

Tuesday, 16 April 2019

To: Company Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Dear Sirs

Hillgrove Sells the Rights to Develop a Pumped Hydro Energy Storage (PHES) Project to AGL

Hillgrove Resources Limited (ASX: HGO) (**Hillgrove**) wishes to announce it has completed the competitive process to seek proposals from the private sector to develop, own and operate a Pumped Hydro Energy Storage (**PHES**) project at its Kanmantoo mine site.

As a result of this process Hillgrove is pleased to announce it has entered into binding agreements to sell the right to develop, own and operate the PHES project to AGL Energy Limited (ABN 74 115 061 375) (AGL) for \$31 million.

Key Transaction Terms

The \$31 million will be payable over an estimated 18-36 month period with staged payments based on the achievement of the following PHES project milestones:

- \$1 million on signing of the project agreements,
- \$4 million on the completion of a number of conditions precedent including:
 - Confirmation by a limited drilling programme of the stability of the ground at the proposed location of the PHES vertical shaft,
 - Execution of an early works agreement between AGL and HGO under which HGO performs various scopes of early works and services for the PHES project on a fee for service basis.
 - The preparation of an initial baseline study to determine any contamination on the land to be used for the PHES project.
 - AGL being satisfied that there is no material contamination on the project site, and
 - AGL being satisfied with HGO's relinquishment plan dealing with mine closure and rehabilitation of the project site.

Satisfaction of the conditions precedent is expected within 6 months.

- \$5 million once AGL has acquired any and all necessary water supply and transportation arrangements, approvals and licences,
- \$10 million on later of AGL obtaining development approval and an offer of a connection agreement to the grid for the project,
- \$11 million on the Final Investment Decision (FID) by AGL.

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The entire \$31 million is payable in the event AGL elects to buy-out the PHES project, including freehold title in the land required for the PHES project.

AGL can withdraw at any time prior to payment of the final payment milestone, in which case it will not be required to make payments in respect of unsatisfied milestones but will forfeit milestone payments already made to that point in time.

AGL is required to lodge a development approval application within 12 months of satisfaction of the conditions precedent and reach FID within 12 months after the later of AGL obtaining development approval and an offer of a connection agreement to the grid for the project. Hillgrove can take back the PHES project if these milestones are not achieved, subject to (1) extensions for events outside AGL's control and (2) AGL electing to pay a monthly extension fee of \$100,000 per month (up to a maximum of 6 months) for either milestone.

Hillgrove will be separately contracted by AGL under the early works agreement to provide services during the development of the PHES Project including assistance in negotiating water supply arrangements and managing the first fill of the ponds.

The Site

The map below provides an indicative illustration of the usage of the site by both Hillgrove and AGL.



AGL will utilise the Giant Pit as the lower pond for the PHES and the upper pond will be located on land Hillgrove owns and/or will acquire under an option agreement with a neighbouring landholder. Hillgrove has agreed to subdivide the land required for the PHES and sell this land to AGL on a freehold basis.

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Hillgrove will retain its remaining freehold land, the Kanmantoo processing plant area, the administration area and the tailings dam (TSF), enabling the processing of ore from any future exploration discoveries.

The freehold land sale, (which will occur following FID), is likely to take place after the completion of current processing at Kanmantoo, estimated to the second half of 2020.

Hillgrove will remain responsible for the environmental and closure liabilities associated with the mining activities at the Kanmantoo copper mine.

The PHES Project

The PHES project is expected to have generating capacity of 250 MW and 8 hours of storage, making it the largest storage capacity in South Australia.

The South Australian Minister for Energy and Mining, Dan van Holst Pellekaan said:

“This is an exciting pumped hydro project which aligns with the Marshall Government’s policy of matching storage capacity with renewable energy resources to deliver cheaper, more reliable and cleaner electricity for South Australian households and businesses.

I congratulate Hillgrove Resources and AGL for their agreement, and look forward to the project developing in coming months and years.”

In 2017 Hillgrove commenced investigating the merits of a PHES project at the Kanmantoo site. The rationale for the project was then and remains:

- The fundamental changes occurring in the National Electricity Market (“NEM”), including the withdrawal of coal fired generation, significant increases in gas costs impacting the cost of gas-fired generation and the significant increases in the development of intermittent renewable generation, both wind and solar. Further, that these issues were being particularly seen in South Australia.
- Therefore, cost effective storage was required in the NEM and in South Australia to deal with volatility in electricity prices and the reliability of supply.
- The Giant Pit could be used as the lower pond for a PHES and there were highly cost-effective options for the upper pond.
- The site, in proximity to the Adelaide load, was connected to electricity infrastructure and had water supply agreements with water delivered through dedicated pipelines.

Steven McClare, Managing Director Hillgrove, said; “we are delighted to work with AGL on the delivery of this project which will transform a former mining site into one of the lowest cost electricity storage projects in Australia, at a time when synchronous generation and bulk storage is critically needed. Although the progression of the PHES will prevent long term mining of the portion of the underground exploration target directly beneath the existing pit, the Board determined the AGL PHES offer represented a lower risk and higher value proposition to shareholders.”

Hillgrove was advised on this project by Key Pacific Advisory Partners and Minter Ellison.

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