

Explanatory Statement

Heron Resources Limited ACN 068 263 098 (Subject to Deed of Company Arrangement)

Application for Court approval for a transfer of your Shares for nil consideration

8 April 2022

On 25 February 2022, Heron Resources Limited ACN 068 263 098 (Subject to Deed of Company Arrangement) (**Company**), its subsidiaries Tarago Operations Pty Ltd ACN 127 810 413 (Subject to Deed of Company Arrangement), Hampton Nickel Pty Limited ACN 100 180 498 (Subject to Deed of Company Arrangement), Ochre Resources Pty Limited ACN 112 833 351 (Subject to Deed of Company Arrangement), Woodlawn Mine Holdings Pty Ltd ACN 612 657 164 (Subject to Deed of Company Arrangement) and Tarago Exploration Pty Ltd ACN 115 529 112 (Subject to Deed of Company Arrangement) (together, the **Group**), their Administrators and DEVELOP Global Limited ACN 122 180 205 (**DOCA Proponent**) entered into a deed of company arrangement (**DOCA**).

The primary objectives of the DOCA are to:

- maximise the chances as much as possible of the Group's business continuing in existence;
- subject to various conditions, provide for the restructure of the Group, including by the transfer of all of the fully paid ordinary shares in the Company (**Shares**) to the DOCA Proponent (or its nominee); and
- administer the business, property and affairs of the Group in a way that results in a better return for the creditors than would result from an immediate winding up of the companies in the Group.

It is a Condition to completion and effectuation of the DOCA that, amongst other things, the Deed Administrators obtain a Court order pursuant to section 444GA(1)(b) of the *Corporations Act 2001* (Cth) (**Corporations Act**) granting leave to the Deed Administrators to transfer all of the Shares to the DOCA Proponent (or its nominee) (**Section 444GA Order**). The Deed Administrators have applied for the Section 444GA Order (**Section 444GA Application**) in the Supreme Court of New South Wales (**Court**).

This Explanatory Statement provides information to the Shareholders about:

- the Section 444GA Application;
- the right of the Shareholders to object to the Section 444GA Application; and
- the requirement for relief from section 606 of the Corporations Act granted by the Australian Securities and Investments Commission (**ASIC**) to enable the transfer of all of the Shares to the DOCA Proponent or its nominee in accordance with the Section 444GA Order.

Enclosed with this Explanatory Statement are copies of:

- an Independent Expert's Report prepared by Deloitte Financial Advisory Pty Ltd (**Deloitte**) concluding that the residual equity value of Shareholders in the Company is nil; and
- the originating process and supporting affidavit of Christopher Clarke Hill filed by the Deed Administrators in support of the Section 444GA Application.

A Directions Hearing relating to the Section 444GA Application has been listed for hearing at the Supreme Court of New South Wales commencing at 10.00am (Sydney time) on 26 April 2022.

As a Shareholder of the Company, you are entitled to oppose the Section 444GA Application. If you wish to appear at the Directions Hearing to make submissions and/or if you intend to oppose the Section 444GA Application at the Final Hearing, you must do so by filing with the Court, and serving on the Deed Administrators and ASIC, an appearance in the Court's prescribed form indicating the grounds of opposition by no later than 4.00pm (Sydney time) on 22 April 2022.

If you do not enter an appearance by the deadline of 22 April 2022, the Court may determine that you are not entitled to be heard at any subsequent hearings.

We expect the Final Hearing for the Section 444GA Application will be listed for hearing at the Supreme Court of New South Wales in early to mid May 2022.

The Deed Administrators will release announcements on their website (<https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsidiaries>) and the ASX Company Announcements Platform if there is a change to the scheduled dates for the deadline for filing an appearance and when the date for the Final Hearing has been confirmed.

This is an important document. Shareholders (and their advisors and any other interested parties) should read this Explanatory Statement and accompanying Independent Expert's Report and Court documents in their entirety before making a decision regarding whether or not to take any action in respect of the Section 444GA Application. If you have any questions on the information in this document, you should consult your legal or other professional advisor.

A copy of this Explanatory Statement has been provided to ASIC for the purposes of the application for ASIC Relief. Neither ASIC nor any of its officers takes any responsibility for its contents.

1 Important information

1.1 Purpose of this Explanatory Statement

This document is an Explanatory Statement for Shareholders issued by the Company in connection with the Section 444GA Application.

If the Section 444GA Order is made and the DOCA is effectuated, all of your Shares will be transferred to the DOCA Proponent pursuant to the terms of the DOCA for no consideration. You will not receive any money and you will cease to own your Shares.

Section 4 of this Explanatory Statement contains further information regarding the DOCA.

This Explanatory Statement has been provided to you by the Company, to assist you to understand:

- the proposed restructure and its effect on you as a Shareholder;
- the application which has been made, pursuant to the terms of the DOCA, by the Deed Administrators of the Company to the Supreme Court of New South Wales for approval to transfer all of the Shares to the DOCA Proponent pursuant to section 444GA(1)(b) of the Corporations Act;
- the steps which you need to take if you wish to appear at and/or oppose the Section 444GA Application, including that you must file with the Court and serve on the Deed Administrators a notice of appearance before the Directions Hearing by 4.00pm (Sydney time) on 22 April 2022;
- the requirement for the ASIC Relief to enable the transfer of all of the Shares to the DOCA Proponent or its nominee in accordance with the Section 444GA Order; and
- the information which is, and will be, available to assist you in deciding whether to appear at the Directions Hearing.

The Independent Expert's Report prepared by Deloitte, which contains its valuation of the Shares on the basis of the Company in a liquidation, is attached to this document. The opinion set out in the Independent Expert's Report is that the residual equity value of Shareholders in the Company is nil.

1.2 Effect of the DOCA on Shareholders

If the DOCA is effectuated, your shareholding in the Company will be transferred to the DOCA Proponent for nil consideration to you. The Company will be delisted from the ASX following the effectuation of the DOCA.

However, through implementation of the DOCA, the Group will avoid liquidation and continue as a going concern.

Further information regarding the consequences of the successful effectuation of the DOCA on the Group and Shareholders is set out in Section 4.4.

1.3 Status of this document

This document is not a prospectus or other disclosure document under Chapter 6D of the Corporations Act.

A copy of this Explanatory Statement has been given to ASIC for the purpose of obtaining the ASIC Relief referred to in Section 6 below. Neither ASIC nor any of its officers takes any responsibility for its contents.

1.4 Defined terms

Capitalised terms used in this Explanatory Statement have the meanings defined in the Glossary in Section 8, unless the context otherwise requires, or a term has been defined in the text of the Explanatory Statement. All time references in this Explanatory Statement are to Australian Eastern Standard Time (AEST).

2 Background

2.1 Administration of the Group

The Woodlawn Project was placed on care and maintenance by the Company in March 2020. Following the suspension of operations at the Woodlawn Project, the Group commenced a strategic process aimed at exploring and pursuing a potential transaction, including a capital raise that would fund the recommencement of operations and enable the Group to manage its outstanding liabilities (**Strategic Process**). On 15 July 2021, the board of Heron concluded that the Strategic Process would not achieve a solvent transaction.

On 16 July 2021, Christopher Hill, David McGrath and Michael Ryan were appointed as the joint and several voluntary administrators of the Company and the Subsidiaries that form part of the Group, pursuant to section 436A of the Corporations Act.

In the Administrator's Section 75-225 Report, the Administrators concluded that the Group was solvent until 15 July 2021, when the directors of the Company concluded that there were no realistic prospects of the Strategic Process achieving a solvent transaction.

As you would have been aware, the Shares have been suspended from trading on ASX since 16 July 2021.

Please refer to section 6.5 of the Administrator's 75-225 Report, which provides a detailed overview of the Group's financial position as at the date of the Administrators' appointment (including amounts owing to financial creditors, employees and others).

2.2 Sale process and formulation of the DOCA

Following their appointment, the Administrators continued with the care and maintenance regime in order to preserve value in the Group's major assets, and took steps to realise the value in the Woodlawn Project, including undertaking a sale/recapitalisation campaign for the Group. This resulted in three final proposals for transactions related to either the Woodlawn Project or the Group as a whole.

One of the 3 proposals was rejected outright on the basis that its terms were materially worse than the other two offers. A short negotiation with the two remaining parties followed, which resulted in the submission of revised proposals. The proposal put forward by the DOCA Proponent was considered to be in the best interests of creditors as a whole, having regard to the sales processes that had been undertaken both pre and post appointment of the Administrators, the quantum of consideration offered and the level of execution risk involved in the transaction. The DOCA Proponent was then granted a short period of exclusivity to perform confirmatory due diligence and finalise a proposed deed of company arrangement and associated documentation, which resulted in the transaction contemplated under the DOCA which in turn was recommended to the Group's creditors by the Administrators.

Please refer to section 6.4 of the Administrator's 75-225 Report, which provides an overview of the sale/recapitalisation campaign conducted by the Administrators.

At a meeting of creditors held on 25 February 2022, the Group's creditors resolved for the Company and the Subsidiaries to enter into the DOCA proposed by the DOCA Proponent. Later on 25 February 2022, the DOCA was executed by the Administrators, the DOCA Proponent, the Company and the Subsidiaries, and the Administrators became the Deed Administrators.

An overview of the DOCA is provided in Section 4.

3 Independent Expert's Report

The Section 444GA Application has been commenced by the Deed Administrators in the Supreme Court of New South Wales seeking the leave of the Court pursuant to section 444GA(1)(b) of the Corporations Act for the transfer of the Shares to the DOCA Proponent.

Under section 444GA(3) of the Corporations Act, the Court may only grant leave to transfer the Shares to the DOCA Proponent if it is satisfied that the transfer would not unfairly prejudice the interests of the Shareholders. The Deed Administrators intend to rely on the Independent Expert's Report when addressing the issue of unfair prejudice before the Court.

The Independent Expert's Report was also prepared for the purpose of applying to ASIC for technical relief from Chapter 6 requirements of the Corporations Act. Please see Section 6 for more information in relation to the ASIC Relief.

To assist in preparing the Independent Expert's Report, Deloitte engaged Behre Dolbear to provide valuations of the fair market value of the Group's mineral assets, including the Woodlawn Project and other tenements and royalty interests, as well as to make an assessment of the reasonableness of the technical project assumptions within the discounted cash flow valuation model of the Woodlawn Project on an underground mining first basis (**DCF Model**). Mr Stephen Reid of Deloitte was engaged to provide analysis of the value of the Woodlawn Project based on the DCF Model, and Gordon Brothers Pty Ltd was engaged to provide a valuation of the plant and equipment owned by the Group.

As concluded in the Independent Expert's Report, and subject to the assumptions listed at Section 1.4 of the Independent Expert's Report, the value range of the Group's assets in an assumed liquidation scenario is \$17.1 million to \$143.4 million (preferred valuation \$126.1 million). The Group's total indebtedness in an assumed liquidation scenario is estimated to be in the range of \$304.9 million to \$312.5 million (preferred valuation of \$306.3 million).

Consequently, Deloitte has concluded in its report that the residual equity value of Shareholders in the Company is nil.

This deficiency is shown as follows:

Table 1 – Estimated surplus / (deficiency) to Shareholders

\$ million	Low	High	Preferred
Total assets	17.1	143.4	126.1
Total indebtedness	(312.5)	(304.9)	(306.3)
Surplus / (deficiency) to Shareholders	(295.4)	(161.4)	(180.2)

Source: Independent Expert's Report.

A copy of the Independent Expert's Report appends as Annexure A to this Explanatory Statement.

4 What is the DOCA?

4.1 Overview

At the second creditors' meeting held pursuant to section 439A of the Corporations Act on 25 February 2022, the creditors of the Group resolved that the Company and the Subsidiaries execute the DOCA proposed by the DOCA Proponent. The DOCA was executed by all parties on 25 February 2022 following the meeting of creditors.

As a consequence of the execution of the DOCA, the Company and the Subsidiaries have exited voluntary administration and are subject to the DOCA from 25 February 2022. The Administrators for the Group's voluntary administration have been appointed as the Deed Administrators of the DOCA.

4.2 Key features of the DOCA proposal

The DOCA proposal features, among other things:

- the transfer of 100% of the Shares to the DOCA Proponent (or its nominee), subject to the satisfaction or waiver of a number of conditions precedent, including the Section 444GA Order;
- payments to be made to OMF Fund II (H) Ltd (**Orion**), Nomad Royalty Company Limited and Castllake L.P. affiliates (collectively, the **Secured Creditors**) to facilitate the release of their security over the assets of the Company and the Subsidiaries, pursuant to bilateral Cooperation Deeds entered into between each of the Secured Creditors and the DOCA Proponent (**Cooperation Deeds**); and
- the contribution of a fund by the DOCA Proponent (**Proponent's Contribution**) and the establishment of a Creditors' Trust to facilitate a return to any terminated employees, unsecured creditors and Orion. The Deed Administrators are the trustees of the Creditors' Trust.

The Proponent's Contribution has been paid by the DOCA Proponent to the Deed Administrators in accordance with the terms of the DOCA. The Deed Administrators will hold the Proponent's Contribution in escrow pending satisfaction or waiver of all Conditions under the DOCA, at which point it will be settled in the Creditors' Trust.

Payments to the Secured Creditors comprising a combination of cash, shares in the DOCA Proponent and deferred contingent consideration will be made in accordance with the Cooperation Deeds. Should the DOCA be effectuated, upon effectuation and in accordance with the steps outlined in the DOCA:

- the DOCA Proponent will obtain a 100% shareholding in the Company and control over the Subsidiaries, including Tarago Operations, which is the operating entity for the Woodlawn Project and holds the majority of assets relating to the mine, employs all operational personnel and is the primary contracting entity for major contracts relating to the mine;
- the deed administration of the Company and the Subsidiaries will end and the entities will come under the control of new directors, to be appointed by the DOCA Proponent, on a solvent basis; and
- all unsecured claims against the Company and the Subsidiaries will be extinguished and released, in exchange for a right granted to those creditors to claim against and participate in a distribution from the Creditors' Trust. Claims against the Creditors' Trust will be subject to adjudication by the trustees of the Creditors' Trust.

4.3 Conditions

The effectuation of the DOCA is conditional upon the satisfaction or waiver of the following Conditions:

- execution of the Creditors' Trust Deed by all parties to it. This Condition has been satisfied;
- the Deed Administrators receiving the Proponent's Contribution. This Condition has been satisfied;
- the Deed Administrators receiving an amount of \$10 from the DOCA Proponent for the purposes of settling the Creditors' Trust. This Condition has been satisfied;
- the Deed Administrators obtaining the Section 444GA Order;
- ASIC granting relief for the purposes of section 606 of the Act in relation to the transfer of the Shares in accordance with the Section 444GA Order;
- the granting of ministerial consent, where required, for the effective change in control of any tenements held by the Group that would be effected by the transfer of Shares under the terms of the DOCA; and
- documents giving effect to the release of the Secured Creditors' security interest and the release of Tarago Operations' obligation to repay Orion's administration funding having been executed and held by the Deed Administrators in escrow, to be released in accordance with the DOCA.

The sunset date for satisfaction of these Conditions is 31 May 2022, unless extended by mutual agreement between the Deed Administrators and the DOCA Proponent.

4.4 Effect of the DOCA on Shareholders

If the Section 444GA Order is made and the DOCA is effectuated, you will not receive any consideration for the transfer of your Shares to the DOCA Proponent (or its nominee), and you will cease to hold any Shares.

Any claims you have against the Group in your capacity as a Shareholder will be extinguished when the DOCA is effectuated. This will not affect any claims you may have against third parties.

5 Section 444GA Application – what you need to know

5.1 Overview

In accordance with the terms of the DOCA, an application has been made to the Supreme Court of New South Wales seeking leave under Section 444GA of the Corporations Act to allow the transfer of all of the Shares to the DOCA Proponent (or its nominee) pursuant to the DOCA.

A copy of the originating process and supporting affidavit of Christopher Clarke Hill have been filed by the Deed Administrators on 30 March 2022. Copies of these documents append as Annexure B to this Explanatory Statement.

A Directions Hearing on that application has been set at 10.00am (Sydney time) on 26 April 2022 at the Supreme Court of New South Wales. The Deed Administrators expect that the Final Hearing, where orders on the Section 444GA Application are made, will be held in or around early to mid May 2022.

The Court is located at 184 Phillip Street, Sydney, New South Wales 2000.

5.2 What must the Court be satisfied of in making the Section 444GA Order?

The Court may only give leave for the transfer of all of the Shares to the DOCA Proponent if it is satisfied that the transfer would not unfairly prejudice the interests of Shareholders.

As noted in Section 3, the Deed Administrators intend to rely on the Independent Expert's Report when addressing the issue of unfair prejudice before the Court.

The Independent Expert's Report provides a valuation of the Shares on the basis of the Company in a liquidation, and concludes that the residual equity value of Shareholders in the Company is nil.

Please see Section 3 for more information of the Independent Expert's Report. A full copy of the Independent Expert's Report appends as Annexure A to this Explanatory Statement. Shareholders (and their advisors and any other interested parties) should read the Independent Expert's Report carefully and in its entirety.

5.3 What is the timetable for the Section 444GA Application?

The following is a summary of the key dates and activities relating to the Section 444GA Application:

Key step	Estimated completion date
DOCA approved at second creditors' meeting and execution of DOCA	25 February 2022
Originating process in relation to the Section 444GA Application filed with the Court	30 March 2022
Explanatory Statement (including Independent Expert's Report and the originating process and supporting affidavit filed with the Court) published	8 April 2022
Public announcement for Section 444GA Application	8 April 2022
Advertisement in relation to the Section 444GA Application placed into national papers	Following the Explanatory Statement published
Deadline for any party to enter an appearance if they wish to be heard in relation to the Section 444GA Application	4.00pm (Sydney time) on 22 April 2022
Directions Hearing	10.00am (Sydney time) on 26 April 2022
Final Hearing (anticipated, though subject to change following the Directions Hearing)	Early to mid May 2022
Transfer of Shares (if Section 444GA Order is made, and other Conditions satisfied) (anticipated)	Shortly after the Court granting the Section 444GA Order in accordance with the DOCA

The dates, including the proposed hearing date, are subject to any directions made by the Court.

The Deed Administrators will release announcements on their website (<https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsiaries>) and the ASX Company Announcements Platform setting out any changes or updates to the timetable, as well as the orders made by the Court at the Directions Hearing and Final Hearing.

5.4 How can you appear at and/or oppose the Section 444GA Application?

As a Shareholder of the Company, you are entitled to oppose the Section 444GA Application. You should seek independent legal, financial and taxation advice before making a decision on whether to take any action in relation to the Section 444GA Application.

If you wish to appear at and/or oppose the Section 444GA Application, you must file with the Court and serve on the Deed Administrators a notice of appearance, in the Court's prescribed form. The notice of appearance is a document that contains the person's address and service details. It puts the Court and the Deed Administrators on notice that a person wishes to participate in the Final Hearing. The person does not need to provide substantive submissions and affidavit evidence at the time of entering an appearance.

The current deadline for filing an appearance is 4.00pm (Sydney time) on 22 April 2022. The Deed Administrators will accept service of any appearance at: (a) by post: c/- King & Wood Mallesons, Level 61, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000 (attention: Tim Klineberg and Jeremy Yam) or (b) by email: heron@au.kwm.com.

At the Directions Hearing currently scheduled to take place at 10.00am (Sydney time) on 26 April 2022 (or at a subsequent directions hearing), the Court may make procedural orders setting down a timetable for Shareholders who have filed an appearance to file detailed submissions and affidavits upon which they wish to rely at the Final Hearing. The Deed Administrators will release an announcement on their website (<https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsidiaries>) and the ASX Company Announcements Platform if and when any such procedural orders are made by the Court in relation to the deadline for such submissions and affidavits.

5.5 What additional information is available to you?

To assist you in deciding whether to take any action in relation to the Section 444GA Application, in addition to this Explanatory Statement the following are made available to you:

- the Independent Expert's Report appending at Annexure A of this Explanatory Statement;
- the originating process and supporting affidavit of Christopher Clarke Hill for the Section 444GA Application filed on 30 March 2022, appending at Annexure B of this Explanatory Statement; and
- the Section 75-225 Report to Creditors dated 17 February 2022 is available on the FTI Consulting website at <https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsidiaries> in the Public Documents section.

Alternatively, you can request copies of these documents from FTI Consulting and they can be emailed to you. Please contact the FTI Consulting team on +61 (02) 8247 8000 or Muskaan.Gupta@fticonsulting.com if you would like copies of these documents.

5.6 What do you need to do now?

Shareholders (and their advisers and any other interested parties) should read this Explanatory Statement (including the documents referred to in this Explanatory Statement) in its entirety before making a decision regarding whether or not to take any action in relation to the Section 444GA Application.

Please note that this Explanatory Statement does not constitute financial product advice and has been prepared without reference to the investment objectives, financial situation, taxation position or particular needs of any and every Shareholder. Whether or not to take any action in relation to the DOCA or in respect of the Section 444GA Application is a decision for each individual Shareholder and will depend on, amongst other things, an assessment of the relevant Shareholder's individual financial circumstances.

Accordingly, as the financial, legal and taxation consequences of such a decision may be different for each particular Shareholder, each Shareholder should seek professional financial, legal and taxation advice before making a decision.

5.7 What if I do nothing?

If you take no action in respect of the Section 444GA Application, and the Conditions to the DOCA are satisfied or waived, all of your Shares will be transferred pursuant to the Section 444GA Order to the DOCA Proponent (or its nominee) and you will cease to own those Shares. You will not receive any money, or other form of consideration, for your Shares being transferred.

5.8 What will happen if the Section 444GA Order is not made?

If the Section 444GA Order is not made, the Deed Administrators may appeal the Court's decision.

Should the Deed Administrators elect not to appeal or should an appeal fail, then the Deed Administrators must convene a meeting of creditors of the Group to determine the future of the Group. In the absence of a suitable alternate transaction, the Group will be placed into liquidation.

As outlined in the Independent Expert's Report, it is expected that there would be no value for Shareholders in the event of liquidation of the Company.

5.9 Australian tax consequences

This general information is for Shareholders who are Australian resident taxpayers holding their Shares on capital account, not as trading stock, and who are not subject to the Taxation of Financial Arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) for the purposes of calculating any gains or losses arising from financial arrangements. It does not take account of the circumstances of any individual Shareholders. You should seek your own tax advice on the consequences for you of the DOCA being effectuated.

The transfer of Shares on effectuation of the DOCA will give rise to a capital gains tax event for Shareholders because it will trigger a CGT event and will crystallise a capital loss. Depending on each individual taxpayer's financial position, this capital loss may be available to offset against the taxpayer's capital gains thereby potentially reducing the amount of tax otherwise payable by the taxpayer.

The Australian Shareholders who hold their Shares on capital account will incur a capital loss to the extent of the reduced cost base of the Shares being transferred exceeds the market value of the Shares.

The reduced cost base in the Shares includes:

- the acquisition cost of the Shares;
- incidental acquisition costs incurred to acquire and hold the Shares;
- expenditure incurred to increase or preserve the value of the Shares; and/or
- capital expenditure incurred to establish, preserve or defend their title to the Shares.

Given the transfer will occur by way of Court order, and not a contract, the time of the CGT Event for Shareholders will be when the transfer of Shares takes effect in accordance with the DOCA.

A non-Australian resident Shareholder may also make a capital loss if its Shares in the Company are "taxable Australian property". In broad terms, Shares are taxable Australian property when they satisfy both:

- a "non-portfolio interest test", which is met if the Shareholder, together with associates, has an interest in the Company of 10% or more at the time of the Share transfer (or for any 12-month period in the 24 months before the transfer); and
- a "principal asset test", which is met if the Company's underlying value is principally derived from Australian real property (including certain mining, quarrying or prospecting rights).

Shareholders should obtain their own tax advice in relation to whether they make a capital loss on the transfer of Shares.

6 ASIC Relief

Section 606 of the Corporations Act relevantly prohibits a person from acquiring a relevant interest in a listed company if, as a result of that acquisition, that person's, or someone else's, voting power in the entity increases from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless the acquisition falls within one of the exceptions set out in section 611 of the Corporations Act.

The DOCA Proponent currently does not hold any interest in the Company. If the DOCA is effectuated, it will acquire 100% of the Shares. As the Company is a listed public company and the transfer of Shares under the DOCA does not fall under any exceptions set out in section 611 of the Corporations Act, ASIC Relief from section 606 of the Corporations Act will be required to enable completion of the transfer of Shares to the DOCA Proponent.

The Deed Administrators have applied for ASIC Relief in relation to the prohibition in section 606 of the Corporations Act, and has provided ASIC with a copy of this Explanatory Statement along with additional information relevant to the relief being sought.

The Deed Administrators will update Shareholders appropriately in relation to the ASIC Relief application as developments occur, via the ASX Company Announcements Platform and the FTI Consulting website.

7 Further information

If you have further questions, it is recommended that you:

- contact your stockbroker, bank manager, solicitor, accountant and/or other professional adviser; and
- read all reports/notifications issued (past and future) by the Deed Administrators relating to the Group which are available for download from: <https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsidiaries>.

8 Glossary

In this Explanatory Statement, capitalised terms have the meanings set out in the following table.

Administrators	Christopher Hill, David McGrath and Michael Ryan in their capacity as voluntary administrators of the Group from 16 July 2021 to 25 February 2022
ASIC	Australian Securities and Investments Commission
ASIC Relief	Relief from section 606 of the Corporations Act granted by ASIC
ASX	Australian Securities Exchange
ASX Company Announcements Platform	The public company announcements platform maintained by the ASX
Behre Dolbear	Behre Dolbear Australia Pty Ltd
Castlelake	Castlelake III, L.P. and Castlelake IV, L.P. and CL V Investment Solutions LLC
Company	Heron Resources Limited ACN 068 263 098 (subject to Deed of Company Arrangement)
Conditions	The conditions precedent to the DOCA as set out in clause 12.1 of the DOCA
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Court	Supreme Court of New South Wales
Creditors' Trust	The trust to be established by the Creditors' Trust Deed
Creditors' Trust Deed	The creditors' trust deed dated 25 February 2022 between the Deed Administrators, the Company and the Subsidiaries
Deed Administrators	Christopher Hill, David McGrath and Michael Ryan in their capacity as administrators of the DOCA from 25 February 2022 to present
Deloitte	Deloitte Financial Advisory Pty Ltd
Directions Hearing	The Court hearing scheduled to be held at 10.00am (Sydney time) on 26 April 2022 in relation to the 444GA Application
DOCA	Deed of Company Arrangement dated 25 February 2022 between the Administrators, the Company, the Subsidiaries and the DOCA Proponent
DOCA Proponent	DEVELOP Global Limited ACN 122 180 205
Final Hearing	The final Court hearing to be held on a date to be determined by the Court in relation to the Section 444GA Application
Group	The Company and the Subsidiaries

Independent Expert's Report	Independent Expert's Report prepared by Deloitte, which contains a valuation of the Shares on the basis of the Company in a liquidation
Nomad	Nomad Royalty Company Ltd
Orion	OMF Fund II (H) Ltd
Section	A section of this Explanatory Statement
Section 75-225 Report	The report prepared by the Administrators in accordance with section 75-225 of the <i>Insolvency Practice Rules (Corporations) 2016</i> dated 17 February 2022 which is available on the FTI Consulting website at https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsidiaries in the Public Documents section
Section 444GA Application	An application to the Court under section 444GA(1)(b) of the Corporations Act for leave to be granted to the Deed Administrators to transfer all of the Shares in the capital of the Company to the DOCA Proponent
Section 444GA Order	An order of the Court granting the leave sought in the Section 444GA Application
Secured Creditors	OMF, Castllake and Nomad
Share	A fully paid ordinary share in the Company
Shareholder	A holder of Shares
Subsidiaries	The subsidiaries of the Company, being: <ul style="list-style-type: none"> • Tarago Operations Pty Ltd ACN 127 810 413 (Subject to Deed of Company Arrangement); • Hampton Nickel Pty Limited ACN 100 180 498 (Subject to Deed of Company Arrangement); • Ochre Resources Pty Limited ACN 112 833 351 (Subject to Deed of Company Arrangement); • Woodlawn Mine Holdings Pty Ltd ACN 612 657 164 (Subject to Deed of Company Arrangement); and • Tarago Exploration Pty Ltd ACN 115 529 112 (Subject to Deed of Company Arrangement)
Tarago Operations	Tarago Operations Pty Ltd ACN 127 810 413 (Subject to Deed of Company Arrangement)
Woodlawn Project	The Woodlawn Zinc-Copper project, comprising an underground mine, integrated processing plant and tailings retreatment infrastructure

Annexure A – Independent Expert’s Report



Expert Report

Heron Resources Limited

(Subject to Deed of Company Arrangement)

ACN 068 263 098

6 April 2022

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Glossary

Administrators/Deed Administrators/FTI	The Voluntary Administrators and Deed Administrators, Mr Christopher Hill, Mr Michael Ryan and Mr David McGrath, of FTI Consulting
Administration	The Voluntary Administration and Deed Administration of the Company/Group
Administrators' Report	The Administrators' Report to Creditors pursuant to Section 75-225 of the Insolvency Practice Rules (Corporations) dated 17 February 2022
Act	Corporations Act 2001 (Cth)
AIG	Australian Institute of Geoscientists
Alchemy	Alchemy Resources Ltd
Alchemy JV	Farm-in Joint venture arrangement with Alchemy Resources Ltd
ARITA	Australian Restructuring Insolvency and Turnaround Association
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AusIMM	Australasian Institute of Mining and Metallurgy
Azure	Azure Capital
BDA	Behre Dolbear Australia Pty Ltd
BDA Report	The valuation and technical report prepared by BDA dated 17 March 2022
c./circa	Circa (approximately)
Care and Maintenance	Care and maintenance activities to maintain the Group's assets
Castlelake	Castlelake L.P. and associated entities
Convertible Notes	The \$52m convertible notes issued to OMF, greenstone and Castlelake in FY20
KWM	King & Wood Mallesons - Lawyers for the Deed Administrators
Company/Heron	Heron Resources Ltd (Subject to Deed of Company Arrangement)
Court	The Supreme Court of New South Wales
CYXX	Calendar Year Ended XXXX
DCF	Discounted Cash Flow
DCF Model	The discounted cash flow valuation model of Woodlawn on an underground mining first basis
DCF Model Output	The NPV value of Woodlawn based upon the DCF Model
DCF Valuation Analysis	The Report prepared by Mr Stephen Reid dated 6 April 2022

Deloitte	Deloitte Financial Advisory Pty Ltd
DGL/Develop	Develop Global Ltd
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DGL/Develop DOCA	Deed of Company Arrangement in respect to Heron Resources Ltd proposed by Develop Global Ltd
DOCA	Deed of Company Arrangement
EL	Exploration Licence
ERV	Estimated Realisable Value
GPN-EXP	Federal Court's Expert Evidence Practice Note
GST	Goods and Services Tax
FEG	Fair Entitlements Guarantee Scheme
FIRB	Foreign Investment Review Board
FYXX	Financial Year 1 July XX to 30 June XX
Greenstone	Greenstone Resources L.P. and associated entities
Group/Companies	Heron Resources Ltd, Woodlawn Mine Holdings Pty Ltd and Tarago Operations Pty Ltd, Ochre Resources Pty Ltd, Tarago Exploration Pty Ltd, Hampton Nickel Pty Ltd (all Subject to Deed of Company Arrangement)
Hampton	Hampton Nickel Pty Ltd
HYXX	Half Year 1 July XXXX to 31 December XXXX
IPR	Insolvency Practice Regulations of the Corporations Act 2001
IPS	Insolvency Practice Schedule of the Corporations Act 2001
JORC Code	Code and Guidelines for Reporting Exploration Results, Mineral Resources and Ore Reserves - Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia - December 2012
k	Thousands
Kms	Kilometres
Km ²	Square kilometres
Liquidator Funding	Funding for ongoing Care and Maintenance and other related costs to attend to a sale of the Group's assets
m	Million
Management	Key management personnel of the Group
MCA	Minerals Council of Australia
Mt	Megatonne (million tonnes)
N/A	Not applicable
NBIO	Non-Binding Indicative Offer
Nomad	Nomad Royalty Company Ltd
Non-Woodlawn Assets	Woodlawn Potential Extensions; Satellite Deposits; NSW Regional Tenements; the Sky JV and Alchemy JV; WA Interests and Royalties
NPV	Net Present Value

NSW	New South Wales
Ochre	Ochre Resources Pty Ltd
OMF	Orion Mine Finance entities
Ora Banda Royalties	Royalty interests connected to projects currently controlled by Ora Banda Mining Ltd
p.a.	Per annum
P&E Valuation	The plant and equipment valuation prepared by Gordon Brothers dated 1 March 2022
ROCAP	Report on Company Activities and Property
Second Meeting	The Second meeting of creditors of the Company held on 25 February 2022
Secured Creditors	OMF, Castlake and Nomad
Silver Stream	Prepayment of silver sales funding agreement with OMF and later assigned to Nomad
Sky Metals	Sky Metals Ltd
Sky JV	Farm-in Joint venture arrangement with Sky Metals Ltd
The Directors	The Directors of the Company
The Regulations	Corporations Regulations 2001
TE	Tarago Exploration Pty Ltd
TO	Tarago Operations Pty Ltd
VALMIN	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets
Veolia	Veolia Environmental Services (Australia) Pty Ltd
WA	Western Australia
WA Interests and Royalties	Royalty interests in mining projects located in WA
WMH	Woodlawn Mine Holdings Pty Ltd
Woodlawn	The Woodlawn Mine Project encompassing the underground mining, tailings reclamation and processing of zinc, copper, lead and by-products

1 Overview

1.1 Executive Summary

The purpose of this Expert Report is to provide shareholders of the Company with detailed information as to the residual equity in Heron, assessed on the basis of the Company in a liquidation.

As discussed throughout this report, the Administrators executed a DOCA with DGL which, amongst other things, contemplates an application to the Court for leave to transfer all of the shares of the Company to DGL (or nominee) for nil consideration, on the basis that the shares have no value. In this circumstance, shareholders of the Company at the date of appointment of the Administrators would receive no return with respect to their holdings.

This report sets out my opinion as to the value of the Company in a liquidation scenario, utilising input from industry experts, to provide shareholders with confirmation that the shares in the Company have no value.

Table 1 below is a summary of the High, Low and Preferred values of the Company's assets and its present indebtedness in an assumed Liquidation scenario:

Table 1 – Estimated surplus/(deficiency) to shareholders

\$'m	Low	High	Preferred
Total assets	17.1	143.4	126.1
Total indebtedness	(312.5)	(304.9)	(306.3)
Surplus/(deficiency) to shareholders	(295.4)	(161.4)	(180.2)

Source: Deloitte Analysis

In respect of the above, I make the following comments:

- Industry experts have been instructed to provide me with an assessment of the market value of the Company's assets and I have relied on their determination of the appropriate valuation methodology.
- I have relied upon input from Mr Stephen Reid, a partner within Deloitte, and expert in assessing DCF valuation models. Mr Reid has provided valuation analysis of Woodlawn, based on the DCF Model.
- The valuations for assets other than plant and equipment, have been prepared on the assumption of fair market value, on a going concern basis, and therefore outside of a formal insolvency process such as sale by a liquidator, receiver or voluntary administrator. A discount to the asset values has not been applied, however I am asked to consider the value of the Company in a liquidation scenario. A forced sale or liquidation realisation of the Group's assets would, in my experience, reduce the value of the assets and therefore my adoption of fair market value is considered highly conservative. If there is no equity value in comparison to a fair market value analysis, it follows there is no equity value in a liquidation analysis.
- My preferred valuation relies upon industry expert analysis (refer to Section 6 for further particulars as to why I have adopted these numbers as my preferred valuation). In this regard, I note that my preferred valuation is less than the Group's total indebtedness and therefore, in this situation (and before adjusting for the point above regarding liquidation discount), there is no value for shareholders in the event of liquidation.
- Even on the highest fair market value of assets, the Company's existing indebtedness exceeds the Company's asset value, and consequently, the Company's shares have no value.

Accordingly, and having regard to the comments and analysis contained within this report, I am of the opinion that the residual equity value of shareholders in the Company is nil.

1.2 Scope of Work

This report has been prepared to provide an assessment of the value of the Company and its assets and therefore the value of the existing issued shares in the Company.

The report is intended to:

- Assist the Court in determining whether the proposed transfer of the Company's shares to DGL (or their nominee) will unfairly prejudice the interest of the Company's shareholders for the purpose of the application being made pursuant to Section 444GA of the Act; and,
- Be included in the Explanatory Statement to be made available to the shareholders of the Company in relation to the DOCA, ahead of the orders being sought pursuant to Section 444GA of the Act.

The sole purpose of this report is to provide an assessment of the value of the Company in a liquidation. In accordance with Section 444GA of the Act, the Court will only grant leave to transfer shares if it is satisfied that the transfer would not unfairly prejudice the interest of the shareholders. There would be no prejudice to shareholders if the shares have no value.

This report should not be used for any other purpose or by any other party.

1.3 Use of Experts

ASIC Regulatory Guide 111 – Content of Expert Reports refers to experts retaining a specialist to advise them in technical matters beyond an expert's expertise. In preparing this report, I have utilised the BDA Report (Appendix G), P&E Valuation (Appendix H) and input from Stephen Reid on the DCF Model (Appendix F).

1.3.1 BDA

BDA is an independent consulting company who specialise in independent due diligence reviews, valuations and technical audits of resources and reserves, mining and processing operations, project feasibility studies, and Independent Engineer work on project development, construction and certification. BDA specialises in review and due diligence work for companies and financial institutions. BDA undertakes independent expert reviews and valuations for companies and financial institutions.

BDA were engaged by Deloitte and the Company on 23 February 2022 to provide the BDA Report in relation to the current fair market value of the following assets as at 1 March 2022:

- Woodlawn potential extensions (to the extent not included in the DCF Model Output).
- Woodlawn – satellite deposits (Currawang and Cowley Hills).
- NSW Regional tenements/interests, including comprising Peelwood, Cullarin South, Mulloon, Sandy Point, Boro, Black Springs, Captains Flat, Burra, and Mayfield prospects in the Woodlawn, Goulburn and Yass regions of NSW.
- Prospects and tenements in the Parkes, Barraba and Nyngan regions of NSW held in the Alchemy JV where Alchemy has earned an 80% interest.
- Prospects and tenements in the Woodlawn and Goulburn region of NSW held in the Sky Metal JV where Sky Metals has earned an 80% interest.
- Heron's tenements and royalty interests in WA.
- I also asked BDA to comment on the impact on value if Care and Maintenance works ceased and the most appropriate valuation methodology in such a scenario.

BDA were also engaged to provide an assessment on the reasonableness of the technical project assumptions within the DCF Model, including the:

- Resources and reserves incorporated into the DCF Model.
- Mining physicals (including tonnes of ore mined, quality, waste material, and mine life).
- Processing physicals (including ore processed and produced).

[This section has been left blank intentionally]

- Production and operating costs (including but not limited to drilling, blasting, mining, haulage, processing, transport, general administration, distribution and marketing, contingencies and royalties or levies).
- Capital expenditure (including but not limited to pre-production costs, project capital costs, sustaining capital expenditure, capital expenditure required for tailings, salvage value, rehabilitation, and contingency).
- Mine life and any extensions to the mine life that would be appropriate in order to capture resource which is outside of the current life of mine plan.
- The technical inputs underpinning the tailings extraction.
- Any other relevant technical assumptions not so specified.

BDA has conducted its review consistent with Australian mining industry standards and in compliance with the JORC Code and in accordance with VALMIN. Further information about their capabilities and therefore, their suitability as experts, is set out in their report at Appendix G.

The BDA Report has considered value on a “fair market value” basis, being the amount of money for which a mineral asset should change hands on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after appropriate marketing where the parties each acted knowledgeably, prudently and without compulsion¹. I note that this assumption is not applicable in a liquidation scenario where the Company is insolvent. This valuation is discussed further at Section 6 of this report.

1.3.2 Gordon Brothers P&E Valuation

Gordon Brothers provide valuations and appraisals of property, plant and equipment, specialised asset based finance and asset realisation services. Gordon Brothers valuations team specialise in valuations for asset based lending, mergers and acquisitions, insolvency proceedings, insurance and for accounting purposes. They have expertise in mining, transport, retail and consumer inventory, manufacturing, machinery, industrial materials, chemicals, food and beverage, agriculture, timber, metals, paper and textiles.

The P&E Valuation was prepared in accordance with the Uniform Standards of Professional Appraisal Practice. The P&E Valuation was prepared on both a “Fair Market Value in Continued Use with Assumed Earnings” basis and on an “Orderly Liquidation” basis. The former is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of facts, as of a specific date and assuming that the business earnings support the value provided, without verification. The latter is an opinion of the gross amount, expressed in terms of money, that typically could be realised from a liquidation sale, given a reasonable period of time to find a purchaser, with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.

The P&E Valuation relied heavily upon a Cost Approach, whereby value is derived by estimating the current cost to reproduce or replace the property, deducting for all depreciation, physical deterioration, functional obsolescence and external/economic obsolescence. A Sales Comparison was used where appropriate, which derives value by comparing the property to similar assets that have been recently sold or are available for sale.

1.3.3 Stephen Reid

Stephen Reid is a Deloitte partner, with more than 30 years’ experience, specialising in providing valuation advice for mergers and acquisitions and other commercial purposes. He has expertise in the mining, energy and resources industries.

Mr Reid provided analysis of the value of Woodlawn as based on the DCF Model. The DCF Model was prepared by the Company with assistance from Azure. Mr Reid’s view is that the valuation of Woodlawn on a DCF basis is appropriate. Mr Reid also used the same concept of “Fair Market Value” as BDA, being the value at which Woodlawn may be expected to change hands in a hypothetical transaction between a knowledgeable willing, but not anxious, buyer and a knowledgeable willing, but not anxious, seller acting at arm’s length.

Mr Reid’s work is encapsulated at Appendix F. Mr Reid relied upon the BDA report for technical input on matters outside of his expertise.

¹ BDA Report section 3.3

1.4 Information and Limitations

This report has been prepared solely for the purpose set out in Section 1.2 of this report. The report represents my opinion as to the current value of the Company's assets and liabilities in a liquidation. My opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change over relatively short periods of time and any material change may impact my opinion. I note in this regard that at the time of writing there is significant global volatility, recently caused by the war in Ukraine.

My express written consent must be obtained prior to relying upon, publishing or distributing this report, or any part of it, for any purpose other than that detailed in Section 1.2. This report may only be published or distributed:

- As an appendix to the Explanatory Statement which is to be provided to the Company's shareholders and others as part of the evidence in support of the application under Section 444GA.
- For use by ASIC in determining their opinion with respect to the application under Section 606 of the Act.
- For use in the proceedings before the Court relating to the application pursuant to Section 444GA of the Act.
- In accordance with any law or by order of a Court of competent jurisdiction.

Statements and opinions contained in this report are given in good faith and in the preparation of this report I have relied upon the accuracy and completeness of the information provided to me and detailed at Appendix A. In forming my opinion, I have assumed:

- Matters such as title, compliance with laws and regulations, tenements and contracts in place are in good standing and will remain so, and that there are no material legal proceedings other than those identified.
- Any publicly available information relied upon in my analysis is accurate and not misleading.

I do not imply, and it should not be construed, that I have carried out any form of audit or verification of the information and records of the Group. However, I have no reason to believe that there is any concern as to the reasonableness of this information for the purposes of my work detailed in Section 1.2 of this report.

I have used a USD:AUD exchange rate of \$1.00AUD = \$0.73USD in my analysis. All amounts are in Australian dollars unless specified otherwise.

1.5 Appointment of Voluntary Administrators

On 16 July 2021, the Administrators were appointed to the Company by resolution of the Company's directors pursuant to Section 436A of the Act.

The Administrators were also similarly appointed to WMH, TO, Ochre, Hampton and TE, being wholly owned subsidiaries of the Company (collectively **the Group**).

I understand that Woodlawn has been in Care and Maintenance since March 2020.

1.6 Deed of Company Arrangement

At the second meeting of creditors held on 25 February 2022, the creditors of the Companies resolved to execute the DGL DOCA. The DGL DOCA encompassed Heron and all subsidiaries. The DGL DOCA was subsequently executed by the Deed Administrators, the Companies and DGL on 25 February 2022.

One of the key conditions precedent to the DGL DOCA's effectuation is the requirement for the Deed Administrators to obtain leave of the Court pursuant to Section 444GA of the Act to transfer to DGL (or its nominee) all of the shares in the Company.

If the Court makes orders pursuant to Section 444GA of the Act and the other conditions of the DOCA are satisfied, 100% of the existing shares in the Company will be transferred to DGL (or its nominee). Existing shareholders will not be compensated for the transfer of their shares.

Whilst the DGL DOCA does not result in any compensation for shareholders, it is also the case that no compensation would be available for shareholders if the DGL DOCA failed and the Company was liquidated.

1.7 Pre-Existing Relationships

I have considered my independence in accordance with the guidelines as set out in ASIC Regulatory Guide 112 – Independence of Experts and note that:

- There is no actual or perceived conflict of interest.
- There is no actual or perceived threat to independence.
- My firm's former role in providing GST advice, discussed below, does not impact my independence.
- There is no other reason why I would be unable to prepare this report.

The firm of which I am a partner of, Deloitte, has previously been engaged by the Company to provide GST advice. This work was undertaken between 2019 and 2020.

I do not consider that my firm's previous work impacts upon my independence because:

- Deloitte's role was limited to GST advice, not an opinion as to the potential value of the Company's shares.
- I have not relied upon Deloitte's GST advice.
- The GST advice is not relevant to my work in preparing this report and has not been subject to review as part of my work.

I confirm that I have had no prior involvement with the Company, its directors, or any related parties, which would preclude me from preparing this report.

1.8 Assistance by Colleagues

In order to arrive at my opinions in this report, I have selected colleagues to assist me. My colleagues carried out the work I decided they should perform and as directed by me. I have reviewed their work and original documents to the extent I considered necessary to form my opinions. The opinions expressed in this report are my own.

1.9 Statement Regarding Expert Witness Code

I confirm that I have read and understood the Federal Court's Expert Evidence Practice Note (**GPN-EXPT**), which includes the Harmonised Expert Witness Code of Conduct and have prepared this report in accordance with it, and on the basis that I am bound by it.

1.10 Limitations Regarding Mineral Resources and Ore Reserves

The information in this report that relates to Mineral Resources and Ore Resources is based on the records of the Company, in accordance with the 2012 JORC code, as reported to the ASX from time to time.

Neither BDA nor I have independently verified the Mineral Resource and Ore Reserve estimates and have not performed, nor do I accept, the responsibilities of a Competent Person as defined by the JORC Code in respect to any Mineral Resources and Ore Reserve estimates presented in this report.

The Company has from time-to-time issued announcements in relation to the Mineral Resources and Ore Reserve estimates that are available at www.heronresources.com.au and www.asx.com.au.

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2 Industry Overview

2.1 Introduction

To provide a context for assessing the future prospects of Heron, I have set out below an overview of the recent and expected trends in the domestic and international zinc, copper and lead industries, being the principal minerals mined by the Company. Silver is also mined as a by-product of these minerals, but is not discussed below given it is not a key output. Zinc, copper, lead and silver typically occur together in nature and can be mined simultaneously and this is the case at Woodlawn. Woodlawn's mineral deposits are mined underground, as well as there being available resource in legacy tailings via hydraulic mining.

2.2 Zinc Overview

Zinc is a brittle metal used in anti-corrosive galvanizing product as a coating for steel, in die casting and as an alloy with copper to produce brass.

Zinc ore is typically mined either at surface, but mainly underground. The ore is crushed and then converted into a zinc concentrate via flotation circuit process. Zinc concentrate is then either processed onsite or by third party smelters.

2.3 Zinc demand

The demand for Zinc is driven by downstream smelting and refining companies. In turn demand is closely linked to construction, being a major user of galvanized products, and to a lesser extent automotive manufacturing.

China is the world's largest consumer of zinc. Demand for zinc is likely to increase from South Korea and India in the coming years².

Zinc demand faces strong technological pressure in most of its end uses, mainly through competition from materials such as plastics and newer coating techniques that require less Zinc.

2.4 Zinc price

Zinc is a global commodity and the US dollar price for Zinc is listed on the London Metal Exchange. Price is dictated by supply and demand, as well as speculation. Since the COVID-19 pandemic the price has risen significantly.

Figure 1 – Historical zinc price



Source: London Metal Exchange – Deloitte CapitalIQ

Price forecasts for zinc reported in the DCF Model Analysis indicates zinc pricing to fall from USD\$3,378 per tonne in FY22 to USD\$2,733 per tonne in FY25 over the next 3 years. Refer to the DCF Model Analysis and BDA Report for further information.

² IBIS World Silver, Lead and Zinc Ore Mining in Australia October 2021

2.5 Copper overview

Copper is a ductile malleable metal being an excellent conductor of heat and electricity and is resistant to corrosion and is therefore in widespread use throughout the world in electrical devices and wiring. It is the third most used metal worldwide after iron and aluminum³. It is mixed easily with other metals to form alloys such as brass and bronze. As a metal it is also easily recycled.

Copper may be mined underground or at surface via open pit operations. Similar to zinc, copper ore is crushed and then converted into a copper concentrate via flotation circuit process. Copper concentrate is then either further processed onsite or by third party downstream processors.

2.6 Copper demand

The demand for copper is driven by construction, communications and manufacturing, with significant demand from China. Japan and India are also significant users of the metal. Automotive manufacturing is a significant user of copper and in particular electrical vehicles requiring significantly more copper than traditional vehicles.

2.7 Copper price

Copper is a global commodity and its price quoted on the London Metal Exchange. Since the COVID-19 pandemic, the price has risen significantly.

Figure 2 – Historical copper price



Source: London Metal Exchange – Deloitte CapitalIQ

Price forecasts for copper reported in the DCF Model Analysis indicates copper pricing to fall from USD\$9,832 per tonne in FY22 to USD\$8,443 per tonne in FY25 over the next 3 years. Refer to the DCF Model Analysis and BDA Report for further information.

2.8 Lead overview

Lead is a heavy dense malleable metal. It is relatively abundant, low cost and widely used in construction, plumbing, batteries, alloys, weights and many other uses. As it is co-produced with zinc, output of lead generally follows that of zinc.

Lead is generally mined underground or at surface via open pit operations. Similar to zinc, lead ore is crushed and then converted into a lead concentrate via flotation circuit process. Lead concentrate is then either further processed and refined onsite or by third party downstream processors.

³ IBIS World Copper Ore Mining in Australia May 2021

2.9 Lead demand

The demand for lead is driven by downstream refiners and smelters. China and South Korea⁴ remain major destinations for lead due to high manufacturing activity in these countries. Lead is widely used in batteries. With the growing wealth in developing countries and associated demand for battery operated products, the demand for batteries is expected to grow over the next 5 years despite the rise in lithium-ion batteries.

2.10 Lead price

Lead is a global commodity and its price is quoted on the London Metal Exchange. Its price has largely risen from April 2020 to July 2021, and since then has fluctuated downwards.

Figure 3 – Historical lead price



Source: London Metal Exchange – Deloitte CapitalIQ

Price forecasts for lead reported in the DCF Model Analysis indicates lead pricing to fall from USD\$2,328 per tonne in FY22 to USD\$1,993 per tonne in FY25 over the next 3 years. Refer to the DCF Model Analysis and BDA Report for further information.

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⁴ IBIS World Copper Ore Mining in Australia May 2021

3 Company Overview and Background

3.1 Company Overview at Date of Administration

3.1.1 Overview

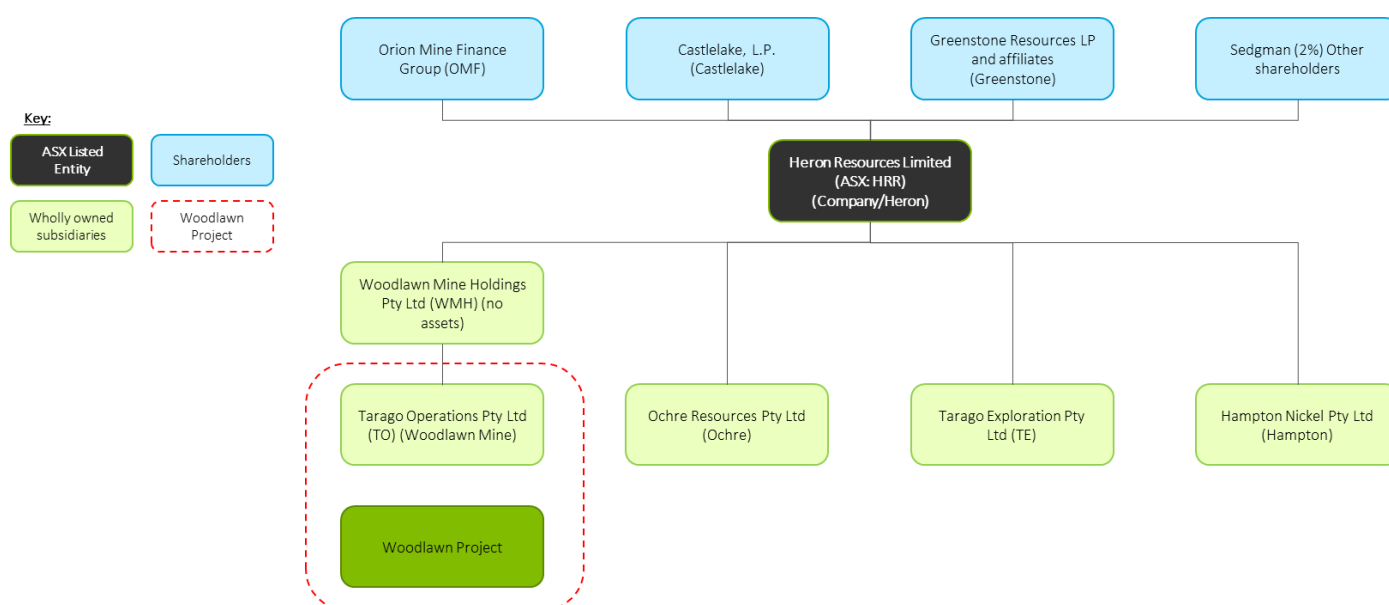
The Company is an Australian listed (ASX – HRR) zinc, copper and lead miner. The Company's principal asset is the Woodlawn mining project in Tarago, NSW. Woodlawn has been on Care and Maintenance since approximately March 2020.

Further detail on Woodlawn is discussed at section 5.1.1.

3.1.2 Group structure

Figure 4 below illustrates the Company and its subsidiaries. Heron serves as the ultimate parent company through which capital was raised. TO holds Woodlawn and is the main operating entity. WMH is a pure holding company only for shares in TO, whilst the other subsidiaries own other minor ancillary assets being mining tenements and royalties.

Figure 4 - Group structure



Source: Administrators' Report

3.1.3 Timeline of key events

Recent key events in respect of the Company are set out below:

Table 2 - Timeline of key events

Date	Event
7 Sep 2017	Heron announces completion of \$141m equity funding package as part of fully funding the \$240m development of Woodlawn. The balance of funding of \$100m is comprised of senior debt and silver prepayment facilities provided by OMF.
19 Dec 2018	Commencement of commissioning activities at Woodlawn.

Date	Event
1 Feb 2019	Sedgman Pty Ltd the contractor who built the processing plant at Woodlawn lodges a claim for an additional \$49.9m above the agreed contracted construction price.
12 Mar 2019	First processing through the new Woodlawn plant to be delayed from March 2019 to May 2019.
8 May 2019	Processing commences at Woodlawn.
16 Aug 2019	Heron shares voluntarily suspended.
30 Aug 2019	Following 7 month delay in plant construction, plant ramp-up to proceed to a new schedule. Financing package required to address working capital and debt servicing concerns. Interim debt waiver provided by senior debt provider.
18 Sep 2019	CEO Mr Wayne Taylor asked to stand down.
4 Oct 2019	<p>\$91m funding package announced via \$35m share issue, \$52m convertible notes issue to OMF, Greenstone and Castllake, and \$4m zinc prepayment facility. Funds to be applied principally to working capital, senior debt repayment, plant rectification works (in order to attain plant designed recoveries) and interest payments.</p> <p>Settle dispute with Sedgman Pty Ltd by a cash payment of \$13m to be paid by instalments, and \$2m in Heron shares.</p>
8 Oct 2019	Heron shares recommence trading.
24 Oct 2019	First shipments of zinc and lead concentrate representing the first cash flow from Woodlawn operations
25 Mar 2020	Woodlawn operations to be suspended as a result of COVID-19 related travel restrictions and health concerns. Standstill agreement agreed with senior debt financier OMF.
27 May 2020	OMF assigns silver prepayment (Silver Stream Agreement) facility to Nomad.
31 Jul 2020	Voluntary trading suspension.
14 Aug 2020	<p>Strategic process commenced to explore opportunities to recapitalise and/or refinance via refinance, joint venture, partial or complete divestment of assets.</p> <p>Woodlawn remains on Care and Maintenance.</p> <p>Castllake to provide \$3.5m Care and Maintenance funding.</p>
28 Apr 2021	Strategic process to recapitalise and restructure continues.
16 Jul 2021	Group enters Voluntary Administration after forming the view the Group would be unable to secure a suitable transaction to restructure and/or recapitalise the Group.
18 Aug 2021	Commencement of Administrators' sale process
25 Feb 2022	Creditors approve the DGL DOCA

Source: www.heronresources.com.au/announcements; Administrators' Report

3.2 Deed of company arrangement

The key terms of the DGL DOCA include⁵:

- An application to be made pursuant to Section 444GA of the Act to obtain leave of the Court for all the issued shares in Heron to be transferred to DGL (or nominee).
- DGL will upon satisfaction or waiver of all conditions precedent acquire 100% ownership of the Group and Woodlawn and all other non-Woodlawn assets.
- DGL to contribute \$7.513m for an Administration Fund and \$987k Unsecured Creditor Fund (total \$8.5m).
- The Administration Fund, Unsecured Fund and funds (\$1.0m) that have been ring fenced and preserved for employee entitlements in accordance with the relevant Court orders, plus any cash held by the Deed Administrators will be settled into a Creditors' Trust.
- Unsecured creditor claims will be released through the DGL DOCA in return for the right to participate in a distribution from the Creditors' Trust.
- Unsecured creditor claims shall participate in different pools. From the \$987k Unsecured Creditor Fund, specified statutory authority creditors shall be paid first, then Pool A creditors being unsecured creditors with claims less than \$5k, and lastly Pool B creditors being all other unsecured creditors.
- DGL has entered into separate Cooperation Deeds with secured creditors OMF, Nomad and Castl lake that collectively facilitate the release of security and restructure of the Silver Stream funding facility. At completion OMF is to receive \$5.5m cash and \$15m in DGL shares. Castl lake receives \$1.5m cash. At completion, OMF will receive up to a further \$70m in cash or DGL shares subject to Woodlawn meeting certain milestones associated with recommencement. Nomad will receive up to \$27m cash plus a further \$10m subject to certain production milestones being met at Woodlawn.
- The Administrators' Report states that the notional consideration for the transactions contemplated by the DGL DOCA is \$137.5m
- The Administrators' estimated returns to different classes of creditors under the DGL DOCA and in a Liquidation scenario is summarised in the table below:

Table 3 – Administrators' estimated returns to creditors

c/\$ Creditor	Class	DOCA	Liquidation
OMF	Secured	22 to 98	4 to 6
Nomad	Secured	0 to 56	Nil
Castl lake	Secured	34	Nil
Employees	Priority	100	100
Government and statutory	Unsecured	100	Nil
Pool A	Unsecured	100	Nil
Pool B	Unsecured	1	Nil

Source: Administrators Report p13.

3.3 Historical Financial Performance

The Group's financial statements are prepared at a 30 June year end, with the last reported audited annual results being prepared to 30 June 2020. The Group's last full financial year prior to the appointment of the Administrators was FY21. Audited financial statements were not prepared for FY21.

As the Group has been in external administration with operations on Care and Maintenance since approximately 16 July 2021, there is no meaningful financial performance information available after this date.

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⁵ Administrators Report Section 8

3.3.1 Profit and Loss

The profit and loss statements for FY18 to FY21 are summarised as follows:

Table 4 - Profit and loss

\$'000	FY18	FY19	FY20	FY21
Revenue	-	-	-	-
Other Income	3,635	1,186	121	499
Administrative expenses	(57)	(469)	(978)	(928)
Professional services and consultants	(372)	(843)	(2,054)	(1,961)
Depreciation and amortisation expense	(55)	(170)	(1,863)	(329)
Directors fees	(488)	(581)	(654)	(181)
Employee benefits expense	(1,204)	(1,778)	(2,114)	(865)
Equity settled share based reversal / (expense)	(587)	(781)	556	169
Exploration expenditure expensed	(1,011)	(1,431)	(843)	(240)
General expenses from ordinary activities	(2,025)	(1,105)	(470)	(825)
Care and maintenance costs	-	-	(922)	(6,433)
Interest expense	(227)	-	-	-
Finance expense	(507)	(795)	(11,066)	(8,247)
Fair value gain / (loss) on financial instruments	(1,018)	(10,776)	12,909	7
Fair value gain / (loss) on equity instruments	561	(4,182)	1,298	(1,360)
Hedge finance expense/gain	(776)	-	998	-
Unrealised foreign exchange loss/gain	(1,688)	(4,038)	(2,349)	2,288
Provision for settlement of legal claims	-	(15,000)	(5,736)	-
Lease termination gain / (loss)	-	-	79	(1,403)
Impairment of mine property	-	-	(150,867)	-
Corporate and other expenditure	(9,454)	(41,949)	(164,076)	(20,308)
Total comprehensive income for the year	(5,819)	(40,763)	(163,955)	(19,809)

Source: FY18, FY20, & FY21 audited financial statements, and FY19 unaudited financial statement

I provide the following commentary on the Group's profit and loss statements:

- The Group generated minimal revenue in the last four years, as Woodlawn was constructed, commissioned and ultimately placed on Care and Maintenance.
- Significant losses were incurred in FY19 as the Group provided for the settlement of the claim by Sedgman Pty Ltd and recorded adjustments to the future value of the Silver Stream facility.
- Further significant losses were suffered in FY20, principally as a result of the \$150m impairment in the value of Woodlawn, which was due to Woodlawn being on Care and Maintenance and the market capitalisation of Heron at the time being less than the book value of Woodlawn. Finance expenses significantly increased in FY20 as the Group recognised its interest obligations under the new Convertible Notes and existing debt facilities as well as transaction costs. The Group also recognised a further \$5m expense for settling claims with its mining contractor Pybar Holdings Pty Ltd.
- Significant losses incurred in FY21, mainly driven by Woodlawn being on Care and Maintenance, with no income, ongoing Care and Maintenance, and finance costs.

3.3.2 Operating profit and loss

The table below summarises the trading performance from September 2018 up to March 2020. During this time Woodlawn had commenced mining and processing leading up to Care and Maintenance. It is noted that this data is extracted from management reporting. This data includes revenue from "concentrate streaming" which does not readily appear in the profit and loss statements in Table 4. Management note that this forms part of revenue reported. We have not investigated further as this balance is not material to my analysis.

It is evident from the following table that Woodlawn failed to deliver maintainable earnings whilst initially operational.

Table 5 – Operating profit and loss

\$'000	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Revenue	-	-	-	-	-	-	-	-	-	-
Expenses										
Corporate	(223)	(201)	(320)	(227)	(269)	(268)	(278)	(287)	(371)	(250)
Exploration	(93)	(116)	(87)	(208)	(69)	(59)	(182)	(96)	(113)	(233)
Woodlawn capital expenditure	(3,658)	(2,892)	(925)	(528)	(1,351)	(1,047)	(1,635)	(2,290)	(955)	(1,481)
Woodlawn ops	(2,398)	(1,568)	(1,836)	(2,619)	(3,396)	(4,198)	(4,719)	(6,040)	(5,232)	(7,931)
Total expenses	(6,372)	(4,777)	(3,168)	(3,582)	(5,085)	(5,572)	(6,814)	(8,713)	(6,671)	(9,895)
Operating loss	(6,372)	(4,777)	(3,168)	(3,582)	(5,085)	(5,572)	(6,814)	(8,713)	(6,671)	(9,895)
Cumulative loss	(6,372)	(11,149)	(14,317)	(17,899)	(22,984)	(28,556)	(35,370)	(44,083)	(50,754)	(60,649)
	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Total
Revenue	-	-	-	6,134	1,416	756	-	8,060	1,258	
Expenses										
Corporate	(309)	(366)	(1,277)	(2,249)	(636)	(386)	(225)	(398)	(393)	
Exploration	(165)	(83)	(50)	(95)	(52)	(58)	(56)	(94)	(110)	
Woodlawn capital expenditure	(1,132)	(1,133)	(531)	(669)	(531)	(623)	(465)	(1,288)	(525)	
Woodlawn ops	(6,382)	(6,647)	(6,230)	(12,000)	(7,825)	(7,562)	(7,635)	(11,609)	(10,712)	
Total expenses	(7,988)	(8,229)	(8,088)	(15,013)	(9,044)	(8,629)	(8,381)	(13,389)	(11,740)	
Operating loss	(7,988)	(8,229)	(8,088)	(8,879)	(7,628)	(7,873)	(8,381)	(5,329)	(10,482)	
Cumulative loss	(68,637)	(76,866)	(84,954)	(93,833)	(101,461)	(109,334)	(117,715)	(123,044)	(133,526)	(133,526)

Source: July 2019 – March 2020 Management Reporting

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3.3.3 Balance Sheet

Set out below are the balance sheets for FY18 to FY21, as well as the financial position of the Group as at the date of the Administrators' appointment as per the directors' ROCAP received by the Administrators on 5 August 2021, as set out in the Administrators' Report:

Table 6 - Balance sheet

\$'000	FY18	FY19	FY20	FY21	ROCAP
Current Assets					
Cash and cash equivalents	65,532	31,465	9,889	3,271	2,749
Trade and other receivables	1,777	1,043	1,529	415	165
Inventories	-	2,355	4,327	3,472	3,882
Financial assets - equity instruments	-	1,587	1,530	170	-
Other assets	795	499	528	317	-
Total Current Assets	68,104	36,949	17,803	7,645	6,796
Non-Current Assets					
Restricted cash	8,777	7,777	3,701	3,701	3,701
Other assets	35	125	110	110	-
Financial assets - equity instruments	5,901	132	-	-	-
Property, plant and equipment	647	11,962	4,431	4,301	183,456
Mine property	156,517	242,849	171,156	168,981	-
Right of use assets	-	-	11,999	8,018	-
Total Non-Current Assets	171,877	262,845	191,397	185,111	187,156
Total Assets	239,981	299,794	209,200	192,756	193,953
Trade and other payables	7,002	6,060	8,042	13,544	114,699
Borrowings	-	126,330	104,112	111,707	-
Provisions	547	15,786	9,401	371	-
Convertible note	-	-	56,218	59,537	62,395
Financial liability - derivative	-	-	1,200	1,286	-
Total Current Liabilities	7,549	148,176	178,973	186,445	177,094
Non-Current Liabilities					
Trade and other payables	-	-	8,352	10,260	N/A
Borrowings	47,607	6,580	5,626	-	N/A
Provisions	15,943	16,138	16,001	15,781	N/A
Total Non-Current Liabilities	63,550	22,718	29,979	26,041	N/A
Total Liabilities	71,099	170,894	208,952	212,486	177,095
Net Assets	168,882	128,900	248	(19,730)	16,858

Source: FY18, FY20, & FY21 audited financial statements, and FY22 unaudited financial statements; Administrators' Report

I provide the following analysis and commentary on the Group's balance sheet statements:

- The Group's net asset position declined from FY18 to FY21, largely as a result of the losses discussed at section 3.3.1 above, in particular the impairment in the value of Woodlawn.
- The FY20 financial statements were audited. As at 30 June 2020 a review was performed for indicators of impairment in order to determine whether a formal impairment assessment was required. At this time the market capitalisation of the Group was below the book value of its equity, and Woodlawn had transitioned to Care and Maintenance. As part of the preparation of these accounts and given an impairment event occurred, a valuation exercise was undertaken for the value of material assets, in this case Woodlawn. (as per note 10 to the FY20 financial statements). In FY20 the value of Woodlawn was impaired and consequently reduced by \$151m. This resulted in Heron having almost zero net assets.
- Further Care and Maintenance costs and losses in FY21 resulted in negative net assets of \$19.7m by 30 June 2021. The negative net asset position would be expected to have increased further in FY22 and following the appointment of the Administrators, as Woodlawn continued to be on Care and Maintenance.
- I note that the FY21 financial statements were unaudited and it appears that no testing as to further impairment of Woodlawn was undertaken and accordingly limited reliance can be placed on the book value of this asset as at 30 June 2021.

- Liabilities for borrowings and the Convertible Notes increased significantly from FY19, as the funding for Woodlawn's development was drawn down and recapitalisation announced in October 2019 took place.
- The Administrators advise that the \$183.4m listed against property, plant and equipment in the ROCAP includes items previously recorded as "Mine Property".
- The ROCAP position incorrectly records secured debt as unsecured and the ROCAP does not appear to record the full liability position thus overstating the net asset position. The Administrators produced High ERV and Low ERV based upon their assessment of the Directors ROCAP at a 'Net Asset' position of negative \$247m – 249m⁶.

3.3.4 Sources and application of funds

Set out below is the source and application of funds for the period from FY18 to FY21. No audited accounts were prepared for FY21 and accordingly, no cash flow statement was available for this period.

Table 7 - Cash flow statement

\$'000	FY18	FY19	FY20	FY21
Cash Flows From Operating Activities				
Payments to suppliers and employees	(7,774)	(6,698)	(5,418)	(12,823)
Interest received	1,174	1,184	459	38
Interest paid and other finance costs	-	-	(1,063)	(791)
Exploration and development expenditure – expensed	(1,011)	(1,431)	(843)	-
Receipt of government assistance	-	-	186	421
Net Cash Used In Operating Activities	(7,611)	(6,945)	(6,679)	(13,155)
Cash Flows From Investing Activities				
Proceeds from sale of assets - Woodlawn Mine	-	-	-	2,808
Woodlawn Mine – asset under construction	(112,038)	(80,623)	(90,903)	-
Proceeds from sale of commissioning concentrates	-	-	12,496	727
Refund / (payment) of bond and bank guarantees	(8,577)	1,000	4,076	(53)
Proceeds from sale of financial assets - equity instruments	2,584	-	1,386	288
Payments for plant and equipment	(663)	(2,748)	(4,100)	-
Payments for foreign currency hedge transaction	(776)	(6)	-	-
Proceeds from research and development refund	1,839	1,796	-	-
Receipt from sale of excess inventory and silver bullion	-	-	-	345
Receipt / (payment) for plant & equipment	-	-	-	636
Net proceeds from research and development refund	-	-	-	-
Net Cash Used In Investing Activities	(117,631)	(80,581)	(77,045)	4,752
Cash Flows From Financing Activities				
Proceeds from equity raising	140,115	-	28,790	-
Payments for capital raising costs	(4,623)	-	(906)	(953)
Payment of principal portion of lease liabilities	-	-	(3,950)	(381)
Proceeds from borrowings	-	53,587	47,089	3,500
Payment of borrowing costs	-	-	(8,894)	(277)
Realised foreign exchange loss – Woodlawn equity raising	(4,956)	-	-	-
Proceeds from Silver Stream	21,648	-	-	-
Proceeds from drawdown of senior debt	27,060	-	-	-
Net Cash Provided By Financing Activities	179,244	53,587	62,129	1,889
Net Increase / (Decrease) In Cash Held	54,002	(33,939)	(21,595)	(6,514)
Cash at the beginning of the reporting period	11,690	65,532	31,465	9,889
Foreign exchange (gain) / loss on translation - unrealised	(160)	(128)	19	(104)
Cash At The End Of The Reporting Period	65,532	31,465	9,889	3,271

Source: FY18, FY29, & FY20 audited financial statements, and FY21 unaudited financial statements

⁶ Administrators' Report page 36

I provide the following comments in respect to the Group's cash flow statements:

- The Group experienced a cash shortfall from operating activities during FY18 and FY21 attributable to the development phase of Woodlawn and placing the project on Care and Maintenance.
- The Group was reliant on the proceeds from share issues and debt facilities to remain cash positive.

