176	1,435
Interest	4,712	2,508
Total revenue	7,888	3,943

5. OTHER INCOME

Profit on sale of other financial assets	870	94,250
Fair value gains on available-for-sale financial assets	225	-
Total other income	1,095	94,250

6. EXPENSES

Profit before income tax includes the following expenses:

Depreciation		
Buildings	1	2
Computer & equipment	296	262
Furniture & fixtures	11	15
Motor vehicles	29	38
Leasehold improvements	2	2
Plant & equipment	90	55
Total depreciation	429	374
Operating lease payments	250	263
Provisions – Employee entitlements	173	595
Finance costs		
Interest on bank borrowings	49	73
Bank charges and fees	35	24
Interest on and redemption cost of convertible bonds	-	14,568
Total finance cost	84	14,665
Hedge ineffectiveness on cash flow hedges (note 27)	542	-

6. EXPENSES (CONTINUED)

ASSURANCE SERVICES

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	CONSOLIDATED	
	2011 $'000	2010 $'000
(a) Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	228	155
Fees paid to auditor of subsidiary	-	17
Total remuneration for audit services	228	172
(b) Other assurance services		
Fees paid to PricewaterhouseCoopers Australian firm	115	-
Total remuneration for assurance services	343	172
TAXATION SERVICES		
Fees paid to PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of Company income tax returns	-	-
Fees paid to other firms:		
Tax compliance services, including review of Company income tax returns	23	32
Total remuneration for taxation services	23	32

7. INCOME TAX EXPENSE/ (REVENUE)

		CONSOLIDATED	
		2011 $'000	2010 $'000
(A)	**INCOME TAX EXPENSE/(REVENUE)**		
	Current income tax	-	22,392
	Deferred income tax	(9,542)	(212)
	Over provided in prior years	410	-
		(9,132)	22,180
	Deferred income tax expense/(benefit) in income tax expense comprises:		
	- Decrease/(Increase) in deferred tax assets	(7,811)	18,507
	- (Decrease)/Increase in deferred tax liabilities	(1,731)	(18,719)
	- Adjustment of current tax for prior periods	410	-
		(9,132)	(212)
	Income tax expense is attributable to:		
	- Profit from continuing operations	(9,132)	22,180
		(9,132)	22,180
(B)	**NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE**		
	Profit from continuing operations before income tax expense	(23,305)	77,766
	Tax at the Australian tax rate of 30%	(6,992)	23,330
	Tax effect of amounts which are not deductible in calculating taxable income:		
	- Share based payments	78	(44)
	- Other	51	97
	- Investment	197	-
	- Exploration costs	-	(46)
	- Goodwill impairment	1,064	1,551
	- Impairment of assets held for sale	191	-
	- Share issue costs	(443)	-
	- Non-controlling interests – unrecognised loss	922	-
	- Previously unrecognised tax losses	(4,610)	(1,157)
	- Adjustment for income tax of prior periods	410	-
	Income tax expense/(income)	(9,132)	22,180
(C)	**AMOUNTS RECOGNISED DIRECTLY IN EQUITY**		-
	Deferred tax – credited directly to equity	16,728	-

7. INCOME TAX EXPENSE/ (REVENUE) (CONTINUED)

(D) TAX CONSOLIDATION LEGISLATION

Hillgrove Resources Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the legislation, the entities in the tax consolidated Group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity Hillgrove Resources Limited.

The entities have also entered a tax funding agreement under which the wholly owned entities fully compensate Hillgrove Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hillgrove Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

8. EARNINGS PER SHARE

Classification of securities as ordinary shares

Ordinary shares have been classified as ordinary shares and included in basic earnings per share.

Classification of securities as potential shares

Outstanding options have been classified as potential ordinary shares and included in diluted earnings per share.

	CONSOLIDATED	
	2011 $'000	2010 $'000
(A) BASIC EARNINGS PER SHARE		
Profit/(Loss) from continuing operations attributable to the ordinary equity holders of the Company	(14,173)	55,586
Profit/(Loss) attributable to the ordinary equity holders of the Company	(14,173)	55,586
(B) DILUTED EARNINGS		
Profit/(Loss) from continuing operations attributable to the ordinary equity holders of the Company.	(14,173)	55,586
Profit/(Loss) attributable to the ordinary equity holders of the Company	(14,173)	55,586

	2011 NUMBER	2010 NUMBER
Weighted average number of shares used as the denominator		
Number for Basic earnings per share		
Ordinary shares	534,997,598	404,793,856
Number for Diluted earnings per share		
Ordinary shares	534,997,598	404,793,856
Adjustment for calculation of diluted earnings per share: Options on issue	26,157,685	31,348,704
	561,115,283	436,142,560

8. EARNINGS PER SHARE (CONTINUED)

	2011 $	2010 $
(A) BASIC EARNINGS PER SHARE		
Profit/(Loss) from continuing operations attributable to the ordinary equity holders of the Company	(0.03)	0.14
	(0.03)	0.14
(B) DILUTED EARNINGS PER SHARE		
Profit/(Loss) from continuing operations attributable to the ordinary equity holders of the Company	(0.03)	0.13
	(0.03)	0.13

9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2011 $'000	2010 $'000
Cash at bank and on hand	111,956	123,790
Restricted cash	5,471	6,184
Total cash	117,427	129,974
Bank guarantees	432	380
Total cash and cash equivalents	117,859	130,354

Bank guarantees relate to amounts required to be set aside under exploration and mining licence agreements. The maximum exposure to credit risk and interest rate risk at the reporting date is the carrying amount of each class of asset reported above. The maximum exposure to foreign exchange risk is $ 3,217,405 (2010: $3,707,000).

10. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

Trade receivables	339	283
Prepayments and accrued income	606	841
GST refundable	965	-
	1,910	1,124

Trade receivables relate to funds due from customers in respect of sales of copper cement and are due for payment within 30 days from the invoice date. GST refundable receivables are represented by the Goods and Services Tax which is claimed on a monthly basis. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. There were no impaired or past due but not impaired receivables for the Group in 2011 or 2010. Information about the Group's and the parent entity's exposure to credit risk and interest rate risk is provided in note 27.

11. CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	CONSOLIDATED	
	2011 $'000	2010 $'000
At beginning of year	3,537	79,741
Additions	568	2,333
Disposals (sale and redemption)	(1,086)	(78,301)
Revaluation surplus transfer to equity	(412)	(236)
At end of year	2,607	3,537
Listed equity securities	2,607	1,944
Unlisted equity securities	-	1,593
	2,607	3,537

The maximum exposure to price risk at the reporting date is the carrying amount of the investments mentioned above. Information about the Group's and parent entity's exposure to price risk is provided in note 27.

12. CURRENT ASSETS – INVENTORIES

Work in progress	-	57
Finished goods	75	61
	75	118

13. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

Prepaid finance establishment costs	1,850	-
Other	2	-
	1,852	

The investment in subsidiaries balance includes an 84.8% shareholding in InterMet Resources Limited. The cost of the investment was $8,406,645 based on a fair value of $0.34 per share issued. At 31 January 2009, the Company carried out an impairment review of the investment on InterMet Resources Limited and recorded and impairment loss of $6,372,002.

14. NON-CURRENT ASSETS – GOODWILL

Goodwill	-	3,546
	-	3,546

The goodwill of $3,546K arising from the acquisition of 100% of the share capital of SA Mining Resources Pty Ltd on 31 August 2009 has been reduced to zero through recognition of an impairment loss against goodwill. This was a result of the Oxide Ore inventory being depleted. This loss has been disclosed as a separate line item in the income statement.

15. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2011 $'000	2010 $'000
Land		
at cost	8,500	8,500
Buildings		
At cost	39	39
Accumulated depreciation	(10)	(9)
	29	30
Computer equipment		
At cost	933	700
Accumulated depreciation	(765)	(427)
	168	273
Furniture & fittings		
At cost	142	63
Accumulated depreciation	(65)	(46)
	77	17
Plant & equipment		
At cost	27,574	23,120
Accumulated depreciation	(326)	(98)
	27,248	23,022
Motor vehicles		
At cost	192	165
Accumulated depreciation	(183)	(126)
	9	39
Leasehold improvements		
At cost	54	129
Accumulated depreciation	(17)	(129)
	37	-
Total property, plant and equipment	36,068	31,881

Reconciliations of the carrying amounts for each class of asset are set out below:

15. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED	
	2011 $'000	2010 $'000
Land		
Carrying amount at beginning of year	8,500	7,892
Additions	-	608
Carrying amount at end of year	8,500	8,500
Buildings		
Carrying amount at beginning of year	30	32
Additions	-	-
Depreciation	(1)	(2)
Carrying amount at end of year	29	30
Furniture & fittings		
Carrying amount at beginning of year	17	21
Additions	71	11
Depreciation	(11)	(15)
Carrying amount at end of year	77	17
Computer equipment		
Carrying amount at beginning of year	273	315
Additions	191	220
Depreciation	(296)	(262)
Carrying amount at end of year	168	273
Plant & equipment		
Carrying amount at beginning of year	23,022	6,199
Additions	14,776	16,476
Net book value acquired on acquisition of subsidiary	-	402
Disposals	(10,460)	
Depreciation	(90)	(55)
Carrying amount at end of year	27,248	23,022
Motor vehicles		
Carrying amount at beginning of year	39	61
Additions	-	16
Depreciation	(30)	(38)
Transfers to controlled entities	-	-
Carrying amount at end of year	9	39
Leasehold improvements		
Carrying amount at beginning of year	-	2
Additions	39	-
Depreciation	(2)	(2)
Carrying amount at end of year	37	-
Total property, plant & equipment	36,068	31,881

16. NON-CURRENT ASSETS – EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	EXPLORATION AND EVALUATION		DEVELOPMENT		TOTAL	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Exploration, evaluation and development expenditure	39,315	32,959	36,732	7,600	76,047	40,559
Balance at beginning of financial year	32,959	30,125	7,600	-	40,559	30,125
Additions	9,042	4,419	29,132	7,600	38,174	12,019
Impairment of exploration expenditure	(2,686)	(1,585)	-	-	(2,686)	(1,585)
Balance at end of financial year	39,315	32,959	36,732	7,600	76,047	40,559

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on successful development and commercial exploitation, or sale of the respective areas.

Impairment of exploration costs was a result of tenements being relinquished and no continuous use.

17. NON CURRENT ASSETS – DEFERRED TAX ASSETS

	CONSOLIDATED	
	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Tax losses*	5,035	-
Share issue expenses	1,538	65
Accruals	68	-
Employee benefits	76	110
Provisions	350	357
Derivative liability	18,005	-
Total deferred tax assets	25,072	532
Set off of deferred tax liabilities pursuant to set-off provisions (note 22)	(9,217)	(532)
Net deferred tax assets	15,855	-
Opening balance at 1 February	532	19,039
Credited(Charged) to the income statement	7,811	(18,507)
Credit(Charged) to equity (Note 25)	16,729	-
Closing balance at 31 January	25,072	532
Deferred tax assets to be recovered within 12 months	-	-
Deferred tax assets to be recovered after more than 12 months	25,072	532
Total deferred tax assets	25,072	532

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2011 $'000	2010 $'000
Trade payables	7,670	282
Other payables and accruals	1,003	13,371
	8,673	13,653

Information about the Group's exposure to liquidity risk is provided in note 27.

19. CURRENT LIABILITIES – BORROWINGS

Secured		
Bank loans	-	2,500
Current liability as included in other creditors and accruals	-	70

(A) FAIR VALUE DISCLOSURES

Due to the short term nature of these liabilities, their carrying amount is assumed to approximate their fair value. Refer to note 27.

(B) RISK EXPOSURES

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 27.

20. CURRENT LIABILITIES – EMPLOYEE BENEFITS PAYABLE

Employee benefits payable	254	680

The entire annual leave obligation is presented as current, since the Group does not have an unconditional right to defer settlement beyond 12 months. However, based on past experience, the Group is expected to settle the full amount within 12 months.

21. NON-CURRENT LIABILITIES – PROVISIONS

Rehabilitation provision	1,066	1,190
Carrying value at the beginning of the year	1,190	150
Increase/(decrease) of provision	-	1,040
Expenditure charged to provision	(124)	-
Balance at the end of the year	1,066	1,190

The rehabilitation provision is based on estimates for tenements held and refers to the measures and actions required to repair land disturbed by exploration activities. The balance is in respect of the Comet Vale tenement. Outflows are expected to occur over the next 24 months.

22. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITY

	CONSOLIDATED	
	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	20	20
Exploration and evaluation expenditure	8,198	10,149
Available for sale financial assets	90	510
Put premiums	780	-
Other	129	269
Total deferred tax liabilities	9,217	10,948
Set off of deferred tax assets pursuant to set-off provisions (note 17)	(9,217)	(532)
Net deferred tax liabilities	-	10,416
Opening balance at 1 February	10,948	29,667
Credited(Charged) to the income statement	(1,731)	(18,719)
Credit(Charged) to equity		-
Closing balance at 31 January	9,217	10,948
Deferred tax liabilities to be settled within 12 months		-
Deferred tax liabilities to be settled after more than 12 months	9,217	10,948
Total deferred tax liability	9,217	10,948

	MOVEMENTS – CONSOLIDATED:			
	EXPLORATION AND EVALUATION EXPENDITURE $'000	AVAILABLE-FOR-SALE FINANCIAL ASSETS $'000	INVESTMENTS IN ASSOCIATES AND OTHER $'000	TOTAL $'000
At 31 January 2009	10,170	510	18,887	29,667
Charged to income statement	(21)	-	(18,698)	(18,719)
Charged directly to equity	-	-	-	-
At 31 January 2010	10,149	510	189	10,948
Credited/(Charged) to income statement	(1,951)	(420)	740	(1,731)
Charged directly to equity	-	-	-	-
At 31 January 2011	8,198	90	929	9,217

23. NON-CURRENT LIABILITIES – OTHER

	CONSOLIDATED	
	2011 $'000	2010 $'000
Other	-	25
Total	-	25

24. CONTRIBUTED EQUITY

Share capital		
Issued and paid up capital 793,698,575 shares (2010: 477,826,806) fully paid	178,343	104,570
Ordinary shares		
Movements during the year		
Balance as at beginning of year	104,570	71,773
Shares issued:		
• 2,893,750 –share purchase plan	1,158	
• 58,185,021 – share placement	14,546	
• 201,814,979 – share placement	50,453	
• 50,932,000 – share purchase plan	12,733	
• 2,046,019 – ESOP (refer note 39)	169	
• 37,554,737 – cash placement and share purchase plan		4,131
• 34,333,333 – cash placement		5,150
• 2,480,000 – ESOP		496
• 62,319,495 – cash placement		24,928
• Transaction costs arising from share issues	(5,286)	(1,908)
Balance at end of year	178,343	104,570

TERMS AND CONDITIONS

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

CAPITAL RISK MANAGEMENT

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

25. RESERVES

	CONSOLIDATED	
	2011 $'000	2010 $'000
Available-for-sale investments revaluation reserve	938	713
Cash flow hedges	(39,033)	-
Employee share options reserve	1,088	826
	(37,007)	1,539
Movements		
Available-for-sale investments revaluation reserve		
Balance 31 January 2010	713	950
Impairment charge transferred to income statement	637	-
Revaluation net of amounts transferred to income statement	(412)	(237)
Balance 31 January 2011	938	713
Cash flow hedges		
Balance 31 January 2010	-	-
Revaluation of hedge liability – gross	(55,762)	-
Deferred tax (note 17)	16,729	
Balance 31 January 2011	(39,033)	-
Employee share options reserve		
Balance 31 January 2010	826	952
Option expense	262	(126)
Balance 31 January 2011	1,088	826

NATURE AND PURPOSE OF RESERVES

(i) Available-for sale investments revaluation reserve

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve. Amounts are recognised in the profit and loss when the associated assets are sold or impaired.

(ii) Employee share option reserve

The employee share option reserve is used to recognise the fair value of options issued to employees but not exercised.

(iii) Hedge reserve

The cash flow hedge reserve represents the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges, net of taxes. The amounts are recognised in the profit or loss in the same periods the hedged item is recognised in the profit or loss.

26. RETAINED PROFITS

	CONSOLIDATED	
	2011 $'000	2010 $'000
Accumulated profits/(losses) at beginning of year	57,344	10,042
Net profit attributable to members of the parent entity	(14,173)	55,586
Dividends paid	-	(8,284)
Accumulated profit at end of year	43,171	57,344

No dividend was paid during the current year. (2010: 2 cents per share fully franked based on tax paid at 30%).
The Company has no franking credits available for future periods (2010: nil).

27. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as commodity swaps and options to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading of other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, price and foreign exchange risks and ageing analysis for credit and liquidity risk.

Risk management is carried out by senior management under direction of the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas.

(A) MARKET RISK

(i) Copper – Price and foreign exchange risk management

The Group has exposure to copper commodity prices arising from sales contracts that commit the Group to supply copper concentrate in future years. The prices for copper concentrate supplied under these contracts will be determined at the time of delivery with respect to the price of copper which is quoted in US dollar.

The Group has a policy of maintaining an appropriate level of hedging for up to the next five years to manage its commodity price and US dollar exposure, with the objective of providing more predictable revenue cash flows. The Group has entered into copper commodity swaps and options contracted in Australian dollars to hedge both the US copper price risk and AUD/USD exchange rate risk.

The following table details the Group's copper commodity derivative contracts outstanding at the reporting date.

	2011 ($'000)	GROSS CONTRACT AMOUNTS TO BE RECEIVED BY THE GROUP							FAIR VALUE[B]	
	AVERAGE CONTRACTED PRICE[A]	LESS THAN 1 YEAR	1 TO 2 YEAR(S)	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL	ASSET	LIABILITY
Swaps	8,228.70	-	45,428	83,986	93,787	88,514	17,482	329,197	-	56,304
Options	7,500.00	-	31,005	21,495	-	-	-	52,500	1,207	2,320
									1,207	58,624

(a) Average prices for the individual periods do not materially differ from the overall average price disclosed. The amount is AUD per metric tonne.

(b) $39.0 million loss on commodity contracts was deferred to equity as at 31 January 2011 as the losses relate to effective portion of the cash flow hedges of highly probable forecast transactions.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group did not have any commodity derivative contracts as at 31 January 2010.

The Group does not have contracted quantities of copper under its off-take agreements. However it expects revenue cash flows from sale of copper concentrate in future years which will offset the contracted amounts to be paid under the copper commodity derivative contracts.

The table below details the projected revenue from future sale of copper concentrate. The table has been drawn up based on the quantities contracted under the commodity swap contracts and the average forward price on the reporting date.

2011 ($'000)	LESS THAN 1 YEAR	1 TO 2 YEAR(S)	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Revenue from sale of copper	-	54,126	99,809	115,705	108,317	19,036	396,992

The fair value of the copper commodity derivative contracts in Australian dollars will be impacted by the US copper price and the AUD/USD exchange rate.

