Hillgrove Resources Limited
(formerly Hillgrove Gold Limited)

and its Controlled Entities

Annual Financial Report

31 January 2004

ACN 004 297 116

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Contents

Corporate Governance Statement

For the year ended 31 January 2004

In March 2003, the Australian Stock Exchange ("ASX") Corporate Governance Council ("Council") published the *10 Principles of Good Corporate Governance and Best Practice*. The Board is currently undertaking a review of its governing processes and procedures to ensure that they are commensurate with the directions of the recommendations put forward by the Council. The Board is committed to ensuring that the Company adopt 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 the Company and its operations.

On 17 February 2003, the company re-commenced operations under a new name 'Hillgrove Resources Limited' and was reinstated to official quotation on the Australian Stock Exchange.

For the period commencing 17 February 2003 the following main corporate governance practices were in place, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

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 page 6 of this financial 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 ten. The Chairman may be either an executive or non-executive Director. At the time of this statement Mr David Archer is an executive Chairman.

Retirement and rotation of Directors are 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.

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 that the Board functions independently of management.

Information is formally presented to the Board at regular board 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 29.

Director dealings in Company shares

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

- except between three and 30 days after either the release of the Company's half-year and annual results to the Australian Stock Exchange ("ASX"), the annual general meeting or any major announcement
- 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 (unless a shareholder has specifically requested not to receive the document), 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.
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited 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 made available on the ASX internet web site at www.asx.com.au and the consolidated entity internet 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.

Audit Committee

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the establishment of a formal audit committee at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards in order to safeguard the integrity of the Company's financial reporting.

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 ASX yearly and half-yearly.
- Continuous disclosure – procedures are in place to ensure that all price sensitive information is reported to 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 the 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;
- does not engage in any activity that could be construed to involve an improper inducement; and
- 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, and
  - ❖ employees are encouraged to discuss concerns about ethical behaviour arising from their employment with their supervisor

Continuous Review of Council 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 Council's 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.

Directors' report

The directors present their report together with the financial report of Hillgrove Resources Limited (formerly Hillgrove Gold Limited) ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 January 2004 and the auditor's report thereon.

Directors

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

Name and qualifications	Age	Experience
David Stuart Archer	47	**Director**
Qualifications		B.Ec.,Dip. Laws (B.A.B.), F. Aus.I.M.M.
Experience		David has held executive and non-executive roles in a number of Australian companies. David is the Chairman and Director of Hostworks Group Ltd, a listed internet hosting services company that offers infrastructure services. He is a barrister (non-practising) of the Supreme Court of New South Wales and was the founder and former executive chairman of PowerTel Limited and Savage Resources Limited and has an extensive range of business interests.
		Appointed 11 November 2002
Ronald David Belz	48	**Director**
Qualifications		B.Bus., CPA.
Experience		Ron has been a certified Practising Accountant (CPA) for over 15 years and has his own practice in Sydney. Ron has extensive knowledge and experience in accounting and taxation law in Australia.
		Appointed 11 November 2002
Anthony James Grist	41	**Director**
Qualifications		B.Com.
Experience		Anthony graduated from the University of Western Australia with a Bachelor of Commerce in 1985. Anthony is currently Executive Chairman of Amcom Telecommunications Limited, a publicly listed telecommunications carrier and has previously been the manager of the corporate underwriting division of a Corporate Member of the Australian Stock Exchange before forming a private investment group based in Perth, Western Australia. Anthony has extensive international experience in the management of public companies.
		Appointed 11 November 2002

Directors' report (continued)

Directors' meetings

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

Director	**Board Meetings**	
	A	**B**
David Stuart Archer	14	14
Ronald David Belz	13	14
Anthony James Grist	13	14

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

No audit committee meetings have been held during the year.

Principal activities

Receivers and Managers ceased acting for the Company and its controlled entities on 17 February 2003.

Since that time, the activities of the consolidated entity have been focused on identifying resource opportunities that can be either be brought into production readily or those where there is a defined value added route within a clearly understood risk environment. Commodities that are of particular interest include copper, gold, natural gas, silver, lead and zinc.

There were no other significant changes in the nature of the consolidated entity's principal activities during the financial year.

Directors' report (continued)

Review and results of operations

The profit of the consolidated entity for the year was $36,976,273 (2003 – loss: $2,200,682). The profit is largely attributable to the extinguishment of a loan of $39,720,166 from a formally related party as part of a capital restructure.

State of affairs

The following significant changes in the state of affairs of the consolidated entity occurred on the 17 February 2003: -

(a) the purchase of 201,019,037 Shares in the Company by Denlin Nominees Pty Ltd ("Denlin") and it's nominees from Tronoh Mines Malaysia Berhad ("Tronoh");

(b) the assignment to Denlin from Tronoh of part of the existing secured debt of $44,395,996 owed by the Company to Tronoh for an aggregate purchase price of $399,999;

(c) the consolidation of the share capital of the Company on a one share for 60 share basis, by the conversion of 324,515,344 existing Shares into approximately 5,408,589 Shares;

(d) the issue of 35,000,000 Post Consolidation Shares to Denlin and it's nominees from the extinguishment of the assigned secured debt referred to in paragraph (b);

(e) the grant of 15,000,000 Options (issued as one Post Consolidation Share per Option) to Denlin and it's nominees;

(f) the issue of 15,000,000 Post Consolidation Shares to investors at a price of $0.10 per Share raising $1,500,000 of which:

   i) $300,000 was allocated to pay certain costs connected with the Transactions (including the preparation of the Notice of Meeting and the Explanatory Notes) and an existing debt of $200,000 owed by the Company to Tronoh; and

   ii) $1,200,000 was used allocated to be used as working capital of the Company;

(g) the Receivers and Managers Tronoh entered into a Deed of Release/Retirement on 17 February 2003 under which the receivers retired and were released as Receivers and Managers of the consolidated entity;

(h) the lifting of the suspension of trading on the Australian Stock Exchange on 17 February 2003.