3.4 Sale and recapitalisation processes

The Company has been through two significant sale and/or recapitalisation processes. The first was undertaken before the appointment of the Administrators ("Pre-appointment process") and the second by the Administrators ("Administrators' sale process"). In both cases, Azure has assisted as advisor.

Pre-appointment process

In August 2020, following the placement of Woodlawn on Care and Maintenance, the Group undertook a strategic process which involved:

- Exploring options for the recapitalisation and/or sale of the Group, including:
 - refinancing the Group's debt
 - entering into joint venture arrangements
 - partial or complete divestment of the Group's assets.
- Appointment of Azure as financial advisors.
- Azure contacted approximately 90 parties, including financiers, private equity firms, trade parties and other types of investors.
- 21 parties proceeded to the stage of being asked to submit NBIOs.
- In March 2021, only one party submitted a NBIO during the strategic process detailing a merger proposal. The terms of this proposal were not acceptable to the Group, however the Group continued to hold discussions with the merger proponent.
- In April 2021 the Group also explored an equity raising for approximately \$110m-\$130m. Ultimately by July 2021 it became apparent that the market would not support such an equity raise.
- On 14 July 2021 a restructure proposal was received from a party that was participating in the strategic process. It was determined that the terms of this proposal were unlikely to be capable of implementation.

This process took place from August 2020 through to the appointment of the Administrators. Administrators were appointed on 16 July 2021.

Administrators' sale process

As is usually the case in voluntary administrations, the Administrators undertook their own processes to seek proposals for the recapitalisation and/or sale of the Group. Given their prior knowledge of Group, Azure was engaged by the Administrators to act as advisors. The Administrators' process for Woodlawn involved:

- Advertising in the Australian Financial Review newspaper on 18 August 2021.
- Azure contacted 97 parties including trade buyers (existing mine owners and operators), private equity funds and other investors.
- 17 parties signed confidentiality agreements.
- 6 parties submitted NBIOs.
- 3 parties proceeded to the next stage of further negotiations and submission of revised proposals.
- After negotiation and the submission of revised proposals it was determined that the DGL DOCA was ultimately the highest and best offer for creditors as a whole.

As detailed in the Administrators' Report at section 8, the total notional consideration being offered by DGL is \$137.5m. The next best offer received during the Administrators' sale and/or recapitalisation process was approximately \$120m (USD\$89m)⁷. The Administrators advise that this offer was subject to greater execution risk and longer time to completion than the DGL DOCA.

It is noted also that of the notional consideration being provided under the DGL DOCA, \$107m is deferred and contingent upon the successful recommencement of operations at Woodlawn. The next best offer contained similar deferred and contingent amounts of approximately \$68m.

⁷ Transaction process summary p6

The Administrators undertook a separate process for the Non-Woodlawn Assets. The Administrators have advised that the Group also undertook a separate divestment process for the Non-Woodlawn Assets between April 2020 and October 2020, however no interest was received.

The Administrators' process for the Sky JV and Alchemy JV interests that form part of the Non-Woodlawn assets, involved direct contact with possible interested parties, as advised by Heron management. This involved direct contact to 25 parties for the Sky Metals JV interest and 27 parties for the Alchemy JV interest.

Only one request for further information was received for the Alchemy JV interest and none for the Sky JV interest. The only offers received for these assets was for a total value of \$100k for the Alchemy JV interest and a verbal offer of \$75k for the Sky JV interest.

Argonaught PCF was engaged by the Administrators to act as advisor to sell the WA Interests and Royalties. Argonaught PCF contacted 15 parties and advertised the sale on their own online platform. One offer for a total value of \$600k was received.

The Administrators did not progress any offers for the Non-Woodlawn Assets, as DGL required these assets be included in the sale under the DGL DOCA.

The final results of the Administrators' sales process can be summarised as follows:

Table 8 – Sales process results

\$'m		Immediate Consideration	Deferred Consideration to Secured Creditors	Total
Woodlawn	DGL DOCA Proposal (inclusive of assets below)	30.500	107.00	137.500
Sky JV	Highest offer not accepted	0.075		0.075
Alchemy JV	Highest offer not accepted	0.100		0.100
WA Interests and Royalties	Highest offer not accepted	0.600		0.600
Total		31.275	107.00	138.275

Source: Administrators' Report; FTI sales process commentary

Having reviewed the process undertaken by the Administrators, I make the following comments:

- They sought external advice from existing and well-credentialised advisors in this industry to advise them on the transaction.
- The sale was advertised on 18 August 2021.
- A significant number of parties were contacted across appropriate disciplines and backgrounds. Given the continuity of Azure's engagement, this likely captured interested parties from the strategic process undertaken by Management prior to Administration.
- Funding was obtained to enable a considered process of approximately 6 months.
- The Secured Creditors were a significant stakeholder and were close to this process and we understand that they have supported the deal by entering into separate Cooperation Deeds with DGL to secure the deferred consideration.
- A DOCA proposal was achieved meeting the objects of Part 5.3A of the Corporations Act 2001.

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4 Total Indebtedness

4.1 Summary

For simplicity, the indebtedness of the Group is presented on a consolidated basis given the following:

- The Group's assets and liabilities are held predominantly in Heron and TO, that are subject to a Deed of Cross Guarantee resulting in Heron, TO and WMH being jointly and severally liable for each other's liabilities on liquidation⁸.
- All secured debt is secured against the assets of all companies in the Group.
- Accordingly, the indebtedness of the Group is effectively also the indebtedness of Heron, and the net value of Heron is reflective of the assets and liabilities of each of the Group companies.

I have not included amounts owed to employees or the cash that has been ring-fenced, as this liability is covered by the ring-fenced cash. I note that there may potentially be approximately \$354k in surplus funds available to the Group from the funds that have been ring-fenced⁹. I have included these surplus funds at Section 5.5 and 6.3.9.

Set out below is a summary of estimated creditor claims against the Company in a liquidation scenario. This is based on a liquidation scenario whereby assets have been fully realised by 31 August 2022 (approximately 3 months from an appointment) and accordingly, the debt values are projections of likely indebtedness at this date. The liquidation process is discussed further at section 4.1.3. If the liquidation was to extend past 31 August 2022, this would only increase overall indebtedness.

Table 9 – Estimated total indebtedness

\$'m	Note	Low	High	Preferred
Secured debt	4.1.1	(186.3)	(186.2)	(186.2)
Administrators' fees, costs and financial obligations	4.1.2	(8.5)	(8.5)	(8.5)
Care and maintenance	4.1.4	-	(3.3)	(3.3)
Liquidators' fees and costs	4.1.5	(0.5)	(0.5)	(0.5)
Realisation costs	4.1.6	(0.3)	(5.0)	(3.2)
Unsecured creditors	4.1.7	(117.0)	(101.4)	(104.7)
Total Indebtedness		(312.5)	(304.9)	(306.3)

Accordingly, I expect that the total indebtedness in a liquidation will be between \$304.4m and \$312.5m.

4.1.1 Secured debt

Secured debt is comprised of amounts owed firstly to OMF and Nomad as first ranking secured creditors and then to Castlake as second ranking secured creditor pursuant to an intercreditor deed regulating priorities between the three parties. There is a further intercreditor deed specifying OMF as having priority above Nomad. According to the Administrators' Report, the Secured Creditors have security effectively over all of the Group's asset's save for those assets financed and/or leased by hire purchase and similar type facilities¹⁰.

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⁸ FY20 Annual Report Note 24

⁹ Administrators' Report Appendix 8 Note 1

¹⁰ Administrators' Report pp38-39

Table 10 below provides a breakdown of the secured debt of the Group inclusive of estimated interest charges to 31 August 2022.

Table 10 – Secured debt

\$'000	Borrower	Interest rate	Low	High	Preferred
Castlelake - Care and Maintenance facility	Heron	15% + overdue margin 5.25%	(4,699)	(4,699)	(4,699)
OMF Senior Debt	TO	15%	(101,051)	(101,051)	(101,051)
Nomad Silver Stream	TO	N/A	(67,383)	(67,383)	(67,383)
Hire Purchase/Leases	TO	N/A	(6,220)	(6,153)	(6,153)
Total Secured Debt			(179,353)	(179,286)	(179,286)
Provision for future interest charges			(6,903)	(6,903)	(6,903)
Total Secured Debt (including future provisions)			(186,256)	(186,189)	(186,189)

Source: OMF Heron Loan Schedule, Nomad Royalty Model, various financier/lessor payout statements and advice; Administrator queries; Heron Group Estimated Creditor Position; Total Heron Liabilities Default Interest to end of October 2021; Deloitte analysis

4.1.2 Administrators' fees, costs and financial obligations

Table 11 details amounts payable to the Administrators for professional fees, disbursements, liabilities incurred and administration funding. This assumes the DGL DOCA is ultimately not effectuated and Group enters liquidation. These amounts are predominantly taken from the Administrators' Report. In respect to the funding facility provided to the Administrators by OMF, I have, similarly to the secured debt analysis, made estimates of the likely balance of this facility as at 31 August 2022. I have also included an estimated allowance for the costs incurred by the Administrators in undertaking the application under Section 444GA of the Act.

Table 11 - Estimated Administrators' fees, costs and financial obligations

\$'000	Low	High	Preferred
Voluntary Administrators' Fees & Disbursements	(1,780)	(1,780)	(1,780)
Azure Fees	(625)	(625)	(625)
Voluntary Administrators' expenses and obligations	(1,367)	(1,367)	(1,367)
Voluntary Administrators' Loan	(4,040)	(4,040)	(4,040)
Section 444GA costs	(462)	(462)	(462)
Deed Administrators' Fees	(250)	(250)	(250)
Total Administrators' fees, costs and financial obligations	(8,524)	(8,524)	(8,524)

Source: Administrators report to creditors; Administrator comments; Heron Loan Schedule; Administration Source and Uses of Cash Document; Deloitte analysis

4.1.3 Liquidation strategy and costs

The Liquidation costs will be influenced by the Liquidation approach and strategy. In considering the outcome of a liquidation I have taken that an appointment occurs on or around the final date for when the s444GA order must be received under the DOCA (being the sunset date under the DGL DOCA of 31 May 2022). In this scenario and in my experience, the Liquidator would immediately consider the relevant facts and information available to them and then is likely to cause the liquidation of the Company to occur as discussed below.

The Liquidators would perform an immediate assessment of the funding need and availability of Liquidation Funding for ongoing Care and Maintenance of the mine and other relevant expenses:

- The funding need is significant with costs accruing at c.\$522k per month (See section 4.1.4)
- In line with the Administration to date the existing Secured Creditors and/or potential purchaser would be the most likely parties for the Liquidators to approach to fund an orderly realisation of the assets. This funding includes ongoing Care and Maintenance obligations, selling costs and a portion of the Liquidators' fees attributable to the sale process.
- I note that the Administrators' funding arrangement with OMF was fully drawn down (USD\$2.7m) at the date of their second report¹¹. I understand that further funding has been sought from OMF, but at the date of this report had not been formally agreed. The ongoing availability of this funding is not guaranteed.
- Given the magnitude of this funding, the Liquidators would need to carefully consider the benefit of causing TO (as borrower) to enter a funding agreement, as well as also consider the personal liability risk for the Liquidators.

¹¹ Administrators' Report p113

- The Liquidator would assess other funding options. It is expected that, if there was any other interest, this funding would likely require a priority over existing Secured Creditors and it is expected that this would be difficult to achieve.

To the extent there was Liquidation Funding available, the Liquidators also would test whether they reasonably believe a new sale process would achieve a better outcome than the prior process. I believe this is unlikely given extent and timing of the process undertaken by the Administrators (and the prior campaign undertake before Administration). Relevantly, the Company's current debt (plus any new funding through OMF or that of any other funding party) will increase during such a process through interest and relevant costs, if applicable.

As there has already been a recent sale process, the Liquidators would likely immediately review the outcome of this process and re-engage with parties who have already expressed interest and therefore, if DGL was still interested in completing a transaction, they would likely be the preferred bidder. This party could also be a potential source of short-term funding to bridge a transaction and such funding could form part of the purchase consideration.

It therefore follows that:

- Continuing to trade for a protracted period would result in the Liquidators causing the Company to incur additional debt and could carry personal liability risk for the Liquidators. I therefore believe it is unlikely that a Liquidator would follow this strategy, or indeed any funding would be available for a protracted transaction timeline of longer than three months.
- A Liquidator would likely seek to complete the DGL transaction outside of a DOCA and/or engage with other advanced parties, with funding sought from this relevant counterparty. Given my comments in section 6.4, it is unlikely that any further sales campaign, particularly if expedited, would yield a better outcome. Relevantly, BDA indicate that no Care and Maintenance funding may not materially impact value¹². No Care and Maintenance may impact the ability of interested parties to safely inspect Woodlawn.
- The Liquidators would need to consider the impact of not undertaking the prescribed Care and Maintenance; such as impact on value, complying with occupational, health and safety requirements or environmental consequences. If these risks were considered too onerous and an immediate transaction could not be achieved, the Liquidators would consider and possibly immediately move to disclaim Woodlawn and any other onerous assets of the Group.

It is assumed that a sale process in liquidation would take 3 months to completion, allowing for engaging with interested parties, undertaking negotiations, documenting a business and asset sale agreement and obtaining required approvals, transfers, novations etc.

4.1.4 Care & Maintenance

As discussed in section 3 of this Report, Woodlawn is currently on Care and Maintenance. In my assumed liquidation scenario, the Group will require funding to remain on Care and Maintenance to 31 August 2022 to allow for a limited sale process. An average of the indicative Care and Maintenance costs, as provided by the Administrators in document "*Heron – Administration Source and Uses of Cash*", are detailed in the table below. This includes an estimation of Care and Maintenance costs from 1 March 2022.

Table 12 –Indicative monthly Care & Maintenance costs average per month

\$'000	Per month
Insurance	111.00
Woodlawn office & other costs	61.45
General repairs & maintenance	21.98
UG mine-related expenses	92.10
Safety, monitoring & compliance	74.10
Fuel, gas & electricity	32.25
Finance leases	45.73
Wages & associated costs	83.27
Total Care and Maintenance costs per month	521.88

Source: Heron – Administration Source and Uses of Cash Document; Deloitte Analysis

It is assumed that Care and Maintenance funding would continue to be available in a High and Preferred scenario. If the funding is provided by an potential purchaser, I have assumed that it would be deducted from the purchase price and therefore have approximately the same financial impact as if it was directly funded by Secured Creditors.

¹² BDA Report section 1.0

In a Low scenario, it is assumed the liquidator is unwilling to trade without a level of Care & Maintenance. It is envisaged that in this scenario a disclaimer would occur quickly but in a timeline adequate to sell certain items of plant and equipment and the interest in other assets.

I have applied the above figures out to 31 August 2022 as below. It is assumed that only Care and Maintenance costs are funded and incur interest charges, whilst all other costs such as Liquidators' fees, legal fees, realisation costs are funded from the proceeds of sale of the assets. In my experience this is not uncommon.

Table 13 – Estimated future care & maintenance costs to 31 August 2022

\$m	Low	High	Preferred
Care & Maintenance costs	-	(3.2)	(3.2)
Interest on Care and Maintenance funding	-	(0.1)	(0.1)
Total care and maintenance costs	-	(3.3)	(3.3)

Source: Heron – Administration Source and Uses of Cash Document; Deloitte Analysis

4.1.5 Liquidators' fees and costs

Based on my experience in undertaking formal insolvency assignments of a similar nature, I have adopted the below range as an estimate of future Liquidators' fees, disbursements and legal costs, as at the date of this Report. My estimate is based on the key tasks and activities the Liquidators will likely be required to undertake, which include (but are not limited to):

- As discussed at section 4.1.3 the Liquidators will seek to obtain funding for Care and Maintenance activities.
- Consider and prepare the sale strategy for Woodlawn and other assets. Considering the Group's assets have already undergone a recent sales process, that followed a similar process prior to Administration, I consider only three months would be required to realise the Group's assets. If the process was to take longer this would only increase holding costs and indebtedness.
- Monitor and control ongoing Care and Maintenance activities.
- Review and engage an appropriate investment bank(s) and/or agents to assist in the sale process, if required.
- Engage with interested parties and maintain interested party register.
- Facilitate the due diligence process, if required.
- Attend to negotiations with interested parties.
- Prepare regular status updates to the Secured Creditors and attend to correspondence with Secured Creditors as required.
- Instruct solicitors on preparation of sale contracts and legal attendances in relation to the sale process.
- Review offers and obtain consents for sale of assets from the Secured Creditors.
- Address the satisfaction of any conditions precedent and subsequent.
- Attend to any regulatory approvals required for the transfer of assets.
- Remit funds from asset realisation to Secured Creditors.
- Undertake a dividend process, including calculation, adjudication and payment of employee claims.
- Complete investigations.
- Prepare statutory reporting to all creditors.
- General administrative tasks.

The Administrators estimated legal fees in a liquidation scenario of \$397k. On the assumption that there will not be any legal recovery actions for breaches of the Act or unfair preference payments I consider a provision for legal fees at this level may not be necessary. My estimates below reflect the range of potential legal fees based my experience in undertaking similar insolvency engagements.

Table 14 - Estimated Liquidators' fees and costs

\$'000	Low	High	Preferred
Liquidators' fees and disbursements	(400)	(300)	(350)
Legal fees	(100)	(150)	(125)
Total Liquidators' fees and costs	(500)	(450)	(475)

Source: Deloitte Analysis

4.1.6 Realisation costs

Should the Group be placed into liquidation, I have assumed that the Liquidators would be required to engage various agents and/or advisors such as auctioneers and/or an investment bank. To allow for these costs, I have utilised a percentage based approach which is applied to the value of all assets, being 1.5%, 2.5% and 3.5% to the Low, Preferred and High scenarios respectively. These costs are based upon my experience in realising similar assets. The percentages are relatively lower than what normally would be the case to reflect that the sales campaign may be quite short in terms of length of time.

Table 15 - Estimated realisation costs

\$m	Low	High	Preferred
Asset value	17.1	143.4	126.1
Applied realisation cost (%)	1.5%	3.5%	2.5%
Total realisation costs	(0.3)	(5.0)	(3.2)

Source: Deloitte Analysis

4.1.7 Unsecured creditors

Estimated unsecured creditors are summarised at Table 16. Trade creditors are as per the Administrators' Report¹³. The Low scenario factors in potential claims for lessors not yet received or adjudicated. Statutory liabilities and related party claims are also taken straight from the Administrators' Report¹⁴.

The Administrators' Report noted Convertible Notes of \$62.4m¹⁵. This amount appears to be the amount owed on or around the date of the Administrators' appointment on 16 July 2021 and does not factor in interest since that date. I have factored in ongoing interest at the applicable overdue interest rate of 17.25% to 31 August 2022. This is on the basis that before shareholders receive any value, creditors with interest bearing liabilities are entitled to paid ongoing interest obligations. I note that this amount is approximately \$12m.

The Group is party to a Co-operation Deed with Veolia relating to the bioreactor located at Woodlawn. It is noted that the Group has an obligation to provide up to \$10m in performance bonds to Veolia. I understand that the original \$10m requirement was negotiated down to \$9m¹⁶. I am also advised by Management that \$4m of bonds was provided to Veolia and then returned when Woodlawn entered Care and Maintenance and that the obligation to provide the remaining \$5m of bonds was never triggered¹⁷. Upon liquidation this may represent an additional claim in the Liquidation. This is potentially a complicated issue and accordingly, I have only factored this possible contingent liability in a Low liquidation scenario, but note the possibility that unsecured claims may increase as a result of this possible claim in other scenarios.

Table 16 – Estimated unsecured creditors

\$'000	Low	High	Preferred
Trade creditors	(32,532)	(25,915)	(29,224)
Statutory liabilities	(906)	(906)	(906)
Convertible Notes	(74,528)	(74,528)	(74,528)
Potential Veolia claim	(9,000)	-	-
Related party claims	(23)	(23)	(23)
Total Secured Debt	(116,989)	(101,372)	(104,681)

Source: Administrators report to creditors, Total Heron Liabilities Default Interest to end of October 2021

[This section has been left blank intentionally]

¹³ Administrators' Report Appendix 8, Note 6.

¹⁴ Ibid 13

¹⁵ Ibid 13

¹⁶ Heron Resources Ltd Information Memorandum p63

¹⁷ Advice from Management 17/3/22

5 Assets

The assets of the Group primarily consist of the Woodlawn copper lead zinc project. Other assets are comprised of Non-Woodlawn Assets being potential extensions to Woodlawn, existing interests in various surrounding tenements, joint ventures and royalties.

Assets, while legally individually owned by various entities within the Group and have been presented on a consolidated basis given the following:

- The Group's assets and liabilities are held predominantly in Heron and TO, that are subject to a Deed of Cross Guarantee¹⁸ resulting in Heron, TO and WMH being jointly and severally liable for each other's liabilities on liquidation.
- All secured debt is secured against the assets of all companies in the Group.
- Accordingly, the assets of the Group are effectively also the assets of Heron, and the net value of Heron is reflective of the assets and liabilities of each of the Group companies.

5.1 Woodlawn

5.1.1 Overview of Woodlawn

The Group's primary asset is Woodlawn, a copper and zinc mine producing also lead and by-products. Woodlawn is located 250km southwest of Sydney and 50km south of Goulburn in New South Wales. Woodlawn has been on Care and Maintenance since March 2020. The Woodlawn operating plan involved underground mining and the hydraulic mining of tailings as feed for the onsite concentrate processing plant. Ore concentrates would then be sold under an offtake agreement entered into with Louis Dreyfus Company Metals for all outputs other than silver by-product. Silver was to be delivered to Nomad under the Silver Stream facility. Shipping of ore concentrates was to take place from Port Kembla or Port Botany in NSW. Underground mining was undertaken by contractors Pybar Mining Services.

Woodlawn is located within Special Crown and Private Land Lease 20, otherwise known as Special Mining Lease 20 .

Mining has taken place at the Woodlawn site since 1978 at which time mining was open pit and later underground. Previous owner of the mine Denehurst Ltd ceased operations in 1998 at which stage Denehurst Ltd entered administration. Tri Origin Minerals Ltd acquired the mine from the administrators of Denehurst Ltd. Heron acquired its interest in the mine upon a merger with Tri Origin Minerals Ltd (later called TriAusMin Ltd) in 2014. From 2014 to 2019 the Group undertook feasibility studies, construction and commissioning of the mine and new processing plant.

As detailed at section 3.1.3 following construction delays, contractor performance issues, cost overruns, issues with achieving name plate performance, and COVID-19, the project was eventually placed on Care and Maintenance in March 2020 and subsequently Heron entered voluntary administration.

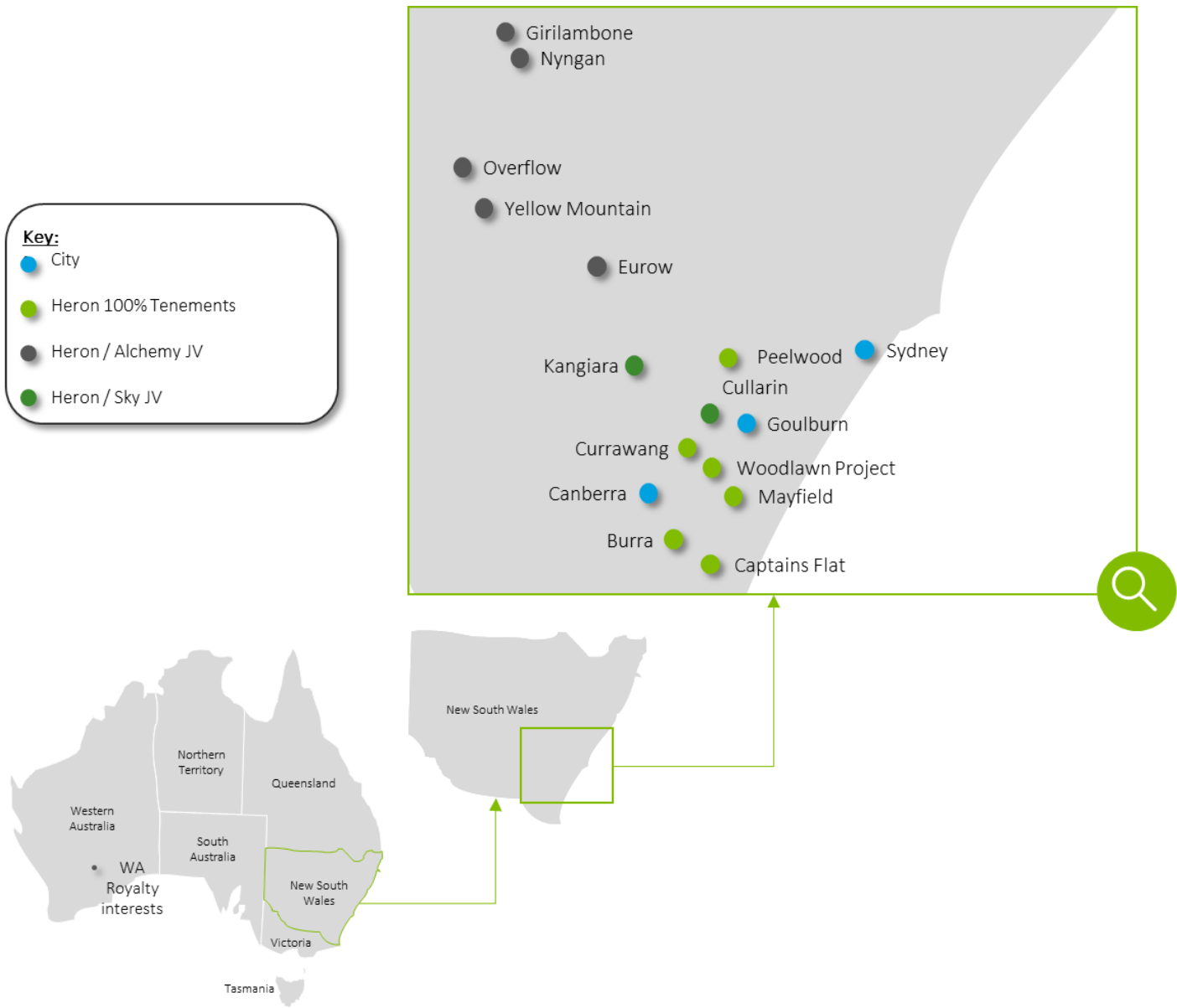
In 2008 an agreement was entered into with Veolia whereby Veolia would use the former open pit to house a bioreactor facility treating containerised putrescible waste. Veolia continues to use the site presently.

The value of Woodlawn has been assessed separately, based on the DCF Model.

[This section has been left blank intentionally]

¹⁸ Ibid 8

Figure 5 - Location of Woodlawn and other assets



[This section has been left blank intentionally]

5.2 Non-Woodlawn Assets

5.2.1 Woodlawn Project Extensions

There is additional underground potential from known resources and likely mineable extensions within Woodlawn itself that is not already factored into the DCF Model.

5.2.2 Satellite Deposits

The Woodlawn mine is located within Special Mining Lease SML 20. The Woodlawn site is surrounded by a larger Exploration Licence (EL 7257) which is held 100% by Heron. This exploration licence covers an area of 174km² and covers the previous Currawang Mine located 10km to the northwest of Woodlawn.¹⁹ The Currawang mine, along with the Cowley Hills mine, 2km to the northeast of Woodlawn (and within the Woodlawn SML), provided satellite feed to the previous Woodlawn operations.²⁰

5.2.3 NSW Regional Tenements/Interests

The Group holds 10 exploration licences to the north and south of Woodlawn covering approximately 1,206km², including the Satellite Deposits.

Table 17 – Exploration Licences

Tenement	Name	Area km ²	Granted	Expiry
EL 7257*	Currawang	174.3	14.11.08	14.11.26
EL 7468	Cullarin South	19.7	04.03.10	04.03.23
EL 7469	Mulloon	61.7	04.03.10	04.03.23
EL 8325	Sandy Point	179.8	03.12.14	02.12.23
EL 8353	Boro	44.9	17.03.15	17.03.24
EL 8623	Black Springs	153.7	17.07.17	17.07.23
EL 8712	Peelwood	92.8	05.03.18	05.03.24
EL 8796	Captains Flat	66.7	25.09.18	25.09.24
EL 8797	Burra	72.5	25.09.18	25.09.24
EL 8945	Mayfield	290	19.02.20	19.02.23

Source: BDA Report

*Valued separately within Satellite Deposits

5.2.4 Alchemy JV

Heron has an interest in a joint venture with Alchemy covering an area of 1,059km² comprising base metal and gold prospects in the Parkes and Nyngan regions of NSW. Alchemy has earned an 80% interest by expenditure of \$2.0M on exploration over three years²¹.

The joint venture farm-in agreement dated May 2016 covers 1,059km² of the Lachlan Fold Belt in central NSW, including ELs 5878, 7941 and 8267 (Overflow), 8192 (Eurow), 8318 (Girilambone), 8356 (Yellow Mountain), 8631 (Nyngan) and 8711 (Barraba). At the Overflow project drilling has intersected broad zones of gold and base metal mineralisation. At Nyngan an alumina resource and underlying nickel-cobalt laterite mineralisation have been defined²².

In 2020 the Group attempted to sell this interest as part of the sale and recapitalisation processes discussed at section 3.4. No interest was received and the process was discontinued in October 2020²³.

Under the applicable joint venture agreement Alchemy has a right of first refusal on any sale.

5.2.5 Sky JV

On 9 October 2019 Heron announced an agreement whereby Sky Metals would farm in to three of its NSW regional tenements, Cullarin, Rosevale and Kiangara covering an area of 340km². The farm-in agreement provided an option period of 12 months in which Sky Metals would spend A\$0.4M on in-ground exploration. Sky Metals could then determine whether or not to proceed with the farm-in, and if it proceeded, it must spend a further A\$1.6M (A\$2.0M in total) to earn an 80% interest in the properties. On 29 July 2020 Heron acknowledged that Sky Metals

¹⁹ BDA Report section 6.1

²⁰ Ibid 19

²¹ FY21 Heron Annual Report p10

²² BDA Report section 6.2

²³ BDA Report section 7.8

had earned its 80% interest with Heron retaining a 20% interest, free carried through to completion of a definitive feasibility study or expenditure of A\$10M.²⁴

Similar to the Alchemy JV interest, the Group unsuccessfully attempted to sell its interest in 2020.

5.2.6 WA Interests and Royalties

Heron's WA interests comprise a 1.5% royalty on any gold production capped at 150,000ozs on various tenements located 70-80km northwest of Kalgoorlie covering an area of approximately 42km², which were sold to Eastern Goldfields Ltd in January 2017, plus a future payment of A\$1M if a reserve of 100,000ozs of gold is identified. No ore grade gold intercepts have been achieved to date and the tenements were formerly held principally for their nickel laterite potential²⁵. The project area comprises two exploration licences (5 blocks), 12 mining leases and six prospecting licences.

In addition, Heron holds a 2.5% gold royalty capped at A\$5M and then reducing to a 1% net smelter return on a tenement in the Kambalda region held by St Ives Gold Mining Company. Heron also retains the nickel rights.

5.3 Plant and equipment

Gordon Brothers have prepared a valuation of the Group's plant and equipment, including the processing plant. Gordon Brothers first valued the plant and equipment as at 14 September 2021 for the Administrators. I have relied upon a refreshed valuation provided by Gordon Brothers dated 1 March 2022. In undertaking the refreshed valuation Gordon Brothers reviewed their original valuation, held discussions with the Administrators, considered Care and Maintenance that has taken place and considered current market conditions

The P&E Valuation was prepared in accordance with the Uniform Standards of Professional Appraisal Practice. The P&E Valuation was prepared on both a "Fair Market Value in Continued Use with Assumed Earnings" basis and on an "Orderly Liquidation" basis. The former is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of facts, as of a specific date and assuming that the business earnings support the value provided, without verification. The latter is an opinion of the gross amount, expressed in terms of money, that typically could be realised from a liquidation sale, given a reasonable period of time to find a purchaser, with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.

The P&E Valuation relied heavily upon a Cost Approach, whereby value is derived by estimating the current cost to reproduce or replace the property, deducting for all depreciation, physical deterioration, functional obsolescence and external/economic obsolescence. A Sales Comparison was used where appropriate, which derives value by comparing the property to similar assets that have been recently sold or are available for sale.

The stand-alone value of plant and equipment is not relevant in so far as its value is already captured in the value of Woodlawn on a DCF basis. The value of plant and equipment would only be relevant if the value of Woodlawn was less than the value of the plant and equipment on a stand-alone basis. This is the case in my Low scenario analysis.

Further information regarding the valuation methodology is discussed within the P&E valuation itself at Annexure H and estimated values are discussed further in Section 6 of this Report.

5.4 Insolvent trading and other recoveries available to a liquidator

The Administrators' Report indicated that, based on initial investigations there were no likely recoveries for breaches of the Act relating to insolvent trading, unfair preferences or any other voidable transactions. My analysis in this regard has been limited to a review of the Administrators' initial investigations as reported in the Administrators' Report. In my review I have seen nothing to suggest the Administrators' investigations are deficient and/or that likely recoveries may exist.

I draw particular reference to the fact that the Administrators have found that the date of insolvency to be on or around the date of appointment of the Administrators. I make specific reference to the following:

- The Administrators found that in the 12 months leading up to the appointment date, the Company had adequate cash to pay its debts as and when they became due and payable, due to forbearance arrangements and available Care and Maintenance funding lines.

²⁴ BDA Report section 7.8

²⁵ BDA Report section 7.9

- The Company commenced a strategic process, which included seeking a combination of debt and equity funding (noting it had raised equity on two previous occasions between 2017-2020) and the directors believed they had reasonable prospects (supported by external advisors) of a capital raise/accessing additional funding up until market close on 14 July 2021.
- The appointment of the Administrators occurred on 16 July 2021.

5.5 Other assets

I have not considered restricted cash of \$3.6m as detailed at page 37 of the Administrators' Report as being available to creditors and shareholders in a liquidation. This cash represents environmental bonds (\$3.6m). I have assumed any purchaser of Woodlawn would seek a transfer of the cash security supporting the environmental bond and factor that into their purchase consideration. This is not an unusual outcome and this is how the cash is effectively being treated in the DGL DOCA.

The Administrators obtained a Court order that \$1.009m of cash held by the Group at the date of appointment of the Administrators would be paid into a separate account and preserved for meeting employee entitlements only. This being the "ring-fenced" cash. As employee entitlements are estimated by the Administrators at only \$655k, there exists a surplus of \$354k available to creditors.

The Group also owns 12m shares in Alchemy, which is an ASX listed company. The Group also owns 12.5m options with an exercise price of \$0.10. As Alchemy's share price as at 1 March 2022 was \$0.013²⁶ the options currently have no value.

[This section has been left blank intentionally]

²⁶ www.asx.com.au

6 Valuation

6.1 Methodology

In determining my opinion, I have utilised opinions from the following experts who were appointed to consider the value of the assets of the Group:

- Mr Reid's comments as to the fair market valuation of Woodlawn on a DCF basis. This is discussed further at Section 6.3.1 of this report.
- BDA's valuation of the Non-Woodlawn Assets. This is discussed further at Sections 6.3.2 to 6.3.7 of this report.
- The P&E Valuation prepared by Gordon Brothers (discussed further at Section 6.3.8 of this report).

ASIC Regulatory Guide 111 – Content of Expert Reports lists the following methodologies as appropriate for an expert to consider:

- The discounted cash flow method and the estimated realisable value of any surplus assets.
- The application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- The quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale.
- Any recent genuine offers received by the target for the entire business, or any business units or assets as a basis for valuation for those business units or assets.
- The amount that would be available for distribution to security holders on an orderly realisation of assets.

I have considered the above guidance, valuation methodologies commonly utilised, as well as the advice of the experts, Mr Reid, BDA and Gordon Brothers, and have determined that the most appropriate methods of valuation are those employed by each of Mr Reid, BDA and Gordon Brothers. I make the following comments in respect to the alternative valuation methodologies below and in support of my reasoning in choosing the most appropriate methodologies:

- The discounted cash flow method is appropriate for the valuation of Woodlawn, as there exists projected cash flows over the life of Woodlawn, Woodlawn has a finite life and significant capital expenditure will be required to restart operations at Woodlawn. The DCF method is commonly used to value mining projects²⁷. BDA also support Mr Reid's opinion on the appropriateness of using the DCF basis of valuation for Woodlawn. BDA note that If a project is in operation, under development, or at a final feasibility study stage and reserves, mining and processing recoveries, and capital and operating costs are well defined, it is generally accepted that the net present value of the project cash flows is a primary component of any valuation study²⁸.
- The earnings multiples method is inappropriate as there is no acceptable future maintainable earnings information to enable value to be calculated, and previous trading periods have been loss-making since September 2018 . Refer section 3.3.1 and 3.3.2.
- The quoted price for listed securities method is inappropriate because Heron's shares have been suspended from trading upon the ASX since 16 July 2021, and accordingly, there is no liquid and active market for Heron's securities.
- In relation to the consideration of the recent genuine offers method, the Administrators undertook a sale process from August 2021 to February 2022 for the Group, whereby 17 confidentiality agreements were signed and 6 NBIOs were received. Following further due diligence 3 final proposals were submitted. None of the proposals submitted were sufficient to repay all indebtedness of the Group. The Group had also undertaken a sale and/or recapitalisation process prior to Administration, which failed.
- In respect to plant and equipment and the Non-Woodlawn Assets I have considered the amount that would be available for distribution to security holders on an orderly realisation of assets as being an appropriate methodology as the Group is insolvent.

To summarise, the following methodologies have been utilised by the relevant experts to form an opinion as to the value of the Company's assets:

²⁷ DCF Valuation Analysis p10
²⁸ BDA Report section 3

Table 18 – Valuation methodologies

Asset type	Expert	Primary method
Woodlawn	Stephen Reid with input from BDA	DCF
Plant and equipment	Gordon Brothers	Replacement cost
Non Woodlawn Assets		
Woodlawn Project Extensions	BDA	DCF
Satellite Deposits	BDA	DCF
NSW Regional Tenements	BDA	Exploration expenditure multiple
Alchemy JV & Sky JV	BDA	Alternative Offers & Joint Venture Terms
WA Interests & Royalties	BDA	Alternative Offers

Source: BDA Report; DCF valuation Analysis; P&E Valuation

6.2 Valuation Summary

A summary of the valuation of the Company's assets based on three scenarios (Low, High and Preferred) is tabled below:

Table 19 – Valuation summary

\$'m	Note	Low	High	Preferred
Woodlawn	6.3.1	N/A	130.00	115.00
Plant and equipment	6.3.8	8.34	N/A	N/A
Non Woodlawn Assets				
Woodlawn Project Extensions	6.3.2	4.00	7.50	5.70
Satellite Deposits	6.3.3	1.00	1.40	1.20
NSW Regional Tenements	6.3.4	2.60	3.10	2.90
Alchemy JV	6.3.5	0.08	0.12	0.10
Sky JV	6.3.6	0.06	0.10	0.08
WA Interests & Royalties	6.3.7	0.50	0.70	0.60
Other assets	6.3.9	0.50	0.52	0.51
Total Assets		17.09	143.44	126.09

Source: BDA Report; DCF Valuation Analysis; Deloitte analysis

6.3 Asset Valuation

6.3.1 Woodlawn

A DCF valuation involves the determination of fair market value by discounting an entity's future cash flows using an appropriate cost of capital (discount factor or rate) to reflect the risks of the cash flows, to a net present value.

The DCF Model was prepared by the Company with assistance from Azure to assist with the sale process. There were three different financial models prepared by Azure: Underground First, underground ore processed first, tailings second model, Tailings First, tailings ore processed first, underground mining second model, and Underground Only, underground mining only model. Only Underground First and Underground Only were made available to me in the dataroom and key outputs are:

- Underground First NPV \$396m.
- Tailings First NPV \$405m²⁹.
- Underground Only NPV \$180m

I have been informed that only the Underground First and Tailings First models were made available by the Administrators to potentially interested parties. The Administrators have advised that the Underground First model was the primary model used to market Woodlawn.

Having regard to the above, I asked Mr Reid to perform his work on the underground first, tailing second model for the following reasons:

1. This is the DCF Model adopted by Management and reflects their chosen operating model.

²⁹ Heron Resources Ltd Information Memorandum p8

2. The Underground First model was the subject of Management presentations to interested parties and the focus of due diligence questions from interested parties³⁰. BDA verbally advised that a focus on an Underground First model, generally aligns with market sentiment when it comes to mining tailings.
3. In any event, the NPV is broadly the same as Tailings First (and I understand this is because it reflects broadly the same mining inputs but in a different order).
4. The values of Underground First & Tailings First are materially above Underground Only.

Notwithstanding comment 2 above, I have been informed by the Administrators that interested parties generally didn't accept the NPV provided by Model 1 and this is reflected in the value prescribed by DGL in its DOCA proposal of \$137.5m (inclusive of contingent consideration) and other offers received.

Given there appears to be low regard to the DCF Model Output, demonstrated by the notional consideration of the offers received by the Administrators during their sale process being much less than the DCF Model Output, I asked that Mr Reid consider this model, and to provide an independent analysis on the NPV of Woodlawn that this model produces.

Mr Reid noted several intrinsic and external factors impacting the value of Woodlawn derived from the DCF Model³¹:

- A significant portion of the volumes produced in the DCF Model are from inferred resources. Inferred resources are the least reliable classification of mineral resources. Actual volumes could be materially lower than forecast and to allow for this Mr Reid has added a specific risk premium to the discount rate used in the DCF Model.
- Mr Reid notes that prices of commodities have spiked recently, and that all minerals that Woodlawn is forecast to produce are at record all-time price highs. It is unclear the extent to which these high prices will be sustained throughout Woodlawn's short 122 month useful life. Mr Reid has applied analyst consensus prices as at 21 March 2022.
- The estimated costs to restart operations could be understated due to the preliminary nature of capital cost estimates for process plant improvements required prior to restart. The DCF Model forecasts \$75m will be required to restart operations. A potential purchaser would need to not only raise the capital to acquire Woodlawn but also to fund start up costs.
- Ramp-up of operations could be delayed by further COVID-19 outbreaks.
- Forecasts for most operating and capital costs were formulated 12 to 18 months ago. Given ongoing tight global supply chain and global inflationary pressures, such costs could be significantly understated in the DCF Model. BDA noted anecdotally that operating and capital costs could be upwards of 10% to 15% higher than forecast in the DCF Model.

Mr Reid notes that all of the above factors (with the exception of commodity prices), have the potential to cause a decline in the value of Woodlawn.

Mr Reid also noted that the DCF Model has modelled cash flows after tax, assuming the utilisation of \$182m in tax losses. Such tax losses would likely not be available in a liquidation sale scenario, and accordingly Mr Reid discounted these completely in his analysis.

Mr Reid undertook sensitivity analysis to factor in potential upward and downward commodity, operating costs and capital cost price changes, as well as for exchange rate movement.

Mr Reid has considered the DCF Model, and after factoring in his own views as to certain critical inputs, has provided a value in the range of \$100m to \$130m based on a discount rate of 13.25% to 14.5%.

[This section has been left blank intentionally]

³⁰ Advised by Administrators 17/3/22

³¹ DCF Valuation Analysis section 1.3

Mr Reid also produced a range of values based upon the various risk factors discussed above and these are included in section 1.3 of his report.

I note that Mr Reid's analysis does not constitute a formal valuation, however it is a valuation analysis which has considered the Discounted Cash Flow method to estimate a realisable value that can be determined from the DCF Model. This approach was taken as it was clear from the sales process undertaken that the genuine offers received had not accepted the NPV presented by the DCF Model. I view this approach as acceptable given this feedback and the fact that a formal valuation based on the model would not be undertaken by a liquidator in a liquidation scenario.

I believe the evidence from the Administrators' sales process supports this analysis. As referred to in Section 3.4, I believe the Administrators undertook a robust sales process and appeared to have received recent genuine offers for the entire business. I reference a number of points that support the approach and findings noted above:

- The range of consideration to be paid under the DGL offer is \$30.5m-\$137.5m, which is consistent with the range above (see Table 8). The contingent nature of \$107m of consideration appears to support the number of uncertainties in the DCF Model;
- Buyer feedback cited a number of the points noted above as being impediments to value or proceeding to a transaction; significant capital expenditure; ramp-up risks; legacy COVID-19 risks (resourcing, supply chain)³².
- The Secured Creditors have supported this transaction.
- Given my comments in section 4.1.3 it is unlikely that a liquidators' sale would result in an improved transaction value to that achieved from the sales process undertaken by the Administrators.
- This DCF Model was prepared for the sales process and can be viewed as a "sellers model".

Based upon Mr Reid's findings and my comments as to a likely liquidation process at 4.1.3, I have applied a range of values as per Table 20 below. The High scenario is the upper end of Mr Reid's range of value and the Preferred scenario is the mid-point in Mr Reid's range. In a Low scenario I have assumed that no funding is provided for Care and Maintenance and that Woodlawn assets are disclaimed because of onerous obligations on the Liquidators. In a Low scenario only the value of plant and equipment that forms part of Woodlawn is realised. I consider the Low scenario unlikely, as a quick sale to previously interested parties would be more likely to occur.

Table 20 – Woodlawn value summary

\$'m	Low	High	Preferred
Woodlawn	N/A	130.0	115.0
Plant and equipment	8.3	N/A	N/A
Woodlawn value summary	8.3	130.0	115.0

Mr Reid provided an explanation of the reasons for the key difference between his views on the value of Woodlawn (\$100m to \$130m) and the DCF Model Output of the Underground First model (\$396m) as follows:

- Projected cash flows are adjusted to reflect nominal terms whereas Management's cash flows were in real terms.
- The commodity prices reflect the forward curve until December 2023 and the latest available analyst consensus prices (valid at 21 March 2022) at the date of Mr Reid's report, as compared to Management's model which was based on commodity prices that existed at the time the model was developed (which are now outdated). In addition, Mr Reid's adopted commodity prices are in nominal terms whereas Management's adopted commodity prices are in real terms.
- The forecast operating and capital costs in the DCF Model have been increased by 10%, as suggested by BDA, given that these costs were modelled 12 to 18 months ago. Costs have increased significantly since then.
- Mr Reid's nominal post-tax discount rate of 13.25% to 14.50% which reflects a specific risk premium of 100 basis points to 200 basis points to reflect the fact that 50% of the volumes produced from the underground mine from Year 4, which have been modelled in the DCF Model, are from inferred resources. Management adopted a real discount rate of 8%.
- Mr Reid assumed that Heron will not benefit from the tax losses of \$182.2m upon change of ownership.
- Other adjustments include the update of the valuation date to 28 February 2022 (previously 30 September 2021), the update of the assumed restart date of operations to 1 September 2022 (previously 1 October 2021) and the inclusion of care and maintenance costs \$550k (real dollars) per month from March to August 2022.

³² Discussions with the Administrators

6.3.2 Woodlawn Project Extensions

BDA has valued the Woodlawn Project Extensions based upon the net present value impact to the value of Woodlawn from an extension to the project's mine life. A one year extension adds approximately \$8.0m to the value of Woodlawn under the DCF Model, whilst two year extension adds approximately \$15m. BDA considers a willing and knowledgeable buyer would anticipate a minimum one year increase in the Woodlawn mine life and possibly two years. BDA considers a willing and knowledgeable buyer would apply a risk factor of around 50%. BDA therefore ascribes a value of \$4.0m to \$7.5m with a most likely value of \$5.7m³³.

6.3.3 Satellite Deposits

Similar to the Woodlawn Project Extensions, BDA consider the Satellite Deposits have the capacity to provide an additional four months of material to Woodlawn. Based upon a one year extension equating to \$8.0m in increased value of Woodlawn, BDA state that the Satellite Deposits may add \$2.4m to the value of Woodlawn. BDA considers a willing and knowledgeable buyer would apply a risk factor of around 50%. BDA therefore ascribes a value of \$1.0m to \$1.4m with a most likely value of \$1.2m³⁴.

6.3.4 NSW Regional Deposits

BDA state that these tenements contain significant mineralisation which could add to the mine feed for Woodlawn or support a stand-alone operation. BDA has valued these tenements on the basis of a multiple of historical exploration expenditure. The multiple applied of 2.0-2.4x is based upon the scale and results of past exploration. BDA consider a value of \$2.6m to \$3.1m and adopted the mid-point of \$2.9m as the most likely value³⁵.

6.3.5 Alchemy JV

BDA adopted an alternate offers basis for valuing the Group's interest in the Alchemy JV. BDA considered the sales process undertaken by the Administrators and that the only offer was for \$100k. BDA consider that the Group's 20% interest and Alchemy's right of first refusal, results in this asset having limited appeal. BDA provide a value of \$80k to \$120k, with a most likely value of \$100k³⁶.

6.3.6 Sky JV

BDA adopted an alternate offers basis for valuing the Group's interest in the Sky JV. BDA considered the sales process undertaken by the Administrators and that the only offer was a verbal one for \$75k cash. BDA consider that the Group's 20% interest and Sky Metals' right of first refusal, results in this asset having limited appeal and that Sky Metal's offer provides a realistic estimate of market value. BDA provide a value of \$60k to \$100k, with a most likely value of \$80k³⁷.

6.3.7 WA Interests and Royalties

BDA adopted an alternate offers basis for valuing the Group's royalty interests. BDA considered the sales process undertaken by the Administrators that resulted in only one cash and scrip offer of \$600k. BDA considers that Heron's WA interests will have limited appeal and the existing offer provides a realistic estimate of the likely market value. BDA assess the value in a range of \$0.5m-\$0.7m with a most likely value of \$0.6M.

6.3.8 Plant and equipment

The stand-alone value of plant and equipment is not relevant to my analysis in a High and Preferred scenario, as its value is captured in the value of Woodlawn on a DCF basis and the value of Woodlawn on a High and Preferred scenario is greater than the stand-alone value of the plant and equipment. The below commentary is provided only for information purposes.

As detailed at section 5.3, the P&E Valuation relied heavily upon a Cost Approach and a Sales Comparison was used where appropriate.

Gordon Brothers noted that in an orderly liquidation scenario, due to the limited demand for a full working facility and the costs of removal, the Woodlawn plant would likely be broken up into key processing areas for sale. Gordon Brothers recommended that the sale of plant and equipment taken place via expressions of interest, online auction and a tender for salvage assets. Gordon Brothers suggested the sale process run over a period of 6 to 12 months. I note that in my liquidation scenario I have assumed only a three month selling process, on the basis that

³³ BDA Report section 7.4

³⁴ BDA Report section 7.5

³⁵ BDA Report section 7.6

³⁶ BDA report section 7.7

³⁷ BDA Report section 7.8

the Group's assets have already been through a sale and recapitalisation process by the Administrators. In any event, a longer selling period would only add to holding costs and therefore overall indebtedness.

Gordon Brothers have assumed the processing plant could be made operative again at its intended nameplate specifications. Deductions on major processing assets have been made to take into account potential make-ready costs and rectifications costs.

The valuation of Stores & Spares Inventory is subject to limitations in that Gordon Brothers were unable to physically inspect all items and relied upon the Group's stocktake and inventory sale records. It is also possible that some of these items have since been used in the Care and Maintenance of Woodlawn, thus reducing the valuation figure.

The plant and equipment values are tabled below. The Gordon Brothers orderly liquidation valuations have been applied in a preferred scenario. In my experience, actual value realised will often be higher or lower than valuation. To allow for variance between valuation and actual realisation I have factored in a +/- 5% adjustment on a Low and High scenario respectively. I note that given the current economic climate with supply chain disruption, labour shortages and fuel price increases, that this may impact the capacity of interested parties to acquire the plant and equipment, nevertheless I rely upon the Gordon Brothers as the appropriate expert in ascribing a value to the plant and equipment.

Table 21 – Estimated plant and equipment value

\$'000	Low	High	Preferred
Processing plant	4,889	5,404	5,147
General plant	521	575	548
Admin, Lab & Workshop	525	581	553
Mobile Plant	399	441	420
Stores & Spares Inventory	902	997	949
Financed and leased assets	1,107	1,224	1,166
Total Other Assets	8,344	9,222	8,783

Source: P&E valuation (Appendix H)

6.3.9 Other assets

In respect to the shares in Alchemy I have factored in a +/- 5% adjustment on a Low and High scenario respectively on the closing price (\$0.013) of the shares on 1 March 2022 as per the ASX. Preferred is the closing price without adjustment. Restricted Cash and surplus ring-fenced cash is discussed at section 5.5.

Table 22 – Other assets

\$'000	Low	High	Preferred
Surplus ring-fenced cash	354	354	354
Alchemy shares	148	164	156
Total Other Assets	502	518	510

Source: Administrators' Report, ASX

6.4 My opinion as to asset value

In my opinion, the asset valuation figures are higher than what I would consider reasonable on a liquidation basis for the following key reasons which would negatively impact on the value of the assets:

- *Valuation methodology* - Given that the scope of the valuation only requested an opinion on the fair market value of assets, the valuation figures provided by Mr Reid and BDA do not consider the implications of a sale under a liquidation scenario. I consider that a discount should be applied to the ascribed values to reflect the circumstances of a liquidation sale. Factors that would impact on any liquidation discount incurred include (but are not limited to):
 - a potential buyer leveraging the publicly available knowledge of the vendor's historical performance and current circumstances with respect to the Company and its assets.
 - a potential buyer having knowledge that there has already been a failed sales process.
 - parties being naturally opportunistic when seeking to acquire assets from a liquidator.
 - the circumstances of the seller, being a liquidator who is anxious and highly motivated to complete a transaction to sell the assets of the Group.

- the nature of the asset acquisition, being on an “as is, where is” basis, and with no provision of representations or warranties (or in other words, the consideration and application of a risk discount by a potential buyer).
 - any limitations on the sale process or asset state that are not currently considered (i.e. risk that funding for Care and Maintenance costs or costs associated with completing the sale process could be withdrawn, thereby increasing the potential discount a buyer would ascribe against their offer for the assets).
 - complicating factors in relation to COVID-19 and its impact on continued uncertainty around appropriate supply and labour acquisition, thereby risking an increase in the holding time and subsequent costs for the mining assets.
 - global uncertainty caused by the war in Ukraine.
- *Previous sale process* – The Administrators undertook a sale process which was not sufficient to repay the total indebtedness of the Company at the time. There is no certainty that any better offers would be received in a liquidation.

Based upon my experience as a liquidator, this discount to value could be in the magnitude of 30% Low, 5% High and 15% Preferred. A higher discount is reflective of a situation where there is no Care and Maintenance, global security and COVID-19 conditions worsen and circumstances dictate a quick sale, whilst a lower discount reflect conditions more akin to the status quo. I note that this could be lower in the Low scenario if the Liquidators were to disclaim the asset, however I believe this would likely be avoided based on my comments in section 4.1.3.

Despite my comments above, I have not applied discounts to reflect the potential reduction in value for liquidation sale conditions. On this basis my opinion as to value in favour of shareholders is inherently conservative or to put it another way, over-valued. The following table illustrates the impact of a discount for a liquidation sale. I have not considered these discounts in detail and they are shown for illustrative purposes only and do not form part of my assessment of the value of the Group’s assets and liabilities for the purposes of this report. In the analysis below I have not applied the 30% discount to the value of plant and equipment as I have already discounted this by 5% and the valuation is already based upon an Orderly Liquidation.

Table 23 – Adjusted total asset and liability summary

\$'m	Low	High	Preferred
Woodlawn	N/A	130.000	115.000
Plant and equipment	8.344	N/A	N/A
Non Woodlawn Assets			
Woodlawn Project Extensions	4.00	7.50	5.70
Satellite Deposits	1.00	1.40	1.20
NSW Regional Tenements	2.60	3.10	2.90
Alchemy JV	0.08	0.12	0.10
Sky JV	0.06	0.10	0.08
WA Interests & Royalties	0.50	0.70	0.60
Total	16.58	142.92	125.58
<i>Liquidation discount (%)</i>	<i>30%</i>	<i>5%</i>	<i>15%</i>
<i>Liquidation discount (\$)</i>	<i>(2.47)</i>	<i>(7.15)</i>	<i>(18.84)</i>
Adjusted asset value	14.11	135.77	106.74
Other assets	0.50	0.52	0.51
Total adjusted assets	14.61	136.29	107.25
Total indebtedness	(312.53)	(304.87)	(306.33)
Adjusted surplus/(deficiency) to shareholders	(297.91)	(168.58)	(199.08)
Adopted surplus/(deficiency) to shareholders for the purposes of this report	(295.44)	(161.43)	(180.24)

Source: Deloitte Analysis

[This section has been left blank intentionally]

7 Valuation Summary and opinion

7.1 Asset Summary

Set out below is a summary of the Company's estimated assets on a fair market value basis:

Table 24 – Estimated total asset summary

\$'m	Note	Low	High	Preferred
Woodlawn	6.3.1	N/A	130.00	115.00
Plant and equipment	6.3.8	8.34	N/A	N/A
Non Woodlawn Assets				
Woodlawn Project Extensions	6.3.2	4.00	7.50	5.70
Satellite Deposits	6.3.3	1.00	1.40	1.20
NSW Regional Tenements	6.3.4	2.60	3.10	2.90
Alchemy JV	6.3.5	0.08	0.12	0.10
Sky JV	6.3.6	0.06	0.10	0.08
WA Interests & Royalties	6.3.7	0.50	0.70	0.60
Other assets	6.3.9	0.50	0.52	0.51
Total Assets		17.09	143.44	126.09

Source: Deloitte Analysis

Please refer to the sections as noted above for further particulars with respect to specific assets.

7.2 Total Indebtedness

Set out below is an estimate of the Company's total indebtedness in a liquidation scenario:

Table 25 – Estimated total indebtedness summary

\$'m	Note	Low	High	Preferred
Secured debt	4.1.1	(186.3)	(186.2)	(186.2)
Administrators' fees, costs and financial obligations	4.1.2	(8.5)	(8.5)	(8.5)
Care and maintenance	4.1.4	-	(3.3)	(3.3)
Liquidators' fees and costs	4.1.5	(0.5)	(0.5)	(0.5)
Realisation costs	4.1.6	(0.3)	(5.0)	(3.2)
Unsecured creditors	4.1.7	(117.0)	(101.4)	(104.7)
Total Indebtedness		(312.5)	(304.9)	(306.3)

Source: Deloitte Analysis

Further details of the above assumptions are provided in Section 4 of this report.

7.3 Opinion

Based on my analysis, the Company's total indebtedness range of \$304.9m to \$312.5m materially exceeds the highest fair market value estimate of its assets of \$143.4m, with asset and liability ranges summarised below:

Table 26 – Estimated surplus/(deficiency) to shareholders

\$'m	Low	High	Preferred
Total assets	17.1	143.4	126.1
Total indebtedness	(312.5)	(304.9)	(306.3)
Surplus/(deficiency) to shareholders	(295.4)	(161.4)	(180.2)

Source: Deloitte Analysis

While all of the above scenarios produce a deficiency to shareholders, I consider the analysis is inherently conservative due to a number of factors discussed in Section 6.4 of this Report that would further increase the deficit.

Accordingly, and having regard to the comments and analysis contained within this report, I am of the opinion that the residual equity value of shareholders in the Company is nil.



Sam Marsden

Partner

Deloitte Financial Advisory Pty Ltd

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Appendix A – Sources of information

The list of source documents provided in preparing this Report are set out below:

- Various announcements released on the ASX by the Company
- Expert Evidence Practice Note (GPN-EXPT)
- ASIC Regulatory Guide 111 – Content of Expert Reports
- ASIC Regulatory Guide 112 – Independence of Experts
- **Various responses to queries by the Administrators**
- W1 - 2021903 Heron NBIO.pdf
- W2 - Alchemy and Sky JV - Interested Parties.xlsx
- W3 - Heron Resources Limited (Administrators Appointed) - sale of 20% interest in the highly-prospective Alchemy Resources J.msg
- W4 - Heron - Alchemy Resources JV Purchase Offer - 5 October 2021.pdf
- W5 - Heron Resources Limited (Administrators Appointed) - sale of 20% interest in the Cullarin and Kangiara projects held in JV with Sky Metals.msg
- W6 - Heron - Cullarin Kangiara JVI purchase offer v Final 29-9-21.pdf
- W7 - IZZ Factsheet Oct 2021.pdf
- W8 - Offer Letter (Argonaut PCF 21Oct 2021).pdf
- 210721 Crushing and Grinding Design and Cost Estimate.pdf
- 210721 Flotation Design and Cost Estimate.pdf
- 210721 Processing Improvement Project Scope of Works.pdf
- 210721 Reagents Design and Cost Estimate.pdf
- 210721 Water Systems Design and Cost Estimate.pdf
- 2.3 FULLY EXECUTED - IXOM Deed of Settlement and Release - 13.08.2020.pdf
- CS Leasing - Amendment Deed - Fully Executed - 5 November 2021.pdf
- FW Tarago payout..msg
- Ixom - Formal POD.pdf
- Nissan - Payout Quote 443556.pdf
- Nissan - Payout Quote 443560.pdf
- Nomad POD and Stream Agreements.PDF
- NPE Proof of debt - 26.07.21.pdf
- Sedgman - Formal POD.pdf
- Sedgman_ Deed of Settlement and Release.pdf
- Toyota Payout Quote 13263854.pdf
- Toyota Payout Quote 13320796.pdf
- 11. Conv Note Sub Agree Pt1-GREENSTONE-04102019083802-0001.pdf
- 12. Conv Note Sub Agree Pt2 -GREENSTONE-04102019084110-0001.pdf
- 5. Conv. Note Sub Agree. ORION-04102019100729-0001.pdf
- 6. Conv. Sub. Agree Castl lake-04102019102208-0001.pdf
- Convertible Notes - register-listing-report.xlsx
- Total Heron Liabilities Default interest to end of October 2021.xlsx
- 1114_Heron Resources-Alchemy-Farm-in and JV Agreement.pdf
- 1148_Heron Resources-Ardea Res-Atriplex and Siberian-Tenement Sale and R....pdf
- 1215_Heron Resources_Ochre Resources_Alchemy Resources_Variation of Farm-in and Joint Venture.pdf
- 1293_Heron Resources_Tarago Exploration_Ochre Resources_Sky Metals_Aurium Metals_Farm In and Joint Venture Agreement.pdf
- 864_NSR Royalty Agreement_Between Heron Resources & St Ives Gold Company....pdf
- 886_TenementSale_Heron_KCGM.PDF
- Heron_Sky_Acknowledgement_80%_July2020.pdf
- 191209 - Finance Report Nov19 Template.pdf
- Finance Report Mar19.pdf
- Finance Report Apr19.pdf
- Finance Report May19.pdf
- Finance Report Jun19.pdf
- Finance Report Sep18.pdf
- Finance Report Oct18.pdf
- Finance Report Nov18.pdf

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- Finance Report Mar20.pdf
- Finance Report Oct19.pdf
- Finance Report Nov19.pdf
- Finance Report Sep19.pdf
- Finance Report Dec19.pdf
- Finance Report Feb20.pdf
- Finance Report Jan20.pdf
- Finance Report Jul19.pdf
- Finance Report Mar20.pdf
- Finance Report Aug19.pdf
- Copy of VALXXX_Heron Resources Catalogue - DRAFT 20210917 Copy to FTI.xlsx
- Heron Resources _ME Valuation Engagement letter 20210817 - executed.pdf
- Heron Resources Valuation Report 2021.pdf
- (executed) Heron - Administrator Facility Agreement.PDF
- 2021 Heron Financial Statements - unaudited.pdf
- Amend. Deed - Loan Facility -04102019093443-0001(52045420.1).pdf
- 10.(a) FTI Memo Sale Process for Woodlawn Surplus Assets.docx
- 11. Woodlawn Metallurgical Review Tailings Only- Mineralis 24 Aug 2021.pdf
- 1171_ Heron Resources and sub companies-Veolia-Co-operation Deed.pdf
- 12. Project Andreas IM (December 2020).pdf
- 13. 210219 Andreas Counterparty Update 6.pdf
- 14.1 Dec20_App B Woodlawn LOM Ventilation Design.pdf
- 14.2 Dec20_Woodlawn LOM Plan (1).pdf
- 14.3 Dec20_App A Drive Size Review Report(FINAL DRAFT).pdf
- 14.4 Dec20_Woodlawn Re-entry Review (1).pdf
- 15. 1223_Tarago Operations_Pybar Mining Services_Woodlawn Mine Underground Mining Contract.pdf
- 16. Processing Capex.zip
- 17. Heron scope of works with Sedgman - MASTER - 202107.pdf
- 18. FINAL 20220217 Heron Group Administrators Report.pdf
- 210826 Andreas Information Memorandum dated August 2021.pdf
- 3.(a) 210824 LOM Model inputs (UG First).xlsx
- 3.(a) 210914 Project Andreas Financial Model (UG First) (2).xlsx
- 3.(b) 211011 Project Andreas Financial Model (UG Only Scenarios).xlsx
- 3.(c) 20210507_MINING Cost model_210507_85rec_Final_NewSchedV4.xlsx
- 3.(d) 210824 Restart Opex (UG First).xlsx
- 3.(e) Re-entry Plan Cost Workbook_RevH with simple schedule.xlsx
- 3.1 FULLY EXECUTED - Heron - Loan Note Subscription Agreement (Castlelake).pdf
- 3.3 FULLY EXECUTED - Intercreditor Deed - 13.08.20.pdf
- 3.4 CASTLELAKE FULLY EXECUTED - Heron - General Security Agreement - 13.08.20.pdf
- 3.5 CASTLELAKE FULLY EXECUTED - Heron - Mining Mortgage - 13.08.20.pdf
- 3.6 CASTLELAKE Heron Resources Signed Letter to Administrators 7.28.21.pdf
- 220209 Andreas Jnr Process Summary vSENT.pdf
- Description of sales and marketing process - draft Administrators Report .docx
- JORC Woodlawn Resource and Reserve Report from statements in the Heron 2020 Annual Report.pdf
- Entech Woodlawn Operational Review dated April 2020.pdf
- Woodlawn Metallurgical Review - Mineralis 14 April 2020.pdf
- Azure Heron Mandate (signed).pdf
- CIBC - Consensus Commodity Prices (6.28.2021).xlsx
- ExplorationReview2020_v11.pdf
- Heron - Administration Sources and Uses of Cash - 8-2-22.xlsx
- Heron - FINAL - Tax Report - 17 September 2021.pdf
- Heron Group Estimated Creditor Position v2 February 2022.xlsx
- Heron Loan Schedule - May 31, 2022.xlsx
- Mining Inventory breakdowns with charts from 20210507_WDLN_LOM UG Schedule.xlsx
- Nomad Royalty Model - (2021.06.30) (Woodlawn).xlsx
- Total Heron Liabilities Default interest to end of October 2021.xlsx
- Re NCZ Data Room.msg
- 3443-1398-7605_1_210705 BMC HRR Term Sheet Proposal-blacline 140721

- 210215 Project Andreas – NCZ NBIO Submission Letter
- BMC HRR Term Sheet proposal 140721 (CLEAN)
- 20210714 BMC (UK) Limited response to term sheet – letter signed
- Gordon Brothers valuation dated 1 March 2022
- London Metal Exchange – Deloitte CapitalIQ commodity pricing
- 13.1 211118_Andreas Jnr Counterparty List.xlsm
- BDA Report dated 17 March 2022
- Stephen Reid Valuation Analysis 6 April 2022

Appendix B – Statement of qualified person

The statements and opinions given in this Report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this Report, I have relied upon and considered information believed, after due inquiry, to be reliable and accurate.

I have no reason to believe that any information supplied to me was false or that any material information has been withheld. I have evaluated the information provided to me by the Administrators and their legal advisors, through inquiry, analysis and review, and nothing has come to my attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base my Report. Whilst I do not imply, and it should not be construed that, I have audited any of the information provided to me; I believe that the information provided to me is reasonable for me to address my scope set out in Section 1.2 and that there are reasonable grounds for the value of the Heron's Mineral Assets and its remaining assets set out in Sections 5 and 6.

The information relied upon in the preparation of this Report is set out in Appendix A.

I have the necessary experience and professional qualifications appropriate to prepare this Report for the purpose set out in Section 1.2 (my curriculum vitae is set out in Appendix C). As noted in Section 1.8, other Deloitte staff have been consulted in the preparation of this Report where appropriate.

It is not intended that the Report should be used for any other purpose other than that contemplated in Section 1.2 of this Report.

Appendix C – Curriculum Vitae – Sam Marsden & Stephen Reid

Sam Marsden



Sam Marsden
Partner
Restructuring Expert
Financial Advisory



Years of relevant experience

Phone: +61 2 9322 7502
Mobile: +61 412 346 557
Email: smarsden@deloitte.com.au



Background and relevant experience:

Sam is a Partner with over 20 years' experience in both Australia and the UK, specialising in the field of corporate advisory, restructuring and insolvency. Sam is a Chartered Accountant and Registered Liquidator.

Sam has extensive experience of all types of formal solvency appointments, restructuring and turnaround assignments, independent business reviews, viability assessment, business regeneration, strategic advice and accelerated M&A.

Sam's experience involves advising stakeholders of both performing and underperforming businesses, either in an advisory capacity or managing businesses during an insolvency appointment.

Relevantly, as part of our commonly appointed Independent Business Reviews and any insolvency appointment, Sam regularly evaluates and reports to different stakeholders on the estimated outcomes of an insolvency appointment.



Sector and industry experience

- Registered Liquidator since 2013 and specialising in insolvency and restructuring since 2002.
- Mining
- Mining services
- Retail
- Real estate
- Manufacturing
- Tourism, hospitality and leisure
- Professional services
- Energy and resources



Selection of project experience

- Voluntary Administrator and subsequently Deed Administrator and Liquidator of Pluton Resources Limited
- Worked on the Receivership of an Singapore holding company with responsibility over the Australian based coal mining assets, including performing an Independent Business Review for the Receiver and syndicate of lenders
- Conducted a confidential advisory assignment on behalf of an iron ore producer in Western Australia, including assessing insolvency and insolvency outcomes
- Conducted an Independent Business Review of coal mine in Lithgow, NSW on behalf of the lender.
- Conducted supplier reviews for a large mining services head contractor on a major mine construction contract . This included reviews of multiple subcontractors bidding for work on this major contract.
- Conducted multiple Independent Business Reviews of mining services contractors



Qualifications and Memberships

- Registered Liquidator
- Member of the Australian Restructuring Insolvency & Turnaround Association ("ARITA")
- Board member of the Turnaround Management Association of Australia ("TMA") 2017 – 2021.
- Chair of the Western Australia TMA committee
- Member of the Institute of Chartered Accountants Australia and New Zealand ("CA ANZ")
- Fellow of the Institute of Chartered Accountants in England & Wales ("ICAEW")
- Hons Degree in Business Administration (BSc) – Cardiff Business School

Stephen Reid

Partner, Financial Advisory



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Career summary

Stephen has over 30 years of experience in corporate finance advice, pre-acquisition due diligence reviews, valuations, structuring advice and feasibility studies in respect of companies operating across a broad range of industries throughout Asia.

Stephen specialises in providing clients with valuation advice for mergers and acquisitions or other commercial purposes.

Stephen teaches the Business Valuation subject in Macquarie University's Masters of Applied Finance. He is also a FCA Business Valuation Specialist, Chair of the Business Valuation Specialisation Committee of CAANZ and teaches the experienced pathway online course for chartered accountants seeking to be Business Valuation Specialists.