The following table details the Group's sensitivity as at 31 January 2011:

- to a 5% increase/decrease in the US dollar copper prices assuming all other variables, such as AUD/USD exchange rate, gold and silver prices, are constant; and
- to a 10% increase/decrease in the AUD/USD exchange rate assuming all other variables, such as US dollar copper, gold and silver prices, are constant.

	IMPACT ON PROFIT OR LOSS		IMPACT ON OTHER EQUITY	
2011 ($ '000)	INCREASE	DECREASE	INCREASE	DECREASE
Impact of 5% increase/decrease in US dollar copper price on fair value of Copper Commodity Swaps and Options[(a)]	(807)	770	(16,423)	16,423
Impact of 10% increase/decrease in AUD/USD exchange rate on fair value of Copper Commodity Swaps and Options[(b)]	2,126	(1,733)	29,861	(36,496)

(a) The sensitivity on the fair value of copper commodity swaps has been calculated with respect to the relevant US dollar copper forward price. The sensitivity calculations on the fair value of the copper commodity options do not include option premiums and are based only on the US dollar copper spot price at the reporting date.

(b) The sensitivity on the fair value of copper commodity swaps has been calculated with respect to the relevant exchange rate applicable for forward US dollar copper price. The sensitivity calculations on the fair value of the copper commodity options do not include option premiums and are based only on the spot AUD/USD exchange rate at the reporting date.

The Group did not have any commodity derivative contracts as at 31 January 2010.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Interest rate risk management

The Group's main interest rate risk arises from short term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following borrowings:

	CONSOLIDATED	
	2011 $'000	2010 $'000
Working capital loans	-	2,500
Convertible bonds	-	-
	-	2,500

An analysis by maturities is provided in (c) below. The impact of interest rate risk on cash, receivables and payables has been considered for the Group and it is deemed not to be material. Both receivables and payables are non-interest bearing.

At 31 January 2011, if interest rates had changed by /+100 basis points from the year end rates with all other variables held constant, post tax profit and equity for the year would have been unchanged (2010: $7,000 lower/higher) as a result of lower/higher interest expense on working capital loans.

The interest rate on the convertible bonds is fixed at 4% which minimised the Company's exposure to interest rate risk.

(iii) Equity price risk

The Group has a number of short-term trading investments in companies listed on the Australian Securities Exchange. There is an equity price risk in these balances.

Management has considered the impact of equity price risk for equity investments held by the Group and it is deemed not to be material.

(iv) Foreign exchange risk

The Group sells copper concentrate, the sales value of which is affected by the prevailing US dollar exchange rate. The Group has entered into copper commodity derivatives contracted in Australian dollars to hedge both the US copper price risk and the US dollar exchange rate risk. Hence the Group has cash flow exposure to the US dollar only on the unhedged portion of future sales. Sales of copper concentrate in the year ended 31 January 2011 totalled $3,175,562 (2010: $1,434,631). Management has considered the potential impact of foreign exchange risk on the unhedged revenue stream and deemed it not to be material.

The impact of AUD/USD exchange rate on the fair value of the copper commodity derivatives have been detailed above in note 27(a)(i).

The Group and parent entity also hold a bank account denominated in USD which had a carrying value of $3,217,405 at 31 January 2011 (31 January 2010: $3,337,660). Management has considered the impact of foreign exchange risk on the cash balance and it is deemed not to be material.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) CREDIT RISK

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, derivative financial instruments and receivables. The Group holds its available cash with Westpac Banking Corporation and additionally holds restricted cash in interest reserve accounts with ANZ, Macquarie Bank, Barclays Bank, Bankwest, Suncorp Bank and Bank of New York Mellon. The Group considers these to be appropriate financial institutions.

The Group has trade receivables of $338,631 (31 January 2010: $283,434). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. GST refunds are receivable from a government agency and are deemed to have no significant credit risk.

For banks, financial institutions and third party debtors, management assesses the credit quality of the counterparty, taking into account its financial position, past experience and other relevant factors.

The Group has a policy of placing no more than 35% of its cash balance with any one financial institution. This excludes any amounts that are held by Macquarie Bank relating to the finance of the Kanmantoo process facility. The Group also only places term deposits with A1 and A2 rated banks.

(C) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity risk is managed on a Group basis. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in liquid markets.

The Group monitors its cash flow on a weekly basis to ensure adequate funds are in place for exploration and development activities. The Group and the parent entity had no undrawn borrowing facilities at the reporting date.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

AS AT 31 JANUARY 2011 $'000	LESS THAN 1 YEAR	1 TO 2 YEAR(S)	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	MORE THAN 5 YEARS
Trade and other payables	8,200	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Copper Commodity Swaps[(a)]	-	8,698	15,823	16,872	21,424	4,978
Deferred Premium on Copper Options[(a)]	-	2,133	2,685	-	-	-
Total	**8,200**	**10,831**	**18,508**	**16,872**	**21,424**	**4,978**

(A) Settlement of copper commodity derivative instruments will be offset by revenue from the sale of copper concentrate.

AS AT 31 JANUARY 2011 $'000	LESS THAN 1 YEAR	1 TO 2 YEAR(S)	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	MORE THAN 5 YEARS
Trade and other payables[(b)]	13,653	-	-	-	-	-
Borrowings	2,500	-	-	-	-	-
Total	**16,153**	**-**	**-**	**-**	**-**	**-**

(B) The $2,500,000 of borrowings outstanding at 31 January 2010 was repaid on 19 March 2010.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) FAIR VALUE ESTIMATION

The Group carries only the derivative financial instruments (copper commodity swaps and options) at fair value on the balance sheet at the reporting date. The fair value of $57,417,763 liability (2010: nil) is determined to be of Level 2 based on the fair value hierarchy definition below.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of the copper commodity swaps and options are determined to be in this level.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The carrying amount of receivables and payables are assumed to approximate their fair values due to their short-term nature. The carrying amount of all other financial assets and financial liabilities recorded by the Group represents their respective fair value.

28. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1.