Other significant changes in the state of affairs of the consolidated entity during the financial year were as follows:-

(i) the issue of 8,250,000 Shares to investors pursuant to a placement at $0.10 per Share raising $825,000 in September 2003;

(j) the consolidated entity announced on 3 November 2003 that it had signed an agreement by which it will acquire an effective 90% interest in EL 2663. The EL covers an area totalling 493km^2 around Kanmantoo, which is located in the Mount Lofty Ranges, 55 kilometres southeast of Adelaide, in South Australia.

(k) the issue of 3,333,333 Shares to investors pursuant to a prospectus at $0.15 per Share raising $500,250 in December 2003.

Directors' report (continued)

State of affairs (continued)

(l) the consolidated entity announced on 12 January 2004 that it had entered into a Deed of Option whereby it may acquire up to a 70% interest in EL 3037, which is located at Alford in South Australia and within the Gawer Craton, which has shown the potential to host world class Iron Oxide Copper Gold Deposits.

(m) the company announced on 27 January 2004 that its wholly owned subsidiary, Hillgrove Energy Pty Limited has farmed into the PEL 238 Coal Bed Methane Development Project in New South Wales whereby it may acquire up to a 32.5% interest in the Project. It is acquiring its 32.5% interest from Canadian listed company Gastar Exploration Limited. The consideration comprises an initial payment of US$1.0 million to acquire a 2.5% interest.

Dividends

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

Environmental regulation

As a mining entity, the consolidated entity is regulated by a number of authorities in relation to environmental issues.

Continuing mining operations require an Annual Environment Management Report ("AEMR") to be prepared which is subject to review by the relevant Statutory Authorities to confirm that all appropriate management procedures are in place to identify, monitor and rectify all impacts on the environment caused by mining operations.

The key management procedures relating to the environment are also included as part of the operating company's Mine Operations Plan which documents procedures to maintain the compliance with the terms and additional requirements of the AEMR.

The operating company also holds a licence from the Environmental Protection Authority in relation to emissions from the site relating to mining or ore treatment actualities. The directors are not aware of any breaches of the legislation during the financial year, which are material in nature.

Directors' report (continued)

Events subsequent to balance date

In the opinion of the directors, no items, transactions or events of a material and unusual nature have arisen in the interval between the end of the financial year and the date of this report which have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years, apart from:

- the company closed the issue of 28,200,000 shares at $0.15 per share pursuant to a prospectus dated 30 January 2004. The issue closed oversubscribed and raised a total of $4,230,000 before expenses. The shares were issued and allotted on 12 February 2004.
- the consolidated entity on 19 February 2004 paid a further US$2.0 million to acquire a further 12.5% interest from Canadian listed company Gastar Exploration Limited in relation to the PEL 238 Coal Bed Methane Development Project in New South Wales.
- the company received a total of 135 applications from existing shareholders for $458,000 in additional shares pursuant to the Share Purchase Plan dated 16 January 2004. As a result the company issued and allotted a total of 2,726,222 shares (after rounding up for fractions) on 25 February 2004.
- the company announced on 19 March 2004 that it had issued a total of 200,000 ordinary shares and 300,000 options in consideration for the acquisition of a 40% interest in EL 2663.
- the company issued and allotted a total of 250,000 ordinary shares and 250,000 options on 14 April 2004 in consideration for the acquisition of ML 5776.
- at an Extraordinary General Meeting held on 27 April, 2004 the name of the company was changed to "Hillgrove Resources Limited" to better reflect the Company's expanded field of operations.

Likely developments

The consolidated entity is focusing on identifying resource opportunities that can be either brought into production readily or those where there is a clearly defined value adding route within a clearly understood risk environment. Commodities that are of particular interest include copper, gold, natural gas, silver, lead and zinc.

Directors' report (continued)

Directors' and senior executives' emoluments

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.

Neither the directors nor senior executives receive any form of performance related remuneration.

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

	Base emolument	**Options Issued (A)**
Director		
Executive		
Mr D S Archer	$25,000	$107,916
Mr A J Grist	$5,000	$95,925
Executive officers (excluding directors)		
The Company		
Current		
Mr D Ferguson	$66,350	$76,740

(A) All options expire on 31 December 2004 and each option entitles the holder to purchase one ordinary share in the Company. The estimated value disclosed above is calculated at the date of grant using the Black-Scholes model.

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 Stock Exchange in accordance with Section 205G (1) of the Corporations Law, at the date of this report is as follows:

	Hillgrove Resources Limited	
	Ordinary shares	**Options over ordinary shares**
David Stuart Archer	15,734,386	2,812,500
Ronald David Belz	-	-
Anthony James Grist	2,500,000	2,500,000

Directors' report (continued)

Indemnification and insurance of officers and auditors

Officers' and Auditors' Indemnity

Article 101 of the Company's constitution provides that "to the extent permitted by law, the Company indemnifies every officer of the Company against any liability incurred by that person:

a) in his or her capacity as officer of the Company, and

b) to a person other than the Company or a related body corporate of the Company

unless the liability arises out of conduct on the part of the officer which involves a lack of good faith."

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

a) 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

b) 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

Since the end of the previous financial year the Company has not paid insurance premiums in respect of Directors' and Officers' liability insurance.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 30th day of April 2004.

