

ABN 30 068 263 098

# NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY STATEMENT

TIME: 2.00pm AEDT

DATE: Thursday, 5 December 2019

PLACE: Level 5 126 Philip Street Sydney, NSW, 2000

The Independent Expert's Report is attached to this Notice of Annual General Meeting at Annexure B. The report concludes that the Transaction the subject of Resolutions 3 to 6 in this Notice of Annual General Meeting is **not fair but reasonable** to the Company's non-associated Shareholders for the reasons set out in the report.

This Notice of Annual General Meeting and Explanatory Statement should be read in its entirety.

If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

Should you wish to discuss the matters in this Notice of Annual General Meeting please do not hesitate to contact the Company Secretary on +61 2 9119 8111

CONTENTS PAGE	
NOTICE OF ANNUAL GENERAL MEETING (SETTING OUT THE PROPOSED RESOLUTIONS)	1
EXPLANATORY STATEMENT (EXPLAINING THE PROPOSED RESOLUTIONS)	9
GLOSSARY	34
ANNEXURE A – SUMMARY OF MATERIAL AGREEMENTS	37
ANNEXURE B – INDEPENDENT EXPERTS REPORT	41

#### TIME AND PLACE OF MEETING AND HOW TO VOTE

#### VENUE

The General Meeting of the Shareholders to which this Notice of Annual General Meeting relates will be held at **2.00pm (AEDT)** on **Thursday, 5 December 2019** at:

Level 5 126 Philip Street Sydney, NSW, 2000

### YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your Shareholding and your vote is important.

#### **VOTING IN PERSON**

To vote in person, attend the General Meeting on the date and at the place set out above.

#### **VOTING BY PROXY**

In Australia, to vote by proxy, please complete and sign the enclosed Proxy Form and return:

- Online at <u>www.automic.com.au</u> and follow the instructions on your proxy form
- In person at:

Automic Group Pty Ltd Level 5 126 Philip Street Sydney, NSW, 2000

By post to:

Automic Group Pty Ltd GPO Box 5193 Sydney, NSW, 2000

• By scan and email to <u>registrar@automicgroup.com.au</u>.

Please note that the Proxy Form must be received by the Company not later than **2.00pm (AEDT)** on **Tuesday**, **3 December 2019**.

### Proxy Forms received later than this time will be invalid.

### ENTITLEMENT TO ATTEND AND VOTE

The Company may specify a time, not more than 48 hours before the Meeting, at which a "snap-shot" of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the General Meeting.

The Company's Directors have determined that all Shares of the Company that are quoted on the ASX at 7:00pm (AEDT) on 3 December 2019 shall, for the purposes of determining voting entitlements at the General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

# CHAIRMAN'S LETTER

#### Dear Shareholders,

On behalf of the Heron Board, I am pleased to provide you with this Notice of Annual General Meeting to consider, amongst others, resolutions relating to the \$91 million Funding Package for the purpose of continuing the rampup of operations of the Company's Woodlawn Zinc-Copper Project (**Woodlawn Project**) in NSW, Australia.

Due to delays in construction and commissioning, alongside some early processing issues, Heron has suffered a working capital shortfall, and requires additional funding to complete the ramp up of the Woodlawn Project to its nameplate production capacity. Importantly, the challenges Heron faces are financial in nature, and reviews have found that the technical fundamentals of the Woodlawn Project remain robust. The Woodlawn Project is now ramping up and starting to produce concentrates to commercial specification.

On 4 October 2019, the Company announced an underwritten accelerated non-renounceable entitlement offer to raise approximately A\$35.4 million (**Entitlement Offer**). The Entitlement Offer was just one component to the overall Funding Package. As announced on 25 October 2019, the Entitlement Offer raised a total of A\$25.08 million (including the A\$11.52 million raised under the institutional component which completed on 14 October 2019), with the remaining A\$10.32 million to be taken up by Greenstone and CL V, in their capacity as underwriters to the Entitlement Offer (**Underwriting Arrangements**).

In addition to the Entitlement Offer, the Funding Package also includes the issue of convertible notes to the Company's major shareholders to raise an additional US\$35 million (A\$51.6 million<sup>1</sup>), a restructure of the existing US\$60 million secured loan facility and a restructure of the existing stream arrangements which involves an additional US\$3 million (A\$4.4 million<sup>1</sup>) prepayment (**Debt Restructure**) (together, the **Debt Package**).

Each component of the Debt Package is subject to a number of conditions precedent including FIRB approval and shareholder approval. Accordingly, approval of the Debt Package is now being presented to all Heron Shareholders under Resolutions 3 to 6 to be considered at the General Meeting to be held on Thursday, 5 December 2019.

In the opinion of the Independent Directors, the Funding Package provides the best available means for advancing the operations at the Woodlawn Project.

Further details regarding the Funding Package as well as the advantages and disadvantages associated with the Debt Package are provided in the Explanatory Statement at Sections 5 and 6, respectively.

The Independent Directors believes that all the Resolutions referred to in this Notice of Annual General Meeting are in the best interests of the Company and its Shareholders and encourage you to vote in favour of all the Resolutions. Shareholders should note that if Resolutions 3 to 6 are not passed, the Debt Package will not proceed and the Woodlawn Project will not be fully financed to completion of the ramp-up of the Woodlawn Project to its nameplate production capacity. Under this circumstance, there would be material uncertainty regarding whether the Company would continue as a going concern. The Independent Directors<sup>2</sup> who hold, or control, Shares intend to vote in favour of all the Resolutions.

### **Opinion of the Independent Expert**

BDO Corporate Finance (WA) Pty Ltd (**Independent Expert**) was commissioned by the Heron Independent Directors to provide an opinion as to whether the Convertible Note Issues and Debt Restructure is fair and reasonable to the non-associated Shareholders of Heron. The opinion collectively addresses:

the proposal for the Greenstone Parties to subscribe for 16,581,016 Convertible Notes in Heron which upon conversion could result in the Greenstone Parties having a combined voting power of up to 60.9%<sup>3</sup> in the Company (increasing from their 34.7% interest in the Company as at completion of the Entitlement Offer and Underwriting Arrangements);

<sup>&</sup>lt;sup>1</sup> Assumes an Exchange Rate of US\$0.678:A\$1.00.

<sup>&</sup>lt;sup>2</sup> Independent Directors defined as each Board member other than Mark Sawyer (Greenstone's nominated representative to the Board), Peter Rozenauers (Orion's nominated representative to the Board) and Ricardo De Armas (Castlelake's nominated representative to the Board).

<sup>&</sup>lt;sup>3</sup> Assuming (a) that the Greenstone Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00; and (d) none of the Greenstone Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

- (b) the proposal for the Castlelake Parties to subscribe for 15,469,927 Convertible Notes in Heron which upon conversion could result in the Castlelake Parties having a combined voting power of up to 56.0%<sup>4</sup> in the Company (increasing from their 28.6% interest in the Company as at completion of the Entitlement Offer and Underwriting Arrangements);
- (c) the proposal for Orion to subscribe for 2,944,277 Convertible Notes in Heron which upon conversion could result in a combined voting power of up to 25.3%<sup>5</sup> in the Company (increasing from Orion's 16.5% interest in the Company as at completion of the Entitlement Offer); and
- (d) the proposal to restructure the existing US\$60 million secured loan facility with Orion and restructure of the existing stream arrangements with Orion which involves an additional US\$3 million (A\$4.4 million<sup>1</sup>) prepayment.

The above opinion in connection with paragraphs (a) to (c) were required, in conjunction with shareholder approval, under item 7 section 611 of the Corporations Act due to the Greenstone Parties, the Castlelake Parties and Orion's respective voting power potentially increasing above the thresholds permitted under section 606 of the Corporations Act.

The opinion in connection with paragraph (d) was required with shareholder approval under Listing Rule 10.1 due to the existing Relevant Interest in which Orion currently holds in the Company and the value of the assets to be disposed of in connection with the Debt Restructure.

The Independent Expert has concluded that the Convertible Note Issues and the Debt Restructure, collectively, specifically the transactions the subject of Resolutions 3, 4, 5 and 6, are not fair but reasonable to Heron's non-associated Shareholders. In this regard, it is BDO's opinion that the position of Shareholders is more advantageous if the Convertible Note Issues and the Debt Restructure are approved than the position if they are not approved.

### Further Information

Your vote is important in determining whether the Funding Package proceeds and the operations at Woodlawn Project can continue.

I encourage you to read the meeting materials in their entirety and to vote on the Resolutions. If you are unable to attend the General Meeting in person, you are encouraged to fill out and return your proxy form to the Company by the required date and time.

The Funding Package offers Shareholders the best way forward in light of the Company's current circumstances and if you would like to see this realised then I strongly urge you to vote in favour of all Resolutions by attending the Meeting, by voting online, or by completing and sending in your Proxy Form. This form must be returned (in accordance with the instructions on the Proxy Form) by 2.00pm (AEDT) on 3 December 2019.

I look forward to your participation in the General Meeting.

On behalf of your Directors, I would like to thank you for your continued support of Heron.

Yours sincerely,

**Stephen Dennis** Chairman

<sup>&</sup>lt;sup>4</sup> Assuming (a) that the Castlelake Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00; and (d) none of the Castlelake Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

<sup>&</sup>lt;sup>5</sup> Assuming (a) that Orion converts all of its Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00; and (d) Orion does not dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

# KEY REASONS TO VOTE IN FAVOUR OF THE RESOLUTIONS AND SUPPORT THE PROPOSED DEBT PACKAGE

# 1. UNANIMOUS INDEPENDENT DIRECTORS' RECOMMENDATION TO VOTE IN FAVOUR

The Independent Directors<sup>6</sup> consider the Debt Package the best opportunity to see the Woodlawn Project complete its ramp-up to nameplate production capacity. Each Independent Director intends to vote all Shares controlled by him or her in favour of the Resolutions in the absence of a superior proposal.

# 2. SUBSTANTIAL AND CRITICAL FUNDING FOR THE WOODLAWN PROJECT

The Debt Package, including the transactions the subject of Resolutions 3 to 6, will provide the funding required to see the Woodlawn Project complete its ramp-up to nameplate production capacity.

The Woodlawn Project requires capital of approximately A\$91 million to progress the Company's immediate strategy which is focused on completing its ramp-up to nameplate production capacity. Once plant ramp-up is completed, and the Company has established stable positive cash flow, Heron will seek to recommence activities over the attractive tenement package held by the Company, targeting further upside through conversion of underground resources to reserves, potential extensions to existing VMS lenses, and the possibility of near mine discoveries.

The Company has already raised a total of A\$25.08 million under the Entitlement Offer, with the remaining A\$10.32 million to be taken up by Greenstone and CL V under the Underwriting Arrangements. The Debt Package will raise the remaining A\$56 million sought under the A\$91 million Funding Package, which the Company is confident will allow Heron to achieve the above objectives.

If the Debt Package does not proceed, the Woodlawn Project will not be fully financed to completion and opening and there would be material uncertainty regarding whether the Company would continue as a going concern. The Company's annual financial report for the financial year ended 30 June 2019 has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and discharge of liabilities in the normal course of business. However, it includes a note at page 59 regarding the basis of preparation of its financial statements on a going concern basis, despite its net current liability position.

# 3. THE INDEPENDENT EXPERT BELIEVES THE DEBT PACKAGE TO BE REASONABLE

The Independent Expert has concluded that, in the absence of a superior offer, the Debt Package is <u>not</u> <u>fair but reasonable</u> to the non-associated Shareholders.

The Independent Expert concluded that the position of Shareholders if the Debt Package is approved is more advantageous than the position if the Debt Package is not approved as it provides the Company with the funding required to progress the Woodlawn Project to its production capacity and enables the Company to avoid triggering an event of default in relation to its existing debt.

Please refer to sections 15.1 and 15.2 of the Independent Expert's Report, which is attached as Annexure B. It is an important document and you are encouraged to read it in full.

<sup>&</sup>lt;sup>6</sup> Independent Directors defined as each Board member other than Mark Sawyer (Greenstone's nominated representative to the Board), Peter Rozenauers (Orion's nominated representative to the Board) and Ricardo De Armas (Castlelake's nominated representative to the Board).

# KEY REASONS WHY YOU MAY CONSIDER VOTING AGAINST THE RESOLUTIONS AND NOT SUPPORT THE PROPOSED DEBT PACKAGE

- 1. You may disagree with the Independent Directors'<sup>7</sup> unanimous recommendation and / or the Independent Expert's conclusion that the Debt Package is not fair but reasonable to non-associated Shareholders.
- 2. The Independent Expert has concluded that, in the absence of a superior offer, the Debt Package is not fair to the non-associated Shareholders as the value of Shares prior to the Debt Package (on a control basis) is higher than the value of a Share following the implementation of Debt Package (on a minority basis).

Please refer to section 14 of the Independent Expert's Report, which is attached as Annexure B. It is an important document and you are encouraged to read it in full.

- 3. Following the approval of the Debt Package, Shareholders' interest (excluding Greenstone's, Castlelake's and Orion's respective interests) could potentially decrease from its existing 20.3% depending upon the extent to which the Convertible Notes are converted into Shares and the Exchange Rate at the time the notice of conversion is given. Based on an Exchange Rate of US\$0.678:A\$1.00, this interest could reduce to 9.9% and based on an Exchange Rate of US\$0.50:A\$1.00, this interest could reduce to 8.4%.<sup>8</sup> Accordingly, existing Shareholders are likely to suffer a dilution of their shareholding and therefore their capacity to influence the operations of the Company is likely to be reduced.
- 4. If the Debt Package is approved and assuming all Convertible Notes are converted into Shares at an Exchange Rate of US\$0.678:A\$1.00, the Greenstone Parties will together have a combined voting power of 41.2%, the Castlelake Parties will together have a combined voting power of 36.5% and Orion will have a voting power of 12.4% of the Company's issued capital. Further, if the Exchange Rate falls to US\$0.50:A\$1.00, the Greenstone Parties could together have a combined voting power of 37.7%, the Castlelake Parties could together have a combined voting power of 42.1% and Orion could have a voting power of 11.8% of the Company's issued capital.

<sup>&</sup>lt;sup>7</sup> Independent Directors defined as each Board member other than Mark Sawyer (Greenstone's nominated representative to the Board), Peter Rozenauers (Orion's nominated representative to the Board) and Ricardo De Armas (Castlelake's nominated representative to the Board).

<sup>&</sup>lt;sup>8</sup> Shareholders should note that Resolutions 3, 4 and 5 are based on an Exchange rate of US\$0.50:A\$1.00. If the applicable Exchange Rate at the time of conversion is below US\$0.50:A\$1.00 and the number of Shares to be issued would result in one of the above parties holding a greater voting power in the Company, then the Company has an obligation to seek additional shareholder approval (to the extent necessary under the Corporations Act) and any such conversion will be subject to that additional shareholder approval being obtained. Please see section 7.2 for further information.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is given that a General Meeting of the Shareholders of Heron Resources Limited (**Heron** or the **Company**) will be held at Level 5, 126 Philip Street, Sydney, New South Wales, 2000 on Thursday, 5 December 2019 commencing at 2.00pm (AEDT) to consider, and if thought fit, to pass the Resolutions set out below.

On 25 October 2019, ASIC granted an extension of time within which the Company can hold its annual general meeting for the financial year ended 30 June 2019 to enable Shareholders to consider the Resolutions relevant to the Annual General Meeting at the same time as the Resolutions relating to the Debt Package.

Terms used in this Notice of Annual General Meeting and accompanying Explanatory Statement are defined in the glossary to this document.

The Explanatory Statement which accompanies and forms part of this Notice of Annual General Meeting describes the matters to be considered at the General Meeting.

# **ORDINARY BUSINESS**

### 1. FINANCIAL STATEMENTS AND REPORTS – PERIOD 1 JULY 2018 – 30 JUNE 2019

To receive and consider the annual financial statements, the directors' report and the audit report of Company for the year ended 30 June 2019.

Note: there is no requirement for Shareholders to approve these reports.

# 2. **RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT (NON-BINDING RESOLUTION)**

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as a **non-binding resolution**:

That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, the Company adopts the annual remuneration report as set out in the directors' report for the financial year ended 30 June 2019.

**Voting Exclusion:** The Company will disregard any votes cast on Resolution 1 by, or on behalf of, any member of the Key Management Personnel of the Company whose remuneration is included in the Remuneration Report, or a closely related party of such member. However, the Company will not disregard any votes cast on Resolution 1 by such person if:

- (a) the person is acting as proxy and the Proxy Form specifies how the proxy is to vote on the Resolution, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this Resolution as described above; or
- (b) the person is the Chair of the Meeting voting an undirected proxy and their appointment expressly authorises the Chair to exercise the proxy even though Resolution 1 is connected with the remuneration of the Key Management Personnel of the Company.

If you are a member of the Key Management Personnel of the Company or a closely related party of such person (or are acting on behalf of any such person) and purport to cast a vote (other than as a proxy as permitted in the manner set out above), that vote will be disregarded by the Company (as indicated above) and you may be liable for an offence for breach of voting restrictions that apply to you under the Corporations Act.

### 3. RESOLUTION 2 – RE-ELECTION OF BORDEN PUTNAM III AS A DIRECTOR

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an ordinary resolution:

That Borden Putnam III, being a Director of the Company, who retires in accordance with Listing Rule 14.4 and clause 12.3 of the Company's Constitution, and being eligible, offers himself for reelection, be re-elected as a Director of the Company.

### 4. **RESOLUTION 3 – APPROVAL OF GREENSTONE CONVERTIBLE NOTE ISSUE**

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an ordinary resolution:

That for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve the issue and subsequent conversion of 16,581,016 Convertible Notes to the Greenstone Parties as follows:

- (a) Greenstone Management (Delaware) II LLC in its capacity as a general partner of Greenstone Resources II (Australia) Holdings L.P. to acquire 11,349,989 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 196,074,054 Shares<sup>9</sup>;
- (b) G LTP LLC to acquire 606,486 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 10,477,206 Shares<sup>9</sup>;
- (c) G HSP LLC to acquire 186,527 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 3,222,303 Shares<sup>9</sup>;
- (d) G JBD LLC to acquire 194,163 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 3,354,217 Shares<sup>9</sup>;
- (e) G ERP LLC to acquire 103,626 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 1,790,166 Shares<sup>9</sup>;
- (f) J Paul Getty Trust to acquire 1,190,617 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 20,568,223 Shares<sup>9</sup>;
- (g) Commonfund Capital Natural Resources Partners IX, LP to acquire 737,402 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 12,738,814 Shares<sup>9</sup>;
- (h) Commonfund Capital Natural Resources Partners X, LP to acquire 1,327,324 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 22,929,872 Shares<sup>9</sup>; and
- (i) Commonfund Capital Natural Resources Partners XI, LP to acquire 884,882 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 15,286,570 Shares<sup>9</sup>,

and the acquisition by those parties and their associates of combined voting power in the Company of an aggregate of up to 60.9%<sup>10</sup>, for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of Annual General Meeting.

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 3 by any person proposing to make the acquisition (being the Greenstone Parties) and their associates, or the persons (if any) from whom the acquisition is to be made and their associates.

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by BDO for the purpose of shareholder approval required under item 7 of section 611 of the Corporations Act for this Resolution 3. The Independent Expert's Report comments on the fairness and reasonableness of the Debt Package, which includes the Greenstone Convertible Note Issue under this Resolution 3 to the non-associated Shareholders of the Debt Package, which includes the Greenstone Convertible Note Expert has determined that, in the absence of a superior offer, the Debt Package, which includes the Greenstone Convertible Note Issue under this Resolution 3 is <u>not fair but reasonable</u> to the non-associated Shareholders of the Company.

<sup>&</sup>lt;sup>9</sup> Assuming an Exchange Rate of US\$0.50:A\$1.00. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the number of Shares to be issued upon conversion will decrease. Please see Section 7.2 for further information.

<sup>&</sup>lt;sup>10</sup> Assuming (a) that the Greenstone Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00; and (d) none of the Greenstone Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

### 5. RESOLUTION 4 – APPROVAL OF CASTLELAKE CONVERTIBLE NOTE ISSUE

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an ordinary resolution:

That for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve the issue and subsequent conversion of 15,469,927 Convertible Notes to the Castlelake Parties as follows:

- (a) Castlelake III, L.P. to acquire 1,905,287 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 32,914,335 Shares<sup>11</sup>;
- (b) Castlelake IV, L.P. to acquire 3,300,719 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 57,020,791 Shares<sup>11</sup>; and
- (c) CL V Investment Solutions LLC to acquire 10,263,921 Convertible Notes, which upon conversion may result in the issue of, and their acquisition of a Relevant Interest in, up to 177,311,943 Shares<sup>11</sup>,

and the acquisition by those parties and their associates of combined voting power in the Company of an aggregate of up to 56.0%<sup>12</sup>, for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of Annual General Meeting.

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 4 by any person proposing to make the acquisition (being the Castlelake Parties) and their associates, or the persons (if any) from whom the acquisition is to be made and their associates.

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by BDO for the purpose of shareholder approval required under item 7 of section 611 of the Corporations Act for this Resolution 4. The Independent Expert's Report comments on the fairness and reasonableness of the Debt Package, which includes the Castlelake Convertible Note Issue under this Resolution 4 to the non-associated shareholders of the Company. The Independent Expert has determined that, in the absence of a superior offer, the Debt Package, which includes the Castlelake Convertible Note Issue under this Resolution 4 is <u>not fair but reasonable</u> to the non-associated Shareholders of the Company.

# 6. **RESOLUTION 5 – APPROVAL OF ORION CONVERTIBLE NOTE ISSUE**

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an ordinary resolution:

That for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve the:

- (a) issue of 2,944,277 Convertible Notes to Orion LP; and
- (b) the issue of, and the acquisition of a Relevant Interest in, up to 50,863,162 Shares and the corresponding increase to Orion LP and its associates' voting power in the Company up to 25.3%<sup>13</sup>, upon conversion of the Convertible Notes,

for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of Annual General Meeting.

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 5 by any person proposing to make the acquisition (being Orion LP) and their associates, or the persons (if any) from whom the acquisition is to be made and their associates.

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by BDO for the purpose of shareholder approval required under item 7 of section 611

<sup>&</sup>lt;sup>11</sup> Assuming an Exchange Rate of US\$0.50:A\$1.00. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the number of Shares to be issued upon conversion will decrease. Please see Section 7.2 for further information.

<sup>&</sup>lt;sup>12</sup> Assuming (a) that the Castelake Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00; and (d) none of the Castlelake Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

<sup>&</sup>lt;sup>13</sup> Assuming (a) that Orion converts all of its Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00; and (d) Orion does not dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

of the Corporations Act for this Resolution 5. The Independent Expert's Report comments on the fairness and reasonableness of the Debt Package, which includes the Orion Convertible Note Issue under this Resolution 5 to the non-associated shareholders of the Company. The Independent Expert has determined that, in the absence of a superior offer, the Debt Package, which includes the Orion Convertible Note Issue under this Resolution 5 is <u>not fair but reasonable</u> to the non-associated Shareholders of the Company.

# 7. RESOLUTION 6 – APPROVAL OF DEBT RESTRUCTURE

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution:** 

That for the purposes of ASX Listing Rule 10.1, and for all other purposes, Shareholders approval be given for the Company to undertake the Debt Restructure for the purpose and on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Annual General Meeting.

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 6 by or on behalf of the person acquiring the substantial asset from the Company (being OMF Fund II (H) Ltd and OMF Fund II (Li) Ltd) and any other person who will obtain a material benefit as a result of the transaction (except a benefit solely by reason of being a holder of ordinary securities in the Company) (including Orion LP) or an Associate of those persons. However, this a does not apply to a vote cast in favour of Resolution 6 by:

- (a) a person as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with directions given to the proxy or attorney to vote on the Resolution in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with a direction given to the chair to vote on the Resolution as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
  - i. the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on the Resolution; and
  - ii. the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by BDO for the purpose of shareholder approval required under ASX Listing Rule 10.1 for this Resolution 6. The Independent Expert's Report comments on the fairness and reasonableness of the Debt Package, which includes the Debt Restructure under this Resolution 6 to the non-associated shareholders of the Company. The Independent Expert has determined that, in the absence of a superior offer, the Debt Package, which includes the Debt Restructure under this Resolution 6 is <u>not</u> fair but reasonable to the non-associated Shareholders of the Company.

# EXPLANATORY STATEMENT

The Explanatory Statement accompanying this Notice of Annual General Meeting is incorporated in and comprises part of this Notice of Annual General Meeting.

Shareholders are specifically referred to the glossary in the Explanatory Statement which contains definitions of capitalised terms used both in this Notice of Annual General Meeting and the Explanatory Statement.

# PROXIES

Please note that:

- (a) a Shareholder entitled to attend and vote at the General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a Shareholder; and
- (c) a Shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

#### **CORPORATE REPRESENTATIVE**

Any corporate Shareholder who has appointed a person to act as its corporate representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative. An appointment of corporate representative form is enclosed if required.

### ENQUIRIES

Shareholders are invited to contact the Company Secretary, Simon Smith on +61 2 9119 8111 if they have any queries in respect of the matters set out in this document.

#### BY ORDER OF THE BOARD OF DIRECTORS

~ Gt

SIMON SMITH Company Secretary Heron Resources Limited

#### 6 November 2019

The Notice of Annual General Meeting, Explanatory Statement and Proxy Form should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

# EXPLANATORY STATEMENT

# 1. INTRODUCTION

On 25 October 2019, ASIC granted an extension of time within which the Company can hold its annual general meeting for the financial year ended 30 June 2019 to enable Shareholders to consider the Resolutions relevant to the Annual General Meeting at the same time as the Resolutions relating to the Debt Package.

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Annual General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the Resolutions in the accompanying Notice of Annual General Meeting.

This Explanatory Statement should be read in conjunction with the Notice of Annual General Meeting preceding this Explanatory Statement. Capitalised terms in this Explanatory Statement are defined in the glossary to this document.

If you have any questions regarding the matters set out in this Explanatory Statement or the preceding Notice of Annual General Meeting, please contact the Company Secretary, your stockbroker or other professional adviser.

# 2. FINANCIAL STATEMENTS AND REPORTS – PERIOD 1 JULY 2018 – 30 JUNE 2019

The Corporations Act requires the annual financial report, directors' report and the auditor's report (**Annual Financial Statements**) be received and considered at the Annual General Meeting. The Annual Financial Statements for the period ended 30 June 2019 are included in the Company's Annual Financial Report, a copy of which can be accessed on-line at <u>www.heronresources.com.au</u> under "Investors" and "Reports and "Annual Reports". Alternatively, a hard copy will be made available on request.

There is no requirement for Shareholders to approve these reports and no vote will be taken on the Annual Financial Statements. However, Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the Annual Financial Statements and the management of the Company.

The Company's auditor, Ernst & Young, will be present at the Annual General Meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the auditor's report, the Company's accounting policies, and the independence of the auditor.

In addition to taking questions at the Meeting, written questions to the Chair about the management of the Company, or to the Company's auditor about:

- (a) the preparation and content of the auditor's report;
- (b) the conduct of the audit;
- (c) accounting policies adopted by the Company in relation to the preparation of the Annual Financial Statements; and
- (d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 28 November 2019 to Company Secretary, Simon Smith on +61 2 9119 8111.

# 3. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT (NON-BINDING RESOLUTION)

### 3.1 Background

Pursuant to Section 250R(2) of the Corporations Act, the Company submits to Shareholders for consideration and adoption, by way of a non-binding resolution, its remuneration report for the year ended 30 June 2019 (the **Remuneration Report**). The Remuneration Report is a distinct section of the annual directors' report (the **Directors' Report**) which deals with the remuneration of Directors, executives and senior managers of the Company. More particularly, the Remuneration Report can be

found within the Directors' Report in the Company's 2019 Annual Report. The Annual Report will be available on the Company's website at <u>www.heronresources.com.au</u> from 31 October 2019.

By way of summary, the Remuneration Report:

- (a) explains the Company's remuneration policy and the process for determining the remuneration of its Directors and executive officers;
- (b) addresses the relationship between the Company's remuneration policy and the Company's performance; and
- (c) sets out the remuneration details for each Director and executive officer named in the Remuneration Report for the financial year ended 30 June 2019.

The remuneration levels for Directors, executives and senior managers are competitively set to attract and retain appropriate Directors and key management personnel.

The Chair of the Annual General Meeting will allow a reasonable opportunity for Shareholders as a whole to ask about, or make comments on, the Remuneration Report.

### 3.2 Regulatory Requirements

The Corporations Act provides that Resolution 1 need only be an advisory vote of Shareholders and does not bind the Directors. However, the Corporations Act provides that if the Company's Remuneration Report resolution receives a "no" vote of 25% or more of votes cast at the Annual General Meeting, the Company's subsequent Remuneration Report must explain the Board's proposed action in response or, if the Board does not propose any action, the Board's reasons for not making any changes. The Board will take into account the outcome of the vote when considering the remuneration policy, even if it receives less than a 25% "no" vote.

In addition, sections 250U and 250V of the Corporations Act sets out a "two strikes" re-election process, pursuant to which:

- (a) if, at a subsequent annual general meeting (**Later Annual General Meeting**), at least 25% of the votes cast on a resolution that the remuneration report be adopted are against the adoption of that remuneration report;
- (b) at the immediately preceding annual general meeting (**Earlier Annual General Meeting**), at least 25% of the votes cast on a resolution that the remuneration report be adopted were against the adoption of that remuneration report; and
- (c) a resolution was not put to the vote at the Earlier Annual General Meeting under an earlier application of section 250V of the Corporations Act,

then the Company must put to vote at the Later Annual General Meeting a resolution, requiring Shareholders to vote on whether the Company must hold another general meeting (**Spill Meeting**) to consider the appointment of all of the Directors at the time the Directors Report was approved by the Board who must stand for re-appointment (other than the Managing Director) (**Spill Resolution**). The Spill Resolution may be passed as an ordinary resolution.

If the Spill Resolution is passed, the Spill Meeting must be held within 90 days after the Spill Resolution is passed. All of the Company's Directors who were Directors at the time when the resolution to make the Directors' Report was passed (excluding the Managing Director of the Company who may, in accordance with the Listing Rules, continue to hold office indefinitely without being re-elected to the office) cease to hold office immediately before the end the Spill Meeting and may stand for re-election at the Spill Meeting.

At the Company's 2018 annual general meeting, less than 25% of the eligible votes cast in respect of the 2018 Remuneration Report were cast against the adoption of the 2018 remuneration report. Accordingly, a Spill Resolution will not be put to the Meeting even if 25% or more of the votes cast in respect of the 2019 Remuneration Report are against the adoption of the 2019 Remuneration Report.

