HILLGROVE
RESOURCES

ACTIVITIES REPORT
QUARTER ENDED 31 JULY 2004

The Board of Directors of Hillgrove Resources Limited (Hillgrove) (ASX: HGO) reports for the quarter ended 30 July 2004 as follows.

HIGHLIGHTS

- Completion of the acquisition of Mining Lease 5776 over the Kanmantoo Copper-Gold Mine in South Australia.
- A JORC compliant inferred resource of 8.5 million tonnes containing 98,400 tonnes of contained copper established on ML 5776.
- Drilling underway at Kanmantoo has recorded **broad mineralised intercepts of up to 66 metres**. The first round of assay results is anticipated to be available on Tuesday 7th September.
- Geochemical sampling shows that mineralised horizons extend for at least two kilometres to the south of Emily Star – **rock chips up to 18.29% copper, 14.6g/t gold, 14.98% zinc and 8 ounces silver** – suggesting the potential for repeats of Emily Star style zones of mineralization.
- The definition of a new prospect: Emily Star South, with **surface channel sampling of 10 metres at 1.01% copper (KTCS 034), 8 metres at 1.02% copper (KTCS 031) and 6 metres at 1.12% copper.**
- Successful completions of one core hole and the first well, of a five well programme, on the Gunnedah Gas Project. The completion of the Project's first horizontal well, now in test production, marks the achievement of a major technical milestone.
- The completion of a placement of 5 million shares at 20 cents each, raising cash of $1,000,000 before expenses of the issue.

EXPLORATION

Hillgrove is continuing its aggressive exploration programme with drilling campaigns underway concurrently at both the Kanmantoo Copper-Gold Mine and the Gunnedah Gas coal bed methane projects.

Results from each programme will be released over the coming months. The first set of results from the round of drilling at Kanmantoo is anticipated to be available on Tuesday 7th September 2004.

Kanmantoo Mine Project, ML 5776, Kanmantoo

(Hillgrove 100%)

Hillgrove has acquired Mining Lease 5776, covering an area of 46 hectares around the former Kanmantoo Copper-Gold Mine in the Mount Lofty Ranges south east of Adelaide in South Australia. The mine operated from 1971 until it closed in 1976 and produced a total of 4.05 million tonnes of ore grading 1.1% copper and unknown gold.

On 3 May, Hillgrove announced that its consultant, Resource Evaluations Pty. Limited, had evaluated 33,609 metres of drilling from 143 surface and underground diamond drill holes drilled in the 1960's and 1970's by Mines Administration Pty. Limited and that it had concluded that there is an Inferred Mineral Resource totalling 8,452,000 tonnes grading 1.2% copper in and around the Kanmantoo Copper-Gold Mine. A breakdown of this resource is provided in Table 1.

Table 1.

Kanmantoo Deposit Inferred Mineral Resource Estimate			
Type	**220mRL to 0mRL**		
	Tonnes **T**	**Cu** **%**	**Cu Metal** **Tonnes**
Oxide	**99,000**	**1.2**	**1,200**
Transitional	**597,000**	**1.1**	**6,600**
Fresh	**7,756,000**	**1.2**	**90,600**
Total	**8,452,000**	**1.2**	**98,400**

The ten best down hole intersections within this Inferred Mineral Resource are outlined in Table 2.

Table 2.