_________________________	_____________________________
D S Archer	R D Belz
Director	*Director*

Statements of financial performance

For the year ended 31 January 2004

		Consolidated		The Company	
		2004	2003	2004	2003
	Note	$	$	$	$
Revenue from sale of goods	2	-	2,151,936	-	-
Other revenues from ordinary activities	2	39,821,900	608,684	39,766,900	33,193
Total revenue	2	39,821,900	2,760,620	39,766,900	33,193
Changes in inventories of finished goods and work in progress		-	(2,145,557)	-	-
Raw materials and consumables used		-	(520,548)	-	-
Equipment maintenance and hire		-	(253,277)	-	-
Restoration and environmental expenses		-	(32,618)	-	-
Employee expenses		(35,835)	(526,250)	(35,835)	-
Borrowing costs	3(b)	-	(40,742)	-	(40,742)
Electricity		-	(272,318)	-	-
Exploration and development costs written off		(390,060)	-	(390,060)	-
Safety costs		-	(61,486)	-	-
Travel		(130,745)	(10,428)	(130,745)	(10,428)
Professional administration costs		-	(1,231,464)	-	(863,405)
Consulting		(5,000)	(69,364)	(5,000)	-
Ground support		-	(195,486)	-	-
Professional Fees		(89,617)	-	(89,617)	-
Insurance		-	(93,439)	-	-
Rent		(55,531)	-	(55,531)	-
Write off of related party loans	3(a)	-	-	-	(4,489,441)
Share Registry fees		(58,523)	-	(58,523)	-
Fair value adjustment of property, plant and equipment, mining tenements and intangible assets	3(a)	-	742,814	-	-
Write down of creditors under deed of company arrangement	3(a)	-	518,453	-	3,455
Loss on sale of controlled entities	24(b)	(2,030,965)	-	-	-
Book value of assets disposed		-	(470,741)	-	-
Other expenses from ordinary activities		(49,351)	(298,851)	(44,921)	(5,432)
Profit/ (Loss) from ordinary activities before related income tax expense		36,976,273	(2,200,682)	38,956,668	(5,372,800)
Income tax expense relating to ordinary activities	5(a)	-	-	-	-
Net Profit / (Loss) attributable to members of the parent entity	21	36,976,273	(2,200,682)	38,956,668	(5,372,800)
Basic earnings per share:					
Ordinary shares	6	$0.53	$(0.007)		
Diluted earnings per share:					
Ordinary shares	6	$0.47	$(0.007)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 15 to 41.

Statements of financial position

As at 31 January 2004

		Consolidated		The Company	
		2004	2003	2004	2003
	Note	$	$	$	$
Current assets					
Cash assets	8	182,216	196,975	182,216	10,965
Receivables	9	-	230,159	1,321,836	177,427
Other financial assets	10	65,000	772,560	10,400	772,560
Other current assets	11	78,166	-	78,166	-
Property, plant and equipment	12	-	4,705,000	-	-
Intangible assets	13	-	50,000	-	-
Total current assets		325,382	5,954,694	1,592,618	960,952
Non - Current assets					
Property, plant and equipment	12	3,084	-	3,084	-
Investment	14	1,317,806	-	-	-
Exploration, evaluation and development expenditure	15	121,815	-	121,815	-
Total non - current assets		1,442,705	-	124,899	-
Total assets		1,768,087	5,954,694	1,717,517	960,952
Current liabilities					
Payables	16	168,451	725,180	168,451	62,403
Provisions	17	-	2,300,000	-	-
Other	18	11,500	44,453,716	11,500	44,453,716
Total current liabilities		179,951	47,478,896	179,951	44,516,119
Total liabilities		179,951	47,478,896	179,951	44,516,119
Net assets / (liabilities)		1,588,136	(41,524,202)	1,537,566	(43,555,167)
Equity					
Contributed equity	19	6,676,924	44,659,303	6,676,924	44,659,303
Accumulated losses	21	(5,088,788)	(86,183,505)	(5,139,358)	(88,214,470)
Total equity / (deficiency)	22	1,588,136	(41,524,202)	1,537,566	(43,555,167)

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 15 to 41.

Statements of cash flows

For the year ended 31 January 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Cash flows from operating activities					
Cash receipts in the course of operations		-	2,218,279	-	-
Cash payments in the course of operations		(958,513)	(9,739,622)	(769,114)	(1,633,631)
Interest received		46,734	71,257	46,734	33,193
Net cash used in operating activities	25(b)	(911,779)	(7,450,086)	(722,380)	(1,600,438)
Cash flows from investing activities					
Proceeds from sale of plant and equipment	2	-	471,083	-	-
Exploration /mine development		(117,646)	-	(117,646)	-
Loans to controlled entities		-	-	(1,320,895)	(4,489,441)
Payments for controlled entities		-	-	(300)	-
Payments for plant and equipment		(3,084)	(22,744)	(3,084)	-
Payments for investment	14	(1,317,806)	-	-	-
Security deposits refunded / (paid)		(10,000)	172,915	(10,000)	72,915
Net cash provided by / (used in) investing activities		(1,448,536)	621,254	(1,451,925)	(4,416,526)
Cash flows from financing activities					
Loans from shareholders		-	5,985,266	-	5,985,266
Proceeds from issue of shares		2,825,000	-	2,825,000	-
Transaction costs from issue of shares		(188,935)	-	(188,935)	-
Restructure transaction costs		(300,000)	-	(300,000)	-
Capitalised Fund Raising costs		(2,009)	-	(2,009)	-
Share Proceeds in Advance		11,500	-	11,500	-
Net cash provided by financing activities		2,345,556	5,985,266	2,345,556	5,985,266
Net (decrease)/increase in cash held		(14,759)	(843,566)	171,251	(31,698)
Cash at the beginning of the financial year		196,975	1,040,541	10,965	42,663
Cash at the end of the financial year	25(a)	182,216	196,975	182,216	10,965

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 15 to 41.

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a noted change in accounting policy are consistent with those of the previous year.

Where necessary comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of Hillgrove Resources Limited (formerly Hillgrove Gold Limited) being the parent entity, and its controlled entities ("the consolidated entity"). Control exists where Hillgrove Resources Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Hillgrove Resources Limited to achieve the objectives of Hillgrove Resources Limited. Details of the controlled entities are contained in Note 24 to the financial statements. All intercompany balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies (continued)

(c) Revenue recognition – Note 2

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value, without any cash consideration, are not recognised as revenues.

