



Heron Resources Limited
ABN: 30 068 263 098

REGISTERED OFFICE

📍 Suite 2, Level 8, 309 Kent Street Sydney NSW 2000

✉️ heron@heronresources.com.au

☎️ +61 2 9119 8111

4 October 2019

Mr James Rowe
Manager – Listings Compliance
ASX Limited
Level 40, 152-158 St Georges Terrace
Perth, WA, 6000

Dear James,

A\$91 Million Funding Package for Woodlawn

The abovementioned release this morning contained a formatting “error, bookmark not defined” in the Sources and Uses table on Page 3. The release attached has corrected this formatting.

Kind regards

SIMON SMITH
COMPANY SECRETARY



NOT FOR RELEASE TO US WIRE SERVICES OR DISTRIBUTION IN THE UNITED STATES

A\$91 Million Funding Package for Woodlawn

- Funding package will allow Heron to be fully funded with clear pathway to achieve cashflow positive status following delays in construction and ramp-up
- Absent this immediate funding, Heron forecasts it will run out of unrestricted cash by the end of October 2019
- The Funding Package comprises:
 - A\$35 million fully underwritten 0.7324 for 1 accelerated non-renounceable entitlement offer at an issue price of A\$0.20 per share, available to all shareholders to participate, with the ability to apply for additional shares¹
 - US\$35 million (A\$52 million²) of convertible notes to be issued to Greenstone, Orion and funds managed by Castlake
 - US\$3 million (A\$4 million¹) stream over zinc by-product and 12 month maturity date extension of senior secured loan granted by Orion, with Heron to make an early repayment of US\$10 million against the loan
- Full settlement of Sedgman claims over the Woodlawn EPC Contract
- A review by independent industry specialists confirms the technical and operational basis for the project remains sound and retains an attractive production profile notwithstanding the experienced construction delays
- Funding from Orion and funds managed by Castlake subject to FIRB approval³, as well as shareholder approval required for certain terms of the Funding Package
- Heron's Independent Directors unanimously recommend shareholders vote in favour of all resolutions at a planned General Meeting to be held in December

Heron Resources Limited (ASX:HRR "Heron" or the "Company") today confirms the Company has secured a A\$91 million funding package that will allow commissioning of its Woodlawn Zinc-Copper Project ("Woodlawn") to be completed and to see it through to positive cash flow operations.

Shareholders will be able to participate in the funding package via a 0.7324 for 1 accelerated non-renounceable entitlement offer to raise approximately A\$35 million at an issue price of A\$0.20 per share ("Entitlement Offer").

Heron Non-executive Chairman Stephen Dennis said that Woodlawn remains economically and technically sound and retains a strong production profile, albeit with working capital start-up requirements that have been impacted by construction delays and early stage commissioning issues.

¹ Subject to the restrictions as outlined in the Prospectus, available on the ASX platform and via Heron's website at www.heronresources.com.au

² Assumes exchange rate of 0.678 AUDUSD.

³ Excluding their participating in the Entitlement Offer.



“Heron has faced difficult financial and operational challenges commencing production at Woodlawn, with the delayed start-up severely impacting our working capital needs. We have now acted to address these issues, in order to realise the strong technical and operational value which Woodlawn retains, and as the project moves into full production and achieves nameplate processing capacity,” Mr Dennis said.

“The Company is aware that shareholders will be disappointed with the impact the start-up delays have had on the Company’s balance sheet and the Board shares that disappointment. This funding package offers shareholders the best way forward in light of these difficulties, including the ability to participate in the future upside at Woodlawn.”

Woodlawn Funding Requirement

Heron, in conjunction with external advisors, have determined that an additional A\$91 million in funding is required to advance the project to cash flow positive operations, and ensure it is able to pay all creditors during that period.

This peak cash shortfall has been determined in consideration of costs that continue to be incurred, and taking into account of the impact from delays to revenue. This working capital shortfall has resulted from a number of factors:

- Construction of Woodlawn was completed seven months behind schedule and has resulted in the Company incurring additional holding costs over that period;
- A variety of plant commissioning problems having been encountered (that have largely now been addressed), although these issues prevented the Company from producing saleable product during the months of May and June, while still incurring near full costs on processing and mining operations; and
- Updates to a more comprehensive modelling of cashflow timing of receipts and payments and the need for additional funds to make minor plant rectification and improvement works.