### 3.3 Board Recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

# 4. RESOLUTION 2 – RE-ELECTION OF BORDEN PUTMAN III AS A DIRECTOR

# 4.1 Background

In accordance with Listing Rule 14.5 and clause 12.3 of the Company's Constitution, at every annual general meeting an election of Directors must take place. Listing Rule 14.4 prevents a Director from holding office (without re-election) past the third annual general meeting following the Director's appointment or 3 years, whichever is longer.

For this reason, Borden Putnam III retires by way of rotation and, being eligible, offers himself for reelection as a Director.

Borden Putnam is a geologist with over 43 years of experience in the mineral industry, with focus on exploration and asset evaluations. From 1976-1991 he worked as a project geologist and a district manager for AMAX Exploration and Newmont Exploration Limited respectively. He served as Vice-President and chief geologist for MRDI (now AMEC) from 1991-1996. Mr Putnam was vice-president and principal with Robertson Stephens Investment Management from 1996-2001, and from 2001-2009 was managing director of Eastbourne Capital Management. In 2009, Mr Putnam, established his mining industry consultancy business providing technical evaluations, due diligence audits and investment advice.

Further details about Borden Putnam III are set out in the Company's 2019 Annual Report which is available <u>www.heronresources.com.au</u>.

# 4.2 Board Recommendation

The Directors (other than Borden Putnam III) unanimously recommend that Shareholders vote in favour of Resolution 2.

### 5. BACKGROUND TO RESOLUTIONS 3 TO 6

### 5.1 Funding Package

On 4 October 2019, the Company announced that it will be undertaking a funding package to raise funds for the purposes of continuing operations at its Woodlawn Project (**Funding Package**).

The Funding Package comprises the following:

- (a) a A\$35.4 million accelerated non-renounceable entitlement offer of new shares (Entitlement Offer), which completed on 28 October 2019 and raised a total of A\$25.08 million with the remaining A\$10.32 million to be taken up by Greenstone and CL V, in their capacity as underwriters to the Entitlement Offer on or about 12 November 2019;
- (b) a US\$35 million (A\$51.6 million<sup>14</sup>) convertible note issue to the Castlelake Parties, the Greenstone Parties and Orion (**Convertible Note Issues**); and
- (c) a restructure of the Company's existing debt arrangements, comprising:
  - (i) a US\$3 million (A\$4.4 million<sup>14</sup>) new stream over quantities of silver which in value terms is determined by reference to specified quantities of zinc production; and
  - (ii) an extension to the maturity date of the existing US\$60 million loan (senior secured) by 12 months from 31 December 2022 to 31 December 2023 (and repayment profile adjusted to match the revised cashflow profile and extended tenor),

#### (together the **Debt Restructure**).

The Convertible Note Issues are the subject of Resolutions 3, 4 and 5 and the Debt Restructure is the subject of Resolution 6.

Further details of the Funding Package are set out below. Summaries of the key terms of the material agreements in connection with the Convertible Note Issues and the Debt Restructure (together, the **Debt Package**) are set out in Sections 1 and 2 of Annexure A, respectively.

### 5.2 Rationale for the Funding Package

Construction of the Woodlawn Project was completed seven months behind schedule, which when combined with a slower than planned ramp-up, identified the need for approximately A\$91 million in

<sup>&</sup>lt;sup>14</sup> Assumes an Exchange Rate of US\$0.678:A\$1.00.

capital to progress the Company's immediate strategy which is focused on the ramp-up of operations at the Woodlawn Project to nameplate production capacity.

The Company has already raised a total of A\$25.08 million under the Entitlement Offer, with the remaining A\$10.32 million sought under the Entitlement Offer to be taken up by Greenstone and CL V under the Underwriting Arrangements. The Debt Package will raise the remaining A\$56 million sought pursuant to the Funding Package, which the Independent Directors believe will allow Heron to achieve the above objectives.

If the Debt Package does not proceed, the Woodlawn Project will not be fully financed to enable the ramp-up of operations to nameplate production capacity and there would be material uncertainty regarding whether the Company would continue as a going concern. The Company's annual financial report for the financial year ended 30 June 2019 has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and discharge of liabilities in the normal course of business. However, it includes a note at page 59 regarding the basis of preparation of its financial statements on a going concern basis, despite its net current liability position.

### 5.3 Entitlement Offer

As announced on 4 October 2019, the Company undertook an accelerated non-renounceable entitlement offer to raise up to A\$35.4 million (before costs). Under the Entitlement Offer, eligible shareholders were offered the opportunity to subscribe for 0.7324 New Shares for every 1 existing Share, at an issue price of A\$0.20 per share.

The institutional component of the Entitlement Offer completed on 14 October 2019, raising a total of approximately A\$11.52 million. The retail component of the Entitlement Offer and the accompanying shortfall offer settled on 28 October 2019, raising a total of A\$13.56 million. The remaining A\$10.32 million is to be taken up by Greenstone and CL V, in their capacity as underwriters to the Entitlement Offer on or about 12 November 2019.

The Company will use the funds raised under the Entitlement Offer to provide additional financial support in connection with the ongoing ramp-up of operations at the Woodlawn Project to nameplate production capacity, to repay a portion of the outstanding loan under the loan facility provided by Orion, to provide working capital and to pay the costs of the Entitlement Offer.

### 5.4 Convertible Note Issues

As announced on 4 October 2019, the Company has entered into convertible note agreements with the Castlelake Parties, the Greenstone Parties and Orion (**Convertible Note Agreements**), pursuant to which the Company has agreed to issue:

- (a) an aggregate of 16,581,016 Convertible Notes to the Greenstone Parties;
- (b) an aggregate of 15,469,927 Convertible Notes to the Castlelake Parties; and
- (c) 2,944,277 Convertible Notes to Orion.

Completion of the Convertible Note Issues are subject to a number of outstanding conditions precedent being satisfied or waived by no later than 31 January 2020, including the following:

- (a) the Company obtaining the necessary shareholder approvals to give effect to the Convertible Note Issues, including for the purposes of item 7 of section 611 of the Corporations Act; and
- (b) in the case of the Castlelake Convertible Note Issue and the Orion Convertible Note Issue only, each of the Castlelake Parties and Orion receiving written notice of non-objection under the Foreign Acquisitions and Takeovers Act 1975 (Cth) from the Treasurer of the Commonwealth of Australia, or the Treasurer otherwise being precluded from making an order in relation to the subscription of the Convertible Notes by the Castlelake Parties or Orion (as applicable) under the Convertible Note Issue.

The key terms of the Convertible Note Agreements are set out in Section 1 of Annexure A.

The Convertible Note Issues are the subject of Resolutions 3, 4 and 5. If Resolutions 3, 4 and 5 are approved by Shareholders, and subject to all other outstanding conditions precedent being satisfied or waived, Completion of the Convertible Note Issues is expected to occur 13 business days after the Annual General Meeting.

# 5.5 Debt Restructure

As announced on 4 October 2019, the Company has also entered into agreements with Orion (**Debt Restructure Agreements**), pursuant to which the Company has agreed to:

- (a) an additional US\$3 million (A\$4.4 million<sup>15</sup>) new stream over quantities of silver which in value terms is determined by reference to specified quantities of zinc production (**Debt Restructure**); and
- (b) an extension to the maturity date of the existing US\$60 million loan (senior secured) by 12 months from 31 December 2022 to 31 December 2023 (and repayment profile adjusted to match the revised cashflow profile and extended tenor).

The key terms of the Debt Restructure Agreements are set out in Section 2 of Annexure A.

ASX has confirmed that Listing Rule 10.1 applies to the Debt Restructure. Accordingly, the Debt Restructure is the subject of Resolution 6.

# 6. ADVANTAGES AND DISADVANTAGES OF THE DEBT PACKAGE

This Section sets out the key advantages and disadvantages of the Debt Package (which comprises of the Convertible Note Issues and the Debt Restructure) that have been identified by your Independent Directors as at the date of this Explanatory Statement. Shareholders should carefully consider all of the advantages and disadvantages of the Debt Package and read the meeting documentation including the attached Independent Expert's Report in detail, before deciding how to vote on Resolutions 3 to 6.

(a) Key Advantages

The Directors consider that the key advantages to the Company and non-associated Shareholders of completing the Funding Package (including the Convertible Note Issues) are as follows:

### (i) Substantial and critical funding for the Woodlawn Project

Construction of the Woodlawn Project was completed seven months behind schedule, which when combined with a slower than planned ramp-up, identified the need for approximately A\$91 million in capital to progress the Company's immediate strategy which is focused on the ramp-up of operations at the Woodlawn Project to nameplate production capacity. Once plant ramp-up is completed, and the Company has established stable positive cash flow, Heron will seek to recommence activities over the attractive tenement package held by the Company, targeting further upside through conversion of underground resources to reserves, potential extensions to existing VMS lenses, and the possibility of near mine discoveries.

Importantly, the Company undertook a review which has confirmed that the technical and operational basis for the Woodlawn Project remains sound.

In order to fund the identified working capital shortfall to see the Woodlawn Project through to project completion and opening, Heron is undertaking the Funding Package to raise A\$91 million.

The Company has already raised a total of A\$25.08 million under the Entitlement Offer, with the remaining A\$10.32 million sought pursuant to the Entitlement Offer to be taken up by Greenstone and CL V under the Underwriting Arrangements. The Debt Package will raise the remaining A\$56 million, which the Company is confident will allow Heron to achieve the above objectives.

If the Debt Package does not proceed, the Woodlawn Project will not be fully financed through to the ramp-up of operations to nameplate production capacity and there would be material uncertainty regarding whether the Company would continue as a going concern. The Company's annual financial report for the financial year ended 30 June 2019 has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and discharge of liabilities in the normal course of business. However, it includes a note

<sup>&</sup>lt;sup>15</sup> Assumes an Exchange Rate of US\$0.678:A\$1.00.

at page 59 regarding the basis of preparation of its financial statements on a going concern basis, despite its net current liability position.

Shareholders should note that even if the Debt Package is approved by Shareholders at the General Meeting and the Convertible Notes are issued, the Company will be subject to certain undertakings and requirements under the Convertible Notes. Failure of the Company to comply with the arrangements could lead to the amounts outstanding under the Convertible Notes becoming immediately repayable. In addition, under the Debt Restructure, Orion will continue to hold security over the Company's assets and a parent company guarantee. As part of the Debt Restructure Documents, the Company has executed waiver letters with Orion which has the effect of waiving any non-compliance issues arising under the existing debt documents to the extent necessary to permit the implementation of the Funding Package, subject to certain conditions being met. However, failure of the Company to continue to comply with the waiver conditions could lead to the amounts outstanding under the finance facility and the deposit under the stream arrangements becoming immediately repayable and failing repayment, Orion enforcing its security over the Company's assets.

#### (ii) The Independent Expert believes that the Debt Package is reasonable

The Independent Expert has concluded that, in the absence of a superior offer, the Convertible Note Issues and the Debt Restructure is not fair but reasonable to the non-associated Shareholders.

The Independent Expert considered the following advantages and disadvantages and concluded that the position of Shareholders if the Convertible Note Issues and the Debt Restructure are approved is more advantageous than the position if the Convertible Note Issues and the Debt Restructure are not approved:

#### **Advantages**

The Debt Package provides the Company with the funding required to progress the Woodlawn Project to its production capacity, which may allow the Company to realise the discounted cash flow value of the Woodlawn Project. Within this funding, the Independent Expert considers it unlikely that the DCF value of the Woodlawn Project could be realised.

The Debt Package also avoids the Company from triggering an event of default and removes the possibility of Orion recalling its senior debt facility. If the Debt Package is not approved, there would be material uncertainty around the Company's ability to continue as a going concern.

The Independent Expert's assessment of whether the Debt Package is fair has been undertaken on a worst-case basis, applying an Exchange Rate for the Convertible Notes that is not considered to be a realistic Exchange Rate assumption. On this basis, the Independent Expert has noted that were a realistic Exchange Rate used for the Convertible Notes, the decrease in value is significantly less than that contemplated in their assessment of fairness.

#### **Disadvantages**

If the Debt Package is approved and the Convertible Notes are held until their maturity date, on the basis that they are converted at an Exchange Rate of US\$0.50:A\$1.00:

- (A) existing Shareholders' interests may decrease from 33.4% to as low as 8.4%; and
- (B) Greenstone, Castlelake and Orion (and their respective associates) will hold approximately 91.6% of the Company's issued capital, significantly decreasing the Company's free float. This is likely to reduce the Company's liquidity, which may result in Shareholders having difficulty realising their investment or having to accept significant discounts when realising.

In addition, the increased presence of substantial shareholders is also likely to deter a takeover bid being made for the Company. Accordingly, in the absence of any other relevant information and/or an alternative proposal, the Independent Expert concluded that the Convertible Note Issues and the Debt Restructure are reasonable for Shareholders.

Please refer to Annexure B for a full copy of the Independent Expert's Report.

(b) Key Disadvantages

The Directors consider that the key disadvantages to the Company and non-associated shareholders of completing the Debt Package (being the Convertible Note Issues and the Debt Restructure) are as follows:

### (i) The Independent Expert believes that the Debt Package is not fair

The Independent Expert concluded that the Convertible Note Issues and the Debt Restructure is not fair to the non-associated Shareholders as the value of a Share prior to the Debt Package (on a control basis) (being valued at between \$0.232 and \$0.306 with a preferred value of \$0.269) is higher than the value of a Share following implementation of the Debt Package (on a minority basis) (being valued at between \$0.135 and \$0.175 with a preferred value of \$0.154).

Please refer to Annexure B for a full copy of the Independent Expert's Report.

#### (ii) Dilution of shareholdings for existing Shareholders

Following the approval of the Debt Package, existing Shareholders' interest (excluding the Greenstone Parties, the Castlelake Parties and Orion) may potentially decrease from its existing 20.3% depending upon the extent to which the Convertible Notes are converted into Shares and the Exchange Rate at the time the notice of conversion is given. Based on an Exchange Rate of US\$0.678:A\$1.00, this interest could reduce to 9.9% and based on an Exchange Rate of US\$0.50:A\$1.00, this interest could reduce to 8.4%. <sup>16</sup> Accordingly, Shareholders are likely to suffer a dilution of their shareholding and therefore their capacity to influence the operations of the Company is likely to be reduced.

### (iii) Increased presence of significant Shareholders

If the Debt Package is approved and assuming all Convertible Notes are converted into Shares at an exchange rate of US\$0.678:A\$1.00, the Greenstone Parties will together have a combined voting power of 41.2%, the Castlelake Parties will together have a combined voting power of 36.5% and Orion will have a voting power of 12.4% of the Company's issued capital. Further, if the Exchange Rate falls to US\$0.50:A\$1.00, the Greenstone Parties could together have a combined voting power of 42.1%, the Castlelake Parties could together have a combined voting power of 37.7% and Orion could have a voting power of 11.8% of the Company's issued capital.

# 7. IMPACT OF THE DEBT PACKAGE ON THE COMPANY

If the Debt Package is approved by Shareholders and proceeds it will have an effect on the total assets and capital structure of the Company. Further details of these effects are set out in this Section.

# 7.1 Pro forma balance sheet

Set out below is a summary of the Company's audited consolidated statement of financial position as at 30 June 2019 together with an unaudited pro forma statement of financial position as at 30 June 2019 giving effect to the Funding Package (together the **Financial Information**).

The Financial Information is presented in an abbreviated form and does not contain all of the disclosures that are usually provided in the Annual Report prepared in accordance with the applicable accounting standards and therefore cannot be expected to provide as full an understanding of the financial position of the Company as a statement of financial position in the Annual Report.

<sup>&</sup>lt;sup>16</sup> Shareholders should note that Resolutions 3, 4 and 5 are based on an Exchange rate of US\$0.50:A\$1.00. If the applicable Exchange Rate at the time of conversion falls such that more shares are to be issued upon conversion, the Company has an obligation to seek additional shareholder approval (to the extent necessary under the Corporations Act) and any such conversion will be subject to that additional shareholder approval being obtained.

The pro forma statement below is indicative only and is not intended to be a statement of the Company's current or future financial position.

			A. Post Entitlement Offer			B. Post Convertible Note & Stream			
	30-06-2019 Audited \$'000	Pro Forma Adjustments 1 \$'000		Pro Forma Adjustments 2 \$'000		30-06-2019 Unaudited Pro Forma \$'000	Pro Forma Adjustment s 3 \$'000	Otream	30-06-2019 Unaudited Pro Forma \$'000
ASSETS		·							
Cash assets	31,465	(21,829)	1	30,107	2	39,743	44,656	7	84,399
Restricted Cash Trade and other	7,777	-		-		7,777	-		7,777
receivables Investments and	3,398	-		-		3,398	-		3,398
other assets Property, plant and	2,343	-		-		2,343	-		2,343
equipment	11,962	-		-		11,962	-		11,962
Mine Property	242,849	21,829	1	-		264,678	-		264,678
Total Assets	299,794	-		30,107		329,901	44,656		374,557
	,					,	,		<u>,                                     </u>
LIABILITIES									
Trade and other									
payables	6,060	-		-		6,060	-		6,060
Provisions	31,924	-		(2,000)	3	29,924	-		29,924
Existing Borrowings	132,910	-		(3,358)	4	129,552	(9,482)	8, 9	120,070
New stream	-	-		-		-	4,425	10	4,425
Convertible note	-	-		-		-	52,655	11, 12	52,655
Total Liabilities	170,894	-		(5,358)		165,536	47,598		213,134
Net Assets	128,900	-		35,465		164,365	(2,942)		161,423
EQUITY									
					3				
Contributed equity	259,742	-		37,399	3, 5	297,141	-		297,141
Option reserve	2,857	-		-		2,857	-		2,857
Accumulated losses	(133,699)	-		-		(133,699)	(2,942)	9, 12	(136,641)
Equity raising fees		-		(1,934)	6	(1,934)	-	-	(1,934)
Total Equity	128,900	-		35,465		164,365	(2,942)		161,423

### Assumptions and adjustments for pro forma statement of financial position

The Pro-Forma Statement of Financial Position has been prepared on the basis that there have been no material movements in the assets and liabilities of the Company between 30 June 2019 and 22 October 2019 (being the close of the Entitlement Offer).

- 1. Cash expended between 30 June 2019 and 30 September 2019, which has been capitalised into Mine Property.
- 2. Proceeds from Entitlement Offer (including all proceeds raised under the Underwriting Arrangements), less associated costs.
- 3. 10 million shares issued at A\$0.20 per share to Sedgman.
- 4. Partial repayment of Orion debt facility.
- 5. 177 million New Shares issued at A\$0.20 per Share under the Entitlement Offer.
- 6. Costs associated with the Entitlement Offer.
- 7. Proceeds from Convertible Notes and stream proceeds.
- 8. Partial repayment of Orion debt facility via the issue of the Convertible Notes and stream proceeds.
- 9. US\$1.3 million debt restructuring fee, capitalised onto loan balance.
- 10. US\$3 million new stream.
- 11. US\$35 million Convertible Notes.
- 12. US\$0.7 million drawdown fee, capitalised onto Convertible Note loan balance.

### 7.2 Impact of the Convertible Note Issues on the capital structure of the Company

Set out below is a summary of the impact of the Convertible Note Issues on the capital structure of the Company.

The Convertible Notes each have a face value of US\$1.00 and a conversion price of A\$0.25. Accordingly, actual number of Shares that may be issued upon conversion of the Convertible Notes is dependent upon the Exchange Rate at the time the notice of conversion is provided to the Company in accordance with the relevant Convertible Note Agreement. In addition, the actual voting power to be acquired upon conversion of the Convertible Notes is dependent upon the extent to which other Convertible Note holders convert their respective Convertible Notes into Shares, the number of Shares then held by the holder of the Convertible Note and the extent to which the Company has issued any other Shares.

Resolutions 3 to 5 have included references to voting power based on a minimum Exchange Rate of US\$0.50:A\$1.00<sup>17</sup>, which will result in the following scenarios:

- (a) if the Greenstone Parties convert all Convertible Notes issued to them on the Maturity Date, a total of 286,441,425 Shares will be issued, which assuming no other Convertible Note holders convert any of their Convertible Notes, none of the Greenstone Parties dispose of Shares and no other Shares are issued, will result in the Greenstone Parties' voting power increasing to 60.9%;
- (b) if the Castlelake Parties convert all Convertible Notes issued to them on the Maturity Date, a total of 267,247,069 Shares will be issued, which assuming no other Convertible Note holders convert any of their Convertible Notes, none of the Castlelake Parties dispose of Shares and no other Shares are issued, will result in the Castlelake Parties' voting power increasing to 56.0%; and
- (c) if Orion converts all Convertible Notes issued to it on the Maturity Date, a total of 50,863,162 Shares will be issued, which assuming no other Convertible Note holders convert any of their Convertible Notes, Orion does not dispose of Shares and no other Shares are issued, will result in Orion's voting power increasing to 25.3%.

If the applicable Exchange Rate at the time of conversion is below US\$0.50:A\$1.00 and the number of Shares to be issued would result in one of the above parties holding a greater voting power in the Company, then the Company has an obligation to seek additional shareholder approval (to the extent necessary under the Corporations Act) and any such conversion will be subject to that additional shareholder approval being obtained.

In the event that:

- (a) the Exchange Rate is greater than US\$0.50:A\$1.00;
- (b) other Convertible Note holders convert some or all of their Convertible Notes; or
- (c) other Shares are issued,

then the actual voting power of each of the above parties will be reduced accordingly.

The table below shows the impact of the conversion of all Convertible Notes issued under the Convertible Note Agreements at an Exchange Rate of US\$0.678:A\$1.00 (rather than at US\$0.50:A\$1.00).

<sup>&</sup>lt;sup>17</sup> The Convertible Note Agreements contain this floor price in order to determine the maximum number of Shares to be issued to and voting power of the relevant Noteholder as required by ASIC Regulatory Guide 74. The actual Exchange Rate to be used on conversion is that prevailing at the date of conversion of the relevant Convertible Note. Please see Section 1 of Annexure A for further information.

Event	Castlelake Parties		Greenstone F	Parties	Orion		Total	
	Shares	Voting power	Shares	Voting power	Shares	Voting power	Shares	
As at the date of this Notice of Meeting	105,971,173	28.1%	113,582,290	30.1%	70,663,685	18.7%	377,059,648	
Following the issue of Shares under the Underwriting Arrangements	122,433,154	28.6%	148,725,266	34.7%	70,663,685	16.5%	428,664,605	
Following the issue of Shares upon conversion of Convertible Notes	359,965,257	41.2%	319,518,013	36.5%	108,173,391	12.4%	874,499,160	

# 7.3 Use of funds raised from the Funding Package

The funds raised from the Funding Package (including the Debt Package) will be used towards the ongoing development and ramp-up of operations at the Woodlawn Project, loan repayment and interest payment under the loan facility arrangements with Orion as well as for general working capital purposes, as detailed in the table below (assuming an Exchange Rate of US\$0.678:A\$1.00):

Source of funds	Amount (A\$)	% of funds
Cash reserve (as at 30 September 2019)	A\$9,635,000	9.53%
Gross proceeds from the Entitlement Offer	A\$35,400,000	35.02%
Gross proceeds from the Convertible Note Issues	A\$51,622,000	51.07%
Gross proceeds from the Debt Restructure	A\$4,425,000	4.38%
TOTAL	A\$101,082,000	100%
Use of funds	Amount (A\$)	% of funds raised
Partial repayment of loan facility <sup>1</sup>	A\$14,749,000	14.59%
Interest payment	A\$2,617,000	2.59%
Plant rectification and improvement works	A\$3,450,000	3.41%
Underground capital works	A\$12,499,000	12.37%
Underground mining working capital	A\$28,079,000	27.78%
Processing expenses	A\$16,415,000	16.24%
Concentrate logistics expenses	A\$4,870,000	4.82%
Site services expenses	A\$2,282,000	2.26%
Minimum liquidity buffer	A\$10,000,000	9.89%
General working capital <sup>3</sup>	A\$4,187,000	4.14%
Expenses associated with the Funding Package	A\$1,934,000	1.91%
TOTAL	A\$101,082,000	100%

# 8. REQUIREMENT FOR SHAREHOLDER APPROVAL

# 8.1 Why is Shareholder approval required?

### Convertible Note Issues

As a result of the current Relevant Interest held by each of the Greenstone Parties, the Castlelake Parties and Orion in the Company, Shareholder approval is required for each of those parties to acquire the Convertible Notes as their voting power in the Company has the potential to exceed the thresholds otherwise prohibited under section 606 of the Corporations Act upon conversion of the Convertible Notes. For further information regarding the impact of the Convertible Note Issues on the voting power of each of the Greenstone Parties, the Castlelake Parties and Orion, please refer to Section 7.2.

Further as stated in Section 5.4, completion under each of the Convertible Note Agreements is subject to the Company obtaining the necessary shareholder approval, including for the purposes of item 7 of section 611 of the Corporations Act. These approvals are the subject of the Resolutions 3, 4 and 5.

Accordingly, each of Resolutions 3, 4 and 5 must be passed in order for the Convertible Notes Issues to proceed.

Shareholders should note that the Convertible Notes each have a face value of US\$1.00 and a conversion price of A\$0.25. Accordingly, the number of Shares that may be issued upon conversion is dependent upon the Exchange Rate at the time notice if given for conversion. For information regarding the number of Shares that may be issued based on an Exchange Rate of US\$0.678:A\$1.00, please refer to Section 7.2.

Notwithstanding the above, the maximum voting power stated in each of Resolutions 3, 4 and 5, as required to be disclosed under the Corporations Act are based on conversion occurring at an Exchange Rate of US\$0.50:A\$1.00. If the Exchange Rate falls below US\$0.50:A\$1.00, the Company has an obligation under the Convertible Note Agreements to seek additional Shareholder approval to the extent required under the Corporations Act. For further information, please refer to Section 7.2.

A summary of the terms of the Convertible Notes is set out in Section 1 of Annexure A.

### Debt Restructure

As stated in Section 5.5, ASX has confirmed that Listing Rule 10.1 applies to the Debt Restructure.

Accordingly, Shareholder approval is being sought for the purposes of ASX Listing Rule 10.1 for the disposal associated with the Debt Restructure.

### 8.2 Independent Expert's Report

To assist Shareholders in their consideration of Resolutions 3 to 6, and to satisfy the requirements of the Corporations Act and ASX Listing Rules, the Board has engaged the Independent Expert to opine whether or not the Debt Package is fair and reasonable to non-associated Shareholders of Heron. The opinion includes:

- the proposal for the Greenstone Parties to subscribe for 16,581,016 Convertible Notes in Heron which upon conversion could result in a combined voting power of up to 60.9%<sup>18</sup> in the Company (increasing from the Greenstone Parties' 34.7% interest in the Company as at completion of the Entitlement Offer and Underwriting Arrangements);
- (b) the proposal for the Castlelake Parties to subscribe for 15,469,927 Convertible Notes in Heron which upon conversion could result in a combined voting power of up to 56.0%<sup>19</sup> in the Company (increasing from the Castlelake Parties' 28.6% interest in the Company as at completion of the Entitlement Offer and Underwriting Arrangements);

<sup>&</sup>lt;sup>18</sup> Assuming (a) that the Greenstone Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) none of the Greenstone Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

<sup>&</sup>lt;sup>19</sup> Assuming (a) that the Castlelake Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) none of the Castlelake Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

- (c) the proposal for Orion to subscribe for 2,944,277 Convertible Notes in Heron which upon conversion could result in a combined voting power of up to 25.3%<sup>20</sup> in the Company (increasing from Orion's 16.5% interest in the Company as at completion of the Entitlement Offer); and
- (d) the proposal to restructure the existing US\$60 million secured loan facility with Orion and restructure of the existing stream arrangements with Orion which involves an additional US\$3 million (A\$4.4 million<sup>1</sup>) prepayment under the Debt Restructure.

The Independent Expert has concluded that, in the absence of a superior offer, the Convertible Note Issues and Debt Restructure collectively, are **not fair but reasonable** to non-associated Shareholders of the Company for the following reasons:

- (a) the Debt Package is not fair to the non-associated Shareholders as the value of a Share prior to the Debt Package (on a control basis) (being valued at between \$0.232 and \$0.306 with a preferred value of \$0.269) is higher than the value of a Share following implementation of the Debt Package (on a minority basis) (being valued at between \$0.135 and \$0.175 with a preferred value of \$0.154); however
- (b) the Debt Package is considered reasonable because the advantages of the Debt Package t Shareholders are greater than the disadvantages and the consequences of not approving the Debt Package. The respective advantages and disadvantages considered are summarised below:

### <u>Advantages</u>

- (i) the Debt Package provides the Company with the funding required to progress the Woodlawn Project to its production capacity;
- (ii) the Debt Package avoids the Company triggering an event of default in relation to its existing debt with Orion; and
- (iii) the Independent Expert's assessment of whether the Debt Package is fair presents the worst case scenario for existing Shareholders.

### <u>Disadvantages</u>

- (iv) the Debt Package will result in dilution to existing Shareholders' interests; and
- (v) the Debt Package will result the increased presence of substantial shareholders which is likely to deter a takeover bid being made for the Company.

For further details on the above advantages and disadvantages, please refer to Section 6(a)(ii). In addition, a complete copy of the Independent Expert's Report is attached at Annexure B. Shareholders may request a hard copy of the Independent Expert's Report from the Company at no cost by contacting the Company on +61 2 9119 8111. Shareholders are urged to carefully read Section 13.2 and the Independent Expert's Report to understand its scope, the methodology of the valuation and the sources of information and assumptions made.

# 9. DIRECTORS' RECOMMENDATION

The Independent Directors (the Directors, other than Mark Sawyer, Peter Rozenauers and Ricardo De Armas) consider that the Debt Package represents the best available opportunity to see the Woodlawn Project continue to ramp-up its operations to nameplate production capacity. Based on all the information available, including the information set out in this Explanatory Statement and the Independent Expert's Report, all of the Independent Directors consider that the transactions the subject of Resolutions 3 to 6 are in the best interest of the Company and recommend that Shareholders vote in favour of those Resolutions, subject to no superior proposal arising. The Independent Directors have approved the proposal to put these Resolutions to Shareholders.

Each Independent Director intends to vote all Shares controlled by him or her in favour of the Resolutions in the absence of a superior proposal.

Mark Sawyer is Greenstone's nominated representative on the Board and is currently a director of Greenstone Management II Limited (see Section 10 for further details). Ricardo De Armas is

<sup>&</sup>lt;sup>20</sup> Assuming (a) that Orion converts all of its Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an exchange rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) Orion does not dispose of Shares. In the event the exchange rate is greater than US\$0.50 per A\$1, then the percentage will decrease. Please see section 7.2 for further information.

Castlelake's nominated representative on the Board and is currently a director of Castlelake (see Section 11 for further details). Peter Rozenauer is Orion's nominated representative on the Board and is currently a director of Orion (see Section 12 for further details).