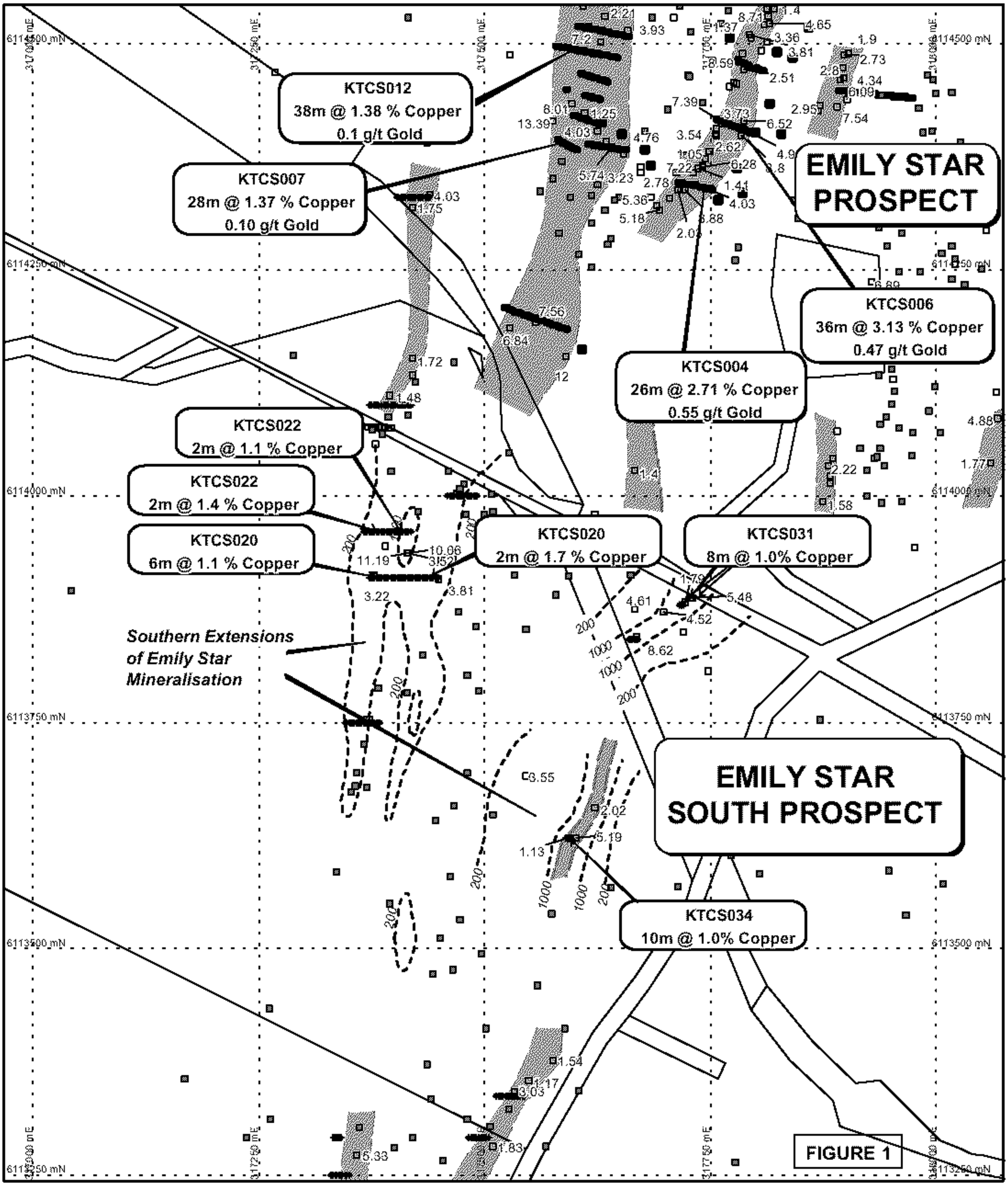
Hole No.	AMG East	AMG North	Depth from (m)	Depth to (m)	Length (m)	Cu %
KS001	318356	6114888	237.7	289.6	51.8	1.02
KS015	318206	6114920	128.0	167.6	39.6	1.33
KS016	318289	6114911	219.5	268.2	48.8	1.13
KS016	318289	6114911	189.0	213.4	24.4	2.25
KS022	318205	6114845	155.5	173.7	18.3	2.61
KS044	318347	6114949	202.7	243.8	41.2	1.54
KS076a	318523	6114949	427.3	454.8	27.4	1.64
KS094	**318456**	**6114508**	**111.3**	**135.6**	**24.4**	**1.90**
KS124	**318436**	**6114586**	**32.3**	**52.1**	**19.9**	**2.48**
KS160	**318258**	**6114746**	**16.8**	**64.0**	**47.2**	**1.11**

The width and grade of these intersections highlight the prospectivity of:

- The pit, near pit and underground in the Kanmantoo Mine project area (ML 5776 – Hillgrove 100% following exercise of option), and
- Strike extensions along a 20 kilometre axial zone of a regional syncline within the boundaries of the Kanmantoo Joint Venture area (EL 2663 - Hillgrove 90%) including the Emily Star Prospect.

On 6 July Hillgrove commenced an extensive drilling programme targeting identified zones of copper mineralisation in and around the Mining Lease at Kanmantoo. Drilling will total between 10,000 and 15,000 metres of both reverse circulation and diamond drilling and has five principle objectives:

1. The confirmation and upgrade of an already identified (8.45 million tonnes) Inferred Mineral Resource containing 98,400 tonnes of contained copper to an Indicated Reserve category.
2. The identification of additional potential open pit (above 0 metres RL) mineralisation both along strike and down dip to augment the existing resource.
3. The characterisation of the gold content of the copper mineralization in and around the pit.
4. An assessment of the potential for mineralisation below 0 metre RL to support possible underground mining in the longer term.
5. An assessment of the mineralisation previously identified at Emily Star.