Sedgman Settlement

Heron has settled all outstanding claims between Heron and Sedgman Pty Limited (“Sedgman”) relating to the Engineer, Procure & Construct Contract (“EPC Contract”) for the Woodlawn project. Settlement of A\$15M has been reached based on a deferred cash payment and the issue of Heron shares to Sedgman, to be held in escrow for 2 years. A payment schedule has been agreed with Sedgman commencing in June 2021 and concluding in June 2022.

Heron has elected to settle the dispute in order to provide certainty as to its working capital requirements to complete Woodlawn. It is also a condition to the participation in the funding by Greenstone, funds managed by Castlake and Orion.

The EPC Contractor will continue to be responsible for defects related to the EPC Contract during each 12 month period following handover of each of the three separable portions within the project scope.



Funding Package Overview

In order to fund the identified working capital shortfall, Heron has agreed a package of measures that will in total raise A\$91 million in total, as well as negotiating changes to the existing senior secured debt facility to extend the timing of repayments, and make a US\$10 million prepayment, which will be funded via proceeds from the funding package.

The A\$91 million package consists of:

1. A\$35 million non-renounceable entitlement offer of new shares at A\$0.20 per share, with an accelerated component to provide early funding;
2. US\$35 million (A\$52 million⁴) convertible note provided by Greenstone Resources LP ("Greenstone"), Orion Mine Finance Group ("Orion") and funds managed by Castlake, L.P. ("Castlake"); and
3. US\$3 million (A\$4 million²) stream over zinc by-product.

Sources & Uses of Funds

Sources of Funds	A\$ million
Entitlement Offer	35
Convertible Note	52 ²
Stream Deposit	4 ²
Unrestricted Cash on Hand (30 September 2019)	10 ⁵
Total Sources of Funds	101

Uses of Funds	A\$ million
Underground mining working capital	28
Processing, concentrate and site services working capital	24
U\$10 Million Prepayment of Senior Debt	15 ⁶
Plant rectification, processing plant and improvement works	15
Minimum liquidity buffer (senior debt covenant)	10
Interest Payment of Senior Debt	3
Corporate head office costs	4
Transaction Costs	2
Total Uses of Funds	101

⁴ Assumes exchange rate of 0.678 AUDUSD.

⁵ Unaudited internal accounts as at 30 September 2019.

⁶ Assumes exchange rate of 0.678 AUDUSD.



Operations & Strategy Update

Following the delay in completing construction, plant ramp-up is now proceeding to a revised schedule with the project now starting to produce marketable base metal concentrates.

A review by independent industry specialists has confirmed the technical and operational basis for the Woodlawn project remains sound, with the expected attractive production profile at the time of the 2017 financing intact, although delayed.

Part of the proceeds of the funding package will go towards plant rectification and improvement works identified that will support the attainment of designed recoveries and nameplate production capacity at Woodlawn.

Once plant ramp up is completed, and the Company has established stable positive cash flow, Heron will seek to recommence exploration activities over the attractive tenement package held by the Company, targeting further upside through conversion of underground resources to reserves, potential extensions to existing VMS lenses, and near mine discoveries.

Non-Renounceable Entitlement Offer

A key component of the Funding Package includes a 0.7324 for 1 accelerated non-renounceable entitlement offer to raise approximately A\$35 million at A\$0.20 per share. The issue price represents⁷ a 47% discount to the last closing price of A\$0.380, 48% discount to the 5 day VWAP of A\$0.385 and a 50% discount to the 10 day VWAP of A\$0.404.

Eligible Retail Shareholders will be given an Entitlement to subscribe for 0.7324 New Shares for every 1 Share held as at the Record Date of 5.00pm (AEDT time) on 8 October 2019. Eligible Retail Shareholders can also apply for Additional New Shares in excess of their Entitlement. Patersons Securities (**Patersons**) and Nascent Capital (**Nascent**) are engaged as Joint Lead Managers to facilitate demand for any shortfall on a reasonable endeavours basis. Patersons will also act as s615 nominee on behalf of foreign ineligible retail shareholders.

Any shortfall that is not taken up by existing shareholders pursuant to the over-subscriptions facility, or placed by Patersons and Nascent, is fully underwritten by Greenstone (68.1%) and funds managed by Castlelake (31.9%).

