



ACN 072 692 365

## CHAIRMAN'S ADDRESS

ADDRESS BY DR DENIS CLARKE AT THE ANNUAL GENERAL MEETING OF  
HILLEND GOLD LIMITED HELD AT THE CHRISTIE CENTRE, TANG ROOM, SYDNEY  
AT 11 AM ON FRIDAY 26 NOVEMBER 2010

This is the seventh Annual Meeting of Hill End Gold Limited, but it is my very first as a director of your Company. I joined the Board in late February this year and became Chairman in March on the retirement of Mr. Alfred Paton. Alf retired after a long, distinguished career in the minerals industry and I particularly thank him for his contributions to our Company over the seven years he served as Chairman.

As shareholders you will be well aware of the achievements and disappointments of your Company in a year of mixed fortunes. I refer shareholders to the Annual Report for details of the year in review and will comment briefly on only a few key matters in this address. Our Managing Director, Philip Bruce, will provide additional information in his presentation to this meeting.

I will comment on:

- Operational Performance
- Financial Performance
- Corporate Strategy

### OPERATIONAL PERFORMANCE

The Company has two principal operations, the Hill End Project and the Hargraves Project.

At the 2009 Annual Meeting the then Chairman advised in regards to the Hill End operation that *“Further drilling and development is underway to support a planned expanded development of the Hill End Project and increasing gold production over the coming year.”* At that time potential was seen to progressively expand the existing successful, but very small-scale, mining operation over the 2010 year using a limited capital investment approach to a 100,000 tonne per annum rate and a production rate of around 40,000 ounces. This plan was dependent on the planned exploration and development activities at the Reward Mine producing satisfactory results.

Subsequently, underground development and drilling activities were ramped up and the workforce substantially enlarged. However, mining using a low capital, small-scale configuration proved to be uneconomic, and mining was necessarily suspended in May 2010. This outcome of the scale-up attempt was extremely disappointing for all stakeholders in the operation.

Potential exists for recommencement of economic mining at Hill End in a different configuration, such as a larger-scale, more capital intensive, less selective operation. Many excellent exploration opportunities also remain at the mine. The underground development, which was achieved at considerable cost, retains considerable value as it will provide access for future underground drilling. Such drilling is necessary to de-risk the project before any recommencement of mining.

An extremely important benefit derived from the intensive trial mining and exploration work has been the development of a much better understanding of the geological controls on the gold mineralisation. This knowledge subsequently guided our drilling program so successfully at the geologically similar Hargraves Project. In fact, it proved essential to effective exploration at Hargraves.

Exploration at Hargraves has been a resounding success. A program of more than 12,000m of drilling, costing more than \$ 2.5 million over the last year has defined an initial, shallow resource of 234,400 ounces of gold for the fraction of the overall deposit so far drilled. Including acquisition costs and exploration cost from 2008, the Company has succeeded in delineating a large gold resource at a low cost of approximately \$20 per ounce. It is a considerable achievement that would make any exploration company in Australia proud. Strong potential exists for definition of several multiples of this initial resource through additional drilling. Drilling is underway as I speak.

## **FINANCIAL PERFORMANCE**

Financial performance was unsatisfactory because of the operational difficulties at Hill End.

Net cash outflow from operations was \$13.3 million, resulting primarily from the Hill End operation. Additionally, \$3.3 million was expended on exploration principally at the Hargraves Project. Simply put, insufficient gold was produced at Hill End to cover the cost of exploration, development and trial mining. Proceeds of \$15.4 million from equity raisings funded the cash outflow.

The operating loss after tax for the year was \$21 million after non-cash items including depreciation, amortisation, impairment of mining properties and write-off of exploration expenditure.

Since suspension of mining in May expenditure has been severely cutback and employees and contractors reduced to the minimum required to progress exploration at Hargraves and scoping studies at Hill End.

The Company's share price decreased from approximately 19 cents at the start of the financial year to approximately 10 cents at the end. We are, of course, extremely concerned at the share price performance and, while recognising the market's disappointment with the Hill End operation, think that the current share price does not appropriately reflect either the value of the Company's assets or its potential for future strong cash flows through the development of the Hargraves and Hill End projects. The current market capitalisation of around \$33 million is low relative to that of our peers, particularly on the basis of market capitalisation per resource ounce. It might be argued that the market has overacted to the set-back at Hill End and underappreciated our success at Hargraves.

Gold companies with a resource base as large as Hill End Gold's 570,400 ounces are rare and normally command higher market capitalisations. Consequently, investors should be aware of the possibility of acquisition interest in Hill End Gold from well-funded gold companies seeking to add substantially to their resource bases through acquisitions rather than by the more difficult and less certain exploration approach.

## **CORPORATE STRATEGY**

Hill End Gold is essentially a gold explorer with achievable aspirations to be a profitable gold miner. Its future has both demanding challenges and outstanding opportunities. It is distinguished from most explorers by its large gold resource base, which provides very realistic opportunities for the Company to grow beyond the explorer/miner divide.

In the short term Hill End Gold will, however, remain a gold explorer. The Board has adopted a strategy that focuses on quickly increasing the resource base to more than one million ounces. We have high confidence of achieving this goal, given the opportunity presented by the Hargraves Project. The Hargraves Project will, therefore, be the focus of the Company's activities for the immediate future.

The challenge in the short term will be to adequately fund the required exploration drilling and to get it done as quickly as possible to maximise the value for shareholders.

In the medium term Hill End Gold will progressively advance Hargraves through scoping studies and feasibility studies with the objective of developing a profitable mine. Much remains to be done at Hargraves, but the chances of success are excellent. Additionally, the potential to recommence mining at Hill End in a different configuration will be assessed through similar studies.

The overall challenge for Hill End Gold is to acquire the capital to realise the full potential of our gold assets without unnecessary dilution of shareholders. The Board is committed to acquiring the necessary capital through an appropriate mix of equity raisings, joint ventures and possibly corporate transactions. The attainment of the one million ounce resource milestone, which can be done with modest equity capital, can be expected to open up substantial opportunities for funding via the joint venture and corporate transaction routes.

Gold mining and exploration is a very demanding business for operators, management, directors and shareholders alike, but it can also be a very rewarding business. Hill End Gold is indeed fortunate to have two valuable cornerstone projects, both with excellent potential for development into profitable gold mines, and we expect to reap rewards in the future. We have the assets, the capacity, the will, the expertise and the opportunities to build on the hard-won success at Hargraves and the experience at Hill End to provide an interesting and rewarding future for Hill End Gold's shareholders.

I wish to especially acknowledge the intense efforts of our small management team and of my fellow directors. I thank shareholders for their continuing support through a year of mixed fortunes and assure shareholders that we all remain highly focused on the conversion of potential to reality to create shareholder value.

Denis Clarke

Chairman

Hill End Gold Limited