Location Map

South Australia

Project Area

RC Drill Hole

2.12 Rock Chip Sample (>1% Copper)

Channel Sample

Interpreted Mineralised Trend

Soil Sampling Location

Soil Sampling Contour (Copper ppm)

N

0 100 200

Meters

Scale: 1:6,000

HILLGROVE GOLD LTD

EMILY STAR PROSPECT

RECONAISSANCE ROCK CHIP
& CHANNEL SAMPLING

Author: D Ferguson	Date: 30/8/2004
Drawn:	Revised:
Dwg No.: HGO_04_040	Report No.:
Projection: GDA 94 Zone 54	Scale: 1 : 6 000

A total of 1,983 metres in 15 reverse circulation holes was completed during the quarter to test the Southern Zone adjacent to the Kanmantoo pit wall and the northern portion of the O'Neil Lode.

Every hole logged has encountered mineralisation, with **one mineralised intercept reaching up to 66m in width down hole.** The drilling programme is expected to run until the end of September and updates on the progress of the program will be made when results come to hand and are collated.

Hillgrove exercised an option to acquire the Mining Lease from SA Mining Resources Pty. Ltd. ("SAMR"). Hillgrove was advised by the Department of Primary Industries and Resources, South Australia, that the transfer of the Mining Lease to Hillgrove has been completed and that Hillgrove is the registered holder of the Mining Lease. SAMR retains the rights to ore stockpiles, tailings dumps and dams located on the Mining Lease as at 15 May 2003. SAMR is proposing to treat a copper oxide ore stockpile on the Mining Lease that remains from previous mining activities.

Kanmantoo Joint Venture, EL 2663, Kanmantoo

(Hillgrove 90%, Argonaut 10%)

During the quarter, Hillgrove carried out an extensive round of geochemical exploration south of the main Mining Lease aiming to identify areas of mineralisation that offer the potential to be developed as satellite open cuts with very encouraging results.

Regional geochemical sampling shows that the main mineralised horizons extend for at least a further two kilometres to the south of Emily Star with rock chips up to **18.29% copper, 14.6g/t gold, 14.98% zinc and 8 ounces silver**. The work completed to date suggests that there is potential for repeats of Emily Star style zones of mineralization.

Rock chipping and channel sampling at the newly defined Emily Star South Prospect has outlined a number of areas in excess of 100m in strike with anomalous rock chips. Best results to date include **10 metres at 1.01% copper (KTCS 034), 8 metres at 1.02% copper (KTCS 031) and 6 metres at 1.12% copper.** See attached plan. These results are considered to be very significant as they come from areas with limited outcrop and are associated with broad soil anomalies (250m by 100m) of up to 1.8% Copper. The reconnaissance geochemical programme is continuing to the south of Emily Star.

Hillgrove had previously acquired a 40% interest in the tenement and has since spent sufficient funds on exploration activities by the target date of 2 May 2004 to earn an additional 50% interest in the tenement under the terms of a Farm-In

Agreement with Kelaray Pty. Limited, a wholly owned subsidiary of Argonaut Resources N. L.

ELA 369/03, Wheal Ellen

(Hillgrove 100%)

Hillgrove has applied for an Exploration License of 4 km² over the former Wheal Ellen Mine within the Kanmantoo Trough. Wheal Ellen produced 75,000 tonnes of sulphide ore – averaging 10% lead, 18% zinc, 150 g/t silver and 4 g/t gold. It is anticipated that this tenement will be granted in the coming quarter and a first pass exploration programme including a review of the historical data and surface geochemical programme will commence.

EL 3037, Alford

(Hillgrove earning 20%)

The Alford Project is located north of the Moonta-Wallaro mines within the Olympic Domain.

The Alford Project comprises 477 km² within the highly prospective Montaro-Wallaroo district in the southern part of the Olympic Domain. Recent discoveries by other explorers over the past few years have confirmed the potential for the Gawler Craton to host multiple iron oxide copper-gold (IOCG) style deposits.

The significant width of the drilling results to date (30 metres at 0.46% copper and 5.4 g/t silver (ALDDH 005) and 28 metres at 0.47% copper an 12.7 g/t silver and 30 metres (ALDDH 006)) suggest a mineralised system of considerable size may be present within the Exploration License area if a suitable structural or chemical trap site can be located. A number of geophysical anomalies on late stage faults have been identified and are considered to be highly prospective for IOCG style deposits.