When it became apparent that the Funding Package (including the Debt Package) would involve a placement of securities to the Greenstone Parties, the Castlelake Parties and Orion as well as a restructure to the existing debt arrangements with Orion, the Company immediately put in place appropriate corporate governance arrangements to ensure the process of considering alternative financing structures and agreeing the Debt Package structure did not involve any interested directors, including Mark Sawyer, Ricardo De Armas and Peter Rozenauers.

The Directors, other than Mark Sawyer, do not have any material interest in the outcome of Resolution 3, other than as a result of their interest arising solely in the capacity of Shareholders of the Company. Mark Sawyer abstains from making a recommendation in relation to Resolution 3, being the resolution to which he has an interest.

The Directors, other than Ricardo De Armas, do not have any material interest in the outcome of Resolution 4, other than as a result of their interest arising solely in the capacity of Shareholders of the Company. Ricardo De Armas abstains from making a recommendation in relation to Resolution 4, being the resolution to which he has an interest.

The Directors, other than Peter Rozenauers, do not have any material interest in the outcome of Resolutions 5 and 6, other than as a result of their interest arising solely in the capacity of Shareholders of the Company. Peter Rozenauers abstains from making a recommendation in relation to Resolutions 5 and 6, being the resolutions to which he has an interest.

# 10. WHO IS GREENSTONE?

This Section 10 has been prepared by Greenstone to assist the Company to meet its obligations under ASIC Regulatory Guide 74. The information concerning Greenstone and the intentions, views and opinions contained in this Section 10 are the responsibility of Greenstone. Heron does not assume any responsibility for the accuracy or completeness of the information included in this Section 10.

### 10.1 Overview of Greenstone

#### (a) <u>Greenstone Australia LP</u>

Greenstone Resources II (Australia) Holdings L.P. (**Greenstone Australia LP**) is a Delaware limited partnership that was formed for the purpose of undertaking Greenstone's investments in certain opportunities within Australia.

The general partner of Greenstone Australia LP is Greenstone Management (Delaware) II LLC, a Delaware incorporated company (**Greenstone Delaware II**).

In accordance with the incorporation arrangements and operation of prevailing law, Greenstone Delaware II, as general partner, has exclusive responsibility for the management and conduct of the business of Greenstone Australia LP and the application of its assets, and has full power and authority to bind, and to do all things necessary to carry out the purposes of, Greenstone Australia LP.

The limited partners in Greenstone Australia LP are passive investors and cannot take any part in the management or control of the business and affairs of Greenstone Australia LP, nor do they have any right or authority to act for or to bind Greenstone Australia LP. They do not have a general power to vote (other than in very limited circumstances) and no one limited partner holds more than 20% of Greenstone Australia LP.

Greenstone Delaware II, in its capacity as general partner of Greenstone Australia LP (**Greenstone**) has agreed to subscribe for 11,349,989 Convertible Notes in the Company.

As at the date of this Notice of Meeting, Greenstone holds 21,526,634 Shares in the Company. It is anticipated that Greenstone will acquire a further 35,142,976 Shares in the Company pursuant to the Underwriting Arrangements.

(b) <u>Greenstone Management II</u>

Greenstone Delaware II is a wholly-owned subsidiary of Greenstone Management II Limited (**Greenstone Management II**), a company incorporated in Guernsey. As a sole member limited liability Delaware company, Greenstone Delaware II has no board of directors and

Greenstone Management II, as the sole member, makes all decisions for, and controls, Greenstone Delaware II.

The powers of Greenstone Management II are exercised by its board, with the directors of Greenstone Management II being Mark Sawyer, Michael Haworth, Matt Horton and Gavin Hayman. Accordingly, no one director controls the decision making of Greenstone Management II. Mr Sawyer is also a non-executive director of the Company.

As the sole member of Greenstone Delaware II, Greenstone Management II has a Relevant Interest in the shares in the Company held by Greenstone Delaware II in its capacity as general partner of Greenstone Australia LP.

#### (c) <u>Greenstone HRR Holdings LP and Greenstone HRR Holdings II LP</u>

Greenstone HRR Holdings L.P (**Greenstone HRR Holdings LP**) is a Delaware limited partnership that was formed in 2015 for the purpose of undertaking Greenstone's original investment in the Company.

The general partner of Greenstone HRR Holdings is Greenstone Management (Delaware) LLC (**Greenstone Delaware**), a Delaware incorporated company. Greenstone Delaware is a wholly-owned subsidiary of Greenstone Management Limited (**Greenstone Management**). Greenstone Management is a different entity to Greenstone Management II, referenced above.

Greenstone HRR Holdings LP is a parallel fund to Greenstone Australia LP. Whilst the funds have similar structures, they are separate funds and, despite some commonality in the limited partners, there are also differences in the limited partner composition, with each fund being operated in accordance with its own investment objectives for the benefit of its limited partners. The general partners are also different corporate vehicles.

Greenstone HRR Holdings II L.P (**Greenstone HRR Holdings II LP**) is also a Delaware limited partnership. It was formed for the purposes of the Company's financing in 2017. The general partner of Greenstone HRR Holdings II LP is Greenstone Delaware.

As part of the Company's financing in 2017, Greenstone HRR Holdings LP transferred all of its shares in the Company to Greenstone HRR Holdings II LP in exchange for approximately 81% of the limited partnership interests in Greenstone HRR Holdings II LP. Greenstone HRR Holdings II LP currently holds 45,262,790 shares in the Company.

Neither Greenstone HRR Holdings LP nor Greenstone HRR Holdings II LP have participated in the Entitlement Offer or Convertible Note Issue.

### **10.2** Direct investment in Heron by certain limited partners

During the course of the Company's 2017 financing, certain limited partners of Greenstone HRR Holdings LP elected to invest directly into the Company. Similarly, certain limited partners of Greenstone Australia LP have elected to acquire Shares in the Company pursuant to the Entitlement Offer and to subscribe for Convertible Notes. Further details of these investments are set out below:

(a) G LTP LLC, G HSP LLC, G JBD LLC and G ERP LLC, each managed by DUMAC, Inc. (DUMAC Entities), have agreed to subscribe for Convertible Notes in the Company that, in aggregate, total 1,090,802 Convertible Notes.

DUMAC, Inc. (**DUMAC**) is a professionally staffed investment organization controlled by Duke University (**Duke**), a private research university in Durham, North Carolina, United States. Other funds managed by DUMAC also hold 23.5% of the limited partnership interests in Greenstone HRR Holdings LP and 13.4% in Greenstone Australia LP.

Duke is controlled by its Board of Trustees which is self-perpetuating (2/3 of the trustees are appointed by the trustees themselves and 1/3 by graduates of Duke). DUMAC is controlled by a Board of Directors. Three of the directors must be individuals who serve simultaneously as members of Duke's Board of Trustees, and the remainder are either individuals who serve simultaneously as members of Duke's Board of Trustees or are experienced investment or business professionals with close ties to Duke University.

As part of the Company's 2017 financing, the DUMAC Entities acquired Shares in the Company that, in aggregate, totalled 7,368,140 Shares. The DUMAC Entities acquired a further 5,396,427 Shares in aggregate under the Entitlement Offer.

(b) The J Paul Getty Trust (**Getty Foundation**) has agreed to subscribe for 1,190,617 Convertible Notes in the Company.

The Getty Foundation was founded in 1953 and is a non-profit private operating foundation dedicated to supporting the visual arts. The Getty Foundation has four main areas that is supported by its investment program – the Getty Conservation Institute, the Getty Foundation, the J. Paul Getty Museum, and the Getty Research Institute. These programs are committed to the presentation, enjoyment, study, and conservation of the visual arts and humanities in order to offer the public opportunities to more fully understand, experience, value, and preserve the world's art and cultural heritage.

The Getty Foundation holds 6.48% of the limited partnership interests in Greenstone HRR Holdings LP and 3.1% in Greenstone Australia LP.

As part of the Company's 2017 financing, the Getty Foundation acquired 4,854,529 Shares. The Getty Foundation acquired a further 5,974,798 Shares under the Entitlement Offer.

(c) Commonfund Capital Natural Resources Partners IX, LP, Commonfund Capital Natural Resources Partners X, LP and Commonfund Capital Natural Resources Partners XI, LP (Commonfund Entities), have agreed to subscribe, in aggregate, to 2,949,608 Convertible Notes in the Company.

Each of the Commonfund Entities are managed and controlled by their general partners: Fairfield Partners 2012 GP LLC, Fairfield Partners 2014 LGP LLP and Fairfield Partners XII GP LLC, respectively. The Commonfund Entities are advised by Commonfund Capital, Inc. The Commonfund Entities are based in Delaware, United States.

Commonfund was founded in 1971 as an independent investment management firm focused on not-for-profit institutions. Today, Commonfund is one of North America's leading institutional investment firms, managing \$25 billion in assets for some 1,300 institutional clients. Its only business is investment management, and it is active in all sectors of the global capital markets, both public and private. Commonfund holds in aggregate 12.96% of the limited partnership interests in Greenstone HRR Holdings LP and 4.7% in Greenstone Australia LP.

The Commonfund Entities acquired 15,120,885 Shares as sub-underwriters pursuant to the Entitlement Offer.

As stated above, the limited partner interests in Greenstone Australia LP held by these entities do not give them the power to control Greenstone Australia LP. It is therefore a passive investment.

Similarly, the Greenstone Parties do not currently have any agreement, arrangement or understanding with one another as to how they will in the future act in respect of the Shares, or for that matter any Convertible Notes, they hold directly in Heron (including any form of advisory arrangements or any agreement, arrangement or understanding as to how they will exercise the power to vote or dispose of those Shares and/or Convertible Notes or otherwise act in respect of Heron's affairs).

However, to the extent that Greenstone's role in facilitating these direct investments (including identifying the opportunity, conducting due diligence, being involved in document preparation, monitoring and determining the satisfaction of conditions precedent and exercise of termination rights and managing the completion process on behalf of these entities) creates an associate relationship between the entities up to and at the point of Completion or beyond, approval is sought for this extended voting power (being 60.9%<sup>18</sup>).

For the reasons set out above, given there are no ongoing agreements, arrangements or understandings between the parties, it is not expected that this extended voting power will continue following the issue of the Convertible Notes.

# **10.3** Intentions of the Greenstone Parties for the Company

If Completion occurs, Greenstone has confirmed to the Company that it is supportive of the Company pursuing the operation of, and continued production from, the Woodlawn Project.

If Completion occurs Greenstone has also confirmed that it has no intention to:

- (a) make any changes to the business of the Company;
- (b) inject any further capital into the Company, although it reserves the right to do so should it choose to do so;

- (c) make any changes to the Company's existing employees;
- (d) transfer any of the Company's assets between the Company and Greenstone, or its Associates;
- (e) redeploy any of the Company's fixed assets; or
- (f) change the Company's financial or dividend distribution policies.

The statements are based on information known to Greenstone at the date of this Notice of Annual General Meeting regarding the Company, its business and the prevailing business environment. The statements set out above are statements of the current intention of Greenstone only and may vary as new information becomes available or circumstances change. Any final decisions regarding these matters will only be made by Greenstone in light of information and circumstances at that time.

Each of the non-Greenstone entities (referred to in Section 10.1(b), being the DUMAC Entities, the Getty Foundation and the Commonfund Entities) have made the same confirmations to Greenstone.

# 11. WHO IS CASTLELAKE?

This Section 11 has been prepared by Castlelake to assist the Company to meet its obligations under ASIC Regulatory Guide 74. The information concerning Castlelake and the intentions, views and opinions contained in this Section 11 are the responsibility of Castlelake. Heron does not assume any responsibility for the accuracy or completeness of the information included in this Section 11.

### 11.1 Overview of Castlelake

Castlelake is a global private investment firm managing private funds with more than \$15.3b in assets (as of June 30 2019) on behalf of its limited partners. The Castlelake team is comprised of more than 170 professionals across its offices in Minneapolis, Dallas, Dublin, London and Singapore.

The Castlelake team has significant experience working with capital and operating partners in debt, equity and alternative financing structures. Castlelake works with various entities to develop financing strategies and structures for the projects and companies in which it invests on behalf of its funds. As a result, Castlelake has developed relationships with a network of capital providers and often seeks to leverage those relationships to achieve financing solutions for its investments. Castlelake also has access to a wide network of contacts in the mining industry as well as brokers and financial advisors focused in the mining sector.

Investment professionals at Castlelake have significant experience investing in projects involving the development of mining sector assets. Castlelake's investment approach includes investments with terms that enable the firm to actively engage with management in the decision-making process. A tenet of the firm's investment philosophy is a focus on developing long-term, collaborative relationships with asset managers that utilize the firm's skills, specialized expertise and global network to add value to projects and effectuate their success.

### 11.2 Direct investment in Heron by separate Castlelake funds

Castlelake is a limited partnership registered under the laws of Delaware, United States and is the investment manager of the Castlelake Parties (which comprise CL III, CL IV and CL V).

CL III is a limited partnership registered on 18 September 2013 under the laws of Delaware, US. CL III is an investment fund that deploys investor capital and is managed by Castlelake III GP, L.P., its General Partner.

CL IV is a limited partnership registered on 6 February 2015 under the laws of Delaware, US. CL IV is an investment fund that deploys investor capital and is managed by Castlelake IV GP, L.P., its General Partner.

CL V is a limited liability company formed 21 June 2017 under the laws of Delaware, US. CL V is an investment entity of a private investment fund that deploys investor capital and is a wholly owned subsidiary of Castlelake V, L.P., which is managed by Castlelake V GP, L.P., its General Partner.

During the course of the Company's 2017 financing, CL III and CL IV invested in the Company, each subscribing for 23,335,069 Shares. Separately, CL V acquired 14,500,014 Shares by purchasing them from an existing investor. The Castlelake Parties have agreed to the separately acquire Shares under the Entitlement Offer and Underwriting Arrangements and to acquire Convertible Notes. Further details of these investments are set out below:

- (a) under the Entitlement Offer, CL IV and CL V have subscribed for 17,090,605 and 10,619,811 Shares respectively;
- (b) CL V has also subscribed for an additional 17,090,605 Shares and will subscribe for a further 16,461,981 Shares in its capacity as an underwriter to the Entitlement Offer on or about 12 November 2019 under the Underwriting Arrangements; and
- (c) CL III, CL IV and CL V have agreed to subscribe for 1,943,418, 3,366,732 and 10,469,175 Convertible Notes respectively.

The Castlelake Parties do not currently have any agreement, arrangement or understanding with one another as to how they will in the future act in respect of the Shares or the Convertible Notes they hold in Heron (including any form of advisory arrangements or any agreement, arrangement or understanding as to how they will exercise the power to vote or dispose of those Shares and/or Convertible Notes or otherwise act in respect of Heron's affairs).

However, to the extent that Castlelake's role in facilitating these direct investments (including identifying the opportunity, conducting due diligence, being involved in document preparation, monitoring and determining the satisfaction of conditions precedent and exercise of termination rights and managing the completion process on behalf of these entities) creates an associate relationship between the entities up to and at the point of Completion or beyond, approval is sought for this extended voting power (being up to 56.0%).

### 11.3 Intentions of the Castlelake for the Company

If Completion occurs, the Castlelake Parties have confirmed to the Company that they are supportive of the Company pursuing the operation of, and continued production from, the Woodlawn Project.

If Completion occurs the Castlelake Parties have also confirmed that they have no intention to:

- (a) make any changes to the business of the Company;
- (b) inject any further capital into the Company, although they reserve the right to do so should they choose to do so;
- (c) make any changes to the Company's existing employees;
- (d) transfer any of the Company's assets between the Company and the Castlelake Parties, or their Associates;
- (e) redeploy any of the Company's fixed assets; or
- (f) change the Company's financial or dividend distribution policies.

The statements are based on information known to the Castlelake Parties at the date of this Notice of Annual General Meeting regarding the Company, its business and the prevailing business environment. The statements set out above are statements of the current intention of the Castlelake Parties only and may vary as new information becomes available or circumstances change. Any final decisions regarding these matters will only be made by the Castlelake Parties in light of information and circumstances at that time.

# 12. WHO IS ORION?

This Section 12 has been prepared by Orion to assist the Company to meet its obligations under ASIC Regulatory Guide 74. The information concerning Orion and the intentions, views and opinions contained in this Section 12 are the responsibility of Orion. Heron does not assume any responsibility for the accuracy or completeness of the information included in this Section 12.

Orion carries on a business of investing in precious metals and base metal late stage development companies (both public and private). These investments are structured as either equity investments into, or senior debt lending to, the relevant entities (or a combination of both). Orion also makes investments through purchasing royalties, entering into metal streaming transactions, or alternatively entering into off-take arrangements with companies holding base metal and precious metal projects. Orion operates out of offices in New York, Denver, Bermuda, Sydney and London.

Orion is a mining focused investment business with approximately US\$6 billion currently under management (as of 30 September 2019) specialising in providing flexible capital investment solutions to mining companies in the base and precious metals sector. Orion has demonstrated capability in debt, equity, convertibles, off-take, streaming and royalty investments.

Further information concerning Orion can be found at <u>www.orionresourcepartners.com</u>.

# 12.1 Overview of the Orion Parties

Orion Mine Finance Fund II LP (**Orion LP**) is a limited partnership formed under the laws of Bermuda with headquarters in New York, USA.

The general partner of Orion LP is Orion Mine Finance GP II L.P (**Orion GP II LP**), a limited partnership formed under the laws of Bermuda. Orion GP II LP manages and controls Orion LP.

The limited partners in Orion LP are passive and have no rights of management or control over the partnership, other than limited veto rights in respect of certain fundamental matters.

The general partner of Orion GP II LP is Orion Mine Finance GP II Limited (**Orion GP II Limited**), a company formed under the laws of Bermuda. Orion GP II Limited manages and controls Orion GP.

Due to the powers of control referred to above, Orion GP and Orion GP II will have the same Relevant Interest in the securities Orion LP has a Relevant Interest in.

### 12.2 Intentions of Orion for the Company

If Completion occurs, Orion has confirmed to the Company that it is supportive of the Company pursuing the operation of, and continued production from, the Woodlawn Project.

If Completion occurs Orion had also confirmed that Orion has no intention to:

- (a) make any changes to the business of the Company;
- (b) inject any further capital into the Company, although they reserve the right to do so should they choose to do so;
- (c) make any changes to the Company's existing employees;
- (d) transfer any of the Company's assets between the Company and Orion, or its Associates;
- (e) redeploy any of the Company's fixed assets; or
- (f) change the Company's financial or dividend distribution policies.

The statements are based on information known to Orion at the date of this Notice of Annual General Meeting regarding the Company, its business and the prevailing business environment. The statements set out above are statements of the current intention of Orion only and may vary as new information becomes available or circumstances change. Any final decisions regarding these matters will only be made by Orion in light of information and circumstances at that time.

# 13. RESOLUTIONS 3, 4 AND 5 - APPROVAL OF CONVERTIBLE NOTE ISSUES

### 13.1 Regulatory Requirements under the Corporations Act

Under section 606(1) of the Corporations Act, subject to limited specified exemptions, a person must not acquire a Relevant Interest in issued voting shares in a public company, if as a result of the acquisition any person's (and their Associates) voting power in the company would increase:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

Item 7 of section 611 of the Corporations Act provides an exemption to the prohibition stated above. Item 7 of section 611 of the Corporations Act allows a person (and its Associates) to acquire a relevant interest in shares that would otherwise be prohibited under section 606(1) of the Corporations Act, if the proposed acquisition is approved in advance by a resolution passed at a general meeting of the company, and:

- (a) no votes are cast in favour of the relevant resolution by the proposed acquirer or their respective Associates; and
- (b) there is full disclosure of all information that is known to the proposed acquirer and their Associates or known to the Company that is material to a decision on how to vote on the relevant resolution, including:
  - (i) the identity of the person proposed to make the acquisition and their Associates;

- (ii) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition;
- (iii) the voting power that person would have as a result of the acquisition;
- (iv) the maximum extent of the increase in the voting power of each of that person's Associates that would result from the acquisition; and
- (v) the voting power that each of that person's Associates would have as a result of the acquisition.

Accordingly, Shareholder approval is being sought:

- (a) under Resolution 3 for the Company to issue Convertible Notes to the Greenstone Parties, which on conversion of those Convertible Notes, is likely to result in the Greenstone Parties increasing their voting power in the Company from a starting point that is above 20% and below 90% for the purposes of item 7 of section 611 of the Corporations Act;
- (b) under Resolution 4 for the Company to issue Convertible Notes to the Castlelake Parties, which on conversion of those Convertible Notes, is likely to result in the Castlelake Parties increasing their voting power in the Company from a starting point that is above 20% and below 90% for the purposes of item 7 of section 611 of the Corporations Act; and
- (c) under Resolution 5 for the Company to issue Convertible Notes to Orion, which on conversion of those Convertible Notes, could potentially result in Orion increasing its voting power in the Company from below 20% to more than 20% for the purposes of item 7 of section 611 of the Corporations Act.

The information requirements outlined in Section 13.1(b) above are set out in Section 13.4 below.

Shareholders should note that the Convertible Notes each have a face value of US\$1.00 and a conversion price of A\$0.25. Accordingly, the number of Shares that may be issued upon conversion is dependent upon the Exchange Rate at the time notice if given for conversion. For information regarding the number of Shares that may be issued based on an Exchange Rate of US\$0.678:A\$1.00, please refer to Section 7.2.

Notwithstanding the above, the maximum voting power stated in each of Resolutions 3, 4 and 5, as required to be disclosed under the Corporations Act are based on conversion occurring at an Exchange Rate of US\$0.50:A\$1.00. If the Exchange Rate falls below US\$0.50:A\$1.00, the Company has an obligation under the Convertible Note Agreements to seek additional Shareholder approval to the extent required under the Corporations Act. For further information, please refer to Section 1 of Annexure A.

# 13.2 Regulatory Requirements under the ASX Listing Rules

Listing Rule 7.1 provides that, unless an exemption applies, a company must not, without prior approval of shareholders, issue or agree to issue Equity Securities if the Equity Securities will in themselves or when aggregated with the Equity Securities issued by the company during the previous 12 months, exceed 15% of the number of ordinary securities on issue at the commencement of that 12 month period. Listing Rule 7.2 (Exception 16) provides an exemption from Listing Rule 7.1 where an issue of securities is approved for the purposes of item 7 of section 611 of the Corporations Act.

Listing Rule 10.11 provides that, unless a specified exception applies, a company must not issue or agree to issue securities to a person whose relationship with the company or a related party is, in ASX's opinion, such that approval should be obtained. ASX has confirmed that for the purposes of ASX Listing Rule 10.11, each of Greenstone, Castlelake and Orion are entities whose relationship with the Company, in ASX's opinion, is such that approval should be obtained by virtue of their Relevant Interest in Shares of the Company and their board representation rights. However, Listing Rule 10.12 (Exception 6)<sup>21</sup> provides an exemption from Listing Rule 10.11 where an issue of securities is approved for the purposes of item 7 of section 611 of the Corporations Act.

As Shareholder approval is being sought under each of Resolutions 3, 4 and 5 for the purposes of item 7 of section 611 of the Corporations Act, approval is not also required under Listing Rules 7.1 or 10.11 in order for the Company to:

(a) issue the Convertible Notes to the Greenstone Parties, the Castlelake Parties or Orion; or

<sup>&</sup>lt;sup>21</sup> which is to come into effect on and from 1 December 2019.

(b) retain the flexibility to issue further Equity Securities representing up to 15% of the Company's share capital during the next 12 months.

### 13.3 Independent Expert's Report

The Company appointed the Independent Expert to prepare the Independent Expert's Report, the purpose of which was to state whether or not, in their opinion:

- (a) in respect of Resolution 3, the proposal for the Greenstone Parties to subscribe for 16,581,016 Convertible Notes in Heron which upon conversion could result in a combined voting power of up to 60.9%<sup>22</sup> in the Company (increasing from the Greenstone Parties' 34.7% interest in the Company as at completion of the Entitlement Offer and Underwriting Arrangements) is "fair and reasonable" to Heron Shareholders (other than the Greenstone Parties);
- (b) in respect of Resolution 4, the proposal for the Castlelake Parties to subscribe for 15,469,927 Convertible Notes in Heron which upon conversion could result in a combined voting power of up to 56.0%<sup>23</sup> in the Company (increasing from the Castlelake Parties' 28.6% interest in the Company as at completion of the Entitlement Offer and Underwriting Arrangements) is "fair and reasonable" to Heron Shareholders (other than the Castlelake Parties); and
- (c) in respect of Resolution 5, the proposal for Orion to subscribe for 2,944,277 Convertible Notes in Heron which upon conversion could result in a combined voting power of up to 25.3%<sup>24</sup> in the Company (increasing from Orion's 16.5% interest in the Company as at completion of the Entitlement Offer) is "fair and reasonable" to Heron Shareholders (other than Orion).

In analysing the above, the Independent Expert has:

- (a) considered whether the advantages of the Convertible Note Issues and Debt Restructure collectively, outweigh the disadvantages;
- (b) give an opinion on whether any person will receive any premium for control of the Company as a result of the Convertible Note Issues in each case;
- (c) considered the position of Shareholders if the Convertible Note Issues and Debt Restructure do not proceed and the consequences of not approving the Convertible Note Issues and Debt Restructure; and
- (d) consider whether the Convertible Note Issues, if agreed to, may deter the making of a takeover bid for the Company.

For the purposes of the valuation of the benefits, the Independent Expert is required to set out the principal assumptions behind the valuation.

The Independent Expert has provided an opinion that it believes the Convertible Note Issues and Debt Restructure are **not fair but reasonable** to non-associated Shareholders of the Company.

Please refer to Section 8.2 for a summary of the Independent Expert's conclusion, including the advantages and disadvantages of the Convertible Note Issues and the Debt Restructure noted by the Independent Expert. In addition, a complete copy of the Independent Expert's Report is provided at Annexure B.

# 13.4 Specific information required under the Corporations Act

The following information is provided in compliance with section 611 of the Corporations Act and ASIC Regulatory Guide 74 (in respect of acquisitions to be approved by shareholders in accordance with item 7 of section 611 of the Corporations Act).

<sup>&</sup>lt;sup>22</sup> Assuming (a) that the Greenstone Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or Shares issued; (c) an exchange rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) none of the Greenstone Parties dispose of Shares. In the event the exchange rate is greater than US\$0.50 per A\$1, then the percentage will decrease. Please see section 7.2 for further information.

<sup>&</sup>lt;sup>23</sup> Assuming (a) that the Castlelake Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an exchange rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) none of the Castlelake Parties dispose of Shares. In the event the exchange rate is greater than US\$0.50 per A\$1, then the percentage will decrease. Please see section 7.2 for further information.

<sup>&</sup>lt;sup>24</sup> Assuming (a) that Orion converts all of its Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an exchange rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) Orion does not dispose of Shares. In the event the exchange rate is greater than US\$0.50 per A\$1, then the percentage will decrease. Please see section 7.2 for further information.

### (a) <u>Resolution 3 – Approval of Greenstone Convertible Note Issue</u>

(i) Identity of the person proposing to make the acquisition and their Associates and voting power

Following successful Completion, the Greenstone Parties will continue to hold a total of 148,725,266 Shares comprising 34.7% of the then issued capital of the Company. However, if the Greenstone Parties convert all Convertible Notes issued to them on the Maturity Date and assuming an Exchange Rate of US\$0.50:A\$1.00, a total of 286,441,425 Shares will be issued, which assuming no other Convertible Note holders convert any of their Convertible Notes, will result in the Greenstone Parties' voting power increasing to 60.9%<sup>25</sup>.

There are no other Associates of the Greenstone Parties with respect to those Shares other than those parties previously listed on substantial shareholder notices lodged by Greenstone Management (Delaware) LLC and Greenstone Management Limited in respect of the Company (being parties who have not directly participated in the Entitlement Offer, the Underwriting Arrangements or the Debt Package).

(ii) Reasons for the proposed issue of Convertible Notes

The Greenstone Convertible Note Issue is part of the broader Funding Package being conducted by the Company for the purposes of raising funds to see operations at the Company's Woodlawn Project ramp-up to nameplate production capacity. For further information under the intended use of funds raised under the Funding Package, please refer to Section 7.3.

(iii) Timing of the proposed issue of Convertible Notes

The Convertible Notes will be issued on Completion, which is expected to occur in late December 2019.

(iv) Material terms of the proposed issue of Convertible Notes

The material terms on which the Convertible Notes are to be issued under the Greenstone Convertible Note Agreement are set out in Section 1 of Annexure A.

(v) Details of terms of other relevant agreements between Greenstone (and their Associates) and the Company, conditional on Shareholder approval

Other than as disclosed in this Explanatory Statement, there are no other contracts or proposed contracts between Greenstone or any of the Greenstone Parties and the Company or any of their associates which are conditional on, or directly or indirectly dependent on Shareholder approval.

(vi) The Greenstone Parties' intentions regarding the future of the Company if Shareholders agree to the allotment

Please refer to Section 10.3 for details of the Greenstone Parties' intentions regarding the future of the Company upon Completion.

The information concerning Greenstone and the intentions, views and opinions contained in Section 10.3 are the responsibility of Greenstone. Heron does not assume any responsibility for the accuracy or completeness of the information included in Section 10.3.

(vii) Interests of Directors in the acquisition or any of the above relevant agreements

Mark Sawyer is Greenstone's nominated representative on the Heron Board and is currently a director of Greenstone Management II Limited, being the sole member of Greenstone, the general partner of Greenstone Australia LP. When it became apparent that the Funding Package would involve the placement of Shares to Greenstone in connection with the Entitlement Offer and the issue of Convertible Notes to the Greenstone Parties, the Company immediately put in place appropriate corporate governance arrangements to ensure the process of considering

<sup>&</sup>lt;sup>25</sup> Assuming (a) that the Greenstone Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) none of the Greenstone Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

alternative financing structures and agreeing the Funding Package structure did not involve any Non-Independent Directors, including Mr Sawyer.

(viii) Details of any person who is intended to or will become a Director if Shareholders agree to the allotment of the Convertible Notes to the Greenstone Parties.

None.

(ix) Directors' recommendations

Please refer to Section 9 above.

On balance and taking into account the advantages and disadvantages of the Greenstone Convertible Note Issue, the Directors, other than Mr Sawyer, unanimously recommend that, subject to no superior proposal arising, Shareholders vote in favour of Resolution 3 so as to enable the Greenstone Convertible Note Issue to proceed. Each Director intends to vote all Shares controlled by him or her in favour of Resolution 3 in the absence of a superior proposal.

#### (x) Independent Expert's Report

Please refer to Annexure B for a full copy of the Independent Expert's Report.

#### (b) <u>Resolution 4 – Approval of Castlelake Convertible Note Issue</u>

(i) Identity of the person proposing to make the acquisition and their Associates and voting power

Following successful Completion, the Castlelake Parties will continue to hold a total of 122,433,154 Shares comprising 28.6% of the then issued capital of the Company. However, if the Castlelake Parties convert all Convertible Notes issued to them on the Maturity Date and assuming an Exchange Rate of US\$0.50:A\$1.00, a total of 267,247,069 Shares will be issued, which assuming no other Convertible Note holders convert any of their Convertible Notes, will result in the Castlelake Parties' voting power increasing to 56.0%<sup>26</sup>.