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARE	EQUITY HOLDING 2011	EQUITY HOLDING 2010
Controlled entity			%	%
Hillgrove Copper Pty Ltd	Australia	Ordinary	100	100
Hillgrove Operations Pty Ltd	Australia	Ordinary	100	100
Hillgrove Mining Pty Ltd	Australia	Ordinary	100	100
Hillgrove Exploration Pty Ltd	Australia	Ordinary	100	100
Kanmantoo Properties Pty Ltd	Australia	Ordinary	100	100
Hillgrove Wheal Ellen Pty Ltd	Australia	Ordinary	100	100
Mt Torrens Properties Pty Ltd	Australia	Ordinary	100	100
InterMet Resources Ltd	Australia	Ordinary	85	85
Hillgrove Indonesia Pty Ltd	Australia	Ordinary	100	100
SA Mining Resources Pty Ltd	Australia	Ordinary	100	100
Hillgrove Singapore Pte Ltd	Singapore	Ordinary	100	100
Hillgrove Singapore No 2 Pte Ltd	Singapore	Ordinary	100	-
Hillgrove Singapore No 3 Pte Ltd	Singapore	Ordinary	100	-
Hillgrove Singapore No 4 Pte Ltd	Singapore	Ordinary	100	-
Hillgrove Resources (UK Operations) Ltd	UK	Ordinary	-	100

The proportion of ownership interest is equal to the proportion of voting power held.

29. DISCONTINUED OPERATIONS

There were no discontinued operations during the year.

30. COMMITMENTS

	CONSOLIDATED	
	2011 $'000	2010 $'000
(A) NON-CANCELLABLE OPERATING LEASE EXPENSE COMMITMENTS		
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	283	202
One year or later and no later than five years	362	379
	645	581

The Group leases various offices under non-cancellable operating leases expiring within three years of the reporting date. The leases have varying terms, CPI escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(B) CAPITAL COMMITMENTS

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

Property plant and equipment		
Within one year	100,046	-
One year or later and no later than five years	317	-
	100,363	

Prior year capital commitments were all due within one year and related to plant and equipment in respect of the Kanmantoo project.

31. NOTES TO THE CASH FLOW STATEMENT

(A) RECONCILIATION OF CASH

For the purposes of the cash flow statement, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as set out in note 9.

31. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(B) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	CONSOLIDATED	
	2011 $'000	2010 $'000
Operating profit after income tax	(14,173)	55,586
Add/(less) items classified as investing/financing activities		
Profit on sale of investments	(870)	(94,250)
Exploration expenditure		-
Add/(less) non-cash items		
Depreciation	429	374
Net loss on sale of non-current assets	2,080	-
Non-cash retirement allowance	-	354
Employee share options	262	(235)
Net exchange differences	-	(5,868)
Fair value gains on available for sale financial assets	225	(237)
Impairment of exploration expenditure	-	1,877
Impairment of goodwill	3,546	-
Cash flow hedge	4,253	-
Share of net profits of associates accounted for using equity method	(10)	-
Interest accrued on term deposits/business loan	-	(679)
Net cash used by operating activities before change in assets and liabilities	(4,258)	(43,080)
Changes in assets and liabilities		
Increase in receivables, prepayments and inventories	(2,495)	(362)
Increase/(Decrease) in trade creditors and accruals	(5,004)	12,848
Increase/(Decrease) in income taxes payable	(18,836)	18,858
Decrease in net DTL	(9,543)	(212)
Increase/(Decrease) in provisions	(550)	1,040
Increase in other liabilities	-	2,500
Net cash used in operating activities	(40,686)	(8,408)

32. RETIREMENT BENEFITS

SUPERANNUATION COMMITMENTS

The consolidated entity contributed to multiple superannuation schemes covering its employees. The consolidated entity had in certain cases a legal obligation to contribute to schemes that are administered by large Life Insurance Offices. The consolidated entity contributed up to 9% (2010: 9%) of gross salaries. The schemes were accumulated benefits funds and no actuarial assessments are required.

Total superannuation contributions paid on behalf of employees during the financial year was $347,187 (2010: $382,398).

33. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) DIRECTORS

The following persons were directors of Hillgrove Resources Limited during the financial year:

(i) Executive directors

Mr DS Archer, Managing Director (resigned 30 June 2010)

Mr DA Simonsen, CEO (appointed 18 August 2010)

(ii) Non-Executive Directors

The Hon. DC Brown, AO

Mr RD Belz

Mr JA Quirke

Mr JE Gooding

Mr E Zemancheff

Mr DS Archer (resigned 19 August 2010)

(B) OTHER KEY MANAGEMENT PERSONNEL

The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ('specified executives') during the financial year:

NAME	POSITION	EMPLOYER
Mr RLS Middleton	Chief Financial Officer and Company Secretary	Hillgrove Operations Pty Limited
Mr JG Kerr	General Manager – Exploration	Hillgrove Operations Pty Limited
Mr CJ Schubert	General Manager – Kanmantoo Project	Hillgrove Operations Pty Limited
Mr GW Stewart	General Manager – Business Development	Hillgrove Operations Pty Limited
Ms DVB Jones	Human Resources Manager	Hillgrove Operations Pty Limited

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

	CONSOLIDATED	
	2011 $	2010 $
Short-term employee benefits	1,450,568	1,047,174
Post-employment benefits	117,636	78,884
Share-based payments	141,927	98,544
	1,710,131	1,224,602

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found on pages 41 to 48 of the Remuneration Report.

(D) EQUITY INSTRUMENTS

(i) Options provided as remuneration

During the reporting period, 4,880,000 options were issued to key management personnel but did not vest. The details of these options are in the table below. All options refer to options over ordinary shares of Hillgrove Resources Limited, which are exercisable on a one-for-one basis under the Executive Share Option Plan (ESOP) and the Executive Performance Rights (EPR). All options under the ESOP expire on the earlier of their expiry date or within three months of termination of the individual's employment, and those under the EPR expire on the earlier of expiry date or termination date of the individual's employment.