During the quarter a review of all previous exploration data continued with a view to developing a comprehensive and integrated overview to assist the design of the next round of exploration. Any exploration program is likely to include ground based geophysics (gravity and electromagnetics), further surface geochemical sampling, reconnaissance aircore drilling and follow-up diamond drilling. It is anticipated that a first pass exploration programme will commence early in the next quarter.

Hillgrove has entered into an option agreement with Kelaray Pty. Limited, a wholly owned subsidiary of Argonaut Resources N. L. Under the terms of the option Hillgrove can spend $220,000 on exploration activities and pay

Argonaut $30,000 within 12 months to earn the right to initiate a Farm-In Joint Venture and take a 20% interest in the tenement.

The Joint Venture Agreement would allow Hillgrove to take a further 50% interest by spending a total of $4,000,000 in five years, provided that exploration expenditure does not fall below $150,000 in any one year.

<u>Gunnedah Gas Project, PEL 238, NSW</u>

Hillgrove Resources Limited – 15% but acquiring up to 32.5%
Eastern Star Gas Limited – 15% but acquiring up to 32.5%
Gastar Exploration Limited – 70% but reducing to 35%

Hillgrove is encouraged by the successful completion of the first two wells of the Gunnedah Gas Project's coal seam gas (CSG) development programme.

Bohena South-1C (core-hole) was spudded on 2 July 2004 and was successfully drilled to a total depth of 903.3 metres with two drill stem tests conducted within the target Maules Creek Formation coal seams. The core hole intersected both the shallower secondary target Late Permian Black Jack Formation coals and the deeper primary target Early Permian Maules Creek Formation coals.

The Black Jack Formation contained 12.2 metres of net coal comprising a 5.2 metre thick Hoskisson seam with a further 7.6 metres coal in the upper seams within a total interval of 36 metres. The coals contained gas that had variable amounts of methane, nitrogen and carbon dioxide which require further investigation and analysis.

The well intersected 16.2 metres of net coal in the Maules Creek Formation. The main target coals seams of the Maules Creek Formation comprised the 10.35 metre thick Bohena seam and 5.8 metres of upper coal seams within a total interval of 64 metres. The coals are highly gaseous and permeable and the gas composition is mainly methane. A drill stem test of the Bohena seam within the Maules Creek Formation resulted in a measured permeability of 11md, which is not only an excellent result but in line with the high permeability measured in Bohena-3 (approximately 3.1kms to the northwest) and Bibblewindi-1, both of which lie within the Bohena Project Area.

Bohena South-1C is located approximately 3.5 kilometres south of the previously drilled Bohena pod of eight CSG wells and also approximately 7.1 kilometres north of the previously drilled Bibblewindi-1 well. The confirmation of the existence of permeable coals at three points over a total distance of 10 kilometres will be an important new factor for the next reserves assessment.

After integrating the technical data gathered from this well and assessing the results of the Bohena-4L horizontal well, a decision will be made as whether to drill and place into production a new Bohena South vertical, fracture stimulated CSG well, or to drill a new horizontal well from the Bohena South-1C location.

Bohena-4L was spudded on Friday, 9 July 2004 and is a horizontal well drilled from the Bohena-4 location south towards the partially-completed Bohena five-spot pilot. It is the first horizontal well in PEL 238 that has been successfully completed for test production. Bohena-4L is the second well in the 2004 coal seam gas ("CSG") appraisal and development drilling program within PEL 238. The well was drilled to a total measured depth of 1,622 metres, with a true vertical depth of 892 metres and 400 metres of horizontal section through the target 9 metre thick Bohena coal seam, in a southerly direction from the surface location within the Bohena Pilot Area.

The 400 metre horizontal section drilled within the 9m thick Bohena Seam is now being production tested. The well is designed to provide not only information about the production characteristics of such completions in the area, but also another dewatering point for the Bohena pilot. For the production pilot, Bohena-3 and 7 are existing wells. Planned wells Bohena-9, 10 and 11 in the current program will complete the five well pod.

Bohena-4L is the first horizontal well within PEL 238 and its successful completion is an important technical milestone for the project. Horizontal wells have the potential to drain larger areas more quickly. As a result, the successful implementation of a horizontal drilling development of a coal seam gas production fairway can significantly enhance operational cash flows whilst reducing overall capital costs in comparison to other production techniques.

Production testing, including continuous monitoring of gas and water production rates through a gas separator, has commenced following the installation of a sub-surface pump.