There are no other Associates of the Castlelake Parties with respect to those Shares.

(ii) Reasons for the proposed issue of Convertible Notes

The Castlelake Convertible Note Issue is part of the broader Funding Package being conducted by the Company for the purposes of raising funds to see operations at the Company's Woodlawn Project ramp-up to nameplate production capacity. For further information under the intended use of funds raised under the Funding Package, please refer to Section 7.3.

(iii) Timing of the proposed issue of Convertible Notes

The Convertible Notes will be issued on Completion, which is expected to occur in late December 2019.

(iv) Material terms of the proposed issue of Convertible Notes

The material terms on which the Convertible Notes are to be issued under the Castlelake Convertible Note Agreement are set out in Section 1 of Annexure A.

(v) Details of terms of other relevant agreements between Castlelake (and their Associates) and the Company, conditional on Shareholder approval

There are no other contracts or proposed contracts between Castlelake or any of the Castlelake Parties and the Company or any of their associates which are conditional on, or directly or indirectly dependent on Shareholders approval.

(vi) The Castlelake Parties' intentions regarding the future of the Company if Shareholders agree to the allotment

<sup>&</sup>lt;sup>26</sup> Assuming (a) that the Castlelake Parties convert all of their Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) none of the Castlelake Parties dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

Please refer to Section 11.3 for details of the Castlelake Parties' intentions regarding the future of the Company upon Completion.

The information concerning Castlelake and the intentions, views and opinions contained in Section 11.3 are the responsibility of Castlelake. Heron does not assume any responsibility for the accuracy or completeness of the information included in Section 11.3.

(vii) Interests of Directors in the acquisition or any of the above relevant agreements

Ricardo De Armas is Castlelake's nominated representative on the Heron Board and is currently an employee of Castlelake. When it became apparent that the Funding Package would involve the placement of Shares to CL V in connection with the Underwriting Arrangements and the issue of Convertible Notes to the Castlelake Parties, the Company immediately put in place appropriate corporate governance arrangements to ensure the process of considering alternative financing structures and agreeing the Funding Package structure did not involve any Non-Independent Directors, including Mr De Armas.

(viii) Details of any person who is intended to or will become a Director if Shareholders agree to the allotment of the Convertible Notes to the Castlelake Parties.

None

(ix) Directors' recommendations

Please refer to Section 9 above.

On balance and taking into account the advantages and disadvantages of the Castlelake Convertible Note Issue, the Directors, other than Mr De Armas, unanimously recommend that, subject to no superior proposal arising, Shareholders vote in favour of Resolution 4 so as to enable the Castlelake Convertible Note Issue to proceed. Each Director intends to vote all Shares controlled by him or her in favour of Resolution 4 in the absence of a superior proposal.

(x) Independent Expert's Report

Please refer to Annexure B for a full copy of the Independent Expert's Report.

### (c) <u>Resolution 5 – Approval of Orion Convertible Note Issue</u>

(i) Identity of the person proposing to make the acquisition and their Associates and voting power

Following successful Completion, Orion will continue to hold a total of 70,663,685 Shares comprising 16.5% of the then issued capital of the Company. However, if Orion converts all Convertible Notes issued to it on the Maturity Date and assuming an Exchange Rate of US\$0.50:A\$1.00, a total of 50,863,162 Shares will be issued, which assuming no other Convertible Note holders convert any of their Convertible Notes, will result in Orion's voting power increasing to 25.3%<sup>27</sup>. For the reasons set out in Section 12.1, Orion GP II LP and Orion GP II Limited will also have the same Relevant Interest.

There are no other Associates of Orion with respect to those Shares.

(ii) Reasons for the proposed issue of Convertible Notes

The Orion Convertible Note Issue is part of the broader Funding Package being conducted by the Company for the purposes of raising funds to see operations at the Company's Woodlawn Project ramp-up to nameplate production capacity. For further information under the intended use of funds raised under the Funding Package, please refer to Section 7.3.

(iii) Timing of the proposed issue of Convertible Notes

<sup>&</sup>lt;sup>27</sup> Assuming (a) that Orion converts all of its Convertible Notes; (b) no other Convertible Notes are converted or other Shares issued; (c) an Exchange Rate of US\$0.50:A\$1.00 (as contained in the Convertible Note Agreements); and (d) Orion does not dispose of Shares. In the event the Exchange Rate is greater than US\$0.50:A\$1.00, then the percentage voting power will decrease. Please see Section 7.2 for further information.

The Convertible Notes will be issued on Completion, which is expected to occur in late December 2019.

(iv) Material terms of the proposed issue of Convertible Notes

The material terms on which the Convertible Notes are to be issued under the Orion Convertible Note Agreement are set out in Section 1 of Annexure A.

(v) Details of terms of other relevant agreements between Orion (and their Associates) and the Company, conditional on Shareholder approval

Other than the Debt Structure Documents, details of which are set out in Section 5.5, there are no other contracts or proposed contracts between Orion and the Company or any of their associates which are conditional on, or directly or indirectly dependent on Shareholders approval.

(vi) Orion's intentions regarding the future of the Company if Shareholders agree to the allotment

Please refer to Section 12.2 for details of Orion's intentions regarding the future of the Company upon Completion.

The information concerning Orion and the intentions, views and opinions contained in Section 12.2 are the responsibility of Orion. Heron does not assume any responsibility for the accuracy or completeness of the information included in Section 12.2.

(vii) Interests of Directors in the acquisition or any of the above relevant agreements

Peter Rozenauers is Orion's nominated representative on the Heron Board and is currently a director of Orion. When it became apparent that the Funding Package would involve the issue of Convertible Notes to Orion as well as the Debt Restructure, the Company immediately put in place appropriate corporate governance arrangements to ensure the process of considering alternative financing structures and agreeing the Funding Package structure did not involve any Non-Independent Directors, including Mr Rozenauers.

(viii) Details of any person who is intended to or will become a Director if Shareholders agree to the allotment of the Convertible Notes to Orion.

None

(ix) Directors' recommendations

Please refer to Section 9 above.

On balance and taking into account the advantages and disadvantages of the Orion Convertible Note Issue, the Directors, other than Mr Rozenauers, unanimously recommend that, subject to no superior proposal arising, Shareholders vote in favour of Resolution 5 so as to enable the Orion Convertible Note Issue to proceed. Each Director intends to vote all Shares controlled by him or her in favour of Resolution 5 in the absence of a superior proposal.

(x) Independent Expert's Report

Please refer to Annexure B for a full copy of the Independent Expert's Report.

# 14. **RESOLUTION 6 - APPROVAL OF DEBT RESTRUCTURE**

# 14.1 Reasons for requiring Shareholder approval

ASX Listing Rule 10.1 provides that an entity must not acquire a substantial asset from, or dispose of a substantial asset to, inter alia, a child entity without the approval of holders of the entity's ordinary securities. ASX Listing Rule 10.10 provides that the notice of meeting that seeks approval must include a voting exclusion statement under which a party to the transaction and its associates must not vote and an independent expert's report which states whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded.

An asset is substantial if its value, or the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the ASX Listing Rules.

Based on the Company's annual financial report for the financial-year ended 30 June 2019 lodged with ASX on 1 October 2019, the Company's equity interests were A\$128.9 million. As a result, an asset is "substantial" if it is valued at A\$6.4 million or more. ASX has confirmed that notwithstanding the existing stream and loan arrangements with Orion, the assets proposed to be disposed of under the Debt Restructure for the purposes of Listing Rule 10.1 is to comprise the aggregate prepayment payable under the stream arrangements with Orion (as proposed to be amended under the Debt Restructure) and the total value of the secured loan.

As noted in section 3.1 of the Independent Expert's Report (attached at Annexure B):

- the aggregate prepayment payable under the stream arrangements by Orion (as proposed to be amended under the Debt Restructure) is US\$19 million (A\$28.0 million<sup>28</sup>), representing more than 5% of the Company's equity interests; and
- (b) the total value of the secured loan facility with Orion is US\$60 million (A\$88.5 million<sup>29</sup>), representing more than 5% of the Company's equity interests.

Accordingly, each component proposed under the Debt Restructure (being the amended stream arrangements and the amended loan facility) to be disposed to Orion is a substantial asset for the purposes of the ASX Listing Rules.

For the purposes of ASX Listing Rule 10.1, Orion is a substantial holder of the Company and as at the date of this Notice of Meeting, has a Relevant Interest in at least 10% of all Shares.

Accordingly, Shareholder approval is being sought under Resolution 6 for the purposes of ASX Listing Rule 10.1 in order to permit the Company to undertake the Debt Restructure.

# 14.2 Independent Expert's Report

The Company appointed the Independent Expert to prepare the Independent Expert's Report, the purpose of which was to state whether or not, in their opinion, the Debt Package (including for the purposes of Resolution 6, the proposal to restructure the existing US\$60 million secured loan facility with Orion and restructure of the existing stream arrangements with Orion which involves an additional US\$3 million (A\$4.4 million<sup>1</sup>) prepayment under the Debt Restructure) is fair and reasonable to non-associated Shareholders of Heron.

In analysing the above, the Independent Expert has:

- (a) considered whether the advantages of the Convertible Note Issues and Debt Restructure collectively, outweigh the disadvantages;
- (b) give an opinion on whether any person will receive any premium for control of the Company as a result of the Convertible Note Issues in each case;
- (c) considered the position of Shareholders if the Convertible Note Issues and Debt Restructure do not proceed and the consequences of not approving the Convertible Note Issues and Debt Restructure; and
- (d) consider whether the Convertible Note Issues, if agreed to, may deter the making of a takeover bid for the Company.

For the purposes of the valuation of the benefits, the Independent Expert is required to set out the principal assumptions behind the valuation.

The Independent Expert has provided an opinion that it believes the Convertible Note Issues and Debt Restructure are **not fair but reasonable** to non-associated Shareholders of the Company.

Please refer to Section 8.2 for a summary of the Independent Expert's conclusion, including the advantages and disadvantages of the Convertible Note Issues and the Debt Restructure noted by the Independent Expert. In addition, a complete copy of the Independent Expert's Report is provided at Annexure B.

<sup>&</sup>lt;sup>28</sup> Assuming an Exchange Rate of US\$0.678:A\$1.00.

<sup>&</sup>lt;sup>29</sup> Assuming an Exchange Rate of US\$0.678:A\$1.00.

## GLOSSARY

In this Explanatory Statement, the following terms have the following unless the context otherwise requires:

A\$ or \$	means an Australian dollar;
AEDT	Australian Eastern Daylight Time;
Annual Financial Statements	means the financial statements means the financial statements included in the Company's Annual Report;
Annual Report	means the Company's annual report announced to the market on 31 October 2019;
ASIC	Australian Securities and Investments Commission;
ASX	ASX Limited or the securities market operated by ASX Limited, as the context requires;
Associate	has the meaning given to that term in the Corporations Act, except that a reference to "Associate" in relation to a Listing Rule has the meaning given to it in the Listing Rules;
Board	board of Directors of the Company;
Castlelake	Castlelake, L.P;
Castlelake Convertible Note Agreement	the convertible note agreement between each of the Castlelake Parties and Company dated 4 October 2019, the material terms of which are summarised in Section 1 of Annexure A;
Castlelake Convertible Note Issue	the issue of Convertible Notes to the Castlelake Parties, as contemplated under Resolution 4 in accordance with the Castlelake Convertible Note Agreement;
Castlelake Parties	Castlelake III, L.P., Castlelake IV, L.P. and CL V;
Chair or Chair of the Meeting	chair of the General Meeting;
	chair of the General Meeting; CL V Investment Solutions LLC.
Meeting	
Meeting CL V	CL V Investment Solutions LLC.
Meeting CL V Company or Heron	CL V Investment Solutions LLC. Heron Resources Limited (ABN 30 068 263 098); completion of the issue of Convertible Notes under the Convertible Note
Meeting CL V Company or Heron Completion	CL V Investment Solutions LLC. Heron Resources Limited (ABN 30 068 263 098); completion of the issue of Convertible Notes under the Convertible Note Agreements;
Meeting CL V Company or Heron Completion Constitution Convertible Note	CL V Investment Solutions LLC. Heron Resources Limited (ABN 30 068 263 098); completion of the issue of Convertible Notes under the Convertible Note Agreements; constitution of the Company; the Castlelake Convertible Note Agreement, the Greenstone Convertible
Meeting CL V Company or Heron Completion Constitution Convertible Note Agreements Convertible Note	CL V Investment Solutions LLC. Heron Resources Limited (ABN 30 068 263 098); completion of the issue of Convertible Notes under the Convertible Note Agreements; constitution of the Company; the Castlelake Convertible Note Agreement, the Greenstone Convertible Note Agreement and the Orion Convertible Note Agreement; the Greenstone Convertible Note Issue, Castlelake Convertible Note Issue
Meeting CL V Company or Heron Completion Constitution Convertible Note Agreements Convertible Note Issues	CL V Investment Solutions LLC. Heron Resources Limited (ABN 30 068 263 098); completion of the issue of Convertible Notes under the Convertible Note Agreements; constitution of the Company; the Castlelake Convertible Note Agreement, the Greenstone Convertible Note Agreement and the Orion Convertible Note Agreement; the Greenstone Convertible Note Issue, Castlelake Convertible Note Issue and Orion Convertible Note Issue;
Meeting CL V Company or Heron Completion Constitution Convertible Note Agreements Convertible Note Issues Corporations Act	CL V Investment Solutions LLC. Heron Resources Limited (ABN 30 068 263 098); completion of the issue of Convertible Notes under the Convertible Note Agreements; constitution of the Company; the Castlelake Convertible Note Agreement, the Greenstone Convertible Note Agreement and the Orion Convertible Note Agreement; the Greenstone Convertible Note Issue, Castlelake Convertible Note Issue and Orion Convertible Note Issue; <i>Corporations Act 2001</i> (Cth);
Meeting CL V Company or Heron Completion Constitution Constitution Convertible Note Agreements Convertible Note Issues Corporations Act Debt Restructure Debt Restructure	<ul> <li>CL V Investment Solutions LLC.</li> <li>Heron Resources Limited (ABN 30 068 263 098);</li> <li>completion of the issue of Convertible Notes under the Convertible Note Agreements;</li> <li>constitution of the Company;</li> <li>the Castlelake Convertible Note Agreement, the Greenstone Convertible Note Agreement and the Orion Convertible Note Agreement;</li> <li>the Greenstone Convertible Note Issue, Castlelake Convertible Note Issue and Orion Convertible Note Issue;</li> <li><i>Corporations Act 2001</i> (Cth);</li> <li>has the meaning given to that term in Section 5.1;</li> <li>the agreements between Orion and Company dated 4 October 2019, the</li> </ul>
Meeting CL V Company or Heron Completion Constitution Constitution Convertible Note Agreements Corporations Act Debt Restructure Debt Restructure Agreements	<ul> <li>CL V Investment Solutions LLC.</li> <li>Heron Resources Limited (ABN 30 068 263 098);</li> <li>completion of the issue of Convertible Notes under the Convertible Note Agreements;</li> <li>constitution of the Company;</li> <li>the Castlelake Convertible Note Agreement, the Greenstone Convertible Note Agreement and the Orion Convertible Note Agreement;</li> <li>the Greenstone Convertible Note Issue, Castlelake Convertible Note Issue and Orion Convertible Note Issue;</li> <li><i>Corporations Act 2001</i> (Cth);</li> <li>has the meaning given to that term in Section 5.1;</li> <li>the agreements between Orion and Company dated 4 October 2019, the material terms of which are summarised in Section 2 of Annexure A;</li> </ul>

Exchange Rate	the mid-rate which appears on the Bloomberg Screen "AUDUSD" on or about 11.00am AEDT on a given day;
Explanatory Statement	the explanatory statement that accompanies this Notice of Annual General Meeting;
Financial Information	has the meaning given to that term in Section 7.1;
Funding Package	has the meaning given to that term in Section 5.1;
Greenstone	Greenstone Management (Delaware) II LLC in its capacity as general partner of Greenstone Resources II (Australia) Holdings L.P.;
Greenstone Convertible Note Agreement	the convertible note agreement between each of the Greenstone Parties and Company dated 4 October 2019, the material terms of which are summarised in Section 1 of Annexure A;
Greenstone Convertible Note Issue	the issue of Convertible Notes to the Greenstone Parties, as contemplated under Resolution 3 in accordance with the Greenstone Convertible Note Agreement;
Greenstone Parties	Greenstone, G LTP LLC, G HSP LLC, G JBD LLC, G ERP LLC, J Paul Getty Trust, Commonfund Capital Natural Resources Partners IX LP, Commonfund Capital Natural Resources Partners X LP and Commonfund Capital Natural Resources Partners IX LP;
Independent Director	each Board member other than Mark Sawyer (Greenstone's nominated representative to the Board), Ricardo De Armas (Castlelake's nominated representative to the Board) and Peter Rozenauers (Orion's nominated representative to the Board);
Independent Expert or BDO	BDO Corporate Finance (WA) Pty Ltd;
Independent Expert's Report	the report prepared by the Independent Expert attached at Annexure B
Key Management Personnel	has the meaning given to that term in the Corporations Act;
Listing Rules or ASX Listing Rules	official listing rules of the ASX;
Maturity Date	means, pursuant to the terms of the Convertible Note Agreements, 31 December 2024;
Meeting or General Meeting	the general meeting convened by this Notice of Annual General Meeting;
Non-Independent Director	means a Director who is not an Independent Director;
Notice of Annual General Meeting or Notice of Meeting	this Notice of Annual General Meeting;
Orion	
	Orion LP., OMF Fund II (H) Ltd or OMF Fund II (Li) Ltd (as the context requires);
Orion Convertible Note Agreement	
Orion Convertible Note	requires); the convertible note agreement between Orion and the Company dated 4 October 2019, the material terms of which are summarised in Section 1 of

Orion GP II Limited	Orion Mine Finance GP II Limited;
Orion LP	Orion Mine Finance Fund II LP;
Orion Parties	Orion LP, Orion GP II Limited as general partner of Orion GP II LP and Orion GP II LP as general partner of Orion LP;
Proxy Form	the proxy form enclosed with this Notice of Annual General Meeting;
Remuneration Report	means the report on director remuneration contained in the Company's Annual Report;
Relevant Interest	has the meaning given to it in section 608 of the Corporations Act;
Resolution	resolution contained in this Notice of Annual General Meeting;
Section	a section of this Explanatory Statement;
Share	fully paid ordinary share in the capital of the Company;
Shareholder	holder of a Share in the Company;
Underwriting Arrangements	means the arrangements contained in the underwriting agreements dated 4 October 2019 between the Company and each of Greenstone and CL V;
US\$	means an American dollar;
VWAP	volume weight average price of Shares; and
Woodlawn or Woodlawn Project	the Woodlawn Zinc-Copper Mine located 250 km southwest of Sydney in New South Wales.

### **ANNEXURE A - SUMMARY OF MATERIAL AGREEMENTS**

### 1. CONVERTIBLE NOTE AGREEMENTS

The Company has entered into Convertible Note Agreements with each of the Castlelake Parties, the Greenstone Parties and Orion broadly on the same commercial terms.

A summary of the key terms and conditions of the Convertible Note Agreements is set out in the table below.

Conditions Precedent	The subscription for the Convertible Notes is conditional on, amongst other things, Castlelake and Orion obtaining FIRB approval, the Company obtaining Shareholder approval as well as each of the Castlelake Parties, the Greenstone Parties and Orion complying with their respective obligations under their respective Convertible Note Agreement and the Underwriting Agreements (where applicable).
Face value of each Convertible Note	Each Convertible Note will be issued at face value, being US\$1.00.
Use of funds	The Company must apply the total amount subscribed for the Convertible Notes towards loan repayment and interest payment under the loan facility arrangements with Orion, funding the development, construction and operation of the Woodlawn Project, financing and transaction costs and general corporate and working capital.
Maturity Date	Each Convertible Note has a maturity date of 31 December 2024.
Interest	3-month USD LIBOR (subject to a minimum 2.5%) plus 12.5%.
Structuring Fee	2% of the aggregate subscription amount under the Convertible Notes by the Noteholder, to be capitalised.
Redemption	Noteholders are only entitled to require redemption of the Convertible Notes where an event of default occur or any of the other Co-investor has the right to require redemption of, or does redeem, its Convertible Notes under the respective Convertible Note Agreement.
Mandatory redemption	On the Maturity Date, the Noteholder must require the Company to redeem all Convertible Notes that have not otherwise been redeemed or converted.
Conversion	Noteholder may elect to convert some or all of the Convertible Notes at any time after the date of issue of the relevant Convertible Note and prior to the Maturity Date.
Conversion Shares	The Conversion Shares will be calculated based on:
	<ul> <li>(a) the total amount outstanding in respect of each Convertible Note (including all accrued and capitalised interest and the relevant portion of the capitalised Structuring Fee);</li> </ul>
	<ul> <li>(b) divided by the USD:AUD exchange rate as at the date of the conversion notice; and</li> </ul>
	(c) divided by the conversion price of \$0.25.
Obligation to seek further Shareholder approval	If the conversion of the Convertible Notes results in the Noteholder acquiring a voting power in the Company in excess of the maximum voting power approved by Shareholders under the notice of meeting dated 6 November 2019, and the Noteholder is unable to rely on the "creep" provisions in the Corporations Act, then the Company is obliged to seek additional Shareholder approval for the conversion of the Convertible Notes ( <b>Additional Shareholder Approval</b> ) and until such time as that Additional Shareholder Approval is obtained, any conversion rights will be

		ect to shareholder approval. If Additional Shareholder Approval is sought but btained, the Noteholder may redeem any excess Convertible Note.
Ranking		conversion, the Convertible Notes rank equally in all respects with each other without any preference among themselves.
		Shares to be issued on conversion will rank equally in all respects with all other es on issue.
Security	The (	Convertible Notes are unsecured.
Reconstructions and reorganisations	Notel appro which issue	ere is a reorganisation of the issued share capital of the Company, the holders may require the number of Convertible Notes to be adjusted as opriate and consistent with the reorganisation to ensure that the proportion in the Shares to be issued on conversion after the reorganisation or bonus has occurred in relation to the total Shares on issue, is the same as it would been had the reorganisation or bonus issue not occurred.
Events of default	The ( follow	Convertible Note Agreements include typical events of default, including the ving:
		the Company (or any of its subsidiaries) materially breaching any law, regulation or ASX Listing Rule;
		a representation or warranty or statement of the Company (or its subsidiaries) made under the transaction documents being incorrect or misleading in any material respect and is not remedied within 10 Business Days;
		the Company (or any of its subsidiaries) failing to pay any financial indebtedness when due or becomes due and payable, or capable of being declared so, before the schedule date for payment;
		any event of default under the Co-investor Convertible Note agreements or an event of default under any underwriting agreements;
		the insolvency or winding up of the Company (or any of its subsidiaries) or a receiver or controller being appointed to or taking possession of the assets of the Company (or any of its subsidiaries)
		the Company is suspended from trading on ASX for more than 10 consecutive trading days during any 12 month period; or
		any event which, in the opinion of the Noteholder, has a material adverse effect.
Covenants	inclue	Convertible Note agreements includes typical covenants from the Company, ding requiring that the Company and its subsidiaries (without the prior consent e Noteholder):
		do not deal with, sell or dispose of or part with possession of any of its assets as permitted under the existing Loan facility with Orion;
		do not create, permit, suffer to exist or agree to any interest or encumbrance over any of its assets other than as permitted under the existing Loan facility with Orion;
		do not incur financial indebtedness, advance any loan or provide any financial accommodation to or in favour of any person other than as permitted under the existing Loan facility with Orion;
		must not make or declare any distribution other than as permitted under the existing Loan facility with Orion;
		do not enter into any transaction that is not on arm's length terms in the ordinary course of ordinary business; and

- (f) ensure that no substantial change is made to the existing core business and operation of base and precious metal mining and exploration, evaluation and development.
- Quotation The Convertible Notes will not be quoted on ASX. However, the Company will apply for the New Shares issued on the conversion of the Convertible Notes to be quoted on ASX.

Transferability The Convertible Notes are transferable to a third party by written notice to the Company.

#### 2. DEBT RESTRUCTURE AGREEMENTS

Orion and the Company have entered into debt restructuring agreements to amend the existing loan facility and stream arrangements (**Debt Restructure Agreements**), the key terms of which are set out in the Company's Notice of Meeting dated 17 July 2017 (a copy of which was released to ASX and can be found under the Company's ASX code "HRR" at <u>www.asx.com.au</u>).

The Debt Restructure Agreements have amended the existing loan facility and stream arrangements on the following basis.

(a) Loan facility

Orion has agreed to:

- (i) extend the repayment schedule for the loan facility such that the facility is not required to be fully repaid until 31 December 2023;
- (ii) defer the 30 September 2019 interest payment, until completion of the Entitlement Offer;
- (iii) defer the existing cash sweep provisions in the loan facility until 31 March 2021;
- (iv) reduce the Company's obligation to maintain a cash balance of not less than \$15 million at all times to \$10 million; and
- (v) delete certain shareholding caps under the existing loan facility and the delisting of the Company as an event of default.

As consideration for restructuring the loan facility, the Company has agreed to a restructuring fee of 2% of the principal outstanding at the Lodgement Date which is to be capitalised onto the loan balance.

(b) Debt Restructure

Orion has agreed to provide an additional US\$3 million under the amended stream arrangements as a further prepayment to the Company on the following basis:

- the streaming rights under the existing stream arrangements will be extended to include additional silver ounces from the Woodlawn Project delivered to Orion via a payable zinc to silver conversion calculation. This calculation is based upon the following zinc stream rate:
  - (A) 0.30% of zinc until the delivery of 140 tonnes; then
  - (B) 1.15% of zinc until the delivery of 910 tonnes; then
  - (C) 2.25% of zinc until the delivery of 4200 tonnes; then
  - (D) 0.75% of zinc for remaining life of mine;
- (ii) the price applicable to the payable zinc is to be calculated in reference to the equivalent silver ounces, to be calculated based on a conversion ratio of 170.2 silver ounces per metric tonne of zinc and then paid to Orion in silver; and
- (iii) the security and guarantee provisions under the existing arrangements will be extended to the additional US\$3 million prepayment amount.

#### (c) Orion Waivers

Orion has also provided waivers under the existing stream arrangements and loan facility for any non-compliance issues arising under the existing debt documents to the extent necessary to permit the implementation of the Entitlement Offer and the Debt Package.

Orion has granted waivers under the existing stream arrangements and loan facility on the basis that the following conditions are met:

- (i) the Entitlement Offer is not abandoned before it is scheduled to be completed and raises at least \$35.4 million by 14 November 2019;
- (ii) the Company calls or schedules a general meeting for all Shareholder approvals required in relation to the Debt Package by 19 November 2019, and holds the general meeting by 16 December 2019; and
- (iii) Greenstone and Castlelake do not abandon, cancel, terminate or decide not to proceed with any of their commitments with regards to the Entitlement Offer and Convertible Notes; and
- (iv) there is no material deviation of the economic terms from the terms of the Entitlement Offer, the Convertible Notes or arrangements as agreed to between the Company and Orion.

## ANNEXURE B – INDEPENDENT EXPERT'S REPORT

# HERON RESOURCES LIMITED Independent Expert's Report

# OPINION: NOT FAIR BUT REASONABLE

31 October 2019







#### **Financial Services Guide**

31 October 2019

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Heron Resources Limited ('Heron') to provide an independent expert's report in relation to a proposed \$91 million funding package for its Woodlawn Zinc-Copper Project. You are being provided with a copy of our report because you are a shareholder of Heron and this Financial Services Guide ('FSG') is included in the event you are also classified under the Corporations Act 2001 ('the Act') as a retail client.

Our report and this FSG accompanies the Notice of Meeting required to be provided to you by Heron to assist you in deciding on whether or not to approve the proposal.

#### Financial Services Guide

This FSG is designed to help retail clients make a decision as to their use of our general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

#### Information about us

We are a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide professional services primarily in the areas of audit, tax, consulting, mergers and acquisition, and financial advisory services.

We and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business and the directors of BDO Corporate Finance (WA) Pty Ltd may receive a share in the profits of related entities that provide these services.

#### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients, and deal in securities for wholesale clients. The authorisation relevant to this report is general financial product advice.

When we provide this financial service we are engaged to provide an expert report in connection with the financial product of another person. Our reports explain who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

#### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. If you have any questions, or don't fully understand our report you should seek professional financial advice.

## **Financial Services Guide**

Page 2



#### Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$105,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report and our directors do not hold any shares in Heron.

#### Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Heron for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

#### Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

#### **Complaints resolution**

#### Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

#### **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ('AFCA').

AFCA is an external dispute resolution scheme that deals with complaints from consumers in the financial system. It is a not-for-profit company limited by guarantee and authorised by the responsible federal minister. AFCA was established on 1 November 2018 to allow for the amalgamation of all Financial Ombudsman Service ('FOS') schemes into one. AFCA will deal with complaints from consumers in the financial system by providing free, fair and independent financial services complaint resolution. If an issue has not been resolved to your satisfaction you can lodge a complaint with AFCA at any time.

Our AFCA Membership Number is 12561. Further details about AFCA are available on its website <u>www.afca.org.au</u> or by contacting it directly via the details set out below.

Australian Financial Complaints Authority GPO Box 3 Melbourne VIC 3001 AFCA Free call: 1800 931 678 Website: www.afca.org.au Email: info@afca.org.au

You may contact us using the details set out on page 1 of the accompanying report.



