



ASX Announcement

5 June 2012

For immediate release to the market

ARBITRATION COUNTERCLAIM BY GOLD RIDGE MINING LIMITED

- GR Engineering continues to pursue \$4.5 million debt recovery claim against Gold Ridge Mining Limited (GRML) after initiating action in June 2011
- Counterclaim of approximately \$25 million by GRML for amongst other things, loss of gold production now brought before the Arbitrator
- GR Engineering to vigorously defend all counterclaims by GRML and considers them to be without basis
- Arbitration trial scheduled for November 2012

Background

On 28 June 2011, GR Engineering Services Limited (ASX:GNG) (**GR Engineering** or **Company**) commenced confidential commercial arbitration proceedings against Gold Ridge Mining Limited (**GRML**), a wholly owned subsidiary of Allied Gold Limited to recover outstanding costs and associated damages of around \$4.5 million relating to a lump sum Engineering, Procurement and Construction Contract (**EPC Contract**). The EPC Contract had been entered into with GRML on 14 May 2010 for the expansion and refurbishment of the Gold Ridge Mine in the Solomon Islands.

In addition to providing for a \$1.525 million doubtful debt, GR Engineering made general references to litigation and arbitration proceedings in its 2011 full year statutory results released to ASX on 23 August 2011, as well as in its 2011 annual report released on 3 October 2011 and 2012 half yearly report released on 21 February 2012. The provision has also been carried forward and taken into account in forming the market guidance provided in the Company's market update released on 16 May 2012.

On 25 October 2011, GRML made a counterclaim (by way of set off) against GR Engineering in those arbitration proceedings seeking damages relating to alleged defects in the work performed under the EPC Contract and flowing from alleged representations regarding the EPC Contract.

New Developments

On 18 May 2012, GRML served GR Engineering with a further amended defence and counterclaim, including a new and further counterclaim for gold losses arising from alleged defects and alleged representations regarding performance and seeking damages against GR Engineering for approximately \$25 million. Full particulars of the basis of the claim, the amount and why it was not previously claimed are yet to be provided by GRML. In addition, these allegations are inconsistent with previous public announcements made by Allied Gold in relation to the performance of the Gold Ridge plant. For example, in its release dated 28 February 2011, Allied Gold quoted Mr Mark Caruso (Executive Chairman of Allied Gold) as saying: *"It is just 11 months since Allied began redevelopment,*



construction and refurbishment activities. Allied and its contractors have compressed the project timeline and delivered Gold Ridge six months ahead of previous study estimates. Everyone involved can take great credit in not only delivering the \$150 million project but delivering it on time and on budget. Like all commissioning activities it may take a few months or quarters to move to steady operation - but we eagerly look forward to first gold in coming weeks”.

And, on 23 March 2011, Mr Caruso of Allied Gold issued a further public statement regarding the Gold Ridge project as follows: *“A year ago at a ceremony to mark the start of redevelopment, Allied Gold undertook to the people of the Solomon Islands and to our shareholder to rebuild and refurbish Gold Ridge. One hundred and fifty million dollars later, we have delivered ahead of time and on budget with no fatality or serious injury to any of our employees”.*

On 2 April 2012, Allied Gold released its Full Year Statutory Accounts and Annual Report for 2011, in which it commented about the successful refurbishment and development of the Gold Ridge mine and stated that: *“The on-time on-budget delivery of Gold Ridge in 2011 was important in diversifying the company’s production and cashflows, thereby reducing risks”.*

Given that Allied Gold has made no public announcements to the contrary at all, and certainly no public statements of any substantial loss of gold from the Gold Ridge plant, the Company is surprised by these fresh allegations. On 5 June 2012 the Arbitrator finalised formal orders giving leave to GRML to bring this new counterclaim.

In light of the Arbitrator’s final and formal orders to allow this counterclaim to proceed, GR Engineering considers that the details of the arbitration now warrant disclosure to the market.

The EPC Contract contains express and specific provisions excluding liability for consequential loss, indirect loss or loss of profit and accordingly, the Company considers that there is no basis at all for the new counterclaim.

The arbitration is scheduled to proceed to trial in November 2012 to resolve all matters before the Arbitrator. GR Engineering will vigorously defend all of the counterclaims made by GRML. GR Engineering has taken the precaution of notifying its insurers of the counterclaim and will update the market as necessary of any material developments in relation to the Arbitration.

Joe Ricciardo, Managing Director of GR Engineering, said in relation to the counterclaim:

“Since its inception in 2006, GR Engineering has not been involved in any other mediation, arbitration or litigation. The Company has forged strong relationships with its clients built on integrity with fair and honest commercial dealings, which goes to the core of GR Engineering’s positive standing in the marketplace and is emphasised by the high volumes of repeat business that we achieve. These business ethics and value have been in place for over 25 years and go back to the origins of JR Engineering Services, established in 1986 by key Company management personnel.

GR Engineering will aggressively protect its reputation and excellent industry track record through a vigorous defence of what we consider to be an ambit counterclaim.”

Ends.



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GR Engineering Services Limited (ASX:GNG) is an engineering, consulting and contracting company specialising in fixed price engineering design and construction services to the resources and mineral processing industry.

Founded in Perth, Western Australia in 2006, GR Engineering has rapidly grown through the completion of design and construction projects for a diverse range of clients, including global mining houses, mid-tier miners and junior developers undertaking their first project.

GR Engineering has undertaken feasibility studies for projects in over 20 countries. These studies play a key role in delivering organic growth opportunities through their conversion into design and construction projects.

GR Engineering directly employs more than 220 professional and support staff at its offices in Perth, Kalgoorlie and Brisbane in addition to its direct construction workforce and subcontractors.