HILLGROVE RESOURCES

2 November 2006

Dear Shareholder,

I would like to update you on a number of events that have had a transformational impact on your company. Hillgrove is solidly based around an exciting range of interests comprising base metal development, energy investments and an extensive South Australian exploration portfolio.

These milestones have included:

- On 28 August Hillgrove announced the sale of its 32.5% interest in the Gunnedah Basin Coal Seam Gas Joint Venture to Eastern Star Gas Limited (ESG) for a fully diluted 28% shareholding in ESG. ESG is now positioned, with over 18.7 TCF of gas-in-place, as a major potential player in the NSW gas industry;
- The appointment of the Hon. Dean Brown, the South Australian Premier from 1993 to 1996, as Chairman of the company on the 11 October;
- On 18 October Hillgrove announced that Roche Mining had completed a Pre-Feasibility Study of the Kanmantoo Copper Gold Project which confirmed that Kanmantoo is an attractive project with a base case net present value of $75 million, an IRR of 32% with projected net cash flow after capital of $141 million;
- At the same time, the Kanmantoo Resource was increased to 28 million tonnes at 0.94% copper and 0.20 g/t gold;
- On 19 October Hillgrove reported some of the best intersections recorded at Kanmantoo in new broad high grade zones, including 40 metres at 2.8% copper and 0.3 g/t gold;
- On 26 October Hillgrove announced underwriting commitments for $7.6 million worth of 31 December 2006 options which, together with $2 million of committed funding from Sempra Metals & Concentrates, means Hillgrove is fully funded through the Kanmantoo Definitive Feasibility Study;
- Hillgrove announced on Monday that it would book a before tax profit of approximately $15.1 million on the sale of its coal seam gas interests to Eastern Star and that the investment is currently valued at $28 million.

Kanmantoo has moved one step closer to development as a mid-tier copper producer in a very buoyant copper price environment with production targeted for the first quarter of 2009.

Meanwhile, the Gunnedah Basin Coal Seam Gas Project's nine well production pilot is due to come on line in December which is a key step towards the establishment of a gas field, reserves certification and gas sales contracts. Gas produced from coal seams is now recognised by gas industry majors to become the major source of onshore gas supply in Australia.

In summary, your company is in excellent shape with an outstanding range of assets. Thank you for your continuing support as a shareholder.

Yours sincerely,

David Archer
Managing Director

See 'Hot copper price puts Hillgrove on top'
Barry FitzGerald –The Age 23-10-2006

www.theage.com.au/text/articles/2006/10/22/1161455608727.html

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