Sale of goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Interest revenue

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

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Any related balance in the asset revaluation reserve is transferred to accumulated losses on disposal.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statements of financial position.

Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies (continued)

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statements of financial performance in the financial year in which the exchange rates change.

(f) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Exploration and evaluation expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

(g) Taxation – Note 5

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies (continued)

(h) Acquisitions of assets

All assets acquired including property, plant and equipment and intangibles are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets as set out in Note 1(f).

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

(i) Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(j) Receivables – Note 9

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies (continued)

(k) Investments – Note 14

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Other entities

Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

Development Rights

Investments in development rights are carried at the lower of cost and recoverable amount.

(l) Exploration, evaluation and development expenditure – Note 15

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

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

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(m) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Current valuations for land and buildings valued on the cost basis are carried out at least once every three years.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value, except where specifically stated.

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies (continued)

(n) Fair value of non-current assets

Items of property, plant and equipment, mining tenements and intangible assets are reviewed annually and revalued to their fair value in accordance with AASB 1041 *Revaluation of Non-Current Assets.*

(o) Revaluations of non-current assets

Non-current assets measured at fair value are revalued with sufficient regularity to ensure the carrying amount of each asset does not differ materially from fair value at reporting date. Independent valuations are obtained at least every three years.

Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

(p) Depreciation and amortisation

Useful lives

Where assets are held for resale, refer Note 12, they are not depreciated as they are carried at estimated market value.

All other assets have limited useful lives and are depreciated/amortised using the straight-line method over their estimated useful lives, with the exception of carried forward exploration, evaluation and development expenditure in the production phase which was amortised on a units of production basis over the life of the economically recoverable reserves. Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset was completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until commercial production commenced.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

	2004
Property, plant and equipment	
Plant and equipment	14-20%

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies (continued)

(q) Payables – Note 16

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

(r) Employee entitlements – Note 26

Wages, salaries, annual leave and sick leave

Liabilities for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration, wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Superannuation plan

The consolidated entity contributes to several employee superannuation plans. Contributions are charged against income as they are made.

(s) Provisions – Note 17

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, except where noted below.

Restoration

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are accrued at the time of those activities and treated as exploration and evaluation expenditure.

Restoration, rehabilitation and environmental costs necessitated by development and production activities are accrued on a gradual basis over the production life of the mining activity and treated as costs of production.

Restoration, rehabilitation and environmental obligations recognised include the costs of reclamation, plant closure and subsequent monitoring of the environment.

Notes to the financial statements

For the year ended 31 January 2004

1 Statement of significant accounting policies (continued)

(s) Provisions (continued)

Restoration (continued)

Costs are estimated on the basis of current undiscounted costs, current legal requirements and current technology.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining mine life.

(t) Royalties

Royalties are recognised when due and payable.

(u) Shareholder Loans

Shareholder loans are carried on the statements of financial position at their principal amount. Interest is expensed at the contracted rate

(v) Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive ordinary shares and the effects on revenues and expenses of conversion to ordinary shares associated with dilutive potential shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus shares.

(w) Capitalised Fund Raising Costs

The company capitalised funds received in relation to the share purchase plan dated 20 January 2004. The capital raising was completed and shares allotted on 25 February 2004.

Notes to the financial statements

For the year ended 31 January 2004

		Consolidated		The Company	
		2004	2003	2004	2003
		$	$	$	$
2	**Revenue from ordinary activities**				
	Sale of goods revenue from operating activities	-	2,151,936	-	-
	Other revenues:				
	From operating activities				
	Interest:				
	Other parties	46,734	71,257	46,734	33,193
	Extinguishment of Related Party Loan (Note 19)	39,720,166	-	39,720,166	-
	Gross proceeds from sale of non-current assets	-	471,083	-	-
	Sundry income	55,000	66,344	-	-
	Total other revenues	39,821,900	608,684	39,766,900	33,193
	Total revenue from ordinary activities	39,821,900	2,760,620	39,766,900	33,193
3	**Profit/ (Loss) from ordinary activities before income tax expense**				
(a)	**Individually significant expenses/(revenues) included in profit/(loss) from ordinary activities before income tax expense**				
	Reduction in creditors under Deed of Company Arrangement	-	(518,453)	-	(3,455)
	Fair value adjustment of land, buildings, plant and equipment	-	(750,330)	-	-
	Fair value adjustment of mining tenements	-	57,513	-	-
	Fair value adjustment of intangible assets	-	(49,997)	-	-
		-	(742,814)	-	-
	Extinguishment of Related Party Loan (Note 19)	39,720,166	-	39,720,166	-
	Write off of related party loan	-	-	-	4,489,441
	Loss on Sale of Controlled Entities (Note 24)	(2,030,965)	-	-	-
(b)	**Profit/ (Loss) from ordinary activities before income tax expense has been arrived at after charging/ (crediting) the following items:**				
	Cost of sales	-	2,149,082	-	-
	Borrowing costs:				
	- foreign exchange gain	-	40,742	-	40,742
	Net expense from movements in provision for: employee entitlements	-	(2,968,207)	-	-
	Net foreign exchange loss/(gain) - realised	-	40,742	-	40,742

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
4 Auditors' remuneration				
Audit services				
Auditors of the Company – KPMG				
Audit and review of the financial reports	23,000	20,000	23,000	20,000
Other services				
Auditors of the Company – KPMG				
Other services	1,200	36,000	1,200	29,000
5 Taxation				
(a) Income tax expense				
Prima facie income tax expense calculated at 30% (2003: 30%) on the profit / (loss) from ordinary activities	11,092,882	(660,205)	11,687,000	(1,611,840)
Increase in income tax expense due to:				
Non-deductible loss on sale of controlled entities	609,290	-	-	-
Sundry items	300	-	300	-
Decrease in income tax expense due to:				
Debt forgiveness adjustments	(11,916,050)	-	(11,916,050)	-
Future tax benefit in respect of tax losses and timing differences not brought to account	213,578	660,205	228,750	1,611,840
Income tax expense attributable to profit/(loss) from ordinary activities	-	-	-	-