Education

- Adjunct Fellow, Macquarie University
- Masters in Applied Finance and Investment, SecInst (2003)
- Fellow of Chartered Accountants Australia and New Zealand
- Bachelor of Economics, Macquarie University (1990)



Independent Expert's Reports in respect of ASX Transactions

- Galaxy resources (2021)
- Iluka Resources (2020)
- Universal Coal (2020)
- Highlands Pacific (2019)
- Beadell Resources (2018)
- Realm Resources (2018)
- Gloucester Coal and Yancoal (multiple transactions 2010-2012)
- Brockman Resources (2011)



Independent Expert's Reports in respect of ASX Transactions (continued)

- Rusina Mining (2010)
- North Queensland Metals (2010)
- White Energy (2010)
- Felix Resources (2009)
- Perseverance (2007)
- Bolnisi Gold (2007)
- Excel Coal (2006)
- St Barbara Mines (2005/6)
- Equatorial Mining (2005)
- Reliance Mining (2005)
- Samson Exploration (2005)
- Bendigo Mining (2001)



Selection of project experiences

Nyrstar

Provided ongoing valuation impairment work as part of our ongoing audit of Nyrstar (until 2019)

Rio Tinto

Provided valuation advice to Rio Tinto in relation to the sale of its thermal coal assets, Hunter Value Operations, Bengalla, Mount Thorley Warkworth and Mt Pleasant (2016)

Yancoal Australia

Lead adviser to the Independent Board Committee for various transactions between 2014 and 2017 including:

- USD1.8b issue of subordinated capital notes in 2014
- New debt financing of USD950m resulting in the de-consolidation of certain mines

Evolution Mining

Provided valuation advice in relation to the allocation of value to certain gold projects for tax purposes, including reviewing the work undertaken by Evolution and other valuers (2018, 2021, 2022)

Glencore Plc

Led the review of the purchase price allocation of the c. USD45 billion in consideration paid by Glencore International for the mineral assets of Xstrata Plc completed in early May 2013. Xstrata's mining interests are concentrated in copper, coal and nickel assets, located in Australia North and South America, and South Africa (2013/2014)

Prepared regular valuation analysis for Glencore Xstrata in relation to a number of its assets, including zinc and copper producers located in Central and Southern Africa. In addition, we provided valuation advice to Glencore in relation to Century Aluminium Company, a listed company with four aluminium smelters and one aluminium refinery, located in the United States and Iceland (2006 -2016)

Appendix D – Instruction Letter to Sam Marsden

21 February 2022

To Sam Marsden
Partner
Deloitte Financial Advisory Pty Ltd
Grosvenor Place
225 George Street
Sydney NSW 2000

Dear Sam

Heron Resources Limited (Administrators Appointed) (ACN 068 263 098)

Instruction letter for preparation of independent expert report in support of an application under section 444GA(1)(b) of the *Corporations Act 2001* (Cth)

Introduction

- 1.1 We act for Christopher Hill, David McGrath and Michael Ryan (**Administrators**) in their capacities as joint and several voluntary administrators of Heron Resources Limited (ACN 068 263 098) (Administrators Appointed) (**Heron**) and each of Heron's subsidiaries, being:
- (a) Tarago Operations Pty Ltd (ACN 127 810 413) (Administrators Appointed);
 - (b) Hampton Nickel Pty Ltd (ACN 100 180 498) (Administrators Appointed);
 - (c) Ochre Resources Pty Ltd (ACN 112 833 351) (Administrators Appointed);
 - (d) Woodlawn Mine Holdings Pty Ltd (ACN 612 657 164) (Administrators Appointed); and
 - (e) Tarago Exploration Pty Ltd (115 529 112) (Administrators Appointed),
- (together, the **Subsidiaries** and collectively with Heron, the **Group Companies**).
- 1.2 Heron is the ultimate parent company of the Group Companies). A structure chart has been provided at **Tab 1**
- 1.3 Heron is a public Australian corporation which is listed on the Australian Securities Exchange (**ASX**). On 15 July 2021, Heron was placed in a trading halt and on 16 July 2021 (following the appointment of the Administrators as voluntary administrators) was suspended from trading by the ASX.
- 1.4 The key asset of the Heron Group is the 100% owned, high-grade Woodlawn Zinc-Copper Mine (including associated tenements, permits and licences set out in the register at **Tab 2**) located 250km southwest of Sydney, New South Wales (**Woodlawn Mine**).

- 1.5 Construction activities for a new processing facility at the Woodlawn Mine commenced in September 2017 and were completed in the June 2019 quarter. The first lead and zinc concentrate following construction of the new plant was produced from the Woodlawn Mine in September 2019.
- 1.6 In addition to the Woodlawn Mine, the Group has two exploration projects (**Woodlawn Exploration Projects**). The first is based directly north of the Woodlawn Mine. The second is a strategic tenement package covering sites within potential trucking distance to the Woodlawn Mine and processing facility.
- 1.7 On 16 July 2021, the Administrators were appointed as voluntary administrators of each entity within the Heron Group.
- 1.8 On 13 August 2021, the Administrators obtained orders extending the convening period within which they must convene the second meeting of creditors from 16 August 2021 to 16 November 2021. Subsequent orders were obtained on 15 November 2021 further extending the convening period to 28 February 2022.
- 1.9 At the upcoming second meeting of creditors to be held on 25 February 2022 (**Second Meeting**), the Administrators are intending to recommend that the Group Companies' creditors vote in favour of execution of a deed of company arrangement (**DOCA**) proposed by DEVELOP Global Limited (**Bidder**).

The proposed DOCA

- 2.1 Completion under the DOCA will be conditional on, among other things:
 - (a) the Australian Securities and Investments Commission (**ASIC**) granting relief for the purposes of section 606 of the *Corporations Act 2001* (Cth) (**Corporations Act**); and
 - (b) the Administrators obtaining leave of the Court pursuant to section 444GA of the Corporations Act to transfer the shares in Heron to Bidder (or its nominee) in consideration for the payment by Bidder of certain amounts under the DOCA.
- 2.2 In accordance with the Bidder's DOCA proposal, subject to the requisite resolutions being passed by creditors at the Second Meeting, it is envisaged that:
 - (a) the Administrators will be appointed as deed administrators of the Group Companies; and
 - (b) shortly after execution of the DOCA an application (**Application**) will be filed in the Supreme Court of New South Wales (**Court**) seeking orders permitting the transfer of the share capital in Heron to the Bidder's nominee pursuant to section 444GA(1) of the Corporations Act.
- 2.3 As you know, pursuant to section 444GA(3) of the Corporations Act, the Court will only approve the transfer of the shares in Heron if it is satisfied that the proposed transfer will not unfairly prejudice the interests of the members of Heron. It is in this context that we have been instructed to engage you on the terms of this letter.

Instructions

- 3.1 If the Group's creditors resolve to execute the DOCA at the Second Meeting, you are instructed to provide an independent expert report (**Report**) setting out your opinion in response to the following question and prepared in accordance with the instructions in this letter:

Please provide an independent opinion of the value, if any, of shareholders' residual equity in Heron, assessed on the basis that the company is in administration and on a "winding up" or "liquidation" basis.

- 3.2 We note that the Report will be provided to the Court in determining whether the proposed transfer of Heron's shares to Bidder unfairly prejudices the interests of Heron's members for the purposes of the Application.
- 3.3 The Report will also be provided to ASIC, and will be made available to shareholders of Heron and any other interested party in relation to the Application.
- 3.4 Please provide your Report by 11 March 2022. We would be grateful if you could please share with us a draft of your Report prior to that date. If you anticipate any delays in the provision of your Report, please let us know.

The preparation of your Report

- 4.1 We enclose a copy of the Expert Witness Code of Conduct (**Code**), set out in Schedule 7 of the *Uniform Civil Procedure Rules 2005* (NSW), with this Brief (see **Tab 3**). Your Report should be prepared in accordance with the Code.
- 4.2 As noted in the Code, as an expert witness, you have an overriding duty to assist the Court impartially on matters relevant to your area of expertise. You are not an advocate for a party. Your overriding duty is to the Court and not to the party retaining you (or anyone else).
- 4.3 In accordance with the Code, your Report should:
 - (a) include an acknowledgement that you have read the Code and agree to be bound by it, provided this is, in fact, the case;
 - (b) include a statement that you are independent from the parties to the Application, or, if you are not independent from any party to the Application, set out details of your association or connection to that party;
 - (c) identify and state your qualifications to prepare the report;
 - (d) identify the questions that you have been asked to address;
 - (e) identify and attach the documents and other materials that you have been instructed to consider;
 - (f) summarise each of your opinions;
 - (g) set out the reasons for and any literature or other material utilised in support of each of your opinions;
 - (h) set out separately each of the assumptions and material facts on which each opinion expressed in the report is based;
 - (i) distinguish between your opinion and any fact or assumption upon which your opinion is based;
 - (j) identify whether any opinion expressed in the report is not a concluded opinion because of insufficient research or insufficient data or for any other reason;
 - (k) make it clear when a particular question, issue or matter falls outside your relevant field of expertise;

- (l) set out the extent to which any opinion which you have expressed involves the acceptance of another person's opinion, and identify who that other person is and the opinion expressed by that person;
- (m) include any calculations, analyses or other extrinsic matter referred to in your Report;
- (n) at the end of your Report:
 - (i) confirm that all facts, matters, working papers and calculations upon which you have relied have been disclosed and no relevant material has been omitted; and
 - (ii) declare (if it is, in fact, the case) that: "I have made all the inquiries that I believe are desirable and appropriate and that no matters of significance that I regard as relevant have, to my knowledge, been withheld from the Court".

- 4.4 We also enclose at **Tabs 4** and **5** a copies of ASIC Regulatory Guide 111 ("Content of Expert Reports") (**RG 111**) and ASIC Regulatory Guide 112 ("Independence of Experts") (**RG 112**). Please ensure that your Report complies with RG 111 and RG 112, in particular RG 111.70 - RG 111.80.
- 4.5 To the extent there are any other guides or industry codes that you consider relevant to the preparation of your Report, please identify those and ensure that your Report complies with them.
- 4.6 Please let us know if you have any questions about the Code, RG 111, RG 112 or the preparation of your Report.

Technical specialist reports

- 5.1 We refer to RG 111.136, which provides:

For technical matters beyond the expert's expertise, an expert should retain a specialist to advise them (e.g. a geologist to provide an opinion on recoverable ore the subject of mining tenements, or a traffic forecast report in relation to a toll road): see RG 112.67-RG 112.70.

- 5.2 We also refer to RG 112, in which ASIC recommends, relevantly:

- (a) the expert should engage, liaise and be satisfied with the specialist providing the report (RG 112.67);
- (b) the specialist report should be prepared for the specific transaction and, if not, this should be clearly explained in the report (RG 112.69);
- (c) the expert should review, consider and have reasonable grounds for believing in the specialist report (RG 112.71); and
- (d) the specialist report should, timing wise, be dated close enough to the report to ensure that any assumptions applied have not expired (RG 112.72).

- 5.3 We and the Administrators would be happy to discuss this requirement further with you, including the commission of any additional technical specialist reports that may be required.

Confidentiality

- 6.1 Your services as an independent expert may require you to receive confidential and/or proprietary information or property of the Heron Group. You agree to maintain all documents, information and things obtained in connection with this matter in strict confidence. You agree to maintain any reports, work papers, memoranda or summaries which may be prepared in connection with the engagement

by you or personnel assisting you in strict confidence. You agree not to disclose these things to any person or use them for any purpose apart from assisting King & Wood Mallesons, the Administrators and the Heron Group in relation to this matter, and you agree to ensure your personnel are obliged to do the same. You agree to retain all such material, subject to our instructions.

- 6.2 Apart from engaging with us, the Administrators, the Heron Group and its authorised personnel or consultants, and the giving of evidence in the Application:
- (a) you must keep all communications between us confidential (including the contents of this letter). It is a condition of this engagement that you take all reasonable measures to protect the confidentiality of, and any privilege attaching to, these communications;
 - (b) you must not disclose to anyone the content of any confidential oral or written communication relating to this engagement;
 - (c) no other use, disclosure or dissemination of such materials or information gained in connection with this engagement is to be made without prior written consent, except as may be required by law; and
 - (d) you must not discuss any aspect of this matter with any other person, or inform them of your involvement in this matter, without our prior written consent.
- 6.3 Any communications between us, including this letter and other materials or information provided in connection with this engagement, are confidential and presently protected by legal professional privilege. Accordingly, please mark any written communications (including emails) and reports involving this matter “**Privileged and Confidential**”.
- 6.4 There may come a time in the Application when legal professional privilege no longer applies, whether by law or because our client has voluntarily elected to waive that privilege.
- 6.5 If at any time you, or any of your authorised personnel, are served with any court process which requires you, or are otherwise compelled by law, to produce documents recording communications between you and us, please contact us before producing those documents. This will give us an opportunity to consider whether our client can maintain a valid claim to privilege or whether any claim to privilege has been waived and, if it has not, to make an appropriate application to the Court to oppose production of the privileged material.
- 6.6 All documents obtained in the course of this engagement must be returned to us upon request.

Your fees

- 7.1 We understand you have reached a fee agreement with Heron which will be documented in a separate letter of engagement to be issued by you.
- 7.2 For the avoidance of doubt, we note your acknowledgement and agreement that your invoices will be issued and addressed to, and paid by, Heron and that King & Wood Mallesons has no liability to you in connection with your engagement.

Please contact us should you require any further information or confirmation, or if you have any questions or issues in relation to this letter or otherwise.

Yours sincerely



Tim Klineberg | Partner
King & Wood Mallesons
T +61 2 9296 2493 | M +61 451 302 009
tim.klineberg@au.kwm.com

Jeremy Yam | Senior Associate
King & Wood Mallesons
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jeremy.yam@au.kwm.com

This communication and any attachments are confidential and may be privileged

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Tab	Document Description	Date
1	Heron Group Structure Chart	N/A
2	Register of Mining Tenements	17 June 2021
3	Expert Witness Code of Conduct – Schedule 7 to the <i>Uniform Civil Procedure Rules 2005</i> (NSW)	N/A
4	ASIC Regulatory Guide 111 – Content of Expert Reports	22 October 2020
5	ASIC Regulatory Guide 112 – Independence of Expert	30 March 2011

Appendix E – Letter of Engagement

22 February 2022

Tim Klineberg
Partner
King & Wood Mallesons
Level 61, 1 Farrer Place
Sydney NSW 2000

By email: tim.klineberg@au.kwm.com

Dear Tim

Heron Resources Limited (Heron), Tarago Operations Pty Ltd, Hampton Nickel Pty Ltd, Ochre Resources Pty Ltd, Woodlawn Mine Holdings Pty Ltd & Tarago Exploration Pty Ltd (All Administrators Appointed) (Group)

Independent Expert's Report

Thank you for asking Deloitte Financial Advisory (**Deloitte**) to assist with this engagement.

We understand that you act for the administrators of the Group (**Client**).

This letter, our standard terms and conditions (the **Terms**) and your letter of instruction dated 21 February 2022 set out the basis on which we will provide our services to you. If not defined in this letter, capitalised terms in this letter have the meaning given to them in the Terms.

1. Background

We understand that:

- Christopher Hill, David McGrath and Michael Ryan were appointed as Administrators of the Group on 16 July 2021.
- At the second meeting of creditors, it is anticipated that a DOCA proposal will be presented to the Group's creditors for consideration.
- The DOCA proposal will likely include the recapitalisation of the Group and the transfer of all issued shares in Heron to the DOCA proponent or parties related thereto
- You are seeking an Independent Expert Report in support of an application pursuant to 444GA of the Corporations Act 2001 (**Act**).

2. Our Services

With reference to your letter of instruction dated 21 February 2022, you have asked us to provide you with an independent expert report, in support of your Client's application pursuant to section 444GA of the Act, setting out our opinion of the value, if any, of shareholders' residual equity in Heron, assessed on the basis that the company is in administration and on a "winding up" or "liquidation" basis (the **Services**).

The scope of our engagement is limited to the instructions set out in your letter dated 21 February 2022. If the scope or the Services do not meet your needs, please let us know so that we can vary this Letter and our fees accordingly.

The purpose of the Services is to provide you and your Client with expert evidence and a report that are within our knowledge and capabilities (the **Purpose**).

The Services will be performed in accordance with:

- APES 215 Forensic Accounting Services issued by the Accounting Professional and Ethical Standards Board
- APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board
- ASIC Regulatory Guide 111 and Regulatory Guide 112
- Other applicable professional statements, standards and guidelines issued by the Chartered Accountants Australia and New Zealand.

You may ask us to perform additional Services at the conclusion of this engagement. This will be subject to agreement between us and will be covered by a separate engagement letter.

Unless otherwise agreed in writing, our Report may be used only by you and your Client for the Purpose and in the manner described in this letter.

3. **Our team**

This engagement will be led by Sam Marsden, Partner in our Financial Advisory (**FA**) team. Stephen Reid (Partner) will assist in providing the Services to your Client. Jude Morris, an FA Principal, will manage the day to day aspects of the work together with other FA staff as required.

From time to time we may need to include other partners and staff to assist us to provide our Services to your Client. This may include specialists from other practice areas within Deloitte.

4. **Timing**

We understand that our report is required on or before 18 March 2022.

5. **Assumptions and limitations**

The scope of the Services, the time frames for completion and the fee proposal below have been prepared on the following assumptions:

- our Services will be limited to the scope of work as set out above. For clarity, in providing the Services our work will not constitute a formal valuation by an accredited valuer, rather an expert opinion by registered liquidator as to value of the Group's assets in a liquidation relying on third party valuation and other evidence.
- there are existing, or will be, technical expert reports supporting the assumptions to any relevant model(s)
- if we confirm in writing that it is required and this is approved by you/the Client, we will commission a third party mineral valuation or other expert reports as required on terms approved by you upon which our Report may rely. Our anticipated timeframe for delivery of our Report is predicated on timely receipt of this information.
- all information will be provided to us in a timely manner.
- our Report will be based on the information provided to us. We will not perform any audit of the information supplied to us and we will assume that the information provided is true, correct, complete and not misleading. If this is not the case, or the Information changes after we receive it, then our Report may be incorrect or inappropriate for your Client.
- we will not be responsible for any error in our work caused by, or arising out of, or in any way connected with any omission of information or any misrepresentation, misleading or deceptive information or materials supplied by you.
- our Report will be based on the prevailing laws, regulations and professional standards in effect at the date of the Report.
- our Report is not binding on the courts or any relevant regulator, and this is not a representation, warranty, or guarantee that the courts will agree with our Report.

- the Services will be limited by the time available to us, the agreed scope, the information available, the accessibility of information sources and clarity (or lack of clarity) of your Client's objectives.
- we reserve the right to revise any opinion or conclusion in our Report if material information becomes known to us after the date our Report is issued.
- if we need to rely on the advice of any third parties, you agree that you will obtain the consent of the respective third parties for us to disclose their name, opinion, qualifications and experience in our report in accordance with the requirements of Accounting Professional and Ethical Standards APES 215 Forensic Accounting Services and ASIC Regulatory Guide 111.
- there are no undue complications or delays in providing the Services.

If these assumptions are wrong or the circumstances change then we may need to change the scope of the Services, vary the fees or extend the timeframes for completion.

6. Our Fees

(a) Fees

We will charge according to the time our team spends on providing the Services to at the rates set out below.

The hourly rates for each of the team involved in providing the services are as follows:

Position	Hourly rate \$ (excluding GST)
Partner	825
Partner	750
Director	650
Associate Director	575
Manager	550
Senior Analyst	475
Analyst	425
Graduate	325
Undergraduate/Vacationer	230
Support	225

Our fee for the Services (excluding expenses and GST) will be capped at \$160,000. Should we be required to prepare for or attend cross-examination, or be ordered to confer with another expert, or any other task beyond provision of the Report we would charge for this time at the above rates, plus reasonable out-of-pocket expenses connected with same.

If there are any additional services, we will agree a fee arrangement with you prior to commencing the work.

We will charge, at cost, for all other expenses we incur in providing the Services.

(b) Billing

Our invoices will be issued and addressed to, and paid by, Heron. We acknowledge and agree that King & Wood Mallesons has no liability to you in connection with your engagement. We will issue a final invoice on completion of the engagement.

7. Acceptance

Please confirm that you agree to these terms by signing, dating and returning a copy of this letter to us.

Please contact me or Jude Morris if you would like to discuss this letter and the terms of engagement with us.

We look forward to working with you.

Yours sincerely



Sam Marsden
Partner
Deloitte Financial Advisory Pty Ltd

Tim Klineberg of King & Wood Mallesons, agrees to the terms of this Agreement and confirms his instructions to do so from the administrators of the Group:



Signature



Name



Title



Date

Standard Terms and Conditions

1. This Agreement

This Agreement sets out the terms on which we will provide the Services to you. Where the Letter is addressed to more than one Addressee, each Addressee is a party to, and is bound by, the terms of this Agreement. We will treat you as having accepted this Agreement if you continue to instruct us after you receive it.

2. Term

This Agreement starts on the date you sign and return the Letter to us or when we first start work on the Services for you, whichever is first. Unless it is terminated earlier, this Agreement terminates when we have completed providing the Services to you and you have paid us our Fees.

3. Our Services

- 3.1 We will provide the Services to you in accordance with this Agreement and with the degree of skill, care and diligence expected of a professional providing services of the same kind.
- 3.2 We will use all reasonable efforts to complete the Services within any agreed time frame.

4. Our team

- 4.1 We will use reasonable efforts to ensure that our Representatives named in the Letter are available to provide the Services. However, if we need to, we may replace or reassign any Representative at any time on reasonable notice to you.
- 4.2 Each of us agrees that, during the term of this Agreement and for a period of six months after it ends, neither of us will directly or indirectly solicit for employment any Representative of the other who is involved with the Services. However, both of us may advertise or recruit generally.

5. About Deloitte

- 5.1 We are a Member Firm of DTTL. Accordingly, you acknowledge that:
 - (a) each of the Member Firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu" or other related names;
 - (b) the Services are provided by us and not by DTTL or any other Member Firm; and
 - (c) neither DTTL nor any of the Member Firms is liable for each other's acts or omissions.
- 5.2 Sometimes we may use other Member Firms to help us to provide the Services to you. Where this happens, we will be responsible for any work undertaken by another Member Firm and you agree that:
 - (a) none of the Member Firms, apart from us, will be responsible to you; and
 - (b) you will not bring any claim or proceedings in connection with the Services or this Agreement against any of the other Member Firms that we may use to provide the Services to you.
- 5.3 Any Member Firm that helps us to provide the Services to you will rely on subclause 5.2 and is, to the extent permitted by the Law of any relevant jurisdiction, an intended third-party beneficiary of, and entitled to enforce this Agreement as if it were a party to it.
- 5.4 If we provide you with Licensed Services, you acknowledge that:
 - (a) the relevant Licensed Entity will provide the Licensed Services directly to you;
 - (b) Deloitte enters into this Agreement as agent for the Licensed Entity; and
 - (c) the terms of this Agreement apply to the Licensed Services.

6. Confidentiality

- 6.1 Each of us agrees to protect and keep confidential any Confidential Information that is given to us by the other.
- 6.2 Except as set out in this Agreement, or where both of us agree otherwise in writing, we will only use or disclose your Confidential Information to provide the Services to you or other services you may request.
- 6.3 Where relevant, we may use, disclose and transfer your Information to other Member Firms and our Representatives, who will use and disclose it only to provide the Services to you.

- 6.4 We may disclose your Information to our own professional advisers and insurers on a confidential basis.
- 6.5 Subject to subclause 6.6, either of us may disclose any Confidential Information to the extent that it is required to be disclosed by Law, order of any court, tribunal, authority or regulatory body, rules of any stock exchange or any professional obligations or requirements.
- 6.6 A party disclosing any Confidential Information under subclause 6.5 must, where practical and to the extent permitted by Law, notify the other of the requirement to disclose and only disclose the minimum Confidential Information required to comply with the Law or requirement.
- 6.7 You agree that we may aggregate your Information and use and disclose that information in de-identified form as part of research and advice, including, without limitation, benchmarking services.
- 6.8 We will return your Information to you at any time at your request. We may also destroy it if you ask us to. However, we are entitled to retain a copy of any Information you provide to us or which forms part of our Work or our Working Papers, provided that we will continue to keep this Information confidential in accordance with this Agreement.

7. Personal Information and privacy

- 7.1 We will handle Personal Information in accordance with the Privacy Act and our privacy policy available at http://www.deloitte.com/view/en_AU/au/privacy/index.htm.
- 7.2 You agree to work with us to ensure that both of us meet any obligations that each of us may have under the Privacy Act including, where relevant, notifying the individual to whom the Personal Information relates of who we are and how we propose to use and disclose their information.
- 7.3 Where you provide us with any Personal Information, you confirm that you have collected the Personal Information in accordance with the Privacy Act, that you are entitled to provide the Personal Information to us and that we may collect, use and disclose the Personal Information for the purpose of providing the Services to you or as otherwise permitted by this Agreement.

8. Intellectual Property

- 8.1 Unless we agree otherwise, we will retain ownership of the Intellectual Property in our Work. We give you a royalty-free, non-exclusive, perpetual, world-wide licence to use and reproduce any Reports for the Purpose for which the Report was prepared and any related incidental internal purposes in accordance with the terms of this Agreement.
- 8.2 You agree we can use your logos and marks on our Work, unless you tell us otherwise.

9. Our Work

- 9.1 Our Work is for your exclusive use and must be used only by you and only for the Purpose.
- 9.2 Unless we give our Consent:
 - (a) our Work must not be used or disclosed for any other purpose or made available to any other person, except your Professional Advisers and Auditor, on the terms discussed in subclause 9.3, or except to the extent permitted by subclause 6.5;
 - (b) our Work and the Services may not be relied on by anyone other than you; and
 - (c) you must not name us or refer to us, our Work or the Services in any written materials (other than to your Professional Advisers and Auditor), or any publicly filed documents, except as required by Law.
- 9.3 You may provide a copy of our Report to:
 - (a) your Professional Advisers and Auditor, provided that you ensure that each Professional Adviser and Auditor:
 - (i) is aware of the limits placed on the use of our Report by this Agreement, including that they may not rely on the Report;
 - (ii) for the Professional Adviser, uses our Report only to advise you in relation to the Services or, for the Auditor, uses our Report only in conducting the Audit; and
 - (iii) treats our Report as confidential and does not use or disclose our Report in a manner that is not expressly permitted by this Agreement;
 - (b) any other person who is acceptable to us, with our Consent, but only where that person has first executed an agreement provided by us.

- 9.4 We are not responsible to anyone (apart from you) who is provided with or obtains a copy of our Work without our Consent.
- 9.5 If we give you our Work in draft form or orally, we do so only on the basis that you may not rely on it in that form. Accordingly, we will not be responsible if you or anyone else relies on our draft Work or oral comments or advice.
- 9.6 You acknowledge that the final or signed copy of our Report is the definitive version.
- 9.7 Sometimes, circumstances may change after we have provided our final Work to you; unless we agree with you otherwise, we will not update any final Work we have provided to you.
- 9.8 You acknowledge that any use of or reliance on our Work that is contrary to this Agreement may expose us to a claim from someone with whom we have no relationship or whose interests we have not considered in providing the Services.
- 9.9 Accordingly, you agree to indemnify us against any Loss we may suffer or incur in respect of any claim or action by a third party that arises as a result of:
- any use or distribution of, or reliance on, our Work that is contrary to the terms of this Agreement or a Consent; or
 - any access to or use of our Work, by any of your Professional Advisers or Auditor.
- 9.10 This indemnity does not apply to any Loss incurred in defending a claim or action by a third party:
- that results from any wilful misconduct or fraudulent act or omission by us;
 - where that third party has signed an agreement with us that provides that it can rely on our Work; or
 - where we have agreed in writing that our Work may be included in publicly available documents.
- 10. Our Fees**
- 10.1 The Fees and the basis on which they are calculated are set out in this Agreement. We may review the Fees where:
- an Unexpected Delay occurs;
 - there is a change in the scope of the Services we agreed to provide to you; or
 - you do not accept this Agreement within three months of the date of the Letter.
- 10.2 You agree to pay us the Fees for the Services in accordance with this Agreement.
- 10.3 Unless we state otherwise, our Fees exclude GST. You agree to pay any GST imposed on us, now or in the future, in relation to this Agreement. Where GST is payable on any taxable supply made under this Agreement, you agree that the Fee payable for this supply will be increased by an amount equivalent to the GST payable by us in respect of that supply.
- 10.4 We will charge you at cost for any expenses we incur in providing the Services to you. We will tell you what these expenses are before we incur them if they are anything other than incidental.
- 10.5 Unless we agree with you otherwise, we will use business class (or equivalent) for travel overseas and between the east and west coasts of Australia, and economy class for travel within the rest of Australia.
- 10.6 We will also charge you an administration, overhead and telecommunications charge, which is calculated at 5% of our Fees. This charge covers all our out-of-pocket expenses such as telecommunications, stationery and postage.
- 10.7 We will invoice you monthly in arrears for the Fees (unless we agree with you otherwise) and you agree to pay our invoice within 14 days of receiving it. You agree to pay any undisputed portions of an invoice even if there is a dispute between us about that invoice or another invoice. Where amounts remain due and unpaid we may charge you interest at an annual rate of 2% over the Bank Bill Swap Rate published in the Australian Financial Review on the date payment is due.
- 10.8 Without limiting any other rights we may have, we are entitled to suspend or terminate the Services, in whole or part, or to retain or withhold any Information we may hold in relation to the Services or any Work we have done for you if you do not pay our invoices on time.
- 10.9 If we are required to provide Information about you or the Services to comply with a statutory obligation, court order or other compulsory process, you agree to pay all of our reasonable costs and expenses we incur in doing so.
- 11. What you agree to do**
- 11.1 You agree to co-operate with us and provide us with all reasonable and necessary assistance so that we can provide the Services to you. This includes providing us with timely and reasonable access as appropriate, to your premises, facilities, Information and Representatives.
- 11.2 In addition to any responsibilities you may have that are set out in the Letter, you are responsible for:
- the performance of your Representatives;
 - making timely decisions in connection with the Services;
 - designating a competent employee to oversee the Services;
 - evaluating the adequacy of the Services, as they have been described in the Letter, for your particular purposes and needs;
 - providing us with accurate and complete Information. Where any Information that we require in order to provide the Services is to be provided by someone else, you are responsible for ensuring that Information is provided to us. You will need to give us all Information that is relevant to the Services, even if the same Information has been given to us previously during another engagement; and
 - updating any Information where there has been a material change to that Information, including telling us if any of your circumstances change during the course of the Services.
- 11.3 You acknowledge that:
- the Services may include advice and recommendations, but all decisions in connection with the implementation of such advice and recommendations will be your responsibility, and made by you;
 - our ability to provide the Services depends on you meeting your responsibilities under this Agreement and instructing us or responding to our requests in a timely and effective manner; and
 - we are entitled to and will rely on Information provided by you, the decisions you make and any approvals you give; and
 - we will not be liable for any default that arises because you do not fulfil your obligations.
- 12. Unexpected Delay**
- 12.1 We are not responsible to you or anyone else for any failure in providing the Services caused by an Unexpected Delay. We will tell you if there is a delay that will affect the Services and the cause of the delay, if known. You acknowledge that this Agreement will be varied to include any change to the scope of the Services, the Fees or the timeframes for completion of the Services if any delay requires it.
- 12.2 If we are required to perform additional services because of an Unexpected Delay, then this Agreement will also be varied to include those additional services and any additional Fees that apply.
- 13. Our responsibility to you**
- 13.1 We are subject to a limitation of liability scheme approved under Professional Standards Legislation. Our aggregate liability to you is limited in the manner provided by the scheme. Please contact us if you require a copy of the relevant scheme.
- 13.2 Where the law requires it, our liability to you will not be limited. Where our liability is not limited by a scheme our aggregate liability to you for any Loss or causes of action arising in relation to this Agreement, including for negligence, is limited to the amount that is the lesser of ten times our Fees and \$20 million.
- 13.3 We will be liable to you only for that proportion of the total Loss that we have caused or to which we have contributed and we will not be liable for any Consequential Loss.
- 13.4 We will not be liable for any Loss, or failure to provide the Services, which is caused by an Unexpected Delay or which arises as a result of us relying on any false, misleading or incomplete Information.
- 13.5 The limit of liability set out above applies to all Addressees as a group and it is up to you to agree how the limit is allocated between you. You agree not to dispute the limit if you are unable to agree on how it will be allocated between you.
- 14. Conflict of interest**
- We have relationships with many clients. This means that after this Agreement starts we may identify circumstances that could cause us to have a conflict of interest. If this happens, we will

evaluate the potential conflict and, depending on the circumstances, apply appropriate safeguards to manage it. For example, we may notify you of a relationship that causes us a conflict and ask for your consent to continue to provide you with the Services. However, you acknowledge that we may need to terminate this Agreement if we are unable to resolve or manage a conflict of interest satisfactorily.

15. Insurance

We will maintain appropriate insurance in relation to the Services, including professional indemnity insurance in an amount of not less than \$10 million during the term of this Agreement and for a period of seven years after it ends.

16. Termination

16.1 Either of us may terminate this Agreement:

- (a) at any time by giving the other 30 days' written notice; or
- (b) immediately if the other suffers an Insolvency Event, is unable to pay all of its debts as and when they become due and payable, suspends payment of such debts or otherwise ceases to carry on business; or
- (c) immediately if the other commits any material breach of this Agreement that is either incapable of being remedied or is not remedied within 14 days of receipt of a notice requiring the breach to be remedied.

16.2 We may terminate this Agreement if:

- (a) you fail to meet your obligations under this Agreement including to pay our Fees within the time specified or to provide us with adequate Information or instructions; or
- (b) there is a change of circumstances beyond our reasonable control (such as auditor independence or regulatory related developments) that prevents us from providing the Services to you.

16.3 If this Agreement is terminated:

- (a) you agree to pay us the Fees for any work we have done and any expenses we have incurred up to the date of termination;
- (b) except as set out in this Agreement, and only where relevant, each of us will return to the other any documents or property of the other, except that we may retain one copy of all Information to allow us to satisfy our professional obligations and record keeping requirements;
- (c) the termination does not affect any accrued rights of either of us or any provision of this Agreement that continues to apply.

16.4 The provisions of this Agreement that survive its termination include those relating to clause 5, *About Deloitte*; clause 6, *Confidentiality*; clause 7, *Personal Information and privacy*; clause 8, *Intellectual Property*; clause 9, *Our Work*; clause 10, *Our Fees*; clause 13, *Our responsibility to you*; clause 15, *Insurance*; subclause 16.3, *Termination*; clause 17, *Dispute resolution*; and clause 18, *Disclosure of Tax Advice*.

17. Dispute resolution

17.1 Each of us agrees to use reasonable endeavours to resolve any dispute that arises in connection with this Agreement by mediation before bringing a legal claim or starting legal proceedings against the other.

17.2 Nothing in this clause prevents either of us from seeking any equitable relief in relation to our rights under this Agreement.

18. Disclosure of Tax Advice

In relation to Tax Advice and in compliance with Disclosure Laws, it is acknowledged and agreed that nothing contained in this Agreement shall be construed as limiting or restricting your disclosure of Tax Advice. It is also understood that none of your other advisers will or have imposed any conditions of confidentiality with respect to Tax Advice. Copies of any Tax Advice provided to others is on the basis that such recipients may not rely on such Tax Advice and that we owe no duty of care or liability to them, or any other persons who subsequently receive the same. Except as set out in this clause, all other terms of this Agreement remain unamended.

19. Relationship between the parties

We are engaged as an independent contractor. Neither of us is an agent or representative of or has the authority to bind the other. Neither of us will act or represent ourselves, directly or by

implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other. This Agreement is not intended and will not be taken to constitute a partnership, agency, employment, joint venture or fiduciary relationship between us.

20. Entire agreement

20.1 This Agreement is the entire agreement between us for the Services. It supersedes all prior communications, negotiations, arrangements and agreements, either oral or written between us in relation to its subject matter.

20.2 Any changes to this Agreement must be agreed to in writing by both of us.

21. Assignment

Neither of us may transfer, assign or novate this Agreement without the Consent of the other. However, we may assign this Agreement to any entity in Deloitte Australia or any successor to our business.

22. Electronic communication

Each of us agrees that we may communicate with each other electronically. You acknowledge that electronic transmissions are inherently insecure, can be corrupted or intercepted, may not be delivered and may contain viruses. Neither of us is responsible to the other for any loss suffered in connection with the use of e-mail as a form of communication between us.

23. Severability

If any of the terms of this Agreement are not legally enforceable then that term or the relevant part of it will be either amended as appropriate to make it enforceable or ignored, but in all other respects this Agreement will have full effect.

24. Governing Law

This Agreement is governed by the Laws of New South Wales and each party irrevocably submits to the jurisdiction of the courts exercising jurisdiction in that State.

25. Your feedback

We value your feedback. We aim to obtain, either formally or informally, a regular assessment of our performance. If you wish to make a complaint, please refer to the Complaints Management Policy available at http://www.deloitte.com/view/en_AU/au/index.htm or write to the Complaints Officer at complaints@deloitte.com.au.

26. General

26.1 A waiver by one of us of a breach by the other party of any term of this Agreement does not operate as a waiver of another term or a continuing breach by the other of the same or any other term of this Agreement.

26.2 To the extent permitted by Law, we disclaim all warranties, either express or implied, in relation to the Services and the Work other than any written warranty made in the Terms.

26.3 The rights and remedies in this Agreement are cumulative and not exclusive of any rights or remedies provided by Law.

27. Reading this Agreement

In this Agreement:

- (a) headings are for convenience only and do not affect how this Agreement is interpreted;
- (b) the singular includes the plural and conversely;
- (c) the word person includes an entity, a firm, a body corporate, an unincorporated association or an authority;
- (d) a reference to this Agreement or an act or instrument is to this Agreement, or that act or instrument as amended, varied, novated or replaced from time to time;
- (e) a reference to dollars or \$ means Australian dollars;
- (f) an Annexure forms part of this Agreement; and
- (g) if there is any conflict between these Terms and any other part of this Agreement, the following order of priority will apply:
 - (i) the Letter;
 - (ii) the Annexure; and
 - (iii) the Terms.

28. Definitions

In this Agreement the following words have the meanings set out below:

Addressee means each person to whom the Letter is addressed and includes, where relevant, any additional parties who may agree to the terms of this Agreement.

Agreement means the Letter and the Terms.

Annexure means a document which is annexed or attached to the Letter and identified as an annexure or attachment to it

Audit means an audit under the *Corporations Act 2001* (Cth) or an equivalent Law, conducted in accordance with relevant auditing standards.

Auditor means an auditor who is appointed to conduct an Audit of you.

Confidential Information means and includes:

- (a) the terms of this Agreement and the details of the Services;
- (b) any information or material which is proprietary to a party or acquired by either of us solely as a result of the Services;
- (c) any Intellectual Property and methodologies and technologies that:
 - (i) you use in your business, and to which we are exposed in the course of providing the Services; or
 - (ii) we use to provide the Services;
- (d) any information designated as confidential by either of us; and
- (e) any Work we provide to you, but excludes any information that:
 - (a) is or becomes publicly available, except by a breach of this Agreement;
 - (b) is disclosed to either of us by a third party provided that the recipient reasonably believes the third party is legally entitled to disclose such information;
 - (c) was known to either of us before we received it from the other or is developed by either of us independently;
 - (d) is disclosed with the other's Consent; or
 - (e) is required to be disclosed as contemplated by subclause 6.5.

Consent means prior written consent which may be granted at the consenting party's discretion and which may be subject to conditions.

Consequential Loss means any loss or damage which is indirect, consequential, special, punitive, exemplary or incidental, including any loss of profit, revenue, anticipated savings or business opportunity, loss or corruption of data or systems, or damage to goodwill however caused or arising as a result of the Services or this Agreement.

Deloitte means the Deloitte Australia entity or entities entering into the Agreement as identified in the Letter.

Deloitte Australia means the Australian partnership of Deloitte Touche Tohmatsu, each of the entities under its control and any of their respective predecessors, successors or assignees.

DTTL means Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee.

Disclosure Law means Rule 3501(c)(i) of PCAOB Release 2005-014, or US Internal Revenue Code sections 6011 and 6111 and related Internal Revenue Service guidance, or any equivalent legislation, statute or subordinate legislation or guidance in any relevant jurisdiction relating to the disclosure of Tax Advice which applies to you or any Tax Advice we may give you.

Fees means the fees for the Services as stated in, or calculated in accordance with, this Agreement.

GST has the meaning given to it under *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

Information means any information, documents, materials, facts, instructions or Confidential Information provided to us by you or your Representatives or anyone else at your request.

Insolvency Event means and includes:

- (a) the making of an arrangement, compromise or composition with, or assignment for the benefit of, one or more creditors of a party;
- (b) the appointment of administrators, liquidators, receivers, a bankruptcy trustee or analogous person to, or over, all or part of a party's business, assets or securities;

- (c) an application being made, or a resolution being proposed, which seeks to effect such an appointment other than for a solvent reconstruction; and

- (d) the existence of a legislative presumption of insolvency in relation to a party.

Intellectual Property means all industrial and intellectual property rights throughout the world and includes rights in respect of copyright, patents, trade marks, designs, trade secrets, know-how and circuit layouts.

Law includes the *Corporations Act 2001* (Cth) and the rules of the United States Securities and Exchange Commission.

Letter means the engagement letter between us to which the Terms are attached.

Licensed Entity means a Deloitte Australia entity that holds a licence or registration.

Licensed Services means that part of the Services that are required to be provided by a Licensed Entity.

Loss means any losses, liabilities, claims, damages, costs or expenses (including interest where applicable and Consequential Loss), judgments or orders however caused or arising as a result of the Services or this Agreement.

Member Firm means a partnership or an entity that is a member of DTTL and each of that partnership's or entity's controlled entities, predecessors, successors, assignees, partners, principals, members, owners, directors, employees and agents.

Personal Information has the meaning given to it in the Privacy Act.

Privacy Act means the *Privacy Act 1988* (Cth).

Professional Advisers means your professional advisers who are advising you in relation to the Services but excludes any investor, agent, intermediary, underwriter, syndicate participant, lender or other financial institution or anyone who may provide you with any credit enhancement or credit rating.

Professional Standards Legislation means a Law providing for the limitation of occupational liability by reference to schemes that are formulated and published in accordance with that Law and includes the *Professional Standards Act 1994* (NSW) and any similar legislation in each state and territory in Australia.

Purpose has the meaning given to it in the Letter or our Work, or where silent on this, the purpose for which we provide our Work to you.

Report has the meaning given to it in the Letter or where the Letter does not set out a specific report, means any final form documents, reports or deliverables we provide to you as a result of the Services or this Agreement including those consisting of advice or opinions.

Representative means any officer, employee, consultant, agent, contractor or subcontractor of either of us, who is involved in the activities to which this Agreement relates and in the case of Deloitte, includes a partner.

Services means the services described in the Letter.

Tax Advice means any advice, whether written or oral, relating to tax, tax structuring or tax treatment provided by us as a result of the Services but excludes any tax due diligence Work which we prepare as a result of the Services.

Terms means these standard terms and conditions.

Unexpected Delay means any delay in providing the Services that is caused or contributed to by an act or event (including the non-performance of your obligations) that is beyond our control or was not reasonably foreseeable by us at the date of this Agreement.

us means Deloitte, or both you and Deloitte, as the context requires.

we and our means Deloitte and, where applicable as the context requires, the members of Deloitte Australia and any of their Representatives.

Work means any advice or materials including any reports, documents, advice, opinions, e-mails, notes or other deliverables, whether in draft or final form, in writing or provided orally, that we prepare either alone or in conjunction with you or provide to you as a result of this Agreement and includes any Reports but excludes our Working Papers or any source code.

Working Papers means any files or working papers created by us as our record of the Services, in any form.

you and your means each Addressee, and where applicable as the context requires, each Addressee's Representative.

Appendix F – Stephen Reid Valuation Analysis



Heron Resources Limited

Valuation analysis – Woodlawn Project

6 April 2022

Sam Marsden, Partner
Deloitte Financial Advisory Pty Ltd – Turnaround & Restructuring
Services
225 George St
Sydney NSW 2000

6 April 2022

Dear Sam

Re: Valuation analysis in relation to Heron Resources Ltd (Subject to Deed of Company Arrangement)

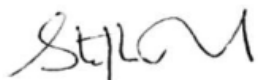
King & Wood Mallesons (**KWM**) act for Heron Resources Limited (**Heron**), Tarago Operations Pty Ltd, Hampton Nickel Pty Ltd, Ochre Resources Pty Ltd, Woodlawn Mine Holdings Pty Ltd & Tarago Exploration Pty Ltd (All Subject to Deed of Company Arrangement) (**Group**). KWM has engaged the Turnaround & Restructuring team of Deloitte Financial Advisory Pty Ltd (**Deloitte**) to prepare an independent expert report, in support of the Group's application pursuant to section 444GA of the Corporations Act 2001, setting out Deloitte's opinion of the value, if any, of shareholders' residual equity in Heron, assessed on the basis of a "winding up" or "liquidation" scenario (**Deloitte Expert Report**). As part of the Deloitte Expert Report, we have undertaken certain valuation analysis in respect of Heron's Woodlawn mine project.

This report which has been prepared under the terms of our engagement letter dated 22 February 2022, sets out our valuation analysis and the associated information on which our analysis is based.

Please refer to Appendix 1 to this report, which summarises the context to this valuation analysis, including the basis of preparation and any limitations.

We appreciate this opportunity to be of service.

Yours faithfully



Stephen Reid
Partner
Deloitte Financial Advisory Pty Ltd

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Glossary

Reference	Definition
A\$	Australian dollars
Administrators	Christopher Hill, David McGrath and Michael Ryan of FTI Consulting
ASIC	The Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
Azure	Azure Capital Pty Ltd
bps	Basis points
BDA	Behre Dolbear Australia Pty Ltd
β	Beta
CAPM	Capital Asset Pricing model
COT	Continuity of ownership
DAE	Deloitte Access Economics
DCF	Discounted cash flow
Deloitte	Deloitte Financial Advisory Pty Ltd
Deloitte Expert Report	An independent expert report prepared by the Turnaround & Restructuring team of Deloitte, in support of the Group's application pursuant to section 444GA of the Corporations Act 2001, setting out Deloitte's opinion of the value, if any, of shareholders' residual equity in Heron, assessed on the basis of a "winding up" or "liquidation" scenario
DOCA	Deed Of Company Arrangement
EIU	Economist Intelligence Unit
EMRP	Equity Market Risk Premium
Financial Model	Financial model for the Underground First scenario
FTI Consulting	FTI Consulting Australia Pty Ltd
FX	Foreign exchange rate
FY	Financial year
Group	Heron Resources Limited, Tarago Operations Pty Ltd, Hampton Nickel Pty Ltd, Ochre Resources Pty Ltd, Woodlawn Mine Holdings Pty Ltd & Tarago Exploration Pty Ltd (All Subject to Deed of Company Arrangement)
Heron	Heron Resources Limited
Kd	Cost of debt
Ke	Cost of equity capital
KWM	King & Wood Mallesons
Management	Heron management
Mt	Million tonnes
PwC	PricewaterhouseCoopers
Rf	Risk free rate of return
Rm	Expected return on the market portfolio
Tailings First	A scenario of the Woodlawn Project which involves hydraulic mining of tailings to commence first, with subsequent underground mining

Reference	Definition
WACC	Weighted average cost of capital
Woodlawn Project	Heron's principal asset is the Woodlawn mining project in Tarago, New South Wales
Underground First	A scenario of the Woodlawn Project which involves the underground mining to commence first, with subsequent hydraulic mining of tailings
Underground Only	A scenario of the Woodlawn Project which involves underground mining only
US	United States
US\$	US dollars
Valuation Date	28 February 2022

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1 Overview

1.1 Background and scope

Heron is an Australian listed (ASX:HRR) mining company which intends to produce zinc, copper and lead concentrates. Heron's principal asset is the Woodlawn mining project in Tarago, New South Wales (**Woodlawn Project**). Refer to the Deloitte Expert Report for more details on Heron, the Woodlawn Project and the industry in which Heron operates.

During 2019, Heron experienced delays in the commencement of mining operations and cost overruns which resulted from technical and operational difficulties.¹ During 2020, Heron experienced further operational challenges in commissioning a processing plant. In addition, due to travel restrictions and health concerns as a result of COVID-19, as well as limited remaining liquidity with which to fund ongoing costs whilst production issues were rectified, Heron suspended operations and placed the Woodlawn mine on care and maintenance.² In March 2020, the trading of Heron shares was voluntarily suspended. Shortly thereafter, Heron undertook a strategic process to seek additional capital to restart operations.³ However, after forming the view that the Group was unable to secure a transaction to restructure and/or recapitalize, the Group entered Voluntary Administration in July 2021. Christopher Hill, David McGrath and Michael Ryan of FTI Consulting Australia Pty Ltd (**FTI Consulting** or **Administrators**) were appointed as Administrators.

During the Administration, FTI Consulting sought additional funding to continue the care and maintenance program for the Woodlawn mine and ran a sale process seeking expressions of interest for the recapitalisation of the Group or the sale of the Group and/or its assets.⁴ In relation to this sale process, Azure Capital Pty Ltd (**Azure**) was appointed by the Group through its Administrators to act as financial adviser. Azure assisted in the development of financial models for three scenarios for the Woodlawn Project:

- Underground mining to commence first, with subsequent hydraulic mining of tailings (**Underground First**);
- Hydraulic mining of tailings to commence first, with subsequent underground mining (**Tailings First**);
- Underground mining only (**Underground Only**).

FTI Consulting reviewed the operational assumptions underlying the financial projections and the mathematical accuracy of the financial models.

Although the Tailings First and Underground Only scenarios were considered, the Underground First scenario is Heron management's (**Management**) preferred scenario and was the primary scenario presented to bidders during the sale process.

Based on the Underground First financial model (**Financial Model**), we were requested to undertake valuation analysis to estimate the current value of the Woodlawn Project. We have assumed a valuation date of 28 February 2022 (**Valuation Date**).

1.2 Role of the technical expert

Given the nature of the assets of Heron, Behre Dolbear Australia Pty Ltd (**BDA**), a specialist advisory company with technical expertise in the mining industry, was engaged to advise Deloitte on the valuation of Woodlawn potential extensions, Woodlawn satellite deposits (Currawang and Cowley Hills), NSW Regional tenements/interests, including Woodlawn regional tenements, Sky Metals Farm-In interest, Alchemy joint venture and Lachlan Ford Belt interests, Heron's tenements and interests in

¹ FTI Consulting's report to creditors dated 17 February 2022, page 5.

² Ibid.

³ Ibid.

⁴ Ibid.

Western Australia. In addition, BDA was engaged to assess the reasonableness of the following technical project assumptions within the Financial Model:

- Resources and reserves incorporated into the Financial Model
- Mining physicals (including tonnes of ore mined, quality, waste material, and mine life)
- Processing physicals (including ore processed and produced)
- Production and operating costs (including but not limited to drilling, blasting, mining, haulage, processing, transport, general administration, distribution and marketing, contingencies and royalties or levies)
- Capital expenditure (including but not limited to pre-production costs, project capital costs, sustaining capital expenditure, capital expenditure required for tailings, salvage value, rehabilitation, and contingency)
- Mine life and any extensions to the mine life that would be appropriate in order to capture resource which is outside of the current life of mine plan
- The technical inputs underpinning the tailings extraction.
- Any other relevant technical assumptions not so specified.

A copy of BDA's Report is provided in Appendix G of the Deloitte Expert Report.

1.3 Summary and conclusion

To assess the current fair market value of the Woodlawn Project, we adopted the discounted cash flow (**DCF**) methodology based on the cash flow projections set out in the Financial Model for the period from the Valuation Date to the end of the life of the mine. Our DCF methodology based on the Financial Model produces a value in the range from A\$100m to A\$130m.

We note that there are several intrinsic and external circumstances impacting the value of the Woodlawn Project under the DCF methodology:

- A significant portion of the volumes produced from the underground mine, modelled in the Financial Model, are from inferred resources. Inferred resources make up around 50% of underground volumes from year 4 onwards. Heron's current life of mine plan is based on approximately 3.8Mt of underground mining inventory including approximately 1Mt of inferred resources (which represent approximately 35% of total inferred resources of 2.9Mt). Inferred resources are the least reliable classification of mineral resources, estimated on the basis of limited geological evidence and sampling, providing a lower level of confidence than for measured and indicated mineral resources. Projected expenditure includes an allowance for both exploration drilling and stope definition drilling which will enable the inferred resources to be better defined which could result in different tonnages and grades to those set out in the inferred resource. The impact of this is that the volumes of minerals produced from the inferred resources could vary significantly from projections, with revenues possibly being significantly lower than anticipated, requiring revisions to mine plans to optimise the operation. As it is not practical to take account of the risks in the cash flows, to take account of this issue we have added a specific risk premium to our discount rate used to value the Woodlawn Project, however the impact on value of the inferred resources could be greater
- Prices of commodities have spiked over the last few weeks amid, *inter alia*, the threat of Russia being effectively 'cut off' from international trade for the foreseeable future via sanctions. Prices of many commodities were already high before the Russian sanctions, as a result of the global supply chain issues arising from strong global demand. Global inventories of zinc, which makes up over half of Woodlawn's payable metal value, are currently at their lowest point since July 2020. It is unclear the extent to which these strong prices will be sustained throughout Woodlawn's relatively short 122 month useful life. Our valuation is based on the forward curve for the commodities Woodlawn will produce until December 2023 and the latest available analyst consensus prices (valid at 21 March 2022) thereafter, however commodity prices can be volatile and continued global supply chain challenges and/or a sustained war in Ukraine could result in sustained high prices
- The estimated costs to restart operations could be understated due to the preliminary nature of the capital cost estimates in relation to the process plant improvements required prior to restart. The Financial Model forecasts A\$75m will be required to restart operations. Any buyer would have to not only raise capital to acquire the mine, but also to fund the start up costs

- The ramp-up in operations projected in the Financial Model could be delayed by further outbreaks of the COVID-19 pandemic, which was a key driver of the decision to cease operations at the Woodlawn Project in March 2020
- We understand that the assumptions for most forecast operating and capital costs were developed 12 to 18 months ago, and could therefore significantly overstate the value of the Woodlawn Project given ongoing tight global supply chains and global inflationary pressures. Based on BDA's views, operating and capital costs could increase upwards of 10% to 15%. As suggested by BDA, we have assumed an increase in the projected operating cost of 10% in the Financial Model. In addition, we have sensitised the assumed costs in the Financial Model based on a further 5% to 10% increase in the projected operating and capital costs and assessed their impact on our selected valuation range below.

Given the above matters, estimates of the value for Woodlawn are subject to uncertainty. We have undertaken sensitivity analyses on the value of the Woodlawn Project under the Underground First scenario to changes in key commodity prices in the short and long-term, foreign exchange rate for A\$:US\$, discount rate and operating expenditure and capital expenditure assumptions below.

Table 1: Short-term pricing versus discount rate (A\$m)

		Discount rate					
		13.25%	13.50%	13.75%	14.00%	14.25%	14.50%
Short-term pricing change	(10.0)%	92	89	86	84	81	79
	(5.0)%	110	107	105	102	99	97
	0%	127	124	122	119	116	114
	5.0%	144	141	138	135	133	130
	10.0%	161	158	155	152	149	146

Note:

1. Short-term pricing defined as Valuation Date to end of calendar year 2026

Source: Deloitte analysis, the Financial Model

Table 2: Long-term pricing versus discount rate (A\$m)

		Discount rate					
		13.25%	13.50%	13.75%	14.00%	14.25%	14.50%
Long-term pricing change	(10.0)%	94	91	89	87	85	82
	(5.0)%	111	108	105	103	100	98
	0%	127	124	122	119	116	114
	5.0%	144	141	138	135	132	129
	10.0%	161	157	154	151	147	144

Note:

1. Long-term pricing defined as start of calendar year 2027 to end of life of mine

Source: Deloitte analysis, the Financial Model

Table 3: FX versus discount rate (A\$m)

		Discount rate					
		13.25%	13.50%	13.75%	14.00%	14.25%	14.50%
FX (A\$:US\$)	\$(0.05)	171	168	165	161	158	155
	\$(0.025)	149	145	142	139	136	134
	\$0.00	127	124	122	119	116	114
	\$0.025	107	105	102	100	97	95
	\$0.05	88	86	84	81	79	77

Source: Deloitte analysis, the Financial Model

Table 4: Operating expenditure versus capital expenditure (A\$m)

		Capital expenditure				
		(10.0)%	(5.0)%	0%	5.0%	10.0%
Operating expenditure	(10.0)%	144	138	132	126	120
	(5.0)%	138	132	126	120	114
	0%	132	126	120	114	109
	5.0%	126	120	114	109	103
	10.0%	120	114	109	103	97

Note:

1. Operating expenditures include both ramp-up and ongoing operating expenditures (including mining costs, processing costs, logistics costs and overhead costs)

2. Capital expenditures include both ramp-up and operating capital expenditures

Source: Deloitte analysis, the Financial Model

Having regard to the above considerations, we consider the current fair market value of the Woodlawn Project is likely to be in the range from A\$100m to A\$130m. In particular, we note:

- We have taken account of the risks associated with a significant portion of volumes produced from the Woodlawn underground mine being from inferred resources in the discount rate. However, the impact on the value of the Woodlawn Project of the inferred resources could be greater. As discussed above, volumes of minerals produced from the inferred resources could vary significantly from projected, with revenues possibly being significantly lower than anticipated
- We adopted the forward curve for the commodities produced by Woodlawn to December 2023 which takes account of the short-term impact of the conflict between Russia and Ukraine. However, should the conflict be prolonged, or global supply chain issues continue, commodity prices could remain high for longer
- We have reflected a 10% increase in the projected operating and capital expenditure in the Financial Model given these cost estimations were developed 12 to 18 months ago. However, the current high inflationary environment could result in a further increase in operating and capital costs.

Table 5: Summary of value

Asset	Scenario	Valuation methodology	Unit	Low	High
Woodlawn Project	Underground First	DCF	A\$m	100	130

Source: Deloitte analysis

The key differences causing Deloitte's DCF value range for the Underground First scenario to be significantly lower than the DCF value prepared by Heron management of \$396m are summarised below:

- Projected cash flows are adjusted to reflect nominal terms whereas Heron management's cash flows were in real terms (refer to Section 3)
- The commodity prices reflect the forward curve until December 2023 and the latest available analyst consensus prices (valid at 21 March 2022) at the date of report (refer to Section 3.1.1) as compared to Management's model which was based on commodity prices that existed at the time the model was developed (which are now outdated). In addition, our adopted commodity prices are in nominal terms whereas Heron management's adopted commodity prices are in real terms
- The forecast operating and capital costs in the Financial Model have been increased by 10%, as suggested by BDA, given these costs were modelled 12 to 18 months ago. Costs have increased significantly since then (refer to pages 17 and 18 of this report)
- Our nominal post-tax discount rate of 13.25% to 14.50% which reflects a specific risk premium of 100 basis points to 200 basis points to reflect the fact that 50% of the volumes produced from the underground mine from Year 4, which have been modelled in the Financial Model, are from inferred resources (refer to pages 7 and 25). Heron management adopted a real discount rate of 8%
- We assume that Heron will not benefit from the tax losses of \$182.2m upon change of ownership (refer to page Section 3.2.4)
- Other adjustments include the update of the valuation date to 28 February 2022 (previously 30 September 2021), the update of the assumed restart date of operations to 1 September 2022

(previously 1 October 2021) (refer to Section 3.2.1) and the inclusion of care and maintenance costs A\$550,000 (real dollars) per month from March to August 2022 (refer to Section 3.2.2).

2 Valuation approach

2.1 Basis of value

For the purpose of our valuation analysis, we have referred to the concept of fair market value. Fair market value is defined as the amount at which the shares in the entities valued would be expected to change hands in a hypothetical transaction between a knowledgeable willing, but not anxious, buyer and a knowledgeable willing, but not anxious, seller acting at arm's length.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation analysis has not been premised on the existence of a special purchaser.

2.2 Selected valuation methodology

A business or an asset can be valued using the market approach, income approach and cost approach, as outlined in Appendix 2. We have adopted the DCF method to value the Woodlawn project. The DCF is a method under the income approach which involves the determination of fair market value by discounting an entity's future cash flows using an appropriate cost of capital to reflect the risks of the cash flows, to a net present value. As outlined above, we were provided with the Financial Model for the Woodlawn Project for the Underground First scenario which includes detailed cash flow projections on a real basis. BDA assessed the reasonableness of the technical project assumptions within the Financial Model as outlined in Section 1.2.

In our view, the DCF is an appropriate method to value the Woodlawn project. We considered the following factors:

- Heron management has projected cash flows over the life of the Woodlawn mine
- The mine has a finite life
- Significant capital expenditure will be required to restart the operations of the Woodlawn mine.

We note that the DCF method is commonly used to value mining projects.

3 Valuation assumptions

We have made amendments to the Financial Model to reflect our selected zinc, lead, copper, gold and silver price assumptions, foreign exchange rates and inflation assumptions. Our consideration of these assumptions is set out below.

3.1 Economic assumptions

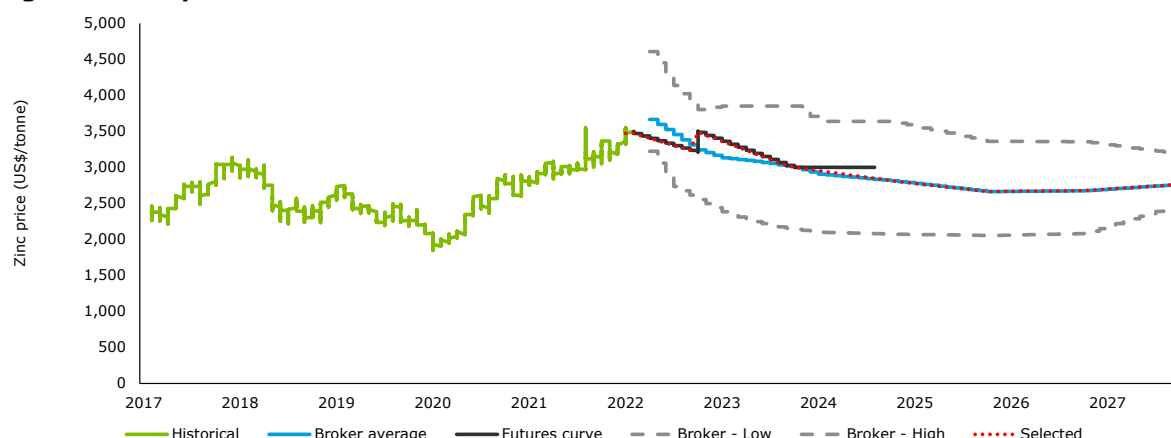
3.1.1 Commodity prices

The primary commodities produced from the Woodlawn project are zinc, lead and copper. Gold and silver are also mined as a byproduct of these minerals. In estimating appropriate forecast zinc, lead, copper, gold and silver price assumptions, we have had regard to the following:

- spot and historical zinc, lead, copper, gold and silver prices
- prices based on futures contracts for zinc, lead, copper, gold and silver
- broker forecast zinc, lead, copper, gold and silver price estimates
- other publicly available industry estimates and commentary.

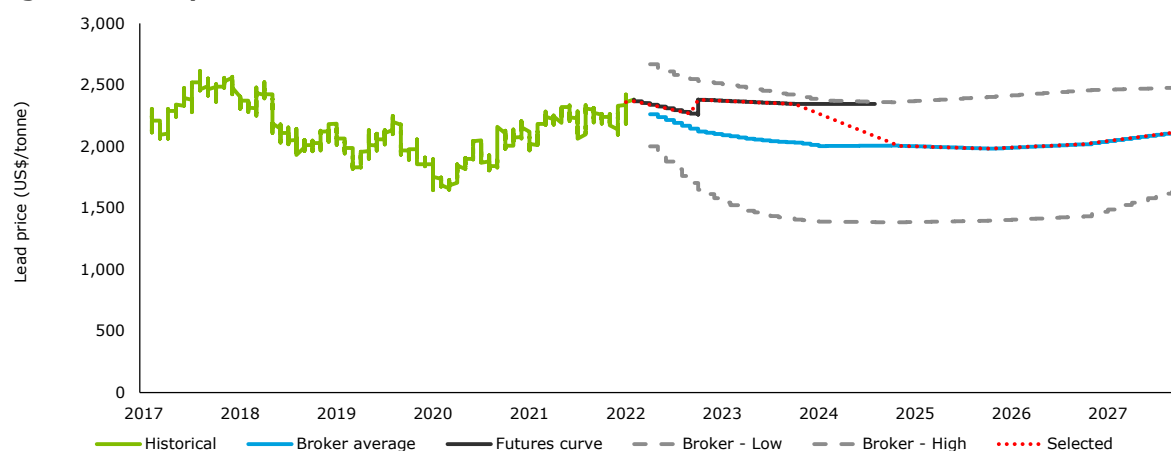
The following figures show historical (nominal) zinc, lead, copper, gold and silver prices over the past five years, along with the range of nominal broker forecasts, the forward curve and spot prices.

Figure 1: Zinc price



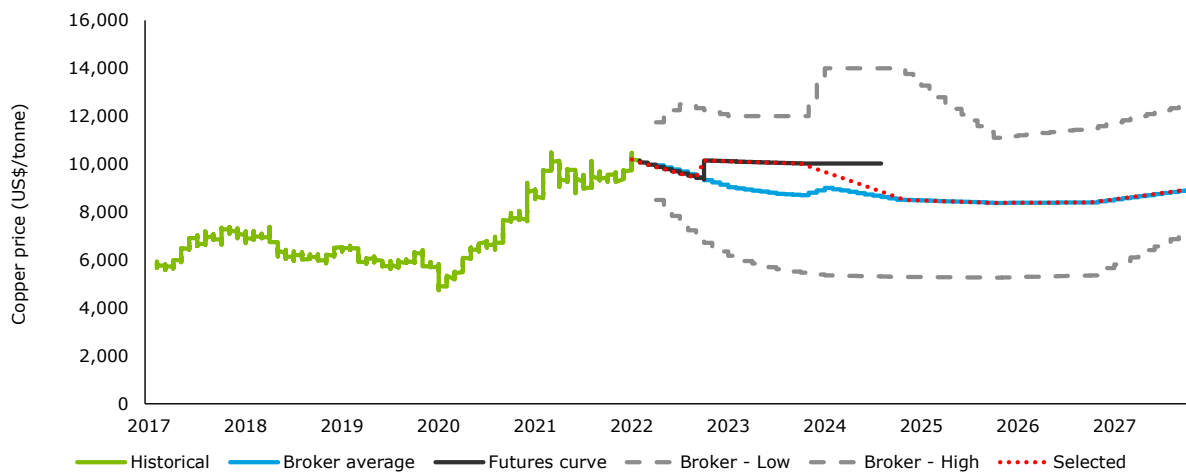
Source: S&P Capital IQ, Broker estimates, Deloitte analysis

Figure 2: Lead price



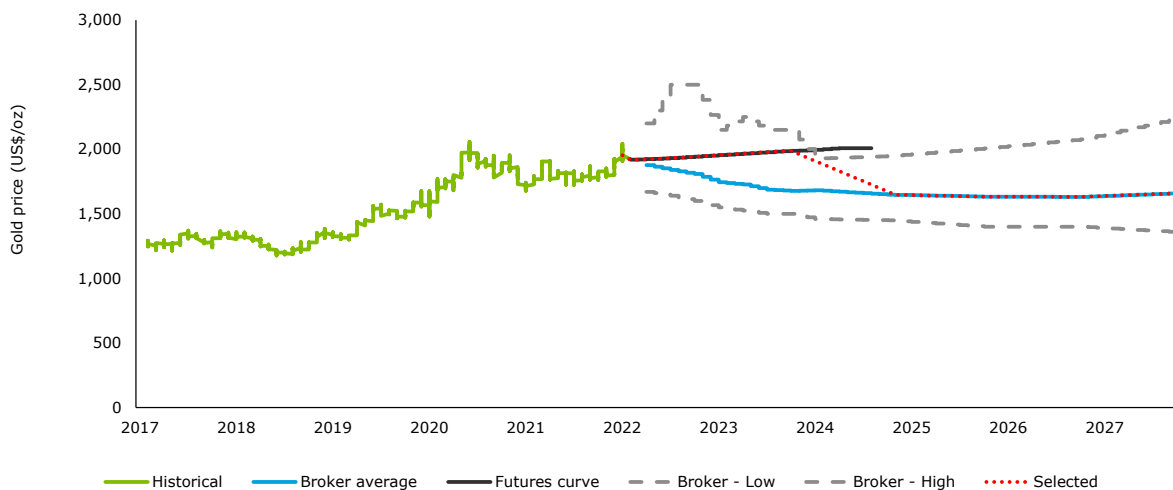
Source: S&P Capital IQ, Broker estimates, Deloitte analysis

Figure 3: Copper price



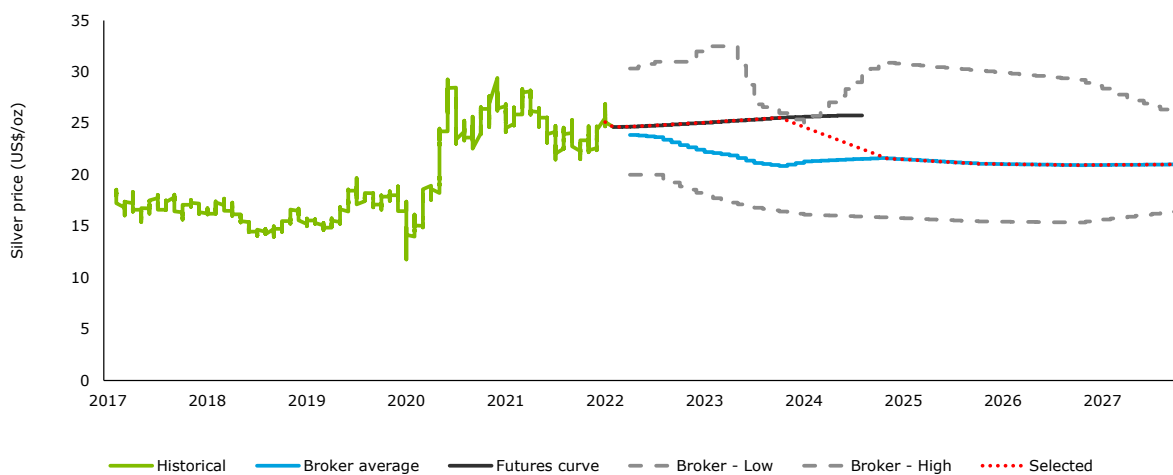
Source: S&P Capital IQ, Broker estimates, Deloitte analysis

Figure 4: Gold price



Source: S&P Capital IQ, Broker estimates, Deloitte analysis

Figure 5: Silver price



Source: S&P Capital IQ, Broker estimates, Deloitte analysis

Although we have had regard to short term historical and spot zinc, lead, copper, gold and silver prices, we have adopted the forward curve for these commodities to December 2023, and the nominal price

ranges at the average of broker estimates thereafter. We note that the average of broker estimates is similar to the median.

Table 6: Forward curve to December 2023 and average broker estimates thereafter

	2022	2023	2024	2025	2026	2027
Zinc price (US\$/t)	3,378	3,217	2,901	2,733	2,670	2,724
Lead (US\$/t)	2,328	2,360	2,175	1,993	2,001	2,073
Copper (US\$/t)	9,832	10,079	9,265	8,443	8,393	8,686
Gold (US\$/oz)	1,932	1,968	1,818	1,640	1,632	1,647
Silver (US\$/oz)	25	25	24	21	21	21

Note:

1. Prices in each year represent the average price of the calendar year

2. Commodity prices from 2027 onwards have been grown by long term US inflation forecast from the Economist Intelligence Unit (EIU)

Source: Consensus Economics Inc, Deloitte analysis

We understand there are no zinc, lead, copper, gold and silver hedges or contracts in place relating to the Woodlawn Project.

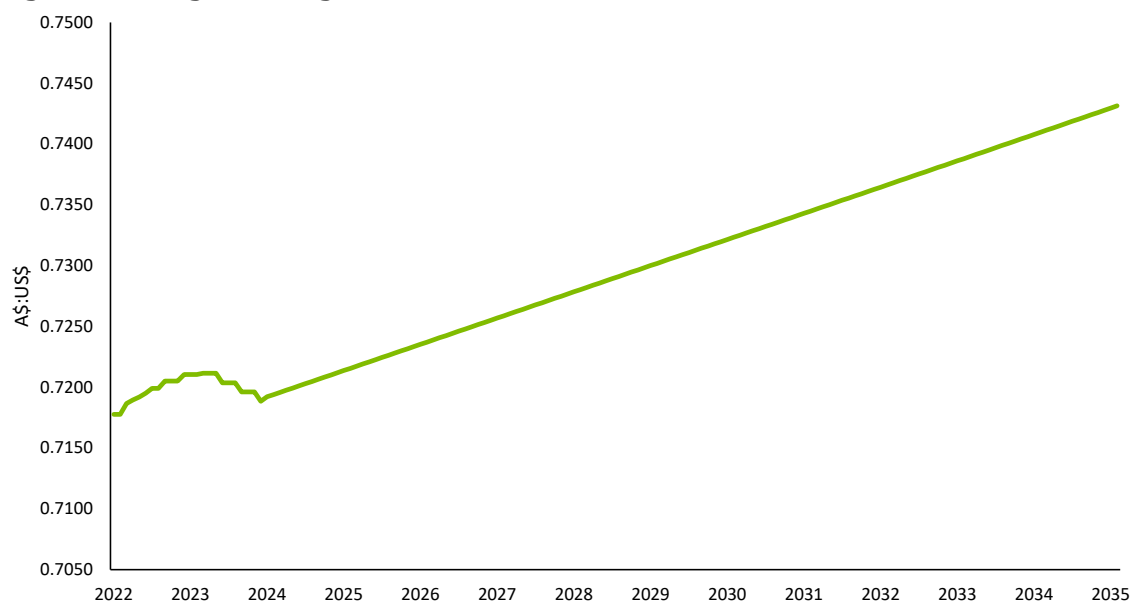
3.1.2 Foreign exchange

In the cash flow projections, we considered the A\$:US\$ exchange rate to convert commodity prices which are denominated in US dollars to Australian dollars. We selected the A\$:US\$ foreign exchange rate assumptions based on our consideration of:

- Historical and current A\$:US\$ exchange rates
- Forecasts prepared by economic analysts and other publicly available information, including analyst forecasts.