# **TABLE OF CONTENTS**

1.	Introduction	1
2.	Summary and Opinion	2
3.	Scope of the Report	5
4.	Outline of the Transaction	7
5.	Profile of Heron	10
6.	Profile of Greenstone	18
7.	Profile of Castlelake	19
8.	Profile of Orion	19
9.	Economic analysis	19
10.	Industry analysis	20
11.	Valuation approach adopted	27
12.	Valuation of Heron prior to the Transaction	29
13.	Valuation of Heron following the Transaction	59
14.	Is the Transaction fair?	63
15.	Is the Transaction reasonable?	63
16.	Conclusion	68
17.	Sources of information	68
18.	Independence	69
19.	Qualifications	69
20.	Disclaimers and consents	70
Appendix	x 1 - Glossary and copyright notice	

Appendix 2 - Valuation methodologies

Appendix 3 - Independent Technical Assessment and Valuation Report prepared by Behre Dolbear Australia

Appendix 4 - Corporate cost comparable companies

Appendix 5 - Discount rate

© 2019 BDO Corporate Finance (WA) Pty Ltd



Tel: +61 8 6382 4600 Fax: +61 8 6382 4601 www.bdo.com.au 38 Station Street Subiaco, WA 6008 P0 Box 700 West Perth WA 6872 Australia

31 October 2019

The Directors Heron Resources Limited Level 8, 309 Kent St SYDNEY NSW 2000

Dear Directors

# **INDEPENDENT EXPERT'S REPORT**

### 1. Introduction

On 4 October 2019, Heron Resources Limited ('Heron' or 'the Company') announced that it had secured a funding package of approximately \$91 million, which will be used to fund the Company's commissioning of its Woodlawn Zinc-Copper Project ('Woodlawn Project' or 'the Project'). The proposed funding package includes the following:

- a 0.7324 for 1 accelerated non-renounceable entitlement offer at an issue price of \$0.20 per share, available to all shareholders to participate, to raise \$35 million ('**Rights Issue**'). The Rights issue is underwritten to an amount of \$10,943,078;
- US Dollar ('US\$') 16.58 million denominated convertible notes to be issued to Greenstone Management (Delaware) II LLC in its capacity as a general partner of Greenstone Resources II (Australia ) Holdings L.P ('Greenstone') ('Greenstone Notes');
- US\$15.47 million denominated convertible notes issued to one or more investment funds that are managed by Castlelake, L.P ('Castlelake') ('Castlelake Notes');
- US\$2.95 million denominated convertible notes issued to Orion Mine Finance Fund II LP ('Orion') ('Orion Notes');
- a debt restructure with Orion, being:
  - the US\$3 million silver stream facility including the nature of the streaming amendments (the additional US\$3 million prepayment under the existing stream with additional streaming rights being granted); and
  - the extension of the debt facility (including the deferred payment dates to match the extended tenor), collectively referred to as the **'Debt Restructure'**.

The Greenstone Notes, Castlelake Notes and Orion Notes are all convertible at \$0.25 per share and are collectively referred to as ('**the Notes**').

Further, the Company will use the proceeds from the proposed funding package to make an early repayment of US\$10 million in relation to the Orion secured debt facility.

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 AFS Licence No 316158 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.



Our Independent Expert's Report ('**Our Report**') details our opinion on whether the above proposed funding package, collectively referred to as '**the Transaction**', is fair and reasonable to the non-associated shareholders of Heron ('**Shareholders**').

All figures in Our Report are stated in Australian Dollars unless stated otherwise.

## 2. Summary and Opinion

### 2.1 Requirement for the report

The directors of Heron have requested that BDO Corporate Finance (WA) Pty Ltd ('**BDO**') prepare Our Report to express an opinion as to whether or not the Transaction is fair and reasonable to Shareholders.

Our Report is prepared pursuant to ASX Listing Rule 10.1 and item 7 of section 611 of the Corporations Act 2001 Cth ('**Corporations Act**' or '**the Act**') and is to be included in the Notice of Meeting for Heron in order to assist the Shareholders in their decision whether to approve the Transaction.

### 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 76 'Related party transactions' ('RG 76'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Transaction as outlined in the body of this report. We have considered:

- how the value of a Heron share prior to the Transaction on a control basis compares to the value of a Heron share following the Transaction on a minority basis;
- the likelihood of an alternative offer being made to Heron;
- whether a premium for control is being offered in relation to the issue of Heron shares on conversion of the Convertible Notes and whether this is appropriate;
- the position of Shareholders should the Transaction not proceed; and
- other factors which we consider to be relevant to Shareholders in their assessment of the Transaction.

### 2.3 Opinion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Transaction is not fair but reasonable to Shareholders.

In our opinion, the Transaction is not fair because the value of a Heron share prior to the Transaction on a control basis is greater than the value of a Heron share following the Transaction on a minority interest basis. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages and the consequences of not approving the Transaction. In particular, the Transaction provides the Company with the funding required to progress the Woodlawn Project to its production capacity. Without this funding, we consider it unlikely that the DCF value of the Woodlawn Project could be realised. Further, if the Transaction is not approved, there would be a material uncertainty around the Company's ability to continue as a going concern. Importantly, the Transaction prevents the Company from triggering an event of default in relation to its



existing senior debt facility with Orion and removes the possibility of Orion calling for repayment of the senior debt facility.

### 2.4 Fairness

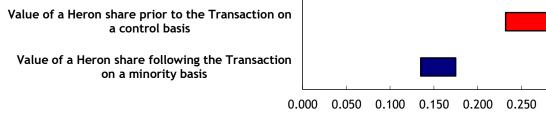
In section 14, we determined that the value of a share in Heron prior to the Transaction on a control basis compares to the value of a Heron share following the Transaction on a minority basis as set out below.

	Ref	Low د	Preferred د	High ¢
Value of a Heron share prior to the Transaction (control)	12.1	0.232	0.269	0.306
Value of a Heron share following the Transaction (minority)	13.1	0.135	0.154	0.175

Source: BDO analysis

The above valuation ranges are graphically presented below:

#### Valuation Summary



Value (\$)

0.300

0.350

The above pricing indicates that, in the absence of any other relevant information, and an alternate offer, the Transaction is not fair for Shareholders.

#### 2.5 Reasonableness

We have considered the analysis in section 15 of this report, in terms of both

- advantages and disadvantages of the Transaction; and
- other considerations, including the position of Shareholders if the Transaction does not proceed and the consequences of not approving the Transaction.

In our opinion, the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly, in the absence of any other relevant information and/or an alternate proposal we believe that the Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:



ADVANTAGES AND DISADVANTAGES					
Section	Advantages	Section	Disadvantages		
15.1.1	The Transaction provides the Company with the funding required to progress the Woodlawn Project to its production capacity	15.2.1	Dilution of existing Shareholders' interests		
15.1.2	The Transaction avoids the Company triggering an event of default in relation to its existing debt	15.2.2	Increased presence of significant shareholders		
15.1.3	Our assessment of whether the Transaction is fair presents the worst case scenario for existing Shareholders				

Other key matters we have considered include:

Section	Description
15.3.1	Event of default
15.3.2	Alternative funding may result in greater dilution of existing Shareholders' interests
15.4	Alternative proposals
15.5	Practical level of control
15.6	Other considerations - Post announcement pricing

BDO

## 3. Scope of the Report

## 3.1 Purpose of the Report

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity as set out in the latest accounts given to the ASX under its Listing Rules. Listing Rule 10.1 applies where the vendor or acquirer of the relevant assets is a related party or person of influence of the listed entity as defined under the ASX Listing Rules.

Listing Rule 10.1 approval is required in relation to the Debt Restructure because:

- the aggregate prepayment payable under the stream arrangements by Orion (as proposed to be amended under the Debt Restructure) is US\$19 million; and
- the total value of the secured loan facility with Orion is US\$60 million.

Accordingly, based on the audited financial statements for the year ended 30 June 2019, each component of the Debt Restructure (being the amended stream arrangements and the amended loan facility) to be disposed to Orion, is in excess of 5% of the equity value of Heron, and is therefore considered a substantial asset for the purposes of the ASX Listing Rules.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded.

Accordingly, an independent experts' report is required for the Debt Restructure pursuant to ASX Listing Rule 10.10.2. Under RG 111 the report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Heron.

Section 606 of the Corporations Act ('**Section 606**') expressly prohibits the acquisition of further shares by a party if the party acquiring the interest does so through a transaction and because of the transaction, that party (or someone else's voting power in the company) increases from 20% or below to more than 20%. It also prohibits the acquisition of further shares if the party acquiring the interest does so through a transaction and because of the transaction a transaction and because of the transaction the party (or someone else's voting power in the company) increases from a starting point above 20% and below 90%.

Section 611 of the Corporations Act ('Section 611') provides exceptions to the Section 606 prohibition and item 7 Section 611 ('Item 7 s611') permits such an acquisition if the shareholders of Heron have agreed to the acquisition. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by the party to the acquisition or any party who is associated with the acquiring party. The application of Item 7 s611 is triggered as a result of the Company proposing to issue the Convertible Notes to Greenstone, Castlelake and Orion which as a result of individual conversions could result in their respective interests increasing to 61.3%, 56.3% and 25.4% under alternative scenarios. The calculation of these percentage holdings are detailed in the capital structure analysis in section 4 of Our Report.

Item 7 Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.



RG 74 states that to satisfy the obligation to provide all material information on how to vote on the item 7 s611 resolution, Heron can commission an Independent Expert's Report.

The directors of Heron have commissioned Our Report to satisfy this obligation.

Given that the issue of the Notes and the Debt Restructure are conditional on each of the resolutions receiving the necessary approvals, we have contemplated the Transaction as a whole in Our Report.

### 3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism used to effect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Transaction as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

### 3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is equal to or greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction it is inappropriate for the expert to apply a discount on the basis that the shares being acquired represent a minority or portfolio interest as such the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- a comparison between the value of a Heron share prior to the Transaction on a control basis and the value of a Heron share following the Transaction on a minority interest basis; (fairness see Section 14 'Is the Transaction Fair?'); and
- an investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness see Section 15 'Is the Transaction Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a



reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

## 4. Outline of the Transaction

On 4 October 2019, Heron announced that it had secured a funding package of approximately \$91 million, which will be used to fund the Company's commissioning of its Woodlawn Project to completion and to see it through to positive cash flow operations. The proposed funding package includes the Rights Issue, the issue of the Greenstone Notes, Castlelake Notes, Orion Notes and the Debt Restructure, the details of which are set out below.

### 4.1 Rights Issue

Announced as part of the Transaction, the Company will conduct an underwritten 0.7324 for 1 accelerated non-renounceable entitlement offer at an issue price of \$0.20 per share, to raise up to approximately \$35.4 million. We note that the issue of the Notes is conditional on each of Greenstone, Castlelake and Orion taking up their entitlement under the Rights Issue. However, the Rights Issue will proceed regardless of whether Shareholder approval is received for the issue of the Notes, therefore the Rights Issue is incorporated in our assessment of the value of a Heron share prior to and following the Transaction.

The Rights issue is to be taken up by Greenstone, Castlelake and Orion and underwritten by an aggregate amount of \$10,860,574 as follows:

- Greenstone Management (Delaware) II LC in its capacity as a general partner of Greenstone will underwrite an amount of up to \$17,000,745 (including its entitlement under the Rights issue). Greenstone's entitlement under the Rights Issue is \$9,603,749, with the value of shares underwritten above this amount, attracting an underwriting fee of 4%. The 4% underwriting fee is deducted from the amount that Greenstone is required to contribute as part of the underwriting commitment;
- CL V Investment Solutions LLC ('CL V'), an affiliate of Castlelake will underwrite an amount up to \$6,881,699 (including a partial entitlement under the Rights Issue of \$3,418,121, with the value of shares underwritten above this amount, attracting an underwriting fee of 4%. The 4% underwriting fee is deducted from the amount that Castlelake is required to contribute as part of the underwriting commitment; and
- Orion will take up its entitlement under the Rights Issue to the amount of \$5,974,842.

### 4.2 The Notes

The Company proposes to issue the following convertible notes as part of the Transaction. They key terms of each of the Notes are set out below:

• The Greenstone Notes have a combined face value of US\$16,581,016, with the issue being conditional on the Company obtaining shareholder approval to allow Greenstone to increase its holding up to 61.3% as a result of conversion of the Greenstone Notes;



- The Castlelake Notes have a combined face value of US\$15,469,927, with the issue being conditional on the Company obtaining shareholder approval to allow Castlelake to increase its holding up to 56.3% of the Company's issued capital, as a result of conversion of the Castlelake Notes;
- The Orion Notes have a face value of US\$2,944,277, with the issue being conditional on the Company obtaining shareholder approval to allow Orion to increase its holding up to 25.4% of the Company's issued capital, as a result of conversion of the Orion Notes;
- The Notes have a conversion price of \$0.25 per share;
- The Notes have an interest rate of the US\$ 3 month London Interbank Offered Rate ('LIBOR') rate, subject to a minimum rate of 2.5% plus 12.5%. Therefore, the Notes have a minimum interest rate of 15% per annum, which is accrued daily and capitalised on the amount owing on a quarterly basis;
- The Notes have a maturity date of 31 December 2024, unless converted prior ('Maturity Date');
- The Notes are subject to an origination fee of 2%, which is to be capitalised and added to the amount owing to each of the noteholders; and
- The Notes are unsecured.

### 4.3 Debt Restructure

Pursuant to the Transaction, the Company and Orion proposes to restructure the Company's existing debt with Orion as follows:

- the maturity date relating to the Company's US\$60 million facility with Orion has been extended from 31 December 2022 to 31 December 2023, with the repayment profile of the loan being adjusted to reflect the extension to the maturity date;
- the Company's obligation to maintain a cash balance of not less than \$15 million at all times is to be reduced to \$10 million; and
- the Company will pay a restructuring fee of US\$1.3 million which will be capitalised onto the loan balance.

From the proceeds of the proposed funding package, the Company has agreed to repay US\$10 million of the existing loan facility held with Orion.

Further, included in the Debt Restructure is a new stream facility entered into with Orion, the key terms of which are set out below:

- Orion deposits US\$3,000,000, by way of set off against the amount owing to Orion under the senior debt facility;
- the streaming rights under the existing stream arrangements (see section 5.3 below) will be extended to include additional silver ounces from the Woodlawn Project, delivered to Orion via a payable zinc to silver conversion calculation. This is calculated by reference to the following zinc stream rate:
  - $\circ~$  0.30% of zinc until the delivery of 140 tonnes; then
  - $\circ$  ~ 1.15% of zinc until the delivery of 910 tonnes; then



- $\circ~~$  2.25% of the zinc until the delivery of 4,200 tonnes; then
- 0.75% of zinc for the remaining life of mine;
- the price applicable to the payable zinc is to be calculated in reference to the equivalent silver ounces, to be calculated based on a conversion ratio of 170.2 silver ounces per metric tonne of zinc and then paid to Orion in silver; and
- the stream facility is secured but subordinated to the security on the loan amounts owing to Orion.

### 4.4 Conditions of the funding package

We note that the resolutions relating to the funding package as set out in the Notice of Meeting, to which Our Report relates, are independent resolutions. However, the individual agreements in relation to the funding provided by Castlelake, Greenstone and Orion are conditional on the total funding package being approved. Specifically, the details of the conditions around the provision of the funding package are summarised below.

- The issue of the Notes are conditional on each of the other Note issues and relevant shareholder approval levels being approved. The shareholder approval levels and assumptions used in deriving these approval levels are detailed in section 4.5 below.
- The issue of the Notes are conditional on Greenstone, Castlelake and Orion contributing their equity commitments in accordance with their entitlement under the Rights Issue as well as Greenstone's and Castlelake's contribution as part of their underwriting commitment.
- The issue of the Notes is also conditional on approval of the Debt Restructure.
- The proposed funding package is conditional on the absence of default or an event of default.

#### 4.5 Capital structure and approval levels being sought

The Company is seeking shareholder approval pursuant to Item 7 s611 of the Corporations Act for Greenstone to increase its holding to a maximum of 60.9% of the Company's issued capital following its take up and underwriting of the Rights Issue and conversion of the Greenstone Notes.

The approval level being sought for Castlelake is 56.0% and also includes Castlelake's entitlement and underwriting of the Rights Issue as well as the conversion of the Castlelake Notes.

The Company is seeking approval for Orion to increase its holding in Heron up to a maximum of 25.3% following Orion's subscription of the Rights Issue and the conversion of the Orion Note.

The Notes are US\$ denominated, with the interest being capitalised over the life of the Notes. The interest is also convertible, therefore the approval levels that are being sought are calculated under the following assumptions:

- the Notes are held until Maturity Date and then converted at \$0.25 per share;
- capitalised interest over the life of the Notes is also converted to shares;
- the approval levels are calculated assuming a US\$/A\$ of 0.50; and
- each noteholder is the only note holder to convert its Notes.



The shareholdings of each of Greenstone, Castlelake and Orion following the Transaction, as well as the extent of dilution of existing Shareholders' interests are set out in the table below:

Capital structure	Greenstone	Castlelake	Orion	Others*	Total
Issued Shares prior to the Transaction	65,563,546	61,170,152	40,789,474	84,143,740	251,666,912
% holdings prior to the Transaction	26.1%	24.3%	16.2%	33.4%	100.0%
Rights Issue	83,161,720	61,263,002	29,874,211	2,698,760	176,997,693
Issued Shares following the Rights Issue	148,725,266	122,433,154	70,663,685	86,842,500	428,664,605
% holdings following the Rights Issue	34.7%	28.6%	16.5%	20.3%	100.0%
Conversion of Greenstone Notes only	286,441,425	-	-	-	286,441,425
Issued Shares following the Rights Issue and conversion of Greenstone Notes	435,166,691	122,433,154	70,663,685	86,842,500	715,106,030
% holdings following the Transaction	<b>60.9</b> %	17.1%	<b>9.9</b> %	12.1%	100.0%
Conversion of Castlelake Notes only	-	267,247,069	-	-	267,247,069
Issued Shares following the Rights Issue and conversion of Castlelake Notes	148,725,266	389,680,223	70,663,685	86,842,500	695,911,674
% holdings following the Transaction	21.4%	56.0%	10.2%	12.5%	100.0%
Conversion of Orion Notes only	-	-	50,863,162	-	50,863,162
Issued Shares following the Rights Issue and conversion of Orion Notes	148,725,266	122,433,154	121,526,847	86,842,500	479,527,767
% holdings following the Transaction	31.0%	25.5%	25.3%	1 <b>8.</b> 1%	100.0%
Conversion of all the Notes	286,441,425	267,247,069	50,863,162	-	604,551,656
Issued Shares following the Rights Issue and conversion of all the Notes	435,166,691	389,680,223	121,526,847	86,842,500	1,033,216,261
% holdings following the Transaction	42.1%	37.7%	11.8%	8.4%	100.0%

\*Includes 10 million shares issued to Sedgman on 15 October 2019 as part of the settlement

Source: BDO analysis

## 5. Profile of Heron

### 5.1 Background

Heron is an ASX-listed base and precious metals focused exploration and development company, with operations located in the south-west region of New South Wales (**'NSW'**). The Company's flagship asset is its 100% owned Woodlawn Project. Heron was incorporated in 1995, and the Company's head office is located in Sydney, NSW.

The current board of directors and senior management of Heron are:

- Mr. Stephen Dennis Chairman and Non-Executive Director;
- Mr. Ricardo De Armas Director;



- Mr. Ian Pattison Director;
- Mr. Peter Rozenauers Director;
- Mr. Borden Putnam III Non-Executive Director;
- Ms. Fiona Robertson Non-Executive Director; and
- Mr. Simon Smith Chief Financial Officer and Company Secretary.

### 5.2 The Woodlawn Project

The Woodlawn Project is located approximately 50 kilometres (**'km'**) northeast of Canberra and 250km southwest of Sydney. Heron acquired 100% interest in the Woodlawn Project in August 2014, following the merger with TriAusMin Limited (**'TriAusMin'**) by way of a scheme of arrangement. The Company has recently renewed the Project's mining lease for an additional 15 years, permitting mining operations to continue at the Woodlawn Project site until 31 December 2034.

Heron also holds a tenement package over the prospective Silurian volcanic rocks that extends over 1,206 square kilometres, adjacent to and contiguous with the Woodlawn site. The primary areas of focus within the tenement package include the Currawang Project, Cullarin Project, Kangiara Project, and Peelwood Project.

The Woodlawn Project includes significant infrastructure, such as a processing plant, water treatment plant, floatation building, and assay laboratory. The Project can be accessed via a sealed B-double rated road, and is situated within 50km from the railyard in the township of Goulburn. The road and railway facilitate transport for base metal concentrates from the Project to Port Botany and Port Kembla.

The Company completed a Preliminary Economic Assessment ('**PEA**') on the Project in April 2015 to assess the viability of recommencing operations at the Project. The PEA highlighted the viability of an initial 11year mine life, based on a combined underground mine and tailings retreatment operation.

A feasibility study (**'FS'**) was carried out on the Woodlawn Project immediately following the PEA, with results released in June 2016. The FS demonstrated capability of the Project to produce 40,000 tonnes per annum (**'tpa'**) zinc, 10,000tpa copper and 12,000tpa lead concentrate.

In September 2015, Heron announced that a Front End Engineering Design ('FEED') study by GR Engineering Pty Ltd on the Project had been completed. The FEED study related to refining the processing design, allowing for the initial treatment of 100% of reclaimed tailings coinciding with development of the underground mine. Completion of the FEED program provided the Company with enough detailed engineering to enable it to start assessing potential Engineering, Procurement and Construction ('EPC') options.

The Company entered into a \$107 million guaranteed maximum price ('**GMP**') EPC contract with Sedgman Pty Ltd ('**Sedgman**') in May 2017. The EPC entailed a 1,500,000tpa mineral processing plant and associated infrastructure to enable the processing of underground and tailings ore to produce zinc, copper and lead concentrates at the Woodlawn Project.

Construction activities at the Project commenced in September 2017, and focused on initial plant site earthworks to prepare the site foundations, tailings storage infrastructure and the establishment of the box cut for underground access.



In early 2018, the Company awarded multiple major operational contracts required to support production activities at the Project. The contracts were awarded to:

- Port Kembla Gateway Pty Ltd for the provision of receival, storage and shiploading services;
- PYBAR Mining Services ('**PYBAR**') to undertake underground mining work. PYBAR was mobilised on site and commenced work on infrastructure areas throughout the September 2018 quarter;
- National Pump & Energy Pty Ltd and Paragon Tailings Australia Pty Ltd relating to the provision of equipment supply and mining services for the reclamation of tailings; and
- Freightlines Pty Ltd to assist with the transfer of concentrate from the mine site to Port Kembla and Port Botany.

Dry commissioning of the Woodlawn Project began in December 2018 and involved functional testing of the trash screen and transfer pumps at the transfer station, in addition to hydraulic excavation of the main channels in preparation for ore commissioning of the process plant. Wet commissioning in the process plant was underway in March 2019.

The Company received a claim in February 2019 from Sedgman pursuing additional construction costs associated with the Woodlawn Project totalling \$49.9 million, exceeding the GMP EPC contract sum.

The plant was operational and production commenced at the Woodlawn Project in May 2019, as the new floatation treatment facility commenced processing of reclaimed tailings from hydraulic mining operations. The Company turned its focus to progressively ramping up operations to an estimated throughput capacity of 1,500,000tpa. By the end of the June 2019 quarter, 98% of commissioning at the Project had been completed.

On 30 October 2019, the Company announced an update to its mineral resource and reserve statement. The updated estimate incorporated recent drilling in the G2 Lens area and some modifications to estimation parameters. As detailed in the report prepared by Behre Dolbear Australia ('**BDA**') in Appendix 3 of Our Report, the changes included in the update is not material to the valuation of the Woodlawn Project.

## 5.3 Corporate Events

On 30 May 2016, Heron entered into a farm-in agreement with Alchemy Resources Limited ('Alchemy') covering the portfolio of Heron's NSW exploration tenements ('Agreement'). Under the Agreement, Alchemy would spend \$1 million over three years to earn 51% and a further \$1 million within the subsequent two years to earn an additional 29% interest in the tenements. Once Alchemy reaches 80% interest in the tenements, Heron and Alchemy will form a joint venture.

On 30 June 2017, the Company announced it had secured a \$240 million funding package to assist with development of the Woodlawn Project ('Woodlawn Project Financing'). The funding package consisted of:

- a \$79 million (US\$60 million) senior secured loan facility (**'Senior Loan'**), \$29 million equity subscription and \$21 million (US\$16 million) silver stream funding package (**'Silver Stream Loan'**) from subsidiaries of Orion Finance Group (**'Orion'**) for \$129 million;
- an equity subscription agreement with a subsidiary of Greenstone Resources LP ('Greenstone') and co-investment parties for \$42 million;
- an equity subscription agreement with Castlelake L.P. ('Castlelake') for \$33 million;



- \$32 million raised from an institutional placement; and
- \$5 million raised from a Share Purchase Plan ('SPP').

The issue price for shares issued under the Woodlawn Project Financing was \$0.07 per share, prior to the consolidation of its share capital on a 1 for 10 basis in December 2017.

On 4 July 2017, Heron announced it had issued Castlelake with 45,856,116 shares at \$0.07 per share to raise \$3.21 million representing the initial subscription under the equity agreement with Castlelake. We note that this price is prior to the 1 for 10 share consolidation completed in December 2017.

On 7 September 2017, the Company announced the A\$141 million equity funded portion of the Woodlawn Project Financing had been completed. The equity funding comprised a placement of \$104 million to Greenstone and co-investors, Orion, and Castlelake, an institutional placement of \$32 million, and a \$5 million SPP.

On 12 March 2018, Heron announced it had drawn down a US\$16 million silver stream prepayment from Orion under the Silver Stream Loan.

The Company completed the drawdown of the US\$60 million of debt from Orion as follows:

- on 31 May 2018, Heron announced it had completed drawdown of the first tranche of US\$20 million of debt;
- on 26 September 2018, the Company announced it had completed drawdown of the second tranche of US\$20 million of debt; and
- on 21 December 2018, the Company announced it had completed drawdown of the final tranche of US\$20 million debt.

On 30 October 2018, the Company announced it had received a Notice of Claim ('**NoC**') from Sedgman, pursuing additional costs of \$11 million in relation to construction of the Woodlawn Project. The additional costs were above the GMP EPC contract entered into between Heron and Sedgman.

On 4 February 2019, the Company announced it had received a progress claim from Sedgman for additional costs of \$49.9 million (inclusive of the NoC received in October 2018 for \$11 million) in relation to construction of the Woodlawn Project. The Company announced on 18 February 2019 that this claim (with the exception of some minor agreed contract works totalling \$223,057) was rejected by the Contract Superintendent, and delay liquidated damages had been applied because of the delay to the processing facility's delivery schedule. With inclusion of the delay liquidated damages, Sedgman owed Heron, with the Company then seeking payment in accordance with contract provisions.

On 4 March 2019, Heron announced it had received a subsequent claim from Sedgman, claiming additional costs of \$53 million (inclusive of the \$49.9 million claimed in February 2019) in relation to construction of the Woodlawn Project. Heron announced that on 15 March 2019, the Contract Superintendent had rejected the claim by Sedgman.

On 16 August 2019, Heron requested a voluntary suspension to be placed on its securities while it continued discussion with its major shareholders and senior debt provider and undertook a project review.

On 30 September 2019, the Company announced that its senior debt provider had agreed to provide various debt waivers in relation to its senior debt facility. The waivers are conditional on a series of milestones being met including:



- Heron fully documenting a satisfactory funding package by 11 October 2019;
- Satisfactory progress of the funding package by 14 November 2019; and
- Heron calling a general meeting of its shareholders by 19 November 2019, for a meeting to be held on or prior to 16 December 2019.

In October 2019, the Company announced its settlement with Sedgman, which included 10 million Heron shares which were issued on 15 October 2019 at \$0.20 per Heron share and \$13 million in deferred cash consideration.

On 9 October 2019, the Company announced that it had entered into an agreement with Sky Metals Limited ('**Sky Metals**'), whereby Sky Metals would earn into three Heron tenements, by spending approximately \$400,000 in the first year and a total of \$2.0 million over three years to earn an 80% interest, after which Heron would be free carried until the completion of a definitive feasibility study or \$10.0 million total expenditure is reached. As part of the agreement, Heron also received 10 million options in Sky Metals at an exercise price of 15 cents, exercisable when Sky Metals proceeds to the \$2.0 million farm-in stage.

### 5.4 Historical Balance Sheet

	Audited as at	Audited as at	Audited as at
Statement of Financial Position	30-Jun-19	30-Jun-18	30-Jun-17
	\$'000	\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	31,465	65,532	11,690
Trade and other receivables	1,043	1,777	717
Inventories	2,355	-	-
Financial assets - equity instruments	1,587	-	-
Other assets	499	795	2,481
TOTAL CURRENT ASSETS	36,949	68,104	14,888
NON-CURRENT ASSETS			
Restricted cash	7,777	8,777	-
Other assets	125	35	35
Financial assets - equity instruments	132	5,901	5,775
Property, plant and equipment	11,962	647	40
Mine property	242,849	156,517	-
Exploration and evaluation costs carried forward	-	-	26,434
TOTAL NON-CURRENT ASSETS	262,845	171,877	32,284
TOTAL ASSETS	299,794	239,981	47,172
CURRENT LIABILITIES			
Trade and other payables	6,060	7,002	2,461
Borrowings	126,330	-	-
Provisions	15,786	547	564
TOTAL CURRENT LIABILITIES	148,176	7,549	3,025
NON-CURRENT LIABILITIES			
Borrowings	6,580	15,943	137



	Audited as at	Audited as at	Audited as at
Statement of Financial Position	30-Jun-19	30-Jun-18	30-Jun-17
	\$'000	\$'000	\$'000
Provisions	16,138	47,607	-
TOTAL NON-CURRENT LIABILITIES	22,718	63,550	137
TOTAL LIABILITIES	170,894	71,099	3,162
NET ASSETS	128,900	168,882	44,010
EQUITY			
Contributed equity	259,742	259,742	129,638
Option reserve	2,857	2,076	1,489
Accumulated losses	(133,699)	(92,936)	(87,117)
TOTAL EQUITY	128,900	168,882	44,010

Source: Heron's audited financial statements for the years ended 30 June 2017, 2018 and 2019.

#### **Commentary on Historical Statements of Financial Position**

- Cash and cash equivalents increased from \$11.69 million at 30 June 2017 to \$65.53 million at 30 June 2018. The increase of approximately \$53.84 million was primarily the result of proceeds from the issue of shares of \$140.12 million and the drawdown of debt facilities relating to the Woodlawn Project Financing of \$48.71 million, including the Senior Loan and Silver Stream Loan. This was partially offset by expenditure on the Woodlawn Project mine of \$112.04 million, payment of bank and bond guarantees of \$8.58 million and payments to suppliers of \$7.77 million.
- Cash and cash equivalents decreased from \$65.53 million at 30 June 2018 to \$31.47 million at 30 June 2019. The decrease of approximately \$34.06 million was primarily the result of expenditure on the Woodlawn Project mine of \$80.62 million and payments to suppliers of \$6.70 million. This was partially offset by the drawdown of the Senior Loan facility of \$53.59 million.
- Inventories of \$2.36 million at 30 June 2019 refer to store stock and consumables which comprises of commissioning spares, chemical reagents, and other spare parts required for the Woodlawn Project.
- Current financial assets of \$1.59 million at 30 June 2019 refer to the equity securities held in Ardea Resources Limited ('Ardea') which is an Australian listed public exploration company that was spun out of Heron in February 2017. Non-current financial assets of \$0.13 million refer to the equity securities held in Alchemy that were issued in relation to the Agreement between Alchemy and the Company.
- Restricted cash of \$7.78 million refers to a \$3.58 million environmental bond and a \$4.00 million bank guarantee.
- Property, plant and equipment of \$11.96 million at 30 June 2019 consist of \$11.01 million of plant and equipment and \$0.95 million of motor vehicles.
- Mine properties relate to the Company's Woodlawn Project, which increased from \$156.52 million at 30 June 2018 to \$242.85 million at 30 June 2019. The increase of \$86.33 million was the result of capitalised expenses during the year ended 30 June 2019, which included non-cash capitalised interest of \$6.70 million.