EVENT	TIME / DATE ⁸
Announcement of Entitlement Offer	4 October 2019
Lodgement of Prospectus with ASIC and released to ASX	4 October 2019
Conduct Institutional Entitlement Offer	4-7 October 2019
Announcement of results of Institutional Entitlement Offer	8 October 2019
Company Suspension lifted	8 October 2019

⁷ Last traded price of HRR ordinary shares on the ASX on 15 August 2019, Volume weighted average trading prices based on period of days Heron was able to be traded on the ASX, as applicable.

⁸ This timetable is indicative only and is subject to change by Heron without notice.



Record Date for the Entitlement Offer	5:00pm AEDT on 8 October 2019
Despatch of Prospectus and Entitlement and Acceptance Form and announcement that despatch is completed	11 October 2019
Retail Entitlement Offer opens	11 October 2019
Settlement of Institutional Entitlement Offer	14 October 2019
Issue of New Shares under the Institutional Entitlement Offer and normal trading of the New Shares expected to commence on ASX	15 October 2019
Retail Entitlement Offer closes	5.00pm AEDT on 22 October 2019
Announcement of results under Retail Entitlement Offer	25 October 2019
Settlement of Retail Entitlement Offer	7:00pm AEDT on 28 October 2019
Issue of New Shares under the Retail Entitlement Offer	29 October 2019
Normal trading of New Shares issued under the Retail Entitlement Offer expected to commence on ASX	30 October 2019

Convertible Note

US\$35 million in convertible notes are to be issued to Greenstone, Orion and funds managed by Castllake. The notes have a 2% upfront fee that will be capitalised and will carry an interest rate of 12.5% + 3-month US LIBOR (subject to a minimum of 2.5%) per annum, which will be capitalised quarterly and added to the convertible note amount. The notes have a maturity date of 31-Dec-24, with conversion permitted at any time up to maturity at a conversion price of A\$0.25 per share, representing a 25% premium to the Entitlement Offer.

The issue of the convertible notes will be subject to Heron shareholder approval, to be sought at a general meeting to be held around early December 2019

Orion Financing

As part of the Funding Package, Orion has agreed to provide a further US\$3 million (A\$4 million⁹) stream over zinc by-product, at agreed percentages, converted to silver per a 170.2 conversion ratio, paid for at 20% of market silver price:

- 0.30% of zinc until the delivery of 140 tonnes; then
- 1.15% of zinc until the delivery of 910 tonnes; then
- 2.25% of zinc until the delivery of 4200 tonnes; then
- 0.75% of zinc for remaining life of mine.

Heron is awaiting clarity from the ASX regarding the potential requirement for shareholder approval over the stream funding. Heron will update shareholders once this information becomes available.

⁹ Assumes exchange rate of 0.678 AUDUSD.



Heron Resources Limited

ASX Release

4 October 2019

Level 8, 309 Kent St, Sydney, NSW, 2000

heron@heronresources.com.au

+61 2 9119 8111

ABN: 30 068 263 098

As part of the restructuring of the existing US\$60 million senior secured loan, the maturity date has been extended by 12 months from 31 December 2022 to 31 December 2023 and the loan repayment profile has been adjusted to match the revised cashflow profile and extended tenor. In addition, US\$10 million of the loan balance will be pre-paid, funded from the equity raise. A US\$1.3 million non-cash restructuring fee will also be capitalised onto the loan balance.

Board Recommendation

The Board believes that the proposed Entitlement Offer, Convertible Note and Orion financing are the best means to ensure Woodlawn's successful transition to a cashflow positive operation. Each Independent Director, being each member of the Board, other than Mark Sawyer, Peter Rozenauers and Ricardo De Armas, recommends that shareholders vote in favour of all resolutions to be put forward at the General Meeting, and each intends to vote all the shares which they control in favour of those resolutions at the planned General Meeting to be held in December.

Additional Information

The prospectus will be made available shortly on the Company's website at www.heronresources.com.au

Copies of the prospectus and entitlement forms will be mailed to all eligible shareholders in accordance with the timetable set out above.

Azure Capital acted as financial adviser to Heron, and Wright Legal and Allion Partners acted as legal advisers to Heron.

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any other jurisdiction. Any securities described in this announcement have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "US Securities Act") and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration of the US Securities Act and applicable US state securities laws.

-ENDS-

For further information visit www.heronresources.com.au or contact:

Investors:

Mr Simon Smith
GM Finance and Company Secretary
Tel: +61 2 9119 8111
Email: heron@heronresources.com.au

Investors / Media:

Shane Murphy
FTI Consulting
0420 945 291
shane.murphy@fticonsulting.com