Based on the above, we adopted nominal exchange rate assumptions as shown in the figure below.

Figure 6: Foreign exchange – A\$:US\$



Note:

1. Foreign exchange rate from 2027 onwards have been grown by long term inflation forecast for the US from the EIU and Australian (refer below)

Source: EIU, broker forecasts where available, S&P Capital IQ, Deloitte analysis

3.1.3 Inflation

The Financial Model has been prepared on a real basis. We have therefore adopted inflation forecasts for Australia to adjust the different inputs of the model, such as operating costs and capital costs, to nominal forecast cash flows, based on our consideration of the following:

- Historical and current Australian CPI
- CPI forecasts prepared by Deloitte Access Economics (**DAE**) and other publicly available information.

Table 7: Inflation

	FY22	FY23	FY24	FY25	FY26	FY27+
Australia	2.69%	2.48%	2.33%	2.28%	2.36%	2.50%

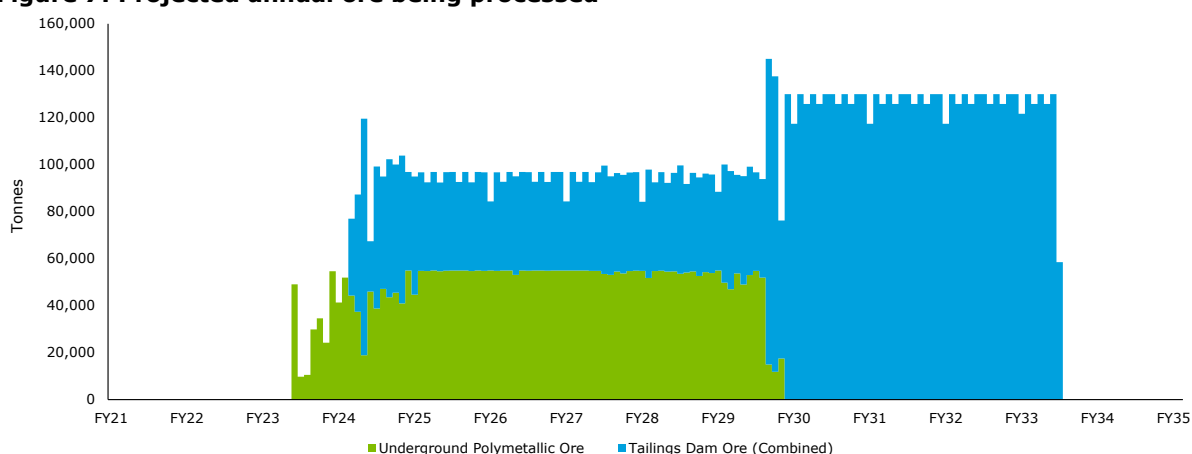
Source: DAE and other publicly available information

3.2 Key assumptions

The key assumptions adopted in the preparation of the cash flow projections and the adjustments we have made are discussed below. We note the figures below are presented in nominal terms unless otherwise stated.

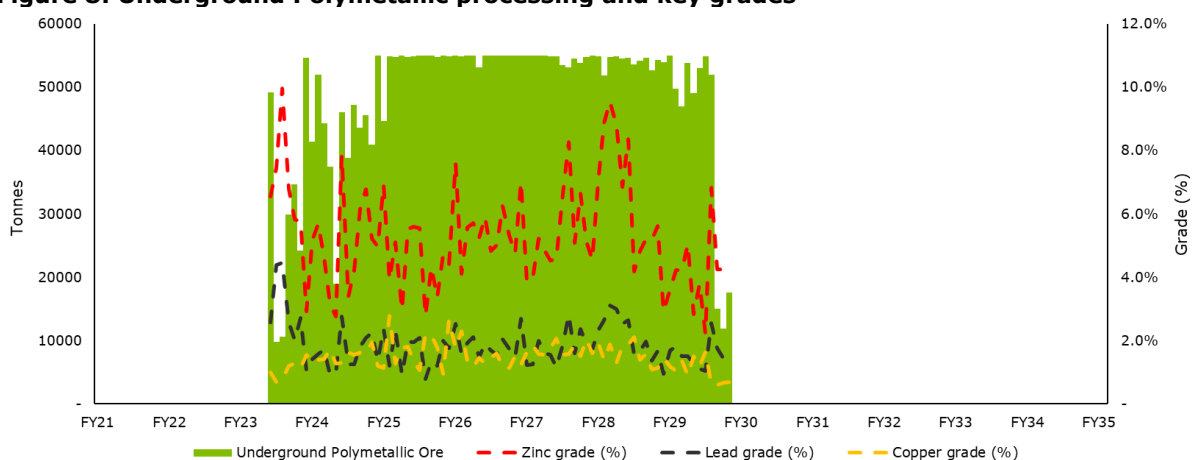
3.2.1 Revenue

Revenue is a function of the quantity of the ore recovered from the plant and (primarily) the prices of zinc, copper and lead, as discussed in the following sections. The figure below shows the projected annual ore being processed through the underground and the tailings.

Figure 7: Projected annual ore being processed


Source: Financial Model

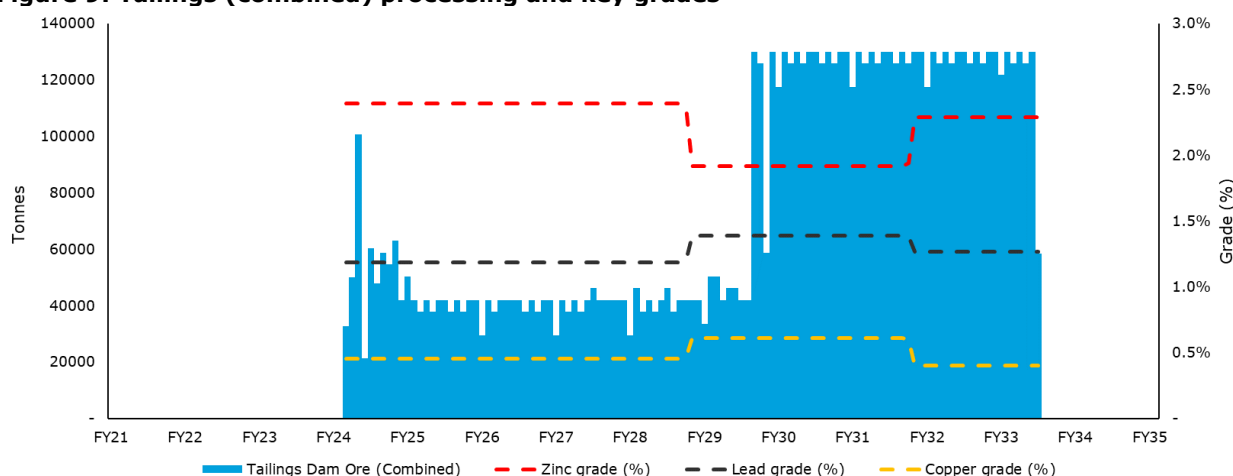
As noted in Section 1, the Financial Model assumes underground mining commences first with subsequent hydraulic mining of tailings. BDA reviewed this assumption and is of the view that it is not unreasonable. The total processed ore over the life of the mine is 12.5Mt.

Figure 8: Underground Polymetallic processing and key grades


Source: Deloitte analysis, the Financial Model

Management projects c. 3.8Mt of underground ore to be processed over the life of the mine. BDA is of the view that the zinc, lead and copper grades of the underground ore are appropriate.

Figure 9: Tailings (combined) processing and key grades

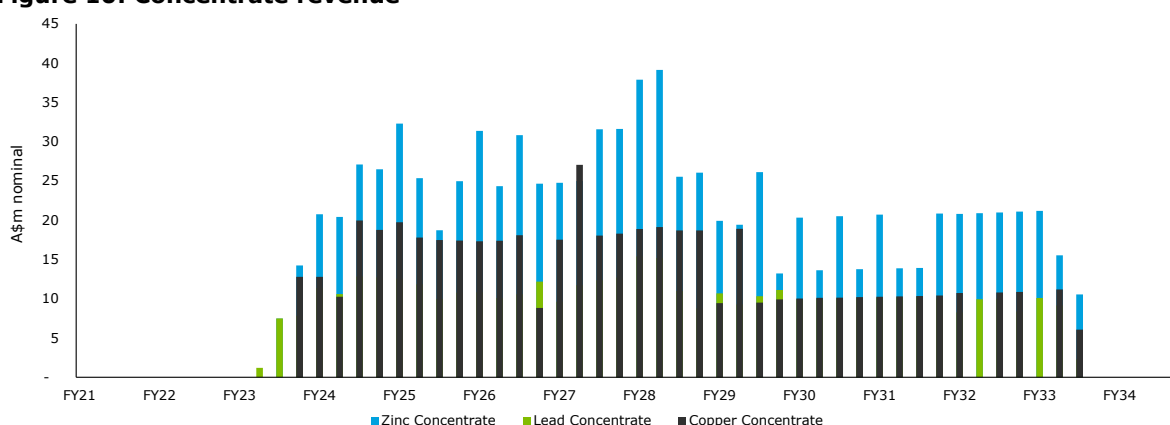


Source: Deloitte analysis, the Financial Model

Management forecast c. 8.7Mt of tailings dam ore to be processed over the life of the mine. BDA is of the view that the zinc, lead and copper grades of the tailings dam ore are appropriate.

The figure below shows the forecast annual concentrate revenue profile by mineral over the life of mine of the Woodlawn Project.

Figure 10: Concentrate revenue



Source: Deloitte analysis, the Financial Model

We note the following with respect to the above figure:

- Revenue begins in FY23 following the 9-month ramp-up which is projected to commence on 1 September 2022 (initially October 2021)
- In respect of the underground mine, volume is based on an 85% mining recovery. BDA considered whether it would be prudent to apply a lower recovery factor of 70% rather than 85%, which would reduce volume by approximately 230,000 tonnes (or approximately 6% of the total underground ore). BDA also considered that it is likely that the underground reserves will increase with further drilling, underground development and upgrade of some of the inferred material, subject to the underlying economic factors such as metal prices. Accordingly, and given the relatively small change that would result, BDA concluded that reduction from 85% to 70% mining recovery for remnant ore would not make a material difference to value
- Based on BDA's review, the volume of ore being mined includes a significant proportion of inferred resources. It is unusual for a significant proportion of volumes to be modelled from inferred resources. Inferred resources are the least reliable classification of mineral resources, estimated on the basis of limited geological evidence and sampling, providing a lower level of confidence than for measured and indicated mineral resources. Due to the uncertainty of these volumes, as compared to

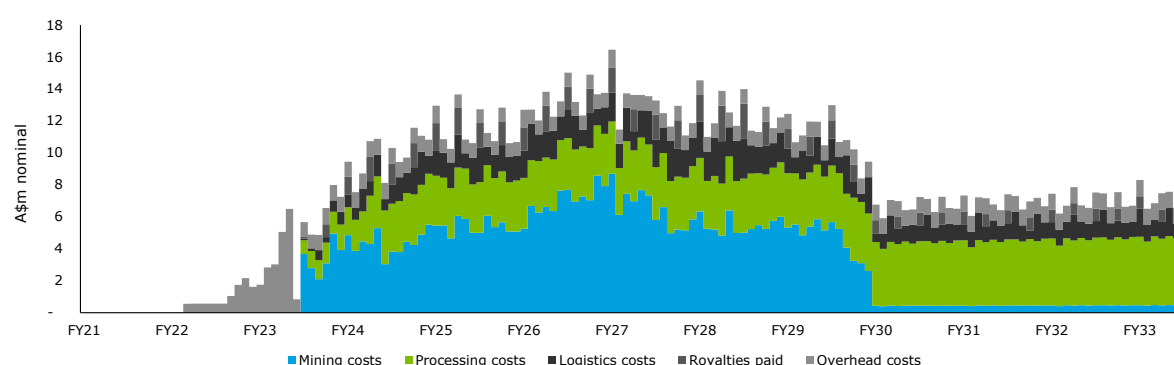
mineral reserves, given it is not practical to take account of this risk in the cash flows, we have factored this uncertainty in the discount rate (refer to Section 3.3)

- As recommended by BDA, we have assumed the model's assumptions on metal recovery
- As recommended by BDA, we have adopted the model's life of mine of 122 months (circa 10 years of concentrate)
- Total forecast revenues over the life of the mine are projected to be approximately A\$1.9 billion in nominal terms
- Gold and silver revenue are included in the zinc, lead and copper revenue. Gold and silver revenue represent 8% and 2%, respectively, of total payable metal value (before treatment costs).

3.2.2 Operating expenditure

Operating expenditure consists mainly of the costs associated with the mine. The following figure sets out forecast annual operating expenditure for the Woodlawn Project (in nominal terms).

Figure 11: Forecast operating expenditure per financial year



Source: Deloitte analysis, the Financial Model

We note the following with respect to the above figure:

- Total operating costs over the life of mine are projected to be approximately A\$1.2 billion (in nominal terms)
- We understand that the mining costs are based on a terminated contract with Pybar Mining Services⁵ and the other operating costs were modelled 12 to 18 months ago. Operating costs have increased significantly since then based on events such as the conflict between Russia and Ukraine, disruptions to the global supply chain, labour shortages and associated cost inflation. BDA is of the view that the projected operating costs could be 10% to 15% higher than projected in the model. Accordingly, in the absence of a more recent operating cost estimation for the Woodlawn Project, based on BDA's suggestion, we have reflected a 10% increase in the projected operating costs (including mining costs, processing costs, logistics costs and overhead costs) in the Financial Model. In addition, we have sensitised the assumed costs in the Financial Model based on a further 5% to 10% increase in the projected operating costs, and assessed their impact on our selected valuation range. Please refer to Section 1.3 for further detail
- We included A\$550,000 per month in care and maintenance costs in real terms between March and August 2022 (assuming restart of operations in September 2022) in the Financial Model, which has been based on Management's best estimate
- The Woodlawn Project is expected to take 9 months to ramp-up operations after it exits care and maintenance, which will cost c. A\$25.7 million. This includes mining costs and labour costs in respect of mining and processing
- We assumed the model's treatment cost assumptions. BDA is of the view that the treatment costs assumptions are reasonable

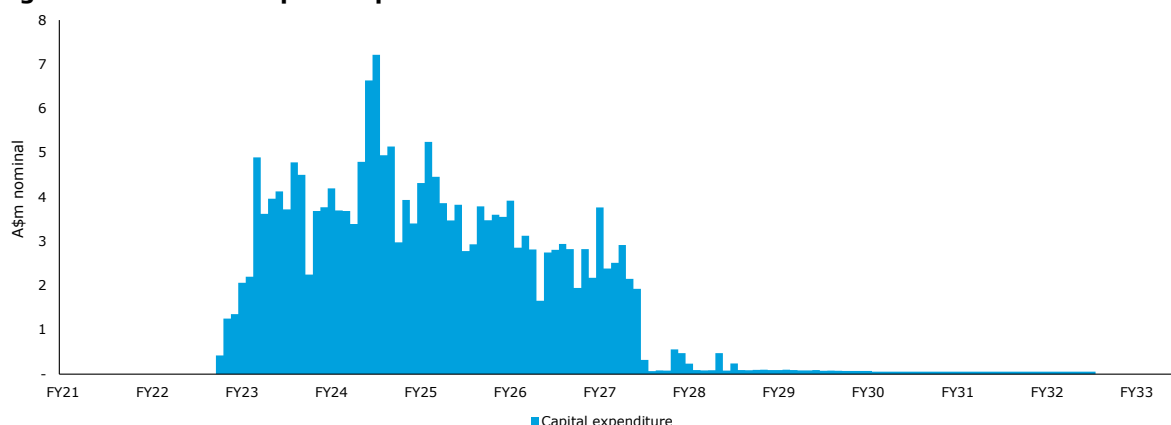
⁵ We understand that the contract with Pybar Mining Services was terminated due to contractor performance issues.

- Royalties are payable to the NSW State Government calculated at 4.0% of the payable metal value less treatment costs, logistics costs, deductible processing costs, and deductible capital charges (i.e. depreciation)
- Overhead costs relate to re-start costs including general & administration, labour, electricity, mining, processing, and product marketing & logistics. Other operations overheads included exploration and rehabilitation.

3.2.3 Capital expenditure

The following figure sets out projected capital expenditure for the Woodlawn Project (in nominal terms).

Figure 12: Forecast capital expenditure



Source: Deloitte analysis, the Financial Model

The total capital expenditure over the life of mine is projected to be A\$200.4 million. This includes restart works of c. A\$19.8 million over the 9-month ramp up period, including mining infrastructure costs and processing plant costs related to rectifying the design features of the plant, based on quotations from Sedgman Pty Ltd.

The bulk of the operational capital expenditure relates to mine capital development (A\$108.9 million), capital mine overheads (A\$30.0 million), and mine infrastructure (A\$17.4 million).

We understand that the projected capital expenditure was modelled 12 to 18 months ago. Similar to the reasoning outlined above in respect of the operating expenditure, BDA is of the view that the projected capital expenditure could be 10% to 15% higher. BDA also noted that there is no contingency allowance and that some minor sustaining capital may be required. Accordingly, in the absence of a more recent capital cost estimation for the Woodlawn Project, based on BDA's suggestion, we have reflected a 10% increase in projected capital in the Financial Model. In addition, we have sensitised the assumed costs in the Financial Model based on a further 5% to 10% increase in the projected capital costs, and assessed their impact on our selected valuation range. Please refer to Section 1.3 for further detail.

3.2.4 Other assumptions

In addition to the assumptions discussed in the preceding sections, we have also made the following assumptions:

- Cash flows are modelled on a post-tax basis, incorporating an Australian corporate tax of 30%. Management assumed the utilisation of carried forward tax losses of A\$182.2m which we understand includes A\$169m of tax losses for FY20 and A\$13m of tax losses for FY21 as estimated by Management. PricewaterhouseCoopers (**PwC**) was engaged by FTI Consulting and prepared a report dated 17 September 2021 providing, *inter alia*, their view on the tax implications of the Group entering into a Deed of Company Arrangement (**DOCA**) and transferring shares in Heron under section 444GA. We understand that the carried forward tax losses of \$182.2m will be diminished by the amount of the commercial debt forgiveness which would occur if the Group entities entered into the DOCA.⁶ Further, we understand that the transfer of the shares in Heron to new shareholders means Heron will not likely satisfy the continuity of ownership (**COT**) test for the

⁶ PwC's tax report to FTI Consulting dated 17 September 2021, page 16 and 17

utilisation of any carried forward tax losses.⁷ Based on the considerations above, we have assumed that, following a change of ownership, Heron will not benefit from the carried forward tax losses of A\$182.2m

- Closure costs of approximately A\$2.1 million (nominal) per month are forecast in the final six months of the Financial Model, totalling A\$12.9 million
- The Financial Model appears to have modelled the revenue receipt terms based on 90% of payable metal value assumed to be received in 25 days with the remaining 10% assumed to be received in 85 days. The working capital impact of the creditors is likely to be immaterial
- We have excluded the cash flows associated with the secured silver stream financing liability as we consider these financing cash flows (refer to Sections 4 and 5 for more detail on the secured silver stream financing liability of the Deloitte Expert Report).

3.3 Discount rate

The discount rate used to equate the future cash flows to a present value reflects the risk-adjusted rate of return demanded by a hypothetical investor. We have selected an A\$ denominated, nominal post-tax discount rate in the range of 13.25% to 14.50% to discount the future cash flows of the Woodlawn Project to their present value. Refer to Appendix 3 for further detail on our selected discount rate.

In selecting this range, we considered the following:

- The required rates of return on listed companies in a similar business
- The specific business and financing risks of the Woodlawn Project
- The Financial Model is based on a significant proportion of inferred resources, which has a lower level of confidence than that applied to an indicated or measured mineral resource. As discussed on page 7 of this report, given it is not practical to take account of the risks of the inferred resources in the cash flows, we have applied a specific risk premium in the discount rate
- An appropriate level of financial gearing assumed for a market participant.

⁷ PwC's tax report to FTI Consulting dated 17 September 2021, page 17

Appendix 1: Context to the report

Purpose of the report

The M&A Valuations team within Deloitte was requested to undertake a valuation analysis to assess the current fair market value of the Woodlawn Project. Our report is required, exclusively as an input to the Deloitte Expert Report. The Deloitte Expert Report was prepared in support of the Group's application pursuant to section 444GA of the Corporations Act 2001, which sets out Deloitte's opinion of the value, if any, of shareholders' residual equity in Heron, assessed on the basis of a "winding up" or "liquidation" scenario. Deloitte has an engagement letter with KWM dated 22 February 2022. The scope of services is to provide valuation analysis in connection with this matter, as set out in our engagement letter.

We understand that this report is required, exclusively as an input to the Deloitte Expert Report and will not be used for any other purposes unless written consent has been provided by us. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person or for any other purpose.

This engagement has been conducted in accordance with the professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

Limitations, qualifications, declarations and consents

The report represents solely the expression by Deloitte of its opinion as to the current fair market value of the Woodlawn Project as at the Valuation Date based on the Financial Model provided.

Our opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Recent volatility in capital markets and the current economic outlook have created significant uncertainty with respect to the valuation of assets. Recognising these factors, our valuation analysis and therefore our opinion may be more susceptible to change than would normally be the case. Unless requested, we will not update our valuation analysis for any subsequent information or events.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by FTI Consulting and its officers, employees, agents or advisors (as set out below in 'Sources of Information'). Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to FTI Consulting for confirmation of factual accuracy.

Deloitte also relied on the valuation reports prepared by BDA. Deloitte assessed the professional competence and objectivity of BDA and believe the work performed is appropriate and reasonable. Deloitte has received consent from BDA for our reliance on and inclusion of their assessment in the preparation of this report.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of FTI Consulting and Azure personnel. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

In relation to the prospective financial information, actual results may be different from the prospective financial information of Heron referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

The Partner responsible for the preparation of this report is Stephen Reid, Partner, M App. Fin. Inv., B.Ec, CA.

Deloitte will receive a fee for preparing this report. This fee is not contingent on the conclusion, content or future use of our report.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- 3.(a) 210824 LOM Model inputs (UG First).xlsx
- 3.(a) 210914 Project Andreas Financial Model (UG First) (2).xlsx
- 2. 210826 Andreas Information Memorandum dated August 2021.pdf

- Annual report of Heron for FY20
- Unaudited financial statements of Heron for FY21
- Heron's company website
- S&P Capital IQ, Deloitte Access Economics (DAE), Economist Intelligence Unit (EIU), Consensus Economics Inc, brokers reports.

In addition, we have had discussions and correspondence with Tim Dobson, Chief Executive Officer of Heron; Tim Brettell, Site Manager at Heron; David McGrath, Senior Managing Director at FTI Consulting; Jonathan Chee, Senior Director at FTI Consulting; Jeremy Yam, Senior Associate at KWM; and Elliot Hillier of Azure; in relation to the above information and to current operations and prospects.

We have also had discussions and correspondence with Malcolm Hancock, John McIntyre and Roland Nice of BDA with regards to the contents of the BDA independent technical expert review report.

Appendix 2: Valuation methodologies

Common market practice and the valuation methodologies which are applicable to corporate entities and businesses can be categorised under one of the following three approaches.

Market approach

The market approach involves the determination of fair value having regard to pricing and other metrics implied by market trading or transactions of comparable assets. Valuation methods commonly adopted under the market approach include:

- earnings multiples
- analysis of an entity's recent share trading history
- industry specific methods.

The earnings multiple method estimates fair value as the product of an entity's earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market trading and/or transactions involving comparable companies. The earnings multiple method is appropriate where the entity's earnings are relatively stable.

The most recent share trading history provides evidence of the fair value of the shares in an entity where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of an entity than other valuation methods because they may not account for entity specific factors.

Income approach

The income approach involves the determination of fair market value based on the present value of future amounts. The discounted cash flow method estimates fair market value by discounting an entity's future cash flows using an appropriate cost of capital to reflect the risks of the cash flows, to a net present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence, and is commonly used to value early stage companies or projects with a finite life.

Other methods under the income approach include option pricing models (such as Black Scholes-Merton formula or a binomial model) and the multi-period excess earnings method in the case of valuing intangible assets.

Cost approach

The cost approach involves the determination of fair value based on the cost of replacement. Valuation methods under the cost approach estimate the fair value of an entity's shares based on the realisable value of its identifiable net assets, and typically comprise:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method, except that it assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the fair value of the net assets of an entity, after deduction for the costs of operating the net assets of the business, but does not take account of realisation costs.

These methods ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill which may not be recognised on the balance sheet. Asset based methods are appropriate when companies are not profitable, or a significant proportion of an entity's assets are liquid, or for asset holding companies.

Appendix 3: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity selected. This is commonly referred to as the weighted average cost of capital (**WACC**). The WACC can be derived using the following formula:

$$\text{WACC} = \left(\frac{E}{V} \times K_e \right) + \left(\frac{D}{V} \times K_d \times (1 - t_c) \right)$$

The components of the formula are:

K_e	=	cost of equity capital
K_d	=	cost of debt
t_c	=	corporate tax rate
E/V	=	proportion of enterprise funded by equity
D/V	=	proportion of enterprise funded by debt

We have used the CAPM to estimate the K_e for the Woodlawn project. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital. The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta (R_m - R_f) + \alpha$$

A brief description of the above factors and a summary of the build-up of our selected discount rate is set out below.

Table 8: WACC applied to the Woodlawn project

	Low	High
Risk free rate (R_f)	2.22%	2.22%
Equity market risk premium (EMRP)	6.75%	6.75%
Beta (ungeared β)	1.50	1.60
Beta (geared β)	1.62	1.88
Company specific risk premium	1.00%	2.00%
Calculated K_e	14.13%	16.91%
Net debt / enterprise value	10.00%	20.00%
Tax rate	30.00%	30.00%
K_d (pre-tax)	6.00%	7.00%
K_d (post-tax)	4.20%	4.90%
WACC (post-tax) - Nominal	13.14%	14.51%
Selected WACC - Nominal	13.25%	14.50%

Source: Capital IQ, Deloitte analysis

R_f : compensates the investor for the time value of money and the expected inflation rate over the investment period. In determining the R_f , we have adopted the five-day average zero coupon yield on the 10-year Australian Government Bond as at the Valuation Date

EMRP: represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to

investing in a risk free alternative. We consider an EMRP of 6.75% to be reasonable having regard to our current view on the expected total Australian market return

β: measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. In estimating the beta for the Woodlawn project, we have considered the betas of listed companies that operate in the polymetallic mining sector. These betas, which are presented below, have been calculated based on weekly and monthly returns, over a two year and four year period, respectively, compared to a relevant domestic index.

In selecting an appropriate beta for the Woodlawn Project, we considered the following:

- The average and median 2-year unlevered beta of the comparable companies are 0.95 and 0.99, respectively. The average and median 4-year unlevered beta of the comparable companies are 1.29 and 1.16, respectively. However, a majority of these companies have mines that are already operational or are more diversified in minerals and/or geography (refer to Appendix 4)
- Mount Burgess Mining N.L. (ASX:MTB) is an exploration company focused on zinc, lead, silver, germanium and vanadium resources. Its current project, Kihabe-Nxuu Project, is located in Western Ngamiland, Botswana.⁸ The company currently holds a prospecting licence which covers an area of 1,000 square kilometres.⁹ We consider Mount Burgess Mining N.L. more comparable to the Woodlawn Project relative to the other comparable companies as it is pre-production, however, the company's unlevered beta has a low correlation
- Ironbark Zinc Ltd (ASX:IBG) is a company focused on zinc, gold, copper, silver, and lead in Greenland and Australia. Its main zinc and lead project, Citronen Base Metals Project, is located in Greenland. Ironbark Zinc Ltd holds a 30-year mining permit and declared a JORC compliant maiden ore reserve in 2020.¹⁰ The company completed a bankable feasibility study in July 2021 for the Citronen Base Metals Project and is in discussions with the US EXIM Bank for funding.¹¹ The company holds concentrate offtake agreements with its major shareholders, Glencore Plc and Trafigura Group Pte Ltd.¹² We consider Ironbark Zinc Ltd to be more comparable to the Woodlawn Project relative to the other comparable companies as it is pre-production. Ironbark Zinc Ltd has a 2-year unlevered beta of 1.16 and 4-year unlevered beta of 1.59.

Table 9: Comparable company betas

Company	Country	Enterprise value (EV) (US\$m)	Debt to EV (%)	2-year beta		4-year beta	
				Levered	Unlevered	Levered	Unlevered
Sandfire Resources Limited	Australia	944	-	1.09	1.09	1.22	1.22
Atlas Consolidated Mining and Development Corporation	Philippines	896	47%	0.66	0.41	0.69*	0.43*
Atalaya Mining Plc	Cyprus	715	-	0.89	0.89	0.98	0.98
Philex Mining Corporation	Philippines	712	20%	0.73	0.62	0.90	0.77
Central Asia Metals plc	United Kingdom	495	2%	0.99	0.97	1.09	1.07
Amerigo Resources Ltd.	Canada	201	-	1.44	1.44	2.26	2.26
Arizona Sonoran Copper Company Inc.	United States	125	7%	1.06	1.00	1.23	1.16
Three Valley Copper Corp.	Canada	70	93%	0.95*	0.08*	1.28*	0.10*
Ironbark Zinc Limited	Australia	36	-	1.16	1.16	1.59	1.59
Golden Cross Resources Limited	Australia	18	22%	0.07*	0.06*	1.02*	0.86*
Mount Burgess Mining N.L.	Australia	4	27%	1.28*	1.02*	1.52*	1.221*
Average (excluding *)		383	17%	1.00	0.95	1.32	1.29
Median (excluding *)		201	2%	1.02	0.99	1.22	1.16
Deloitte selected				1.50 to 1.60			

Note:

1. Betas marked * have a low correlation

2. The levered betas of the comparable companies have been blume adjusted before being unlevered

3. Enterprise value as at 28 February 2022

Source: Deloitte analysis, the Financial Model

⁸ <https://www.mountburgess.com/projects/kihabe-nxuu-zinc-lead-silver-germanium-and-vanadium-project-botswana/>

⁹ Ibid

¹⁰ Ironbark Zinc Ltd's half-year report for the period ended 31 December 2021, page 3-4

¹¹ Ibid

¹² Ibid

Based on the above, we have selected an unlevered beta ranging from 1.5 to 1.6. We have re-gearred the selected ungeared β based on the gearing ratio (see below) and a tax rate of 30%.

Gearing ratio: we have considered the capital structure of the comparable companies to determine a gearing ratio of 10% to 20%.

Specific premium: we have selected a total risk premium in the range of 100bps to 200bps in relation to risks specific to the Woodlawn Project. As discussed on page 7 of this report, 50% of the volumes produced from the underground mine from Year 4, which have modelled in the Financial Model, are from inferred resources. Inferred resources are the least reliable classification of mineral resources, estimated on the basis of limited geological evidence and sampling, providing a lower level of confidence than for measured and indicated mineral resources. Projected expenditure includes an allowance for both exploration drilling and stope definition drilling which will enable the inferred resources to be better defined which could result in different tonnages and grades to those set out in the inferred resource. The impact of this is that the volumes of minerals produced from the inferred resources could vary significantly from projected, with revenues possibly being significantly lower than anticipated, requiring revisions to mine plans to optimise the operation. As it is not practical to take account of the risks in the cash flows, to take account of this issue, we have added a specific risk premium to our discount rate used to value the Woodlawn Project.

K_d: we have estimated cost of debt to be 6% to 7% based on our selected level of gearing and the average implied cost of debt of the comparable companies over the past 4 years.

Appendix 4: Comparable companies

We identified the following companies whose securities are traded on various securities exchanges and we consider similar:

Table 10: Comparable companies

Company	Products	Operational	Pure play Producer & Processer	Geography
Sandfire Resources Limited	Copper, Gold	✓	✓	Global
Atlas Consolidated Mining and Development Corporation	Copper	✓	✓	Asia
Atalaya Mining Plc	Copper	✓	✓	Europe
Philex Mining Corporation	Copper, Gold	✓	✓	Philippines
Central Asia Metals plc	Copper, Lead, Zinc	✓	✓	Kazakhstan, North Macedonia
Amerigo Resources Ltd.	Copper	✓	✓	Chile
Arizona Sonoran Copper Company Inc.	Copper	✓	✓	United States
Three Valley Copper Corp.	Copper	✓	✓	Chile
Ironbark Zinc Limited	Zinc, Lead	✗	✓	Greenland
Golden Cross Resources Limited	Copper, Gold	✗	✓	Australia
Mount Burgess Mining N.L.	Zinc, Lead, Silver, Germanium, Vanadium	✗	✗	Botswana

Source: Capital IQ, publicly available information, Deloitte analysis



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Appendix G – BDA Report

ABN 62 065 713 724

17 March 2022

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Dear Sirs

INDEPENDENT TECHNICAL SPECIALIST REPORT
THE MINERAL ASSETS OF HERON RESOURCES LIMITED
BEHRE DOLBEAR AUSTRALIA LIMITED

1.0 INTRODUCTION

Deloitte Financial Advisory Pty Ltd ("Deloitte") has been engaged on behalf of the Administrators of Heron Resources Limited (Subject to Deed of Company Arrangement) ("Heron" or "the Company") to prepare an Independent Expert's Report ("IER") for inclusion with the Court Documents. Deloitte has been instructed to prepare an IER expressing an independent opinion on the value, if any, of shareholders' residual equity in Heron, assessed on the basis that the Company is in administration and on a "winding up" or "liquidation" basis.

In order for Deloitte to form an opinion on whether there is any value in the residual equity of Heron, Deloitte has requested that Behre Dolbear Australia Pty Ltd ("BDA") act as Independent Technical Specialist ("ITS") to assist Deloitte with its opinion.

Deloitte has requested that BDA prepare an Independent Specialist Report ("ISR"), including an independent opinion on the market valuation of the following assets:

- Woodlawn potential mineral extensions (to the extent not included in Deloitte's discounted cash flow ("DCF") valuation)
- Woodlawn satellite deposits, namely Currawang and Cowley Hills
- NSW regional tenements comprising Peelwood, Cullarin South, Mulloon, Sandy Point, Boro, Black Springs, Captains Flat, Burra, and Mayfield prospects in the Woodlawn, Goulburn and Yass regions of NSW
- prospects and tenements in the Parkes, Barraba and Nyngan regions of NSW held in joint venture ("JV") with Alchemy Resources Ltd ("Alchemy") where Alchemy has earned an 80% interest
- prospects and tenements in the Woodlawn and Goulburn region of NSW held in JV with Sky Metals Ltd ("Sky Metals") where Sky Metals has earned an 80% interest
- Heron's tenements and royalty interests in Western Australia ("WA")
- any other exploration or mineral assets which the ITS considers have material value.

Deloitte has also requested that BDA advise on:

- the reasonableness of the technical assumptions used by Deloitte in the Woodlawn DCF models ("the Models")
- the impact on the Woodlawn mine project if the current Care and Maintenance ("C&M") works were discontinued
- an appropriate valuation method for Woodlawn mine project in the scenario of no care and maintenance.

With regard to the latter two points, BDA considers it likely that there would be a gradual and progressive deterioration of plant and infrastructure if C&M was discontinued, but such changes would require relatively minor additions to start-up capital to remedy.

The locations of Heron's Woodlawn project and adjacent tenements are shown in Figure 1. The layout of the Woodlawn site is shown in Figure 2 and the NSW and WA regional tenements are shown in Figure 3.

BDA has advised Deloitte concerning the Mineral Resources, Ore Reserves, potential production profile, schedules and costs of the Woodlawn project to assist Deloitte in its project valuation. BDA has also reviewed and valued Heron's interests in the exploration tenements in NSW and WA.

BDA has previously, in 2016 and 2017, undertaken work on the Woodlawn project as the Independent Engineer ("IE") to potential financiers, and has prepared IE reports for the financial advisors engaged to source project finance and a development partner. This work has been undertaken in an independent capacity for the prospective lenders. BDA also undertook a valuation assessment for BDO Corporate Finance in 2019 in the context of an Independent Expert Report to shareholders relating to a proposed refinancing. BDA has not undertaken any work for Heron.

BDA has visited the Woodlawn project site in NSW in February 2022 in the context of the current review. BDA has not visited the remainder of the exploration projects as these are not considered a material component of the valuation; however, BDA has reviewed exploration results and reports. Heron has provided data on exploration results, resource and reserve estimates, proposed operating and development plans, production schedules and operating and capital costs. BDA has also held discussions with technical and managerial staff as part of this review.

BDA is the Australian subsidiary of Behre Dolbear & Company Inc., an international minerals industry consulting group which has operated continuously in North America and worldwide since 1911, with offices or agencies in Denver, London, New York, Sydney, Toronto, Vancouver, Hong Kong and Beijing. BDA is well qualified to carry out the current assignment; BDA specialises in independent technical due diligence, advisory and review work for financial institutions and companies on mining and processing projects and has been involved in numerous mining-related studies, valuations, prospectuses and ISR/Independent Engineer assignments in recent years.

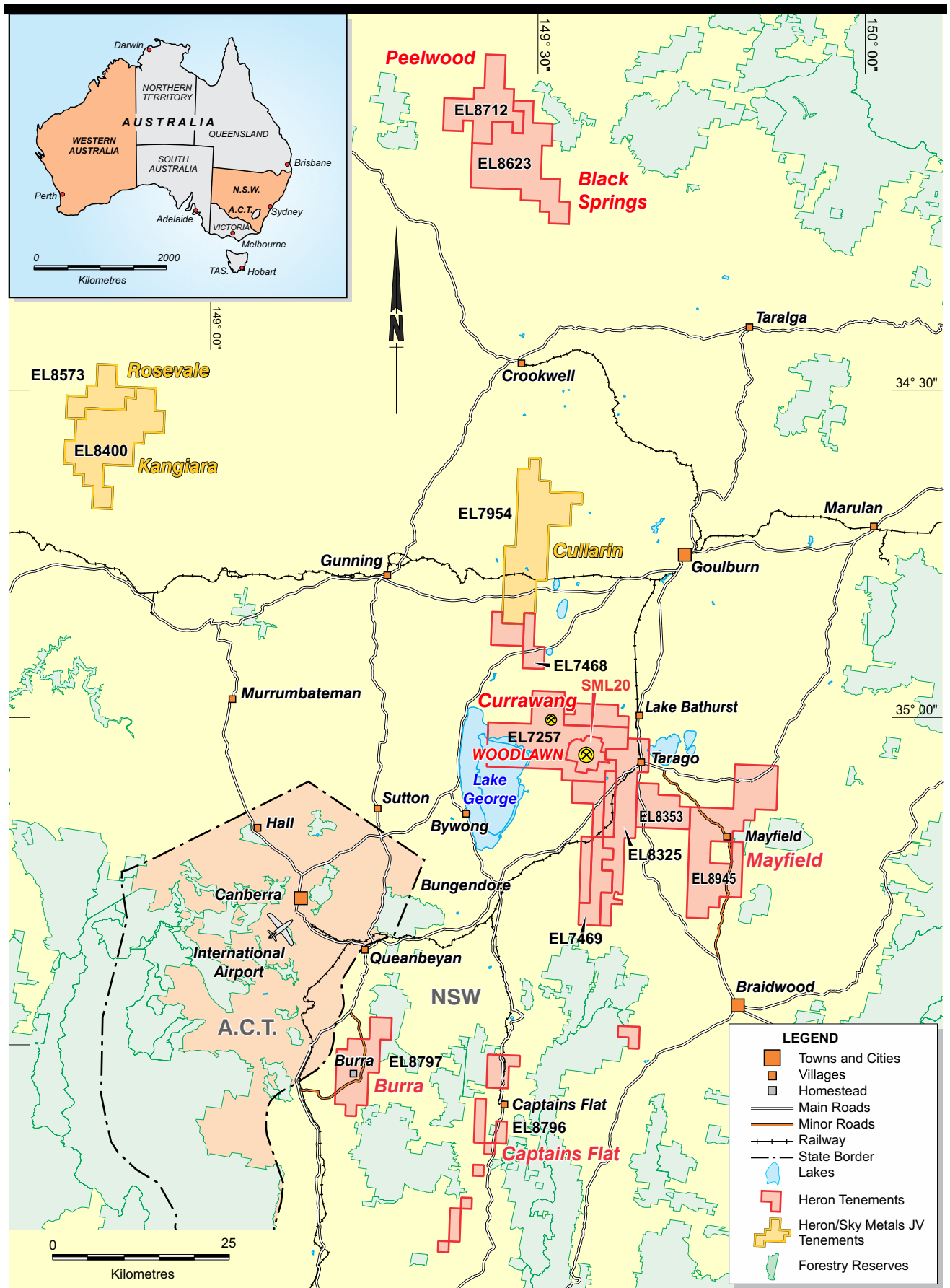
BDA has conducted its review consistent with Australian mining industry standards and in compliance with the Code and Guidelines for Reporting Exploration Results, Mineral Resources and Ore Reserves - Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy ("AusIMM"), Australian Institute of Geoscientists ("AIG") and Minerals Council of Australia ("MCA") - December 2012 ("the JORC Code") and in accordance with the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets ("VALMIN Code 2015").

BDA confirms that it is independent of all parties in the proposed transactions and has no interest in the assets or parties involved. BDA understands that Deloitte will rely on the BDA Technical Specialist Report and that BDA's report will be appended to the Deloitte Independent Expert Report.

BDA has reviewed the resource and reserve estimates and considers them reasonable and our review has not identified any reason to believe that they have not been reported in accordance with applicable statutory and industry requirements. However, BDA has not undertaken an audit of the data or re-estimated the resources or reserves. Heron has provided a current tenement report for BDA's review and has confirmed that all material tenements are in good standing. All planned operations are sited within granted mining leases or exploration licences. However, BDA has not independently verified the current ownership status and legal standing of the Heron tenements that are the subject of this report.

This report contains forecasts and projections based on data provided by Heron. BDA's assessment of the most likely production schedule, the projected capital and operating costs and the estimate of mine life are based on technical reviews of project data and discussions with technical personnel. BDA has undertaken suitable checks, enquiries and analysis of the data to satisfy itself that the data is reasonable. However, these forecasts and projections cannot be assured and factors both within and beyond the control of Heron could cause the actual results to be materially different from BDA's assessments and estimates contained in this report.

The sole purpose of this BDA report is for use by Deloitte in the context of its IER, to provide specialist independent technical advice on which Deloitte can rely in connection with the IER valuation and should not be used or relied upon for any other purpose. A draft copy of the report has been provided to Deloitte and Heron for correction of any material errors or omissions. A copy of this report will be included with Deloitte's IER and BDA consents to the inclusion of its report in this form and context. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any other purpose, without our written consent to the form and context in which it appears.

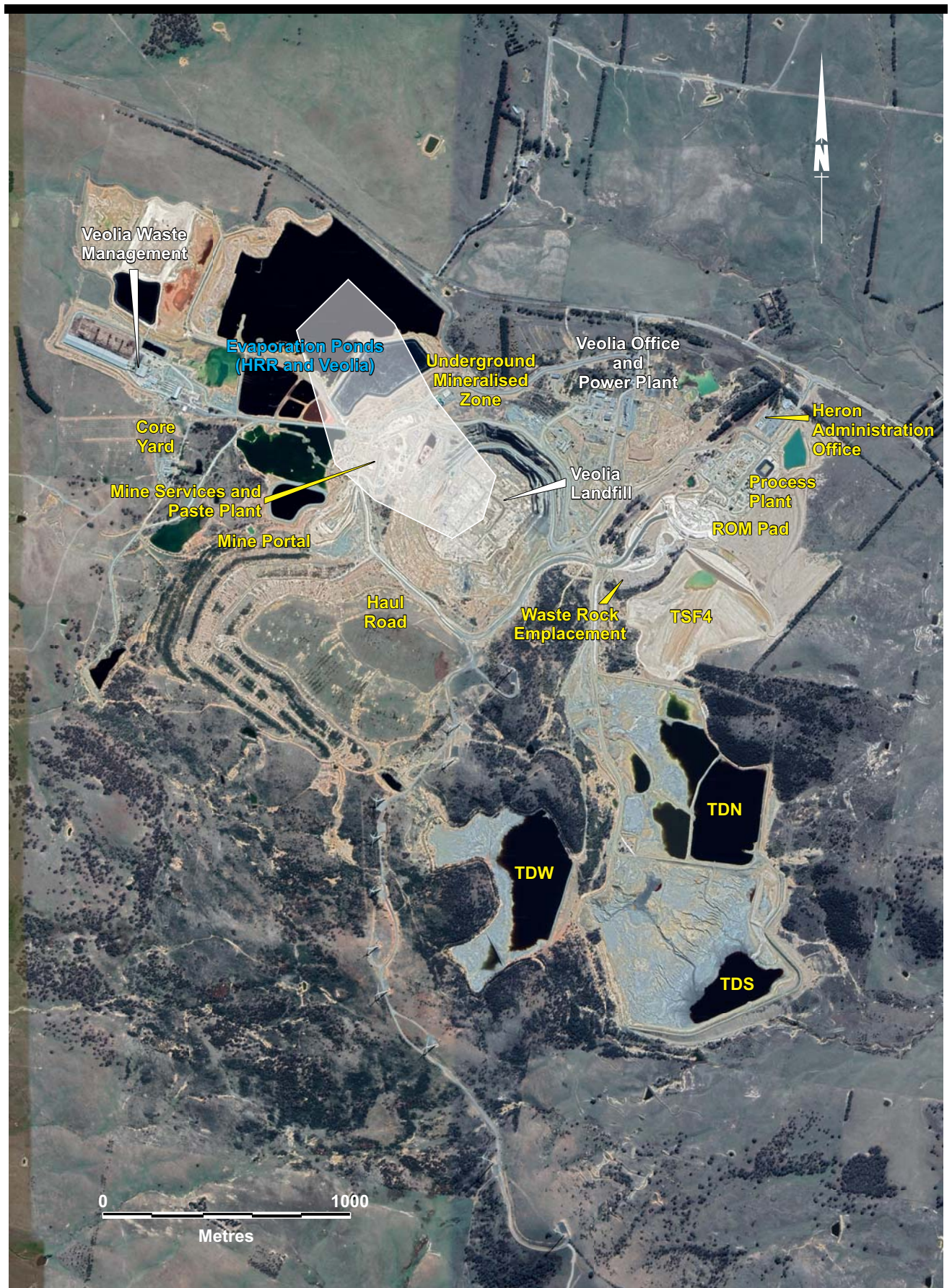


Heron Resources Ltd

Woodlawn Project

Figure 1

PROJECT LOCATION PLAN

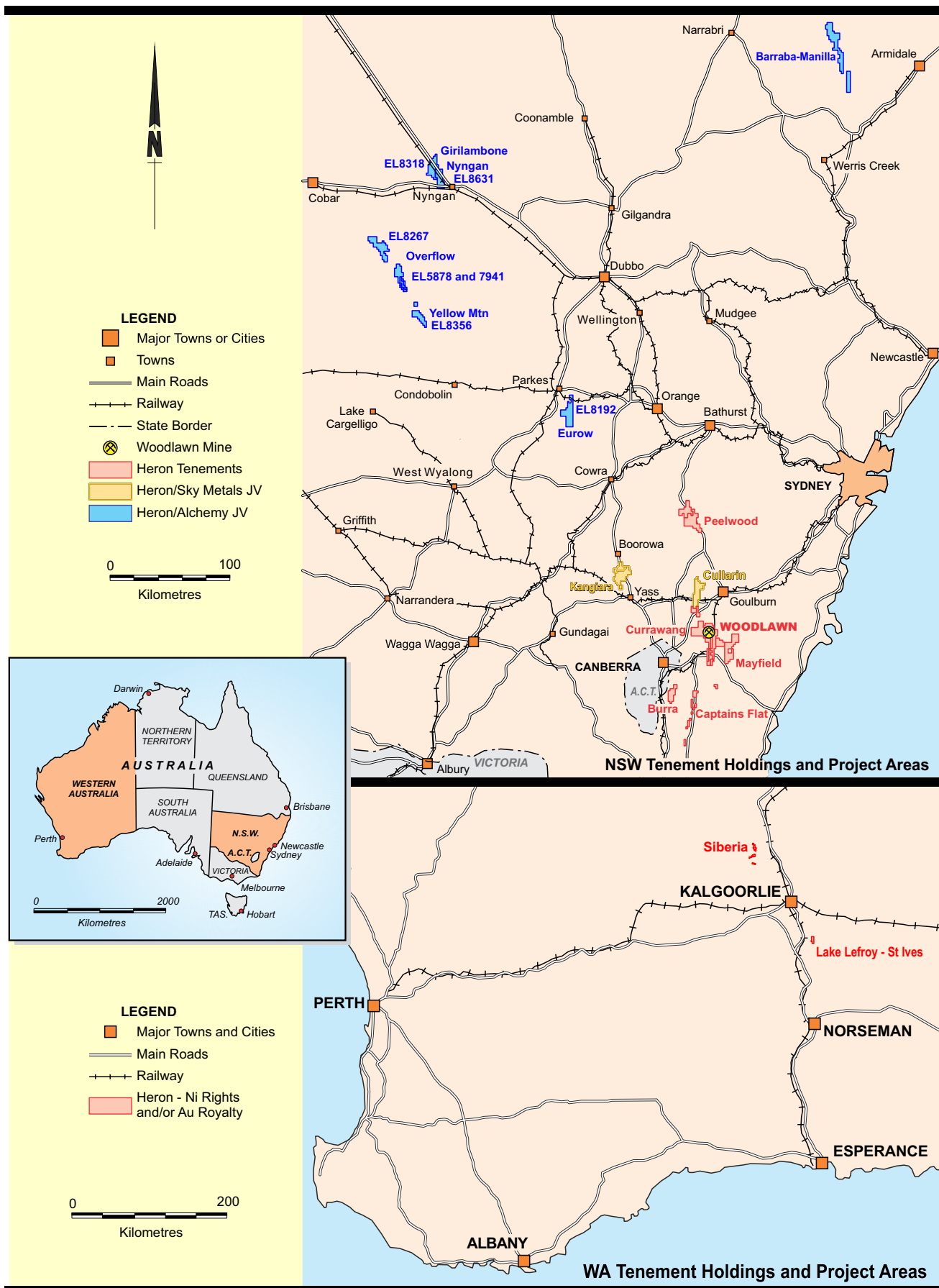


Heron Resources Ltd

Woodlawn Project

Figure 2

SITE LAYOUT



Heron Resources Ltd

Figure 3

BDA - 0189-(04)-March 2022

EXPLORATION TENEMENTS

Behre Dolbear Australia Pty Ltd

2.0 EXECUTIVE SUMMARY

2.1 Overview

A summary of the assets to be valued is set out below:

NSW Mine Development Project

- Woodlawn underground and tailings zinc-lead-copper project in NSW

NSW Regional Tenements

- Woodlawn satellite deposits namely Currawang and Cowley Hills
- Woodlawn regional tenements comprising Peelwood, Cullarin South, Mulloon, Sandy Point, Boro, Black Springs, Captains Flat, Burra and Mayfield prospects in the Woodlawn, Goulburn and Yass regions of NSW (Heron 100%)
- Joint venture with Alchemy Resources Ltd on base metal and gold prospects in the Parkes, Barraba and Nyngan regions of NSW where Alchemy has earned an 80% interest
- Joint venture with Sky Metals on base metal prospects in the Woodlawn and Goulburn regions of NSW where Sky Metals has earned an 80% interest.

Western Australia (“WA”) Tenements

- Gold royalty interest in the North Kalgoorlie nickel projects of Eastern Goldfields Ltd, Kalgoorlie region of WA
- Base metals and gold royalty interest in the St Ives project of St Ives Gold Mining Co Pty Ltd, Kambalda region of WA.

The tenement locations are shown in Figures 1 and 3.

BDA has reviewed the technical and financial data provided by Heron for each of the assets.

For the Woodlawn project, where capital and operating costs and production schedules are reasonably well defined through the life-of-mine (“LOM”) plans and current budgets, BDA has reviewed the resources and reserves, the LOM production schedule and capital and operating cost projections and has advised Deloitte on appropriate technical parameters to assist Deloitte in developing a discounted cashflow model.

BDA has reviewed the potential for extensions to the defined mine life by mining additional resources and extensions of known lodes. BDA provided the technical parameters for additional mining scenarios to Deloitte who provided the DCF modelling of the potential extensions. BDA assessed appropriate factors to apply to the DCF modelling provided by Deloitte and determined a range of values for the potential extensions to the project life.

For the less developed prospects and exploration assets, BDA has considered alternative means of valuation including exploration expenditure, comparable transactions, yardstick values, joint venture terms and other methodologies to assess a likely range of values. Both Heron in 2020 and the Administrators in 2021 engaged in a process to sell various assets which were considered peripheral to the main Woodlawn project, namely the Alchemy JV interest, the Sky Metals JV interest and the WA base metals and gold royalty interests (“the surplus assets”). BDA has considered the offers made and the outcome of these processes as an important guide to the market value of these assets.

The valuation principles adopted by BDA are reviewed in Section 3; the list of the information relied upon for this assessment is provided in Section 4.

The Woodlawn project is described in Section 5, the exploration assets are described in Section 6, and the valuation of the assets is discussed in Section 7.

2.2 Woodlawn Base Metal Project

The Woodlawn Mine is located near the town of Tarago in New South Wales, some 35 kilometres (“km”) south of Goulburn and 70km northeast of Canberra (Figure 1). The mine was previously operated by Jododex Australia Pty Ltd (“Jododex”), CRA Limited (“CRA”) and then Denehurst Limited (“Denehurst”). From 1978 to 1987 open pit mining took place, followed by an underground operation until closure in 1998. A tailings dredging and retreatment operation was also undertaken in the mid-1990s.

Tri Origin Minerals Limited (“TRO”) acquired the mineral rights from the administrators of Denehurst in 1999 and was listed on the ASX in 2004. In 2010 TRO also listed on the Toronto Stock Exchange (“TSX”); the company name was changed to TriAusMin Limited (“TriAusMin”) in 2010. Internet Limited (“Internet”) prepared a Preliminary Feasibility Study (“PFS”) for TRO in 2007 and subsequently, later that year, completed a Bankable Feasibility Study (“BFS”), covering the mining and re-treatment of the tailings material. However, while these studies provided a useful guide, they have been largely superseded by the more recent work and additional drilling and testwork carried out by Heron.

Heron acquired its interest in the property in 2014 following a merger with TriAusMin, and completed significant additional drilling, testwork and resource estimation. During 2015, SRK Consulting (Australasia) Pty Ltd (“SRK”) prepared a Preliminary Economic Estimate (“PEA”), with contributions from GR Engineering Services Limited (“GRES”) and other consultants; Heron submitted the PEA to the TSX and ASX in June 2015. The PEA was based on an eleven-year mine life, processing both tailings and underground ore. The PEA contained an updated underground (“WUP”) resource estimate based on an initial Phase I drilling programme. Heron issued an updated resource estimate for the tailings retreatment project (“WRP”) in November 2015 in a NI 43-101 Mineral Resources Report.

In December 2015 Heron announced that the Phase II infill drilling programme on the underground resource was complete and that work was proceeding on the Definitive Feasibility Study (“DFS”). The company updated the WUP resource as part of the DFS, and also prepared a WRP and WUP reserve estimate. In July 2016, Heron completed the DFS. From September to November 2016, Crosscut Consulting Limited (“Crosscut”) completed a revised WUP mining schedule and Heron further updated the DFS.

Heron planned to recover the tailings stored within the tailings dams (Figure 2) by hydraulic mining and treat the material, along with underground ore from a re-opened and expanded Woodlawn underground mine, in a purpose-built processing facility, producing zinc, copper and lead concentrates.

Veolia Environmental Services (Australia) Pty Ltd (“Veolia”) is currently using the former open pit void as a bio-reactor, treating containerised putrescible waste delivered to the nearby siding by rail from Sydney and from there to the site by truck. Heron coordinated its development projects with the ongoing operations of Veolia and various cooperation agreements were put in place covering the operations (Figure 2).

The WRP resource is based on tailings from the South (“TDS”), West (“TDW”) and North (“TDN”) tailings dam storage facilities (“TSF”). The tailings resource in the TDS, TDW and TDN dams, prior to the commencement of retreatment, was estimated at 10.9 million tonnes (“Mt”) at 2.3% zinc (“Zn”), 0.5% copper (“Cu”), 1.3% lead (“Pb”), 0.3 grams per tonne gold (“g/t Au”) and 31g/t silver (“Ag”). Of this total, 90% (9.8Mt) is in the Measured and Indicated resource categories.

The WUP resource was subdivided into two mineral types, a polymetallic resource and a (predominantly) copper resource. Based on a 7% zinc equivalent (“ZnEq”) cut-off grade, the polymetallic resource as of October 2019 was estimated at 4.8Mt at 8.8% Zn, 1.5% Cu, 3.4% Pb, 0.7g/t Au and 69g/t Ag; the resource was categorised as Measured, Indicated and Inferred. Based on a 1% Cu cut-off grade, the copper resource was estimated at 2.6Mt averaging 2.6% Cu, 0.7% Zn, 0.2% Pb, 0.2g/t Au and 6g/t Ag; the underground Cu resource was categorised as Indicated and Inferred.

Heron’s life of mine plan (“LOMP”) was based on processing an average of 1.2-1.3Mt of ore (based on campaign treatment of both tailings and underground material) and an average output of 40,000t per annum (“40ktpa”) of zinc, 10ktpa of copper, 11ktpa of lead, 4,000 ounces per annum (“4kozpa”) of gold and 900kozpa of silver (in payable streams), within approximately 120,000 dry metric tonnes per annum (“120kdmtpa”) of zinc, copper and lead concentrates. It was planned that concentrates would be trucked 210km to Port Kembla or to Port Botany for shipping to overseas smelters, though rail options from the rail head at Crisps Creek through to Port Kembla and Port Botany were also considered. On average, zinc comprised approximately 50% of the payable metal value, with copper contributing around 28%.

Heron estimated reserves for both the WRP and the WUP as part of the DFS programme based entirely on Proved and Probable reserves (based on Measured and Indicated resources only). The 2019 WRP Proved and Probable reserve (2012 JORC compliant) totalled 9.3Mt averaging at 2.2% Zn, 0.5% Cu, 1.3% Pb, 0.3g/t Au and 31g/t Ag.

The WUP reserve was classified as Probable and totalled 3.1Mt at 5.2% Zn, 1.6% Cu, 1.8% Pb, 0.4g/t Au and 38g/t Ag.

The Heron LOMP for Woodlawn incorporated the defined underground and tailings reserves plus approximately 1Mt of Inferred resource (3.79Mt underground ore in total) which Heron was confident would be confirmed and proved up with underground development and infill drilling as the underground decline is developed, former development is re-accessed and positions for underground drilling become available.

In March 2020, Heron suspended the mining and processing operations, with the site assets put under a care and Maintenance (C&M) programme, while the Company sought alternative funding arrangements. Having been unable to identify acceptable sources or terms for funding, Heron Directors placed Woodlawn into Administration in July 2021. Both prior to the Administration and as a later part of that process, Woodlawn retained the services of Entech Pty Ltd (“Entech”) from Perth to review the LOM planning, the underground mine re-entry options and the mine ventilation design. Similarly, Heron retained the services of Mineralis Pty Limited (“Mineralis”) to review the metallurgical performances and the recovery assumptions, based on limited processing to that time. These reviews were incorporated into updated financial models that examined options to re-start the operation.

2.3 Other Mineral Assets and Exploration Properties

In addition to the Woodlawn project, Heron owns surrounding exploration tenements with potential to add to the project’s resource base and add satellite feed to the Woodlawn mine or to result in stand-alone projects.

Heron also has a joint venture with Alchemy on base metal and gold prospects and tenements in the Parkes, Barraba and Nyngan regions of NSW and a JV with Sky Metals on base metal prospects and tenements in the Woodlawn and Goulburn regions of NSW. Both Alchemy and Sky Metals have earned an 80% interest in their respective JV areas.

In Western Australia Heron has a portfolio of interests including gold royalties and base metal rights on projects in the Kalgoorlie and Kambalda regions.

In 2020 Heron engaged in a process to sell various assets which were considered peripheral to the main Woodlawn project, namely the Alchemy JV interest, the Sky Metals JV interest and the WA base metals and gold royalty interests (“the surplus assets”).

In May 2020 an Information Memorandum was produced and distributed to a number of royalty companies and junior and mid-tier exploration and mining companies. No interest was received and the process was discontinued in October 2020.

In 2021 the Administrators in conjunction with Heron’s management further pursued the potential sale of the surplus assets as noted below:

Alchemy JV Assets

A non-binding offer of A\$50,000 (“A\$50k”) cash plus A\$50k in Alchemy shares was made by Alchemy. Twenty-five other parties were contacted seeking alternative offers; one party requested further information but no other offers were received.

Sky Metals JV Assets

Sky Metals made a verbal cash offer of A\$75k for the remaining 20% interest in the Sky Metals JV tenements. A further 27 potentially interested parties were contacted but no further offer was received.

WA Interests and Royalties

Argonaut PCF (“Argonaut”) was engaged to run a process for sale of the assets. A dataroom was prepared and 15 potentially interested parties were contacted. The assets were also advertised on Mines Online. One offer was received totalling A\$300k in cash and A\$300k in shares; no other offers were received.

2.4 Valuation

Woodlawn Project

The Woodlawn project commenced underground mining operations under Heron management in September 2018 but operated for only 19 months (until March 2020) before being placed under care and maintenance (C&M), where the project remains.

While the operation was still in the early ramp-up phase when it was placed in C&M, some of the upper underground stopping areas had been accessed by decline, although the former underground workings had not yet re-opened. Nevertheless, there is substantial information available on the project based on the limited mining to date, a completed feasibility study, defined resources and reserves, operating budgets, LOM plans and schedules,

and detailed estimates of ongoing capital and operating costs. Woodlawn previously operated in the 1980s and 1990s, so the mining conditions and processing parameters are reasonably well understood.

Heron has provided various development scenarios and life of mine plans and BDA has reviewed these plans with Deloitte and advised on the adoption of appropriate production and cost parameters for the purpose of valuation. BDA has provided its opinion on the physical mining and processing parameters and the cost estimates to be used in the proposed financial analysis and valuation. Deloitte has undertaken financial modelling of the Woodlawn project and derived a net present value of the discounted cash flows as a guide to determining a valuation for the Woodlawn project.

Woodlawn Project Extensions

BDA has reviewed various potential scenarios involving extension of the likely mine life based on known underground resources, likely lens extensions, remnant material and underground exploration potential. BDA has assessed a valuation for these potential extensions to the mine life based on Deloitte's DCF modelling.

Currawang and Cowley Hills – Satellite Deposits

These deposits lie within a few kilometres of the Woodlawn plant, and supplied feed to Woodlawn during the 1980s and 90s. There is potential for additional mineralisation to be mined and trucked to Woodlawn. BDA has assessed a potential value for these satellite deposits based on the likely additional net present value ("NPV") of processing these resources through the Woodlawn plant towards the end of the Woodlawn mine life.

Exploration Potential

In addition to the Woodlawn mine development project, Heron owns various exploration tenements, joint venture interests and royalty interests in New South Wales and Western Australia. For these less advanced projects and exploration properties, BDA has considered methods such as past expenditure, acquisition costs, and joint venture terms, and has also enquired of Heron regarding any relevant comparable recent transactions to determine value.

BDA has also taken due note of the offers received for the Alchemy and Sky Metals JV interests and the WA joint venture, royalty and residual rights interests from the sale of surplus assets transactions pursued during 2020 and 2021.

Valuation Summary

Deloitte has considered the value of the Woodlawn project and this valuation is discussed in the Deloitte report. BDA has assisted Deloitte with consideration of the technical inputs to the Deloitte DCF model.

BDA has assessed the value of the potential extensions of the Woodlawn mine life, less advanced projects, exploration properties and interests and a summary of these asset valuations is shown in Table 2.1.

Table 2.1
Valuation Summary of Heron's Mineral Assets

Property	Valuation (A\$M)			Comments
	Low	Most Likely	High	
Woodlawn Mine Project – Defined Mine Plans				
Underground and Tailings Retreatment Operation	Deloitte	Deloitte	Deloitte	LOMP - Proved/Probable reserves + Inferred – see Deloitte Report
Woodlawn Mine Project – Potential Extensions				
Underground Lenses and Extensions	4.0	5.7	7.5	Additional 1-2 years extension
Woodlawn Mine Project – Satellite Deposits				
Currawang and Cowley Hills	1.0	1.2	1.4	Potential additional feed
NSW Regional Tenements/Interests				
Woodlawn Regional	2.6	2.9	3.1	10 ELs north and south of Woodlawn
Alchemy Joint Venture Interests	0.08	0.10	0.12	8 ELs, Alchemy 80% earnt
Sky Metals Joint Venture Interests	0.06	0.08	0.10	3 ELs, Sky Metals 80% earnt
Western Australian Tenements/Interests				
Subtotal WA Interests	0.5	0.6	0.7	Current value of potential future rights and royalty payments
Total Exploration Interests	8.2	10.6	12.9	

3.0 VALUATION METHODOLOGY

3.1 Effective Date

The effective date for the valuation is 1 March 2022.

3.2 Standards and Procedures

This report has been prepared in keeping with the Valmin Code for the Technical Assessment and Valuation of Mineral Assets and Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and as amended and updated in 2005 and 2015. Resource and reserve estimation procedures and categorisations have been reviewed in terms of the JORC Code, 2012.

3.3 Valuation Principles

As a general principle, the fair market value of a property as stated in the Valmin Code is the amount a willing buyer would pay a willing seller in an arm's length transaction, wherein each party acted knowledgeably, prudently and without compulsion.

3.4 Valuation Methods

There is no single method of valuation which is appropriate for all situations. Rather, there are various methods, all of which have some merit and are more or less applicable depending on the circumstances. The following are appropriate items to be considered:

- discounted cash flow
- amount an alternative acquirer might be willing to offer
- the amount which could be distributed in an orderly realisation of assets
- the most recent quoted price of listed securities
- the current market price of the asset, securities or company.

The *discounted cash flow* or net present value method is generally regarded as the most appropriate primary valuation tool for operating mines or mining projects close to development. Valuing properties at an earlier stage of exploration where ore reserves, mining and processing methods, and capital and operating costs, are yet to be fully defined, involves the application of alternative methods. The methods generally applied to exploration properties are the *related transaction* or real estate method, the value indicated by *alternative offers* or by *joint venture terms*, and the *past expenditure* method. *Rules of thumb* or *yardstick values* based on certain industry ratios can be used for both mining and exploration properties. Under appropriate circumstances values indicated by *stock market valuation* should be taken into account as should any *previous independent valuations* of the property.

The valuation methods considered are briefly described below.

Net Present Value (NPV) or Discounted Cash Flow (DCF)

If a project is in operation, under development, or at a final feasibility study stage and reserves, mining and processing recoveries, and capital and operating costs are well defined, it is generally accepted that the net present value of the project cash flows is a primary component of any valuation study. This does not imply that the fair market value of the project necessarily is the NPV, but rather that the value should bear some defined relationship to the NPV.

If a project is at the feasibility study stage, additional weight has to be given to the risks related to uncertainties in costs and operational performance, risks related to the ability to achieve the necessary finance for the project, risks related to granting of licences or permits, environmental and community aspects, political or sovereign risk and sometimes a lower degree of confidence in the reserves and recoveries. In an ongoing operation, many of these items are relatively well defined.

The NPV provides a technical value as defined by the Valmin Code. The fair market value could be determined to be at a discount or a premium to the NPV due to other market or risk factors. Deloitte has undertaken the valuation of Heron's Woodlawn project using the DCF method. A detailed feasibility study has been completed for the project, the resources and reserves are well defined, the mine has previously been in production with an established production history and offtake agreements, mine planning and metallurgical testwork have been carried out and a production schedule has been developed together with estimates of capital and operating costs to an appropriate level of accuracy. Mining and processing of tailings material and processing of underground development and stoping ore has been undertaken. BDA has reviewed the technical assumptions of the Woodlawn project model and has advised Deloitte accordingly.

There is significant potential for extensions to several of the known underground lodes at Woodlawn, both down dip and along strike, and these areas will be drilled from underground as suitable drill sites become available. Some remnant material in previously mined areas is likely to be recoverable as mine development proceeds. Heron has developed an underground schedule which includes some Inferred resources, not yet well enough defined to be categorised as reserves. BDA considers that a willing and knowledgeable buyer would certainly expect that the mine life would extend beyond the currently defined reserves as underground drilling and development progress; BDA has discussed with Deloitte appropriate valuation parameters in terms of the inclusion of Inferred resources in the LOMP and likely extensions to mine life.

In certain circumstances, the NPV method can be applied to the valuation of exploration properties, where those properties are adjacent to an existing or planned mining operation, and there is a reasonable likelihood that mineralisation delineated within the exploration properties could provide a future source of feed to the existing plant. In purchasing such a property, a willing and knowledgeable buyer would be mindful of the opportunity of exploiting such mineralisation and would incorporate some consideration of the potential extension of mine life in the assessment of value. The Currawang and Cowley Hills mines to the north of Woodlawn provided ore feed to the previous operation and BDA has considered the value of these prospects as potential, but limited, satellite operations. For more remote prospects, BDA has considered alternative means of valuation including the exploration expenditure, the yardstick method, joint venture terms where relevant and comparable transactions.

Alternative Valuation Methods

Related Transactions

Recent comparable transactions can be relevant to the valuation of projects and tenements. While it is acknowledged that it can be difficult to determine to what extent the properties and transactions are indeed comparable, unless the transactions involve the specific parties, projects or tenements under review, this method can provide a useful benchmark for valuation purposes. The timing of such transactions must be considered as there can be substantial change in value with time.

BDA has considered whether, in recent years, there have been any comparable relevant transactions that could be used as a basis for estimation of value of any of Heron's exploration prospects in NSW and WA.

Alternative Offers and Joint Venture Terms

If discussions have been held with other parties and offers have been made on the projects or tenements under review, then these values are certainly relevant and worthy of consideration. Similarly, joint venture terms where one party pays to acquire an interest in a project, or spends exploration funds in order to earn an interest, may also provide an indication of value. BDA has considered the joint venture terms in assessing a value for certain of the exploration properties. In particular, BDA has taken note of the offers made by third-parties for Heron's interests in the Alchemy and Sky Metals JV properties and for the WA royalty and tenement interests during the 2020 and 2021 processes to sell 'surplus assets'; these offers provide a direct recent guide to value of these interests.

Rules of Thumb or Yardsticks

Certain industry ratios are commonly applied to mining projects to derive an approximate indication of value. The most commonly used ratios relate to gold projects and comprise dollars per ounce of gold in resources, dollars per ounce of gold in reserves, and dollars per ounce of annual production, but similar ratios can also be applied to base metal projects. The ratios used commonly cover a substantial range which is generally attributed to the 'quality' of the resources in question. Where a project has substantial future potential not yet reflected in the quoted resources or reserves, a ratio towards the high end of the range may be justified.

BDA has considered whether yardstick values provide any guide to the value of Heron's various exploration tenements.