- Current borrowings of \$126.33 million at 30 June 2019 primarily comprises of the Senior Loan facility of \$92.56 million and Silver Stream Loan facility of \$30.94 million.
- The Senior Loan provided by Orion is a US\$60 million facility that was fully drawn down at 21 December 2018. The funding rate is the aggregate of a margin of 7.25% and the applicable Libor rate, being a minimum of 2.5% for each interest period.
- The Silver Stream Loan is a US\$16 million silver streaming arrangement with Orion, whereby the Company will deliver a scheduled proportion of the silver extracted from the Woodlawn Project until it has delivered approximately 3.40 million ounces of refined silver, followed by 25% of the extracted refined silver thereafter.
- Non-current borrowings of \$6.58 million at 30 June 2019 refer to financial lease arrangements entered into by the Company for the purchase of plant and equipment and motor vehicles during the year ended 30 June 2019.
- Current provisions of \$15.79 million at 30 June 2019 primarily comprises of a \$15.00 million provision for the Sedgman legal case, which represented the Company's best estimate at the time of the cost to fully settle the claim and all counter claims.
- Non-current provisions of \$16.14 million at 30 June 2019 primarily comprises of a \$15.78 million rehabilitation provision for the estimated rehabilitation costs from the NSW Department of Resources and Energy relating to the Woodlawn Project.

Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-19 \$'000	Audited for the year ended 30-Jun-18 \$'000	Audited for the year ended 30-Jun-17 \$'000
Revenue			
Other income	1,186	3,635	422
Expenses			
Administrative expenses	(469)	(57)	(94)
Professional services and consultants	(843)	(372)	(282)
Depreciation and amortisation expense	(170)	(55)	(60)
Directors fees	(581)	(488)	(320)
Employee benefits expense	(1,778)	(1,204)	(3,289)
Equity settled share based payments	(781)	(587)	(554)
Exploration expenditure expensed	(1,431)	(1,011)	(1,341)
General expense from ordinary activities	(1,105)	(2,025)	(1,350)
Interest expense	-	(227)	-
Hedge financing costs	-	(776)	-
Finance expense amortised	(795)	(507)	-
Fair value and other (loss)/gain on financial instruments	(10,776)	(1,018)	-

### 5.5 Historical Statements of Profit or Loss and Other Comprehensive Income



Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-19 \$'000	Audited for the year ended 30-Jun-18 \$'000	Audited for the year ended 30-Jun-17 \$'000
Unrealised fair value (loss)/gain on equity instruments	(4,182)	561	4,011
Unrealised foreign exchange loss	(4,038)	(1,688)	-
Sedgman settlement provision	(15,000)	-	-
Loss from continuing operations before income tax	(40,763)	(5,819)	(2,857)
Income tax expense	-	-	-
Loss from continuing operations after income tax	(40,763)	(5,819)	(2,857)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	(40,763)	(5,819)	(2,857)

Source: Heron's audited financial statements for the years ended 30 June 2017, 2018 and 2019.

#### Commentary on Historical Statements of Profit or Loss and Other Comprehensive Income

- Other income was \$1.19 million for the year ended 30 June 2019 and primarily comprised of interest income.
- The fair value loss on financial instruments of \$10.78 million for the year ended 30 June 2019 primarily comprised of the \$8.28 million fair value loss on measurement of the Silver Stream Loan.
- The unrealised fair value loss on equity instruments of \$4.18 million for the year ended 30 June 2019 related to the fair value loss on the equity securities held by the Company in Ardea.
- The Sedgman settlement expense of \$15.00 million for the year ended 30 June 2019 relates to the \$15.00 million provision for the Sedgman NoC as detailed in Section 5.3 of Our Report.

#### 5.6 Capital Structure

The share structure Heron as at 8 October 2019 is outlined below:

	Number
Total ordinary shares on issue	241,666,912
Top 20 shareholders	207,399,064
Top 20 shareholders - % of shares on issue	85.82%
Courses Change president information	

Source: Share registry information



The range of shares held in Heron as at 8 October 2019 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	357	235,050	0.10%
1,001 - 5,000	885	2,210,071	0.91%
5,001 - 10,000	251	1,981,763	0.82%
10,001 - 100,000	438	13,907,265	5.75%
100,001 - and over	90	223,332,763	92.41%
TOTAL	2,021	241,666,912	100.00%

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 8 October 2019 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Greenstone*	65,563,546	27.1%
Castlelake	61,170,152	25.3%
Orion	40,789,474	16.9%
Subtotal	167,523,172	69.3%
Others	74,143,740	30.7%
Total ordinary shares on Issue	241,666,912	100.0%

Source: Share registry information and advice from management

\*Greenstone includes Greenstone Management and affiliates

We note that the above analysis is presented as at 8 October 2019, therefore the number of shares on issue excludes the shares issued to Sedgman and the shares from the Rights Issue. Accounting for these as well as for the conversion of the Convertible Notes, Greenstone, Castlelake and Orion could potentially increase their ownership percentages to a maximum of 60.9%, 56.0% and 25.3%, respectively. Further details are set out in section 4.5.

## 6. Profile of Greenstone

Greenstone Resources LP ('Greenstone Resources') is a private equity fund. It manages the investments of various private equity funds formed for the purposes of investment in the mining and metals sector. It has a broad mandate to make investments in the mining sector across a range of commodities and geographical regions. Greenstone Resources typically seeks investment opportunities between US\$3 million and US\$50 million.

Greenstone was formed for the purposes of undertaking Greenstone Resources' investments in certain opportunities within Australia.

Further information on Greenstone Resources can be found at: https://www.greenstoneresources.com/



## 7. Profile of Castlelake

Castlelake is a global private investment firm managing private funds with more than US\$15.3 billion (as of 30 June 2019) in assets on behalf of its investors. Castlelake was founded in 2005, and has grown to support a team of approximately 175 professionals, that work across offices in Minneapolis, Dallas, Dublin, Singapore and London.

The Castlelake team has experience working with capital and operating partners in debt, equity and alternative financing structures. Team members also have significant experience investing in projects involving the development of mining sector assets.

Castlelake has developed relationships with a network of capital providers, which it has been able to leverage off to reach financing solutions for the entities in which it invests. Castlelake also has access to a network of contacts in the mining industry as well as brokers and financial advisers that specialise in mining sector deals.

Further information concerning Castlelake can be found at: https://www.castlelake.com/

## 8. Profile of Orion

Orion is a global alternative investment management firm with approximately US\$6.0 billion (as of 1 September 2019) under management. It specialises in providing flexible capital investment solutions to companies in the base and precious metals sectors. It seeks to invest in late stage development companies (both private and public). These investments are typically structured as either senior secured debt or equity, or production linked cash flows in the form of offtake agreements, royalties or streams.

Orion has offices in New York, Denver, Sydney, London, Bermuda and the Cayman Islands.

Further information concerning Orion can be found at: https://www.orionresourcepartners.com/

## 9. Economic analysis

#### Domestic growth

The Reserve Bank of Australia ('**RBA**') is expecting GDP growth of around 2.75% over both 2019 and 2020, which is lower than previously forecast. Growth is anticipated to be supported by increased investment in infrastructure, the low level of interest rates, and a pick-up in activity in the resources sector, as mining firms invest to sustain production levels and expand productive capacity. However, there remains some uncertainty around the outlook for household consumption. Continued low growth in household income remains a key risk to the outlook for household consumption, although a pick-up in household disposable income and signs of stabilisation in the Melbourne and Sydney housing market are expected to support spending. Declines in housing prices since the start of 2019, will weigh further on household net wealth.

#### Employment

Strong employment growth has been evident over recent years, and labour force participation is at a record high. Over recent months, the unemployment rate has remained steady at 5.25%, though anticipated to decline to 5% over the next few years. Overall wage growth remains low, influenced by labour supply meeting the demand for labour, and caps on wages growth affecting public-sector pay outcomes. A stronger domestic economy should see a gradual lift in wage growth over time.



#### Inflation

Domestic inflation remains low, and suggests subdued inflationary pressures across the economy. Inflation in both headline and underlying terms was 1.6% for the June 2019 quarter. Inflation forecasts have been revised, with the RBA expecting headline and underlying inflation to be slightly below 2% over 2020, and slightly above 2% over 2021. At the RBA's October 2019 meeting, the RBA lowered the interest rates by 25 basis points to 0.75% to support employment and income growth and to provide greater confidence that inflation will be consistent with the medium-term target. In their decision, the RBA also took into account the factors which have led to the trend of lower interest rates globally.

#### **Currency movements**

The Australian dollar is currently at the low end of the narrow range that it has been trading recently. Movements in the Australian dollar tend to be related to developments in commodity prices and interest rate differentials. Since the start of the year, these two forces have been working in offsetting directions, with commodity prices generally increasing and Australian bond yields declining relative to those in other major markets.

Source: <u>www.rba.gov.au</u> Statement by Philip Lowe, Governor: Monetary Policy Decision 6 August 2019, 3 September 2019, 2 October 2019, Minutes of the Monetary Policy Meeting 6 August 2019 and World Bank Commodity Market Outlook Report April 2019.

## 10. Industry analysis

#### 10.1 Zinc

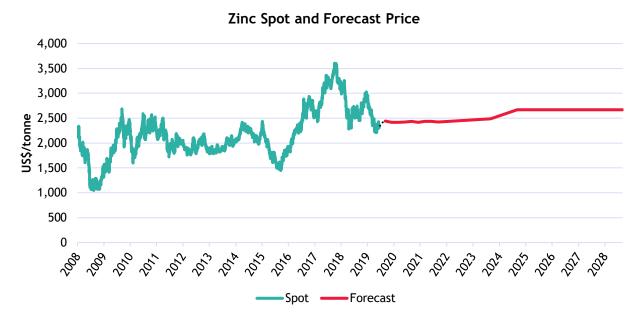
Globally, zinc is the most used metal after iron, aluminium and copper. It is typically found in complex deposits alongside lead and silver. It is an element known for its unique protective capacity given it is resistant to corrosion and, as such, a substantial portion of zinc is used for galvanising steel. Other uses include the production of zinc alloys, e.g. brass from the combination of zinc and copper, and bronze from the combination of zinc and silver. Zinc is also used in chemical forms, for example in the pharmaceutical industry for skin products.

Refined zinc is produced from a two staged process consisting of mining and smelting. The mining process involves the extraction of zinc from underground and open pit mines, with the produced ore containing approximately 5 - 10% of zinc. The ore is then crushed and ground to produce a zinc concentrate containing approximately 55% of zinc. The zinc concentrate is then put through a smelting process to produce refined zinc metal.

#### Zinc prices

The US\$ price for Zinc is quoted on the London Metal Exchange ('LME'). A key driver of the zinc price relates to the stock levels of zinc held in the LME warehouses, the largest global zinc depository. The global balance between demand for and supply of zinc, along with speculative influences determine the price of zinc. No single producer can influence zinc prices as it is an undifferentiated commodity.





Source: Consensus Economics and BDO Analysis

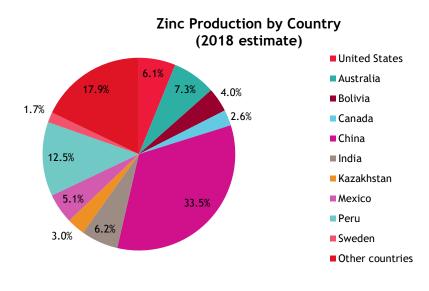
The figure above illustrates the historical fluctuations in the zinc spot prices from April 2008 to October 2019 and the Consensus Economics forecasts for zinc prices through to 2028.

As a result of the demand drivers and being positioned behind other base metals, the price of zinc has closely followed global economic conditions. Following the global financial crisis, the price of zinc decreased significantly from approximately US\$2,500 per tonne in early 2008, to a low of around US\$1,000/t in late 2008. Since the global financial crisis, the price of zinc has recovered and reached a decade high of US\$3,606 on 1 February 2018. More recently, the twelve month high of US\$3,031/t occurred on 12 April 2019. According to Consensus Economics, the medium term zinc price is expected to remain stable, with the forecast price of zinc expected to remain within a band of US\$2,400/t to US\$2,490/t until 2023.

#### **Zinc Mining Trends**

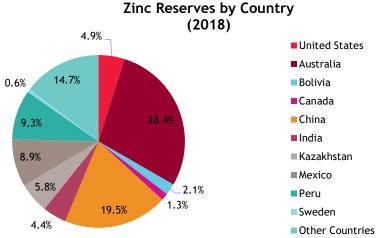
According to the United States Geological Survey (**'U.S. Geological Survey'**) for February 2019, total estimated global zinc production increased slightly in 2018, from approximately 12.5Mt in 2017 up to 13.0Mt in 2018. Global refined zinc production in 2018 was estimated to be 13.42Mt, with metal consumption estimated to be 13.74Mt, leading to a production-to-consumption deficit of 322,000 tonnes of refined zinc. Over the past five years, China has dominated global zinc production and has been the world's largest zinc consumer also, utilising the metal for anti-corrosive steel coating in infrastructure applications. The chart below illustrates the estimated global zinc production by country for 2018.





Source: U.S. Geological Survey

Australia has the world's largest deposits for zinc, with a substantial portion of zinc reserves located in the state of Queensland. The Australian zinc industry is also highly concentrated in terms of market share with the three largest companies, South32 Limited, Glencore Holdings Pty Limited and MMG Limited accounting for the majority of the market share. Globally, China and Peru also have substantive portions of zinc reserves. The figure below outlines global zinc reserves by country for 2018.



Source: U.S. Geological Survey

Collectively, Australia and China account for approximately 48% of global zinc reserves.

#### 10.2 Copper

Copper is the third most used metal worldwide in terms of volume. Copper has a wide range of applications, as it is malleable, conducts heat and electricity well, and is resistant to corrosion. It is used



extensively in electrical products, vehicle components, construction and infrastructure developments. Industry revenue is primarily driven by demand for copper tubes and wire that are commonly used in the building and construction sector.

#### **Copper Prices**

Following a deterioration in global economic conditions in 2008, base metal prices, including copper, fell sharply. The copper price recovered over 2010 and 2011, to reach a high of approximately US\$10,180 per tonne in February 2011. The recovery in the copper price reflected a steady increase in demand for base metals, following a pick-up in global industrial production after the Global Financial Crisis.

Between 2011 and 2017, the copper price steadily declined, before increasing in price in mid-February 2017 as a result of strike action at the world's largest copper mine Escondida, located in Chile.

The average copper price from January 2018 through October 2019 was US\$6,311/t, ranging from a low of US\$5,585/t on 3 September 2019 to a high of US\$7,331/t on 7 June 2018.



**Copper Spot and Forecast Prices** 

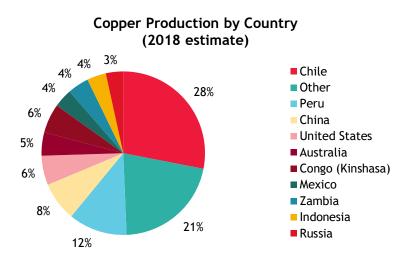
Source: Bloomberg and Consensus Economics

#### **Copper Production**

Most of the world's copper supply is sourced from Central and South America, specifically, Chile and Peru. Chile is the leading copper producer, with an estimated 5,800 tonnes of copper mined throughout 2018, equating to approximately 28% of the world copper production. The International Copper Study Group ('ICSG') expects global copper production to grow by approximately 1.2% in 2019, down from expected 2018 copper growth. ICSG is expecting production growth in 2019 to be impacted by a sharp decline in output from the Grasberg Copper Mine in Indonesia, the world's second largest copper mine.

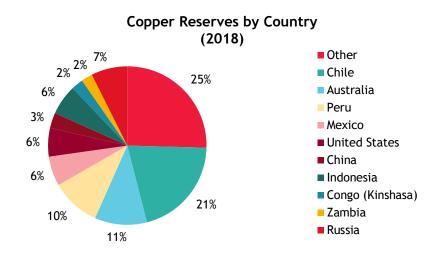
U.S Geological Survey, estimated the DRC accounted for approximately 6% of the total world copper production for 2018. The graph below exhibits estimated production output for 2018:





Source: U.S. Geological Survey

At the end of 2018, Chile, Australia and Peru are collectively estimated to account for just over 40% of global reserves of copper. A figure illustrating an estimated country breakdown of reserves for 2018 is shown below:



Source: U.S. Geological Survey

#### 10.3 Lead

Lead is a heavy, corrosion-resistant metal that has been in use for at least 5,000 years. In its early days it was used primarily for building materials; however, following the increased growth in production of motorized vehicles, demand for lead has significantly shifted towards lead-acid storage batteries. They are primarily used as starting-lighting-ignition batteries for vehicles and trucks, as well as industrial-type batteries for standby power for computer/telecommunications networks.

The use of lead in batteries for vehicles, accounts for approximately 80% of modern lead usage. Lead is also used in weights and ballast, underwater cable sheathing, solder, casting alloys, chemical compounds,



ammunition, glassware and radiation protection. The use for lead is projected to increase in the future in large storage batteries and in electric vehicles.

#### Lead Prices

The USD price for lead is listed on the LME. Lead is a global commodity and, as such, prices are determined by global supply and demand factors. The historical prices for lead from January 2008 to October 2019 along with Consensus Economics forecast prices to 2028 are illustrated in the graph below.



Lead Spot and Forecast Prices

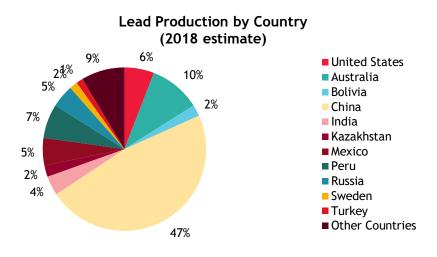
Source: Bloomberg, Consensus Economics

Due to demand drivers, the price of lead has closely followed global economic conditions. Following the global financial crisis the price of lead decreased significantly from an average of US\$2,595 per tonne in 2007 to an average of US\$1,726 per tonne in 2009.

#### Lead Production

China is the leading lead producer, with an estimated 2,100 tonnes of lead mined throughout 2018, equating to approximately 47% of the world lead production. The International Zinc and Lead Study Group ('IZLSG') is expecting global mine production of lead throughout 2019 is forecast to rise by 1.8%, principally due to expected increases in China and India. Though, it is anticipated Mexico, Peru and the United States lead concentrates supply will decrease from 2018 levels.

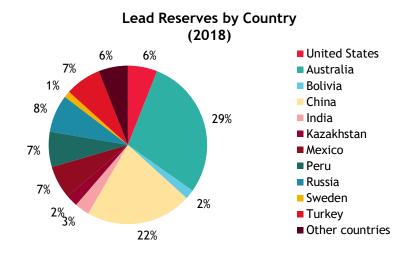




Source: U.S. Geological Survey

#### Lead Reserves

At the end of 2018, Australia and China are collectively estimated to account for just over 50% of global reserves of lead. A figure illustrating an estimated country breakdown of reserves for 2018 is shown below:



Source: U.S. Geological Survey



## 11. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment (such as a Resource Multiple)

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

It is possible for a combination of different methodologies to be used together to determine an overall value where separate assets and liabilities are valued using different methodologies. When such a combination of methodologies is used, it is referred to as a 'sum-of-parts' ('Sum-of-Parts') valuation.

The approach using the Sum-of-Parts involves separately valuing each asset and liability of the company. The value of each asset may be determined using different methods as described above.

The component parts are then valued using the NAV methodology, which involves aggregating the estimated fair market value of each individual company's assets and liabilities.

In our assessment of the value of Heron prior to the Transaction, we have chosen to employ the following methodologies:

- Sum-of-Parts as our primary methodology, which estimates the market value of a company by assessing the realisable value of its identifiable assets and liabilities. The value of each asset and liability may be determined using different methods and the component parts are then aggregated using the NAV methodology. The value derived from this methodology reflects a control value;
- QMP as our secondary methodology to value a Heron share prior to the Transaction, as this represents the value that a Shareholder may receive for a share if it were sold on market. The value derived from this methodology reflects a minority interest value and as such we have applied a control premium to this value; and
- We have not used a secondary methodology to value a Heron share following the Transaction as a cross check of the value of Heron prior to the Transaction has been performed. The key difference between the pre and post valuations is the financing assumptions used in the DCF and the application of a minority interest discount to the post-Transaction valuation. Other than for these reasons, the values of the Company's underlying assets will not change.

We have employed the Sum-of-Parts method in estimating the fair market value of Heron by aggregating the estimated fair market values of its underlying assets and liabilities, having consideration to the:

- Value of the Company's wholly owned Woodlawn Project using a discounted cash flow approach;
- Value of the Woodlawn Project Extensions using a discounted cash flow approach to determine a technical value, with BDA providing an assessment of the market value of the Woodlawn Project Extensions;
- Value of Heron's other mineral assets and exploration properties, as valued by BDA. Further detail of the valuation methodologies employed by BDA can be found in their report;



- Assumptions around the funding required for the Woodlawn Project prior to the Transaction, as determined by BDO;
- Proposed funding package available to Heron in the post-Transaction valuation; and
- Value of Heron's other assets and liabilities using the NAV approach.

We have chosen the following methodologies for the following reasons:

- The core value of Heron lies in the future cash flows of its Woodlawn Project. The cash flows from the Company's Woodlawn Project have a finite life and these cash flows may vary substantially from year to year, rendering it suitable for a DCF valuation;
- The value of the Woodlawn Project Extension is also derived using a DCF valuation approach, with technical inputs provided by BDA. BDA advise this to be the best approach to value this extension given that BDA considers that a willing and knowledgeable buyer would expect that the mine life would extend beyond the currently defined reserves as underground drilling and development progress;
- The other mineral assets and exploration properties, not included in the DCF, are valued by BDA using alternative valuation methodologies by BDA, as contained in the report in Appendix 3;
- The FME methodology is most commonly applicable to profitable businesses with steady growth histories and forecasts. The FME methodology is also not considered appropriate for valuing finite life assets such as mining assets; and
- The QMP basis is a relevant methodology to consider because Heron shares are listed on the ASX, therefore reflecting the value that a Shareholder will receive for a share sold on the market. This means that there is a regulated and observable market where Heron shares can be traded. However, in order for the QMP to be considered appropriate, the Company's shares should be liquid and the market should be fully informed on the Company's activities.

## **Technical Expert**

In performing our valuation of Heron's 100% interest in the Woodlawn Project using the DCF method, we have relied on the independent technical assessment and valuation report prepared by BDA ('Independent Technical Assessment and Valuation Report') based on BDA's review of the technical project assumptions contained in the cash flow model of the Woodlawn Project. Additionally, we have relied on BDA's valuation of the Woodlawn Project Extensions and its valuation of the Company's other mineral assets and exploration properties, which is included in the Independent Technical Assessment and Valuation Report.

BDA's Independent Technical Assessment and Valuation Report has been prepared in accordance with the Australasian Code for Public Reporting of Technical Assessments and Valuation of Mineral Assets (2015 Edition) ('the Valmin Code') and the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition) ('JORC Code'). We are satisfied with the valuation methodologies adopted by BDA, which we believe are in accordance with industry practices and compliant with the requirements of the Valmin Code. The specific valuation methodologies used by BDA are referred to in the respective sections of Our Report and in further detail in the Independent Technical Assessment and Valuation Report contained in Appendix 3.



# 12. Valuation of Heron prior to the Transaction

Our valuation of Heron prior to the Transaction involves the following:

- Sum-of-Parts method as our primary valuation methodology (Section 12.1); and
- QMP of Heron as our secondary valuation methodology (Section 12.2).

## 12.1 Sum-of-Parts valuation

We have employed the Sum-of-Parts methodology in estimating the fair market value of a Heron share on a control basis prior to the Transaction, by aggregating the estimated fair market values of its underlying assets and liabilities, having consideration of the following:

- Value of the Woodlawn Project and other associated financing and corporate cash flows;
- Value of the Woodlawn Project Extensions;
- Value of Heron's other mineral assets and exploration properties;
- Cash raised from notional equity raising; and
- Value of Heron's other assets and liabilities.

Our Sum-of-Parts valuation is set out in the table below:

		Low value	Preferred value	High value
	Note	\$'000	\$'000	\$'000
DCF Value of the Project	12.1.1	73,700	83,300	93,200
Value of the Woodlawn Project Extensions	12.1.2	5,500	11,000	16,500
Value of Heron's other mineral assets and exploration properties	12.1.3	5,700	8,100	10,200
Cash raised from Rights Issue	12.1.4	35,400	35,400	35,400
Cash raised from notional equity raising	12.1.5	40,800	40,800	40,800
Value of Heron's other assets and liabilities	12.1.6	945	945	945
Value of Heron prior to the Transaction (control basis)		162,045	179,545	197,045
Number of shares on issue	12.1.7	697,085,705	667,261,105	643,401,405
Value per share (\$)		0.232	0.269	0.306

Source: BDO analysis

We have assessed the value of a Heron share prior to the Transaction on a control basis to be in the range of \$0.232 to \$0.306, with a preferred value of \$0.269.

## 12.1.1. Discounted cash flow valuation

We have elected to use the DCF approach in valuing the Project. The DCF approach estimates the fair market value by discounting the future cash flows arising from the Project to their net present value. Performing a DCF valuation requires the determination of the following:

- The future cash flows that the Project is expected to generate; and
- An appropriate discount rate to apply to the cash flows of the Project to convert them to present value equivalent.

The value that we have ascribed to the Project is based on technical factors as advised by BDA and our view of future economic assumptions, all of which are derived from information available at the time of



BDA's report and Our Report respectively. The technical and economic factors may change in the future, which may change the value of the Project.

A detailed cash flow model of the Project was prepared by management of Heron ('**the Model**'). The Model estimates the future cash flows expected from zinc, copper, lead and silver production at the Project. The Model depicts forecasts of real post-tax cash flows over the life of mine on a monthly basis from financial year ('FY') 2020 to FY 2030. We have reviewed the Model and material assumptions that underpin it.

BDO has made certain adjustments to the Model where it was considered appropriate to arrive at an adjusted model ('Adjusted Model'). In particular, we have adjusted the Model to reflect any changes to technical assumptions as a result of BDA's review and any changes to the economic and other input assumptions from our research. We have also adjusted the Model by converting the cash flows to be on a nominal basis. The Model was prepared based on estimates of a mining and production profile, operating costs and start-up and sustaining capital expenditure. The main assumptions underlying the Adjusted Model include:

- Mining and production volumes;
- Operating costs;
- Start-up and sustaining capital expenditure;
- Royalties;
- Commodity prices;
- Foreign exchange rates;
- Financing assumptions;
- Corporate costs;
- Corporate tax; and
- Discount rate.

We completed the following analysis of the Model:

- Appointed BDA as a technical expert to review, and where required, provide suggested changes to the technical assumptions underpinning the Model;
- Conducted independent research on certain economic and other inputs such as commodity prices, exchange rates, inflation, corporate costs and discount rate applicable to the future cash flows of the Project;
- Held discussions with Heron management and its advisers regarding the preparation of the forecasts in the Model and its views; and
- Performed a sensitivity analysis on the value of the Project as a result of flexing selected assumptions and inputs.

We have not undertaken a review of the cash flows in accordance with the Standard on Assurance Engagements ASAE 3450 'Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information' and do not express an opinion on the reasonableness of the assumptions or their achievability. However, nothing has come to our attention as a result of our procedures to suggest that the assumptions on which the Adjusted Model has been based have not been prepared on a reasonable basis.



## Appointment of technical expert

BDA was engaged to prepare the Independent Technical Assessment and Valuation Report which includes a technical assessment of the assumptions underlying the Model. BDA's assessment involved the review and provision of input on the assumptions adopted in the Model, including but not limited to:

- Mining physicals (including volume mined, recovery and grade);
- Processing assumptions (including products and recovery);
- Operating costs (comprising direct operating expenditure and certain fixed costs);
- Capital expenditure (development and sustaining capital expenditure required); and
- Other relevant assumptions.

The Project is currently expected to have a mine life of approximately ten years, which was considered reasonable by BDA.

A copy of BDA's Independent Technical Assessment and Valuation Report is included in Appendix 3.

### Limitations

Since forecasts relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the plans on which the forecasts are based. Accordingly, actual results may vary materially from the forecasts included in the Model, as it is often the case that some events and circumstances frequently do not occur as expected, or are not anticipated, and those differences may be material.

#### **Economic assumptions**

#### Inflation

We note that all cash flows contained in the Model were calculated on a real basis. We have therefore applied the forecast inflation rate to the costs (including operating and capital expenditures) in the Model to convert them to nominal cash flows.

The Project's forecast operating costs are denominated in Australian Dollars therefore we consider the most appropriate inflation rate to apply to the cash flows in the Adjusted Model is the Australian inflation rate.

Having regard to the above, we have assumed an inflation rate of 2% per annum over the life of the Project based on consensus views of forecast inflation as sourced from Bloomberg, as well as consideration towards the historical inflation rate. Our assessment of forecast inflation is supported by the fact it lies within the RBA's inflation target of 2% to 3%.

#### Foreign exchange

Metal prices obtained from our research are quoted in nominal USD terms. We have converted the metal prices from USD to AUD at the following forecast exchange rates:

Exchange Rates	FY 2020	FY 2021	FY 2022	FY 2023+
AUD:USD	0.68	0.71	0.72	0.72
Source: Bloomberg and BDO analysis				

31



In our assessment of foreign exchange rates, we have considered forecasts prepared by economic analysts and other publicly available information including broker consensus to arrive at our foreign exchange rate assumptions.

## **Commodity Prices**

Heron will receive revenue from the sale of zinc, lead, copper and silver, with the latter also used as an input in the silver financing streams.

In assessing forecast commodity prices, we have considered the most recent Consensus Economics price forecasts as at September 2019.

Based on our analysis, we have adopted the following future Zinc, Copper, Silver and Lead prices (in nominal terms):

Commodity prices	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024-28
Zinc price (US\$/tonne)	2,422	2,434	2,474	2,510	2,710
Lead price (US\$/tonne)	1,971	2,004	2,018	2,041	2,168
Copper price (US\$/tonne)	6,117	6,552	6,801	6,845	7,420
Silver price (US\$/oz)	16.9	17.2	17.6	17.6	20.0

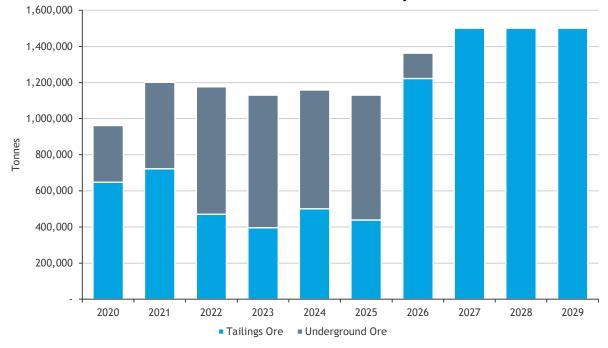
Source: Consensus Economics and BDO analysis

We note that the long term nominal price forecast is provided by Consensus Economics to 2028. We have extended these prices to the last revenue received from the Project, being 2029, and have adjusted these for inflation.