(ii) Option holdings

The movement during the reporting period in the number of options over ordinary shares in Hillgrove Resources Limited held, directly, indirectly or beneficially, by each director and key management personnel, including their personally related entities is as follows:

2011	HELD AT 31 JANUARY 2010	GRANTED AS REM-UNERATION	EXERCISED / FORFEITED	HELD AT 31 JANUARY 2011	VESTED AND EXERCISABLE AT 31/01/11	VALUE PER OPTION AT GRANT DATE
Directors	-	-	-	-	-	-
Mr DA Simonsen	-	2,000,000	-	2,000,000	-	21.28c
Other key management personnel						
Mr RLS Middleton	1,500,000	-	-	1,500,000	Exp 22/01/13	15.1c
Mr RLS Middleton	295,370	-	147,685	147,685	Exp 01/07/14	15.9c
Mr RLS Middleton	-	500,000	-	500,000	-	29.8c
Mr JG Kerr	-	500,000	-	500,000	-	29.8c
Mr CJ Schubert	-	500,000	-	500,000	-	29.8c
Mr GW Stewart	500,000	-	-	500,000	Exp 28/06/12	26.2c
Mr GW Stewart	416,667	-	416,667	-	-	9.5c
Mr GW Stewart	-	350,000	-	350,000	-	29.8c
Mr DJ Ferguson	1,000,000	-	1,000,000	-		8.5c
Mr DJ Ferguson	416,667	-	416,667	-	-	9.5c
Ms DVB Jones	-	350,000	-	350,000	-	29.8c

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2010	HELD AT 31 JANUARY 2009	GRANTED AS REM-UNERATION	EXERCISED / FORFEITED	HELD AT 31 JANUARY 2010	VESTED AND EXERCISABLE AT 31/01/10	VALUE PER OPTION AT GRANT DATE
Directors	-	-	-	-	-	-
Other key management personnel						
Mr RLS Middleton	1,500,000	-	-	1,500,000	Exp 22/01/13	15.1c
Mr RLS Middleton	-	295,370	-	295,370	Exp 01/07/14	15.9c
Mr GW Stewart	500,000	-	-	500,000	Exp 28/06/12	26.2c
Mr GW Stewart	-	416,667	-	416,667	-	9.5c
Mr DJ Ferguson	1,000,000	-	(1,000,000)	-	-	9.5c
Mr DJ Ferguson	1,000,000	-	(1,000,000)	-	-	7.0c
Mr DJ Ferguson	1,000,000	-	-	1,000,000	1,000,000	8.5c
Mr DJ Ferguson	-	416,667	-	416,667	-	9.5c

Each option converts into one share upon exercising.

(iii) Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Hillgrove Resources Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally related entities is as follows:

	HELD AT 31 JANUARY 2010	PURCHASES	SALES	HELD AT 31 JANUARY 2011
Directors				
Hon DC Brown, AO	195,071	37,500	-	232,571
Mr DA Simonsen	-	500,000	-	500,000
Mr RD Belz	-	-	-	-
Mr E Zemancheff	-	185,000	-	185,000
Mr JA Quirke	100,000	82,955	-	182,955
Mr JE Gooding	30,000	-	-	30,000
Executives				
Mr RLS Middleton	795,455	207,685	-	1003,140
Mr GW Stewart	183,258	416,667	(276,767)	323,158
Mr JG Kerr	-	-	-	-
Mr CJ Schubert	-	-	-	-
Ms DVB Jones	-	-	-	-

Note: Shares held include direct, indirect and family holdings.

33. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Equity holdings and transactions held in prior year

	HELD AT 31 JANUARY 2009	PURCHASES	SALES	HELD AT 31 JANUARY 2010
Directors				
Hon DC Brown, AO	149,616	45,455	-	195,071
Mr DS Archer	17,259,587	-	(1,400,000)	15,859,587
Mr RD Belz	-	-	-	-
Mr JA Quirke	100,000	-	-	100,000
Mr JE Gooding	30,000	-	-	30,000
Executives				
Mr RLS Middleton	750,000	45,455	-	795,455
Mr GW Stewart	189,100	412,158	(418,000)	183,258
Mr DJ Ferguson	1,039,616	2,045,455	(1,600,000)	1,485,071
Mr CJ Schubert	-	-	-	-

(E) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Hon. DC Brown, AO, Mr RD Belz and Mr RLS Middleton are directors of InterMet Resources Limited. No dividends were received during the current year.

34. RELATED PARTY TRANSACTIONS

(A) PARENT ENTITIES

The parent entity within the Group is Hillgrove Resources Limited.

(B) SUBSIDIARIES

Interests in subsidiaries are set out in note 28.

(C) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 33.

(D) RELATED PARTIES

Loans to controlled entities are netted on consolidation.

The parent Company is the banker for the Group and re-allocated via loan account all costs that related to the controlled entities. Some assets and liabilities previously recognised in the parent Company, mainly consisting of property, plant, equipment and exploration related assets, have also been transferred to the controlled entities via loan account. All these transactions were recorded at cost.

35. BUSINESS COMBINATIONS

(A) SUMMARY OF ACQUISITION

On 31 August 2009, the Company acquired 100% of the share capital of SA Mining Resources Pty Ltd for a total purchase consideration of $4,299,000. In the previous year, the Company had provisionally accounted for this business combination indicating acquired assets and liabilities of a fair value of $270,729, giving rise to goodwill on the transaction of $4,028,271. In the current year, the Company has determined that the fair value assets and liabilities acquired was $753,426, giving rise to goodwill on the transaction of $3,545,574.

As a result of the depletion of the Oxide Ore inventory acquired, this goodwill has been reduced to zero through recognition of an impairment loss.

	31 AUGUST 2009	
	ACQUIREE'S CARRYING AMOUNT '$000	FAIR VALUE '$000
Receivables	422	422
Inventory	216	216
Property, plant and equipment	402	402
Payables	(287)	(287)
Net assets acquired	753	753

36. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events to disclose subsequent to the balance sheet date.

37. CONTINGENT LIABILITIES

	CONSOLIDATED	
	2011 $	2010 $
Electranet performance bond to support the build, own, operate and maintain agreement for installation of transmission infrastructure at the Kanmantoo site	3,250	-
Environmental bond required under the mining and rehabilitation plan for Kanmantoo	16,750	-
Performance bond for the construction of the Mount Barker pipeline	283	98,544
	20,283	-

The above bonds were provided by Macquarie Bank and Barclays Bank on a 50/50 basis under the Hillgrove Copper loan facility agreement.

The consolidated entity had no other contingent liabilities at 31 January 2011 in respect of assets where the probability of future payments/receipts is not considered remote as is set out below.

The consolidated entity has obligations to restore land disturbed under exploration and mining licences. The consolidated entity has bank guarantees set aside for the maximum obligations to the state government departments. These bank guarantees may be forfeited if the consolidated entity does not meet its obligations under these licence agreements.

