



# Heron Resources Limited

## ASX Release

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### Sedgman Progress Claim Received – Exceeds Guaranteed Maximum Contract Price by \$49.9 million

Heron Resources Limited (“the Company”) advises that after the close of business on Friday 1 February 2019 it received a Progress Claim from Sedgman Pty Ltd (“Sedgman”), a wholly owned CIMIC Group Limited company, for additional costs of A\$49.9M. This claim amount is over and above the agreed A\$109M **Guaranteed Maximum Price** EPC contract sum that forms the basis for the construction of the Woodlawn Project. The Progress Claim is inclusive of the earlier Notice of Claim for A\$11M received from Sedgman on 18 October 2018 (*Quarterly Activities Report September 2018*, announcement released 30 October 2018), which the Contract Superintendent has previously rejected.

The Contract Superintendent will now assess Sedgman’s new claim within the next 10 business days, however the Company notes that the quantum of this claim, if it were to be accepted by the Contract Superintendent, would result in the current Guaranteed Maximum Price under the EPC Contract being exceeded by 46%. Heron considers that Sedgman’s progress claim is inconsistent with the terms and intent of the Guaranteed Maximum Price EPC Contract, and is disappointed that Sedgman has elected to pursue this course of action within the context of this contractual arrangement.

Heron and Sedgman entered into a Front End Engineering and Design study in November 2016, the purpose of which was for Sedgman to refine the design and price for the construction cost of the Woodlawn plant. In May 2017, Heron and Sedgman entered into the Engineering Procurement and Construction contract that included a Guaranteed Maximum Price and cost sharing component and was based upon the contract sum tendered by Sedgman. The style of contract was agreed to by the parties as it provided an incentive for Sedgman to share in any cost savings that might be generated by efficient work practices, effective project management and timely execution of the works. Heron also entered into a Guaranteed Maximum Price contract with Sedgman in order to provide a high level of financial certainty for the capital costs associated with the development of its Woodlawn Mine.

Heron confirms that it has made all payments which have been agreed and are due under the EPC contract.

The Company is extremely disappointed to receive a claim of this magnitude when the construction timeline is effectively complete, and it would appear to run contrary to the underlying principles of a Guaranteed Maximum Price style of EPC contract which are well understood within the wider resources industry.

Heron is holding bank guarantees valued at \$10.8M and will apply and enforce its legal rights under the terms of the EPC Contract, which may include seeking liquidated damages from Sedgman.

Heron intends to remain focused on progressing development and commissioning activities as it prepares to meet its first quarter CY2019 production milestone. As noted in its recent Quarterly Report (*Quarterly Activities Report December 2018*, announcement released 31 January, 2019), plant construction at Woodlawn is 95% complete, and commissioning activities are well underway. The lodgment of this claim will not impact on construction, commissioning or production activities.

Heron will continue to keep its shareholders and the market informed of further material developments.

#### About Heron Resources Limited:

Heron’s primary focus is on base and precious metal production in early 2019 from its 100% owned, high grade, Woodlawn Zinc-Copper Project located 250km southwest of Sydney, New South Wales, Australia. In addition, the Company holds a significant high quality, base and precious metal tenements regional to the Woodlawn Project.



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