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
5 Taxation (continued)				
(b) Future Income tax benefit not brought to account				
The potential income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:				
Tax losses carried forward	310,079	-	325,251	-
Timing differences	133,619	230,120	133,619	230,120
	443,698	230,120	458,870	230,120

In the prior year the companies making up the consolidated entity had unconfirmed carry-forward tax losses, timing differences which had not been recognised and unrecouped exploration and mining expenditure which were estimated to be $38 million. These tax losses were extinguished as a result of the extinguishment of the related party loan and the remaining balance extinguished due to the change in ownership and business activities.

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

(iv) The unconfirmed carry-forward tax losses are confirmed to be available.

As at 31 January 2003 and 2004 no franking credits were in existence.

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated	
	2004	2003
	$	$

6 Earnings per share

Classification of securities as ordinary shares

The following securities have been classified as ordinary shares and included in basic earnings per share:

(a) ordinary shares

Classification of securities as potential shares

The following securities have been classified as potential ordinary shares and included in diluted earnings per share

(a) options outstanding under the company share option plan

Further details of these securities are contained in Note 19.

Earnings reconciliation

Net profit (loss)	36,976,273	(2,200,682)
Basic earnings	36,976,273	(2,200,682)
Allocation of earnings to category of ordinary share:		
Basic		
■ Ordinary shares	36,976,273	(2,200,682)
Diluted		
■ Ordinary shares	36,976,273	(2,200,682)

		Consolidated	
	Note	2004 Number	2003 Number
Weighted average number of shares used as the denominator			
Number for basic earnings per share			
Ordinary shares	19	69,452,268	324,515,344
Number for diluted earnings per share			
Ordinary shares	19	69,452,268	324,515,344
Effect of Share Options on Issue		9,720,548	-
		79,172,816	324,515,344

Notes to the financial statements

For the year ended 31 January 2004

7 Segment reporting

The consolidated entity operated predominantly in the mineral exploration, development and production business, in Australia.

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
8 Cash assets				
Cash at bank and on hand	182,216	196,975	182,216	10,965
9 Receivables				
Current				
Trade debtors	-	13,752	-	-
Less: Provision for doubtful trade debtors	-	(13,752)	-	-
	-	-	-	-
Other Debtors	-	230,159	-	177,427
Loans to controlled entities	-	-	1,321,836	78,328,964
Less: Provision for non-recovery	-	-	-	(78,328,964)
	-	230,159	1,321,836	177,427
10 Other financial assets				
Current				
Security deposits	65,000	772,560	10,000	772,560
Investment in controlled entities:				
At cost	-	-	400	-
At directors valuation June, 1992	-	-	-	790,647
Less: Provision for diminution	-	-	-	(790,647)
	65,000	772,560	10,400	772,560
11 Other current assets				
Prepayments	9,900	-	9,900	-
Capitalised fund raising costs (note 32)	41,767	-	41,767	-
GST refundable	26,499	-	26,499	-
	78,166	-	78,166	-

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
12 Property, plant and equipment				
Current				
Freehold land:				
At fair value	-	100,000	-	-
Plant & Equipment:				
At fair value	-	2,200,000	-	-
Mining tenements:				
At fair value	-	2,405,000	-	-
Total property, plant and equipment	-	4,705,000	-	-
Non – Current				
Plant & Equipment:- at cost	3,084	-	3,084	-
Total Property, plant & equipment	3,084	-	3,084	-

Fair values for the previous year were derived from the value of consideration received from the sale of intangible assets to a third party on 20 March 2003.

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated	The Company
	2004	2004
	$	$
Freehold land		
Carrying amount at beginning of year	100,000	-
Disposals	(100,000)	-
Carrying amount at end of year	-	-
Plant & Equipment		
Carrying amount at beginning of year	2,200,000	-
Additions	3,084	3,084
Disposals	(2,200,000)	-
Carrying amount at end of year	3,084	3,084
Mining Tenements		
Carrying amount at beginning of year	2,405,000	-
Disposals	(2,405,000)	-
Carrying amount at end of year	-	-
Total Property, plant & equipment	3,084	3,084

Notes to the financial statements

For the year ended 31 January 2004

13 Intangibles

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Current				
Licences				
At fair value	-	30,000	-	-
Intellectual property				
At fair value	-	20,000	-	-
	-	50,000	-	-

Fair values for the previous year were derived from the value of consideration received from the sale of intangible assets to a third party on 20 March 2003.

Reconciliations

Reconciliations of the carrying amounts are set out below:

	Consolidated 2004 $	The Company 2004 $
Licences		
Carrying amount at beginning of year	30,000	-
Disposal	(30,000)	-
Carrying amount at end of year	-	-
Intellectual property		
Carrying amount at beginning of year	20,000	-
Disposal	(20,000)	-
Carrying amount at end of year	-	-

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
14 Investments				
Investments in Development Rights	1,317,806	-	-	-
15 Exploration, evaluation and development expenditure				
Costs carried forward in respect of areas of interest in:				
Exploration and/or evaluation phase – at cost	121,815	-	121,815	-

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

(b) Production has not commenced in areas of interest in the development phases. Amortisation is not being charged pending the commencement of production.