The directors are of the opinion that further provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

38. SHARE-BASED PAYMENTS

Employee Share Option Plan and Executive Share Option Plan (ESOP)

The Employee Share Option Plan and the Executive Share Option Plan is designed to provide long-term incentives for senior managers and above (including executive directors) to deliver long-term shareholder returns. Under the Plans, participants are granted options which only vest at certain times in the future. Unless otherwise approved by the Board the standard vesting period is 50% after 18 months and the remaining 50% after three years. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits. Once vested, the options remain exercisable for a period of two years. Options are granted under the Plan for no consideration.

Options granted under the Plan carry no dividend or voting rights. When exercisable, each option is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The exercise price of options is based on the volume weighted average price of the Company's shares that are traded on the Australian Securities Exchange during the 10 trading days immediately before the options are granted.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black–Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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.

Executive Performance Rights (EPR)

Executive Performance Rights, which will replace the ESOP in time, are designed with the same long term incentive intention, but will only vest upon the achievement of certain pre-set milestones. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits. Once vested, the options remain exercisable for a period of one month. Options are granted under the Plan for no consideration.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one fully paid ordinary share in Hillgrove Resources Limited. The exercise price of the options is nil.

50% of Performance Rights granted will vest on fulfilment of the Kanmantoo Project Completion Test, as defined by project financiers providing facilities for the construction and hedging transactions associated with the development of the Kanmantoo mine.

The remaining 50% of the Performance Rights granted will vest subject to Hillgrove Resources Limited's relative shareholder return performance against a selected peer group, over the 36 month period following the grant of the Performance Rights as follows:

TOTAL SHAREHOLDER RETURN RELATIVITY	% OF VESTING	INCREMENT
Less than the peer group median	nil	Straight line interpolation
Equal to the peer group median	50%	between the median
At or above the 75th percentile of the	100%	and the 75th percentile

38. SHARE-BASED PAYMENTS (CONTINUED)

The assessed fair value at grant date of all options granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Binominal Approximation option valuation model and a Monte Carlo simulation model, that takes into account the exercise price, the term of the option, the impact of dilution, 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 model inputs for the two lots of options granted during the year ended 31 January 2011 respectively, included:

(a) options are granted for no consideration and is tested for vesting on 24 September 2013;

(b) exercise price is nil;

(c) expiry date is 24 October 2013;

(d) price volatility assumption of the Company's shares is 51.2%/53.01% which is based on the Group's daily closing share price for the 12 month period prior to the grant;

(e) expected dividend yield is nil;

(f) risk-free interest rate is determined from Australian Government securities of appropriate term;

(g) share price at date of grant is $0.325/$0.255;

(h) rexpected life of instrument is 1096/1026 days.

OPTIONS GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	CANCELLED DURING THE YEAR	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE END OF YEAR
			Number	Number	Number	Number	Number	Number
CONSOLIDATED AND PARENT ENTITY – 2011								
08/02/2006	08/02/2011	$0.16	1,000,000	-	(1,000,000)	-	-	-
22/05/2007	22/05/2012	$0.40	200,000	-	-	-	200,000	200,000
13/06/2007	13/06/2012	$0.55	300,000	-	-	(300,000)	-	-
28/06/2007	28/06/2012	$0.575	500,000	-	-	-	500,000	500,000
16/08/2007	16/08/2012	$0.38	890,000	-	-	-	890,000	890,000
28/04/2008	28/04/2013	$0.34	200,000	-	-	-	200,000	100,000
22/01/2009	22/01/2013	$0.26	1,500,000	-	-	-	1,500,000	1,500,000
10/02/2009	10/02/2014	$0.145	130,000	-	(65,000)	(65,000)	-	-
20/02/2009	-	$0.00	833,334		(833,334)	-	-	-
31/08/2009	01/07/2014	$0.00	295,370		(147,685)	-	147,685	-
24/09/2010	24/09/2013	$0.00	-	2,880,000	-	(160,000)	2,720,000	-
03/12/2010	24/09/2013	$0.00	-	2,000,000	-	-	2,000,000	-
			5,848,704	4,880,000	(2,046,019)	(525,000)	8,157,685	3,190,000
Weighted average exercise price			$0.26	$0.00	$0.08	$0.33	$0.14	$0.35

38. SHARE-BASED PAYMENTS (CONTINUED)

OPTIONS GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE END OF YEAR
			Number	Number	Number	Number	Number
CONSOLIDATED AND PARENT ENTITY – 2010							
28/10/2004	28/10/2010	$0.20	1,684,000	-	(1,684,000)	-	-
10/08/2005	28/10/2010	$0.20	1,000,000	-	(1,000,000)	-	-
08/02/2006	08/02/2011	$0.16	1,000,000	-	-	1,000,000	1,000,000
22/05/2007	22/05/2012	$0.40	200,000	-	-	200,000	100,000
13/06/2007	13/06/2012	$0.55	300,000	-	-	300,000	300,000
28/06/2007	28/06/2012	$0.575	500,000	-	-	500,000	250,000
16/08/2007	16/08/2012	$0.38	990,000	-	(100,000)	890,000	495,000
28/04/2008	28/04/2013	$0.34	200,000	-	-	200,000	100,000
22/01/2009	22/01/2013	$0.26	1,500,000	-	-	1,500,000	750,000
10/02/2009	10/02/2014	$0.145	-	130,000		130,000	-
20/02/2009	-	$0.00	-	833,334		833,334	-
31/08/2009	01/07/2014	$0.00	-	295,370		295,370	-
			7,374,000	1,258,704	(2,784,000)	5,848,704	2,995,000
Weighted average exercise price			$0.28	$0.01	$0.21	$0.26	$0.25

No options expired during the periods covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.3 years (2010: 2.2 years).

EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED	
	2011 $'000	2010 $'000
Options issued under Employee Option Plan	262	(126)
	262	(126)

FAIR VALUE OF OPTIONS GRANTED

The assessed fair value at grant date of options granted during the year ended 31 January 2011 was 26.3 cents per option (2010: 11 cents). 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 impact of dilution, 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.

39. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

	PARENT	
	2011 $'000	2010 $'000
Statement of comprehensive income	(9,676)	58,735
Profit/(loss) after income tax	(9,189)	58,372
Total comprehensive income		-
Statement of financial position		
Total current assets	42,422	190,795
Total assets	251,512	202,796
Total current liabilities	4,533	29,277
Total liabilities	12,724	32,658
Equity		
Contributed equity	178,343	104,570
Reserves	2,025	1,539
Retained profits/(accumulated losses)	58,420	64,029
Total equity	238,788	170,138

The parent Company has issued a guarantee for the payment of all debts and monetary liabilities of its subsidiary Hillgrove Copper Pty Ltd relating to the financing of the Kanmantoo Copper Mine Project.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1. Investments in subsidiaries are accounted for at cost, less any impairment.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 52 to 102 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) ggiving a true and fair view of the consolidated entity's financial position as at 31 January 2011 and of its performance for the financial 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Dated at Sydney this 28th day of April 2011

THE HON. DEAN BROWN, AO
CHAIRMAN

DA SIMONSEN
CEO

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HILLGROVE RESOURCES LIMITED

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Independent auditor's report to the members of Hillgrove Resources Limited

Report on the financial report

We have audited the accompanying financial report of Hillgrove Resources Limited (the company), which comprises the balance sheet as at 31 January 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Hillgrove Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

PRICEWATERHOUSECOOPERS

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

Auditor's opinion

In our opinion:

(a) the financial report of Hillgrove Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 January 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 20 of the directors' report for the year ended 31 January 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Hillgrove Resources Limited for the year ended 31 January 2011, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Hillgrove Resources Limited (the company) for the year ended 31 January 2011 included on Hillgrove Resources Limited web site. The company's directors are responsible for the integrity of the Hillgrove Resources Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

D A Turner

Darren Turner
Partner

Newcastle
28 April 2011

SHAREHOLDER INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australia Securities Exchange Limited in respect of listed public companies only.

As at the reporting date the most recent shareholder information available for disclosure is as follows:

(A) VOTING RIGHTS AND CLASSES OF EQUITY SECURITIES

As at 21 April 2011, the Company has 793,698,575 listed fully paid ordinary shares. Each fully paid share carries on a poll, one vote. A summary of options on issue follows:

EXPIRY DATE	EXERCISE PRICE	TYPE	NUMBER OF OPTIONS
30 September 2011	$0.40	Unlisted	8,000,000
24 October 2011	$0.30	Unlisted	10,000,000

(B) THE NUMBER OF SHAREHOLDINGS HOLDING LESS THAN A MARKETABLE PARCEL OF ORDINARY SHARES WAS 556.

(C) DISTRIBUTION SCHEDULE OF FULLY PAID ORDINARY SHARES AS AT 21 APRIL 2011

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS
1 - 1,000	382
1,001 - 5,000	1,335
5,001 - 10,000	1,119
10,001 - 100,000	3,746
100,001 & over	876
	7,458

(D) SECURITIES EXCHANGE LISTING

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited. The ASX code is HGO.

(E) COMPANY SECRETARY

Mr Russell Middleton is the Company Secretary.

(F) ON-MARKET BUY-BACK

There is no current on-market buy-back.

(G) SUBSTANTIAL SHAREHOLDERS AS AT 21 APRIL 2011

An extract of the Company's register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

NAME	% OF ISSUED CAPITAL
JP Morgan Metals & Concentrates	7.0
BT Investment Management	6.7

SHAREHOLDER INFORMATION FOR LISTED PUBLIC COMPANIES CONT.

TWENTY LARGEST LISTED SHAREHOLDERS

The twenty largest shareholders hold 50.2% of the total ordinary shares issued. The names of the 20 largest shareholders as at 21 April 2011 are listed below:

NO.	NAME OF SHAREHOLDER	NO OF ORDINARY SHARES HELD	% OF ISSUED SHARES
1	HSBC Custody Nominees (Australia) Limited	82,336,922	10.374
2	Merrill Lynch (Australia) Nominees Pty Limited	55,886,772	7.041
3	National Nominees Limited	44,102,846	5.557
4	Citicorp Nominees Pty Limited	42,744,176	5.385
5	JP Morgan Nominees Australia Limited <Cash Income A/C>	33,483,989	4.219
6	JP Morgan Nominees Australia Limited	25,233,759	3.179
7	Cogent Nominees Pty Limited	17,911,492	2.257
8	AMP Life Limited	12,087,114	1.523
9	Bond Street Custodians Ltd	11,765,000	1.482
10	RBC Dexia Investor Services Australia Nominees Pty Limited	8,243,000	1.039
11	CS Fourth Nominees Pty Ltd	8,136,750	1.025
12	UBS Nominees Pty Ltd	8,000,000	1.008
13	Perpetual Trustee Company Limited	7,647,531	0.964
14	ABN Amro Clearing Sydney Nominees Pty Ltd	7,021,562	0.885
15	Escor Investments Pty Ltd	6,887,500	0.868
16	HSBC Custody Nominees (Australia) Limited	6,879,817	0.867
17	Brispot Nominees Pty Ltd	5,577,731	0.703
18	RBC Dexia Investor Services Australia Nominees Pty Ltd	5,284,188	0.666
19	JBWere (NZ) Nominees Limited	4,732,380	0.596
20	Queensland Investment Corporation	4,151,122	0.523
		398,113,651	50.159

(H) INTERESTS IN MINING TENEMENTS

TENEMENT	LOCATION	%
ML 755	Armidale, New South Wales	100%
EL 4401	Kanmantoo, South Australia	100%
ML 5776	Kanmantoo, South Australia	100%
EML 6340	Kanmantoo, South Australia	100%
ML 6345	Kanmantoo, South Australia	100%
ML 3298	Kanmantoo, South Australia	100%
MC 4237	Aclare South Australia	100%
EL 4354	Wheal Ellen, South Australia	100%
KP 350	Sumba, Indonesia	80%
KP 254	Bird's Head Peninsula, Indonesia	80%
ML 3945	Paddy, Queensland	100%
EPM 15481	Munderra, Queensland	100%
EPM 16743	Mt Molloy West, Queensland	100%
EPA 16758	Mt Madden, Queensland	100%
EPM 17097	Eight Mile Creek, Queensland	100%
EPA 17592	Kingsborough 1, Queensland	100%
EPA 17657	Hodgkinson Basin, Queensland	100%

(I) OTHER INFORMATION

Hillgrove Resources Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

COMPETENT PERSONS

The information in this report that relates to Exploration Results announced by Hillgrove Resources Limited and InterMet Resources Limited is based on information compiled by Mr Jim Kerr, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Kerr is the General Manager – Exploration 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 Kerr consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Mineral Resource estimates is based on information compiled by Mr Paul Payne, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Payne is the Principal of Resource Evaluations Pty Ltd 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 the report of the matters based on his information in the form and context in which it appears.

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