Past Expenditure

Past expenditure, or the amount spent on exploration of a tenement is commonly used as a guide in determining the value of exploration tenements, and 'deemed expenditure' is frequently the basis of joint venture agreements. The assumption is that well directed exploration has added value to the property. This is not always the case and exploration can also downgrade a property and therefore a 'prospectivity enhancement multiplier' ('PEM'), which commonly ranges from 0.5-3.0, is applied to the effective expenditure or to the original acquisition cost or deemed valuation. The selection of the appropriate multiplier is a matter of experience and judgement. To eliminate some of the subjectivity with respect to this method, BDA has applied a scale of PEM ranges as follows to the exploration expenditure:

- PEM 0.5 - 0.9 Previous exploration indicates the area has limited potential
- PEM 1.0 - 1.4 The existing (historical and/or current) data consists of pre-drilling exploration and the results are sufficiently encouraging to warrant further exploration.

- PEM 1.5 - 1.9 The prospect contains one or more defined significant targets warranting additional exploration.
- PEM 2.0 - 2.4 The prospect has one or more targets with significant drill hole intersections.
- PEM 2.5 - 2.9 Exploration is well advanced and infill drilling is required to define a resource.
- PEM >3.0 A resource has been defined but a (recent) pre-feasibility study has not yet been completed.

BDA has considered exploration expenditure in determining a value for some of the exploration tenements.

Prospectivity

Over-riding any mechanical or technical valuation method for exploration ground must be recognition of prospectivity and potential, which is the fundamental value in relation to exploration properties.

Market Valuation

On the fundamental definition of value, as being the amount a knowledgeable and willing buyer would pay a knowledgeable and willing seller in an arm's length transaction, it is clear that due consideration has to be given to market capitalisation. In the case of a one project company or a company with one major asset, the market capitalisation gives some guide to the value that the market places on that asset at that point in time, although certain sectors may trade at premiums or discounts to net assets, reflecting a view of future risk or earnings potential. Commonly however a company has several projects at various stages of development, together with a range of assets and liabilities, and in such cases it may be difficult to define the value of individual projects in terms of the share price and market capitalisation.

Other Expert Valuations

Where other independent experts or analysts have made recent valuations of the same or comparable properties these opinions clearly need to be reviewed and to be taken into consideration. We have inquired of Heron whether any other recent valuations of the Company or its assets have been undertaken.

Special Circumstances

Special circumstances of relevance to mining projects or properties can have a significant impact on value and modify valuations which might otherwise apply. Examples could be:

- *environmental risks* - which can result in a project being subject to extensive opposition, delays and possibly refusal of development approvals
- *indigenous peoples/land rights issues* - projects in areas subject to claims from indigenous peoples can experience prolonged delays, extended negotiations or veto
- *country issues* - the location of a project can significantly impact on the cost of development and operating costs and has a major impact on perceived risk and sovereign risk
- *technical* - issues peculiar to an area or orebody such as geotechnical or hydrological conditions, or metallurgical difficulties could affect a project's economics.

We have considered, and have inquired of Heron, whether any such factors apply to the projects and prospects under review.

4.0 SOURCES OF INFORMATION

BDA has undertaken a site visit to the Woodlawn Mine in NSW in February 2022. Meetings have been held with Heron management, technical staff and consultants. BDA's report is based on the site visit and reviews of the available documentation and reports provided by Heron. The principal reports and documents reviewed for this current report are listed below:

Heron - Public Information

- Heron Resources Ltd Annual Reports 2020
- Heron Resources Ltd Quarterly Reports 2020, 2021
- Stock Exchange and Press Announcements - Heron Resources Ltd

Woodlawn Project Reports

- 1177_Tarago Operations-Sedgman-EPC Contract Part 3 Annex 1 Scope
- Tarago Operations Pybar Mining Services Woodlawn Mine Underground Mining Contract, February 2018
- Woodlawn Technical Review - Optiro Pty Ltd, December 2018
- Woodlawn Plant Ramp Up Confidential Report - METS Engineering J5292, August 2019
- Woodlawn Mining Plan Review_Rev1, SRK Consulting HRN012, August 2019
- Woodlawn Zinc-Copper Project Mineral Resource and Ore Reserve 2019 - Heron Resources Ltd, Sept 2019
- Woodlawn Mining Operational Review - Entech, April 2020
- Review of Woodlawn Metallurgical Operations - Mineralis Consulting Pty Ltd, April 2020
- Exploration Review Woodlawn Mine and Surrounds - Heron, September 2020
- Memorandum G1 and Kate Grade Control Results versus Resource Model and Verification of LOM - Heron, October 2020
- Woodlawn LOM Ventilation Design - Entech, December 2020
- Woodlawn Re-entry Review - Entech, December 2020
- Woodlawn Flotation Chemistry and Circuit Development for Tailings - B Shean, April 2021
- Woodlawn Nomad Royalty Model - June 2021
- Heron Scope of Works with Sedgman Restart Capex, July 2021
- Woodlawn - An Australian Copper and Zinc Opportunity - Heron, August 2021
- Update: Metallurgical Review of Woodlawn Tailings Only Processing - Mineralis Consulting Pty Ltd, August 2021
- Project Overview Memo Sale Process for Heron Surplus Assets - FTI Consulting, February 2022
- Heron Tenement Schedule – Heron, March 2022
- Mining Inventory Breakdown and Charts Excel Spreadsheets Update - Heron, March 2022
- Project Andreas Financial Model (UG First) (2) 2022
- Heron Loan Schedule - May 2022

General Data

- Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves - Report of the Joint Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia - December 2012 Edition ("The JORC Code December 2012")
- Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets ("The VALMIN Code 2015 Edition")

5.0 WOODLAWN PROJECT

5.1 History

The Woodlawn Mine operated from 1978 to 1987 as an open pit and then until 1998 as an underground operation. The deposit was discovered in 1970 by Jododex, and open pit mining commenced in 1978. CRA purchased the project in 1984 and continued open pit operations until 1986. The project was sold to Denehurst in 1987 who continued underground mining until 1998. From 1978 to 1998, approximately 13.8Mt of ore from the open pit, underground and satellite deposits were extracted and processed at the Woodlawn site at an average grade of 9.1% Zn, 1.6% Cu, 3.6% Pb, 0.5g/t Au and 74g/t Ag.

The tailings from the processing operation were stored in three contiguous TSFs known as the North, South and West Dams. A tailings retreatment project to produce a zinc concentrate commenced in 1992, treating material from the North Dam. Approximately 2.1Mt of tailings were dredged and re-processed. The tails from the retreated material were placed back in the North Dam and now generally form approximately the upper 5m of the current North Dam tailings.

The mine was closed in March 1998 owing to corporate financial problems encountered by the then owner, Denehurst, in relation to a separate coal mining operation, compounded by low prevailing metal prices. Tri Origin Minerals (later renamed TriAusMin) acquired the mineral rights in 1999. Heron took 100% ownership of the project in 2014 following a merger with TriAusMin and completed infill and exploration drilling programmes, metallurgical testwork and a feasibility study on the re-development of the underground mine together with the re-processing of the historical tailings.

The Woodlawn project commenced underground mining operations under Heron management in September 2018, but operated for only 19 months (until March 2020) before being placed under care and maintenance, where the project remains.

While the operation was still in the production ramp-up phase when it was placed in C&M, some of the upper underground stope areas had been accessed by decline, although the former underground workings had not yet been re-accessed. Nevertheless, there is substantial information available on the project based on the limited mining to date, a completed feasibility study, defined resources and reserves, operating budgets, LOM plans and schedules, and detailed estimates of ongoing capital and operating costs. The operation had experienced poor performance from the mining contractor in the initial months of mining, but these appeared to have been largely addressed by the time the project was placed under C&M.

5.2 Geology and Mineralisation

The Woodlawn deposit is a stratabound and stratiform syngenetic polymetallic volcanogenic massive sulphide (“VMS”) deposit hosted by Silurian acid volcanics, pyroclastics, volcanogenic sediments and interbedded carbonaceous shales, part of the Lower Palaeozoic sequence of the Lachlan Fold Belt (Figure 4).

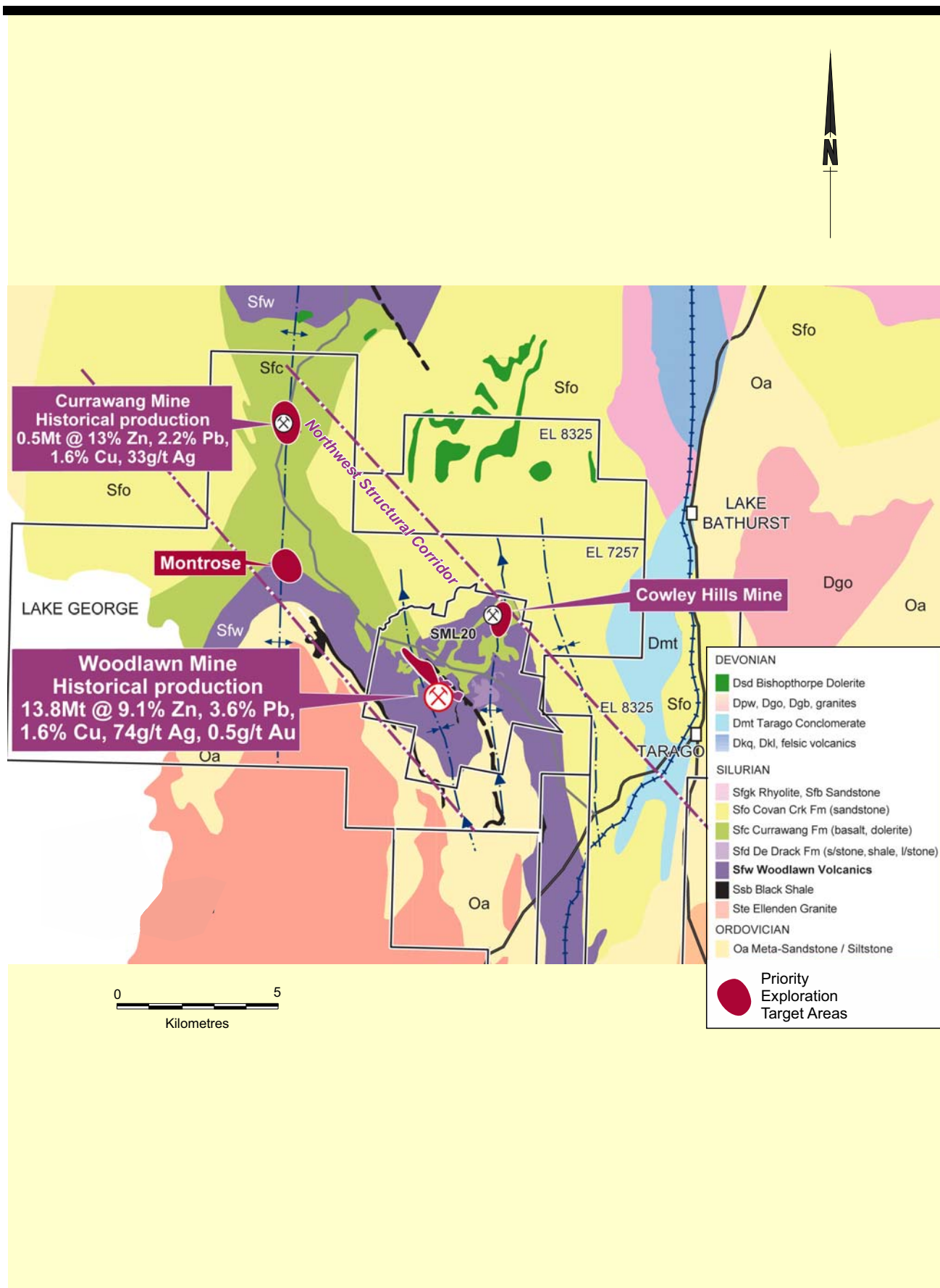
The deposit comprises two mineralogically different ore types, the dominant polymetallic lead-zinc mineralisation and the stockwork/massive copper mineralisation. The polymetallic ore represents the bulk of the deposit and is fine grained and finely to coarsely banded. The dominant sulphide is pyrite, with sphalerite, galena and lesser chalcopyrite, plus minor other sulphides with silver and gold. The copper ore consists mainly of pyrite and chalcopyrite with lesser sphalerite and minor galena. Major gangue minerals are chlorite, talc, phlogopite, quartz, barite and carbonates.

The geological sequence has been folded along north-south axes, metamorphosed to lower greenschist facies and intruded by Upper Silurian dolerites and Devonian granites. Intense chloritic alteration is developed adjacent to some of the ore lenses, whilst others are predominantly silica-sericite altered.

Prior to recent drilling, ten separate lenses of mineralisation were recognised (Lenses A to J), some of which may be faulted displacements of original continuous lodes. Historical mining focussed on lenses A, B and C, with additional resources mined from a number of smaller lenses, D-J (Figure 5).

Drilling by Heron has identified two additional lenses, K and L (Kate and Lisa). Drilling has also identified extensions to other, previously known lenses such as the G2 lens.

The lenses have a north-northwest strike and dip to the southwest at typically around 60-65°, with some localised dips between 50-80°; most lenses show a northwest oriented plunge to the mineralisation. Orebody contacts are generally sharp and visually distinctive. The major lenses combined occur over a strike length of some 500m and have a known down-dip extent of 700-800m; the mineralised system remains open at depth. The orebody thickness ranges up to 45m, but averages 10-12m for the larger lenses and 2-10m for the smaller lenses (Figure 6).

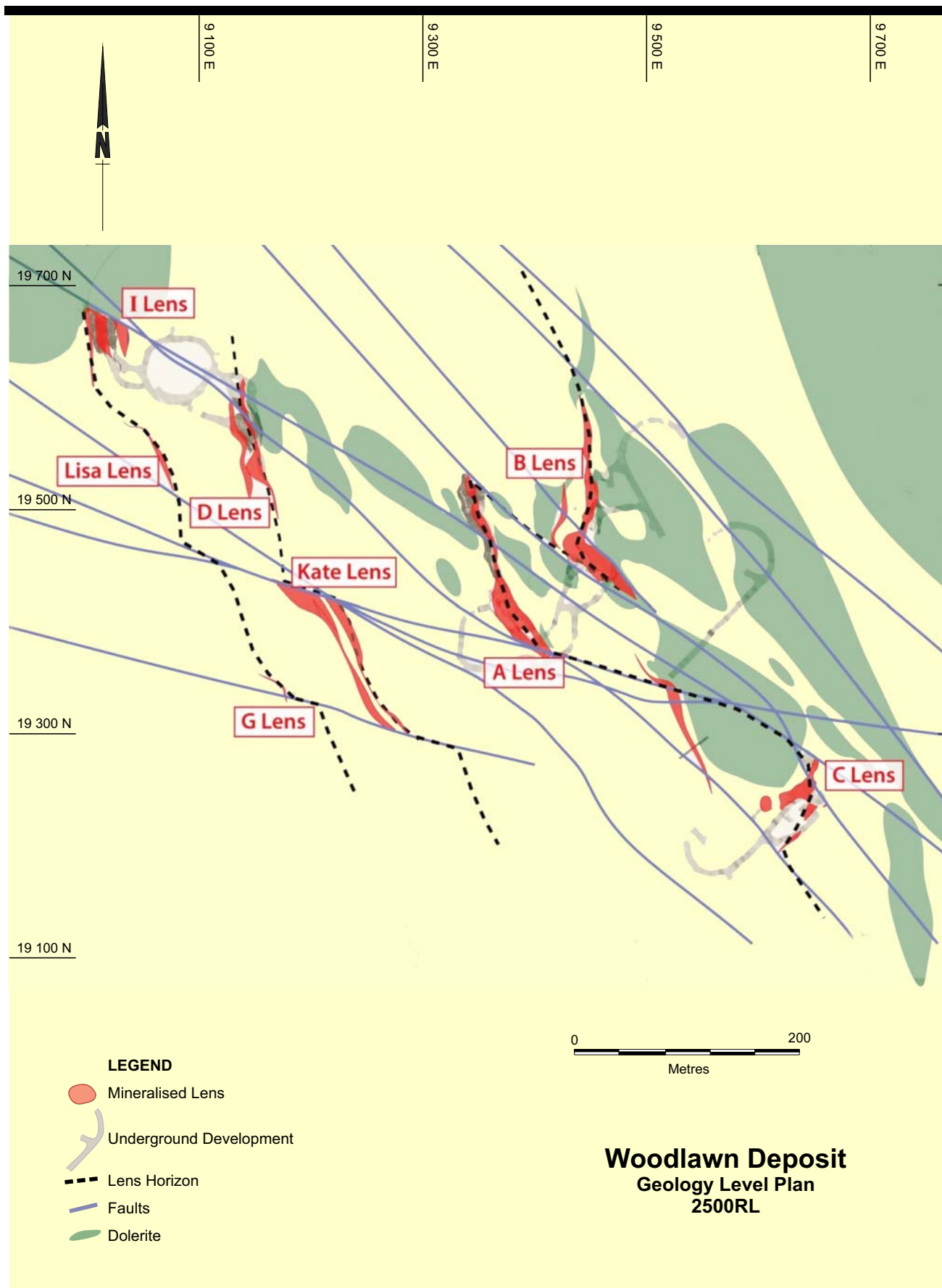


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Woodlawn Project

Figure 4

WOODLAWN GEOLOGY



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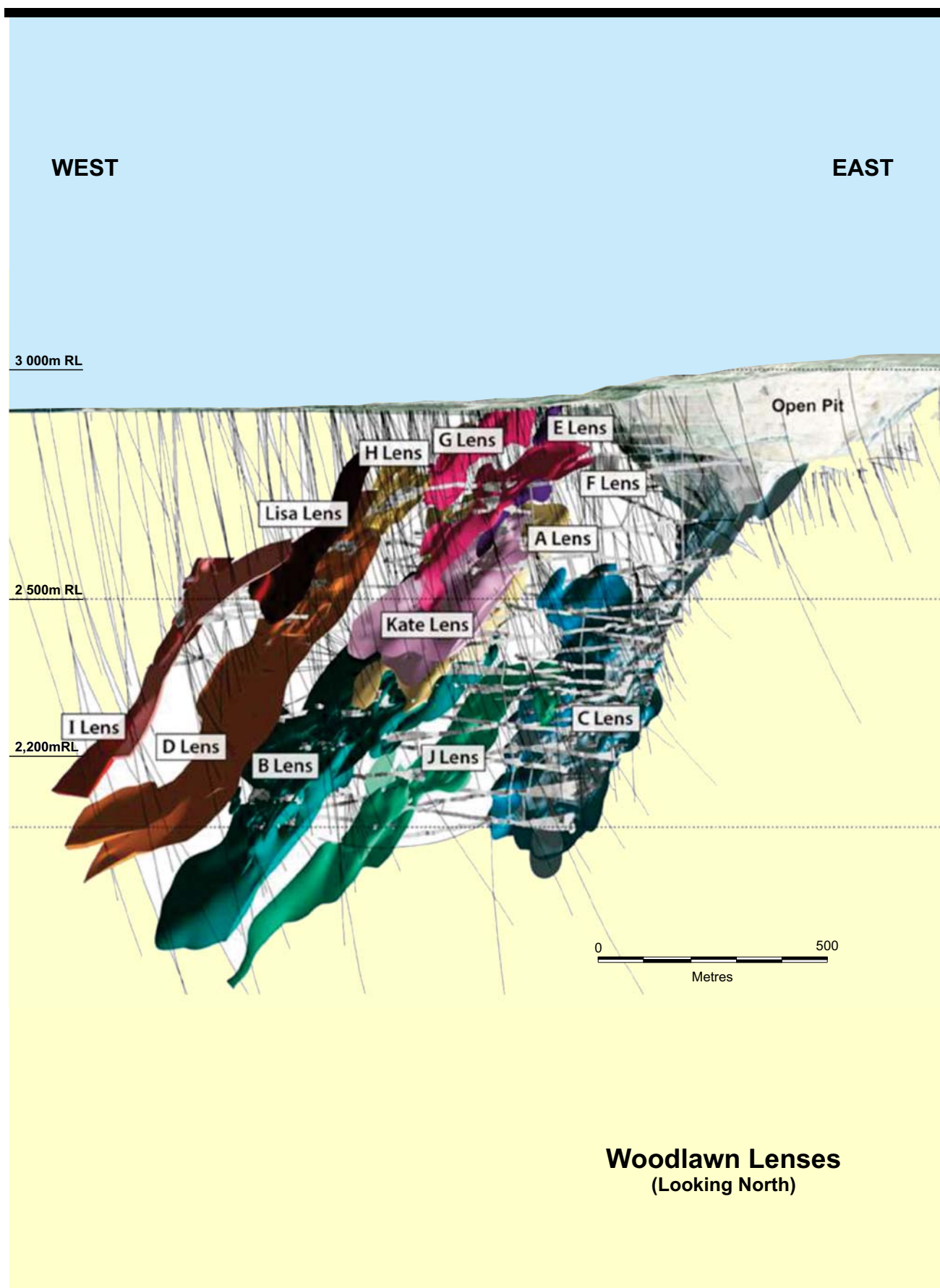
Woodlawn Project

Figure 5

GEOLOGY LEVEL PLAN VIEW 2500mRL

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Woodlawn Project

Figure 6

WOODLAWN UNDERGROUND LENSES AND DRILL HOLES

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A number of major northwest trending faults are recognised and several of the mineralised lenses have been disrupted by these faults. Faulting also impacts on the geotechnical characteristics of the deposit; zones of disruption and shearing of up to 30m wide can occur near these faults, consisting of anastomosing, sub-parallel shears.

Shearing along the contacts and in part within the ore zones is common which, together with the development of talc-chlorite schists, can result in difficult ground conditions. Ground conditions and geotechnical issues will be important considerations in the underground operation, but geotechnical conditions in the areas planned to be exploited are expected to be generally better than in the historically mined areas, with greater silica-sericite alteration and less talc. The availability of multiple lenses underground should help to mitigate any impact on production of localised failures.

The geology of the tailings deposits is relatively simple and uniform, comprising sub-horizontal layers of crushed, ground and processed ore, spreading out from the various spigot points around the dam perimeters. The mineralogy of the tailings mirrors the original ore source, averaging around 3-4% sphalerite, 1-2% chalcopryrite, 1-2% galena, and 30-35% pyrite. Grade and mineralogy are relatively constant, but variations do occur, depending on the ore source at the time and the processing efficiency. The North and South dams are dominated by open cut material, the West Dam by underground ore. As noted, Denehurst previously re-processed parts of the tailings material in the North Dam (Figure 2).

Overall BDA considers the deposit geology, in relation to the known lenses, to be reasonably well defined. The mineralisation is well understood from previous operations, testwork and infill drilling. However, additional work by Heron has demonstrated that even within the mine area new lenses can be discovered. The presence of multiple lenses and structural dislocations gives added complexity, but also additional potential. A number of the lenses are open down dip, but drilling at depth is limited. There is also potential for extensions to the northwest, along strike.

5.3 Exploration

Woodlawn Mine

Heron's drilling programme achieved considerable success in outlining additional mineralisation in the Kate and Lisa lenses and in demonstrating extensions to other known lenses. Significant thicknesses and grades have been intersected in the Kate lens, and drilling has shown potential for down-plunge extensions. Previous mining was undertaken to a maximum depth of 620m. Additional mineralisation has been defined within the upper 500m of the system; deeper exploration drilling would be more effectively done from underground.

The principal lenses on which the current Heron underground mine plan is based include lenses A, B, C, D, E, G, H, J and Kate with B, D and Kate together accounting for more than 80% of the planned tonnage.

A number of lenses show potential for up-dip, shallow, reasonably high grade mineralisation and could provide additional locations for early underground production. Some of these areas cannot be effectively drilled from surface, and will await detailed drilling from the underground decline and development. The infill drilling programme conducted by Heron largely confirmed the previous interpretations and mineralisation distribution.

Underground Drill Definition of Inferred Resources

Heron's underground LOM plan is based on approximately 3.8Mt of mining inventory of which approximately 1Mt comprises Inferred resources. BDA has examined the basis of the inclusion of the Inferred material in the mining inventory, to confirm the reasonableness of the underground mining inventory tonnages. In all cases, the Inferred material included in the mine plan has been intersected by one or more holes, lies adjacent to planned stopes and is accessible from the planned development. While additional drilling will be required from underground for stope definition, overall BDA considers the Inferred material in the mine plan to be reasonably defined and likely to be confirmed with further work. However, BDA notes that inclusion of a significant tonnage of Inferred material in the LOM plan (approximately half of the mined underground tonnage from Year 4 onwards) adds material risk to the mine schedule, and in terms of valuation would likely be significantly discounted by any incoming party.

The principal areas contributing to the Inferred mining inventory comprise:

- *G1* – approximately 40,000t at a depth of 175-250m, directly below mined high grade G1 zinc-rich stopes
- *A* – approximately 35,000t at a depth of 150m at the top of A lens, above previously mined stopes with high grade sulphides mapped in the backs
- *B* – approximately 180,000t from 150m depth at the top of B lens and northern extensions adjacent to and above old workings

- *C* – approximately 80,000t from 550m depth at the lower levels of *C* lens; requires paste filling of the *C* lens stopes above
- *D* – approximately 390,000t from a depth of 580m below the *D* lens reserves, with several drill intersections but requiring infill drilling
- *Kate* - approximately 37,000t from a depth of 270m to the south and below *Kate* lens stopes, defined by existing drill holes but requiring infill drilling
- *Lisa* – approximately 125,000t from a depth of 220m and around 60m from the hangingwall of *D* lens stopes, defined by four drill holes but in a position difficult to drill from surface
- *I* – approximately 80,000t at a depth of 540m adjacent to *D* lens extension stopes and open to the north and down dip

Additional Underground Exploration Potential

Several lenses have one or two holes at depth which indicate that mineralisation continues down dip. Commonly these holes are too widely spaced to estimate resources, until further detailed underground drilling can be undertaken, but intersection widths and grades can be significant and down-hole electro-magnetic (“DHEM”) surveys suggest the presence of sulphide bodies.

The principal lenses where material potential is indicated for future extensions include *B*, *C*, *D*, *I*, *K* and *L*. Heron also considers it likely that redevelopment work at the nearby Currawang and Cowley prospects (see Woodlawn Region) could result in further additions to the mining inventory.

A summary of the exploration potential relating to extensions of the principal Woodlawn lenses is given below:

G2 Lens

A programme of diamond drilling in 2017 and 2018 defined significant additions to the early production mine inventory; Inferred resources were largely converted to Measured and Indicated in the 2019 resource update and incorporated in detailed stope design in the production schedule. Metallurgical testwork on *G2* samples showed good metal recoveries.

Western Uppers

An intersection of copper mineralisation was encountered in the south decline and adjacent stockpile bay between 2665RL and 2650RL. A drill programme was designed to confirm the extent of the mineralisation.

Kate Lens North Extensions and Deeps

Down-hole EM modelling indicated potential for an extension of *K* lens, or a new lens between *K* and *D* lenses, along strike to the north at relatively shallow depth. If confirmed by drilling, this could provide an additional source of early production material.

A large DHEM conductor has been identified down dip and in the footwall of *K* lens. This was tested with a single hole in 2016; the hole deviated from its planned position but still intersected minor sulphides and strong alteration. The target zone comprising possibly two lodes remains to be tested. There is good potential to extend the lens down plunge with underground drilling. Heron considers that *Kate* lens extensions have a target potential of 0.3Mt of ore grade mineralisation.

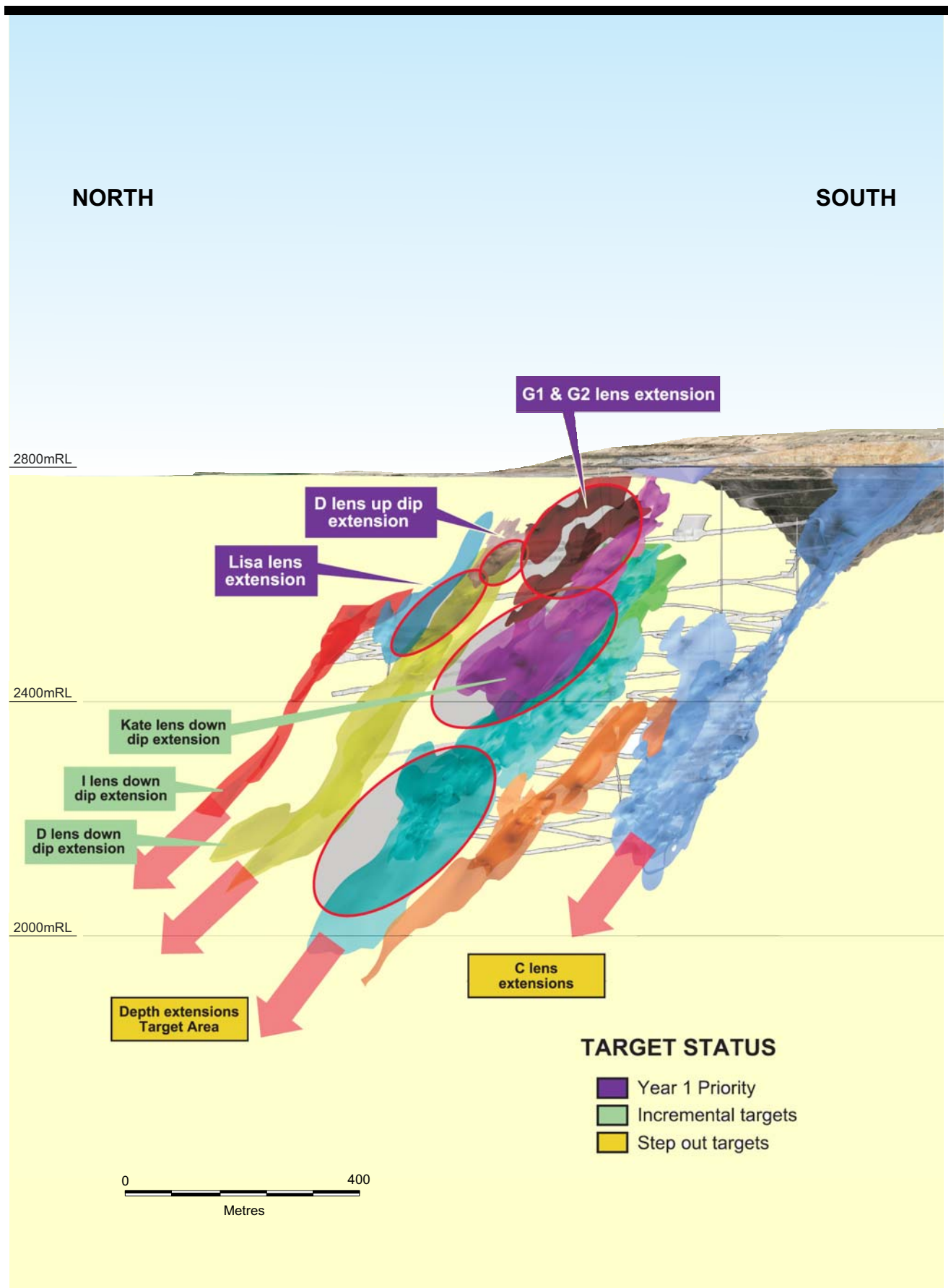
B Lens

Broad zones of chlorite-pyrite alteration with stringers of copper sulphides were intersected in 1980s drilling along strike to the north of *B* lens. This could indicate an extension of *B* lens (*B* Extension lens and *B* Copper lens) or a new lens system in this area and is a significant exploration target.

Heron drilled two holes in 2016 and both intersected significant mineralisation. EM modelling indicates a target zone with a strike of 150-250m. If confirmed with infill drilling, this area could add substantially to the mining inventory. *B* lens is open down plunge with significant remaining potential. Heron considers that the *B* lens area has potential for up to an additional 0.8Mt of ore grade mineralisation.

Lisa Lens

The last hole of the 2016 Phase II drilling programme intersected high grade mineralisation in the central part of the new *Lisa* lens at a depth of around 220m. There is potential to prove down-dip and up-dip extensions to the mineralisation. Drilling in 2018 intersected a significant copper zone in massive sulphides 40m up dip of previous drilling. Further drilling is proposed from underground with good potential to add to the early mine production schedule.



Heron Resources Ltd

Woodlawn Project

Figure 7

UNDERGROUND LENSES - EXTENSION TARGETS

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I Lens

The I lens mineralisation has a number of high-grade intercepts which are open down plunge and along strike. There is good potential with further drilling to extend the I lens resource base and add to the mining inventory. The I lens mineralisation near surface is restricted or cut off by a large dolerite body; the dolerite does not appear to be present in the same location at depth, providing opportunity for the development of an extension to I lens. Heron considers that the area has potential for up to 0.3Mt of ore grade mineralisation.

D Lens

D lens comprises two lodes, D1 and D2; both are open down dip; Heron considers that the D lens area down plunge has potential for an additional 0.6Mt of ore grade mineralisation.

C Lens

C lens was the major lens mined within the Woodlawn open pit. The lens remains open at depth with potential for additions of up to 0.2Mt to the mining inventory at depths of 800-1,200m.

Summary

BDA considers there is significant potential for discovery of additional mineralisation, either in new lodes or as extensions to known lodes, with detailed underground drilling and exploration. There is also potential to recover remnant mineralisation adjacent to former mining areas, although these areas will require appropriate geotechnical assessment once underground access to the old workings has been re-established and prospective areas are accessible.

Should all these target areas be proved-up, there is potential to add significant tonnage to the underground reserve. However, BDA notes that the current underground mining inventory already incorporates a substantial quantity of Inferred resource material, contributing on average approximately 50% of the planned underground mined tonnage from Year 4 onwards.

Heron's current LOM plan is based on approximately 3.8Mt of underground mining inventory including approximately 1Mt of Inferred resources. The total underground resource comprises 4.5Mt of Measured and Indicated resources and 2.9Mt of Inferred resources. Conversion to a mining inventory includes allowance for mining and economic factors, stope designs and ore sterilised through development requirements and pillars.

Heron suggests that there is significant potential to add additional Inferred resources down plunge and along strike, potentially convertible to mining inventory. BDA accepts there is significant exploration potential, and considers that a willing and knowledgeable buyer at this stage of the project would consider an additional one to two years production (approximately 0.6-1.3Mt of additional inventory) from underground targets to be a reasonable potential outcome in terms of a current valuation approach. The valuation of the Woodlawn underground potential is further discussed in Section 7.

Woodlawn Extension Targets

The Woodlawn mine is located within Special Crown and Private Land Lease 20 ("S(C&PL)L 20"), otherwise known as Special Mining Lease 20 (SML 20). The Woodlawn site is surrounded by a larger Exploration Licence (EL 7257) which is held 100% by Heron (Figure 1). This exploration licence covers an area of 174km² and includes the Currawang Mine located 10km to the northwest of Woodlawn (Figure 4) and the Cowley Hills deposit.

Currawang provided approximately 0.5Mt of ore to the previous Woodlawn operation but there are no current resources or reserves defined at Currawang. Heron drilled five holes at Currawang during 2017 targeting extensions to the known lenses, and completed down hole electro-magnetic and magneto-metric resistivity surveys. A zone of hanging wall mineralisation was intersected, comprising stringer and semi-massive zinc sulphide mineralisation. Other drilling intersected generally minor stringer mineralisation or broad zones of hydrothermal alteration. Heron considers that the Currawang deposit has potential to add to the Woodlawn mining inventory and that mineralised material could be mined and trucked to the Woodlawn plant. However the likely target is considered limited to around 0.1Mt.

The Cowley Hills deposit which also provided ore (35,000t) to the previous Woodlawn operation, is located within SML 20 (Figure 4). There are no current resources or reserves defined at Cowley Hills. Heron estimates that future exploration and operations at Cowley Hill could generate a further 0.1Mt of feed for Woodlawn.

In 2018 Heron conducted a detailed gravity survey over the northwest corridor between Woodlawn and Currawang. The survey highlighted the main lithological contacts between the Currawang Basalt and Woodlawn Volcanics and also identified two anomalies coincident with the Wattle and Montrose electro-magnetic anomalies, northwest of the Woodlawn mine. Four reverse circulation ("RC") holes were completed at the Montrose prospect in 2018 and intersected zones of pyrite/pyrrhotite mineralisation with some disseminated chalcopyrite, warranting further follow up.

In 2019, Heron conducted Induced Polarisation (“IP”) surveys over Woodlawn North, testing a 2.5km arc to the northwest and northeast of the Woodlawn mine. Encouraging chargeability and conductivity anomalies were detected and a diamond drilling programme was undertaken to test three targets, Murphy’s, Bucklands and Bucklands North. At Bucklands and Bucklands North, zones of sulphide alteration were intersected with elevated Cu and Zn values. Heron planned to conduct downhole EM (“DHEM”) surveys to better define potential targets.

North and south of EL 7257, the felsic volcanics, the prospective host for VMS deposits, are covered by a number of other Heron exploration licences, giving the Company access to approximately 1,206km² as a regional project exploration area. There is reasonable potential for discovery of further deposits within trucking distance of the Woodlawn plant.

Heron’s Woodlawn regional tenements, the regional NSW exploration properties and the WA exploration properties are discussed in Section 6.

5.4 Geological Data

With a relatively long project history and the involvement of several different companies, data collection procedures and practices have varied over time. However, much of the historical data relates to an operating mine situation with regular checks and balances in terms of reconciliation with actual mine performance. Heron has undertaken reasonable and appropriate checks of the historical data and no material issues have been identified. Repeat sampling and assaying have shown good correlation with the original data.

Heron’s drilling, logging, surveying, sampling, assaying and QA/QC procedures are considered appropriate and in accordance with industry standards. BDA considers the combined Woodlawn database provides a reasonable and reliable basis for resource and reserve estimation.

5.5 Mineral Resource and Ore Reserve Estimation

Mineral Resource

Substantial geological information is available from previous underground development, mapping and stoping and this information, together with results from Heron’s infill and extension drilling has been incorporated in the Heron modelling (Figure 6). Geologists who have previously worked on the Woodlawn underground mine have contributed to the modelling. SRK provided specialist geostatistical input and undertook an overall independent review of the resource estimates through 2015-2017. In 2018/19, Heron updated the resource estimate to incorporate additional G lens data together with modification of the domaining methodology, resource classification, top cuts and specific gravity estimations. This work was reviewed by independent consultants Optiro Pty Ltd (“Optiro”). The latest Mineral Resource estimates were published in the 2020 Heron Annual Report (October 2019 Mineral Resource). The underground Mineral Resource estimate is shown in Table 5.1 and the Tailings Retreatment Mineral Resource estimate is shown in Table 5.2.

Table 5.1
Summary of Heron Resource Estimate - Woodlawn Underground - October 2019

Category	Tonnes Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes)		
							Zn	Pb	Cu
Polymetallic									
Measured	0.71	11.2	4.5	1.5	0.6	115	79,500	32,000	10,700
Indicated	2.08	9.7	3.5	1.5	0.6	67	201,800	72,800	31,200
Inferred	1.99	7.1	2.8	1.5	0.7	55	141,300	55,700	29,800
Total	4.78	8.8	3.4	1.5	0.7	69	422,600	160,500	71,700
Copper									
Indicated	1.75	0.7	0.1	2.7	0.2	6	12,300	1,800	47,300
Inferred	0.88	0.7	0.2	2.3	0.2	6	6,200	1,800	20,200
Total	2.62	0.7	0.2	2.6	0.2	6	18,500	3,600	67,500
Overall Total	7.40	6.0	2.2	1.9	0.5	47	441,100	164,100	139,200

Note: polymetallic resource quoted at a 7% ZnEq cut off; copper resource quoted at a 1% Cu cut off

The polymetallic underground resource was based on a 7% Zinc Equivalent (“ZnEq”) cut off; the underground copper resource was based on a 1% Cu cut off. A zinc equivalent grade was calculated for each block based on the estimated grades. The ZnEq calculation is based on factors representing metal prices, payability, recoveries and costs. The ZnEq formula applied in 2019 was:

$$\text{ZnEq} = \text{Zn}\% + \text{Cu}\% \times 3.12 + \text{Pb}\% \times 0.81 + \text{Au g/t} \times 0.86 + \text{Ag g/t} \times 0.03$$

The metal prices used in the calculation were Zn - US\$2,300/t, Pb - US\$2,050/t, Cu - US\$6,600/t, Au - US\$1,250/oz, and Ag - US\$18/oz.

Table 5.2
Summary of Heron Resource Estimate - Woodlawn Tailings Retreatment - October 2019

Category	Tonnes Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes)		
							Zn	Pb	Cu
South Dam									
Meas + Indicated	3.2	2.5	1.2	0.5	0.3	27	80,000	38,400	16,000
Inferred	0.9	2.3	1.2	0.5	0.3	24	20,700	10,800	4,500
Total	4.1	2.5	1.2	0.5	0.3	26	100,700	49,200	20,500
North Dam									
Meas + Indicated	2.7	2.4	1.3	0.4	0.3	34	64,800	35,100	10,800
Inferred	0.2	2.4	1.4	0.4	0.3	36	4,800	2,800	800
Total	2.9	2.4	1.3	0.4	0.3	34	69,600	37,900	11,600
West Dam									
Meas + Indicated	3.9	2.0	1.4	0.6	0.4	35	78,000	54,600	23,400
Total	3.9	2.0	1.4	0.6	0.4	35	78,000	54,600	23,400
Overall Total	10.9	2.3	1.3	0.5	0.3	31	248,300	141,700	55,500

Note: production depleted to 30 June 2019; total available volume quoted – no grade cut off

The tailings Mineral Resource was based on the total volume of tailings considered available and no grade cut off was applied, with the total available volume and average grade within each dam reported.

Validation work was carried out to confirm the reasonableness of the modelling and grade interpretation. The estimates were reconciled against previous stoping data, and recent infill drilling and sludge drilling from underground have been largely confirmatory of the grade estimates. Overall, BDA considers the Mineral Resource estimates provide a reasonable and appropriate guide to the known Woodlawn underground and tailings mineralisation.

Ore Reserve

The underground reserve estimate (Table 5.3) is based on Measured and Indicated resources only. The DFS Ore Reserve work was carried out by SRK and updated with detailed mine plans and revised development assumptions by Crosscut in October 2016. The reserve estimates, mine plan and mining schedule were further updated with the latest drilling and interpretations by Heron in 2019; the underground Ore Reserve estimate is shown in Table 5.3 and the Tailings Retreatment Ore Reserve estimate is shown in Table 5.4.

Table 5.3
Summary of Heron 2019 Ore Reserve - Woodlawn Underground

Category	Tonnes Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes)		
							Zn	Pb	Cu
Probable	3.1	5.2	1.8	1.6	0.4	38	161,200	55,800	49,600
Total	3.1	5.2	1.8	1.6	0.4	38	161,200	55,800	49,600

Note: reserve quoted at a 7% ZnEq cut off; production depleted to 30 June 2019; some additional mining depletion (approximately 80kt) occurred through to March 2020

Table 5.4
Summary of Heron 2019 Ore Reserve – Tailings Retreatment

Category	Tonnes Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes)		
							Zn	Pb	Cu
Proved	6.2	2.2	1.3	0.5	0.3	31	136,400	80,600	31,000
Probable	3.1	2.1	1.3	0.5	0.3	32	65,100	40,300	15,500
Total	9.3	2.2	1.3	0.5	0.3	31	201,500	120,900	46,500

Note: production depleted to 30 June 2019; additional mining depletion occurred through to March 2020; total recoverable volume quoted - no grade cut off applied

BDA considers the mining dilution and recovery allowances applied to the underground reserve to be generally reasonable and consistent with Entech's 2020 Operational Review report. BDA has considered whether, in the LOM plan, it would be prudent to apply a lower recovery factor of 70% (rather than 85%) to the mining of residual areas. In the 2020 Woodlawn review, Entech determined that reducing the LOM remnant ore to a 70% mining recovery would entail a reduction of around 230,000t (or around 6% of the total underground ore). BDA considers that it is likely that the underground reserves will increase with further drilling, underground development and upgrade of some of the Inferred material, subject to the underlying economic factors such as metal prices. Based on that expectation and the relatively small change that would result, BDA has concluded that reduction from 85% to 70% mining recovery for remnant ore would not make a material difference to value, and has recommended against that measure, preferring to leave the LOM production forecast as presented, with appropriate sensitivities

applied. Similarly, temporary shortfalls in underground production can be offset by plant feed from the tailings, with tails/underground ore being separately campaigned through the plant for treatment, as required.

The tailings resource is well defined by survey data and systematic drilling (Figure 8). The Mineral Resource estimate correlates well with production records. In estimating the tailings Ore Reserve (Table 5.4), and in accordance with the requirements of the JORC Code, reasonable allowances have been made for mining factors, including recovery and dilution. Overall BDA considers the tailings Mineral Resource and Ore Reserve estimates provide a reasonable guide to the in situ and recoverable mineralisation respectively.

Underground Mining Inventory

In accordance with JORC conventions, the Ore Reserves estimates above are based only on the Measured and Indicated resources, with mining factors applied. However, in Woodlawn's case, there remains a significant inventory of Inferred material that could potentially be upgraded to Measured and Indicated resource status by infill drilling prior to mining, and some of this material could potentially be upgraded to Ore Reserve status.

Heron's current mining schedule and Base Case Financial Model is based on 3.79Mt of underground ore, grading 5.3% Zn, 1.8% Pb, 1.5% Cu, 0.5g/t Au and 37g/t Ag (Table 5.5), with annual underground production peaking at around 660,000tpa.

Table 5.5
Summary of Heron 2022 Underground Mining Inventory

Category	Tonnes Mt	% Zn	% Pb	Grade			Contained Metal (tonnes)		
				% Cu	g/t Au	g/t Ag	Zn	Pb	Cu
Mining Inventory	3.79	5.3	1.8	1.5	0.5	37	199,800	68,600	57,600
Total	3.79	5.3	1.8	0.5	0.3	26	199,800	68,600	57,600

Of this inventory, approximately one third is based on Inferred material, including design dilution around Inferred stopes. A breakdown of the Heron tonnage inventory by resource category is as follows:

- Measured - 6%
- Indicated - 47%
- Inferred and Uncategorised - 28%
- Design dilution beyond ore boundaries - 19%.

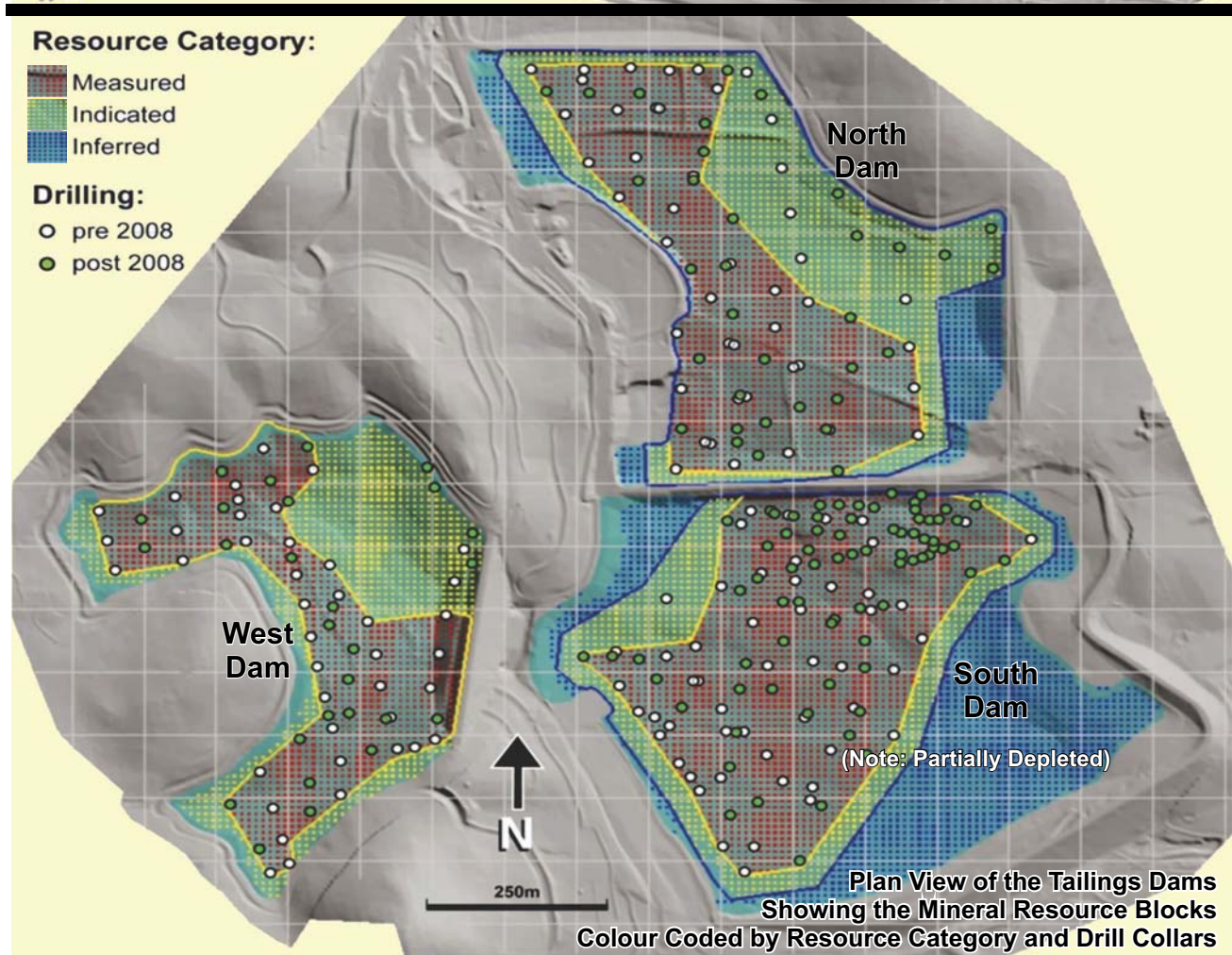
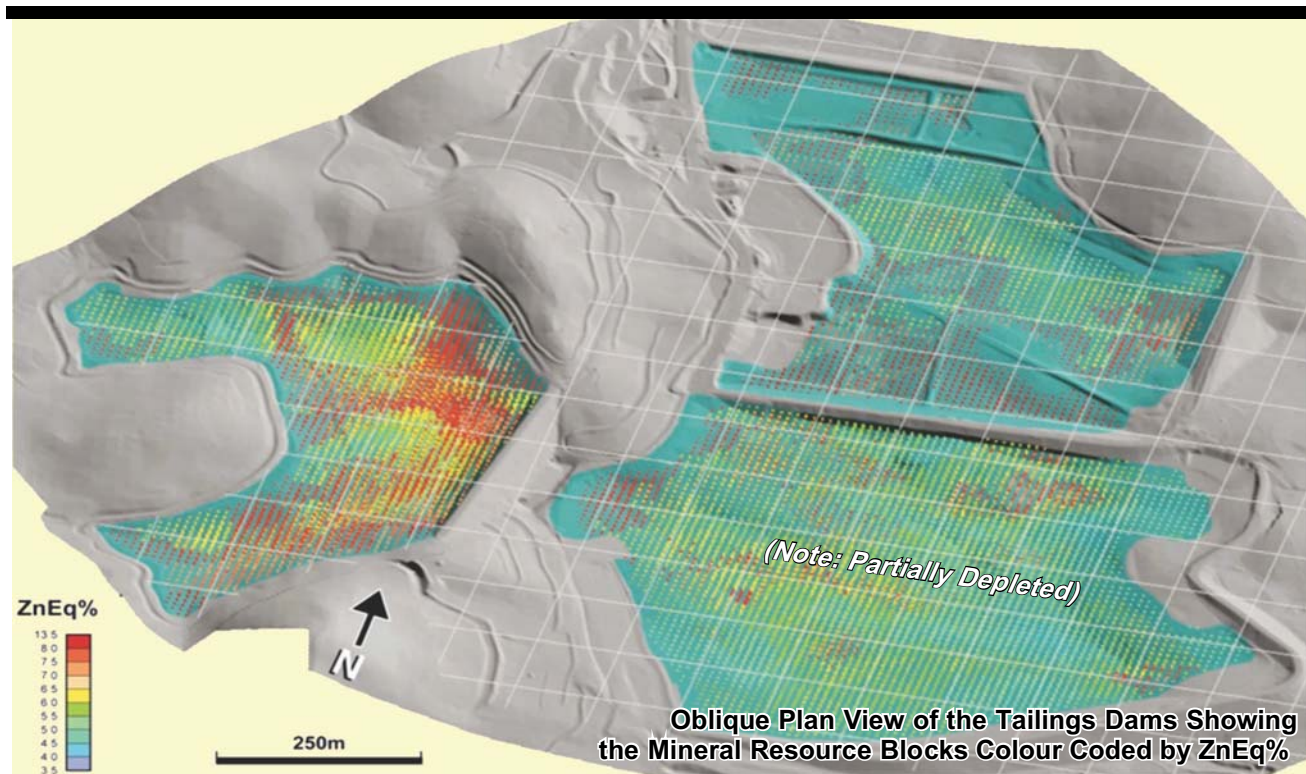
The underground mine plan extends for approximately 6.5 years; production in the first three years is largely based on Measured and Indicated resources, but from Year 4 onwards up to 50% of annual production relies on Inferred material. While BDA considers that extensions to the lodes are likely to be proved up once suitable underground drilling sites become available, nevertheless the percentage of Inferred material in the current LOMP significantly increases the mining risk, and a substantial discount would likely be applied to this material by any prospective buyer.

The LOMP is based on extraction of ore from ten separate underground lenses. A breakdown of the Heron underground LOMP tonnage by lens is as follows:

- B - 32%
- K - 23%
- D - 21%
- I - 8%
- C - 7%
- A, G, H, J, L - 2-3% each.

Tailings Mining Inventory

The tailings inventory planned to be mined and processed over the LOM totals 8.69Mt, being the remaining recoverable tailings after allowing for depletion to end March 2020. During the first six full years of operation, tailings processing averages around 0.5Mtpa, which, with the underground ore gives a total throughput of around 1.1Mtpa. On the assumption that recoverable underground ore is depleted early in Year 7, from Year 7-10 Heron proposes that tailings production will ramp up to around 1.5Mtpa.



Heron Resources Ltd

Woodlawn Project

Figure 8

TAILINGS DAMS - MINERAL RESOURCE BLOCKS

5.6 Mining/Extraction

The underground mine is accessed via a box cut adjacent to the western wall of the former open pit (Figure 2). The current decline development is generally located to the west of the previous decline to provide access to the new mining areas, and mining has already accessed three pods of ore in the upper levels not originally included in reserves.

When production was suspended in March 2020 the operation had not yet established access to the former underground workings. While the LOM plans and schedules indicate that the long-term mine layout will ultimately include significant sections of the existing decline, with provision for rehabilitation and increased ground control, Heron has indicated it will not make the break-through until the conditions of the old workings are thoroughly understood. To that end, Entech has put forward a mine re-entry plan that sets out in detail the measures required to achieve a safe and effective access to the old workings. This includes cost estimates and provisions for dewatering the mine, re-establishment of ventilation, refurbishment of development and services and replacement of the plugs between the underground workings and the former open pit.

Heron has completed around 2.8km of new underground mine development from the new portal. Development has not yet accessed the former underground workings to allow assessment of the status of the existing decline and ground conditions. It is considered that there are some significant risks associated with the detected presence in the old workings of gas and leachate from the Veolia operations; until this is understood, break-through will be delayed. Due to uncertainties around the integrity of the existing plugs between the Veolia bio reactor operations in the open pit and the old underground workings, there is provision in the plan to mitigate the identified risks through gas monitoring and detailed engineering.

Once access to the former underground workings is available, the mine plan is for the installation of secondary plugs in the upper sections of the old decline to supplement the existing measures; provision has been made to install stronger and more robustly engineered barriers (plugs). Subject to more detailed assessment, it is planned to establish acceptable safety factors against potential failure or leakage from the bio-reactor.

Based on both the initial underground access from the new decline and subsequent re-entry to the old workings, Heron (with advice from Entech) has prepared detailed mine development and production schedules for the underground operation. The LOMP is based on stoping and development in previously un-accessed areas, as well as recovery of unmined remnant ore from the previous workings. Remnant ore is defined as any material within 20m of previous stoping or development and it has been assumed that mining recovery of this material will average around 85% of the estimated tonnages. A breakdown of the sources of underground ore in the LOMP by ore type, between fresh ore and remnant ore, each split into the contributions from stoping and development, is as follows:

- *Fresh ore:* 58%
 - o Stopping ore: 51%
 - o Development ore: 7%
- *Remnant ore:* 42%
 - o Stopping ore: 36%
 - o Development ore: 6%

For the WRP, the mining of the tailings from the dams is relatively straightforward. The tailings recovery system, which was previously commissioned and operating, uses high-pressure water monitoring to produce a tailings slurry for pumping to the plant. Given the previous operation of the tailings reclamation system, BDA considers the proposed approach both appropriate and feasible.

The previous underground mining at Woodlawn mainly adopted overhand mechanised cut and fill (“CAF”) methods and targeted the three major lenses (A, B, C), with smaller tonnages from five other lenses (D-J). The new LOMP adopts underhand longitudinal longhole stoping (“LLS”) with paste fill, which is a more efficient and more easily managed system. Initial underground mining is planned from areas not previously accessed, and thus separated from the existing workings.

In addition, subject to gaining access to the old underground workings and depending on ground conditions, Heron proposes to pursue remnant mining in areas where economic mineralisation remains around old stoping areas. However, until the break-through is complete and access is gained to the old workings, mining operations in the early years in the WUP will be confined to previously unmined areas and newly defined mineralisation (particularly in Kate lens), accessed from the new decline. In addition, as the mine is developed and stope definition with infill drilling is completed, it is anticipated that some areas currently in the Inferred category will be mined, following detailed infill drilling.

With regard to the WUP, Heron has prepared updated the mining plans and schedules, incorporating all new stopes and development in ore, and remnant mining. Although Heron had originally prepared an underground production schedule that mined only Probable reserves over approximately six years, the latest LOMP comprises an alternative

plan that mines reserves, a portion of the Inferred resources and remnant stopes. This approach refers collectively to the LOM tonnage projections as “mining inventory” because it includes material that is not in reserves.

For this current analysis, for valuation purposes, BDA has reviewed the Heron mining schedule that uses Probable reserves plus a mining inventory derived from Inferred resources with mining factors applied. The mining inventory incorporates approximately 1.0Mt from the Inferred resource of approximately 2.5Mt. This schedule has provided a steady rate tonnage build-up in underground mining production, at rates and grades consistent with those formerly being achieved; the forecast ramp-up for the underground mining operations has been progressively increased over the first 18 months of stope production, ranging from 10,000 tonnes per month (“tpm”) in July 2023, increasing to 55,000tpm from around December 2024, ultimately resulting in a total underground mining life extending over eight years. For the six full production years (2023/24 to 2028/29), the mine averages approximately 600,000tpa, with a peak rate of 659,000t in 2026/27.

BDA has reviewed the geotechnical data, and considers the conditions encountered in the new decline and stopes should be reasonable. This view is based on the underground inspection during the recent BDA site visit, as well as information provided by Heron, and reference to numerous reports from Entech, Beck Engineering, Barrett Fuller, Coffey Mining, SRK and Crosscut. The conclusion reached is that it appears the ground conditions in the new decline and stoping areas are likely to be generally better than in many of the lenses previously mined. There is greater silica-sericite alteration in the lenses to the west, and lower talc, and generally better geotechnical conditions are noted in the recovered core. In addition, the adoption of more appropriate mining methods, modern ground support and routine geotechnical engineering input, in combination with the use of paste fill to provide passive hanging wall support, should result in improved mining conditions compared with the historical areas. With respect to the old workings where conditions were reported as geotechnically more difficult, there remain some uncertainties in terms of what may be encountered on re-entry.

New stopes will progressively be developed in identified new mineralised areas, in extensions of previously-mined lenses, extensions to orebodies not previously mined and areas not previously accessed around old stopes. The underground plan defines 3.79Mt of mineable inventory, comprising a mix of Probable reserves, Inferred resources and remnant mining, with mining factors (dilution and mining losses) applied. BDA considers this approach reasonable.

In addition to the reserves and Inferred resources contained in current mine plans, and subject to gaining access to the former underground workings, it is estimated that the remnant areas in and around the old stopes contain approximately 1.6Mt, which could be extracted from underground over the LOM. Heron proposes that old stoping areas that are open will be paste-filled to provide support and more stable conditions, particularly around the crown pillar areas. Of the remnant ore identified to date, the tonnage estimates exclude the extraction of the crown, floor and rib pillars around the former stoping areas.

The mining methods include underhand longitudinal and transverse open stoping, and drift and fill mining as the preferred methods of extracting the ore, with each method to be applied in specific areas to ensure safe working conditions compatible with expected ground conditions. BDA considers the stoping methods generally appropriate for the anticipated conditions, but considers that both the methods and the costs will need to be revisited once additional stope definition and geotechnical information is available.

Geotechnical assessment of the mining history indicates that numerous ground failures occurred in the previous mining operations. Historically, significant failures have been linked to major structures, commonly associated with mineralisation, and notably a zone of failure extending up the central portion of C lens, which was linked to regional relaxation of the hanging wall in the later stages of the previous mining operations. These conditions were exacerbated by mining methods that did not provide sufficient regional hanging wall support, and some of the operating practices also contributed to instability, such as uncontrolled bogging of “fall dirt”. Smaller failures and generally difficult mining conditions resulted from the foliation and the variable, and in places intense, talc-chlorite alteration, which produces weak ground, weakening further in the presence of groundwater. BDA notes that Heron anticipates generally better mining conditions in the areas planned to be mined, based on the predominance of silica-sericite alteration rather than talc-chlorite, and the use of paste fill to provide improved support and enhanced engineered ground support, although it is likely that challenging conditions will still be encountered in some remnant areas.

Ground conditions will be quite variable, within the range from poor to reasonable, with the worst conditions in areas where there are foliations, fault structures and talc-chlorite alteration, or around areas impacted by previous falls or collapses. Remnant mining is likely to be challenging, but BDA notes that Heron will examine these areas in detail once it has re-established underground access, before any extraction decisions are finalised. BDA considers that both the provisions for, and the assumptions in relation to, the ground support are conservative.

Production during the LOM will come from the WRP tailings and the WUP underground mine. Heron has developed an underground mining schedule to focus on a sustainable LOM plan and the provisional production forecast from the tailings reclaim and underground mining activities is shown in Table 5.6.

The production levels from underground in the LOMP schedule progressively increase, building up steadily to a peak of 659,000t in 2026/27, then reducing in the final year 2029/30. The LOM average over approximately eight years of underground operations (2022/23 to 2029/30) is 474,000 tonnes per annum (“tpa”), and for the full production years 2023/24 to 2028/29, the average is 599,000tpa. This “reserves plus inventory” schedule has been updated from earlier versions and matches that in the financial model. With regard to underground production, BDA notes that, because it is planned to campaign process underground ore, the main impact of production changes on the processing schedule is to change the timing and duration of campaigns of underground ore relative to tailings material.

Table 5.6

Woodlawn Mine Summary LOM Production Schedule – Reserves + Inferred (Mining Inventory)

Item	Units	Production Years (1 July-30 June)												Total
		22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	
WRP	Mt	-	0.205	0.578	0.478	0.474	0.491	0.520	1.288	1.532	1.532	1.535	0.058	8.691
	Zn %	-	2.39	2.39	2.39	2.39	2.39	2.07	1.92	1.92	2.16	2.28	2.28	2.24
	Pb %	-	1.18	1.18	1.18	1.18	1.18	1.32	1.39	1.39	1.31	1.27	1.27	1.26
	Cu %	-	0.45	0.45	0.45	0.45	0.45	0.56	0.61	0.61	0.47	0.40	0.40	0.48
	Ag g/t	-	26.23	26.23	26.23	26.23	26.23	31.40	33.80	33.80	33.21	32.92	32.92	29.93
	Au g/t	-	0.24	0.24	0.24	0.24	0.24	0.34	0.38	0.38	0.31	0.27	0.27	0.29
	ZnEq %	-	5.77	5.77	5.77	5.77	5.77	6.12	6.28	6.28	5.95	5.79	5.79	5.91
WUP	Mt	0.049	0.404	0.590	0.657	0.659	0.650	0.631	0.151	-	-	-	-	3.791
	Zn %	6.54	5.27	5.03	4.94	5.01	7.13	4.31	4.39	-	-	-	-	5.33
	Pb %	2.57	1.87	1.72	1.73	1.67	2.37	1.51	1.67	-	-	-	-	1.89
	Cu %	1.40	1.35	1.64	1.68	1.54	1.70	1.32	1.00	-	-	-	-	1.45
	Ag g/t	67.11	39.76	41.54	31.29	35.30	48.94	27.24	26.97	-	-	-	-	39.77
	Au g/t	0.91	0.72	0.57	0.31	0.55	0.50	0.26	0.22	-	-	-	-	0.51
	ZnEq %	15.79	12.81	13.27	12.78	12.71	16.25	10.71	9.87	-	-	-	-	13.02
Total	Mt	0.049	0.609	1.168	1.135	1.133	1.141	1.151	1.439	1.532	1.532	1.535	0.058	12.482
Grade	ZnEq %	15.79	10.44	9.56	9.83	9.81	11.74	8.64	8.32	6.28	5.95	5.79	5.79	8.17

*Note: tonnages exclude tailings and underground ore mined in 2019/20 prior to closure

BDA considers that the underground mining extraction methods proposed are suitably conservative and, with proper ground support, should generally be effective; there may be some areas where more productive mining and stoping methods can be adopted. The schedule will allow the contractor to progressively allocate manpower and equipment resources as required, in an orderly and cost-effective build-up.

5.7 Processing

The metallurgical characteristics of the Woodlawn ore and the tailings are well understood from the previous operations, 1978 to 1998; subsequent data includes metallurgical testwork conducted in 2006/07, 2012, 2014/15, recent testwork since 2016 and recent mineral processing in commissioning the plant.

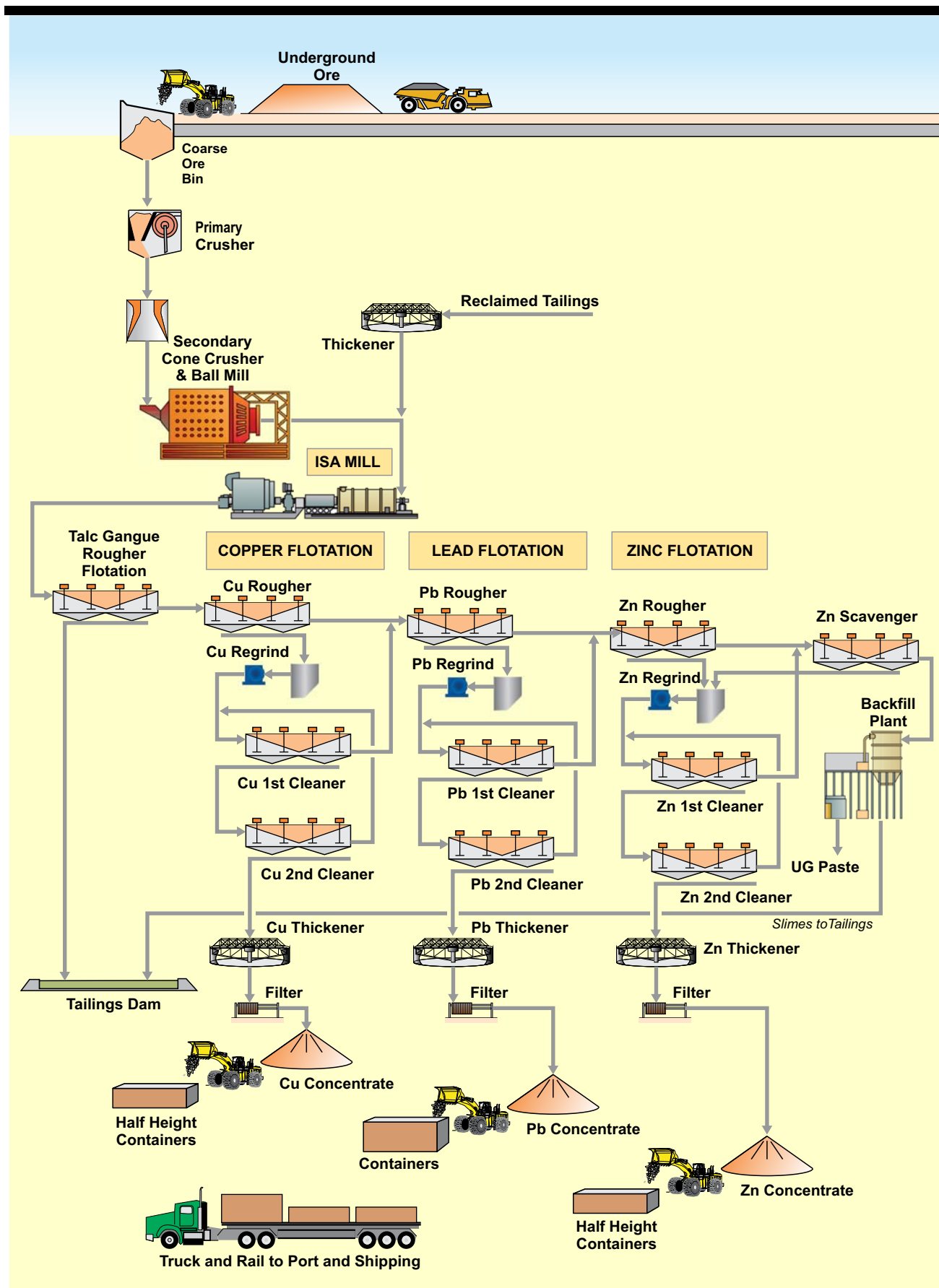
Heron’s plan is to treat the tailings and underground materials separately in campaigns through slightly different circuits in the same plant. Tailings treatment includes a fine grind and underground ore requires crushing and grinding ahead of flotation. Heron conducted extensive testwork on various blends of feed materials, leading ultimately to the decision to separately campaign the tailings and underground ore. The primary difference between historic tails retreatment and the current operation is the introduction of fine grinding with an IsaMill, and concentrate regrind, to improve mineral liberation (Figure 9).

WRP

Heron plans to reclaim tailings from the three tailings deposits from the original operation, TDS, TDW and TDN, in that sequence (Figure 8). The processing plant will treat the tailings to produce separate zinc, copper and lead flotation concentrates. The previous re-treatment operation produced only a low quality zinc concentrate from the TDN material, but this was without the additional fine grinding planned in the current operation.

WRP testwork indicates that retreatment of the tailings material will produce good quality zinc concentrates, and saleable, but not high grade, lead and copper concentrates. In all cases, the lead concentrates are of a low Pb content but carry reasonably high silver values. Heron advised BDA that it had previously established concentrate off-take agreements that accepted a minimum 35% Pb content in the concentrate.

The performance of the TDS material is important for the early phase of the operation, in that it will comprise around 43% of the plant feed for the first five years of operation; the remaining feed material in that period will be underground polymetallic ore. Testwork results indicate good zinc and acceptable copper and lead concentrates from TDS samples, supporting the financial modelling projections.



Heron Resources Ltd

Woodlawn Project

Figure 9

SIMPLIFIED PLANT PROCESS FLOW SHEET

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Behre Dolbear Australia Pty Ltd

Heron's WRP testwork programme incorporated several process improvements that enhance the recoveries and concentrate grades of all three metals compared to historical performance. Some of these improvements include:

- grinding the WRP material using an IsaMill
- closed circuit cleaning of the pre-float concentrate with the cleaner concentrate rejected to tails
- regrinding using inert media detritor mills for rougher concentrates prior to cleaning and re-cleaning
- regrinding copper circuit tailings prior to lead and zinc flotation
- introduction of a zinc cleaner tailings re-treatment circuit.

Heron also conducted bench-scale testwork on TDW and TDN samples that indicate that both the copper and lead concentrates produced from TDN material will be at the lower end of the specification range, but marketable under Heron's programme. TDN material is not scheduled to be processed until late in the mine life and BDA anticipates that process refinements developed over the mine life may allow some improvement to the TDN concentrates. If additional underground material is mined in the latter years, there will also be potential for the TDN concentrates to be blended with higher grade underground concentrates.

In the financial model, Heron has assumed that the material from TDW and TDN will respond similarly to material from TDS, but at lower recoveries. BDA accepts that the flowsheet developed for TDS and the underground material is sufficiently robust to treat the material from the other two dams. Locked-cycle tests for TDW indicated that, compared to the TDS material, the copper concentrates were similar in grade but TDW copper recovery was significantly higher; the lead concentrate from TDW material was better quality, with a slightly lower recovery, while the TDW zinc concentrate was higher in grade but lower in recovery.