16 Payables

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Trade creditors	86,768	27,403	86,768	27,403
Other creditors and accruals	81,683	297,777	81,683	35,000
Deposits held	-	400,000	-	-
	168,451	725,180	168,451	62,403

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
17 Provisions				
Current				
Rehabilitation	-	2,300,000	-	-
18 Other liabilities				
Current				
Share proceeds in advance (notes 25(a) & 32)	11,500	-	11,500	-
Shareholder Loans (note 29)	-	44,453,716	-	44,453,716
	11,500	44,453,716	11,500	44,453,716
19 Contributed equity				
Share capital				
Issued and paid up capital 66,991,959 ordinary shares (2003: 324,515,344 ordinary shares), fully paid	6,676,924	44,659,303	6,676,924	44,659,303
19(a) Ordinary Shares				
Movements During the Year				
Balance as at beginning of year	44,659,303	44,659,303	44,659,303	44,659,303
Shares Issued				
- 15,000,000 (2003: Nil) for cash pursuant to a prospectus	1,500,000	-	1,500,000	-
- 35,000,000 (2003: Nil) for loan extinguishment	3,500,000	-	3,500,000	-
- 8,250,000 (2003: Nil) for cash pursuant to a placement	825,000	-	825,000	-
- 3,333,333 (2003: Nil) for cash pursuant to a prospectus	500,000	-	500,000	-
- transaction costs arising from share issue	(188,935)	-	(188,935)	-
	6,136,065	-	6,136,065	-
- reduction in value of share capital (note 21)	(44,118,444)	-	(44,118,444)	-
Balance at end of year	6,676,924	44,659,303	6,676,924	44,659,303

Notes to the financial statements

For the year ended 31 January 2004

19 (a) Ordinary Shares (continued)

The ordinary share capital held at the beginning of the year was consolidated on 17 February 2003 on a 1 for 60 basis by the conversion of 324,515,344 shares into approximately 5,408,589 shares. The value of these shares was adjusted to an effective value of $0.10 per share

On 17 February 2003, 35,000,000 shares were issued to Denlin Nominees Pty Limited as consideration for the extinguishment of a related party loan of $39,720,166.

A further 15,000,000 shares were issued to investors at a price of $0.10 per share. Transaction costs of $152,243 were recognised as a reduction of the proceeds of the issue.

These transactions reduced accumulated losses and issued capital by $44,118,444.

On 17 February 2003 the company granted options over 15,000,000 unissued ordinary shares to shareholders. The options are exercisable at the price of $0.10 per share until expiry on 31 December 2004.

In September 2003 the company issued 8,250,000 ordinary shares to shareholders at a price of $0.10 pursuant to a placement.

In December 2003 the company issued 3,333,333 ordinary shares to shareholders at a price of $0.15 pursuant to a prospectus.

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.

	Consolidated		The Company	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
20 Reserves				
Asset revaluation	-	-	-	-
Movements during the year				
Balance at beginning of year	-	105,628	-	-
Transfer to accumulated losses	-	(105,628)	-	-
Balance at end of year	-	-	-	-
21 Accumulated losses				
Accumulated losses at beginning of year	(86,183,505)	(84,088,451)	(88,214,470)	(82,841,670)
Reduction in share capital (note 19(a))	44,118,444		44,118,444	
Transfer from Asset Revaluation Reserve	-	105,628	-	-
Net Profit / (Loss) attributable to members of the parent entity	36,976,273	(2,200,682)	38,956,668	(5,372,800)
Accumulated losses at end of year	(5,088,788)	(86,183,505)	(5,139,358)	(88,214,470)

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
22 Total Equity Reconciliation				
Total equity deficiency at beginning of year	(41,524,202)	(39,323,520)	(43,555,167)	(38,182,367)
Contributions of equity (Note 19)	6,136,065	-	6,136,065	-
Total changes in equity recognised in statements of financial performance	36,976,273	(2,200,682)	38,956,668	(5,372,800)
Total equity surplus/ (deficiency) at end of year	1,588,136	(41,524,202)	1,537,566	(43,555,167)

23 Additional financial instruments disclosure

The consolidated entity is exposed to changes in foreign exchange rates, commodity prices and interest rates in its activities.

The material financial instruments to which the consolidated entity has exposure include:

(i) Cash and short term deposits;
(ii) Receivables; and
(iii) Accounts payable and shareholder loans

Interest rate risk

All of the consolidated entity's financial instruments are either non-interest bearing or bear interest at commercial interest rates. The weighted average interest rate on cash and short-term deposits at 31 January 2004 was 2.84% (2003: 3.67%).

Credit risk

Financial instruments, which potentially subject the consolidated entity to credit risk, consist primarily of cash and short term deposits and trade debtors. Credit risk on cash, short term deposits and trade debtors is largely minimised by dealing with companies with acceptable credit ratings and selling on letters of credit.

The consolidated entity has no reason to believe credit losses will arise from any of the above financial instruments. However, the maximum amount of loss, which may possibly be realised, is the carrying amount of the financial instrument.

Net Fair Value of Financial Instruments

The carrying amounts of cash and short term deposits, receivables, security deposits, accounts payable and provision for employee entitlements approximate fair value due to the short maturity of these instruments. Adequate provision is held in respect of trade debtors.

Following the capital restructure of the company on 17 February 2003, the shareholder loans were extinguished via the issue of ordinary share capital (refer Note 19).