## Mining physicals

Mining at the Project has already commenced, starting with hydraulic mining of the tailings ore, followed by underground mining. The Project has an expected mine life of approximately ten years to December 2029. The graphs below show the forecast ore to be mined and processed over the life of mine. The periods in the below charts are in financial years, with 2020 referring to the period from the start of the forecast period, October 2019, to June 2020.





Ore forecast to be mined from the Project

Source: Adjusted Model and BDO analysis



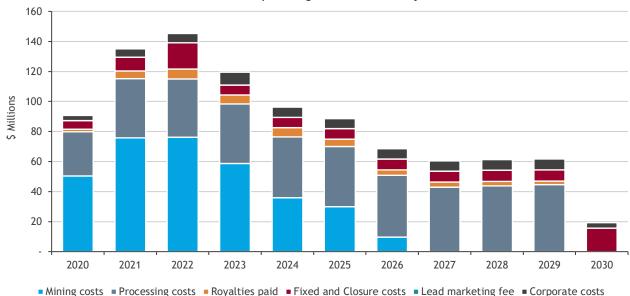
Ore processed at the Project

Source: Adjusted Model and BDO analysis



## Operating costs

The operating costs modelled in the Model include mining, processing, royalties, marketing fees, fixed and closure costs as well as corporate costs. In preparing the Adjusted Model, we have applied our inflation assumptions to these forecast operating costs. BDA has confirmed the reasonableness of the forecast operating cost assumptions by assessing the forecast per tonne operating costs in the context of their experience with similar mining projects. The forecast operating costs for the Project are illustrated in the charts below. The periods in the below chart are in financial years, with 2020 referring to the period from the start of the forecast period, October 2019, to June 2020.



Forecast operating costs for the Project

Source: Adjusted Model and BDO analysis

## Corporate costs

We have applied our forecast inflation rate of 2.0% per annum to the forecast corporate costs included in the Adjusted Model. Corporate costs incurred in the Model supplied by Heron were forecast to increase to around \$4.7 million in FY 2022 as the Project ramps up, before gradually decreasing to around the \$4.4 million per annum level over most of the Project's life.

Our assessment of Heron's forecast corporate costs is based on historical corporate costs incurred by the Company as well as an assessment of the corporate costs incurred by comparable companies. We have considered the corporate costs of comparable companies because we would expect that the corporate costs of Heron are likely to increase once the Company commences production, therefore the historical level of corporate costs incurred are unlikely to reflect the future corporate costs to be incurred.

The comparable companies selected for our analysis are companies of a similar size, scale and nature of operations to those operations that are included in the forecast. A summary of the companies selected and the average corporate costs incurred over the most recent two reporting periods are set out below. A brief description of the companies considered in our analysis is also set out in Appendix 4.



Company Name	Commodity	Market Capitalisation as at 11-Oct-2019 (\$m)	Revenue for the year ended 30-Jun-19 (\$m)	Average corporate costs for the years ended 30-Jun-19 and 30-Jun-18 (\$m)
Regis Resources Limited	Gold	2,536	655	5.0
Sandfire Resources NL	Copper, gold and silver	1,015	592	8.4
Grange Resources Limited	Iron ore	260	329	4.4
Mount Gibson Iron Limited	Iron ore	834	278	12.3
Aeris Resources Limited	Copper, gold and silver	27	232	8.4
Hillgrove Resources Limited	Copper, gold and silver	41	168	4.6
Dacian Gold Limited	Gold	344	133	4.4
Millennium Minerals Limited	Gold	74	110	7.1
Blackham Resources Limited	Gold	46	103	4.8
Red River Resources Limited	Zinc, copper, lead, gold and silver	77	97	5.8
Average				6.5
Median				5.4

Source: Company annual reports and BDO analysis

Heron's corporate costs incurred historically are set out in the table below.

	Actual	Actual	Actual
	Year ended	Year ended	Year ended
	30-Jun-17	30-Jun-18	30-Jun-19
Corporate costs (\$m)	2.5	3.5	3.8

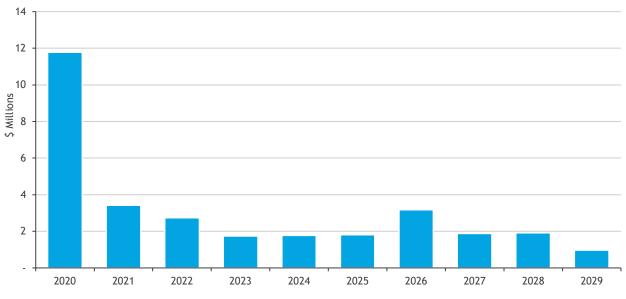
Source: Audited financial statements of Heron for the years ended 30 June 2017, 30 June 2018 and 30 June 2019

Based on the above analysis, we have assessed the level of corporate costs to be incurred by Heron over the life of mine to peak at \$6 million per annum (in real terms). We have applied a ramp up of corporate costs in line with the ramp up period of production. We have reflected this change to the corporate cost assumptions in the Adjusted Model.

## Capital expenditure

The capital expenditure requirements for the Project relate to construction and mining costs as well as ongoing sustaining capital expenditure. The total capital expenditure equates to a total of approximately \$30 million over the forecast period. The forecast capital expenditure required for the Project is set out in the chart below, with most of the expenditure forecast to be incurred in FY 2020. The periods in the below chart are in financial years, with 2020 referring to the period from the start of the forecast period, October 2019, to June 2020.





Forecast capital expenditure of the Project

Source: Adjusted Model and BDO analysis

## **Royalties**

A 4% royalty is payable each quarter based on the payable metal value of zinc, copper and lead concentrate produced, with the first payment due 30 July 2020.

## Taxation

Tax in the Adjusted Model is calculated based on the 30% Australian statutory corporate tax rate.

Given the nature of the continuity of ownership test, Heron's ability to utilise carried forward tax losses must be assessed at each reporting date, therefore there is a risk that this might change. However, based on the 30 June 2018 lodged income tax return, 30 June 2019 trial balance and consolidated accounts, which were considered by BDO Corporate Tax (WA) Pty Ltd ('**BDO Tax**'), we consider it reasonable to assume an opening balance of tax losses of approximately \$106.15 million to be applied in the Adjusted Model. As a result, the Adjusted Model forecasts the first cash payment for taxes to occur in FY 2026.

## Rehabilitation and closure costs

The Adjusted Model includes closure costs of \$9.6 million (in real terms) which is forecast to be paid in December 2029.

The quantum and timing of these closure costs were deemed reasonable by the independent technical specialist, BDA, further details of which can be found in the Independent Technical Assessment and Valuation Report, attached as Appendix 3.

## Trade receivables and trade payables

We have reflected trade debtors and trade payables in the Adjusted Model. In the Adjusted Model, we have used the trade and other receivables balance of \$2.37 million as at 30 September 2019 per the management accounts as an opening balance for the Adjusted Model. Management have provided us with a breakdown of this balance, giving us support for reliance on unaudited financial information.



In the Adjusted Model, we have used the trade payables balance of \$10.21 million as at 30 September 2019 per the management accounts as an opening balance for the Adjusted Model. We have cited a breakdown of trade and other payables and an aged creditors listing at 30 September 2019 to support this balance.

The remaining trade debtors and trade payables at the end of the forecast period have been accounted for in the Adjusted Model as a cash inflow and outflow, respectively.

## Ore stockpiles

The Adjusted Model assumes the processing plant achieves a maximum steady state throughput of approximately 1.5 million tonnes per annum. Of the tailings and underground ore mined and sent to the plant for processing, the latter is subject to a maximum of 1 million tonnes per annum that is sent for processing, while also being required to maintain a minimum stockpile balance of 10,000 tonnes of underground ore. As a result of these limits, there is a stockpile of underground ore throughout the life of the Project, reaching as high as approximately 125,000 tonnes. However by the end of the Project, all ore stockpiles are processed and sold. Therefore, there is no closing stockpile balance at the end of the forecast period.

### Inventory

As a result of limits on the container sizes for the finished zinc, lead and copper concentrates, there are also inventory balances for these concentrates which vary in their amounts over time. Once they are of sufficient quantities to fill their containers however, they are assumed to be immediately shipped and sold. At the end of the forecast period, any inventory remaining is assumed to be sold in the Adjusted Model.

## Assumed refinance of Orion loan

In the DCF valuation of the Project prior to the Transaction, we have assumed Heron is able to obtain an alternative loan to repay its existing senior debt facility with Orion. As guided by RG 111.15, we have assumed the terms of this new loan would be similar to that of other comparable company debt:

"...funding requirements for a target that is not in financial distress (e.g. capital that is required to develop a project) should generally be taken into account when determining the fair value of target securities...."

Therefore, we have included this new refinanced loan in our Adjusted Model as an amortised loan with terms based on our analysis of comparable company debt.

Set out below is the list of companies considered in our analysis, along with their assessed cost of debt. A brief description of each company is provided in Appendix 6.



Company Name	Mineral type	Market Capitalisation as at 16-Oct-19 (\$ million)	Cost of debt
Pilbara Minerals Limited	Lithium	612	12%
Image Resources NL	Mineral sands	265	14%
Cardinal Resources Limited	Gold	193	10%
New Century Resources Limited	Base metal	185	8%
Altura Mining Limited	Lithium	149	15%
Terramin Australia Limited	Base metal	93	8%
Australian Pacific Coal Limited	Coal	10	10%
		Average	11%
		Median	10%

Source: Company annual and financial reports and BDO analysis

In selecting a comparable cost of debt for Heron, we have considered the similarities and differences between them and the companies identified above. The similarities and differences noted are:

- All of the above companies operate in the mining industry, although we note that some mine different metals to Heron;
- The majority of the companies are larger in size than Heron. In general, a smaller company like Heron would expect to attract a higher cost of debt; and
- New Century Resources Limited and Terramin Australia Limited are zinc producers like Heron. However, we note that the former is larger in size than Heron and the latter, while similar in size, has debt from a major shareholder. These factors could contribute to a lower cost of debt for these companies.

In addition to the above, we have also considered Heron's existing senior debt facility with Orion and the Notes that form a part of the funding package. The former attracts an interest rate of LIBOR + 7.25% per annum, while the latter will accrue interest at a minimum of 15% per annum.

Based on our analysis, for this new refinanced loan that we have included in the Adjusted Model, we have adopted an interest rate of 14%.

## Assumed funding from offtake agreement

Heron has advised that it had received non-binding indicative proposals relating to offtake agreements. Based on our discussions with management and our research, we consider that it would be reasonable to assume that an offtake partner could contribute US\$10 million in project financing for such an agreement, with Heron required to repay that amount in product (likely at a discount to the market), once it has commenced production. We have not disclosed the specific terms of a potential offtake arrangement as the Company has only received non-binding indicative proposals at this juncture, therefore disclosing any terms may impede the negotiation process.

We have included such an arrangement in the Adjusted Model and also reduced the equity funding required (see Section 12.1.4) by a total of US\$10 million.

#### **Discount rate**

In our assessment of an appropriate discount rate to apply to the cash flows of the Project, we consider the most appropriate discount rate to be Heron's cost of equity. The cash flows of the Adjusted Model are after the repayment of debt-related principal and interest expenses, and therefore represent the free



cash flows available to equity holders. Therefore we consider the cost of equity to be an appropriate discount rate.

For the valuation of the Project prior to the Transaction, we have selected a nominal post-tax cost of equity in the range of 14% to 20% per annum to discount the cash flows of the Project to their present value. We have used a midpoint discount rate of 17% in our base case.

In selecting this range of discount rates, we have considered the following:

- the rate of return for comparable ASX listed exploration and production companies with projects with similar commodity types and location; and
- the risk profile of Heron as compared to the comparable companies identified.

A detailed consideration of how we arrived at our adopted discount rate range is contained in Appendix 5.

#### Sensitivity analysis

Our valuation of the Project is sensitive to changes in the forecast commodity prices, operating expenditure, capital expenditure and foreign exchange rates. We have therefore included a sensitivity analysis to consider the value of the Project under various pricing scenarios and in applying:

- a change of +/- 8% to the zinc price;
- a change of +/- 8% to the copper price;
- a change of +/- 8% to the lead price;
- a change of +/- 8% to the silver price;
- a change of +/- 8% to the AUD:USD exchange rate;
- a change of +/- 15% to capital expenditure;
- a change of +/- 15% to operating costs;
- a discount rate within the range of our assessed cost of equity range; and
- an inflation rate in the range of 0% to 3%.

The following sensitivities have been prepared to assist Shareholders in considering the potential effects to the value of the Project if our base case assumptions change. The following values represent the DCF value of the Project prior to the Transaction.



Currency: \$ million	Sensitivity Analysis of the Project's DCF Valuation (prior to the Transaction)					
Percentage change	Zinc price	Copper price	Lead price	Silver price	AUD:USD Exchange Rate	
-8.0%	56.4	66.3	77.4	81.4	125.1	
-6.0%	63.2	70.6	78.9	81.9	114.1	
-4.0%	69.9	74.8	80.4	82.4	103.4	
-2.0%	76.7	79.1	81.9	82.8	93.2	
0.0%	83.3	83.3	83.3	83.3	83.3	
2.0%	89.8	87.6	84.8	83.8	73.7	
4.0%	96.3	91.8	86.2	84.3	64.5	
6.0%	102.7	96.0	87.6	84.7	55.5	
8.0%	109.1	100.2	89.0	85.2	46.7	

Source: Adjusted Model and BDO analysis

For the capital and operating costs, we have performed a sensitivity analysis around +/-15% instead, as this was the range BDA considered the costs to be accurate within. These are presented below.

Sensitivity Analysis of the Project's DCF Valuation to operating and capital costs (\$ million)				
Percentage change	Operating Costs	Capital costs		
-15.0%	111.2	86.1		
-10.0%	102.0	85.1		
-5.0%	92.6	84.2		
0.0%	83.3	83.3		
5.0%	73.9	82.4		
10.0%	64.4	81.5		
15.0%	54.9	80.6		
15.6%	51.7	66:6		

Source: Adjusted Model and BDO analysis

Sensitivity Analysis of the Project's DCF Valuation to the discount rate							
Discount rate	14.0%	15.0%	16.0%	17.0%	18.0%	19.0%	20.0%
Value (\$ million)	104.7	97.1	90.0	83.3	77.0	71.2	65.6

Source: Adjusted Model and BDO analysis

Sensitivity Analysis of the Project's DCF Valuation to the inflation rate				
Inflation rate	0.0%	1.0%	2.0%	3.0%
Value (\$ million)	115.0	99.6	83.3	66.2

Source: Adjusted Model and BDO analysis

From the above, it can be seen that the Project is particularly sensitive to the price of zinc, the AUD:USD exchange rate assumed, the discount rate used and the inflation rate applied. It is relatively less sensitive to the price of silver and to capital costs.

In considering the above sensitivities, Shareholders should note the following:

• the variables described above may have compounding or offsetting effects and are unlikely to move in isolation;



- the variables for which we have performed sensitivities are not the only variables which are subject to deviation from the forecast assumptions; and
- the sensitivities performed do not cover the full range of possible variances from the base case assumptions used (i.e. variances could be greater than the percentage increases or decreases set out in this analysis).

We also note that we have presented the above sensitivities to highlight the sensitivity of the value of the Project to changes in pricing and other assumptions.

## Conclusion on DCF value of the Project prior to the Transaction

Based on the above analysis, our preferred value of the Project is \$83.3 million, in a range of \$73.7 million to \$93.2 million. This represents the NPV of the Project prior to the Transaction, which includes the assumed refinancing of the Company's existing debt and an assumed offtake agreement. The assumed notional equity raise is covered separately in our Sum-of-Parts valuation.

We note that BDA considered the updated resource and reserve statement announced by the Company on 30 October 2019 and concluded that the changes detailed in the announcement would not have a material impact on the DCF value of the Woodlawn Project. As such, no adjustment has been made as a result of this announcement.

## 12.1.2. Value of the Woodlawn Project Extensions

In BDA's review of the underground mining potential of the Project, it had assessed that a willing and knowledgeable buyer would have a reasonable expectation that underground drilling would add a minimum of one year of additional mine life, most likely two years, and possibly three years. Therefore, BDA have assigned values to the potential extension of the Project based on this, as summarised below. Further details can be found in the Independent Technical Assessment and Valuation Report attached as Appendix 3.

	Low	Preferred	High
	\$ million	\$ million	\$ million
Woodlawn Project Extensions	5.5	11.0	16.5

We note that BDA considered the updated resource and reserve statement announced by the Company on 30 October 2019 and concluded that the changes detailed in the announcement would not have a material impact on the value of the Woodlawn Project Extensions. As such, no adjustment has been made as a result of this announcement.



# 12.1.3. Value of Heron's other mineral assets and exploration properties not included in the Adjusted Model

We have instructed BDA to independently value the other mineral assets and exploration properties not included in the DCF valuation. The fair market value of Heron's interest in these assets lies within the range of \$5.7 million to \$10.2 million, with a preferred value of \$8.1 million. This is summarised in the table below with full details in the Independent Technical Assessment and Valuation Report attached as Appendix 3.

Other mineral assets and exploration properties not	Low	Preferred	High
included in the Adjusted Model	\$ million	\$ million	\$ million
Woodlawn Project - Satellite Deposits	1.3	1.7	2.0
New South Wales Regional Tenements	4.1	5.9	7.5
Western Australian Tenements	0.3	0.5	0.7
Total other mineral assets	5.7	8.1	10.2

Source: Independent Technical Assessment and Valuation Report prepared by BDA

We note that BDA considered the updated resource and reserve statement announced by the Company on 30 October 2019 and concluded that the changes detailed in the announcement would not have a material impact on the value of Heron's other mineral assets and exploration properties. As such, no adjustment has been made as a result of this announcement.

## 12.1.4. Cash raised from Rights Issue

As the Rights Issue is not contingent on Shareholder approvals, we have included the cash raised from it in our valuation of a Heron share prior to the Transaction. As at the date of Our Report, 176,997,693 shares have been issued pursuant to the Rights Issue at an issue price of \$0.20 each, resulting in a cash inflow of approximately \$35.4 million.

## 12.1.5. Cash raised from notional equity raising

In assessing the DCF value of the Project prior to the Transaction, we have had to make certain assumptions on the funding that will be available to the Company. In particular, per RG 111.15, the funding requirements for a target that is not in financial distress (e.g. capital that is required to develop a project) should generally be taken into account when determining the fair value of target securities.

From our discussions with management regarding financing options, as well as our analysis of funding structures of comparable listed companies, we consider there to be reasonable grounds to assume that Heron's funding requirements could be fulfilled through the refinancing of its existing Orion loan, an assumed US\$10 million offtake agreement, as well as a notional equity raising to fund the remaining funding shortfall.

The total notional equity required to fully fund the development of the Project is approximately \$40.8 million. This is based on the minimum amount required to ensure the Project is fully funded, including capital expenditure requirements, the funding of fixed operating costs during the production ramp up phase and payment of corporate costs, whilst maintaining an assumed minimum cash balance covenant of \$10 million, that is required by the debt provider.

We have increased the amount to be raised to reflect our estimate of the gross amount including likely capital raising costs. We have assessed the placement fee to be approximately 5% of the funds raised.



Therefore, the total equity funding requirement of the Project will be approximately \$42.9 million (inclusive of a placement fee).

In order to determine the likely price at which Heron would have to place its shares to a third party or to current shareholders under a notional capital raising to raise the funds required, we considered the price of Heron's shares after the Transaction was announced which ranged from \$0.180 to \$0.200 (detailed in Section 12.2) and the Rights Issue price of \$0.20 per share, as well as considered placement discounts observed on the ASX historically. We have not relied on the pre-announcement price of a Heron share in assessing the likely price of a capital raising because the shares were suspended, therefore we do not consider the preannouncement closing price to reflect the market value of the shares. We therefore do not consider this pre-announcement price to be relevant in our assessment of the likely price at which Heron could raise capital. This is also supported by the lack of liquidity in trading of the Company's shares prior to the announcement of the Transaction relative to the liquidity following the announcement. We also note that Rights Issue price of \$0.20 per share already partly factors in a placement discount which is typically required in order to provide incentive for investors to participate. In forming the low capital raising price, we have considered the discount at which shares have been issued by ASX listed companies when compared to the respective companies' 30-day VWAP prior to the announcement of the placement. This is because given the quantum of the notional equity raising, investors may require an additional discount to the postannouncement share price.

	Offer size between \$30m - \$60m	Capital raise to >80% market cap	Market cap <\$100m	All companies
All Mining				
No. companies	21	6	464	589
Mean	11.1%	37.9%	17.6%	17.6%
Median	11.5%	37.9%	15.1%	15.1%
All ASX				
No. companies	72	21	1,083	1,406
Mean	8.4%	29.1%	17.6%	16.0%
Median	6.6%	22.9%	15.4%	13.6%

We considered the discount at which shares have been issued over the last three years, by ASX listed companies to raise capital. A summary of our results is set out in the table below:

Source: Bloomberg and BDO analysis

From our analysis, the average (mean) discount for ASX listed mining companies was 17.6%. Given that the placement discounts have ranged significantly we have also considered the median of 15.1% as this represents a better measure of central tendency.

However, given that the size of the notional capital raising required to fund the Project would be approximately 90% of Heron's current market capitalisation, we have analysed placement discounts for capital raisings in which the amount raised was more than 80% of the company's market capitalisation at the time of the raising and found that the median discount for mining companies was 37.9% and the median discount across all companies on the ASX raising more than 80% of their market capitalisation was 22.9%.

We have also assessed the discounts of capital raisings for companies with market capitalisations less than \$100 million (a band in which Heron's market capitalisation currently falls). The mean discount across all ASX listed companies in this band was 17.6%, with the median being 15.4%.



Given the above analysis, we consider a capital raising price in the range of \$0.16 to \$0.20 will be required to provide a sufficient incentive for investors to participate in any equity raising that Heron would conduct.

As shown in the table below, in order to raise an equivalent of \$40.8 million to provide funding to develop the Project and cover capital raising costs, the Company will be required to issue between 214,736,800 and 268,421,100 new shares at between \$0.16 and \$0.20 per share.

Number of shares issued under notional capital raise	Low	Preferred	High
Equity funding required (\$ million) - before capital raising costs	40.8	40.8	40.8
Equity funding required (\$ million) - including capital raising costs	42.9	42.9	42.9
Price of capital raising (\$ per share)	0.160	0.180	0.200
Number of shares issued under notional capital raise	268,421,100	238,596,500	214,736,800

Source: Bloomberg and BDO analysis

## 12.1.6. Heron's other assets and liabilities

Other assets and liabilities of Heron represent the non-operating assets and liabilities, the economic impact of which have not been captured in the Adjusted Model. From our discussions with Heron and analysis of these other assets and liabilities, outlined in the table below, we do not believe that there is a material difference between their book value and their fair value unless an adjustment has been noted below.

The table below represents a summary of the assets and liabilities identified.

		Audited as at	Adjusted
Heron's other assets and liabilities	Notes	30-Jun-19	
		\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	a	31,465	9,636
Trade and other receivables	b	1,043	-
Inventories	с	2,355	-
Financial assets - equity instruments	d	1,587	1,837
Other assets	е	499	-
TOTAL CURRENT ASSETS		36,949	11,473
NON-CURRENT ASSETS			
Restricted cash	f	7,777	-
Other assets		125	125
Financial assets - equity instruments		132	132
Property, plant and equipment	g	11,962	-
Mine property	h	242,849	-
TOTAL NON-CURRENT ASSETS		262,845	257
TOTAL ASSETS		299,794	11,730
CURRENT LIABILITIES			
Trade and other payables	i	6,060	-
Borrowings	j	126,330	2,831
Provisions	k	15,786	1,374



Heron's other assets and liabilities	Notes	Audited as at 30-Jun-19 \$'000	Adjusted \$'000
TOTAL CURRENT LIABILITIES		148,176	4,205
NON-CURRENT LIABILITIES			
Borrowings	j	6,580	6,580
Provisions	k	16,138	-
TOTAL NON-CURRENT LIABILITIES		22,718	6,580
TOTAL LIABILITIES		170,894	10,785
NET ASSETS		128,900	945

Source: Audited financial statements of Heron for the year ended 30 June 2019, management accounts for the period ended 30 September 2019 and BDO analysis.

We have not undertaken a review of Heron's unaudited accounts in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and do not express an opinion on this financial information. However, nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

We have not made adjustments to the balances per the audited accounts apart from the adjustments detailed below. Where the above balances differ materially from the audited position at 30 June 2019, we have obtained supporting documentation to validate the adjusted values used, which provides reasonable grounds for reliance on the unaudited financial information.

#### Note a) Cash and cash equivalents

We have adjusted the cash position at 30 June 2019 to reflect the actual cash balance at 30 September 2019 per the Company's management accounts. We have verified the cash position against the Appendix 5B and the Company's management accounts.

#### Note b) Trade and other receivables

Trade and other receivables, which comprised of trade and GST receivables has been adjusted to nil as this is accounted for in the Adjusted Model.

#### Note c) Inventories

The inventories balance of approximately \$2.36 million as at 30 June 2019 consisted of stock store and consumables which are used in the production of concentrate product at the Woodlawn Project. As these are consumed in the production of saleable product from the Project, it is already accounted for in the DCF value of the Project and has therefore been adjusted to nil.

#### Note d) Financial assets - equity instruments

The current portion of the financial assets line item relates to options in Ardea with an exercise price of \$0.25, expiring in February 2020. Subsequent to 30 June 2019, the Company had sold some of these options, reducing its balance from 10 million to 6.1 million options as at 30 September 2019. We have therefore adjusted the value of this line item to reflect the value per the management accounts, and have also confirmed the reasonableness of management's valuation of these using the Black Scholes option valuation model.



#### Note e) Other assets

The other assets line item under current assets comprised of prepayments and other receivables as at 30 June 2019. Per the Company's management accounts for 30 September 2019, these were subsequently received and therefore have been adjusted to nil.

#### Note f) Restricted cash

The restricted cash balance, which is comprised of an environmental bond, a bank guarantee for Veolia and a credit card bond, has been adjusted to nil as the Adjusted Model includes a cash inflow for these.

#### Note g) Property, plant and equipment

The property, plant and equipment balance which comprised of mining plant and equipment and motor vehicles is adjusted to nil as its value is inherent in the DCF valuation of the Project.

#### Note h) Mine property

The book value of mine property relates to capitalised historical expenditure. We have adjusted the exploration and evaluation assets balance to nil as we (and BDA) have separately valued the Company's mineral assets in our Sum-of-Parts valuation.

#### Note i) Trade payables

Trade and other payables have been adjusted to nil as this is accounted for in the DCF value of the Project.

#### Note j) Borrowings

Borrowings as at 30 June 2019 consisted of the Senior Loan, a silver stream and finance leases held by the Company. The Senior Loan and silver stream are modelled as financing cash flows in the Adjusted Model. Therefore, the impact of these are included in the DCF value of the Project and are adjusted to nil here.

The finance leases held by the Company are not included in the Adjusted Model. Therefore, we have included these in other assets and liabilities. We have been provided with the management accounts at 30 September 2019 but we note that the movement in value between the 30 June audited position and the position per the 30 September 2019 management accounts would not have a material effect on our valuation or conclusions reached. As such, we have relied on the audited position at 30 June 2019.

#### Note k) Provisions

The provisions line item relates to employee entitlements, a provision for the Sedgman claim settlement and rehabilitation provision. Apart from employee entitlements, the other items are included in the DCF valuation of the Project and are therefore reduced to nil here. The Sedgman claim is accounted for in the Adjusted Model (both as a cash outflow and issue of 10 million shares) while a cash outflow relating to the rehabilitation expense is recorded at the end of the Project's life. Therefore, the current provisions' balance has been adjusted to \$1,374,000, reflecting the employee entitlements, with the non-current provisions being adjusted to nil.



# 12.1.7. Total shares outstanding prior to the Transaction but after accounting for the notional equity raise

The number of shares on issue prior to the Transaction but following the notional equity raise and Rights Issue, is set out below. The 10 million shares issued as part of the settlement of Sedgman's claims are also included below.

	Low	Preferred	High
Number of shares on issue prior to the Transaction	241,666,912	241,666,912	241,666,912
Number of shares issued for Sedgman settlement	10,000,000	10,000,000	10,000,000
Number of shares issued from the Rights Issue	176,997,693	176,997,693	176,997,693
Number of shares issued through notional equity raise	268,421,100	238,596,500	214,736,800
Total shares outstanding prior to the Transaction but after accounting for the notional equity raise	697,085,705	667,261,105	643,401,405

Source: BDO analysis

## 12.2 Quoted market price valuation of a Heron share prior to the Transaction

To provide a comparison to the valuation of Heron in Section 12.1, we have also assessed the quoted market price for a Heron share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst Greenstone, Orion and Castlelake will not be obtaining 100% of Heron, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. The expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 15.

Therefore, our calculation of the quoted market price of a Heron share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

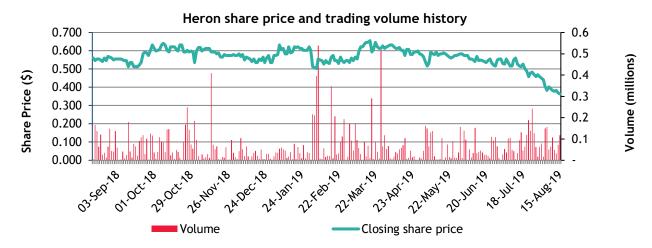
## Minority interest value

Our analysis of the quoted market price of a Heron share is based on the pricing prior to the announcement of the Transaction. This is because the value of a Heron share after the announcement may include the effects of any change in value as a result of the Transaction. However, we have



considered the value of a Heron share following the announcement when we have considered reasonableness in Section 15.

Information on the Transaction was announced to the market on 4 October 2019. However, Heron was voluntarily suspended from trading on 16 August 2019. Therefore, the following chart provides a summary of the share price movement over the 12 months to 15 August 2019, which was the last trading day before the voluntary suspension.