Continuous process improvement, optimisation, and blending should allow the production of acceptable Pb and Cu concentrates from these materials.

WUP

Since 2015, Heron conducted numerous bench-scale and locked cycle tests on Kate lens material that indicate that acceptable marketable concentrates can be produced. Similarly, Heron conducted bench-scale tests on both fresh and transitional ore material from E and G lens samples and three tests were conducted on H lens fresh ore. While there was some variation in performance, process optimisation will largely reflect the ratio of Cu:Pb:Zn in the ore, with the low Pb in the G lens sample making it unlikely that an economic lead concentrate would be produced from that ore. However, the copper and zinc concentrates are all commercially acceptable, albeit with varying recoveries.

Heron also tested an "Early Production Composite", which comprised a blend of G, H and D lens material in a ratio proportional to the amounts planned be mined over the first 18 months of operation. The concentrates produced were excellent for all three metals, with acceptable grades and high recoveries. All the 2015 and 2016 tests were conducted by Australian Minmet Metallurgical Laboratories Pty Ltd ("AMML"). BDA considers the extensive testwork is appropriate and that the forecast results should be achievable in practice, once plant commissioning and ramp-up is complete.

Process Schedule

In the first year of operation in 2019/20, Heron processed predominantly TDS tailings material, with underground ore contributing a small percentage of total mill feed tonnage. Production from underground mining was scheduled to contribute approximately 45% of all ore processed, peaking at around 65% of mill feed in 2023.

Heron had proposed to process the tailings and ore from underground through separate comminution circuits and in separate processing campaigns. The recently developed plans suggest that using a single, simplified process flowsheet for both materials would be more efficient and, metallurgically, equally viable. The simplified flowsheet essentially reduces the three cleaning stages to two-stage cleaning, making operations easier and consuming less reagents. More significantly, the complicated Zn cleaning and re-cleaning circuit has been simplified to a two-stage cleaning process, with additionally, some reagent regime changes.

The proposed project production schedule after plant and site renovations is to commence treating underground ore in June 2023, with TDS tailings reclaim commencing March 2024; this provides a fifteen-month ramp-up period for underground ore, building up to a rate equivalent to approximately 170kt per quarter. The revised plan is to treat both feed materials in campaigns. The tailings reclaim material feed rate ramps up relatively quickly with an average underground:tailings ratio of 60:40. In 2029/30, the underground material phases out and the final three years of operation is based on treating tailings only. BDA considers the proposed ramp-up schedule is reasonable and consistent with experience in other base metals operations, where ramp up to full production performance (including realisation of steady-state operating costs) commonly takes 12-18 months.

Heron commenced construction of the processing plant in September 2017 with the expectation of commissioning the plant in December 2018. However, commissioning the plant with TDS material did not commence until May 2019. The Woodlawn plant ran in commissioning mode, treating predominantly reclaimed tailings from TDS up until the March 2020, at which time the operation entered C&M. BDA has reviewed the monthly operations reports for the May-August 2019 period, with results since the start of plant commissioning in early May summarised in Table 5.7.

Table 5.7
Plant Commissioning Performance May to September 2019

Parameter	Units	May	June	July	August	Sept	Plan/Target
TDS Reclaim Treated	Tonnes (t)	47,342	59,426	77,794	81,487	45,628	
	t/hr	104	164	154	178	NA	190
Plant Utilisation	%	42	50	68	62	NA	93.5
	Hours (hr)	455	362	505	458	NA	
UG Ore Treated	t	0	0	0	1,119	15,042	
	t/hr	0	0	0	76.9	NA	125
Plant Utilisation	%	0	0	0	71.6	NA	92.3
	hr	0	0	0	15	NA	
Copper Concentrate	Cu Grade %	5.8	11.8	14.1	22.8	12.7	20
	Cu Recovery %	7	16	21	21.6	22.6	38
	t	204	319	538	328	470	
Lead Concentrate	Pb Grade	25	21.9	16.5	27.9	21.9	33
	Pb Recovery	16	13	16	14.0	20.7	38
	t	320	370	883	440	819	
Zinc Concentrate	Zn Grade %	32	31.5	42.0	44.6	47.8	45
	Zn Recovery %	60	13	34	38	30.6	72
	t	1,776	520	1,614	1,568	787	

Note: limited September data is available as shown; NA = not available

By the end of August 2019, the concentrate grades were approaching target levels, while recoveries remained well below target. In September, Cu and Pb concentrate grades results deteriorated while metal recoveries improved slightly. Zinc concentrate grades generally continued to improve and were higher than forecast, although recoveries which had been steadily increasing dropped in September.

Tailings Recovery Operation

- Prior to shut-down, the tailings hydraulic mining system was working reasonably well, with hourly throughputs up to 178tph, or about 94% of forecast. The lower grade tailings “capping” material was removed separately and pumped to the new TSF.
- The initial two-stage pumping system from the tailings reclaim station to the concentrator with the original polymer lined centrifugal pumps proved inadequate. To address this issue, the pump liners and impellers were changed to metal alloy, but these liners and impellers proved to have a very short wear life of about five days. Heron has now re-designed the delivery pipeline route, which will reduce the pipeline length by about 800m. While this will reduce line pressure and assist the pumping, it also requires an upgrade to the pumps, allowing the return to polymer liners. Heron advises that provision has been made to upgrade the pumps as part of the re-start programme.

U/G Ore Crushing Plant

- There is no grizzly ahead of the feed bin to the jaw crusher, which is not ideal, as large material can enter the crusher and cause blockages. Heron advises that the installation of a grizzly and a rock breaker has been approved as a modification and a cost estimate has been prepared.
- The jaw crusher as specified should be capable of crushing underground material at the rates required. However, the crusher structure is not robust and mounting bolt failures were previously experienced. Heron advises that the structure will be strengthened.
- The secondary crusher appears capable of treating the planned throughput.
- The screening plant has been installed as a double-deck screen as specified in the Sedgman Process Design Criteria (“PDC”); however, Heron advises that the lower deck was equipped with a 14mm aperture while the PDC specifies 10mm. This has serious consequences on the downstream grinding circuit, reducing its throughput capacity, and this issue will be addressed prior to re-start.

Primary Ore Grinding Circuit

- The ball mill has been installed as specified in the PDC, however indications are that the circuit may not be capable of treating more than 100tph compared to the design of 125tph. This may be partially due to the coarser feed material, but there also appears to be a significant restriction relating to the bank of eight 150mm diameter classifying hydrocyclones. Heron advises that the existing hydrocyclones will be replaced with larger units.

Flotation Circuit

- The flotation circuit is considered generally fit for purpose, with adequate throughput capacity and regrind installations.
- The reagent lines are relatively inaccessible for the management of dosage rates and flows and it is planned that this will be remedied; Heron has completed basic engineering and costing to rectify the issue.
- The froth pumps are stand-alone, whereas preferably there should be redundancy for each pump installation to allow the plant to continue operating if a pump fails; certain of the pumps are not adequate for purpose and Heron plans to replace these and has prepared a cost estimate to cover this work.

General

- The previously installed water treatment plant was not considered satisfactory and Heron has planned and costed a replacement system.
- Several features combine to impact on the operability of the plant including inadequate bunding, pump redundancy and poor access to various areas; these issues are targeted for modification to provide more efficient plant operations.

5.8 Infrastructure

The main infrastructure items of power and water supply, telecommunications and roads were established for the previous operation, and are being used by both Heron and Veolia.

Infrastructure facilities, including site roads, buildings, water supplies, communications and site infrastructure, are adequate and appropriate for the scale of the Woodlawn operation.

5.9 Tenements

The Woodlawn site is subject to an existing Special Mining Lease (SML 20) that has remained current since the closure of the previous operations on the site in 1998. Title was transferred into the name of Tarago Operations Pty Ltd, a fully-owned subsidiary of Heron, in March 2014. The NSW Department of Trade and Investment, Division of Resources and Energy (“DRE”) transfer approval includes the lease terms and conditions including a security bond of A\$6.08M. The Mining Lease is current for a period of 15 years with an expiry date of 16 November 2029. Assuming compliance with regulatory requirements, BDA considers that renewal of the lease post 2029 should be straightforward with minimal risk.

5.10 Development Approvals

Project Approval (07_0143) was received on 4 July 2013 under Section 75J of the NSW Environmental Planning and Assessment Act 1979 (“EP&A Act”) from the NSW Minister for Planning and Infrastructure. This approval covers the following components:

- the Woodlawn Retreatment Project (WRP), involving the establishment of a processing facility and the processing of existing tailings material stored within three existing tailings dams
- the Woodlawn Underground Project (WUP), involving excavation of a new box cut and underground mining development to extract metalliferous sulphide mineralisation, subject to successful exploration.

On 28 April 2016, the Company received Modification to Project Approval 07_0143 from the NSW Department of Planning and Environment (“DPE”). The modification included changes to the location of the underground portal and paste plant, proximity (within 200m) to the open pit and allowing mining operations to continue at the Woodlawn site until 31 December 2034. It is noted that this date is after the current expiry date of the lease; as noted above BDA considers that renewal of the lease should be a straightforward process, assuming ongoing compliance.

5.11 Environmental Matters

Retreatment of the tailings will allow environmental legacy issues associated with the current dams to be resolved and the dams to be finally closed and rehabilitated.

BDA considers that the main environmental risks associated with the proposed re-development of the Woodlawn Mine relate to the re-use of the three existing tailings dams, the potential for offsite water contamination from heavy metals and acidic water, and the accuracy of the cost estimate for site rehabilitation and final closure. The Woodlawn mine “brownfield” site has historically maintained a zero discharge record during previous operations and more recently since mine closure.

From the information provided, and with appropriate environmental protection plans and monitoring programmes, BDA considers that the risks associated with the potential for off-site water contamination via site run-off, waste rock leachate seepage, or tailings seepage, are low. The existing water storage/evaporation dams (ED1 and ED2) provide reasonable facilities to collect and treat any site water contamination, although recent heavy rainfall has filled the surface water storage almost to capacity.

Rehabilitation of the site is required in accordance with the proposed Rehabilitation Management Plan described in the Environmental Assessment (“EA”). An amount of A\$9.6M has been estimated for costs at project closure associated with closure and rehabilitation of the site. It is noted, however, that some rehabilitation of the site, including the tailings dams, is expected to be undertaken progressively throughout the mine life and that Veolia will retain responsibility for the pit and various former plant and administration areas.

Tailings Storage Facility

Heron intends to reprocess sequentially the tailings in the three existing tailings dams, TDN, TDS and TDW, all located to the south of the process plant area (Figure 2). TDS originally contained 4.2Mt of tailings, was partially treated during Heron’s previous operation, and will be the first site for recommencement; TDS will be followed by TDW, containing 3.8Mt and finally TDN, containing 2.9Mt.

Coffey prepared the engineering design for the new proposed Tailings Storage Facility No.4 (TSF4). The TSF design is in accordance with ANCOLD guidelines (2012) and NSW Dams Safety Committee (DSC) DSC3A.

The proposed new TSF4 facility is located between the processing plant and the northern wall of TDN (which forms the south wall of TSF4). This is a cross-valley type facility, with a starter embankment followed by further staged constructions as required, utilising downstream construction to maximise the volume of impounded tailings.

The proposed maximum capacity of TSF4 will be approximately 4Mt of tailings or approximately 2.5Mm³ using the assumed tailings settled density. TSF4 stage capacities are Stage 1: 0.46Mm³, Stage 2: 1.21Mm³, Stage 2A: 2.08Mm³ and Stage 3: 2.51Mm³.

Tailings from the process plant that are not used for paste fill in backfilling the underground mine voids will be impounded initially in the new TSF4 and subsequently in TDS when it has been emptied and made good. Between the two storage facilities, provision has been made for the storage of considerably more than 7.4Mt of tailings, which is sufficient to meet the project’s needs for the current projected mine life. Following completion of re-processing of TDW and TDN tailings, further storage capacity will be available if required.

5.12 Capital Costs

The total life of mine capital estimate from June 2023, as updated by Heron in the current model and scheduled over the life of the operation, is A\$148.6M on a current non-escalated basis, as shown in Table 5.8, plus a A\$9.6M closure provision in 2033/34.

Table 5.8
Summary of Estimated Sustaining and Deferred Capital

Capital Cost Item	Estimated Cost A\$M
Processing Plant	
Hydro Mining Upgrades	1.043
Sustaining Capital	4.401
TSF Lift	2.445
Subtotal – Plant	7.889
Mine Production Capital	
U/G Improvement Projects/Modifications	0.246
Re-Entry to Old Workings	5.364
Mine Infrastructure (pumps, fans, services)	14.358
U/G Capital Development	89.526
Mining Services and Overheads	31.190
Subtotal – Mine	140.684
Total	148.573

The estimates of underground development capital for mining have been prepared consistent with current experience. In BDA's opinion, these estimates are generally reasonable; however, BDA notes there is no contingency allowance included in the estimate of capital costs, and some minor additional sustaining capital may be required. In BDA's opinion, the estimates are generally reasonable and accurate within +10-15%; BDA would recommend that, to reflect rising prices across the industry, the base case capital for the financial model should be increased by +10%, with a further 5-10% as a sensitivity.

Heron has advised that additional capital is required to complete modifications designed to remedy some specific issues identified in the concentrator and elsewhere to achieve nameplate capacity. These have been summarised as re-start capital, which would be expended prior to starting operations, and are summarised as shown in Table 5.9.

Table 5.9
Heron Re-Start Capital Costs - Modifications and Upgrades

Capital Cost Item	Estimated Cost A\$M
Processing Plant	
Crushing and Grinding Circuit	0.899
Flotation Circuit	3.958
Filtration Circuit	0.446
Reagent System	0.668
Water Systems Upgrade	0.340
Black Water Evaporators	1.082
Subtotal – Plant	7.393
Mine Pre-Production Capital	
U/G Improvement Projects/Modifications	4.311
Re-Entry to Old Workings	2.834
Mine Infrastructure	0.126
U/G Capital Development	1.546
Mining Services and Overheads	0.907
Subtotal – Mine	9.724
Total	17.117

5.13 Operating Costs

The WUP mine operating costs have been based on the former Pybar underground mining contract, taking into consideration the proposed mining methods and projected productivities; on that basis, the estimates appear reasonably consistent with experience to date, but BDA would expect that prices will have risen since the former contract was signed. In addition, the contractor performance was inconsistent and behind schedule for much of the ramp-up period, although it had significantly improved at the time of closure. BDA has reviewed the operating costs inputs to the financial model and has advised Deloitte as to the amounts considered appropriate for the analysis. BDA considers the mine operating cost estimates to be reasonable, but suggests that, to reflect rising prices across the industry, a dated contract and other uncertainties, the base case operating costs for the financial model should be increased by +10%, with a further 5-10% as a sensitivity.

For the WRP material reclamation, Heron operated the hydraulic mining system, using employees from the processing plant. Based on experience to date, Heron has estimated the average operating costs over the project life of approximately A\$2/t, delivered to the thickener at the plant. On re-start, the ramp-up is estimated to take up to 18 months to achieve steady-state operations.

BDA considers that the unit cost estimates will be achieved, with an accuracy of $\pm 15\%$, once ramp-up is complete and “steady state” operations are established.

The ore concentrator operating cost estimates were determined using established methodologies and appear reasonably consistent with experience. For the initial operations prior to shut-down, the individual cost line items such as reagents, labour and power compared well with the budget. BDA considers the cost estimates are reasonable and, until ramp-up is complete, accurate to $\pm 15\%$; the costs reflect the fine grinding for the tailings retreatment material and the somewhat higher cost of crushing and grinding the primary underground ore. BDA would recommend that the base case tailings costs for the financial model should be increased by +10%, with a further 5-10% as a sensitivity.

The administration costs have been treated as annual fixed expenses and the unit rates are consistent with comparable operations elsewhere; BDA considers the administration costs accurate to $\pm 15\%$ and would recommend that the base operating costs for administration should be increased by +10%, with a further 5-10% as a sensitivity.

With regard to off-site costs, provisions have been made for concentrate transport mine to port, concentrate handling costs, freight insurance and concentrate smelter treatment and refining charges (“TC/RCs”), and various payment conditions including metal deductions and charges for penalty items. While Heron has not provided final off-take agreements, BDA considers the provisions in the financial model are consistent with its knowledge of equivalent costs in similar projects producing concentrates for export. BDA considers the off-site costs reasonable, consistent with knowledge of similar operations and, until there is a history established, accurate to $\pm 15\%$.

Overall site operating cost estimates are considered reasonable at this stage of assessment with an overall accuracy of around $\pm 15\%$ and BDA would recommend that, to reflect rising prices across the industry, the base case operating costs for the financial model should be increased by $+10\%$, with a further 5-10% as a sensitivity.

5.15 Financial Model Inputs

The Deloitte valuation is based on a project financial model titled “3.(a) 210914 Project Andreas Financial Model (UG First) (2) 2022 RI” provided by Heron. BDA notes that the model being used for analysis adopts a conservative case for metallurgical recoveries (proposed by Mineralis in the April 2020 and August 2021 reports) and these are considered reasonable estimates for the valuation. Once the additional modifications identified to accomplish full capacity and performance are implemented, the ramp-up should proceed reasonably well. BDA has reviewed the technical assumptions including the capital and operating costs inputs to the financial model and has advised Deloitte as to the factors considered appropriate for the analysis.

BDA’s principal comments and suggested sensitivities on the physical and cost inputs to the model are as follows:

- In terms of production targets, BDA considers that the updated underground mining schedule is reasonable and consistent with expected equipment capacities, performances and costs. It should be noted that the only real impact of variations in underground mining rates on the processing operation will be to alter the timing and duration of the underground ore campaigns, as the mill does not rely on direct feed from the underground and can process WRP tailings to cover any delays. While the underground production may vary over short periods by 5-10%, the plan is to campaign underground ore and tailings separately through the plant, with underground ore being stockpiled at surface until sufficient tonnage is available for a sustained concentrator run, so any temporary shortfall would be made up by additional tailings retreatment. This facility effectively decouples the underground mining operation and the processing plant, with tailings available if/when there are shortfalls from underground.
- The methodology adopted to determine the mining costs is regarded as reasonable, consistent with industry standards and in broad terms, the projected costs are considered achievable. However, the estimate relies on a dated contract and BDA considers that the base case operating costs for the financial model should be increased by $+10\%$, with a further 5-10% as a sensitivity.
- With regard to processing the underground ore, the plant throughput is unlikely to exceed 75-100tph consistently until a number of proposed modifications are instituted. The model ramp-up is considered a reasonable projection of performance once the improvements are implemented.

For the tailings retreatment, the unit throughput of 175tph is reasonable and up to 180tph may be possible; however, the pump upgrades will be necessary to consistently achieve these rates.

Plant utilisation had been running at about 72% prior to shut-down. However, as reflected in the ramp-up schedule, it will take at least six months to consistently operate at the design of 92.3% and some plant modifications are required.

Prior to shut-down, concentrate grades had been approaching expectations, especially for the copper and zinc concentrates, whereas the lead concentrate performance was less satisfactory. BDA considers that the projected metallurgical recoveries and forecast concentrate grades may take up to twelve months from start-up to be consistently achieved; BDA notes that more conservative recoveries have been adopted in the model.

- BDA considers the ore processing schedule for treatment of the tailings reclaim material is reasonable with respect to throughput once the planned capital modifications have been completed. The latest model assumes that the tailings reclaim and process plant treatment rates will reach an equivalent rate of 1.5Mtpa by 2024/25. Based on performance to-date, this should be achievable if the pumps and pipelines are upgraded as currently proposed; other than the additional capital costs, no adjustments to the model are required.
- The ramp-up schedule as it relates to the concentrator tonnage throughput is considered reasonable, taking into consideration the comments made previously. Including underground ore, Heron had adopted the four-quarter ramp-up as recommended by Mineralis for metal recoveries to concentrate as well as metal grades in concentrates. BDA suggests that the performance as per the Mineralis estimates will likely be achieved as projected in the model. No additional adjustments to the model are suggested.

- The underground mining, tailings reclamation and process plant operating cost inputs as estimated are considered reasonable and reasonably consistent with previous experience. BDA considers the operating cost estimates are accurate to $\pm 15\%$ and that the base case capital for the financial model should be increased by +10%, with a further 5-10% as a sensitivity.
- A 4% NSW state royalty has been applied on all recovered and payable metals shipped to market for extractive operations within the state. The royalties are based on an “ad valorem” value of minerals, being 4% of the ex-mine value less allowable deductions. BDA considers the provision appropriate.
- Treatment charges (“TCs”) and refining charges (“RCs”) vary from year-to-year and are set by international benchmarks related to much larger concentrate sales contracts. The Cu TCs and RCs vary over the years from US\$50/t of concentrate and US\$0.05/payable pound (“lb”) of Cu to US\$120/t and US\$0.12/lb. BDA considers that the values used for the three concentrates are reasonable.
- For the minor metals such as silver and gold, the RCs also vary. Heron has provided payabilities which are consistent with contractual arrangements for similar mixed concentrates. The payments and deductions will depend on the final negotiations between Heron and the successful off-takers, but the assumptions appear generally reasonable, based on BDA’s knowledge of comparable arrangements.
- The capital cost estimates that relate to the underground mining, tailings reclamation and process plant are considered reasonable and reasonably consistent with previous experience and the plans for future operations. BDA considers the capital cost estimates are accurate to $\pm 15\%$ and BDA would recommend that, to reflect rising prices across the industry and other uncertainties, the base case capital for the financial model should be increased by +10%, with a further 5-10% as a sensitivity.

6.0 EXPLORATION TENEMENTS

Heron has exploration tenements in the vicinity of the Woodlawn mine, covering the prospective lithologies along strike to the north and south. Heron also has other joint venture interests in regional New South Wales.

In Western Australia Heron has a small number of mineral rights and royalty interests covering gold and base metals in the Kalgoorlie and Kambalda regions.

6.1 Woodlawn and NSW Regional Tenements

The Woodlawn mine is located within Special Mining Lease SML 20. The Woodlawn site is surrounded by a larger Exploration Licence (EL 7257) which is held 100% by Heron. This exploration licence covers an area of 174km² and covers the previous Currawang Mine located 10km to the northwest of Woodlawn. The Currawang mine, along with the Cowley Hills mine, 2km to the northeast of Woodlawn (and within the Woodlawn SML), provided satellite feed to the previous Woodlawn operations.

North and south of EL 7257, and to the west, the felsic volcanics, the prospective host for VMS deposits, are covered by a number of other Heron exploration licences and applications giving the Company access to approximately 1,156km² (including EL 7257) as a regional project exploration area.

In BDA's opinion there are reasonable prospects for discovery of further deposits within trucking distance of the Woodlawn plant. Heron's Woodlawn project tenements are listed in Table 6.1.

Table 6.1
Heron's Woodlawn Project Tenements

Tenement	Tenement Name	Location	Area km ²	Granted	Expiry
SML 20	Woodlawn Mining Lease	Woodlawn - 40km SSW of Goulburn	0.24	31.10.73	16.11.29
EL 7257	Currawang	40km SSW of Goulburn	174.3	14.11.08	14.11.26
EL 7468	Cullarin South	25km SW of Goulburn	19.7	04.03.10	04.03.23
EL 7469	Mulloon	50km SSW of Goulburn	61.7	04.03.10	04.03.23
EL 8325	Sandy Point	50km SSW of Goulburn	179.8	03.12.14	02.12.23
EL 8353	Boro	40km S of Goulburn	44.9	17.03.15	17.03.24
EL8623	Black Springs	90km N of Woodlawn	153.7	17.07.17	17.07.23
EL 8712	Peelwood	90km N of Woodlawn	92.8	05.03.18	05.03.24
EL 8796	Captains Flat	100km SSW of Goulburn	66.7	25.09.18	25.09.24
EL 8797	Burra	100km SW of Goulburn	72.5	25.09.18	25.09.24
EL 8945	Mayfield	20km SE of Woodlawn	290.0	19.02.20	19.02.23

Note: total EL area 1,156km² granted; MLs generally renewable provided terms of lease appropriately fulfilled – BDA considers that renewal of SML 20 should be straightforward with minimal risk assuming ongoing compliance; ELs generally renewable, but commonly with area reduction, provided expenditure and reporting commitments met

In addition, Heron has a 20% interest in a joint venture with Sky Metals Ltd over three NSW regional tenements to the north and northwest of Woodlawn, Cullarin, Rosevale and Kangiara and a 20% interest in a joint venture with Alchemy Resources Ltd over eight ELs in the Parkes, Barraba and Nyngan regions of NSW.

Currawang

The Currawang prospect (100% Heron) is located some 10km north-northwest of the Woodlawn mine in EL7257, 400m east of the historic Currawang copper mine which was mined in the 1860s to 1890s. Mineralisation at Currawang is developed in the basalt which overlies the mineralised sequence at Woodlawn, opening up the potential for additional mineralised pods in this upper horizon. A pod of massive sulphide, some 100m below surface, was mined from 1991-1995, with 0.5Mt extracted at a grade of 13% Zn, 2% Pb and 1.6% Cu. The mineralisation is sub-vertical, 2-15m wide with an average width of 4-5m and comprises two lenses with strike lengths of 100m and a down-dip extension of 150m. The host rocks are altered spilitic pillowed and massive basalts (the Currawang Basalt) with basaltic tuffs and fine grained clastic rocks, giving generally more favourable ground conditions than those at Woodlawn.

Historic drilling intersected mineralisation beneath the current mine workings. Exploration for additional resources at Currawang was undertaken by Heron in 2017, with five diamond drill holes completed, testing primarily for down plunge extensions to the existing lenses. While some stringer and semi-massive sulphide mineralised zones were intersected, the overall interpretation of the data was that the potential for significant additional tonnages of ore was limited.

Heron advises that the most likely outcome is that an additional 0.1Mt of mineralisation could be defined at Currawang and trucked to Woodlawn for processing. BDA has reviewed the data and considers that there is some potential for a future but relatively small satellite operation at Currawang.

Cowley Hills

The Cowley Hills deposit is located 2km north of Woodlawn, within SML 20, and is hosted by the Woodlawn Volcanics. Mineralisation consists of a single shallowly dipping massive sulphide lens, 9-15m thick, with an 80m strike length, conformably hosted in hydrothermally altered felsic volcanogenic sediments within dolerite and spilitic volcanics of the Currawang Basalt. Mining was undertaken between 1989 and 1991, but only some 35,000t of ore was extracted. Heron considers the prospect has limited potential, with a possible target of 0.1Mt of base metal mineralisation treatable through the Woodlawn plant, though there is a possibility that the mineralisation could be offset by faulting with displacement of the lens down plunge to the northwest.

Woodlawn North

Heron has undertaken detailed IP surveys in 2019 within a 2.5km arc immediately north of Woodlawn within SML 20, testing for Woodlawn repeats along favourable structures. Strong chargeability and resistivity anomalies were detected associated with the Murphy's-Cowley Hill mineralisation corridor with an interpreted target at around 600m, well below the depth of previous drilling. Other anomalies (Bucklands and Bucklands North) were detected north of the Woodlawn open pit. Drilling at Murphy's intersected graphitic sulphidic black shales which could account for the anomalies. Drilling at Bucklands North intersected pyrite-pyrrhotite alteration with elevated copper levels; drilling at Bucklands intersected minor sphalerite stringers in variably altered felsic volcanic and basaltic rocks; Heron considers that follow-up down hole EM should be undertaken.

Montrose

The Montrose prospect lies 6km west-northwest of Woodlawn within EL 7257. Limited drilling in the 1980s and 90s intersected intense pyrite-sericite alteration, pyrrhotite, and zones of modest grade mineralisation. Historical EM geophysical anomalies were followed up by Heron in 2018 with a detailed gravity survey which identified possible targets along the contact between mafic and felsic volcanic units. RC drilling of four EM anomalies was carried out in 2018, intersecting weak pyrite-pyrrhotite-chalcopyrite mineralisation. Heron considers that follow-up down hole EM surveys should be undertaken.

Woodlawn South

A Net Smelter Royalty ("NSR") of 2.5% to Platsearch NL, now Variscan Mines Limited, has been registered with the Department over 53 units within EL 7257, EL 8325 and EL 7469. There are no defined mineral resources within these units and no current exploration programmes are planned; BDA does not consider this NSR has any material impact on the current valuation of these properties.

Peelwood

The Peelwood project (EL 8712, EL 8623) is located 100km north of Woodlawn and covers Silurian felsic volcanic and sedimentary rocks. The Peelwood, John Fardy, Cordillera and Mt Costigan deposits are historic copper-lead-zinc-silver producers within the northern portion of the leases, with massive sulphide lenses adjacent to the sheared contact between the sediments and volcanics. Mineralisation is associated with the north striking Godolphin Fault which hosts the McPhillamys and Lewis Ponds polymetallic resources some 70km to the north. The central part of the lease contains a number of mineralised gossans over a 6km strike with anomalous lead and zinc values. The exploration strategy at Peelwood is to define additional base metal resources adjacent to the known historical mines that could be trucked to Woodlawn for processing.

Burra

The Burra project (EL 8797) is located 60km southwest of Woodlawn and hosts the historical London Bridge and Burra VMS workings which were mined in the 1900s, with significant zinc and lead intersections. Mineralisation is hosted within Siluro-Devonian limestones, overlain by volcanics, and has only been tested to shallow depths. Mineralisation remains open down-dip and along strike.

Captains Flat

The Captains Flat project (EL 8796) is located 65km south of Woodlawn. No recent work has been carried out on the area.

Mayfield

The Mayfield area is located 20km southeast of Woodlawn. A number of shallow high grade base metal and gold intercepts have been reported in historical drilling, notably at the Limekilns and Greendale prospects. The mineralisation appears to be skarn related near the Silurian-Ordovician contact. Many of the prospects remain untested.

6.2 Alchemy Joint Venture

Heron has a 20% interest in a joint venture with ASX-listed Alchemy Resources Ltd on base metal and gold prospects in the Parkes, Barraba and Nyngan regions of NSW. Alchemy has earned 80% by expenditure on exploration. The joint venture farm-in agreement dated May 2016 covers 1,059km² of the Lachlan Fold Belt in central NSW, including ELs 5878, 7941 and 8267 (Overflow), 8192 (Eurow), 8318 (Girilambone), 8356 (Yellow Mountain), 8631 (Nyngan) and 8711 (Barraba).

The Overflow prospect lies 100km south of Nyngan, and along strike of the Mineral Hill operation. The project has the potential to host both epithermal and Cobar-style gold and base metals. A moving loop EM survey was undertaken in 2018 and a drilling programme has been planned, targeting up and down plunge mineralisation potential.

The Eurow prospect is located 40km southeast of Parkes. Drilling below the historic copper-gold workings at Eurow has intersected potentially economic copper-gold grades to a depth of around 200m. The mineralisation appears planar and stratiform associated with pyrrhotite and other sulphides. Soil sampling and aircore drill holes have extended the potential zone north and south of the old workings and follow up RC drilling is planned.

The Girilambone project is located 25km northwest of Nyngan. Copper-gold mineralisation occurs within mafic units of the Ordovician Girilambone Beds. Auger and RC drilling has intersected strong sericite-chlorite-carbonate alteration and sulphide zones with minor chalcopyrite. Soil anomalies show elevated levels of copper, arsenic, silver and bismuth and require follow-up work.

Additional ELs, prospective for nickel, cobalt, copper and gold were taken up by Heron at Nyngan and in the Barraba area of NSW and have been incorporated into the Alchemy joint venture. At Nyngan, aircore and diamond drilling was used to delineate the nickel-cobalt mineralisation within the laterite and saprolite profiles and a maiden 2012 JORC compliant Mineral Resource was announced in early 2019 (21.3Mt at 0.84% Ni and 0.05% Co). Overlying the nickel-cobalt laterite mineralisation is an alumina resource, hosted in a kaolinite zone approximately 15-20m below surface.

6.3 Sky Metals Joint Venture

On 24 July 2020 Heron confirmed that Sky Metals Ltd had met the farm-in expenditure requirements and earned an 80% interest in the Cullarin, Rosevale and Kangiara projects. Under the joint venture agreement, Heron is now free-carried to completion of a Definitive Feasibility Study or until A\$10M (inclusive of farm-in expenditure) has been spent. The Sky Metals joint venture tenements lie to the north (Cullarin) and northwest (Kangiara and Rosevale) of Woodlawn and cover 340km² of Silurian volcanics and sedimentary rocks. Sky Metals principal target is McPhillamys-style gold mineralisation, although some base metal intersections have also been achieved.

Cullarin

The Cullarin project (Breadalbane prospect) (EL 7954) is located 20km northwest of Woodlawn and covers the northern extent of the prospective Silurian felsic volcanic sequence. Previous drilling has identified targets where mineralised intercepts (Cu and Au) have been reported. Historic drilling has identified broad zones of gold and copper mineralisation.

Kangiara and Rosevale

The Kangiara and Rosevale projects (EL 8400 and 8573) are located 90km northwest of Woodlawn and 26km north-northwest of the town of Yass, covering Silurian felsic volcanics and sedimentary rocks. Kangiara is a historical copper mine and a small gold-silver-copper-lead-zinc deposit has been delineated with some potential for expansion. Soil geochemistry and rock chip sampling has identified a significant gold and base metals anomaly at the Crosby prospect. Pyritic zones have been mapped within rhyolitic and dacitic volcanics. A RAB drilling programme was completed in 2017 intersecting anomalous gold, copper and base metal values. Heron considers the area has potential for both base metals and gold.

6.4 Western Australia Tenements and Interests

Siberia and Black Range Projects - Eastern Goldfields Limited

The project area is located 70-80km northwest of Kalgoorlie and comprises two exploration licences (5 blocks), 12 mining leases and six prospecting licences, covering an area of approximately 42km². Heron sold these tenements to Eastern Goldfields Limited ("Eastern Goldfields") in January 2017 for A\$100,000, plus a future payment of A\$1M if a reserve of 100,000ozs of Au was identified, plus a royalty of 1.5% on any gold production capped at 150,000ozs. No ore grade gold intercepts have been achieved to date. The tenements were formerly held principally for their nickel laterite potential. The nickel rights have been sold to Ardea Resources Limited, a company that Heron spun out in 2017.

Marloo Dam/Lake Lefroy Project - St Ives Gold Mining Co Pty Ltd

The project is located in the Kambalda region, 70km southeast of Kalgoorlie and comprises one exploration licence covering approximately 24km². Heron retains the nickel rights and a gold royalty of 2.5% capped at A\$5M, then reducing to a 1% net smelter return.

7.0 VALUATION DISCUSSION

7.1 Overview

The assets valued herein comprise:

- Woodlawn underground and tailings zinc-lead-copper project in NSW
- Woodlawn potential underground extensions
- Near-mine former producers Currawang and Cowley Hills
- Woodlawn NSW regional exploration project comprising the Cullarin South, Mulloon, Sandy Point, Boro, Black Springs, Peelwood, Burra, Captains Flat and Mayfield prospects in NSW
- Alchemy joint venture interests comprising South Girilambone, Overflow, Yellow Mountain, Eurow, Nyngan, and Barraba prospects in NSW
- Sky Metals joint venture interests comprising Cullarin, Rosevale and Kangiara prospects in NSW
- Gold royalty interest and possible future payments relating to gold mineralisation and gold production from the North Kalgoorlie nickel tenements of Eastern Goldfields Ltd
- Nickel rights and gold royalty interest in the Marloo Dam/Lake Lefroy project of St Ives Gold Mining Co Pty Ltd in WA.

The Woodlawn project is currently under care and maintenance. Heron commenced a re-start to the tailings re-treatment operation and underground mining with construction start-up in 2017 and plant commissioning running from 2018 to 2020. Initial plant throughput was based on re-treatment of tailings from the South Dam and underground ore from upper G lens stopes, adjacent to the new access decline development. Operations were suspended and the project was placed on care and maintenance in March 2020.

The Woodlawn project has defined Mineral Resources and Ore Reserves, a life of mine plan and schedule, and detailed estimates of capital and operating costs. The Woodlawn mine previously operated in the 1980s and 1990s as well as the more recent development and operations, so mining conditions and processing parameters are well understood.

Deloitte has undertaken the valuation of the Woodlawn mine project by applying the discounted cash flow method as well as other considerations (see Deloitte Independent Expert Report). Deloitte has appointed BDA as the independent technical specialist to provide an assessment and guidance regarding the technical assumptions in the financial model of the Woodlawn mine project and to provide a valuation of the mineral assets not included in the DCF valuation.

Heron has provided a development scenario and life of mine plan based on the mining and processing of underground ore and retreatment of tailings. The underground mining inventory includes approximately 1Mt of Inferred material representing mineralised zones with drill intersections but requiring additional infill drilling to bring it to a Measured or Indicated category. BDA has reviewed the production forecasts for the Woodlawn mine project and has advised Deloitte as to the reasonableness of the production projections. BDA has also reviewed and advised on the forecast cost parameters for the purpose of the valuation.

Deloitte has requested that BDA undertake a valuation of the resources not already included in the financial model of the Woodlawn mine project as well as any exploration assets of Heron if considered material. Accordingly, BDA has valued these mineral assets by applying the valuation principles outlined in Section 3. Valuations have been considered as of the Valuation Date of 1 March 2022.

The valuation approach adopted is as follows:

- *Woodlawn Mine Potential Project Extensions – additional underground potential from known resources and likely mineable extensions down dip and along strike of known lenses* – BDA has reviewed the details of the additional underground potential comprising areas where drill intersections have indicated economic thicknesses and grades of mineralisation, but where additional drilling is required to define the details, limits and possible extensions to mineralisation such that resources and reserves can be defined and the material included in life of mine plans; from the information reviewed, BDA has assessed that a willing and knowledgeable buyer would have a reasonable expectation that underground drilling could add 1-2 years of additional mine life, beyond the LOMP. However, BDA notes that Heron's mine plan already includes a significant tonnage of Inferred material (28%), which itself will need to be drilled up and confirmed prior to consideration of additional extensions. BDA has suggested to Deloitte that a higher discount rate should be applied to the last three years of production due to the high percentage of Inferred material included in these years. Deloitte has also determined the impact on NPV of a further 1-2 years of production from potential resource extensions and BDA has used this data to derive a range of likely values for the additional underground exploration potential

- *Currawang and Cowley Hills Projects* – these satellite projects have previously supplied ore to the Woodlawn plant and BDA considers that a willing and knowledgeable buyer would ascribe some value to these prospects on the basis of the potential of the projects to supply additional feed to the Woodlawn plant; this potential, however, appears somewhat limited, to between a quarter and a half year's additional underground feed, and BDA has assessed a value on this basis.
- *NSW Regional Projects and Tenements* – BDA has ascribed a value to these exploration prospects and tenements based on exploration expenditure and prospectivity. These properties comprise Heron's regional ELs to the north and south of Woodlawn. BDA has enquired of Heron whether there have been any offers made on these tenements or whether any transactions have been undertaken on comparable near-by tenements that might provide a comparable transaction guide to valuation.
- *Alchemy Joint Venture Tenements - South Girilambone, Overflow, Yellow Mountain, Eurow, Nyngan, and Barraba* - Heron retains a 20% interest in these joint venture tenements. BDA has considered the joint venture terms and expenditure conditions relating to these joint venture tenements, but has been principally guided by recent offers made as part of a sales process conducted on behalf of the Administrators
- *Sky Metals Joint Venture Tenements - Cullarin, Rosevale and Kangiara* – Heron retains a 20% interest in these joint venture tenements. BDA has considered the joint venture terms and expenditure conditions relating to these joint venture tenements, but has been principally guided by recent offers made as part of a sales process conducted on behalf of the Administrators
- *WA Rights and Royalties* - BDA has ascribed a value to these rights and royalties, noting the maximum or capped values and giving due consideration to the probability of occurrence of the required events (the discovery of a gold reserve or gold production). However, BDA has been principally guided by recent offers made for the interests as part of a sales process conducted on behalf of the Administrators.

7.2 General Assumptions

BDA's valuation estimates assume that:

- All licences, permits, certificates and consents issued by the Federal, State or local government or other authorised entities or organisations that will affect the continuity of operations have been obtained or will be obtained as required in the future.
- The financial and operational information provided by Heron has been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful consideration.
- There will be no material change in the existing political, legal, fiscal, technological, market and economic conditions which will affect the revenues and incomes being generated.
- There will be no material change in the taxation laws and regulations and all applicable laws and regulations will be complied with.
- While the market return, market risk, interest rates and exchange rates may differ materially in the future from those presently prevailing and market and economic conditions may differ materially from those forecast, BDA considers the assumptions are reasonable in the current environment.
- Relevant metal supply and demand may differ materially from those forecast, but the assumptions used are considered reasonable in the current context.
- Management will implement financial and operational strategies that will seek to optimise the efficiency of the operation of the business.
- Management has sufficient knowledge and experience in respect of the operation of the business, and turnover of any manager or key person will not significantly affect the operation of the business.
- Adequate financial capital for the projected capital expenditure and working capital will be available and any scheduled interest or repayments of loans will be paid on time.
- Management has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any such disruption will not significantly affect the operation of the business.
- Management has adopted reasonable and appropriate contingency measures against any natural disaster such as fire or flood and the occurrence of any natural disaster will not significantly affect the operation of the business.

7.3 Valuation - Woodlawn Mine Project – Life of Mine Plan

The Woodlawn project has defined resources and reserves, a life of mine plan and schedule, and detailed estimates of capital and operating costs; mining and processing operations were undertaken as recently as March 2020, prior to the project being placed on care and maintenance, and the Woodlawn mine previously operated in the 1980s and 1990s so mining conditions, processing parameters and costs are reasonably well understood.

Heron has provided a development scenario and life of mine plan (LOMP) based on mining and processing of underground ore and retreatment of tailings. The underground mining inventory includes the mining of approximately 1Mt of Inferred material representing mineralised zones with drill intersections but requiring additional infill drilling to bring it to a Measured or Indicated category. In total the LOMP is based on the treatment of 3.8Mt of underground ore at a processing rate of 0.65Mtpa (supplemented by tailings material to bring the overall processing throughput in the initial years to around 1.1Mtpa). BDA has reviewed these plans and advised Deloitte on the adoption of appropriate production and cost parameters for the purpose of valuation. Deloitte has undertaken the valuation of the Woodlawn project based on discounted cashflow methodology.

Deloitte's valuation of the Woodlawn project is discussed in the Deloitte Independent Expert Report.

7.4 Valuation – Woodlawn Mine Potential Project Extensions

A detailed review of the Woodlawn underground mineralisation shows multiple lenses, mostly open in the down dip direction, with some also showing some along strike and up dip potential. While some of this potential is based on geological or geophysical interpretation and modelling, most is based on actual drilling, where drill intersections have indicated economic thicknesses and grades of mineralisation, but where additional drilling is required to define the details, limits and possible extensions to mineralisation. Detailed infill drilling is required to allow estimation of resources and to allow detailed mine planning and conversion to reserves, and in most cases this drilling would be most effectively done from underground, once access and decline development is sufficiently developed and drill sites are available.

In addition, there are numerous previously mined areas where there would appear to be significant opportunities to recover remnant material, but again, this is best established with underground access and detailed inspections.

Heron has defined 7.4Mt of underground resource at Woodlawn. From the Measured and Indicated resource of 5.4Mt, Heron has defined a reserve of 3.1Mt. The current life of mine plan is based on an underground mining inventory of approximately 3.8Mt including approximately 1Mt of Inferred resource material which Heron considers will be proved up as mining progresses and underground drill platforms become available.

As noted in Section 7.3, Deloitte has estimated a value for the Woodlawn project based on a DCF analysis of the LOMP projections. BDA has advised Deloitte of the heightened risk involved in including a substantial inventory of Inferred resources in the LOMP, and Deloitte has taken this factor into account in its valuation.

However, BDA has reviewed the details of the underground drill intersections and possible extensions both down plunge and along strike and considers there is good potential for a material expansion of the underground resource, beyond the Inferred resources already included in the LOMP. BDA suggests that a willing and knowledgeable buyer would have a reasonable expectation that underground drilling would add significantly to the currently defined mine life.

For valuation purposes BDA considers that a willing and knowledgeable buyer would anticipate a minimum of one year additional mine life, and possibly two years as an upside case. It should be noted that an additional year of mine life requires around 0.65Mt of underground ore. BDA has reviewed what impact such extensions might have on the value of the project and from this data has derived a range of values representing the additional underground potential.

Based on Deloitte's valuation of the Woodlawn project, a one year extension of the project life based on the definition of additional underground ore, and allowing for additional development costs, adds approximately A\$8.0M to the project NPV; a two year extension would add approximately A\$15M. In terms of valuing this exploration upside, given that it is based primarily on projections of drill intersections, but not yet defined resource material, and that there is still an exploration risk, BDA suggests a willing and knowledgeable buyer would apply a risk discount factor of around 50%. BDA therefore ascribes a value to the Woodlawn underground exploration potential of A\$4.0-7.5M with a most likely value of A\$5.7M.

7.5 Valuation – Currawang and Cowley Hills Projects

The Currawang mine, 10km to the north of Woodlawn, along with the Cowley Hills mine, 2km to the northeast of Woodlawn (and within the Woodlawn SML), provided satellite feed to the previous Woodlawn operations.

Mineralisation at Currawang, some 100m below surface, was mined from 1991-1995, with 0.5Mt extracted at a grade of 13% Zn, 2% Pb and 1.6% Cu. The mineralisation is sub-vertical, 2-15m wide with an average width of 4-5m and comprises two lenses with strike lengths of 100m and a down-dip extension of 150m. Exploration for additional resources at Currawang has been undertaken by Heron. Historic drilling has intersected mineralisation beneath the current mine workings and Heron has completed an initial follow-up programme to test the down plunge extension of these intercepts. Heron advises that this drilling has somewhat downgraded the potential for additional mineralisation and it is now estimated that only an additional 0.1Mt of ore is likely to be defined at Currawang and trucked to Woodlawn for processing.

The Cowley Hills deposit consists of a single shallowly dipping massive sulphide lens, 9-15m thick, with an 80m strike length. Mining was undertaken between 1989 and 1991, but only some 35,000t of ore was extracted. Further exploration has been undertaken and Heron considers the prospect has limited potential, with a target of 0.1Mt of future ore treatable through the Woodlawn plant.

While there are no currently defined resources at Currawang and Cowley Hills, Heron's expectation, based on former production performance and geological and geophysical data, is that Currawang and Cowley Hills could supply approximately a combined 0.2Mt of satellite feed to the Woodlawn plant, sufficient to provide approximately an additional 4 months of underground material.

BDA considers this a reasonable target, and given that both projects are previous producers, BDA considers that a willing and knowledgeable buyer would ascribe some value to these properties based on their production potential, and the value this might add to the Woodlawn project.

The opportunity to source mill feed from a number of deposits provides flexibility to an operation, but in the case of Woodlawn, BDA suggests that definition of additional ore from multiple lenses underground would be the first development and production priority and would provide the greatest added value.

Based on an estimated value of A\$8.0M (see Section 7.4) for one year of additional underground feed, BDA assesses the incremental value of 0.2Mt of additional feed from Currawang and Cowley Hills (approximately 30% of annual underground feed requirements), as approximately A\$2.4M. In terms of valuing this exploration potential, given that there is still a significant exploration risk, BDA suggests a willing and knowledgeable buyer would apply a risk discount factor of around 50%. BDA therefore ascribes a value to the Currawang and Cowley Hills exploration potential of approximately A\$1.2M. BDA considers that a willing and knowledgeable buyer would assess the recovery of 0.2Mt of additional feed from Currawang and Cowley Hills as being a reasonable estimate of likely potential. BDA considers that a willing and knowledgeable buyer would ascribe a value in a range of A\$1.0-1.4M ($\pm 20\%$) with a most likely value of A\$1.2M as representative of the exploration value of the former producer.

BDA has considered exploration expenditure as another guide to value, but as former producers, BDA considers that a more direct assessment of the potential value of additional ore supply from these prospects is a more meaningful guide to value.

7.6 Valuation – NSW Regional Projects and Tenements

The Woodlawn regional Lachlan Fold Belt tenements comprise 10 granted ELs covering approximately 1,206km² (including EL 7257). The tenements cover a range of prospective lithologies and include prospects with known base metal and gold mineralisation and historic and more recent drill hole intersections. A number of priority targets have been identified and drilling undertaken with mapping, geochemical and geophysical surveys and interpretation underway in other areas.

EL7257 also includes the Currawang mine but Currawang and Cowley Hills (within the SML) have been separately valued on the basis of potential ore supply to Woodlawn, having previously operated as satellite mines in the 1990s.

The tenements north and south of Woodlawn along the general strike of the mineralised Silurian volcanics, are seen as a valuable package of ground, with good potential for discovery of significant mineralisation which could add to the mine feed and hence longevity of the Woodlawn operation, or potentially support a further stand-alone operation. However, none of the projects have yet been drilled to the extent of defining a resource. BDA has therefore elected to value the package in terms of a multiple of exploration expenditure. Relevant expenditure to date (post 2008) totals A\$2.23M, based on data provided by Heron; deducting A\$0.94M relating to tenements which are now part of the Sky Metals joint venture gives a total expenditure of A\$1.29M. Given the number of targets and drill intersections, BDA considers a PEM factor in the range of 2.0-2.4 is appropriate (see Section 3,

Valuation Methods), giving a value range of A\$2.6-3.1M; BDA has adopted a mid-point of A\$2.9M as the most likely value.

7.7 Alchemy Joint Venture

Heron has an interest in a joint venture with Alchemy Resources Ltd covering an area of 1,059km² comprising base metal and gold prospects in the Parkes and Nyngan regions of NSW. Alchemy has earned an 80% interest by expenditure of A\$2.5M on exploration over three years.

At the Overflow project drilling has intersected broad zones of gold and base metal mineralisation. At Nyngan an alumina resource and underlying nickel-cobalt laterite mineralisation have been defined.

In 2020 Heron produced an Information Memorandum and engaged in a process to sell various assets which were considered peripheral to the main Woodlawn project, including its interest in the Alchemy JV. The Information Memorandum was distributed to a number of junior and mid-tier exploration and mining companies. No interest was received and the process was discontinued in October 2020.

In 2021 the Administrators together with Heron management further pursued the potential sale. A non-binding offer of A\$50k cash plus A\$50k in Alchemy shares was made by Alchemy. Twenty-five other parties were contacted seeking alternative offers, one party requested further information but no other offers were received.

With Heron having only a 20% remaining interest and with Alchemy having a pre-emptive right over the sale of the 20%, BDA considers that Heron's interest will have limited appeal and the existing offer provides a realistic estimate of the likely market value. BDA assess the value in a range of A\$0.08-0.12M with a most likely value of A\$0.10M.

7.8 Sky Metals Joint Venture

On 9 October 2019 Heron announced an agreement whereby Sky Metals would farm in to three of its NSW regional tenements, Cullarin, Rosevale and Kangiara covering an area of 340km². Expenditure on these three ELs at the time totalled A\$0.94M and, from a review of the geology and drill data, prior to the agreement, BDA would have assigned PEM ranges of 1.5-1.9 to Rosevale and Kangiara and 2.0-2.4 to Cullinan, giving an estimated value for the three tenements of A\$1.8-2.2M.

The farm-in agreement provided an option period of 12 months in which Sky Metals would spend A\$0.4M on in-ground exploration. Sky Metals could then determine whether or not to proceed with the farm-in, and if it proceeded, it must spend a further A\$1.6M (A\$2.0M in total) to earn an 80% interest in the properties. At this stage total expenditure would total approximately A\$3M. On 29 July 2020 Heron acknowledged that Sky Metals had earned its 80% interest with Heron retaining a 20% interest, free carried through to completion of a DFS or expenditure of A\$10M.

Also in 2020, Heron engaged in a process to sell various assets which were considered peripheral to the main Woodlawn project (the surplus assets), including its interest in the Sky Metals JV. An Information Memorandum was produced and distributed to a number of junior and mid-tier exploration and mining companies. No interest was received and the process was discontinued in October 2020.

In 2021 the Administrators together with Heron management further pursued the potential sale of the surplus assets. Sky Metals made a verbal cash offer of A\$75k for the remaining 20% interest in the Sky Metals JV tenements. A further 27 potentially interested parties were contacted but no further offer was received.

Heron advises that there is limited ongoing work on the tenements. With Heron having only a 20% remaining interest and with Sky Metals having a pre-emptive right over the sale of the 20%, BDA considers that Heron's interest will have limited appeal and the existing offer provides a realistic estimate of the likely market value. BDA assess the value in a range of A\$0.06-0.10M with a most likely value of A\$0.08M.

7.9 Valuation – WA Royalty Interests and Residual Rights

Heron's WA interests comprise a 1.5% royalty on any gold production capped at 150,000ozs on various tenements located 70-80km northwest of Kalgoorlie covering an area of approximately 42km² which were sold to Eastern Goldfields in January 2017, plus a future payment of A\$1M if a reserve of 100,000ozs of Au is identified. No ore grade gold intercepts have been achieved to date and the tenements were formerly held principally for their nickel laterite potential.

In addition, Heron holds a 2.5% gold royalty capped at A\$5M and then reducing to a 1% net smelter return on a tenement in the Kambalda region held by St Ives Gold Mining Company; Heron also retains the nickel rights.

In 2021, the Administrator engaged Argonaut to run a process for sale of the WA assets. A dataroom was prepared and 15 potentially interested parties were contacted. The assets were also advertised on Mines Online. One offer was received totalling A\$300k in cash and A\$300k in shares; no other offers were received.

BDA has considered the value of Heron's WA interests, royalty interests or residual rights and has estimated the potential value arising from the terms of the various rights and royalty agreements, and then applied a probability factor to these values, reflecting the likelihood of such payments being realised. From a review of the geology and exploration results, BDA considers the likelihood to be low.

BDA considers that Heron's WA interests will have limited appeal and the existing offer provides a realistic estimate of the likely market value. BDA assess the value in a range of A\$0.5-0.7M with a most likely value of A\$0.6M.

7.10 Valuation Summary

Deloitte has considered the value of the Woodlawn project and this valuation is discussed in the Deloitte report. BDA has assisted Deloitte with consideration of the technical inputs to the Deloitte DCF model.

BDA has assessed the value of the potential extensions of the Woodlawn mine life, less advanced projects, exploration properties and interests and a summary of these asset valuations is shown in Table 7.1.

Table 7.1
Valuation Summary of Heron's Mineral Assets

Property	Valuation (A\$M)			Comments
	Low	Most Likely	High	
Woodlawn Mine Project – Defined Mine Plans				
Underground and Tailings Retreatment Operation	Deloitte	Deloitte	Deloitte	LOMP - Proved/Probable reserves + Inferred – see Deloitte Report
Woodlawn Mine Project – Potential Extensions				
Underground Lenses and Extensions	4.0	5.7	7.5	Additional 1-2 years extension
Woodlawn Mine Project – Satellite Deposits				
Currawang and Cowley Hills	1.0	1.2	1.4	Potential additional feed
NSW Regional Tenements/Interests				
Woodlawn Regional	2.6	2.9	3.1	10 ELs north and south of Woodlawn
Alchemy Joint Venture Interests	0.08	0.10	0.12	8 ELs, Alchemy 80% earnt
Sky Metals Joint Venture Interests	0.06	0.08	0.10	3 ELs, Sky Metals 80% earnt
Western Australian Tenements/Interests				
Subtotal WA Interests	0.5	0.6	0.7	Current value of potential future rights and royalty payments
Total Exploration Interests	8.2	10.6	12.9	

8.0 STATEMENT OF CAPABILITY

This report has been prepared by Mr Malcolm Hancock and Mr John McIntyre, both of whom are Directors of BDA, and Mr Roland Nice and Mr Adrian Brett, both BDA Senior Associates. Mr Hancock and Mr McIntyre have reviewed the data and report. A summary of the professional qualifications and experience of the consultants involved is included below.

Both Mr Hancock and Mr McIntyre are qualified as Competent Persons under the JORC Code, and each is qualified as a Certified Minerals Valuer (CMV) under the Australasian Institute of Minerals Valuers and Appraisers (“AIMVA”).

BDA is a mineral industry consulting group, specialising in independent due diligence reviews, valuations and technical audits of resources and reserves, mining and processing operations, project feasibility studies, and Independent Engineer work on project development, construction, and certification. BDA specialises in review and due diligence work for companies and financial institutions. The parent company, Behre Dolbear and Company Inc. has operated continuously as a mineral industry consultancy since 1911, and has offices or agencies in Denver, New York, Toronto, Vancouver, London, Hong Kong, and Sydney.

Mr Malcolm Hancock (BA, MA, FGS, FAusIMM, MIMMM, MMICA, CP (Geol), MAIMVA (CMV)) is a Principal and Executive Director of BDA. He is a geologist with more than 45 years of experience in the areas of resource/reserve estimation, reconciliation, exploration, project feasibility and development, mine geology and mining operations. Before joining BDA, he held executive positions responsible for geological and mining aspects of project acquisitions, feasibility studies, mine development and operations. He has been involved in the feasibility, construction, and commissioning of several mining operations. He has worked on both open pit and underground operations, on gold, base metal, light metal and industrial mineral projects, and has undertaken the management and direction of many of BDA’s independent engineer operations in recent years.

Mr Hancock has sufficient experience relevant to the technical Assessment and Valuation of Mineral Assets under consideration and to the activity which he is undertaking to qualify as a Practitioner as defined in the 2015 edition of ‘The Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets’. Mr Hancock consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mr John McIntyre (BE (Min) Hon., FAusIMM, CP (Min), MAIMVA (CMV), MMICA, MAIMA) is a Principal and Managing Director of BDA. He is a mining engineer who has been involved in the Australian and international mining industry for more than 45 years, with operational and management experience in copper, lead, zinc, nickel, gold, uranium and coal in open pit and underground operations. He has been involved in numerous mining projects and operations, feasibility studies and technical and operational reviews in Australia, West Africa, New Zealand, North America, PNG and South East Asia. He has been a consultant for more than 30 years and has been Managing Director of BDA since 1994, involved in the development of the independent engineering and technical audit role.

Mr McIntyre has sufficient experience relevant to the technical Assessment and Valuation of Mineral Assets under consideration and to the activity which he is undertaking to qualify as a Practitioner as defined in the 2015 edition of ‘The Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets’. Mr McIntyre consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mr Roland Nice (BSc, MAusIMM, LMCIM, MAIME, MIEAust, Chartered Engineer) is a Senior Associate of BDA with more than 40 years of experience as a professional metallurgical engineer. He has extensive experience in process engineering and operations, project evaluation, technical design and analysis. He has held senior management positions, including General Manager, Metallurgy and Concentrator Manager. Mr Nice has been closely involved with the process plant design, development and construction of gold, copper, uranium and base metal mines as well as numerous other metallurgical projects. He has worked principally in Australia, South America, Canada and Africa.

9.0 STATEMENT OF INDEPENDENCE

Neither the Principals nor Associates of BDA have any material interest or entitlement in the securities or assets of Heron or any associated companies. BDA will be paid a fee for this report comprising its normal professional rates and reimbursable expenses. The fee for this report is approximately A\$90,000 and is not contingent on the conclusions of this report.

10.0 LIMITATIONS AND CONSENT

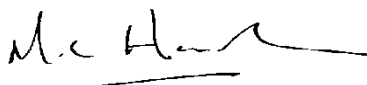
This assessment has been based on data, reports and other information made available to BDA by Heron Resources Limited (Administrators Appointed) and Deloitte. Heron has advised that the information is complete as to material details and is not misleading. A draft copy of this report has been provided to Heron and Deloitte for comment as to any errors of fact, omissions or incorrect assumptions.

For the preparation of this report, BDA has relied upon information provided by Heron and Deloitte. BDA has no reason to doubt the validity of the information provided, but is not able to warrant its accuracy or completeness. The opinions stated herein are given in good faith. We believe that the basic assumptions are factual and correct and the interpretations reasonable. With respect to the BDA report and the opinions therein, BDA notes that the information provided contains forward-looking statements, forecasts, estimates and projections, based on the estimates prepared by Heron. However, BDA notes that these forecasts, estimates and projections cannot be assured, and factors both within and beyond the control of Heron could cause the actual results to be materially different from BDA's assessments and estimates contained in this report.

Deloitte is preparing the Independent Expert's Report ("IER") for inclusion with the Court Documents on behalf of the Administrators of Heron Resources Limited (Administrators Appointed). This report is provided to assist Deloitte to form an opinion on whether there is any value in the residual equity of Heron. BDA has acted as the Independent Technical Specialist advising connection with the preparation of the IER and Technical Specialist Report and should not be used or relied upon for any other purpose. This report does not constitute an audit. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any purpose without our written consent to the form and context in which it appears.

Yours faithfully

BEHRE DOLBEAR AUSTRALIA PTY LTD



Malcolm Hancock

Executive Director - BDA



John McIntyre

Managing Director - BDA

*Prepared by Behre Dolbear Australia Pty Limited
Level 9, 80 Mount Street
North Sydney
NSW 2060
Australia
Tel 612 9954 4988; Fax 612 9929 2549*

Appendix H – Gordon Brothers P&E Valuation



Heron Resources Limited (Subject to Deed of Company Arrangement) Valuation Review and Update

INVESTMENTS | INVENTORY | **MACHINERY & EQUIPMENT** | BUSINESS VALUATIONS |
BRANDS & INTELLECTUAL PROPERTY | REAL ESTATE

Summary of Report

Asset Description:	Mine processing equipment
Located At:	Bungendore Rd, Tarago, NSW
Effective Date of Valuation:	1 March 2022
Report Date:	1 March 2022
Inspection Date of Valuation:	18th to 20th August 2021
Period of Currency:	3 Months
Definition of Value:	Fair Market Value in Continued Use (FMVICU) & Orderly Liquidation Value (OLV)
Purpose of Report:	Valuation Review and Update
Client:	Deloitte Financial Advisory Pty Ltd
Intended User:	Deloitte Financial Advisory Pty Ltd

Gordon Brothers
Suite 3, Level 13
25 Bligh Street
Sydney, NSW, 2000

1 March 2022

Via Email.

Deloitte
Level 9, Grosvenor Place
255 George St
Sydney
NSW 2000

Re: Heron Resources Limited (Subject to Deed of Company Arrangement)

Dear Sir,

We refer to recent discussions in connection with the plant and equipment of Heron Resources Limited (Subject to Deed of Company Arrangement) and thank you for your instructions to undertake a **review and update** of the original **valuation** dated 14th September 2021.

Subject to the matters set out below and at the request of Sam Marsden of Deloitte Financial Advisory Pty Ltd, Gordon Brothers Pty. Ltd. ("Gordon Brothers") has assessed the value of the assets on the basis of Fair Market Value in Continued Use (FMVICU) and Orderly Liquidation Value (OLV) determined as follows:

Fair Market Value in Continued Use (FMVICU)	\$83,978,020
Orderly Liquidation Value (OLV)	\$7,617,010

All values and amounts displayed throughout this report are in Australian Dollars and are exclusive of GST.

The values and comments contained within this letter should be read with the accompanying report.

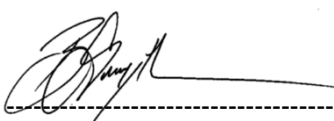
Gordon Brothers have previously undertaken a valuation assignment on behalf of Heron Resources Limited (Subject to Deed of Company Arrangement) in September of 2021. The purpose of this report is a valuation review and update of the original valuation.

Yours sincerely,

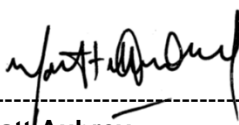
For and on behalf of Gordon Brothers Pty. Ltd.



Michael McMahon
Director



Brendan Smyth
Director, Valuations



Matt Aubrey
Managing Director

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I. EXECUTIVE SUMMARY



Company: Heron Resources Limited (Subject to Deed of Company Arrangement)
Address: Bungendore Rd,
 Tarago, NSW, 2580
Website: <https://www.heronresources.com.au/>
Key Contact: Tim Brettell

As per the signed valuation engagement letter dated 14 March 2022, a review of the original valuation dated 14 September 2021 by Gordon Brothers of the Machinery & equipment as summarised herein was requested by Sam Marsden of Deloitte Financial Advisory Pty Ltd. From our communication with the client and intended user, it was determined that a review and update of the original valuation report undertaken on behalf of the Administrator in September 2021 was required to update the valuation for current purposes. A site visit was deemed not necessary as we have been advised by the Administrators that the care and maintenance program in place in September 2021 has been ongoing and the asset pool remains unchanged.

The client and intended users are advised to read the entire report in order to fully comprehend how the opinions of value were determined.

Gordon Brothers have appraised the assets on the basis they are free and clear of any liens or encumbrances unless otherwise stated.

To assist Gordon Brothers representatives, we were provided with the following key information:

- Site construction plans and operating manuals
- Site maps and asset ID coding schedules
- Financial accounting asset register extracts.
- A small number of asset invoices for purchases or repair.

A full listing of files provided is included within the appendices of this report.

Please see below table outlining the summary of our value findings:

Section	FMVICU	OLV
Processing Plant	\$72,907,560	\$5,146,580
General Plant	\$5,994,450	\$547,970
Admin, Lab & Workshop	\$1,715,140	\$552,880
Mobile Plant	\$580,040	\$420,220
Stores & Spares Inventory	\$2,780,830	\$949,360
Total:	\$83,978,020	\$7,617,010

* Values are exclusive of GST

3rd Party Section	FMVICU	OLV
Toyota Finance	\$126,100	\$111,550
Macquarie Leasing	\$350,230	\$159,570
Nissan Financial Services	\$88,270	\$69,840
Pybar	\$500,150	\$132,880
NPE	\$738,050	\$245,530
CS Leasing	\$1,039,500	\$346,500
Castlake	\$133,860	\$99,910
Total 3rd Party:	\$2,976,160	\$1,165,780

* Values are exclusive of GST

II. ENGAGEMENT OVERVIEW

PURPOSE OF VALUATION

Deloitte Financial Advisory Pty Ltd (“Deloitte”) has been engaged on behalf of the Deed Administrators of Heron Resources Limited (“Heron” or “the Company”) to prepare an Independent Expert’s Report (“IER”) for inclusion with the Court Documents. Deloitte has been instructed to prepare an IER expressing an independent opinion on the value, if any, of shareholders’ residual equity in Heron, assessed on the basis that the Company is in administration and on a “winding up” or “liquidation” basis. In order for Deloitte to form an opinion on whether there is any value in the residual equity of Heron, Deloitte has requested that Gordon Brothers act as Independent Technical Specialist (“ITS”) to assist Deloitte with its opinion. (“The Purpose”).

Deloitte have requested a review and refresh of the original valuation report that was undertaken by Gordon Brothers in September 2021 for the Administrator. The refreshed valuation of Heron Resources Limited (Subject to Deed of Company Arrangement) (Heron’s or “the Company’s”) Machinery and Equipment is to determine the realisable value of the assets as at the date of 1 March 2022. The valuation report is required on the basis of Fair Market Value in Continued Use and Orderly Liquidation Value.

The purpose of the valuation review is to provide the client with our professional opinion regarding the present-day monetary value of the plant and equipment. The definitions of value adopted are considered appropriate for the intended use as discussed with the client and/or intended user.

This report has been compiled in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP). USPAP holds several fundamental tenets of practice for the professional valuer to follow. These include ethics of conduct, management, confidentiality and record keeping. USPAP additionally sets standards of competency, methodology and continued professional training.

USPAP is designed to promote and maintain a high level of public trust in valuation practice by establishing minimum requirements for appraisers. Valuers must develop and communicate their analysis, opinions and conclusions to clients and intended users of their services in a manner that is both meaningful and not misleading.

The report should not be used for any other purpose. If it is considered for any other use, then we will need to be contacted in the first instance to advise whether the values and commentary contained therein remain relevant for any other purpose than that stated above.

IDENTIFICATION & DESCRIPTION OF THE APPRAISED

As per the scope, Gordon Brothers representatives have conducted this valuation review based on their findings during the site visits and inspection of the subject assets located at the Woodlawn facility, Tarago, NSW in August 2021, as well as research and discussions with key Heron Resources Limited (Subject to Deed of Company Arrangement) personnel and the Administrators who supplied key data files.

We have assumed all information provided by Heron Resources Limited (Subject to Deed of Company Arrangement) and the Administrators to be correct and accurate.

DEFINITIONS OF VALUE

As requested, the assets have been valued on the basis of Fair Market Value in Continued Use (FMVICU) and Orderly Liquidation Value (OLV). This is defined as:

**Fair Market Value in
Continued Use with Assumed Earnings
(FMVICU)**

“An opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date and assuming that the business earnings support the value reported, without verification.”

**Orderly Liquidation Value
(OLV)**

“An opinion of the gross amount, expressed in terms of money, that typically could be realised from a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.”

Valuation definitions have been sourced from The American Society of Appraisers “Valuing Machinery & Equipment: The Fundamentals of Appraising Machinery & Technical Assets”, Third Edition.

III. SCOPE OF WORK

Per our letter of engagement, to conduct a valuation review of the original report dated 14 September 2021 and forming an opinion of value for the assets described in this report.

1. Identification of the problem to be solved:

The basis and purpose of valuation was determined from communications with the client. In this case the value required is Fair Market Value in Continued Use (FMVICU) and Orderly Liquidation Value (OLV).

2. Site visit and data collection:

On 18th to 20th August 2021, Gordon Brothers inspected the machinery and equipment that is the subject of the valuation. Situated at Heron Resources Limited (Subject to Deed of Company Arrangement)'s facility at Bungendore Rd Tarago, NSW. Heron Resources Limited (Subject to Deed of Company Arrangement) personnel assisted in the inspection and information-gathering process. During the inspection, detailed descriptive information about the assets was identified and compiled. Whenever possible, this included manufacturer, model, serial number, year of manufacture, and capacities and specifications. A variety of other data relating to the assets was discussed, requested, and gathered during the inspection. In some cases, additional information was subsequently requested.

3. Application of approaches to value:

The valuation analysis included consideration of transactions involving sales of similar assets. It also considered the availability of competitive equipment on the open market and the overall condition and quality of the subject assets compared with the assets sold or available.

Research included searches of comparable sales databases including platforms such as 2021 Cost Mine guide and Gordon Brothers' own data base which includes sale from. Currently advertised for sale prices from websites such as Machinery Trader, Construction Sales. Discussions with internal Gordon Brothers asset specialists.

Gordon Brothers also contacted a selection of OEMs, other similar original equipment manufacturers' representatives, used machinery and equipment dealers, and auctioneers, and remarketers were approached for opinions on certain key assets. When relevant, discussions included supply and demand factors, the overall condition of the market, and the number of potential purchasers in the market for similar assets. In some instances, Gordon Brothers obtained additional information from other knowledgeable industry sources to assist in the analysis. Due to sensitivities related to the Heron Administration we were unable to contact the key OEM suppliers namely Sedgman and Outotec who were responsible for the supply and installation and commissioning of much of the processing facility.

Only a selection of high-level costing information was made available. In most instances this was not detailed cost invoices, nor did costings break out installation, electrical, fabrication and foundational planning and design costs. Assumptions have been made with respect of some of the installation and engineering related expenses incurred when arriving at Fair Market Value in Continued Use. This includes assumptions with regards to Electrical sub-stations and power relays, Concrete foundations, Steel infrastructure builds and general plant construction and erection.

Gordon Brothers assembled and analysed all of the information gathered for the subject assets, and during the market research process the approaches to value most appropriate to the purpose and intended use of the appraisal were then developed. These approaches to value are outlined in section 5 of this report. The value indications were reconciled and the most meaningful data was considered in the final value estimates.