Notes to the financial statements

For the year ended 31 January 2004

24 Controlled entities

(a) Particulars in relation to controlled entities

Name	Country of Incorporation	% Owned
Parent entity		
Hillgrove Resources Limited (formerly Hillgrove Gold Limited)	Australia	100
Controlled entities		
Hillgrove Copper Pty Limited	Australia	100
Hillgrove Energy Pty Limited	Australia	100
Hillgrove Queensland Pty Limited	Australia	100
Hillgrove Mining Pty Limited	Australia	100

(b) Acquisition / disposal of controlled entities

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

Acquisition

Name	Date Acquired	Consolidated entity's interest %	Consideration $	Contribution to consolidated net profit/ (loss) $
Hillgrove Mining Pty Limited	10 December 2002	100	100	53,800
Hillgrove Copper Pty Limited	12 June 2003	100	100	(1,200)
Hillgrove Queensland Pty Limited	15 August 2003	100	100	(990)
Hillgrove Energy Pty Limited	16 January 2004	100	100	(1,040)
				50,570

Disposal

Name	Date of Disposal	Consolidated entity's interest %	Consideration	Contribution to consolidated net profit/ (loss) 2004 $	2003 $
New England Antimony Mines NL	7 April 2003	100	Nil	(2,005,965)	(2,651,423)
Centfield Mining Pty Limited	7 April 2003	100	Nil	(25,000)	-
Hydro Mineral Development Limited	7 April 2003	100	Nil	-	-
T & T Mining Corporation Pty Limited	7 April 2003	100	Nil	-	-
Nymagee Mining Pty Limited	7 April 2003	100	Nil	-	-
				(2,030,965)	(2,651,423)

A loss on disposal of the $2,030,965 in relation to the above subsidiaries has been recognised in the Statement of Financial Performance for the year end 31 January 2004.

Notes to the financial statements

For the year ended 31 January 2004

25 Notes to the statements of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, 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 statements of cash flows is reconciled to the related items in the statements of financial position as follows:

		Consolidated		The Company	
		2004	2003	2004	2003
	Note	$	$	$	$
Cash at bank or at call		170,716	196,975	170,716	10,965
Restricted cash		11,500	-	11,500	-
	8	182,216	196,975	182,216	10,965

Restricted cash is money received pursuant to a share purchase plan dated 20 January 2004.

The company is not eligible to utilise this balance until the shares are allotted. The shares were allotted on 25 February 2004.

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
(b) Reconciliation of operating loss after income tax to net cash provided by operating activities				
Operating profit/(loss) after income tax	36,976,273	(2,200,682)	38,956,668	(5,372,800)
Add/(less) items classified as investing/financing activities				
Profit on sale of fixed assets	-	(342)	-	-
Add/(less) non-cash items				
Write-off of related party loans	-	-	-	4,489,441
Security Deposit	(55,000)	-	-	-
Loss on sale of controlled entities	2,030,965	-	-	-
Fair value adjustment of property, plant and equipment, mining tenements and intangible assets	-	(742,814)	-	-
Extinguishment of Related Party Loan	(39,720,166)	-	(39,720,166)	-
Net cash used by operating activities before change in assets and liabilities	(767,928)	(2,943,838)	(763,498)	(883,359)
Changes in assets and liabilities:				
(Increase)/decrease in inventories	-	2,145,557	-	-
(Increase)/decrease in trade debtors and prepayments	230,158	(230,159)	171,003	(171,004)
Increase/(decrease) in trade creditors and accruals	(374,009)	(3,453,439)	(129,885)	(546,075)
Increase/(decrease) in provisions	-	(2,968,207)	-	-
Net cash used in operating activities	(911,779)	(7,450,086)	(722,380)	(1,600,438)

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	$	$	$	$
26 Employee entitlements				
Aggregate liability for employee entitlements, including on-costs				
Current	-	-	-	-

	2004	2003	2004	2003
Number of employees				
Number of employees at year end	3	3	3	3

Superannuation Commitments

The consolidated entity maintained two 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% of gross salaries.

The schemes were accumulated benefits fund and no actuarial assessments are required.

27 Directors' remuneration

Directors' income	2004	2003	2004	2003
The number of directors of the Company whose income from the Company or any related party falls within the following bands:				
$0 - $9,999	2	5	2	5
$20,000 - $29,999	1	-	1	-

	2004	2003	2004	2003
	$	$	$	$
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	30,000	-	30,000	-

Notes to the financial statements

For the year ended 31 January 2004

	Consolidated		The Company	
	2004	2003	2004	2003
28 Executives' remuneration				
The number of executive officers of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:				
$60,000 - $69,999	1	-	1	-
	2004	2003	2004	2003
	$	$	$	$
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by Australian based executive officers of the Company and of controlled entities	66,350	-	66,350	-

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level. Executive remuneration is included in Directors remuneration where applicable.

29 Related parties

Directors

The names of each person holding the position of director of Hillgrove Resources Limited (formerly Hillgrove Gold Limited) during the financial year are Messrs D. S. Archer, R. D. Belz and A. J. Grist.

Details of directors' remuneration are set out in Note 27.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

Directors' holdings in shares and share options

The interests of directors of the reporting entity and their director-related entities in shares and share options of entities within the consolidated entity at year-end are set out below:

	Ordinary shares	Options over ordinary shares
David Stuart Archer	15,734,386	2,812,500
Ronald David Belz	-	-
Anthony James Grist	2,500,000	2,500,000

Notes to the financial statements

For the year ended 31 January 2004

Directors' transactions in shares and share options

No directors or their related entities purchased shares or share options during the year:

Directors' transactions with the Company or its controlled entities

A director of the Company, holds the position as Partner in the accounting firm Ron Belz & Associates, that results in him having control over the financial and operating policies of that firm.

The terms and conditions of the transactions with directors and their director-related entities were no more favourable than those available, or which might be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to directors and their director-related entities were as follows:

Director	Transaction	2004 $	2003 $	2004 $	2003 $
Ronald David Belz	Accounting & Company Secretarial Services	52,136	-	52,136	-

Other transactions with the company or its controlled entities

As part of the recapitalisation of the company following the sale to a third party, $44,395,996 of the shareholder loan was extinguished on 17 February 2003 via the issue of ordinary share capital (refer Notes 18 & 19). The remaining loan balance of $57,720 was forgiven.

Ultimate parent entity

As at 31 January 2003, the ultimate parent entity of Hillgrove Resources Limited (formerly Hillgrove Gold Limited) was Malaysia Mining Corporation Berhad, a company incorporated in Malaysia.