The two wells form an integral part of the next stage in the Gunnedah Gas Project reserves certification process within the 260 square kilometre Bohena Project Area. The programme aims to establish sufficient proved and probable reserves (1P and 2P) to support long term gas sales contracts. The Bohena Project Area contains up to 3,700 PJ (3.7 trillion cubic feet) gas in place within both the Late Permian Black Jack Formation and the Early Permian Maules Creek Formation coal seams.

These are the first two holes within the current CSG drilling programme that includes the following:

- one horizontal well (Bohena 4L) now completed,
- three new vertical fracced wells (Bohena-9, 10 and 11) in the Bohena Pilot Area in the northern part of the Bohena Fairway,
- the drilling of one new vertical fracced well (Bohena South-1) and the now completed corehole (Bohena South-1C) approximately 4 kms south of the Bohena Pilot Area,
- the fraccing of the previously drilled Bibblewindi-1 well located approximately 10 kilometres south of the Bohena Pilot Area, and
- the work over of Bohena-3 well within the Bohena Pilot Area.

All wells are to be placed into test production and gas flows monitored as a precursor to a review of the independent reserves evaluation and certification.

CORPORATE

The Company completed a placement of 10 million shares at 20 cents each during the quarter raising a total of $1,000,000 before the expenses of the issue.

David Archer
Managing Director
Hillgrove Resources Limited
Tel: 0414 737 767

Geological information contained in this report, other than that relating to the Gunnedah Gas Project, was compiled by Mr. Dale Ferguson of Hillgrove Resources Limited, who is a corporate member of the Australasian Institute of Mining and Metallurgy and has in excess of five years experience in this field of activity.

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

HILLGROVE RESOURCES LIMITED

ABN	Quarter ended ("current quarter")
73 004 297 116	31 JULY 2004

Consolidated statement of cash flows

Cash flows related to operating activities			Current quarter $A'000	Year to date (3 months) $A'000
1.1	Receipts from product sales and related debtors			
1.2	Payments for	(a) exploration and evaluation	(326)	(527)
		(b) development		
		(c) production		
		(d) administration	(402)	(677)
1.3	Dividends received			
1.4	Interest and other items of a similar nature received		17	34
1.5	Interest and other costs of finance paid			
1.6	Income taxes paid			
1.7	Other (provide details if material)			
	Net Operating Cash Flows		(711)	(1,170)
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a) prospects	(9)	(2,548)
		(b) equity investments	(128)	(629)
		(c) other fixed assets	(32)	(35)
1.9	Proceeds from sale of:	(a) prospects		
		(b) equity investments	772	772
		(c) other fixed assets		
1.10	Loans to other entities			
1.11	Loans repaid by other entities			
1.12	Other (provide details if material)			
	Net investing cash flows		603	(2,440)
1.13	Total operating and investing cash flows (carried forward)		(108)	(3,610)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(108)	(3,610)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,000	5,795
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)	(64)	(376)
	Net financing cash flows	936	5,419
	Net increase (decrease) in cash held	828	1,809
1.20	Cash at beginning of quarter/year to date	1,163	182
1.21	Exchange rate adjustments to item 1.20		
1.22	**Cash at end of quarter**	1,991	1,991

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	77
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities		
3.2	Credit standby arrangements		

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	500
4.2	Development	
	Total	

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	1,434	735
5.2	Deposits at call	557	179
5.3	Bank overdraft		
5.4	Other (provide details)		
	Total: cash at end of quarter (item 1.22)	1,991	1,163

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed				
6.2	Interests in mining tenements acquired or increased	ML 5776	Exercise of option and registration as registered holder.	Option	100%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	105,755,681	105,755,681		
7.4	Changes during quarter (a) Increases through issues	700,000 500,000 5,000,000	700,000 500,000 5,000,000	$0.20 $0.185 $0.20	$0.20 $0.185 $0.20
	(b) Decreases through returns of capital, buy-backs				
7.5	**+Convertible debt securities** *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	18,312,500 250,000 300,000	18,312,500 250,000 300,000	*Exercise price* $0.10 $0.10 $0.20	*Expiry date* 31/12/2004 30/06/2005 16/03/2007
7.8	Issued during quarter	2,000,000 500,000	2,000,000 500,000	$0.10 $0.10	31/12/2004 31/12/2004
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				

+ See chapter 19 for defined terms.

7.12	**Unsecured notes** *(totals only)*		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: .... Date: ..31/08/2004
(Director

Print name: ....Ron Belz..

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.