IV. VALUATION PROCESS

VALUATION METHODOLOGY

There are three generally accepted valuation approaches that are used to derive an indication of the value of plant and machinery. These approaches include the Cost Approach, Sales Comparison Approach, and Income Approach to value. These approaches are defined as follows:

Cost Approach	<i>"a set of procedures in which an appraiser derives a value indication by estimating the current cost to reproduce or replace the personal property, deducting for all depreciation, including physical deterioration, functional obsolescence, and external/economic obsolescence."</i>
Sales Comparison Approach	<i>"a set of procedures in which an appraiser derives a value indication by comparing the inventory being appraised to similar assets that have been recently sold or are currently available for sale, applying appropriate units of comparison, and adjusting based on the elements of comparison to the sale prices of the comparable."</i>
Income Approach	<i>"a set of procedures in which an appraiser derives a value indication for income-producing assets by converting anticipated benefits into value. This conversion is accomplished either by (1) capitalizing a single year's income expectancy or an annual average of several years' income expectancies at a market derived capitalization rate or capitalization rate that reflects a specified income pattern, return on investment, and change in value of the investment or (2) discounting the annual cash flows for the holding period and the reversion at a specified yield rate."</i>

In this assignment although all methods of valuation were considered it became clear at an early stage that the best approach was to utilise the Sales Comparison Approach. The Cost Approach was also considered and given limited weight in final analysis in particularly for assets where like market was unavailable. Marketability of each item is also a determinant of value. Marketability, as a measure of demand, is approximated through recent sales under similar sale conditions. Where actual sales are not available, relationships are often established based upon asking prices for comparable items, with subsequent adjustments for similar sale conditions.

Depreciation includes loss in value due to physical deterioration as well as functional and economic obsolescence. Functional obsolescence is the decreased capacity of the item to perform the function for which it is intended in terms of current standards and specifications. Functional obsolescence may stem either from a deficiency within the items such as poor design or outmoded style or may result from super-adequacy or over-design. Gordon Brothers were made aware that the Woodlawn processing plant was not operating to its full capacity. This has been taken into consideration when arriving at FMVCUs and OLV. Economic obsolescence represents a loss in value from factors outside the item appraised, such as a depressed market for the product. These factors generally are characterised as "negative external forces," which have an impact upon the item appraised. Comparisons are sometimes made to recent cost data when comparable sales are not found under the appraisal concept.

For the purposes of the valuation review, consideration was given to the fact the price or resources remains strong, long leads times for most equipment prevails, however the plant has aged another calendar year.

The Income Approach was considered but not used in this report. This is due to the difficulty in determining what portion of the total income and expense stream of a given plant would be attributable to a specific piece of equipment. This type of analysis is not appropriate to the scope of this appraisal.

V. ASSET & INDUSTRY ANALYSIS

COMPANY INFORMATION

Heron Resources operate an underground mine and processing facility in Tarago, NSW. The mine site is called Woodlawn. Heron Resources entered into Voluntary Administration on 16th July 2021.

The Woodlawn processing facility was completed in 2018. The site utilises froth flotation to produce a number of saleable grade sulphide concentrates high in copper (Cu), lead (Pb) and zinc (Zn). There are two sources of feed ore for the processing plant:

- Historic Woodlawn tailings reclaimed from the existing tailings dams, and
- Fresh ore mined from underground operation.

The metallurgical response of each of the ores differs significantly. Due to this, each ore are 'campaign' processed. There are two distinct operating configurations (or modes) for the Woodlawn processing plant; Tailings reclaim mode and Underground ore mode.

In tailings reclaim mode, the plant feed is hydraulically reclaimed from the existing Woodlawn tailings dams and pumped to the processing facility. Here it is thickened and ground in an ISAMill prior to froth flotation.

In underground ore mode, ore is hauled from underground mining operations and deposited on the ROM. From here it is fed into a two-stage crushing circuit followed by ball milling to produce a particle sizing of prior to froth flotation.

For both operating modes, the basic flotation circuit consists of four sequential sections; gangue pre-flotation, followed by copper flotation, followed by lead flotation, followed by zinc flotation. Each flotation section generally incorporates roughing, regrind and cleaning.

Produced flotation concentrates, in both operating modes are thickened and filtered in copper, lead and zinc filters prior to being filled into containers for sale to further processors.

Flotation tailings are thickened and pumped to a surface tailings storage facility. An option exists to divert a portion of the tailings to a deslime circuit from where deslimed tailings are fed to a paste production facility to produce cemented paste for back filling and reinforcement of the underground mining operations.

The Woodlawn Tailings Reclaim Process is comprised of:

- Hydraulic Mining
- Reclaim Tailings Thickener
- Fine Grinding Milling Circuit (Isamill)
- Copper-Lead-Zinc Flotation
- Copper-Lead-Zinc Concentrate Thickening and Filtration

The Woodlawn Underground Ore Process is comprised of:

- ROM Ore Crushing and Screening Circuit
- Grinding and Classifying Milling Circuit (Ball Mill)
- Copper-Lead-Zinc Flotation
- Fine Grinding Milling Circuit (Isamill)
- Copper-Lead-Zinc Concentrate Thickening and Filtration

The Woodlawn Zinc-Copper Processing Facility is also comprised of:

- Reagent Mixing and Storage Facility
- Tailings Thickening and Distribution
- Paste Plant and Backfill Facility
- Air, Water and Electrical Services
- Support Vehicles and Portable Buildings
- Stores & Spares and consumable inventory

ASSET OBSERVATIONS & MARKETABILITY

Valuation considerations:

There are 24 Businesses operating in Copper Ore Mining in Australia and 20 businesses operating as Copper, Zinc and Lead refining. As such, the market for turn-key operations is limited. As a going concern, considering the mine is still operating with substantial unmined ore deposits and tailings. With a mining licence granted until 2034.

The strategic on-site location of the processing plant coupled with the fact that the site was fully commission only 3 years ago. Considerable value has been attributed to the crushing and processing facility as a fair market value in continued use. Gordon brothers have taken into consideration that the facility has been on care & maintenance since March 2020 and some of the other key processing equipment has not been used since October 2020. The fact the site has been fully built in a strategic location. Removes a lot of barriers to entry to any potential new owners/operators as the planning, design, building, environmental permissions and government licences have already been completed and granted.

Under an orderly liquidation scenario, due to the limited demand for a full working facility and the costs of removal, the most likely avenue for realisation would be through selling the site broken up into key processing areas. There are many assets which do not need to be exclusively used for copper and zinc ore crushing and processing. These could be used for other mining and heavy industrial applications. For example; conveyor and screening, Pumps and Motors, Crushing Equipment, Tanks and Hoppers, Portable buildings, vehicles and materials handling, Fire and Safety equipment, Air services, Water treatment and Electrical Substations. Gordon Brothers have taken this into consideration when arriving at OLVs for assets which could be repurposed and easily removed.

Specifically for the Flotation circuit, Concentrate Filtration, Analysers and Paste Backfill Plant, Gordon Brothers have been unable to secure detailed replacement costs from the suppliers. Due to the specialised and bespoke nature of these installations, comparable sales data is non-existent. Gordon Brothers have relied on a combination of accounting information provided by the Client, building cost estimate guides, discussions with equipment dealers and suppliers to arrive at an opinion of value. Additionally, analysing software has been included and assumed transferrable.

Inventory and spares included in the valuation was not all been physically inspected due to access and site location. Gordon Brothers have relied on a stocktake listing detailing inventory, spares and consumables. This was conducted in June 2020. Since that time the company have sold some of their easily monetised spares, consumables and parts. A listing of what has been sold has been used and deducted from the initial stocktake listings. Inventory at cost value totalled \$3.55 million. As the company do not typically sell these assets, a ready route to market has not been established. Many of the key spares and consumables are specific to onsite machinery and equipment. Highest value would be achieved through bundling with associated assets as part of the site realisation process. As Gordon Brothers have not been able to physically verify existence of all spares and consumable inventory, we are relying on the accuracy of the reports provided. Additionally, Gordon Brothers have not been made aware of the existence any processed Ore concentrate inventory. It has been assumed that this has been sold prior to Administration appointment.

In addition the Machinery and Equipment Assets. The site itself has a considerable residual scrap/salvage value for infrastructure throughout, including copper wiring, MCCs & Switch rooms, tanks, steel gantry and frameworks, copper and stainless piping.

For the purposes of the valuation review, we have assumed that the all of the assets are still present on site, and that the ongoing care and maintenance program has continued. Consideration has been given to the change in calendar year and an allowance for motor vehicle and inventory / consumable usage.

Crushing & screening:

Underground ore is stockpiled on the ROM pad before being fed into the 55t ROM dump hopper for processing in the crushing circuit. The underground ore has a maximum top size of 600 mm.

The ROM dump hopper is equipped with a dust hood and dust suppression sprayers to minimise dust emissions. Level detection within the ROM dump hopper is achieved by using an ultrasonic level detector, which is located above the ROM dump hopper.

A variable speed vibrating grizzly feeder reclaims ore from the ROM dump hopper and controls feed to the primary crusher. Undersized ore is fed to the ROM conveyor along with the crushed ore from the primary crusher.

Crushed product then goes onto the first of a series of conveyors (CV101) Transfers primary crushed ore from the ROM station to transfer station. CV101 is 39m in length with a 1200mm width. It has a nominal flow rate of 175t/hour. It also features metal detectors and a tramp iron magnet and belt weightometer.

The transfer station is used to transfer crushed ore from the ROM conveyor and secondary crusher conveyor to the screen feed conveyor from the ROM conveyor and secondary crusher discharge conveyor at a nominal rate of 175t/h and 400t/h respectively.

From the secondary crusher material fed to the screen feed conveyor (CV-102) a 60m conveyor with nominal flow rate of 600t/hour is to convey the crushed ore to the screening station for screening.

The screening station receives crushed ore from the screen feed conveyor and transfers it to the product screen. The crushed ore is screened by the product screen and, depending on the crushed ore size, is transferred to the screen product conveyor, CV-103, or the secondary crusher feed conveyor. CV-103, is located underneath the product screen and between the secondary crusher feed conveyor, CV-104 (54m conveyor with nominal flow of 400t/hour) and the fine ore bin feed conveyor, CV-106. The screen product conveyor is to receive undersize screened ore from the product screen and convey it to the fine ore bin feed conveyor. The secondary crushing station is used to receive oversized ore from the secondary crusher feed conveyor and crush the oversized ore to allow the ore to pass through product screen. The secondary crusher discharge conveyor, CV-105, (14m with nominal flow of 400t/hour) is located underneath the next crushing station. The fine ore feed conveyor, CV-106 (62m with nominal flow of 200t/hour), is located between the screening station and fine ore bin. The fine ore feed conveyor is to receive screened ore from the screen product conveyor and convey the ore to the fine ore bin. The fine ore bin has a storage capacity of 1250t. The fine ore bin discharge conveyor (18m Nominal flow 125t/hour), is located underneath the fine ore bin, BN-102. The fine ore bin discharge conveyor is to reclaim fine ore from the fine ore bin and convey it to the ball mill feed conveyor, CV-107 (38.4m nominal flow 125t/hour).

Key conveyor features include: Structure, foundations and mechanical items, Conveyor drive, Idlers, Conveyor belt, Pulley assemblies, V-plough, Primary and secondary belt scrapers, Start-up siren, Dust suppression sprayers after the conveyor loading point, Lighting, power utilities and earthing systems, Major instrumentation including under speed detection, belt drift switches and blocked chute detection.



Milling:

Crushed ore is withdrawn from the fine ore bin and fed into the ball mill (ML-101) for further particle size reduction. The ball mill operates in closed circuit with the primary cyclone cluster (CY-101) with the underflow recycled to the ball mill feed. Cyclone overflow reports to the gangue flotation feed conditioning tank (TK-101) via the trash screen (SC-102). The gangue conditioning tank is the only unit in this circuit that is utilised in both underground ore mode and reclaimed tailings mode. Slurry reports to this tank in both modes to be conditioned with reagents, allowing for sufficient residence time, before gangue flotation.

Parameter	Value
Diameter	4.50 m
Length (E.G.L.)	5.24 m
Motor size	1750 kW
Ball charge	34 %
Speed	15.2 RPM
Ball Diameter	80 mm



IsaMill:

The IsaMill and Thickening station, ST-114, is located south of the flotation building. It comprises of four sub areas; Reclaimed Tailings Thickening, IsaMill, Tailings Deslime and Thickening, Flocculant & CMC Mixing and Distribution.

The reclaimed thickening process increases the density of reclaimed tailings slurry sent from the hydraulic mining operation. Key components include; Reclaim Thickener Feed Box, Reclaim Thickener, Reclaim Thickener Overflow Tank, Reclaim Thickener Overflow Pump, Reclaim Thickener Underflow Pump and Reclaim Thickener Area Sump Pump.

Fine grinding of reclaimed tailings (reclaimed tailings mode) and copper rougher tailings (underground ore mode) to a further processing in the flotation circuit.

Key Assets include

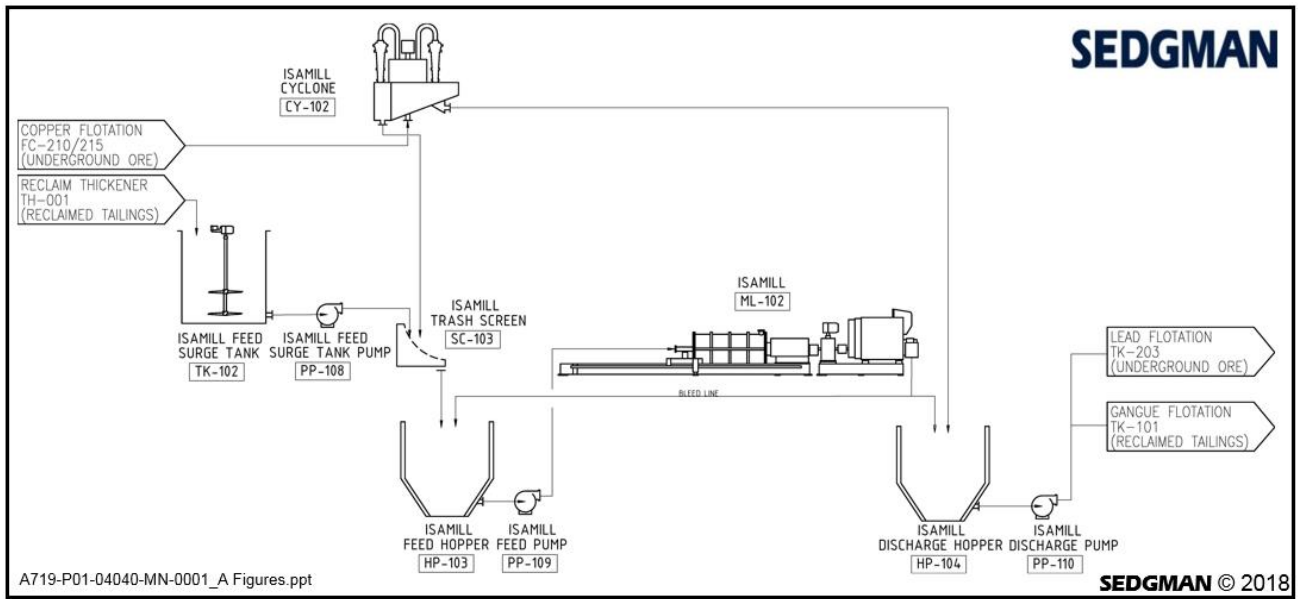
- Primary ISA Mill Feed Surge Tank
- Primary ISA Mill Feed Surge Tank Agitator
- Primary ISA Mill Feed Surge Tank Pump
- Primary ISA Mill Cyclone
- Primary ISA Mill Trash Screen
- Primary ISA Mill Trash Bin
- Primary ISA Mill Area Sump Pump
- Primary ISA Mill
- Primary ISA Mill Media Hopper Bag Breaker
- Primary ISA Mill Media Charger
- Primary ISA Mill Media Hopper

The IsaMill is an energy-efficient mineral industry grinding mill that was jointly developed in the 1990s by Mount Isa Mines Limited (now part of the Glencore Xstrata group of companies) and Netzsch Feinmahltechnik ("Netzsch"), a German manufacturer of bead mills. The IsaMill is primarily known for its ultrafine grinding applications in the mining industry, but is also being used as a more efficient means of coarse grinding. M10000 IsaMill, which has a volume of 10,000L and a 3000kw Drive motor. Since their creation, IsaMills have been adopted globally as a cost-effective grinding process with over the past approximately 20 years, 130 units having been sold. Due to the relative scarcity of these mills and most users continuing to own their IsaMills there is very little secondary market data available.

The IsaMill, ML-102 operates in both underground ore and reclaimed tailings mode for fine grinding purposes. ML-102 is operated as the primary grinding mill for reclaimed tailings. The underflow from the reclaimed thickener, feeds the agitated IsaMill surge tank this provides surge capacity for reclaimed tailings between the hydraulic mining operation and the IsaMill. Slurry is pumped from the surge to the IsaMill Trash Screen, to remove any oversize material which is discharged to the IsaMill Trash Bin, BN-105. Screen undersize reports to the IsaMill feed hopper where it is combined with process water and a recycled bleed stream from the Mill discharge. Slurry from feeds the mill where slurry particle size is reduced. It then discharges into the IsaMill discharge hopper, which is pumped to the gangue conditioning tank.

The IsaMill uses ceramic grinding media delivered in bulk bags that are manually transferred into the media hopper. The IsaMill Technology has been developed by Glencore industries. Fresh media is added via the IsaMill Media Charger on an as required basis. New media is directed to the IsaCharger Media Dewatering Screen for dewatering. Undersize from the dewatering screen is directed to the floor to gravitate to the area floor pump. When processing underground ore the secondary grinding mill. Copper rougher tailing is pumped to the Primary IsaMill Cyclone. Cyclone overflow is fed into a hopper and underflow is gravity fed into screening. Ground slurry is again directed to and then pumped to the Lead Conditioning Tank.

Key components include: Primary ISA Mill Feed Hopper, Primary ISA Mill Discharge Hopper, Primary ISA Mill Feed Pump, Primary ISA Mill Discharge Pump and ISA Charger Media Dewatering Screen



Floatation:

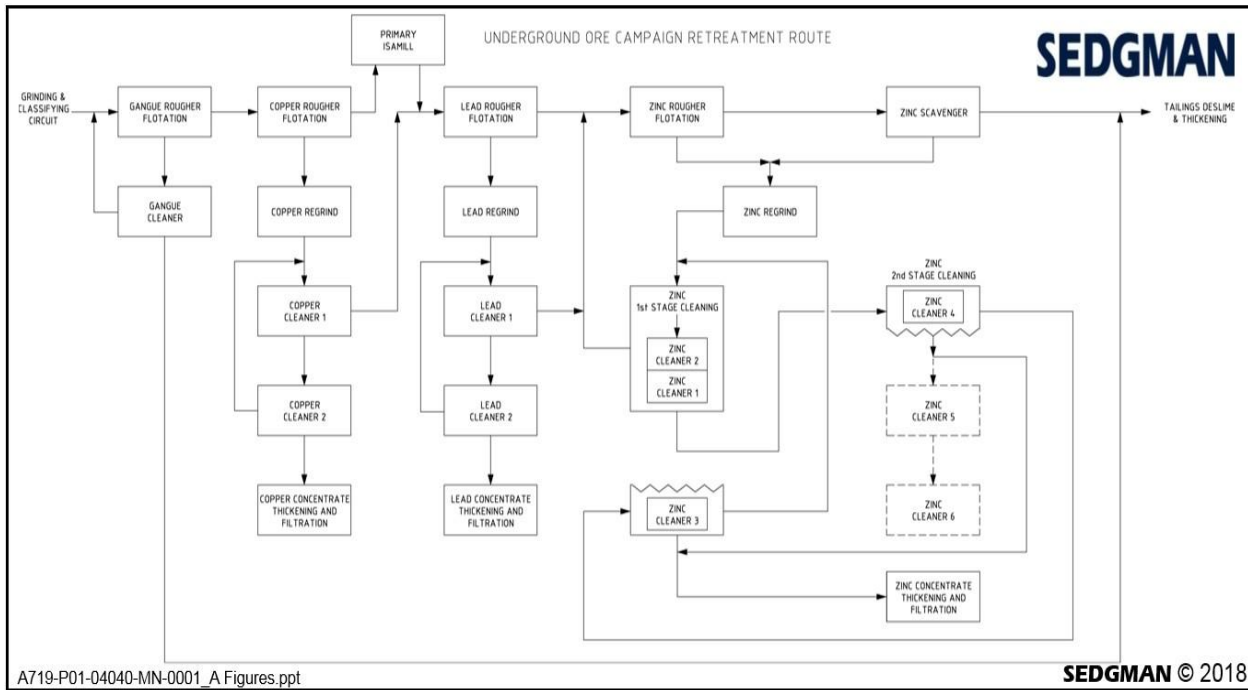
The floatation building is located in between the IsaMill Station and the Reagent Area. The process building receives reclaimed tailings or underground ore and produce copper, lead and zinc concentrates ready for dewatering downstream.

The floatation building comprises the following sub sections:

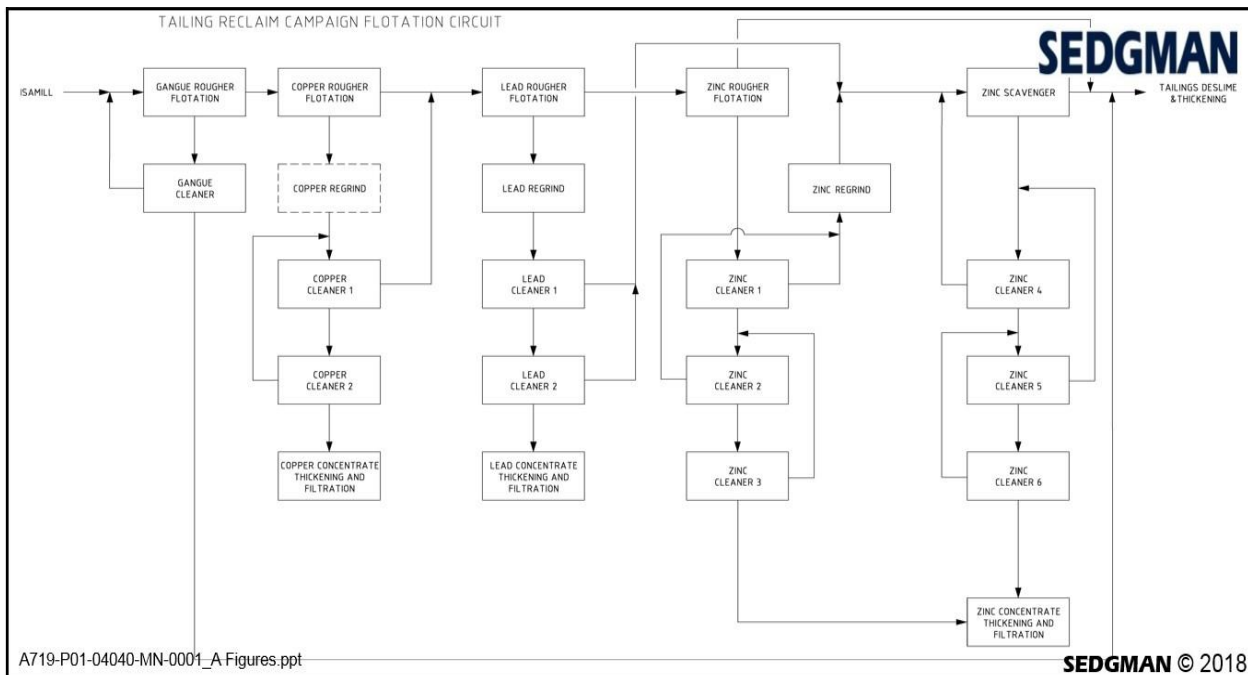
- Gangue flotation circuit
- Copper flotation circuit
- Lead flotation circuit
- Zinc flotation circuit
- Regrind circuit
- West OSA tower
- East OSA tower



The flotation building operates two different overall flotation circuits when switching between reclaim tailings and underground ore modes. These two circuits are summarised in simplified block flow diagrams shown below:



Underground Ore Flotation Circuit Block Flow



PRIVATE AND CONFIDENTIAL

The Configuration for the gangue, Copper, Lead and Zinc is similar. There are some minor variances in pump and tank sizes and process steps depending on the product being processed.

Pumps take slurry from storage tanks to the rougher feed with samplers located in the East and West towers (Depending on the product being processed) taking samples from the feed stream. The rougher stage consists of cells in series. Chemicals are added depending on the Product (Methyl Isobutyl Carbinol-MIBC for Gangue, Sodium isobutyl xanthate-SIBX for lead,) to the the first rougher cell. Concentrates produced and pumped to the cleaning stage cells. Concentrate produced in cleaning passes through multiplexer before ending up at the tailings thickener feed. Tailings from the rougher cells fed to other roughing circuits for further refinement. The Copper floatation circuits differs slightly from others in that when processing underground, the copper rougher concentrate is reground in the copper regrind mill prior to feeding to the cleaner stage. Copper rougher tails form the feed to the lead flotation circuit. This is directly fed to the conditioning tank when operating in reclaimed tailings mode. When operating in underground mode, the rougher tailings are diverted to the IsaMill circuit for regrinding to a target prior to transfer to the lead conditioning tank.

For Lead floatation, copper rougher tails are pumped to tanks and the following reagents are added:

- SIBX to act as a lead collector
- Zinc sulphate to depress sphalerite
- SMBS to depress sulphide gangue (pyrite)
- CMC to depress gangue material
- Lead promoter (only when processing reclaimed tailings)
- Lime to control pH

The Lead rougher feed gravity flows from the lead rougher cells passing through SA-206.

The lead roughing stage consists of six cells in series, Concentrate produced by the rougher cells is collected in a hopper and pumped by to the lead regrind circuit feed. Lead rougher tails reports to the zinc flotation circuit feed.

Key Assets within each cell include Cell tanks, Pumps, Agitators/roughers, Tailings hoppers, Concentrate hoppers, Feed and sump pumps, sampling equipment and conditioning tanks.

Gangue Flotation Parameters	
Description	Value
Rougher Conditioning Tank Volume	40m ³
Number of Rougher Cells	5
Rougher Cell Volume (each)	20m ³
Number of Cleaner Cells	2
Cleaner Cell Volume (each)	4.25m ³

Zinc Rougher Flotation Parameters	
Parameter	Value
Rougher Conditioning Tank 1 Volume	40m ³
Rougher Conditioning Tank 2 Volume	40m ³
Number of Rougher Cells	6
Rougher Cell Volume (each)	20m ³
Cleaner 1 Conditioning Tank 1 Volume	10m ³
Number of Cleaner 1 Cells	4
Cleaner 1 Cell Volume (each)	4.25m ³
Number of Cleaner 2 Cells	3
Cleaner 2 Cell Volume (each)	4.25m ³
Number of Cleaner 3 Cells	2
Cleaner 3 Cell Volume (each)	4.25m ³

Copper Flotation Parameters	
Parameter	Value
Rougher Conditioning Tank Volume	40m ³
Number of Rougher Cells	5
Rougher Cell Volume (each)	20m ³
Cleaner 1 Conditioning Tank Volume	5m ³
Number of Cleaner 1 Cells	5
Cleaner 1 Cell Volume (each)	4.25m ³
Number of Cleaner 2 Cells	2
Cleaner 2 Cell Volume (each)	4.25m ³

Lead Flotation Parameters	
Parameter	Value
Rougher Conditioning Tank Volume	40m ³
Number of Rougher Cells	6
Rougher Cell Volume (each)	20m ³
Cleaner 1 Conditioning Tank Volume	5m ³
Number of Cleaner 1 Cells	5
Cleaner 1 Cell Volume (each)	4.25m ³
Number of Cleaner 2 Cells	2

Tailings Thickening:

Purpose -

When the paste plant is not operational: Increase the density of the final tailings via the tailings thickener, prior to pumping to the tailing storage facility. Clarified water is returned to the process water dam for re-use in the processing plant. When the paste plant is operational: Deslime final tailings and transfer to the paste plant feed. Thicken tailings slimes and transfer to the tailings storage facility.

Inclusions -

- Tailings Thickener Feed Box
- Tailings Thickener Flocculant Mixer
- Tailings Disposal Pump X 2
- Tailings Thickener
- Final Tail Sample Transfer Hopper

Description -

The tailings deslime and thickening area is operational when processing both reclaimed tailings and underground ore. The tailings thickener runs in two further modes, with and without the paste plant in operation.

When the paste plant is not operating the tailings from the plant is fed into tailings thickener via tailings thickener feed box. The slurry is dewatered with excess water overflowing to the process water dam. The underflow is pumped to the tailing storage facility. Flocculant to aid in thickening is supplied from a dedicated dosage pump and diluted with raw water in the pipe mixer prior to dosing.

When the paste plant is operational, plant tailings are fed into the Tailings Deslime Cyclone. Cyclone underflow is pumped to the paste plant via Paste Plant Feed Hopper. The overflow from the cyclone is then fed into the thickening treatment process

Design data for tailings deslime and thickening is listed in table adjacent.

Tailings Deslime and Thickening Parameters	
Parameter	Value
Deslime Cyclone	
Operating Cyclones	24
Standby Cyclones	4
Operating Pressure	164kPa
Tailings Thickener	
Diameter	18m
Specific Settling Rate	1m ² /t/h
Target Underflow Density	53%w/w solids



Flocculation:

Flocculant and CMC powder are mixed with the raw water to form a solution and to dose these solutions to the required positions in the processing plant.

A common flocculant is used across all five thickeners within the Woodlawn circuit this is prepared in the flocculant mixing plant. Flocculant powder is delivered by bulk tanker and blown into the powder storage hopper by a blower installed on the truck. Flocculant powder is withdrawn from the hopper by a screw feeder and pneumatically conveyed to the wetting head where it is mixed with raw water. The wetting head is discharge to a mixing tank where the solution is agitated and allowed to mature. Mature flocculant solution gravitates to the flocculant storage tank. Each thickener has a dedicated flocculant dosing pump, A sixth pump provides flocculant to the slurry sent to the paste plant facility.

Sodium Carboxymethyl Cellulose (CMC) is used as a gangue flotation depressant within the copper and lead flotation circuits and is mixed in a CMC mixing plant. CMC powder is delivered and processed the same way as flocculant powder. CMC is pumped to four dosing points powered by dosing pumps.

Key Assets include:

- Flocculant & CMC Powder Hoppers
- Flocculant & CMC Powder Screw Feeder
- Flocculant & CMC Powder Blower
- Flocculant & CMC Mixing Tank 5m³
- Flocculant & CMC Storage Tank 10m³
- 6X Dosing pumps (Paste Plant Feed Flocculant, Reclaim thickener Flocculant, Copper Thickener Flocculant, Lead Thickener Flocculant, Zinc Thickener Flocculant and Tails Thickener Flocculant)



West & East Ore Sample and Analysis (OSA) Towers:

On the top level of the floatation building, on both the east and west side, is testing stations. These are used to take sampled from the slurry flow to analyse the content Location.

The east and west towers house multiplexers, an analyser and demultiplexers in addition to five samplers (West) and four samplers (East). These system allow for automatic sampling and analysis of process streams, proving feedback to operators. West tower analysing the Copper, Zinc and Gangue rougher feeds, concentrates and tailings and the east analysing Coper Lead and Zinc Cleaner concentrates and tailings as well as rougher feeds for Zinc and Lead.

Process samplers take a continuous cut of a process stream and feed to multiplexers. Some sample streams require a separate sample pump to transport the sample to a multiplexer. Demultiplexers redirect any stream passing through analysers back to the appropriate location in the process.

Key Assets include:

- On-Stream Analysers
- Multiplexers
- Demultiplexer
- Rougher Feed Samplers
- Concentrate Samplers
- Tail Samplers
- Reagent head tanks



Concentration Thickeners:

The concentrate thickeners station comprises three subsections, these being:

- Zinc Concentrate Thickener
- Lead Concentrate Thickener
- Copper Concentrate Thickener

These consist of Thickeners, Deaeration Tanks, Concentrate Thickener Underflow Pumps, Area Sump Pumps, Storage tanks (With agitators) and filter feed pumps. The tables below show the individual parameters for these thickeners.



Zinc Concentrate Thickener Parameters	
Parameter	Value
Diameter (m)	10.2
Specific Settling Rate (m ² /t/h)	0.3
Target Underflow Density (%w/w solids)	57
Zinc Concentrate Storage Tank	
Volume (m ³)	387

Lead Concentrate Thickener Parameters	
Parameter	Value
Diameter (m)	6.2
Specific Settling Rate (m ² /t/h)	0.25
Target Underflow Density (%w/w solids)	60
Lead Concentrate Storage Tank	
Volume (m ³)	148

Copper Concentrate Thickener Parameters	
Parameter	Value
Diameter (m)	6.2
Specific Settling Rate (m ² /t/h)	0.25
Target Underflow Density (%w/w solids)	65
Copper Concentrate Storage Tank	
Volume (m ³)	90

Filtration:

The filter building station is next to the Concentrate Thickeners Station and Flotation building. It is used to dewater the thickened concentrates using plate and frame filters before dispatching the concentrates.

It consists of 3 filters:

- Copper Filter
- Lead Filter
- Zinc Filter

The thickened concentrate will be dewatered using the plate and frame filter. There are three different plate and frame filters in the filter building; one each for copper, lead and zinc concentrate. The thickened concentrates will be pumped from separate concentrate storage tank to separate plate and frame filter for dewatering. The filter cake is then discharged onto storage stockpile in concentrate storage shed. The filtrate from each of the filters is recycled to the process water dam for re-use within the process plant.



Concentration Storage:

The Concentrate Storage Shed station is used for the concentrate storage shed is to store the copper; lead and zinc concentrate after the filtration and dispatch the concentrate.

The copper, lead and zinc concentrate is discharged into separate bays on the concentrate storage shed floor. Concentrates are then loaded into trucks or containers for dispatch. (Note: The company have sold their Front-End loader prior to Administration). An area sump pump has been installed to collect any spillage and return it to the thickeners feed box. There is also a 20ft container scale which used to measure and record the weights of full containers.

It consists of:

- Container Scale
- Weighbridge Sump Pump
- Ground Mounted Dome (32.4m X 40m – 1300m² Coverage)



Reagents Mixing:

Between the flotation building and potable water treatment plant. Is the Reagents mixing facility. This includes warehouse stores for chemical additive raw materials, storage tanks and dozers to transfer additives to the various steps in processing in particularly the floatation facility. The following reagents are held and prepared at the reagents mixing facility for use in the processing plant:

- Copper sulphate ($\text{CuSO}_4 \cdot 5\text{H}_2\text{O}$)
- Lead promoter (AERO 404)
- Lime
- Sodium isobutyl xanthate (SIBX)
- Sodium metabisulphate (SMBS)
- Zinc sulphate (ZnSO_4)

Equipment that is common across all reagents includes:

- Reagent Agitator Maintenance Hoist
- Reagent Area Sump Pump 1
- Reagent Area Sump Pump 3
- Lime Area Sump Pump

Key Assets across the Reagents mixing area for the different product feeds include: .

- Mixing Tank Agitators
- Bag Breaker
- Bag Loading Hoist
- Extraction Fan
- Transfer Pump
- 11X Dosing Pumps
- Mixing Area Sump Pump
- Mixing Tanks
- Storage Tanks



Air Compressors:

Air services to the majority of the processing facility are located next to the filtration building. These include instrumentation, filtration and outlet compressed air service. : The air services for the processing plant consists of high and low pressure air systems. High pressure air is generated from the Instrument Air Compressors. One air compressor for duty mode and other compressor for standby. Compressed air passes into the air receiver, then through air filters, and air dryer to remove any excess moisture. This air is recirculated throughout the plant as a plant air. There is a separate air compressor and receiver system for the concentrate filters with similar air filtration compression and receivers in place. receivers, AR-301/302.

Key assets include:

- Filter Air Compressor
- Instrument Air Compressors 1 & 2
- Air Dryer
- Filter Air Receivers 1 & 2
- Plant Air Receiver
- Oil-Water Separator
- Air Filters 1 & 2

Air Compressor Parameters	
Parameter	Value
Filter Air Receiver 1 & 2	
Volume	20m ³
Plant Air Receiver	
Capacity	5200L
Min/Max Delivery Pressure	
- AC-801/802	700/800kPa
- AC-301	500/1000kPa



Vehicles:

Including 4WDs, Utes, Fire Truck, Ambulance, Container and Heavy-Duty Forklifts. Some of the vehicle fleet of 4WDs have been converted to be 'mine spec' meaning key electrical componentry and any ignition sources have been isolated so they can be used safely in an underground mine environment. The vehicle within Heron's fleet tend to be late model and well maintained. Vehicles have high recovery values in the current market.

Portable Buildings:

Consists of Portable offices, Laboratory, Breakout rooms, Crib Rooms, Ablution blocks, Change rooms and Locker rooms from key suppliers including McGregor portables and ATCO. These buildings are modular and designed to be easily relocated once plumbing and electrical supplies are disconnected. They can also be used for numerous purposes. As such secondary values for portable buildings are strong.

Inventory and Spares:

Spares, Inventory and Consumables Including Conveyor belts, motors and pumps, Lubricants, Valves, seals, fittings, Grinding media, Safety Equipment, Clothing, Chemicals (sodium metabisulphite, Copper Sulphate Pentahydrate), Fasteners, Steel channels, critical spare parts for processing equipment.

Other Key Assets:

Electrical Sub-Stations, transformers, Overhead powerlines. Water Service: Supply, Water treatment, Storage tanks and pumps. Fire suppression pumps; Office Equipment and furniture.

INDUSTRY¹ & MARKET OBSERVATIONS

Australia holds a substantial portion of the world's copper and was ranked 2nd behind Chile in 2016, according to the United States Geological Survey (USGS). We have several copper mines which are of world significance, including the Mt Isa copper-lead-zinc deposit in Queensland and the Olympic Dam copper-uranium-gold deposit in South Australia which is mining out one of the largest copper-bearing deposits in the world. Other examples of important copper resources are at the Prominent Hill and Carrapateena copper-gold deposits in South Australia, Northparkes copper-gold, CSA copper-lead-zinc and Girilambone copper deposits in New South Wales, the Ernest Henry, Osborne and Mammoth copper deposits and copper-gold deposits at Selwyn in Queensland and copper-zinc deposits at Golden Grove and the Nifty copper deposit in Western Australia.

Although large copper deposits are mined by open-cut methods in many of the major producing countries, most of the copper ore produced in Australia comes from underground mines. The traditional method used at most mines involves the ore being broken and brought to the surface for crushing. The ore is then ground finely before the copper-bearing sulphide minerals are concentrated by a flotation process which separates the grains of ore mineral from the waste material, or gangue. Depending on the type of copper bearing minerals in the ore and the treatment processes used, the concentrate typically contains between 25 and 30% copper, however, may be as high as approximately 60% copper. The concentrate is then processed in a smelter. In Heron's Woodlawn facility, it is turned into concentration through crushing, milling flotation and filtration processes. This concentrate is sold to 3rd parties who smelter and convert typically overseas.

At some Australian mines, the copper is leached from the ore to produce a copper-rich solution which is later treated to recover the copper metal. The ore is first broken and set out on leach pads where it is dissolved by a sulfuric acid solution to leach out the copper. The copper-rich solution is then pumped to the solvent extraction plant to separate the copper as a copper complex. This is concentrated and the solution is passed to the electrowinning plant to recover the copper. The copper cathodes produced by electrowinning contain 99.99% copper which is suitable for electrical uses. This entire process is known as solvent extraction electrowinning (SX-EW).

At Olympic Dam the concentrate is flash-smelted directly to blister copper. In this process copper concentrate is fed into the smelter with oxygen-enriched air. The fine concentrate reacts or 'flashes' instantaneously as the sulphur fraction of the copper sulphides is burnt and becomes sulphur dioxide gas. Molten copper and slag fall to the hearth of the smelter. The slag forms a layer on the surface of the molten blister copper. The blister copper is removed periodically for further purifying in an anode furnace and electrolytically refined.

The Copper Ore Mining industry is moderately concentrated, with the four largest companies accounting for an estimated 67.0% of industry revenue in 2020-21. Industry concentration has declined over the past five years due to the weaker performance of some major players. Revenue and copper output for BHP, Glencore and OZ Minerals declined over the period, while revenue and volumes for Newcrest increased. The medium concentration level indicates that economies of scale are important in the industry. Copper ore mining companies require large-scale mines and processing facilities to remain competitive and minimise operating costs per tonne of copper concentrate produced. Industry concentration is projected to increase and become high over the next five years, due to the major players increasing market share at the expense of smaller mining firms. Potential new entrants tend to be disadvantaged because it is generally cheaper to expand an existing operation than establish a new one. Existing mining companies have extensive experience in the industry and can develop vertical integration, which represents a barrier to entry, as most existing participants not only mine copper ore but also process it into copper metal.

The two largest producers, Glencore and BHP, both operate copper refineries in Australia, while other participants often ship ore to other refineries domestically and overseas. New firms face substantial barriers to entry into the Copper Ore Mining industry, due to economies of scale being a major factor characterising the industry. Costs required to develop a new mine are high, with major operational risks associated with ore reserves and extraction. Capital costs include buying mining equipment and establishing processing plants.

¹ Sources: Ibis World; Geoscience Australia (www.ga.gov.au) & <https://tradingeconomics.com/commodity/copper>

Other barriers to entry include acquiring permits and leases and supplying comprehensive environmental impact statements. In both cases, firms require highly qualified and experienced staff to complete these tasks.

Internal industry competition is limited due to the small number of companies in the industry and copper prices being determined by global markets. This means that buyers and sellers have little influence over pricing. However, copper purity plays a role in industry pricing. The copper content of copper ore or concentrate influences the price a mining company receives for its output. In particular, copper concentrates with low proportions of impurities are more highly sought after and less likely to face volume cutbacks during times of weak demand. These concentrates are usually easier to process. Supply security and favourable transport costs influence copper concentrate sales. Large purchasers of copper concentrate, which in Australia's case are usually located overseas, diversify their supply sources across countries and companies. Australian producers that diversify their supply sources can place some copper concentrate volume into markets outside the Asian region. Copper concentrate importers focus on the landed cost of the product (i.e. shipping cost inclusive) when making purchasing decisions. The proximity of Australian producers to Asian markets gives local firms a competitive edge over producers in more distant countries.

The Copper Ore Mining industry is highly capital intensive. A high proportion of the industry's capital is tied up in underground mining equipment and, for open-cut mines, heavy earth-moving equipment. Industry operators also invest in crushing mills and beneficiation facilities, where the ore is purified on site to form copper concentrate. This capital plant and equipment requires substantial investment, which is essential for companies to increase productivity and remain competitive.

For each dollar required for labour inputs during 2020-21, industry firms were estimated to have invested \$1.11 in industry plant, equipment and vehicles. Capital intensity has remained stable over the past five years, with depreciation increasing at the same pace as industry wages. Despite this, many copper mining companies have invested more in capital equipment to improve operating efficiencies over the period, and access deeper and more remote ores.

The price of copper in international markets reflects the balance between supply and demand for the metal. Higher copper prices positively affect the industry, as copper smelting and refining firms receive greater revenue and generate higher commissions for providing processing services to mining companies. Consequently, higher prices provide an opportunity for the industry to expand.

The value of the Australian dollar compared with the US dollar can affect returns for local producers of copper, silver, lead and zinc. A stronger Australian dollar can reduce revenue and profit for domestic refining and smelting companies that engage in exports, as industry goods become less price competitive in foreign markets.

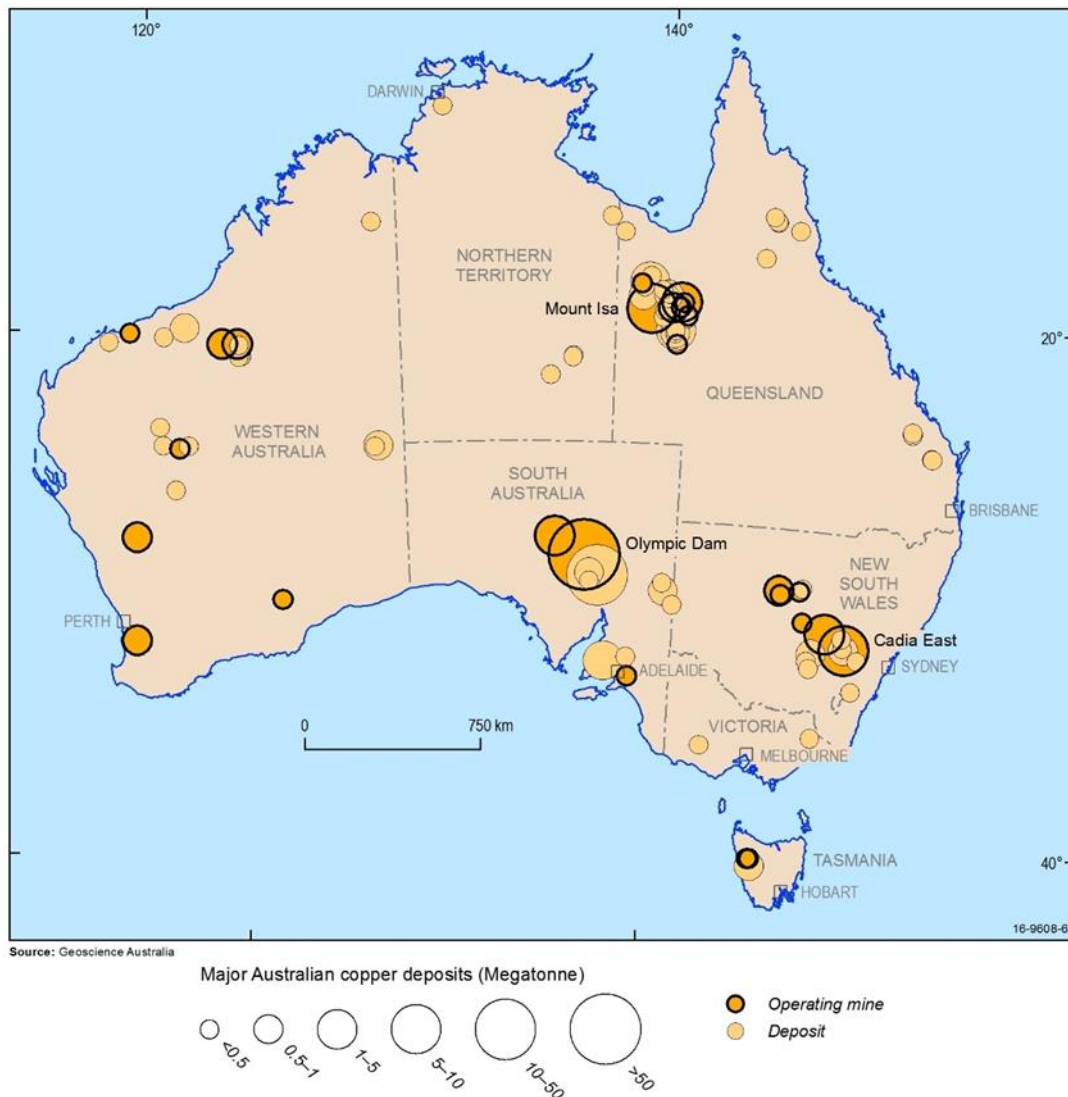
Copper ore mining firms refine and smelt copper in company facilities, or use industry companies to carry out these tasks for a fee. Greater demand for smelting and refining services from copper ore mining companies benefits the industry. Demand for smelting and refining from upstream copper ore mining companies is expected to increase in coming years.

Copper futures are widely traded on the London Metal Exchange (LME), at the COMEX and on the Multi-Commodity Exchange in India. The standard contract is 25,000 lbs. Copper is the third most widely used metal in the world. Chile accounts for over one third of world's copper production followed by China, Peru, United States, Australia, Indonesia, Zambia, Canada and Poland. The biggest importers of copper are China, Japan, India, South Korea and Germany.

Copper market prices displayed in the table below are based on over-the-counter (OTC) and contract for difference (CFD) financial instruments. With the right axis showing prices in USD\$. Current prices are around US\$4.28 per lbs historically copper reached an all-time high of US\$4.90/lbs in May 2021. Obviously AUD/USD exchange rates also play a role in global demand and profitability for copper concentrate from Australian producers.

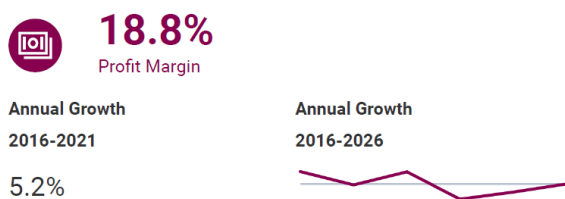


Australia's major copper deposits and mines (2016). Source: Geoscience Australia



Industry at a Glance

Key Statistics



Key External Drivers

% = 2016-2021 Annual Growth



Industry Structure



POSITIVE IMPACT

Life Cycle Growth	Barriers to Entry High
Competition Low	



MIXED IMPACT

Technology Change Medium



NEGATIVE IMPACT

Revenue Volatility High	Capital Intensity High
Industry Assistance Low	Concentration High
Regulation Heavy	Globalization High

Australia is the world's leading producer and exporter of lead, with large mines at Broken Hill, Mt Isa and Hilton in Queensland and McArthur River in the Northern Territory. In deposits mined today, lead is usually found in ore which also contains zinc, silver and commonly copper and is extracted as a co-product of these metals. However, more than half of the lead we use comes from recycling, mostly from old car batteries.

Australia leads the world in mine production of lead and is the world's largest exporter of lead, with the bulk of Australian production exported as lead bullion to the United Kingdom and some to South Korea. Of the rest, lead in ores and concentrates goes mainly to Japan for further processing, while refined lead is sent to Taiwan, South Korea, Indonesia, India and Malaysia.

Australia is at the forefront of technological development in lead mining and processing. Almost all of Australia's lead-zinc mines are underground operations and are highly mechanised. Ore is drilled and blasted in large volumes, transferred to underground rock crushers by large loaders and trucks before being hoisted to the surface in skips or driven directly to the surface by truck via a spiral access tunnel (decline). At the surface, the ore is subjected to additional crushing and fine grinding.

Processing:

A flotation process separates the lead and other valuable sulphide minerals from the waste rock particles (tailings) to form a concentrate. The flotation process was developed in Australia in the early days of mining at Broken Hill. Further Australian innovation has resulted in the improved Jameson flotation cell, which is installed in many mines around Australia.

Ground ore, water and special chemicals are mixed together and constantly agitated in banks of flotation cells. Air is blown through the mixture in each cell and the fine lead sulphide particles stick to the bubbles, which rise to form a froth on the surface of the flotation cell. The tailings sink and are removed from the bottom of the cell. The froth is skimmed off and the resulting lead sulphide concentrate is dried. During this process, the ore, which may contain only 5% lead, is upgraded to a concentrate with 50% or more lead. At Broken Hill, concentrate grades average about 70% lead, mainly because the relatively coarse grain of the ore allows excellent recovery of lead sulphides.

The concentrate is sintered (partly melted) to combine the fine particles into lumps and to remove some sulphur as sulphur dioxide. The sintered product is then smelted in a blast furnace to produce impure lead metal (97% Pb). The lead metal is cooled in stages but kept molten to cause trace copper and impurities to separate as a dross (impurities) surface layer. At each cooling stage the dross layer is removed to be recycled to the blast furnace or further processed. The remaining molten crude lead is either passed direct to the refining stage or cast into lead bullion ingots for later refining.

Refining (purifying) the crude lead or bullion involves remelting then blowing the molten lead with air to form a slag (impurities) layer containing antimony, arsenic and some lead. Silver, and any trace gold or copper, is removed and the refined lead (more than 99.9% Pb) is cast into ingots (blocks) for use in the manufacturing industry.

Concentrates from various Australian mines are smelted and refined at Port Pirie, South Australia, which is Australia's sole producer of primary refined lead. Mount Isa Mines Ltd smelts most of its lead concentrate to lead bullion at Mt Isa before shipping it to the United Kingdom for refining.

Recycling has long been a feature of the lead industry, with about half the lead consumed in Australia now coming from this source. Secondary lead refineries in Melbourne and Sydney recycle lead scrap, mainly from lead-acid batteries.

World price of zinc:

Global demand and supply factors for zinc and related materials influence the world price of zinc. An increase in the world zinc price can benefit the industry, as smelting and refining companies receive higher revenue per unit of zinc sold.

Demand from silver, lead, and zinc ore mining:

Silver, lead and zinc ore mining companies may undertake basic smelting and refining activities, or engage specialist smelting and refining firms to carry out these activities for a fee. Increased demand from these

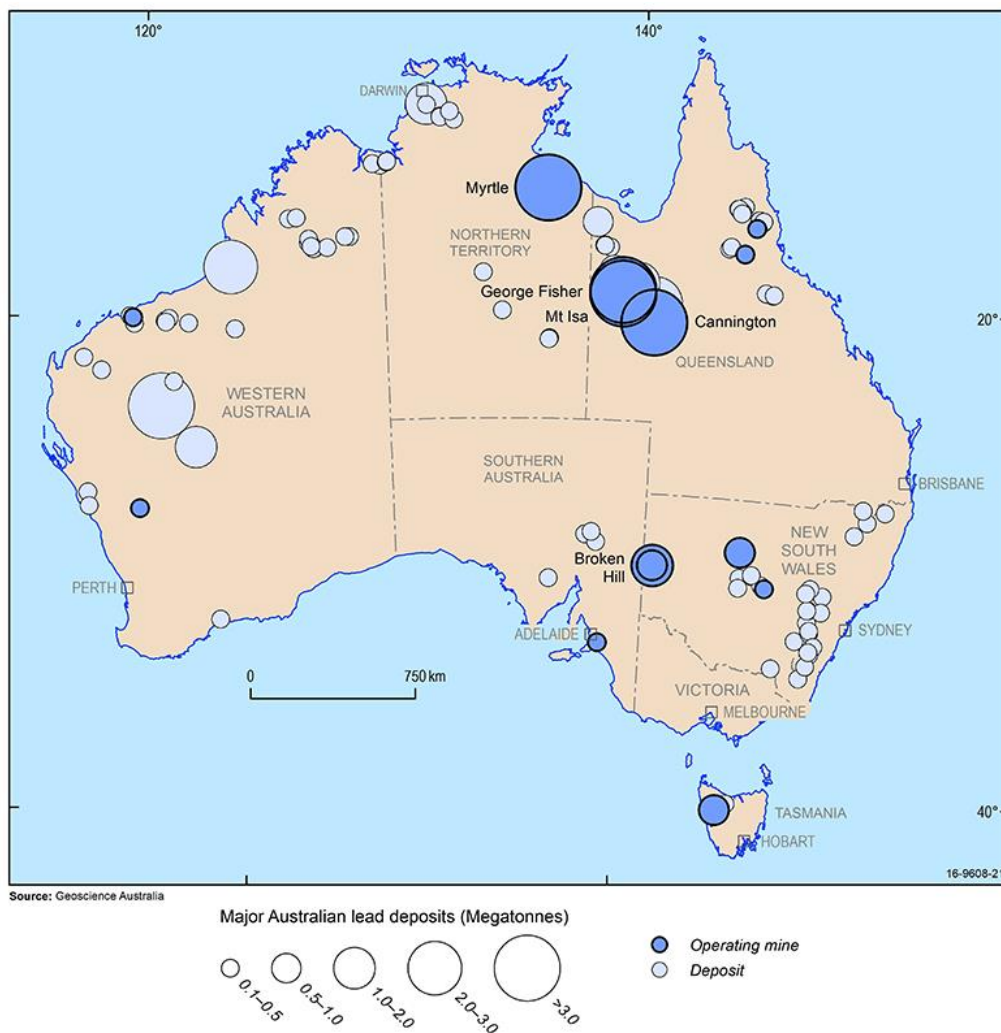
upstream miners benefits the industry through higher output. Demand from silver, lead and zinc ore mining is anticipated to fall over the last 12 months.

The industry's output is used in a range of manufacturing applications. Due to the severity of global supply chain disruptions and demand contractions, requirements for copper, silver, lead and zinc fell significantly in 2019-20. Demand and prices for most of these products are anticipated to increase in through 2020, 2021 to 2022

Key Trends:

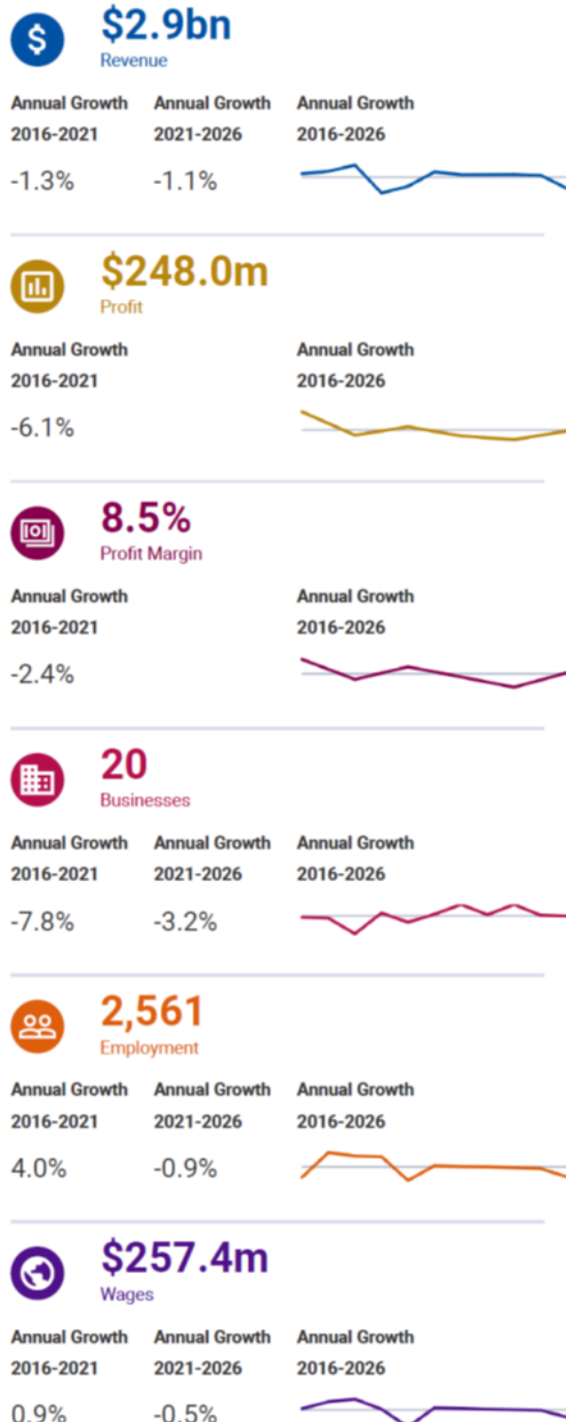
- Revenue has declined due to lower volumes and demand, and some mixed pricing
- Profit margins have declined over the past five years, due to
- lower revenue and weaker demand
- Enterprise numbers have declined due to lower profit
- margins and high barriers to entry
- Smelting and refining firms will likely suffer from lower
- copper and zinc ore mining volumes
- The world price of copper is forecast to grow only slightly
- over the next five years, benefiting the industry
- China is anticipated to continue demanding copper and other industry metals

Australia's major lead deposits and mines (2016). Source: Geoscience Australia



Industry at a Glance

Key Statistics



Key External Drivers

% = 2016-2021 Annual Growth



Industry Structure



POSITIVE IMPACT

Technology Change Low	Barriers to Entry High
Competition Low	



MIXED IMPACT

Revenue Volatility Medium



NEGATIVE IMPACT

Life Cycle Decline	Capital Intensity High
Industry Assistance Low	Concentration High
Regulation Heavy	Globalization High

VI. SALE CONSIDERATIONS

Gordon Brothers have assumed the administrators would run two-step process to best maximise the recovery values.

- 1) Expressions of Interest (EOI): The main processing facility would likely be of interest to specific operators within the mining sector, accordingly an expression of interest sale campaign would be the most effective sale methodology. This campaign should ideally run over a period of six months. Once buyers are identified, direct negotiation should take place in order to maximise offers without disclosing to them what other offers have been received. The best offers are then presented to the secured creditor for consideration.
- 2) Online auction (In-situ): Mobile assets with a broad appeal are suited to an online auction. Should any parts of the processing plant remain unsold after the six-month EOI campaign we suggest putting it an online auction and running it concurrent with the mobile assets. The online auction will run over a five day period with a three weeks lead time for marketing. It should be noted that buyers will factor in decommissioning and transport costs into their final bid prices. We would not recommend relocating mobile assets to a metropolitan storage facility.
- 3) Salvage Assets-The salvage assets should be offered on a tender basis during the EOI process. Gordon Brothers recommend that a single contractor be awarded the salvage asset removal based on their offer pricing, capability to safely remove the assets without environmental disruption nor damage to other assets sold as part of the EOI/Auction campaigns. Multiple contractors can lead to disputes and OHS issues.

Special Note – COVID19: We note the ongoing global and domestic effects of the COVID-19 pandemic. The Australian Government has since placed restrictions on domestic and international travel which would likely impact any potential purchasers' ability to inspect the assets prior to submitting a qualifying offer or online bid. It is therefore possible that potential purchasers will factor in further discounts in order to account for the increased risk of purchasing 'sight unseen'.

VII. OTHER CONSIDERATIONS

EXCLUDED ITEMS

The following have been excluded from our report as being outside our scope of works:

- Any asset located on any premise other than those we attended and which we were not made aware of;
- All forms of intellectual property such as goodwill, software etc.;
- All assets considered land, buildings or fixtures or building and/or structural improvements;
- All assets which are said to be provided under operating or rental/hire agreements.

GOODS AND SERVICES TAX ("GST")

The values provided in this report are **exclusive of GST**.

CURRENCY EXCHANGE RATES

It may be the case that some of the market data used in this analysis originated from international manufacturers and suppliers. Accordingly, we have used exchange rates prevailing at the date of valuation to enable us to make meaningful comparisons with Australian sourced data.

LEASED AND THIRD-PARTY PROPERTY

Ownership categorization and any comment as to outstanding amounts provided in this report is reliant on information provided to us and as such is accurate solely to the extent the information relied upon was accurate. We have not sought to verify title via the PPSR register. Neither have we procured loan pay-outs direct from the relevant loan provider(s).

VALIDITY PERIOD OF VALUATION

The values contained herein are current as at the stated date of valuation only. In the normal course of events assuming market factors which underpin the basis of our values remain stable, the values in this report can be considered valid for a period of up to three months.

In the event external and/or market factors shift suddenly and/or unexpectedly (within three months) causing those underlying value assumptions to change then the validity period would be void and a review of values required. No liability in respect to any loss or damage claimed from any such change(s) is accepted. Similarly, no liability or responsibility is accepted for any party's reliance on this report after the three-month validity period.

EFFECTIVE DATE OF VALUATION

The effective date for the valuation review is 1 March 2022. This is the only date at which the valuation opinion applies and only for the stated purpose. Only known or knowable information available as of the effective date of the valuation is to be considered in the development of an opinion of value. It is important to understand that the effective date may be quite different to the date the report was produced. This is true for valuations that are retrospectively or prospectively based. The reporting date for this valuation is the 1 March 2022.

VIII. PHOTOGRAPHS



CONVEYOR CRUSHING AND SCREENING



CRUSHING CIRCUIT MOTOR



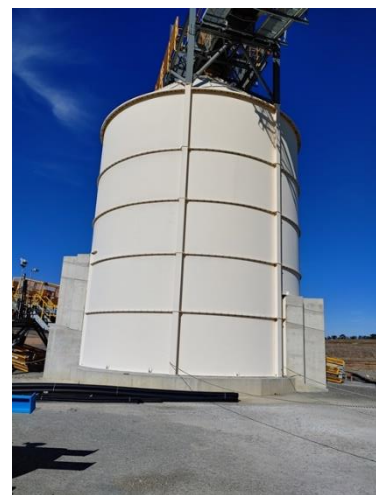
PRIMARY CRUSHER



ROM BIN



VIBRATORY SCREENING



FINE ORE BIN



CONVEYOR FROM ORE BIN TO BALL MILL



BALL MILL



WEG CONTROLS MOTOR AND POWER



BALL MILL INFRASTRUCTURE



CYCLONE CY101



CYCLONE CY-101



BALL MILL, ISAMILL AND TAILINGS THICKENER



ISAMILL



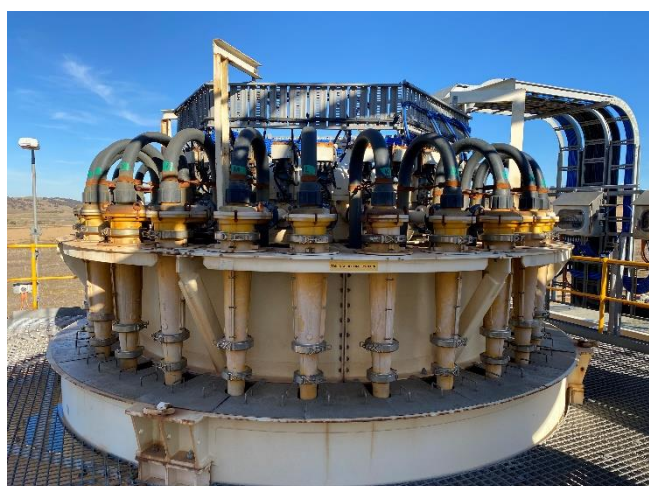
ISAMILL



TAILINGSTHICKENERS



TAILINGS THICKENER PUMPS & MOTORS



TAILINGS CYCLONE



FLOTATION CELL OVERVIEW



OSA FLOTATION SAMPLE ANALYSIS



FLOTATION CELL OVERVIEW



FLOTATION DRIVE



FLOTATION GROUND FLOOR TANKS AND PUMPS



FLOTATION GROUND FLOOR TANKS AND PUMPS



REAGENTS MIXING



REAGENTS MIXING



REAGENTS MIXING



REAGENTS MIXING



REAGENTS MIXING



REAGENTS MIXING



CONCENTRATION THICKENING AND FILTRATION



CONCENTRATION THICKENING AND FILTRATION



CONCENTRATION THICKENING AND FILTRATION



CONCENTRATION THICKENING AND FILTRATION



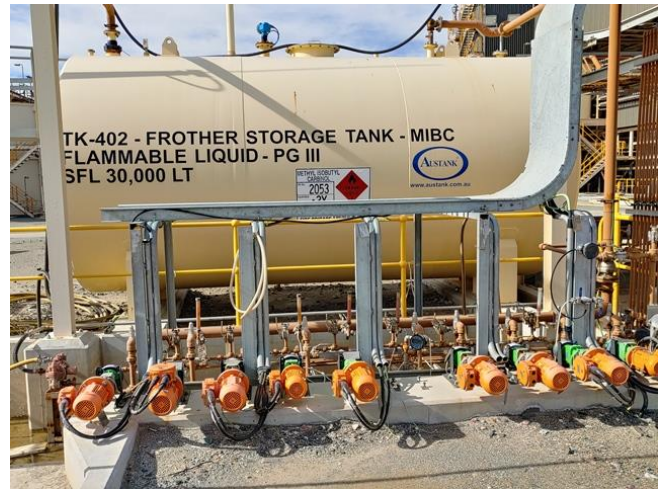
CONCENTRATION THICKENING AND FILTRATION



CONCENTRATION THICKENING AND FILTRATION



WATER EVAPORATER



CHEMICAL STORAGE



ABLUTION BUILDING



TRANSPORTABLE BUILDING



CONCENTRATE LOADING DOME CANOPY



ELECTROLUX WASHERS & DRYER



TOYOTA HILUX



TOYOTA PRADO



HYSTER 52T CONTAINER HANDLER



HYSTER 16T CONTAINER FORKLIFT



4WD CONVERTED AMBULANCE



ISUZU FIRE RESPONSE VEHICLE



OXYGEN TANKS



OXYGEN TANK COMPRESSOR



ASSORTED SAFETY AND RESCUE EQUIPMENT



LUKAS E-DRAULIC RESCUE EQUIPMENT



DRÄGER BREATHING APPARATUS SETS



20FT CONTAINER WITH SAFETY EQUIPMENT

IX. LIMITING CONDITIONS AND EXTRAORDINARY ASSUMPTIONS

This plant, machinery and equipment valuation is made subject to the following:

GENERAL LIMITING CONDITIONS

- 1) The determined values are exclusive of Goods and Services Tax. Our Orderly Liquidation Value does not take into account any costs associated with realising the value of the assets.
- 2) The valuation is made solely for the use of the Deloitte and intended users to whom it is addressed. No responsibility to any third party is, or will be, accepted for any part of the valuation.
- 3) Neither all nor any part of the contents of this report, or copy thereof, shall be reproduced for any purpose other than stated in the report, nor shall it be made available to the media, another valuer or anyone else without the written consent of Gordon Brothers.
- 4) Physical condition in most instances has been determined by assumption. Any unknown conditions existing at the time of inspection could alter the value. No responsibility is assumed for latent defects of any nature whatsoever which may affect value, nor for any expertise required to disclose such conditions.
- 5) No investigation of legal title to the property, unless explicitly stated otherwise, has been made and the claim to the property has been assumed to be valid.
- 6) No additional values have been made in regard to such intangibles as patents, trademarks or goodwill.
- 7) Information, estimates and opinions furnished by the appraiser and contained in this report were obtained from sources considered reliable and believed to be true and correct; however, no responsibility for the accuracy of such items furnished to the appraiser can be assumed by the appraiser. No liability or responsibility is expressed for results from actions taken by anyone as a result of this report. Further, there is no accountability, obligation, or liability to any third party.
- 8) Matters of a legal nature or with tax consequences have not necessarily been considered in this report. The reader should consult a competent legal advisor and/or a qualified tax accountant for information and opinions in those areas.
- 9) Machinery and equipment appraisers are called on for valuation and verification for equipment from many different fields of business. It is impossible for any appraiser to be an authority in every field of machinery/equipment. Therefore, the appraiser has endeavoured to use basic sound, accepted methodologies in any assignment. When applicable conversations with those dealing daily in a specific field were conducted, and all final evaluations are founded on prudence and best effort on the part of the appraiser. Conclusion is arrived at from many years of experience in the sale and appraisal of machinery and equipment. The final form of this report is made possible by omitting many details used in estimating, yet not considered essential to the report. Due to the complexities and variables on the many items of fixed assets, itemised values become the guideline for justification rather than individual summaries for each conclusion.
- 10) The valuer has endeavoured to use due diligence in all market comparisons. If possible, multiple comparisons of similar items sold within a reasonable and applicable time period usually provide substance for a credible value determination. However, at times it is not possible to find any direct sales comparisons that have actually sold. In these cases, the appraiser has relied heavily on comments and testimony from sources considered reliable (dealers, auctioneers, manufacturers, wholesalers for example) in arriving at the final value estimate.

PRIVATE AND CONFIDENTIAL

- 11) Each item in the valuation has been individually assessed with regard to a total package at an orderly liquidation sale. The values shown are not intended for the piecemeal selling of separate items. In the event that any item included in this valuation is separately sold or is withdrawn from sale or is to be sold either at a time different to the other items or from a different location then a re-valuation of the remaining items will be necessary.
- 12) It is assumed that all equipment has standard features commensurate with its normal operation. For instance, machinery might include: guards, electrical starters, switch-gear, safety equipment, wiring, conduit/piping and electrical, pneumatic or hydraulic controls systems, or other peripheral items considered standard for operating the indicated model or type of equipment. This type of detailed listing is not described for each machine due to repetition, time, cost, and description length within the listing. An attempt is made, however, to indicate any non-standard features at an appropriate point within the investigation.
- 13) Description of items made as part of this report is believed correct to the best ability of the appraiser. Any errors or omissions were unintentional and should not affect the value assignment.
- 14) The subject equipment may or may not conform to local OHS standards. The sole responsibility for conforming rests with the owner of the subject equipment and may not necessarily affect the final estimate of value reported herein.
- 15) The valuation has been prepared in good faith on the basis that full disclosure of all information and salient points which may affect the valuation. The compliers of this report and signatories of the certification, expressly disclaim all liability for any loss or damage (including economic and consequential loss) suffered by any person acting or relying on the valuation notwithstanding any act or omission, representation, negligence, default or lack of care by any person.
- 16) The valuation is valid only as of the effective date of the report and for the purposes outlined in the section "Purpose of Valuation".
- 17) The valuation concept used in this report is one accepted by the client.
- 18) Nothing in this report constitutes as financial advice prepared for Deloitte.
- 19) All assets valued on a sight unseen basis should be considered indicative only. Gordon Brothers accepts no liability for reliance placed on assets valued on a sight unseen basis. Gordon Brothers can not verify the condition, nor the existence of any assets valued on a sight unseen basis and have relied solely on the information provided to arrive at the ascribed values.

HYPOTHETICAL CONDITION

In the development of the recovery values, Gordon Brothers has incorporated the use of a Hypothetical Condition into the presented appraisal report. USPAP describes “Hypothetical Condition” as follows:

Hypothetical Condition

“A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the Effective Date of the assignment results, but is used for the purpose of analysis.”²

USPAP comments that “Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.”³

Gordon Brothers has identified the following Hypothetical Condition in this report:

The Woodlawn facility had been under care and maintenance for over 18 months. This has left many assets sitting dormant. As the facility is not operating Gordon Brothers have not been able to determine the true operability of the facility.