On 17 February 2003 the Company was re-instated to official quotation on to the Australian Stock Exchange, following the sale of shares by the company's immediate parent entity to a third party entity, Denlin Nominees Pty Limited or it's nominees.

30 Superannuation Fund

Details of the consolidated entity's employee accumulated benefits superannuation funds are set out in Note 26. Contributions (the Company and consolidated entity) to these superannuation funds during the period were $895 (2003: $450,298).

31 Economic dependency

At the date of this report, the company and the consolidated entity were not dependent upon any economic or financial factors.

Notes to the financial statements

For the year ended 31 January 2004

32 Events subsequent to balance date

The consolidated entity 19 February 2004 paid a further US$2.0 million to acquire a further 12.5% interest from Canadian listed company Gastar Exploration Limited in relation to the PEL 238 Coal Bed Methane Development Project in New South Wales.

The company closed the issue of 28,200,000 shares at $0.15 per share pursuant to a prospectus dated 30 January 2004. The issue closed oversubscribed and raised a total of $4,230,000 before expenses. The shares were issued and allotted on 12 February 2004.

The company received a total of 135 applications from existing shareholders for $458,000 in shares pursuant to the Share Purchase Plan dated 16 January 2004. As a result the company issued and allotted a total of 2,726,222 shares (after rounding up for fractions) on 25 February 2004.

The company announced on 19 March 2004 that it had issued a total of 200,000 ordinary shares and 300,000 options in consideration for the acquisition of a 40% interest in EL 2663.

The company issued and allotted a total of 250,000 ordinary shares and 250,000 options on 14 April 2004 in consideration for the acquisition of ML 5776.

At an Extraordinary General Meeting held on 27 April, 2004 the name of the company was changed to "Hillgrove Resources Limited" to better reflect the Company's expanded field of operations.

33 Contingent liabilities

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

Directors' declaration

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

(a) the financial statements and notes, set out on pages 13 to 41, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 January 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

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

Dated at Sydney this 30th day of April 2004.

Signed in accordance with a resolution of the directors:

____________________	____________________
D S Archer	R D Belz
Director	*Director*

Independent audit report

To the members of Hillgrove Resources Limited (formerly Hillgrove Gold Limited)

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for Hillgrove Resources Limited (the "Company") and Hillgrove Group (the "Consolidated Entity"), for the year ended 31 January 2004. The Consolidated Entity comprises both the company and the entities it controlled during that year.

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

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

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

Audit opinion

In our opinion, the financial report of Hillgrove Resources Limited is in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 January 2004 and of their performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

J. A. Campion
Partner

Newcastle, 30 April 2004

Shareholder Information for listed Public Companies

The following additional information is required by the Australia Stock 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 14 April 2004, the Company has issued equity securities comprising:

- 98,368,181 fully paid ordinary shares
- 17,000,000 unlisted options exercisable at $0.10 each on or before 31 December 2004.
- 300,000 unlisted options exercisable at $0.20 each on or before 16 March 2007.
- 250,000 unlisted options exercisable at $0.10 each on or before 30 June 2005.

Each fully paid share carries on a poll, one vote.

b) The number of shareholdings holding less than a marketable parcel of ordinary shares was 1,455.

c) Distribution Schedule of Fully Paid Ordinary Shares as at 14 April 2004

Size of holding	Number of shareholders	Option Holders
1 - 1,000	1,431	-
1,001 - 5,000	156	-
5,001 - 10,000	77	-
10,001 - 100,000	423	4
100,001 & over	127	12
	2,214	16

d) Substantial Shareholders as at 14 April 2004

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
David S. Archer and his director related entities	16.00
ANZ Nominees Limited	7.09

Twenty Largest Shareholders

The twenty largest shareholders hold 54.70% of the total ordinary shares issued. The names of the 20 largest shareholders as at 14 April 2004 are listed below:

Name of Shareholder	No of Ordinary Shares Held	% of Issued Shares
David Archer	7,375,000	7.50
Vicki Archer	7,375,000	7.50
ANZ Nominees Limited	6,977,107	7.09
Tisia Nominees Limited	4,965,000	5.05
J K Nominees Pty Ltd	3,500,000	3.56
Addenbrooke Pty Limited	5,980,000	6.08
Oaktone Nominees Pty Ltd	2,500,000	2.54
Marble Hill Investments Limited	2,150,000	2.19
Huntercorp Pacific Pty Ltd	2,490,000	2.53
Ristovski Nominees Pty Ltd	2,233,333	2.27
Kathryn Yule	1,200,000	1.22
Corless Farms (WA) Pty Ltd	1,060,000	1.08
Zero Nominees Pty Ltd	1,000,000	1.02
Perpetual Trustee Company Limited	894,762	0.91
Nathan Strickland	800,000	0.81
John Roberts	799,000	0.81
Mathew Walker	735,000	0.75
UBS Nominees Pty Ltd	695,660	0.71
Gregory Campbell Hinchliffe	545,000	0.55
Itarki Pty Limited	536,780	0.55
	53,811,642	**54.70**

e) Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australia Stock Exchange Limited. The ASX code is HGO.

f) On-Market Buy-back

There is no current on-market buy-back.

g) Interests in Mining Tenements

Tenement	Location		%
ML 755	Armidale Region	NSW	100
ML 996	Armidale Region	NSW	100
PL 3226	Guyra	NSW	100
EL 2663	Kanmantoo	SA	40
ML 5776	Kanmantoo	SA	100

h) Company Secretary

Mr Ronald David Belz.

Offices and officers

Registered Office

C/- Ron Belz & Associates
Certified Practicing Accountant
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Location of Share Registry

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Telephone: + 61 2 8234 5222

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Newcastle, N.S.W., 2300

Bankers

Westpac Banking Corporation
Willoughby Road
Crows Nest, N.S.W., 2065

Web Site

www.hillgroveresources.com