For the purposes of a Fair Market Value in Continued Use, this valuation has been conducted under the hypothetical assumption that the site could be operative again and processing at its intended specifications.

When arriving at values the current visible conditions have been taken into consideration along with estimated costs of re-commissioning. Gordon Brothers is not providing advice or value based on the mechanical soundness of appraised assets.

² The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2020-2021 Edition, page 4, lines 117-118.

³ The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2020-2021 Edition, page 4, lines 119-121.

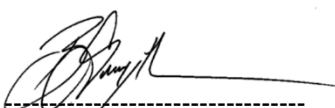
X. CERTIFICATION OF VALUE

It is hereby certified that, to the best of my knowledge and belief:

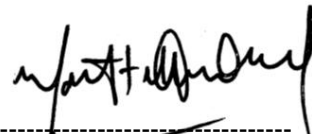
- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions set forth in this report are limited only by the assumptions and limiting conditions (imposed by the terms of the assignment or by the undersigned) set forth by this report, and are personal, unbiased, professional analyses, opinions, and conclusions.
- Gordon Brothers has no current or contemplated future interest in the property that is the subject of this report and no personal interest or bias with respect to the parties involved.
- Any statement(s) of condition are the result of visual inspection only and should not be construed as an opinion of operability or utility.
- The engagement of Gordon Brothers in this assignment was not contingent upon developing or reporting predetermined results.
- Neither the valuation nor the amount of the fee is contingent upon developing or reporting a predetermined value, requested minimum value, a direction in the value that favours the cause of the client, a specific valuation, the approval of a loan, the amount of the value estimates or attainment of a stipulated result, nor is the compensation contingent upon an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- No person or persons other than those acknowledged below prepared the analysis, conclusions, and opinions, or provided significant professional assistance
- In preparation of this report, analysis, opinions, and conclusions have been developed and Gordon Brothers have conformed with procedures and definitions contained within the Uniform Standards of Professional Appraisal Practice ("USPAP") as defined by the Appraisal Standards Board of The Appraisal Foundation.
- The undersigned, unless denoted by an (*), has made an inspection of the personal property that is the subject of this report.
- Brendan Smyth and Michael McMahon have performed no services as an appraiser or in other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.



Michael McMahon
Director
ASA



Brendan Smyth
Director, Valuations
ASA Candidate



Matt Aubrey*
Managing Director



Appendices

- I: Definitions
- II: Appraiser Qualifications
- III: Provided Information
- IV: Valuation Schedule

APPENDIX I. DEFINITIONS

Source - "Valuing Machinery and Equipment: "The Fundamentals of Appraising Machinery and Technical Assets", The American Society of Appraisers, Third Edition,

Excellent (E) This term describes those items that are in near-new condition and have had very little use.

Extraordinary Assumption is an assumption directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions (USPAP page U-3)

Fair (F) This term describes those items of equipment which because of their condition are being used at some point below their full designed and specified utilisation because of the effect of age and/or application and that may require general repairs and some replacement of minor elements in the foreseeable future to raise them to be capable of being utilised to or near their original specifications. Pg. 58

Fair Market Value is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date.

Fair Market Value in Continued Use with Assumed Earnings is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date and assuming that the business earnings support the value reported, without verification.

Fair Market Value in Continued Use with an Earnings Analysis is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date and supported by the earnings of the business.

Fair Market Value – Installed is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, considering market conditions for the asset being valued, independent of earnings generated by the business in which the property is or will be installed, as of a specific date.

Fair Market Value - Removed is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, considering removal of the property to another location, as of a specific date.

Forced Liquidation Value is an opinion of the gross amount, expressed in terms of money, that typically could be realised from a property advertised and conducted public auction, with the seller being compelled to sell with a sense of immediacy on an as-is where-is basis, as of a specific date

Good (G) This term describes those items of equipment which are in good operating condition. They may or may not have been modified or repaired and are capable of being used at or near their full designed and specified utilisation.

Hypothetical condition That which is contrary to what exists but is supposed for the purpose of analysis (USPAP page U-3)

Insurable Value Depreciated The insurance replacement or reproduction cost less accrued depreciation considered for insurance purposes, and as defined in the insurance policy or other agreement, as of a specific date.

Liquidation Value in place is an opinion of the gross amount, expressed in terms of money, that typically could be realized from a properly advertised transaction, with the seller being compelled to sell, as of a specific date, for a failed, non-operating facility, assuming that the entire facility is sold intact.

New (N) This term describes new items that have not been used before.

Orderly Liquidation Value An opinion of the gross amount, expressed in terms of money, that typically could be realised from a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date

Poor (P) This term is used to describe those items of equipment which because of their condition can be used only at some point well below their full designed and specified utilization, and it is not possible to realise full capacity in their current condition without extensive repairs and/or the replacement of major elements in the near future.

Replacement cost new Is the current cost of a similar new property having the nearest equivalent utility as the property being appraised, as of a specific date.

Reproduction cost new The cost of reproducing a new replica of a property on the basis of current prices with the same or closely similar materials, as of a specific date.

Salvage Value (S) is an opinion of the amount, expressed in terms of money that may be expected for the whole property or a component of the whole property that is retired from service for possible use elsewhere, as of a specific date.

Scrap Value (X) An opinion of the amount, expressed in terms of money that could be realised for the property if it were sold for its material content, not for productive use, as of a specific date.

Very Good (VG) This term describes an item of equipment in excellent condition capable of being used to its fully specified utilization for its designed purpose without being modified and without requiring any repairs or abnormal maintenance at the time of inspection or within the foreseeable future.

APPENDIX II. VALUER CREDENTIALS & MEMBERSHIPS

Michael McMahon ASA Candidate

Michael is an ASA candidate with over 20 years' plant and equipment experience in the appraisal and auction industries.

During his career Michael has undertaken a wide variety of valuations and asset disposal programs on behalf of accounting firms, banks, financiers as well as clients in the corporate sector. With a particular focus on industrial assets, complex valuation engagements and dispositions have been completed throughout Australia.

Core Competencies

Michael has experience and expertise across a broad spectrum of industries including, but not limited to:

- Mining
- Earthmoving and Civil Construction
- Transport, Trucks and Trailers
- Cranes and Lifting Equipment
- Manufacturing
- Hospitality and Catering
- Manufacturing
- Food processing

Brendan Smyth ASA (M&TS)

Brendan is an Accredited Senior Appraiser with over 15 years' experience and extensive knowledge of retail, consumer and industrial inventory, and machinery & equipment valuations. He has conducted over 450 valuation projects for Asset-Based Lending, M&A and insolvency purposes, with an aggregate value of over A\$4bn across 15 countries throughout Australia, New Zealand, Europe and Asia.

Brendan has vast and diverse experience in conducting high profile assignments from major companies with typical turnovers in excess A\$100m. His exposure encompasses all areas of supply chain including, listed companies, SMEs, major OEMs, Wholesalers, Distributors and Retailers. He possesses a broad knowledge across many industry sectors including; Automotive, Aerospace, Metals & Other Commodities, Mining, Timber, Paper, Chemicals, Military, Electronics, Apparel, Electronics, Packaging, Construction, Agricultural, Pharmaceuticals, Transport, Food & Beverage and Consumer Goods.

Core competencies

Brendan has a broad spectrum of expertise of industries including but not limited to:

- Retail
- Manufacturing Machinery
- Chemicals
- Metals
- Earthmoving
- Consumer Inventory
- Industrial inventory
- Paper and Pulp
- Timber
- Food & Beverage

Matt Aubrey

A deal focused inventory, plant and equipment asset management specialist. Matt Aubrey is responsible for developing liquidity and asset-based solutions for clients. Matt brings over 20 years of experience providing customised asset management strategies, valuations and strategic advice pertaining to asset sale campaigns to maximise outcomes for institutional and corporate clients throughout Asia Pacific.

Prior to joining Gordon Brothers, Matt was the founder and director of Plant & Equipment Solutions, which specialised in asset management and disposition solutions via integrated valuation, marketing and sales processes. In 2012 he sold the business to GraysOnline. Matt has a background in commercial real estate, auctioneering, asset management and remarketing of plant & equipment. Matt is a certified valuer and licensed auctioneer.

Core competencies

Matt has a broad spectrum of expertise of industries including but not limited to:

- Mining and mining services
- Construction and transport
- Manufacturing and printing,
- Marine and automotive,
- Medical,
- Hospitality,
- General plant,
- Aviation
- Retail.

Fenton

Healy

Fenton Healy is responsible for developing liquidity and asset-based solutions for clients across Australia. Fenton brings over 20 years of experience in asset valuation and liquidation. He has deep knowledge and understanding of used equipment markets across the globe and applies this insight in developing capital and advisory solutions for clients.

Prior to joining Gordon Brothers, Fenton held numerous sales, senior management, directorial and leadership roles at GraysOnline, where he was one of the original shareholders. Throughout his career, Fenton has worked on some of the region's largest remarketing projects, including for Toyota, Procter & Gamble, Alcatel, Sunbeam Victa, Kirby Engineering, Huntsman Chemicals, Solelectron, Email Metering, Colgate Palmolive, and Mitsubishi.

Fenton has significant experience in the valuation and sale of assets across multiple industries. These include:

- Mining
- Earthmoving and Civil Construction
- Transport, Trucks and Trailers
- Cranes and Lifting Equipment
- Manufacturing
- Hospitality and Catering
- Manufacturing
- Food processing

APPENDIX III. PROVIDED INFORMATION

- Asset breakdown gb20210810.xlsx
- Heron21-22.pdf
- Asset breakdown.xlsx
- Mine Asset List Sedgman-Non-Sedgeman (Accounting - Tax) - Dec 2019 - v5.xlsx
- PYBAR_Woodlawn_FixedAsset_PurchaseRental.pdf
- Invoice - Evaporator Tarago Operations (Items to Inspect).pdf
- Plant Item Detail [Clean].xlsx
- 1177-Tarago Operations-Sedgman-EPC contract_Part 3 Annex 1 Scope.pdf
- Heron Resources - Woodlawn Hydraulic Mining Project - Design Pack - Final 14 03 2018.pdf
- 1177-Tarago Operations-Sedgman-EPC contract_Part2 Schedules 2-16.pdf
- Schedule C.pdf
- Schedule D.pdf
- 20180405 Sedgman Monthly Financial Report - March 18.xlsx
- Non-Sedgman Monthly Financial Report - July 2017.xlsx
- Pronto layouts.xlsx
- Pronto Report.xlsx
- Pronto Upload - 310717.xlsx
- Pronto Upload non-sedgman.xlsx
- Progress Claim 12 - July 18.xlsx
- Project Cost code reconciliation Pronto v Sedgman.xlsx
- Sedgman Progress Claim 12 - July - Jopurnal.xlsx
- You Hire Inv-0054.pdf
- You Hire Inv - 1011.pdf
- PURCHASE ORDER-306495.pdf
- Order 306495 Deposit Invoice.pdf
- Tax Invoice - PTP000200 - 17032020.pdf
- Schedule of Works.pdf
- 200611 - Stocktake - Variances report #2.pdf
- 200618 - Inventory - Consumables - Reconciliation (Post Stocktake).xlsx
- Weir Stock DGM List sent.xlsm

APPENDIX IV VALUATION SCHEDULE

Please see accompanying asset schedule in excel.

Appendix I – Valuation Methodology

Common market practice and the valuation methodologies which are applicable to corporate entities and businesses are discussed below.

Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- Capitalisation of maintainable earnings.
- Analysis of a company's recent share trading history.
- Industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

Earnings-based methods are not appropriate where there is:

- A history of losses and/or current losses with an expectation of recovery.
- Rapidly declining profits in an industry with poor prospects.
- Lack of historical data or inadequate prospective financial information such as with start-up businesses.
- Lumpy capital expenditure requirements
- An asset with a finite life.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a NPV. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method.
- Liquidation of assets method.
- Net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

Valuation method adopted

I have considered the above guidance, valuation methodologies commonly utilised, as well as the advice of my experts, Mr Reid, BDA and Gordon Brothers and have determined that the most appropriate methods of valuation are as recommended by my experts, as summarised below:

Asset type	Expert	Primary method
Woodlawn	Stephen Reid with input from BDA	DCF
Plant and equipment	Gordon Brothers	Replacement cost
Non Woodlawn Assets		
Woodlawn Project Extensions	BDA	DCF
Satellite Deposits	BDA	DCF
NSW Regional Tenements	BDA	Exploration expenditure multiple
Alchemy JV & Sky JV	BDA	Alternative Offers & Joint Venture Terms
WA Interests & Royalties	BDA	Alternative Offers

I make the following comments in respect to the alternative valuation methodologies below and in support of our reasoning in choosing the most appropriate methodology:

- The discounted cash flow method is appropriate for the valuation of Woodlawn, as there exists projected cash flows over the life of Woodlawn, Woodlawn has a finite life and significant capital expenditure will be required to restart operations at Woodlawn. The DCF method is commonly used to value mining projects. BDA also support Mr Reid's opinion on the appropriateness of using the DCF basis of valuation for Woodlawn. BDA note that If a project is in operation, under development, or at a final feasibility study stage and reserves, mining and processing recoveries, and capital and operating costs are well defined, it is generally accepted that the net present value of the project cash flows is a primary component of any valuation study.
- The earnings multiples method is inappropriate as there is no acceptable future maintainable earnings information to enable value to be calculated.
- The quoted price for listed securities method is inappropriate because Heron's shares have been suspended from trading upon the ASX since 16 July 2021, and accordingly, there is no liquid and active market for Heron's securities.
- In relation to the consideration of the recent genuine offers method, the Administrators undertook a sale process from August 2021 to February 2022 for the Group, whereby 17 confidentiality agreements were signed and six NBIOS were received. Following further due diligence three final proposals were submitted. None of the proposals submitted were sufficient to repay all indebtedness of the Group.
- There is no certainty that any better offers would be received in a liquidation.
- In respect to plant and equipment and the Non-Woodlawn Assets I have considered the amount that would be available for distribution to security holders on an orderly realisation of assets as being an appropriate methodology as the Group is insolvent.

Appendix J – Expert Evidence Practice Note (GPN-EXPT)



FEDERAL COURT OF AUSTRALIA

Expert Evidence Practice Note (GPN-EXPT)

J L B Allsop, Chief Justice 25 October 2016

General Practice Note

1. Introduction

1.1 This practice note, including the *Harmonised Expert Witness Code of Conduct* ("**Code**") (see **Annexure A**) and the *Concurrent Expert Evidence Guidelines* ("**Concurrent Evidence Guidelines**") (see **Annexure B**), applies to any proceeding involving the use of expert evidence and must be read together with:

- (a) the Central Practice Note (CPN-1), which sets out the fundamental principles concerning the National Court Framework ("**NCF**") of the Federal Court and key principles of case management procedure;
- (b) the Federal Court of Australia Act 1976 (Cth) ("**Federal Court Act**");
- (c) the Evidence Act 1995 (Cth) ("**Evidence Act**"), including Part 3.3 of the Evidence Act;
- (d) Part 23 of the Federal Court Rules 2011 (Cth) ("**Federal Court Rules**"); and
- (e) where applicable, the Survey Evidence Practice Note (GPN-SURV).

1.2 This practice note takes effect from the date it is issued and, to the extent practicable, applies to proceedings whether filed before, or after, the date of issuing.

2. Approach to Expert Evidence

2.1 An expert witness may be retained to give opinion evidence in the proceeding, or, in certain circumstances, to express an opinion that may be relied upon in alternative dispute resolution procedures such as mediation or a conference of experts. In some circumstances an expert may be appointed as an independent adviser to the Court.

2.2 The purpose of the use of expert evidence in proceedings, often in relation to complex subject matter, is for the Court to receive the benefit of the objective and impartial assessment of an issue from a witness

with specialised knowledge (based on training, study or experience - see generally s 79 of the Evidence Act).

2.3 However, the use or admissibility of expert evidence remains subject to the overriding requirements that:

(a) to be admissible in a proceeding, any such evidence must be relevant (s 56 of the Evidence Act); and

(b) even if relevant, any such evidence, may be refused to be admitted by the Court if its probative value is outweighed by other considerations such as the evidence being unfairly prejudicial, misleading or will result in an undue waste of time (s 135 of the Evidence Act).

2.4 An expert witness' opinion evidence may have little or no value unless the assumptions adopted by the expert (ie. the facts or grounds relied upon) and his or her reasoning are expressly stated in any written report or oral evidence given.

2.5 The Court will ensure that, in the interests of justice, parties are given a reasonable opportunity to adduce and test relevant expert opinion evidence. However, the Court expects parties and any legal representatives acting on their behalf, when dealing with expert witnesses and expert evidence, to at all times comply with their duties associated with the overarching purpose in the Federal Court Act (see ss 37M and 37N).

3. Interaction with Expert Witnesses

3.1 Parties and their legal representatives should never view an expert witness retained (or partly retained) by them as that party's advocate or "hired gun". Equally, they should never attempt to pressure or influence an expert into conforming his or her views with the party's interests.

3.2 A party or legal representative should be cautious not to have inappropriate communications when retaining or instructing an independent expert, or assisting an independent expert in the preparation of his or her evidence. However, it is important to note that there is no principle of law or practice and there is nothing in this practice note that obliges a party to embark on the costly task of engaging a "consulting expert" in order to avoid "contamination" of the expert who will give evidence. Indeed the Court would generally discourage such costly duplication.

3.3 Any witness retained by a party for the purpose of preparing a report or giving evidence in a proceeding as to an opinion held by the witness that is wholly or substantially based in the specialised knowledge of the witness^[1] should, at the earliest opportunity, be provided with:

(a) a copy of this practice note, including the Code (see Annexure A); and

(b) all relevant information (whether helpful or harmful to that party's case) so as to enable the expert to prepare a report of a truly independent nature.

3.4 Any questions or assumptions provided to an expert should be provided in an unbiased manner and in such a way that the expert is not confined to addressing selective, irrelevant or immaterial issues.

4. Role and Duties of the Expert Witness

4.1 The role of the expert witness is to provide relevant and impartial evidence in his or her area of expertise. An expert should never mislead the Court or become an advocate for the cause of the party that has retained the expert.

4.2 It should be emphasised that there is nothing inherently wrong with experts disagreeing or failing to reach the same conclusion. The Court will, with the assistance of the evidence of the experts, reach its own conclusion.

4.3 However, experts should willingly be prepared to change their opinion or make concessions when it is necessary or appropriate to do so, even if doing so would be contrary to any previously held or expressed view of that expert.

Harmonised Expert Witness Code of Conduct

4.4 Every expert witness giving evidence in this Court must read the *Harmonised Expert Witness Code of Conduct* (attached in Annexure A) and agree to be bound by it.

4.5 The Code is not intended to address all aspects of an expert witness' duties, but is intended to facilitate the admission of opinion evidence, and to assist experts to understand in general terms what the Court expects of them. Additionally, it is expected that compliance with the Code will assist individual expert witnesses to avoid criticism (rightly or wrongly) that they lack objectivity or are partisan.

5. Contents of an Expert's Report and Related Material

5.1 The contents of an expert's report must conform with the requirements set out in the Code (including clauses 3 to 5 of the Code).

5.2 In addition, the contents of such a report must also comply with r 23.13 of the Federal Court Rules. Given that the requirements of that rule significantly overlap with the requirements in the Code, an expert, unless otherwise directed by the Court, will be taken to have complied with the requirements of r 23.13 if that expert has complied with the requirements in the Code and has complied with the additional following requirements. The expert shall:

(a) acknowledge in the report that:

(i) the expert has read and complied with this practice note and agrees to be bound by it;
and

(ii) the expert's opinions are based wholly or substantially on specialised knowledge arising from the expert's training, study or experience;

(b) identify in the report the questions that the expert was asked to address;

(c) sign the report and attach or exhibit to it copies of:

(i) documents that record any instructions given to the expert; and

(ii) documents and other materials that the expert has been instructed to consider.

5.3 Where an expert's report refers to photographs, plans, calculations, analyses, measurements, survey reports or other extrinsic matter, these must be provided to the other parties at the same time as the expert's report.

6. Case Management Considerations

6.1 Parties intending to rely on expert evidence at trial are expected to consider between them and inform the Court at the earliest opportunity of their views on the following:

- (a) whether a party should adduce evidence from more than one expert in any single discipline;
- (b) whether a common expert is appropriate for all or any part of the evidence;
- (c) the nature and extent of expert reports, including any in reply;
- (d) the identity of each expert witness that a party intends to call, their area(s) of expertise and availability during the proposed hearing;
- (e) the issues that it is proposed each expert will address;
- (f) the arrangements for a conference of experts to prepare a joint-report (see Part 7 of this practice note);
- (g) whether the evidence is to be given concurrently and, if so, how (see Part 8 of this practice note); and
- (h) whether any of the evidence in chief can be given orally.

6.2 It will often be desirable, before any expert is retained, for the parties to attempt to agree on the question or questions proposed to be the subject of expert evidence as well as the relevant facts and assumptions. The Court may make orders to that effect where it considers it appropriate to do so.

7. Conference of Experts and Joint-report

7.1 Parties, their legal representatives and experts should be familiar with aspects of the Code relating to conferences of experts and joint-reports (see clauses 6 and 7 of the Code attached in Annexure A).

7.2 In order to facilitate the proper understanding of issues arising in expert evidence and to manage expert evidence in accordance with the overarching purpose, the Court may require experts who are to give evidence or who have produced reports to meet for the purpose of identifying and addressing the issues not agreed between them with a view to reaching agreement where this is possible ("conference of experts"). In an appropriate case, the Court may appoint a registrar of the Court or some other suitably qualified person ("Conference Facilitator") to act as a facilitator at the conference of experts.

7.3 It is expected that where expert evidence may be relied on in any proceeding, at the earliest opportunity, parties will discuss and then inform the Court whether a conference of experts and/or a joint-report by the experts may be desirable to assist with or simplify the giving of expert evidence in the

proceeding. The parties should discuss the necessary arrangements for any conference and/or joint-report. The arrangements discussed between the parties should address:

- (a) who should prepare any joint-report;
- (b) whether a list of issues is needed to assist the experts in the conference and, if so, whether the Court, the parties or the experts should assist in preparing such a list;
- (c) the agenda for the conference of experts; and
- (d) arrangements for the provision, to the parties and the Court, of any joint-report or any other report as to the outcomes of the conference ("**conference report**").

Conference of Experts

7.4 The purpose of the conference of experts is for the experts to have a comprehensive discussion of issues relating to their field of expertise, with a view to identifying matters and issues in a proceeding about which the experts agree, partly agree or disagree and why. For this reason the conference is attended only by the experts and any Conference Facilitator. Unless the Court orders otherwise, the parties' lawyers will not attend the conference but will be provided with a copy of any conference report.

7.5 The Court may order that a conference of experts occur in a variety of circumstances, depending on the views of the judge and the parties and the needs of the case, including:

- (a) while a case is in mediation. When this occurs the Court may also order that the outcome of the conference or any document disclosing or summarising the experts' opinions be confidential to the parties while the mediation is occurring;
- (b) before the experts have reached a final opinion on a relevant question or the facts involved in a case. When this occurs the Court may order that the parties exchange draft expert reports and that a conference report be prepared for the use of the experts in finalising their reports;
- (c) after the experts' reports have been provided to the Court but before the hearing of the experts' evidence. When this occurs the Court may also order that a conference report be prepared (jointly or otherwise) to ensure the efficient hearing of the experts' evidence.

7.6 Subject to any other order or direction of the Court, the parties and their lawyers must not involve themselves in the conference of experts process. In particular, they must not seek to encourage an expert not to agree with another expert or otherwise seek to influence the outcome of the conference of experts. The experts should raise any queries they may have in relation to the process with the Conference Facilitator (if one has been appointed) or in accordance with a protocol agreed between the lawyers prior to the conference of experts taking place (if no Conference Facilitator has been appointed).

7.7 Any list of issues prepared for the consideration of the experts as part of the conference of experts process should be prepared using non-tendentious language.

7.8 The timing and location of the conference of experts will be decided by the judge or a registrar who will take into account the location and availability of the experts and the Court's case management timetable. The conference may take place at the Court and will usually be conducted in-person. However, if not considered a hindrance to the process, the conference may also be conducted with the assistance of visual or audio technology (such as via the internet, video link and/or by telephone).

7.9 Experts should prepare for a conference of experts by ensuring that they are familiar with all of the material upon which they base their opinions. Where expert reports in draft or final form have been exchanged prior to the conference, experts should attend the conference familiar with the reports of the other experts. Prior to the conference, experts should also consider where they believe the differences of opinion lie between them and what processes and discussions may assist to identify and refine those areas of difference.

Joint-report

7.10 At the conclusion of the conference of experts, unless the Court considers it unnecessary to do so, it is expected that the experts will have narrowed the issues in respect of which they agree, partly agree or disagree in a joint-report. The joint-report should be clear, plain and concise and should summarise the views of the experts on the identified issues, including a succinct explanation for any differences of opinion, and otherwise be structured in the manner requested by the judge or registrar.

7.11 In some cases (and most particularly in some native title cases), depending on the nature, volume and complexity of the expert evidence a judge may direct a registrar to draft part, or all, of a conference report. If so, the registrar will usually provide the draft conference report to the relevant experts and seek their confirmation that the conference report accurately reflects the opinions of the experts expressed at the conference. Once that confirmation has been received the registrar will finalise the conference report and provide it to the intended recipient(s).

8. Concurrent Expert Evidence

8.1 The Court may determine that it is appropriate, depending on the nature of the expert evidence and the proceeding generally, for experts to give some or all of their evidence concurrently at the final (or other) hearing.

8.2 Parties should familiarise themselves with the *Concurrent Expert Evidence Guidelines* (attached in Annexure B). The Concurrent Evidence Guidelines are not intended to be exhaustive but indicate the circumstances when the Court might consider it appropriate for concurrent expert evidence to take place, outline how that process may be undertaken, and assist experts to understand in general terms what the Court expects of them.

8.3 If an order is made for concurrent expert evidence to be given at a hearing, any expert to give such evidence should be provided with the Concurrent Evidence Guidelines well in advance of the hearing and should be familiar with those guidelines before giving evidence.

9. Further Practice Information and Resources

9.1 Further information regarding Expert Evidence and Expert Witnesses is available on the Court's website.

9.2 Further information to assist litigants, including a range of helpful guides, is also available on the Court's website. This information may be particularly helpful for litigants who are representing themselves.

J L B ALLSOP
Chief Justice
25 October 2016

Annexure A

Harmonised Expert Witness Code of Conduct^[2]

Application of Code

1. This Code of Conduct applies to any expert witness engaged or appointed:
 - (a) to provide an expert's report for use as evidence in proceedings or proposed proceedings; or
 - (b) to give opinion evidence in proceedings or proposed proceedings.

General Duties to the Court

2. An expert witness is not an advocate for a party and has a paramount duty, overriding any duty to the party to the proceedings or other person retaining the expert witness, to assist the Court impartially on matters relevant to the area of expertise of the witness.

Content of Report

3. Every report prepared by an expert witness for use in Court shall clearly state the opinion or opinions of the expert and shall state, specify or provide:
 - (a) the name and address of the expert;
 - (b) an acknowledgment that the expert has read this code and agrees to be bound by it;
 - (c) the qualifications of the expert to prepare the report;
 - (d) the assumptions and material facts on which each opinion expressed in the report is based [a letter of instructions may be annexed];
 - (e) the reasons for and any literature or other materials utilised in support of such opinion;
 - (f) (if applicable) that a particular question, issue or matter falls outside the expert's field of expertise;
 - (g) any examinations, tests or other investigations on which the expert has relied, identifying the person who carried them out and that person's qualifications;

- (h) the extent to which any opinion which the expert has expressed involves the acceptance of another person's opinion, the identification of that other person and the opinion expressed by that other person;
- (i) a declaration that the expert has made all the inquiries which the expert believes are desirable and appropriate (save for any matters identified explicitly in the report), and that no matters of significance which the expert regards as relevant have, to the knowledge of the expert, been withheld from the Court;
- (j) any qualifications on an opinion expressed in the report without which the report is or may be incomplete or inaccurate;
- (k) whether any opinion expressed in the report is not a concluded opinion because of insufficient research or insufficient data or for any other reason; and
- (l) where the report is lengthy or complex, a brief summary of the report at the beginning of the report.

Supplementary Report Following Change of Opinion

4. Where an expert witness has provided to a party (or that party's legal representative) a report for use in Court, and the expert thereafter changes his or her opinion on a material matter, the expert shall forthwith provide to the party (or that party's legal representative) a supplementary report which shall state, specify or provide the information referred to in paragraphs (a), (d), (e), (g), (h), (i), (j), (k) and (l) of clause 3 of this code and, if applicable, paragraph (f) of that clause.

5. In any subsequent report (whether prepared in accordance with clause 4 or not) the expert may refer to material contained in the earlier report without repeating it.

Duty to Comply with the Court's Directions

6. If directed to do so by the Court, an expert witness shall:

- (a) confer with any other expert witness;
- (b) provide the Court with a joint-report specifying (as the case requires) matters agreed and matters not agreed and the reasons for the experts not agreeing; and
- (c) abide in a timely way by any direction of the Court.

Conference of Experts

7. Each expert witness shall:

- (a) exercise his or her independent judgment in relation to every conference in which the expert participates pursuant to a direction of the Court and in relation to each report thereafter provided, and shall not act on any instruction or request to withhold or avoid agreement; and
- (b) endeavour to reach agreement with the other expert witness (or witnesses) on any issue in dispute between them, or failing agreement, endeavour to identify and clarify the basis of disagreement on the issues which are in dispute.

Annexure B

Concurrent Expert Evidence Guidelines

Application of the Court's Guidelines

1. The Court's Concurrent Expert Evidence Guidelines ("**Concurrent Evidence Guidelines**") are intended to inform parties, practitioners and experts of the Court's general approach to concurrent expert evidence, the circumstances in which the Court might consider expert witnesses giving evidence concurrently and, if so, the procedures by which their evidence may be taken.

Objectives of Concurrent Expert Evidence Technique

2. The use of concurrent evidence for the giving of expert evidence at hearings as a case management technique^[3] will be utilised by the Court in appropriate circumstances (see r 23.15 of the Federal Court Rules 2011 (Cth)). Not all cases will suit the process. For instance, in some patent cases, where the entire case revolves around conflicts within fields of expertise, concurrent evidence may not assist a judge. However, patent cases should not be excluded from concurrent expert evidence processes.

3. In many cases the use of concurrent expert evidence is a technique that can reduce the partisan or confrontational nature of conventional hearing processes and minimises the risk that experts become "opposing experts" rather than independent experts assisting the Court. It can elicit more precise and accurate expert evidence with greater input and assistance from the experts themselves.

4. When properly and flexibly applied, with efficiency and discipline during the hearing process, the technique may also allow the experts to more effectively focus on the critical points of disagreement between them, identify or resolve those issues more quickly, and narrow the issues in dispute. This can also allow for the key evidence to be given at the same time (rather than being spread across many days of hearing); permit the judge to assess an expert more readily, whilst allowing each party a genuine opportunity to put and test expert evidence. This can reduce the chance of the experts, lawyers and the judge misunderstanding the opinions being expressed by the experts.

5. It is essential that such a process has the full cooperation and support of all of the individuals involved, including the experts and counsel involved in the questioning process. Without that cooperation and support the process may fail in its objectives and even hinder the case management process.

Case Management

6. Parties should expect that, the Court will give careful consideration to whether concurrent evidence is appropriate in circumstances where there is more than one expert witness having the same expertise who is to give evidence on the same or related topics. Whether experts should give evidence concurrently is a matter for the Court, and will depend on the circumstances of each individual case, including the character of the proceeding, the nature of the expert evidence, and the views of the parties.

7. Although this consideration may take place at any time, including the commencement of the hearing, if not raised earlier, parties should raise the issue of concurrent evidence at the first appropriate case management hearing, and no later than any pre-trial case management hearing, so that orders can be made in advance, if necessary. To that end, prior to the hearing at which expert evidence may be given concurrently, parties and their lawyers should confer and give general consideration as to:

(a) the agenda;

(b) the order and manner in which questions will be asked; and

(c) whether cross-examination will take place within the context of the concurrent evidence or after its conclusion.

8. At the same time, and before any hearing date is fixed, the identity of all experts proposed to be called and their areas of expertise is to be notified to the Court by all parties.

9. The lack of any concurrent evidence orders does not mean that the Court will not consider using concurrent evidence without prior notice to the parties, if appropriate.

Conference of Experts & Joint-report or List of Issues

10. The process of giving concurrent evidence at hearings may be assisted by the preparation of a joint-report or list of issues prepared as part of a conference of experts.

11. Parties should expect that, where concurrent evidence is appropriate, the Court may make orders requiring a conference of experts to take place or for documents such as a joint-report to be prepared to facilitate the concurrent expert evidence process at a hearing (see Part 7 of the Expert Evidence Practice Note).

Procedure at Hearing

12. Concurrent expert evidence may be taken at any convenient time during the hearing, although it will often occur at the conclusion of both parties' lay evidence.

13. At the hearing itself, the way in which concurrent expert evidence is taken must be applied flexibly and having regard to the characteristics of the case and the nature of the evidence to be given.

14. Without intending to be prescriptive of the procedure, parties should expect that, when evidence is given by experts in concurrent session:

(a) the judge will explain to the experts the procedure that will be followed and that the nature of the process may be different to their previous experiences of giving expert evidence;

- (b) the experts will be grouped and called to give evidence together in their respective fields of expertise;
- (c) the experts will take the oath or affirmation together, as appropriate;
- (d) the experts will sit together with convenient access to their materials for their ease of reference, either in the witness box or in some other location in the courtroom, including (if necessary) at the bar table;
- (e) each expert may be given the opportunity to provide a summary overview of their current opinions and explain what they consider to be the principal issues of disagreement between the experts, as they see them, in their own words;
- (f) the judge will guide the process by which evidence is given, including, where appropriate:
 - (i) using any joint-report or list of issues as a guide for all the experts to be asked questions by the judge and counsel, about each issue on an issue-by-issue basis;
 - (ii) ensuring that each expert is given an adequate opportunity to deal with each issue and the exposition given by other experts including, where considered appropriate, each expert asking questions of other experts or supplementing the evidence given by other experts;
 - (iii) inviting legal representatives to identify the topics upon which they will cross-examine;
 - (iv) ensuring that legal representatives have an adequate opportunity to ask all experts questions about each issue. Legal representatives may also seek responses or contributions from one or more experts in response to the evidence given by a different expert; and
 - (v) allowing the experts an opportunity to summarise their views at the end of the process where opinions may have been changed or clarifications are needed.

15. The fact that the experts may have been provided with a list of issues for consideration does not confine the scope of any cross-examination of any expert. The process of cross-examination remains subject to the overall control of the judge.

16. The concurrent session should allow for a sensible and orderly series of exchanges between expert and expert, and between expert and lawyer. Where appropriate, the judge may allow for more traditional cross-examination to be pursued by a legal representative on a particular issue exclusively with one expert. Where that occurs, other experts may be asked to comment on the evidence given.

17. Where any issue involves only one expert, the party wishing to ask questions about that issue should let the judge know in advance so that consideration can be given to whether arrangements should be made for that issue to be dealt with after the completion of the concurrent session. Otherwise, as far as practicable, questions (including in the form of cross-examination) will usually be dealt with in the concurrent session.

18. Throughout the concurrent evidence process the judge will ensure that the process is fair and effective (for the parties and the experts), balanced (including not permitting one expert to overwhelm or overshadow any other expert), and does not become a protracted or inefficient process.

[1] Such a witness includes a "Court expert" as defined in r 23.01 of the Federal Court Rules. For the definition of "expert", "expert evidence" and "expert report" see the Dictionary, in Schedule 1 of the Federal Court Rules.

[2] Approved by the Council of Chief Justices' Rules Harmonisation Committee

[3] Also known as the "hot tub" or as "expert panels".



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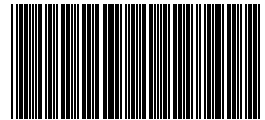
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Annexure B – Originating process and supporting affidavit of Christopher Clarke Hill filed on 30 March 2022



Filed: 30 March 2022 1:24 PM



D0001JNOX0

Form 2

ORIGINATING PROCESS – COVERSHEET AND ACKNOWLEDGEMENT

IN THE MATTER OF HERON RESOURCES LIMITED

COURT DETAILS

Court	Supreme Court of NSW
Division	Equity
List	Corporations List
Registry	Supreme Court Sydney
Case number	2022/00090945

TITLE OF PROCEEDINGS

First Plaintiff	CHRISTOPHER CLARKE HILL
Second Plaintiff	DAVID PETER MCGRATH
Number of plaintiffs	3

FILING DETAILS

Filed for	CHRISTOPHER CLARKE HILL, Plaintiff 1 DAVID PETER MCGRATH, Plaintiff 2 MICHAEL JOSEPH RYAN, Plaintiff 3
Legal representative	Timothy Michael Klineberg
Legal representative reference	
Telephone	02 9296 2493
Your reference	TK/ZK:602-0066277

HEARING DETAILS

This application will be heard at Supreme Court Sydney on 11 April 2022 at 10:00 AM

ATTACHMENT DETAILS

In accordance with Part 3 of the UCPR, this coversheet confirms that both the Originating process (Corporations Law) Other, along with any other documents listed below, were filed by the Court.

Corporations Law Originating Process (Form 2) (220330 Originating Process - 444GA Application (signed).pdf)

Affidavit in Support of Originating Process (220330 Affidavit of Christopher Clarke Hill affirmed 30 March 2022 (signed).pdf)

[attach.]

IN THE SUPREME COURT OF NEW SOUTH WALES

No

of 2022

DIVISION: EQUITY

LIST: CORPORATIONS

REGISTRY: SYDNEY

IN THE MATTER OF **HERON RESOURCES LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT) & ORS**

ACN: **068 263 098**

**CHRISTOPHER CLARKE HILL, DAVID PETER MCGRATH AND MICHAEL JOSEPH RYAN IN
THEIR CAPACITY AS JOINT AND SEVERAL DEED ADMINISTRATORS OF HERON RESOURCES
LIMITED (ACN 068 263 098) (SUBJECT TO DEED OF COMPANY ARRANGEMENT)**

(AND THE COMPANIES LISTED IN SCHEDULE 1)

Plaintiffs

ORIGINATING PROCESS

A. DETAILS OF APPLICATION

This application is made under sections 444GA(1)(b) and 447A of the *Corporations Act 2001* (Cth) (**Act**), and 90-15 of the *Insolvency Practice Schedule (Corporations)* set out in Schedule 2 of the Act (**IPS**).

The Plaintiffs in their capacities as joint and several deed administrators of the DOCA seek orders pursuant to section 444GA(1)(b) of the Act to transfer the Shares to the Proponent.

On the facts stated in the supporting affidavit of Christopher Clarke Hill sworn 30 March 2022, the Plaintiffs apply for the following relief:

- 1 An order that the Originating Process be made returnable *instanter*.

Preserved Employee Fund

- 2 To the extent there is any surplus of the Preserved Employee Fund after payment of all Admitted Priority Claims, that surplus is released and the Plaintiffs, including in their capacity as Trustees, are entitled to deal with that surplus other than in relation to the Admitted Priority Claims.

444GA Order

- 3 Pursuant to section 444GA(1)(b) of the Corporations Act the Plaintiffs jointly and severally have leave to transfer the Shares from the Members to the Proponent.

- 4 Pursuant to section 447A(1) of the Corporations Act and clause 90-15(1) of the IPS, any of the Plaintiffs may jointly or severally:
- (a) execute on behalf of the Members share transfer forms and any other documents ancillary or incidental to effecting the transfer referred to in order 3; and
 - (b) enter or procure the entry of the name of the Proponent in the Share register for Heron Resources in respect of all Shares transferred to the Proponent in accordance with order 3.

Service and Notices

- 5 An order that the Plaintiffs, within five business days of the making these orders, are to take all reasonable steps to give notice of the orders to the Members and the Companies' creditors (including the persons claiming to be creditors), by means of a circular:
- (a) to be sent by email to the Members and creditors for whom the Plaintiffs have a current email address;
 - (b) to be sent by ordinary post to the Members and creditors for whom the Plaintiffs lack a current email address but have postal address;
 - (c) to be published on the Heron Administration Website; and
 - (d) to be published in an ASX Announcement for Heron Resources.

Other


- 6 The Plaintiffs' costs of and incidental to this application be costs and expenses in the external administration of each of the Companies and be paid out of the assets of each of the Companies.
- 7 A direction that Orders 1 to 6 of this Originating Process be entered forthwith.
- 8 Any other order that the Court deems fit.

Definitions

- 9 In this originating process, capitalised terms have the following meaning:
- (a) **Admitted Priority Claims** means any claim which is admitted by the Trustees, which in the liquidation of the Companies would be entitled to priority of payment pursuant to sections 556(1)(e) to (h) (inclusive), 560 or 561 of the Act.
 - (b) **Company** or **Companies** means Heron Resources and each of the companies in Schedule 1.
 - (c) **DOCA** means the deed of company arrangement entered into between the Plaintiffs, in their capacities as voluntary administrators of the Companies, each Company and the Proponent dated 25 February 2022.

- (d) **Heron Administration Website** means the website maintained by the Plaintiffs in relation to the administration of the Companies at <https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsiidiaries>.
- (e) **Heron Resources** means Heron Resources Limited (ACN 068 263 098).
- (f) **Members** means the “members” (as defined in the Act) of Heron Resources.
- (g) **Preserved Employee Funds** means the amount of A\$1,009,718 held by the Administrators in a separate bank account for the purposes of meeting priority employee entitlements in accordance with an order of Justice Black dated 13 August 2021.
- (h) **Proponent** means DEVELOP Global Limited (ACN 122 180 205).
- (i) **Shares** means 100% of the fully paid ordinary shares in the capital of Heron Resources.
- (j) **Trust Deed** means the creditors’ trust deed dated 25 February 2022 entered into between the Companies and the Plaintiffs.
- (k) **Trustees** means the Plaintiffs in their capacity as trustees of the Trust Deed.

Date: 30 March 2022



.....
 Timothy Michael Klineberg
 Lawyer for the plaintiffs
 King & Wood Mallesons

This application will be heard via telephone by the Supreme Court of New South Wales at the Law Courts Building, Queens Square, Sydney at _____ on _____ 2022.

B. NOTICE TO DEFENDANT(S)

There are no defendants to this application.

C. APPLICATION FOR WINDING UP ON GROUND OF INSOLVENCY

Not applicable.

D. FILING

Date of filing: 30 March 2022

Registrar

This originating process is filed by Timothy Michael Klineberg for the plaintiffs.

E. SERVICE

The plaintiffs' address for service is

King & Wood Mallesons
Level 61 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
zoe.kaesehagen@au.kwm.com

It is not intended to serve a copy of this originating process on any person.

SCHEDULE 1

	Name	ACN
1	Hampton Nickel Pty Ltd (subject to deed of company arrangement)	100 180 498
2	Ochre Resources Pty Limited (subject to deed of company arrangement)	112 833 351
3	Tarago Exploration Pty Ltd (subject to deed of company arrangement)	115 529 112
4	Tarago Operations Pty Ltd (subject to deed of company arrangement)	127 810 413
5	Woodlawn Mine Holdings Pty Ltd (subject to deed of company arrangement)	612 657 164

IN THE SUPREME COURT OF NEW SOUTH WALES
DIVISION: EQUITY
LIST: CORPORATIONS
REGISTRY: SYDNEY

No of 2022

IN THE MATTER OF HERON RESOURCES LIMITED (SUBJECT TO DEED OF COMPANY
ARRANGEMENT) & ORS
ACN 068 263 098

CHRISTOPHER CLARKE HILL, DAVID PETER MCGRATH AND MICHAEL JOSEPH RYAN IN
THEIR CAPACITY AS JOINT AND SEVERAL DEED ADMINISTRATORS OF HERON RESOURCES
LIMITED (ACN 068 263 098) (SUBJECT TO DEED OF COMPANY ARRANGEMENT)

(AND THE COMPANIES LISTED IN SCHEDULE 1)

Plaintiffs

AFFIDAVIT OF CHRISTOPHER CLARKE HILL

I, **CHRISTOPHER CLARKE HILL**, care of FTI Consulting, Level 22, 1 Macquarie Place, Sydney, in the State of New South Wales, Registered and Official Liquidator, solemnly and sincerely affirm:

- 1 I am a senior managing director of FTI Consulting. Together with David Peter McGrath and Michael Joseph Ryan (both of FTI Consulting), we are the plaintiffs in these proceedings.
- 2 I am a Registered Liquidator and have been since 2006. In my time as a Registered Liquidator, I have acted on numerous voluntary administrations, receiverships and liquidations across a range of industries. I have over 25 years of experience in advisory services, corporate recovery, corporate restructuring and strategic and independent business reviews for a large range of entities. I have been a senior managing director of FTI Consulting since 1 February 2021. Prior to this I was a partner at PricewaterhouseCoopers for approximately 2 years.
- 3 References in this affidavit to "our", "we", "**Administrators**" and "**Deed Administrators**" are references to Mr McGrath, Mr Ryan and me, as the context requires.
- 4 I make this affidavit in support of the Deed Administrators' application (**Application**), for orders pursuant to section 444GA of the *Corporations Act 2001* (Cth) (**Act**) and section 90-15 of the *Insolvency Practice Schedule (Corporations)* (**IPS**) for the transfer of 100% of the issued shares (**Shares**) of Heron Resources Limited (ACN 068 263 098) (**Heron Resources**) to DEVELOP Global Limited (ACN 122 180 205) (**Proponent**) under the deed of company arrangement between, among others, Heron Resources and its subsidiaries listed at Schedule 1 (together, the **Companies** or **Group**), the Proponent and the Administrators dated 25 February 2022 (**DOCA**).

Filed on behalf of the Plaintiffs by:
KING & WOOD MALLESONS
Level 61 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

DX 113 SYDNEY
T+ 61 2 9296 2000
F+ 61 2 9296 3999
Ref: TMK/ZK
Matter no: 602-0066277

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- 5 I make this affidavit from my own knowledge and from information I have obtained through my role as an external administrator of the Companies, including from my review of the books and records of the Companies to which I have had access. Where I refer to matters of information, I believe that information to be true.
- 6 Shown to me at the time of affirming this affidavit is a bundle of documents marked “**Exhibit CH1**”. References in this affidavit to page numbers are references to the corresponding page number located on the bottom right-hand side of Exhibit CH1.

Appointment to the Companies

- 7 On 16 July 2021 (**Appointment Date**), the Administrators were appointed as joint and several voluntary administrators to each of the Companies pursuant to resolutions of the boards of directors in accordance with section 436A(1) of the Act. Copies of the instruments appointing us as Administrators of the Companies are at **pages 1 to 3** of Exhibit CH1.
- 8 Copies of current and historical company extracts from the database maintained by the Australian Securities and Investments Commission (**ASIC**) for each of the Companies extracted on 15 March 2022 (with pages after page 12 of the extract for Heron Resources omitted for brevity) is at **pages 4 to 75** of Exhibit CH1.

Purpose of Application

- 9 As I outline below, the Companies operate a zinc copper mine (**Woodlawn Project**) and participate in various joint ventures to mine and produce base metals. The Companies entered administration following a failed recapitalisation to fund the restart of operations at the Woodlawn Project, which had been adversely impacted by delays to the commencement of commercial production and COVID-19 and had been subject to a care and maintenance (**C&M**) regime since March 2019.
- 10 The orders sought in the Application are a precondition to the effectuation of the DOCA which will recapitalise the Group and accelerate the Companies’ return to solvency.

Background to Operations

- 11 Heron Resources is an Australian resources company listed on the Australian Securities Exchange (**ASX**) (ASX code: HRR). It is currently suspended from trade.
- 12 The Group’s primary focus is its 100% owned, high-grade Woodlawn Zinc-Copper project located 250km southwest of Sydney, New South Wales (**Woodlawn Mine**). Heron Resources’ stated aim is to create a profitable, long-life, low-cost mining operation at the Woodlawn Mine, producing base metal concentrates.
- 13 Veolia Environmental Services (Australia) Pty Ltd (ACN 051 316 584) (**Veolia**) owns the property upon which the Woodlawn Mine is located. A Cooperation Deed dated 23 March 2017 between Veolia and Heron Resources (among others) governs the use of the property and contributions payable by Heron Resources in relation to activities undertaken by Veolia on the site.

- 14 Construction activities for a new processing facility at the Woodlawn Mine commenced in September 2017 and were completed in the June 2019 quarter. On 26 February 2018, Tarago Operations entered into the Woodlawn Mine Underground Mining Contract with Pybar Mining Services Pty Ltd (ACN 060 589 433) (**Pybar**), under which Pybar was contracted to undertake the underground mining activities at the Woodlawn Mine. The first lead and zinc concentrate following construction of the new plant was produced from the Woodlawn Mine in September 2019.
- 15 In addition to the Woodlawn Mine, the Group has two exploration projects. The first is based directly north of the Woodlawn Mine. The second is a strategic tenement package covering sites within potential trucking distance to the Woodlawn Mine and processing facility.
- 16 The Group is also a co-venturer in two exploration joint ventures with Sky Metals (ASX:SKY) and Alchemy Resources Ltd (ASX:ALY) and owns a series of royalties over gold mining tenements controlled by Ora Banda Mining Ltd (ASX:OBM).
- 17 Heron Resources, Woodlawn Holdings and Tarago Operations are each party to a deed of cross-guarantee dated 24 April 2019, lodged with ASIC under document ID 30556335. A copy of the Deed of Cross-Guarantee as extracted from the database maintained by ASIC is at **pages 76 to 109** of Exhibit CH1.
- 18 The tables at **Schedule 2** provide a summary of the Group's mining rights (**Mineral Assets**), including details of the relevant subsidiary which holds the mining right, the project name and the percentage interest in the mining right (or percentage interest in the relevant joint venture).

Conduct of administrations

- 19 Since our appointment as Administrators of the Companies, we have, consistent with our functions and duties under the Act, investigated the Companies' business, property, affairs and financial circumstances and taken steps to preserve the value of the businesses undertaken by the Companies.
- 20 A detailed analysis of the tasks undertaken by the Administrators and our staff since the Appointment Date is set out in section 6.1 of the Creditors' Report (defined at paragraph 37 below) (**pages 138 and 139** of Exhibit CH1), and include:
- (a) taking steps preserve the value of the assets via the continuation of the ongoing C&M regime at the Woodlawn Mine;
 - (b) seeking funding from Orion I (defined below), one of the secured creditors, to fund C&M and the administration process generally to achieve a recapitalisation of the Group;
 - (c) engaging a suitably qualified financial advisor, Azure Capital, to advise on and execute an expression of interest campaign to achieve a recapitalisation or sale of the Group's business (**Transaction Process**);
 - (d) facilitating the Transaction Process and engaging with interested parties in relation to non-binding proposals to recapitalise the Group via a deed of company arrangement;

- (e) exploring options to improve the marketability of the assets, including engaging various technical consultants; and
- (f) exploring the sale of assets excluding those relating to the Woodlawn Mine, and negotiating with various suppliers to reduce, where possible, the costs of the administration process.

Financial decline of the Group

- 21 Our investigations into the affairs of the Companies are set out in section 4.7 of the Creditors' Report (**pages 128 to 133** of Exhibit CH1).
- 22 Our assessment into the Companies' financial history and operations has identified the following drivers contributing to the financial decline of the Group:
- (a) extreme volatility in base metal prices due to the COVID-19 pandemic;
 - (b) time delays and cost overruns in the design, construction and commissioning phases of the Woodlawn Mine processing plant;
 - (c) the impact of the pandemic on the Group's ability to operate a safe working environment and resolve technical issues with the Woodlawn Mine following commencement of operations of the processing plant in mid to late 2019; and
 - (d) the inability of the Group to raise additional capital to recommence operations at the Woodlawn Mine following the transition into C&M on 24 March 2020.

Companies' position at appointment

- 23 As outlined in detail at section 6.5 of the Creditors' Report (**pages 145 to 151** of Exhibit CH1), the Administrators assessed that the Companies had, on the Appointment Date, on a consolidated basis, approximately:
- (a) A\$9.93 million to A\$12.29 million in total assets, excluding the value of the mine itself;
 - (b) A\$259.29 million in liabilities comprised of;
 - (i) 5 secured creditors owed approximately \$169.4 million;
 - (ii) 9 employees owed approximately A\$655,754 (which does not include a contingent provision for redundancy payments as the Companies are classified as "small business employers" under the *Fair Work Act 2009* (Cth), and are therefore not required to pay redundancy);
 - (iii) 3 unsecured convertible noteholders owed approximately A\$62.39 million;
 - (iv) statutory liabilities owed to the Australian Taxation Office, and the New South Wales and Western Australian State Revenue offices totalling A\$905,801; and
 - (v) various trade creditors owed approximately A\$25.91 million.

- 24 The key secured creditors of the Companies are:
- (a) OMF Fund II (H) Ltd (**Orion I**), who has submitted a proof of debt (subject to adjudication) in the administration of the Group of approximately US\$66.7 million;
 - (b) OMF Fund II (Li) L.P (whose debt was assigned to Nomad Royalty Company Ltd (**Nomad**) in May 2020). Nomad has submitted a proof of debt (subject to adjudication) in the administration of the Group of approximately US\$49.4 million; and
 - (c) Castl lake III, L.P, Castl lake IV, L.P. and CL V Investment Solutions LLC (together, **Castl lake**), who have submitted a proof of debt (subject to adjudication) in the administration of the Group of approximately A\$4.4 million.
- 25 An intercreditor agreement regulates the priority and subordination agreement between Orion I and Nomad (as first ranking) and Castl lake (as second ranking). There is a further intercreditor agreement regulating the priority and subordination between Orion I (as first ranking) and Nomad (as second ranking).

First Meetings

- 26 The first meetings of creditors of the Companies were held on 27 July 2021 pursuant to section 436E of the Act (**First Meetings**).
- 27 At the First Meetings, a committee of inspection was appointed in relation to Tarago Operations (**COI**). The membership of the COI was as follows:

Name	Status	Representative
Orion I	Secured creditor	Peter Rozenauers
Orion Mine Finance Fund II LP (Orion II)	Convertible noteholder	Peter Rozenauers
Nomad	Secured creditor	Joseph de la Plante
National Pump & Energy Pty Ltd (NPE)	Trade creditor	Timothy Edwards

- 28 I acted as chairperson of the First Meeting. A copy of the minutes from the First Meeting is at pages 422 to 431 of Exhibit CH1.

Court Applications

- 29 On 12 August 2021, the Administrators filed an originating process, commencing New South Wales Supreme Court Proceeding 230300/2021 (**First Proceeding**). In the originating process, the Administrators sought (among other things):
- (a) an extension to the convening period for the second meeting of creditors of the Companies from 16 August 2021 to 16 November 2021;
 - (b) a direction that the Administrators were justified in causing Tarago Operations to enter into a funding agreement with Orion I, in the amount of U\$2.7 million (A\$3.6 million) (**Funding Agreement**);

- (c) relief as to personal liability from repaying any debt of liability in respect to the Funding Agreement if the Administrators' statutory indemnity out of the property of Tarago Operations was insufficient to satisfy those debts or liability; and
 - (d) leave to be granted to COI members, Orion I and NPE, to derive a profit or advantage from the external administration of the Companies.
- 30 On 13 August 2021, the Court made the orders sought by the Administrators in the First Proceeding. A further order was made requiring A\$1.009 million of the pre-appointment cash to be held in a separate bank account for the purpose of meeting priority employee entitlements (**Preserved Employee Fund**). A copy of the orders made by the Court on 13 August 2021 is at **pages 432 to 436** of Exhibit CH1.
- 31 On 10 November 2021, the Administrators filed an interlocutory process seeking a further extension to the convening period for the second creditors meeting of the Companies from 16 November 2021 to 28 February 2022.
- 32 On 15 November 2021, the Court made orders extending the convening period to 28 February 2022. A copy of the orders made by the Court on 15 November 2021 is at **pages 437 to 438** of Exhibit CH1.

DOCA Proposal

- 33 Details of the steps taken by the Administrators' towards selling and recapitalising the Companies is set out in section 6.4 of the Creditors' Report (**pages 143 and 144** of Exhibit CH1).
- 34 On 17 November 2021 and 20 January 2022, the Administrators received non-binding offers from the Proponent that set out the key provisions of a deed of company arrangement (**DOCA Proposal**).
- 35 Under the DOCA Proposal, it was proposed that:
- (a) the Proponent will provide notional consideration of A\$137.5 million, comprising:
 - (i) A\$5.5 million in cash and \$15 million in Develop shares to Orion I;
 - (ii) A\$1.5 million to Castlake;
 - (iii) contingent payments of up to A\$70 million and \$37 million to Orion I and Nomad, respectively, pursuant to separate Cooperation Deeds entered into between the parties, subject to the successful future development of the Woodlawn Mine by Develop (**Deferred Contingent Consideration**);
 - (iv) contributions to be settled in the Trust Fund (**Proponent Contribution**), which will be established under the Trust Deed following the effectuation of the DOCA (see further paragraph 45 below), of:
 - (A) A\$7.513 million, to settle liabilities, costs and remuneration of the Administrators, Deed Administrators and Trustees of the Trust Deed; and
 - (B) A\$0.987 million, to settle unsecured creditor claims of the Companies in accordance with the pools outlined at paragraph 36(c) below; and

- (b) the Trust Fund will also comprise:
- (i) the Preserved Employee Fund; and
 - (ii) any operating cash held by the Group.

36 As set out at 8.4 of the Creditors' Report (**pages 167 and 168** of Exhibit CH1), the DOCA Proposal provided for a significantly better outcome to creditors of the Companies for broadly the following reasons:

- (a) there was no alternate proposal capable of acceptance, meaning the only realistic option for the Group to avoid liquidation was the DOCA Proposal;
- (b) the market has been thoroughly tested and the DOCA Proposal was the best option available to stakeholders;
- (c) the DOCA Proposal offered the following returns (Cents/\$):

Creditor Type	Low Case	High Case
Secured Creditors		
Orion I	22	98
Nomad	-	56
Castlake	34	34
Priority Creditors		
Employee entitlements	100	100
Unsecured Creditors		
Government and Statutory Authority Creditors	100	100
Pool A Creditors	100	100
Pool B Creditors	~1	~1

- (d) the anticipated return to unsecured creditors in a liquidation scenario is nil, meaning the DOCA Proposal will provide a higher cents in the dollar return for unsecured creditors than they may receive in an immediate winding up;
- (e) under the DOCA Proposal the business will continue as a going concern and it is expected that the majority of the workforce will be maintained; and
- (f) the amount of the Preserved Employee Fund, in light of the total employee entitlements (refer paragraph 30 above), means that terminated employees will receive 100 cents on the dollar in respect of their priority employee entitlements.

Second Meetings

Notice of Meeting

37 Based on a review of the Companies' books and records by the Administrators and our staff, a report pursuant to rule 75-225 of the *Insolvency Practice Rules (Corporations)* (**Creditors' Report**) was sent to all known creditors of the Companies. A copy of the Creditors' Report is at **pages 110 to 421** of Exhibit CH1.

- 38 On 17 February 2022, the Administrators made the Creditors' Report available on their website maintained in relation to the administration of the Companies at <https://www.fticonsulting.com/creditors/heron-resources-limited-and-its-subsiaries> (**Heron Administration Website**). The Report included a notice convening the second creditors' meeting on 25 February 2022.
- 39 An email was also sent to all creditors where email addresses were available from the Companies' books and records with a circular that contained links to the Heron Administration Website at which the Creditors' Report could be accessed. The circular also provided the notice of meeting, proof of debt forms and proxy forms.
- 40 The Creditors' Report sets out, among other things, a summary of:
- (a) our strategy and the financial position of each of the Companies at pages 29 to 42;
 - (b) a summary of the key provisions of the DOCA Proposal at pages 52 to 67;
 - (c) our investigations into offences and potential voidable transactions at pages 43 to 51; and
 - (d) our recommendation that it would be in the creditors' interest for each of the Companies to execute the DOCA, at page 14 and 15.
- 41 I continue to hold the opinions, and agree with the conclusions, expressed in the Creditors' Report.

Voting at Second Meetings

- 42 At the second creditors' meetings (**Second Meetings**) the creditors of each of the Companies passed resolutions in favour of each of the Companies executing the DOCA. The resolutions were passed in accordance with the Administrators' recommendations and the breakdown of votes in number and value provided are set out below.

Company	For	Against	Abstain
Heron Resources	11 / \$199,768,919	-	1 / \$13,000,000
Tarago Operations	12 / \$216,584,655	-	1 / \$13,000,000
Hampton Nickel	5 / \$199,256,203	-	-
Ochre Resources	5 / \$199,256,203	-	-
Tarago Exploration	5 / \$199,256,203	-	-
Woodlawn Holdings	5 / \$199,256,203	-	-

- 43 A copy of the minutes of the Second Meetings is at **pages 439 to 463** of Exhibit CH1.

DOCA and Trust Deed

- 44 Subsequently, on 25 February 2022, the DOCA was executed by the Companies, the Administrators and the Proponent, and as a result, on 25 February 2022, Mr Ryan, Mr McGrath and I were appointed as administrators of the DOCA (**Deed Administrators**). A copy of the DOCA is at **pages 464 to 547** of Exhibit CH1.



- 45 On the same date, a creditors' trust deed between the Deed Administrators and each of the Companies (**Trust Deed**) was also executed. The Trust Deed establishes a Trust Fund, which will comprise the assets available to pay creditor claims including the Proponent Contribution, Preserved Employee Fund and operating cash referred to at paragraph 35(b) above.
- 46 The Trust Deed will commence on the "Satisfaction Date", being the date on which all of the Completion Conditions under the DOCA (referred to below) are satisfied or waived in accordance with clause 12 of the DOCA. The Trust Deed will accelerate the Companies' exit from external administration. A copy of the Trust Deed is at **pages 548 to 579** of Exhibit CH1.

Completion Conditions

- 47 The completion of the DOCA is conditional upon the various conditions being satisfied or waived in accordance with clause 12 on or prior to the "Sunset Date", being 31 May 2022 (or such other date agreed in writing between the Deed Administrators and the Proponent).
- 48 For the purposes of the Application, these conditions relevantly include:
- (a) the Deed Administrators obtaining an order from the Court granting the Deed Administrators leave pursuant to section 444GA(1)(b) of the Act to transfer the Shares to the Proponent (**Section 444GA Order**); and
 - (b) ASIC granting relief for the purposes of section 606 of the Act in relation to the transfer of Shares in accordance with the 444GA Order (**ASIC Relief**).
- 49 I understand the Court may only grant the Section 444GA Order if it is satisfied that the transfer would not unfairly prejudice the interests of members of Heron Resources.

Independent Expert Report

- 50 On 21 February 2022, the Administrators instructed our solicitors, King and Wood Mallesons (**KWM**) to engage Deloitte Financial Advisory Pty Ltd (**Deloitte**) to provide an expert opinion on the value, if any, of members' residual equity in Heron Resources on the basis that the company is in administration and on a "winding up" or "liquidation" basis. Copies of KWM's letter of instruction to Deloitte, and Deloitte's engagement letter dated 22 February 2022, are included as appendices to the IER (defined below) at **pages 631 to 647** of Exhibit CH1.
- 51 On 18 March 2022, Sam Marsden of Deloitte (**Independent Expert**) issued his expert opinion in relation to the value, if any, of members' residual equity in Heron Resources on a "liquidation" basis (**IER**). A copy of the IER is at **pages 580 to 796** of Exhibit CH1.
- 52 Based on my review of the IER, I understand that:
- (a) the IER has been prepared by the Independent Expert in accordance with ASIC Regulatory Guide 111 (*Content of Expert Reports*) and is supported by independent technical assessments and valuation reports by Behre Dolbear Australia Ltd (**BDA**), Gordon Brothers Pty. Ltd., and Stephen Reid of Deloitte;

- (b) BDA's valuations have been prepared in accordance with the Code and Guidelines for Reporting Exploration Results, Mineral Resources and Ore Resources – Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia – December 2012 (also known as the "JORC Code");
- (c) on the Independent Expert's preferred scenario, there is an assessed shortfall in Heron Resources of \$180.2 million based on assets of \$126.1 million over liabilities of \$306.3 million; and
- (d) having regard to the above, in the Independent Expert's opinion, the Shares have nil residual value in a "liquidation" scenario.

Assessment of unfair prejudice to members

- 53 I am not aware (and I have been informed by my fellow Deed Administrators that they are also not aware) of any unfair prejudice to the interests of the members of Heron Resources should the Court make the orders sought in the Application.
- 54 Having regard to our investigations to date, the matters outlined in the affidavit and, most relevantly, the opinion expressed in the IER, the Deed Administrators are of the view that:
- (a) there will be nil return for members of Heron Resource under a "liquidation" scenario, and neither I nor my fellow Deed Administrators anticipate that claims of unsecured creditors will be satisfied in full in that scenario; and
 - (b) even on highest fair market value of assets in the IER, Heron Resources' existing indebtedness exceeds the Company's asset value and consequently the Shares have nil value.

ASIC Relief Application

- 55 On 23 March 2022, KWM submitted an application for ASIC Relief (**ASIC Relief Application**) on behalf of Heron Resources online via the ASIC Regulatory Portal. The ASIC Relief Application enclosed copies of the following documents:
- (a) the IER; and
 - (b) a draft of the Explanatory Statement to be provided to members of Heron Resources to inform them of the application for the Section 444GA Order and the ASIC Relief.

A copy of the lodgement receipt, together with the ASIC Relief Application (including the draft Explanatory Statement but excluding the IER) is at **pages 797 to 820** of Exhibit CH1.

- 56 I am informed by Angela Zhao of KWM, and verily believe, that on 29 March 2022, during a telephone call with Mitchell Coles of ASIC, Mr Coles stated that ASIC is progressing its review of the IER and draft Explanatory Statement.
- 57 We intend to provide a copy of the Application and this affidavit to ASIC.

Notice of the Application

- 58 The Deed Administrators will notify members and creditors of the Companies of this Application by issuing a notice (**444GA Notice**) to members and creditors of the Companies which will:
- (a) explain the background to and purpose of the Application and the effect it will have on the members of Heron Resources;
 - (b) explain the process for opposing the Application if any creditor or member wishes to do so;
 - (c) advise members and creditors of their ability to access the following documents from the Heron Administration Website, and the ASX website, including:
 - (i) an Explanatory Statement, which will:
 - (A) provide further detail regarding the Application process and its consequences and how a party may object to it;
 - (B) explain the requirement for the Companies to make the ASIC Relief Application;
 - (C) annex a copy of the IER and the Application and this affidavit (excluding the exhibit);
 - (ii) the IER;
 - (iii) any non-confidential documents filed in this proceeding, as and when they become available.
- 59 The **444GA Notice** will be sent to members and creditors of the Companies by:
- (a) sending the **444GA Notice** by email to the email address of each member and creditor that is provided to the Deed Administrators, or that is recorded in the books and records of the Companies, in accordance with 600G of the Act;
 - (b) where an email address has not been provided or is not recorded in the books and records of the Companies, sending the **444GA Notice** by post to the postal address of each member and creditor that is recorded in the books and records of the Companies;
 - (c) publishing the **444GA Notice** on Heron Administration Website; and
 - (d) including the **444GA Notice** in an ASX Announcement.
- 60 The Deed Administrators will also cause a notification in relation to the Application to be published in the 'The Australian' and 'Australian Financial Review' and in that notification provide details to access the **444GA Notice** on the Heron Administration Website.



Urgency

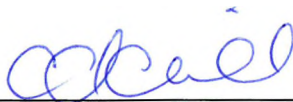
- 61 As deposed to in paragraphs 47 and 48 above, effectuation of the DOCA is conditional on, amongst other conditions, the obtaining of the Section 444GA Order by no later than 31 May 2022.
- 62 If the Completion Conditions do not occur prior to the Sunset Date, the Proponent will cease to be bound by the DOCA and the Deed Administrators will convene a meeting of creditors to determine the future of the Companies.
- 63 The Deed Administrators consider that this would be an unfavourable outcome and add additional cost and expense to the external administrations of the Companies.
- 64 The Deed Administrators intend to provide the members with the maximum possible notice of the final hearing of the Application while ensuring that, even if the application is ultimately opposed, the final hearing can occur well within the Sunset Date.

Conclusion

- 65 If the Court ultimately deems it appropriate to make the Section 444GA Order sought by the Administrators, this will enable the performance of the DOCA consistent with the resolutions of the majority of the Companies' creditors in both number and value and will enable the Companies to be recapitalised and continue as a going concern.

AFFIRMED at Sydney

Signature of deponent



Name of witness

Zoe Kaesehagen

Address of witness

Level 61, Governor Philip Tower, 1 Farrer Place, Sydney NSW 2000

Capacity of witness

Solicitor

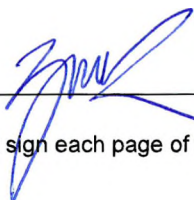
And as a witness, I certify the following matters concerning the person who made this affidavit (the **deponent**):

- 1 I saw the face of the deponent.
- 2 I have confirmed the deponent's identity using the following identification document:



 Identification document relied on (may be original or certified copy)

Signature of witness



 Note: The deponent and witness must sign each page of the affidavit. See UCPR 35.7B.

Schedule 1 | Companies

- (a) Hampton Nickel Pty Limited (subject to deed of company arrangement) (ACN 100 180 498)
(Hampton Nickel)
- (b) Ochre Resources Pty Limited (subject to deed of company arrangement) (ACN 112 833 351)
(Ochre Resources)
- (c) Tarago Exploration Pty Ltd (subject to deed of company arrangement) (ACN 115 529 112)
(Tarago Exploration)
- (d) Tarago Operations Pty Ltd (subject to deed of company arrangement) (ACN 127 810 413)
(Tarago Operations)
- (e) Woodlawn Mine Holdings Pty Ltd (subject to deed of company arrangement) (ACN 612 657 164)
(Woodlawn Holdings)

Schedule 2 | Mineral Assets

Mining Leases				
Project	Lease number	Interest	Holder	Joint Venturer
Woodlawn Underground	S(C&PL)L0020	100%	Tarago Operations Pty Ltd	N/a

Exploration Licences				
Project	Licence number	Interest	Licence Holder	Joint Venturer
Woodlawn Regional	EL7257	100%	Tarago Exploration Pty Ltd	N/a
Woodlawn	EL7468	100%	Tarago Exploration Pty Ltd	N/a
Woodlawn	EL7469	100%	Tarago Exploration Pty Ltd	N/a
Woodlawn	EL8325	100%	Tarago Exploration Pty Ltd	N/a
Woodlawn	EL8353	100%	Tarago Exploration Pty Ltd	N/a
Black Springs	EL8623	100%	Ochre Resources Pty Ltd	N/a
Peelwood	EL8712	100%	Ochre Resources Pty Ltd	N/a
Captains Flat	EL8796	100%	Ochre Resources Pty Ltd	N/a
Burra	EL8797	100%	Ochre Resources Pty Ltd	N/a
Mayfield	EL8945	100%	Tarago Exploration Pty Ltd	N/a
South Girilambone	EL8318	49%	Ochre Resources Pty Ltd	Alchemy Resources Ltd
Overflow	EL5878	49%	Ochre Resources Pty Ltd	Sky Metals Ltd
Overflow	EL7941	49%	Ochre Resources Pty Ltd	Sky Metals Ltd
Overflow	EL8267	49%	Ochre Resources Pty Ltd	Sky Metals Ltd
Yellow Mountain	EL8356	49%	Ochre Resources Pty Ltd	Sky Metals Ltd
Eurow	EL8192	49%	Ochre Resources Pty Ltd	Sky Metals Ltd
Nyngan	EL8631	49%	Ochre Resources Pty Ltd	Sky Metals Ltd
Barraba	EL8711	49%	Ochre Resources Pty Ltd	Sky Metals Ltd
Woodlawn	EL7954	20%	Tarago Exploration Pty Ltd	Sky Metals Ltd
Kangiara	EL8400	20%	Ochre Resources Pty Ltd	Sky Metals Ltd
Kangiara	EL8573	20%	Ochre Resources Pty Ltd	Sky Metals Ltd