Source: Bloomberg

The daily price of Heron shares from 15 August 2018 to 15 August 2019 has ranged from a low of \$0.364 on 15 August 2019 to a high of \$0.656 on 19 March 2019. The daily volume of shares traded fluctuated largely over the year. The highest single day of trading over the assessed period was 7 February 2019, when 539,039 shares were traded.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement		Following Three Days Afte		er 👘	
		\$ (mov	vement)		\$ (move	ment	:)
31/07/2019	Quarterly Activities Report and Appendix 5B	0.459	•	2%	0.407	▼	11%
18/07/2019	Corporate Presentation - Noosa Mining Conference	0.526	•	3%	0.459	•	13%
29/05/2019	Heron commences drilling program north of the Woodlawn Mine	0.579	•	1%	0.574	•	1%
08/05/2019	Production commences at Woodlawn	0.593	•	12%	0.593	►	0%
08/05/2019	Corporate Presentation - RIU Sydney	0.593	<b></b>	12%	0.593	•	0%
08/05/2019	Re-release - Drill targets adjacent to Woodlawn - JORC table	0.593	•	12%	0.593	•	0%
07/05/2019	New high potential drill targets adjacent to Woodlawn Mine	0.531	•	3%	0.579	•	<b>9</b> %
29/04/2019	ALY: West Lynn Nitric Acid Leach Testwork Results	0.598	<b></b>	1%	0.569	•	5%



Date	Announcement	Closing Share Price Following Announcement \$ (movement)			Closing Sha Three Day Announc	vs Aft emer	er nt
20/04/2010	Quarterly Activities Depart and Appandix EP		ement)	1 0/	\$ (move		
29/04/2019	Quarterly Activities Report and Appendix 5B	0.598		1%	0.569	•	5%
22/03/2019	Form 604 - Change in substantial holding	0.646	•	6%	0.612	•	5%
21/03/2019	ALY: Lithium and Battery Metals Conf - Company Presentation	0.608	•	2%	0.612		1%
15/03/2019	Sedgman's Revised Project Claim Rejected	0.646	•	1%	0.593	•	<b>8</b> %
13/03/2019	Corporate Presentation - Euroz Conference Rottnest Island	0.622	•	0%	0.646	•	4%
12/03/2019	Woodlawn Zinc-Copper Project Update	0.622	<b></b>	5%	0.646		4%
04/03/2019	Sedgman persist with claim despite contractual failures	0.536	•	2%	0.565		5%
04/03/2019	Process Plant Wet Commissioning commences at Woodlawn	0.536	•	2%	0.565	•	5%
01/03/2019	Half yearly Financial Statements	0.546	•	0%	0.546	•	0%
19/02/2019	ALY: West Lynn Maiden Mineral Resource Estimate	0.574	•	2%	0.531	•	<b>8</b> %
18/02/2019	Sedgman Claim Rejected and Heron claims Liquidated Damages	0.565	•	6%	0.546	•	3%
04/02/2019	Sedgman claim received-exceeds maximum contract sum by \$49M	0.512	•	15%	0.555	•	8%
31/01/2019	December Quarterly Activities Report and Appendix 5B	0.622	•	3%	0.507	•	18%
21/12/2018	Heron completes third and final drawn down of debt (US\$20M)	0.565	•	4%	0.574	•	2%
19/12/2018	Heron commences Commissioning Activities at Woodlawn Mine	0.555	•	4%	0.536	•	3%
10/12/2018	Heron commences new exploration program near Woodlawn	0.565	•	3%	0.541	•	4%
10/12/2018	ALY: More Significant Ni-Co and Alumina Intercepts at West	0.565	•	3%	0.541	•	4%
26/11/2018	Appendix 3Y - I Pattison	0.574	•	0%	0.579		1%
26/11/2018	Appendix 3Y - W Taylor	0.574	•	0%	0.579		1%
22/11/2018	2018 AGM - Results of Meeting	0.579	•	3%	0.574	•	1%
22/11/2018	2018 AGM - Corporate Presentation	0.579	•	3%	0.574	•	1%
22/11/2018	2018 AGM - Chairman's address	0.579	•	3%	0.574	▼	1%
30/10/2018	Quarterly Activities Report September 2018	0.593	•	1%	0.617		4%
22/10/2018	ALY: West Lynn Drilling Results	0.632	►	0%	0.603	•	5%
19/10/2018	2018 Annual Report	0.632		6%	0.593	•	6%
19/10/2018	Notice of Meeting and Proxy Form - 2018 AGM	0.632	•	<b>6</b> %	0.593	▼	<b>6</b> %



Date	Announcement	Closing Share Price Following Announcement \$ (movement)		Closing Sha Three Day Announc \$ (move	/s Aft emer	er ht	
17/10/2018	Corporate Presentation - Brisbane Resources Round Up	0.608	•	2%	0.632	•	4%
28/09/2018	Change of Registry Address: Automic P/L - Sydney Office	0.632	<b></b>	5%	0.603	•	5%
27/09/2018	Appendix 4G and Corporate Governance Statement	0.603	•	5%	0.598	•	1%
27/09/2018	Audited Annual Financial Statements	0.603	•	5%	0.598	▼	1%
26/09/2018	Heron completes 2nd draw-down of US\$20M Debt	0.574	•	2%	0.612		7%
25/09/2018	Woodlawn project update - Underground mining commences	0.589	•	1%	0.632	•	7%
21/09/2018	G2 Lens drilling at Woodlawn delivers high grade assays	0.584	<b></b>	<b>9</b> %	0.574	•	2%
18/09/2018	Corporate Presentation - September FNN	0.512	►	0%	0.584		14%
04/09/2018	Heron unmarketable parcel facility open	0.555	•	0%	0.546	•	2%
16/08/2018	Form 604-Notice of change of interests of substantial holder	0.546	•	3%	0.550	•	1%

On 18 September 2018, Heron released a corporate presentation which, among other things, outlined progress at its Woodlawn Project. On the date of the announcement the share price closed unchanged from the previous trading day at \$0.512, before increasing by 14% over the subsequent three day trading period to close at \$0.584.

On 21 September 2018, Heron released the final assay results for the extension and infill drilling program of the shallow G2 Lens at its Woodlawn Project. On the date of the announcement the share price increased 9% to close at \$0.584, before decreasing by 2% over the subsequent three day trading period to close at \$0.574.

On 25 September 2018, Heron released an announcement in which it provided an update on its Woodlawn Project, including the commencement of underground activities by PYBAR. On the date of the announcement the share price decreased by 1% to close at \$0.589, before increasing by 7% over the subsequent three day trading period to close at \$0.632.

On 26 September 2018, Heron announced that it had completed the drawdown of the second tranche of funding from Orion, of US\$20 million. On the date of the announcement the share price decreased by 2% to close at \$0.574 before increasing by 7% over the subsequent three day trading period to close at \$0.612.

On 19 October 2018, Heron released its:

- Notice of Meeting and Proxy Form for the 2018 Annual General Meeting, which contained
  resolutions including the re-election of multiple directors and the approval of the employee share
  option plan; and
- Annual Report for the financial year ended 30 June 2018.



On the date of the announcements the share price increased by 6% to close at \$0.632, before decreasing by 6% over the subsequent three day trading period to close at \$0.593.

On 31 January 2019, Heron released its December Quarterly Report and Appendix 5B, in which the Company highlighted activities undertaken during the quarter including commissioning of the plant and continued work on the underground development at the Woodlawn Project. On the date of the announcement the share price increased 3% to close at \$0.622, before declining by 18% over the subsequent three day trading period to close at \$0.507.

On 4 February 2019, Heron announced that it had received a progress claim from Sedgman for additional costs of \$49.9 million (inclusive of an earlier notice of claim for \$11.0 million). On the date of the announcement the share price decreased by 15% to close at \$0.512, before increasing by 8% over the subsequent three day trading period to close at \$0.555.

On 18 February 2019, Heron announced that the Contract Superintendent had rejected the Sedgman progress claim and would be applying liquidated damages, as a result of the later than planned completion of the processing facility. On the date of the announcement the share price increased by 6% to close at \$0.565, before decreasing by 3% over the subsequent three day trading period to close at \$0.546.

On 19 February 2019, Heron referenced an Alchemy announcement, in which Alchemy announced a maiden JORC compliant inferred mineral resource estimate for the West Lyn Project, which forms part of Heron's farm in agreement with Alchemy. Following the release of the announcement the share price increased by 2% to close at \$0.574, before decreasing by 8% over the subsequent three day trading period to close at \$0.531.

On 4 March 2019, Heron released two announcements to the market, being:

- An announcement that the wet commissioning of the process plant at the Woodlawn Project had commenced; and
- An announcement that it had received an additional Progress Claim for Sedgman, claiming total costs of \$53.0 million.

On the date of the above announcements, the share price decreased by 2% to close at \$0.536, before increasing by 5% over the subsequent three day trading period to close at \$0.565.

On 12 March 2019, Heron released an update on the Woodlawn Project, in which it highlighted progress on the underground mine, and the hydraulic mining circuit commissioning. On the date of the announcement the share price increased by 5% to close at \$0.622, before increasing by a further 4% to close at \$0.646.

On 22 March 2019, Heron released a Notice of Change of Interests of Substantial Holder form for Castlelake. On the date of the announcement the share price increased by 6% to close at \$0.646, before decreasing by 5% over the subsequent three day trading period to close at \$0.612.

On 7 May 2019, Heron released the results of an IP geophysical survey at its Woodlawn Project, which identified two main anomalies which would be subject to an immediate drill follow up. On the date of the announcement the share price increased by 3% to close at \$0.531 before increasing by a further 9% over the subsequent three day trading period to close at \$0.579.

On 8 May 2019, Heron released three announcements to the market being:

• The re-release of results from the previous day's announcement, together with the relevant JORC table;



- A corporate presentation highlighted, among other things, the development of the process plant and underground mine; and
- An announcement that processing activities had commenced at the Woodlawn Project, with reclaimed tailings from hydraulic mining operations being processed in the floatation treatment facility.

On the date of these announcements the share price increased 12% to close at \$0.593.

On 18 July 2019, Heron released a corporate presentation which detailed the ongoing ramp up progress for the Woodlawn Project. On the date of the announcement the share price increased 3% to close at \$0.526, before decreasing by 13% over the subsequent three day trading period to close at \$0.459.

On 31 July 2019, the Company released its Quarterly Report for June 2019, in which it highlighted activities during the quarter including the commencement of ore processing on reclaimed tailings, and ongoing ramp up activities. On the date of the announcement the share price decreased by 2% to close at \$0.459, before decreasing by a further 11% over the subsequent three day period to close at \$0.407.

To provide further analysis of the market prices for a Heron share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 15 August 2019.

Share Price per unit	15-Aug-19	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.364				
Volume weighted average price (VWAP)		\$0.386	\$0.460	\$0.495	\$0.517

Source: Bloomberg, BDO analysis

An analysis of the volume of trading in Heron shares for the twelve months to 15 August 2019 is set out below:



Trading days	Share price	Share price	Cumulative volume	As a % of
	low	high	traded	Issued capital
1 Day	\$0.311	\$0.364	117,440	0.05%
10 Days	\$0.311	\$0.450	816,979	0.32%
30 Days	\$0.311	\$0.560	2,567,168	1.02%
60 Days	\$0.311	\$0.584	4,090,284	1.62%
90 Days	\$0.311	\$0.622	5,490,503	2.17%
180 Days	\$0.311	\$0.656	11,573,317	4.58%
1 Year	\$0.311	\$0.656	16,541,845	6.55%

Source: Bloomberg, BDO analysis

This table indicates that Heron's shares display a low level of liquidity, with 6.55% of the Company's current issued capital being traded in a twelve month period. RG 111.69 states that for the quoted market price methodology to be an appropriate methodology there needs to be a 'liquid and active' market in the shares and allowing for the fact that the quoted price may not reflect their value should 100% of the securities not be available for sale. We consider the following characteristics to be representative of a liquid and active market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'liquid and active', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

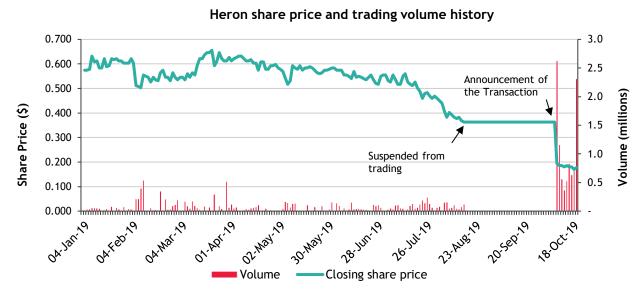
In the case of Heron, we consider the shares to display a low level of liquidity, on the basis that on average less than 1% of Heron's issued capital has been traded per week, with only 4.58% of the Company's issued capital prior to the announcement of the Transaction, being traded in the 180 trading days prior to the voluntary suspension.

Our assessment is that a range of values for Heron shares based on market pricing, after disregarding post announcement pricing, is between \$0.364 and \$0.460.

We note that our usual approach is to exclude post-announcement pricing in order to remove the effects of the announced Transaction on the share price, however in this case we have also considered the post-announcement pricing in our assessment of the quoted market price of a Heron share because a considerable amount of time elapsed between when the shares in Heron were voluntarily suspended from trading and when the Transaction was announced. Also, there has been material information regarding the Company's financing situation that has been announced to the market since it was suspended, therefore we do not consider the pre-suspension share price of Heron to reflect the actual underlying value of a Heron share prior to the Transaction. Following the announcement of the Transaction on 4 October 2019, the shares resumed trading on 8 October 2019.

We have analysed movements in Heron's share price following the announcement of the Transaction, from 8 October 2019 to 18 October 2019. A graph of the Company's share price and trade volume following the announcement of the Transaction is set out below.





#### Source: Bloomberg

Over the period following the voluntary suspension, the Company has made several announcements, as outlined below.

On 30 August 2019, the Company announced that an independent technical review of the Woodlawn Project had confirmed that the Project is not facing any significant ongoing technical or operational flaws, and that the ramp up should progress in line with the revised schedule.

On 30 September 2019, the Company announced that its senior debt provider had agreed to provide various debt waivers in relation to its senior debt facility. The waivers are conditional on a series of milestones being met, which are detailed in section 5.3.

On 8 October 2019, the Company announced the institutional component of the entitlement offer had closed, raising approximately \$11.5 million, through the issue of 57,584,627 shares at an issue price of 20 cents per share. Directly following this announcement, the suspension of Heron securities was lifted.

On 9 October 2019, the Company announced that it had entered into an agreement with Sky Metals, whereby Sky Metals would earn into three Heron tenements, by spending approximately \$400,000 in the first year and a total of \$2.0 million over three years to earn an 80% interest.

To provide further analysis of the market prices of Heron, following the announcement of the Transaction and the recommencement of trading on 8 October 2019, we have considered the following market price movements to 18 October 2019. We have also included the cumulative volume of shares traded within the post suspension period to 18 October 2019 and compared that to the total issued capital as at 18 October 2019. We note that the issued capital of Heron as at 18 October 2019 (309,251,539 shares) accounts for the issue of new shares from the institutional component of the Rights Issue, and the shares issued to Sedgman as part of the settlement.



Date	Daily VWAP	Cumulative volume traded	As a % of issued capital
15-Aug-19 (pre suspension)	\$0.364		
08-Oct-19	\$0.195	2,624,884	0.85%
09-Oct-19	\$0.185	3,783,169	1.22%
10-Oct-19	\$0.185	4,346,031	1.41%
11-Oct-19	\$0.180	4,710,323	1.52%
14-Oct-19	\$0.185	5,239,545	1.69%
15-Oct-19	\$0.180	6,065,753	1.96%
16-Oct-19	\$0.180	6,699,024	2.17%
17-Oct-19	\$0.170	7,472,515	2.42%
18-Oct-19	\$0.178	9,785,340	3.16%

#### Source: Bloomberg

In the nine days since emerging from suspension, 9,785,340 Heron shares have cumulatively traded, representing approximately 3.16% of the Company's issued capital as at 18 October 2019. This compares to the 0.32% of issued capital traded in the ten days prior to the suspension, indicating higher liquidity, although we recognise that this is a relatively small sample size.

While its shares were suspended, Heron made several key announcements including announcements related to project funding and the departure of its Chief Executive Officer. The impact of these announcements were only reflected in the share price after it resumed trading.

Our assessment of the range of values of Heron shares based on post-announcement pricing, is between \$0.180 and \$0.200.

The table below shows the quoted market prices based on pre and post announcement pricing. On the basis of this analysis we have assessed the quoted market price valuation to be between \$0.180 and \$0.200.

	Low	High
	\$	\$
Quoted market price based on pre-announcement pricing (minority)	0.364	0.460
Quoted market price based on post-announcement pricing (minority)	0.180	0.200
Quoted market price valuation (minority)	0.180	0.200

## **Control Premium**

The quoted market price per share reflects the value to minority interest shareholders. In order to value a Heron share on a control basis, we have added a control premium that is based on our analysis set out below.

We have reviewed control premiums on completed transactions, paid by acquirers of both general mining companies and all ASX-listed companies. In assessing the appropriate sample of transactions from which to determine an appropriate control premium, we have excluded transactions where an acquirer obtained a controlling interest (20% and above) at a discount (i.e. less than a 0% premium).



We have summarised our findings below.

#### General mining companies

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2019	8	171.27	41.75
2018	10	96.04	56.52
2017	5	13.91	35.21
2016	13	59.54	74.92
2015	9	340.82	57.86
2014	16	111.11	47.28
2013	17	117.99	63.99
2012	18	207.01	52.45
2011	21	811.55	37.42
2010	21	555.11	50.61

Source: Bloomberg and BDO analysis

#### All ASX listed companies

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2019	30	4,336.36	36.01
2018	44	1,126.69	41.66
2017	29	973.72	43.33
2016	42	718.51	49.58
2015	34	828.14	34.10
2014	46	507.34	39.97
2013	41	128.21	50.99
2012	52	472.10	51.68
2011	68	891.85	44.43
2010	54	575.28	44.05

Source: Bloomberg and BDO analysis

	General minir	ng companies	All ASX listed companies		
Entire Data Set Metrics	Average Deal Value (AU\$m)	Average Control Premium (%)	Average Deal Value (AU\$m)	Average Control Premium (%)	
Mean	309.76	52.23	935.61	44.15	
Median	42.52	41.57	114.30	34.16	

#### Source: Bloomberg

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

• Nature and magnitude of non-operating assets;



- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the transaction;
- Level of liquidity in the trade of the acquiree's securities.

When performing our control premium analysis, we considered completed transactions where the acquirer held a controlling interest, defined at 20% or above, pre transaction or proceeded to hold a controlling interest post transaction in the target company.

The table above indicates that the long term average control premium paid by acquirers of general mining companies and all ASX listed companies is approximately 52.23% and 44.15%, respectively. However, in assessing the transactions included in the table, we noted transactions that appear to be extreme outliers. These outliers included 16 general mining transactions and 31 ASX listed company transactions in total, for which the announced premium was in excess of 100%. We have removed these transactions because we consider it likely that the acquirer in these transactions would be paying for special value and/or synergies in excess of the standard premium for control. Whereas, the purpose of this analysis is to assess the premium that is likely to be paid for control, not specific strategic value to the acquirer.

In a population where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean. We note that the median announced control premium over the last ten years was approximately 41.57% for general mining companies and 34.16% for all ASX listed companies.

Based on the above analysis, we consider an appropriate premium for control to be between 25% and 35%. We consider an appropriate control premium to be on the lower end of historical averages, as the existence of three substantial shareholders is likely make Heron less attractive to a potential acquirer and therefore would likely reduce the premium that an acquirer would be willing to pay. Further the fact the Company's auditor included an emphasis of matter surrounding a material uncertainty around the Company's ability to continue as a going concern, in its most recent audit report, suggests that an acquirer is unlikely to pay a control premium in line with historical averages.

## Quoted market price including control premium

Applying a control premium to Heron's quoted market share price results in the following quoted market price value including a premium for control:

	Low	Preferred	High
	\$	\$	\$
Quoted market price value	0.180	0.190	0.200
Control premium	25%	30%	35%
Quoted market price valuation including a premium for control	0.225	0.247	0.270

Source: BDO analysis

Therefore, our valuation of a Heron share based on the quoted market price method and including a premium for control is between \$0.225 and \$0.270.



## 12.3 Assessment of the value of Heron prior to the Transaction

The results of the valuations performed are summarised in the table below:

	Low	Preferred	High
	\$	\$	\$
Sum-of-Parts (Section 12.1)	0.232	0.269	0.306
QMP (Section 12.2)	0.225	0.247	0.270

Source: BDO analysis

Based on the results above we consider the value of a Heron share to be between \$0.232 and \$0.306, with a preferred value of \$0.269. We consider the Sum-of-Parts approach to be the most appropriate methodology to value Heron as it includes a DCF valuation which is premised on the technical assumptions provided by BDA and our assessment of the economic inputs. The above QMP value range supports the low end and preferred values of our Sum-of-Parts value range.

However, we also note that the value of a Heron share derived from the QMP approach is broadly lower than our Sum-of-Parts value of a Heron share for the following reasons:

- The QMP value is based on the nine trading days to 18 October 2019, being the period following the announcement of the Transaction, resumption of trading in Heron shares, and latest practicable date for our analysis. This is a relatively small sample size to draw a conclusion on the value of a Heron share;
- Pursuant to RG 111.15, we are required to assess the funding requirements for Heron under the assumption that it is not in financial distress. Given the current financing situation with the Company's existing senior debt facility, it is likely that the market has factored in the risk of the Company not continuing as a going concern. It is also likely that the market price may reflect the additional dilution of a notional equity raise which may occur under the financial distress scenario. This is not factored into our Sum-of-Parts valuation; and
- Market participants could be pricing in the possibility that the Transaction does not proceed and therefore adversely impact the Company's ability to continue as a going concern. This is further discussed in section 15.3.1.



# 13. Valuation of Heron following the Transaction

## 13.1 Sum-of-Parts valuation

We have also assessed the value of a Heron share following the Transaction using a Sum-of-Parts approach as set out below:

		Low value	Preferred value	High value
	Note	\$'000	\$'000	\$'000
DCF Value of the Project	13.1.1	140,800	151,800	163,100
Value of the Woodlawn Project Extensions	13.1.2	5,500	11,000	16,500
Value of Heron's other mineral assets and exploration properties	12.1.3	5,700	8,100	10,200
Cash raised from Rights Issue	12.1.4	35,400	35,400	35,400
Value of Heron's other assets and liabilities	12.1.6	945	945	945
Value of Heron following the Transaction (control basis)		188,345	207,245	226,145
Minority Discount	13.1.3	26%	23%	20%
Value of Heron following the Transaction (minority basis)		139,375	159,579	180,916
Number of shares on issue	13.1.4	1,033,216,261	1,033,216,261	1,033,216,261
Value per share (\$) (minority basis)		0.135	0.154	0.175

Source: BDO analysis

The value of the Woodlawn Project Extensions, Heron's other mineral assets and exploration properties, and Heron's other assets and liabilities, are unchanged from those values presented in the pre-Transaction valuation. Further details of their valuation can be found in the sections referenced above.

We have assessed the value of a Heron share following the Transaction on a minority interest basis to be between, \$0.135 and \$0.175 with a preferred value of \$0.154.

## 13.1.1. Discounted cash flow valuation

Per our approach in valuing the Woodlawn Project prior to the Transaction, we have also used the DCF approach to value the Woodlawn Project following the Transaction. The differences between the pre-Transaction and post-Transaction valuations lie in the funding assumed, as well as the discount rate used. The other assumptions such as economic assumptions, mining and processing schedules, capital expenditure requirements, remain unchanged between the pre and post Transaction valuations. These assumptions are detailed in Section 12.1.1. Set out below are the key inputs and assumptions that differ between our valuation of the Project prior to the Transaction and our valuation following the Transaction.

## Funding assumed

In valuing the Project following the Transaction, we have assumed the Project will be funded by the various funding components included as part of the proposed funding package being:



- Rights Issue see Section 4.1. This component is included separately in our Sum-of-Parts valuation;
- The issue and conversion of the Notes see Section 4.2; and
- The Debt Restructure see Section 4.3.

Apart from the Rights Issue, the remaining funding components are included as part of the Adjusted Model and are therefore reflected in the DCF valuation of the Project following the Transaction. Unlike the DCF valuation under the pre-Transaction valuation, under the post-Transaction valuation, the Project is adequately funded, therefore no additional funding is assumed.

#### The Notes

The Notes accrue interest based on a 12.5% premium to the 3-month US LIBOR with a floor LIBOR of 2.5%. In our modelling of the Convertible Note, we have given consideration to the forecast interest rates of US LIBOR which, based on consensus forecast data on Bloomberg, are 1.68% and 1.74% for FY 2020 and FY 2021, respectively. Given that the forecast 3-month LIBOR remains below the 2.5% minimum of the Convertible Note, we have applied an interest rate of 15% per annum in our calculation of interest accrued on the Notes for the purposes of our DCF valuation.

As detailed in Section 4, for the purpose of calculating the approval levels, the interest on the Notes are capitalised, with the principal and capitalised interest converted to shares at the Maturity Date. The Notes are US\$ denominated and the conversion price of the Notes is \$0.25 per share, therefore the conversion amount is converted to A\$ using an exchange rate of 0.50. This is the assumption used in order for Greenstone, Castlelake and Orion to reach the approval levels that are being sought.

#### **Discount rate**

As discussed in Section 12.1.1, we consider the cost of equity to be the most appropriate discount rate to use in assessing the DCF value of the Project.

For the valuation of the Project following the Transaction, we have selected a nominal post-tax cost of equity in the range of 13% to 18% per annum to discount the cash flows of the Project to their present value. We have used a rounded midpoint discount rate of 16% in our base case.

In selecting this range of discount rates, we have considered the following:

- the rate of return for comparable ASX listed exploration and production companies with projects with similar commodity types and location; and
- the risk profile of Heron as compared to the comparable companies identified.

A detailed consideration of how we arrived at our adopted discount rate range is contained in Appendix 5.

#### Sensitivity analysis

We have sensitised the same key inputs and assumptions per our assessment of the value of the Project under the pre-Transaction scenario, as set out in the tables below.

Currency: \$ million	Sensitivity Analysis of the Project's DCF Valuation (following the Transaction)				
Percentage change	Zinc price	Copper price	Lead price	Silver price	AUD:USD Exchange Rate
-8.0%	124.1	134.3	145.8	150.2	199.7
-6.0%	131.1	138.7	147.3	150.6	187.1



Currency: \$ million	Sensitivi	ty Analysis of the Pro	oject's DCF Valuat	ion (following the	Transaction)
Percentage change	Zinc price	Copper price	Lead price	Silver price	AUD:USD Exchange Rate
-4.0%	138.1	143.1	148.8	151.0	174.9
-2.0%	145.0	147.5	150.3	151.4	163.1
0.0%	151.8	151.8	151.8	151.8	151.8
2.0%	158.4	156.1	153.3	152.2	140.8
4.0%	165.0	160.5	154.7	152.6	130.1
6.0%	171.5	164.8	156.2	153.0	119.7
8.0%	178.1	169.1	157.6	153.4	109.5

Source: Adjusted Model and BDO analysis

Sensitivity Analysis of the Pro	ject's DCF Valuation to operatin	g and capital costs (\$ million)
---------------------------------	----------------------------------	----------------------------------

Percentage change	Operating Costs	Capital costs
-15.0%	180.4	154.5
-10.0%	170.9	153.6
-5.0%	161.4	152.7
0.0%	151.8	151.8
5.0%	142.2	150.9
10.0%	132.4	150.0
15.0%	122.6	149.1

Source: Adjusted Model and BDO analysis

Sensitivity Analysis of the Project's DCF Valuation to the discount rate						
Discount rate	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%
Value (\$ million)	176.5	167.8	159.6	151.8	144.5	137.6

Source: Adjusted Model and BDO analysis

Sensitivity Analysis o	f the Project's DCF Valuation	to the inflati	ion rate	
Inflation rate	0.0%	1.0%	2.0%	3.0%
Value (\$ million)	184.9	168.8	151.8	133.8

Source: Adjusted Model and BDO analysis

From the above, similar to the valuation prior to the Transaction, it can be seen that the Project remains sensitive to the price of zinc, the AUD:USD exchange rate assumed, the discount rate used and the inflation rate applied. It is relatively less sensitive to the price of silver and to capital costs.

In considering the above sensitivities, Shareholders should note the following:

- the variables described above may have compounding or offsetting effects and are unlikely to move in isolation;
- the variables for which we have performed sensitivities are not the only variables which are subject to deviation from the forecast assumptions; and
- the sensitivities performed do not cover the full range of possible variances from the base case assumptions used (i.e. variances could be greater than the percentage increases or decreases set out in this analysis).



We also note that we have presented the above sensitivities to highlight the sensitivity of the value of the Project following the Transaction, to changes in pricing and other assumptions.

## Conclusion on DCF value of the Project following the Transaction

Based on the above analysis, our preferred value of the Project following the Transaction is \$151.8 million, in a range of \$140.8 million to \$163.1 million.

We note that BDA considered the updated resource and reserve statement announced by the Company on 30 October 2019 and concluded that the changes detailed in the announcement would not have a material impact on the DCF value of the Woodlawn Project. As such, no adjustment has been made as a result of this announcement.

## 13.1.2. Value of the Woodlawn Project Extensions

As detailed in section 12.1.2, the value of the Woodlawn Project Extensions is \$11.0 million, within a range of \$5.5 million to \$16.5 million. BDA advised that it would not be appropriate to use a different discount rate for the post-Transaction valuation of the Woodlawn Project Extensions, nor would it have a material impact on the valuation.

We note that BDA considered the updated resource and reserve statement announced by the Company on 30 October 2019 and concluded that the changes detailed in the announcement would not have a material impact on the value of the Woodlawn Project Extensions. As such, no adjustment has been made as a result of this announcement.

## 13.1.3. Minority interest discount

The value of a Heron share following the Transaction derived under the Sum-of-Parts approach is reflective of a controlling interest. However, if the Transaction is approved and the Notes converted, Shareholders would likely forego the opportunity to receive a control premium in the future. Therefore, the relevant assessment is to value a share in Heron on a minority interest basis.

Therefore, we have adjusted our valuation of a Heron share following the Transaction to reflect a minority interest holding. The minority discount is based on the inverse of the control premium and is calculated using the formula 1 - (1/[1+control premium]).

We have reviewed the control premiums paid by acquirers of companies listed on the ASX in Section 12.2. Based on our analysis, we consider an appropriate premium for control to be applied is between 25% and 35%, with a midpoint value of 30%.

An assessed control premium of 25% to 35% with a midpoint value of 30%, gives rise to a rounded minority discount in the range of 20% to 26%, with a midpoint of 23%.



## 13.1.4. Number of shares on issue

The number of shares on issue following the Transaction, including the 10 million shares issued as part of the settlement of Sedgman's claims and the assumed conversion of the Notes are detailed below.

	Shares
Number of shares on issue prior to the Transaction	241,666,912
Rights Issue	176,997,693
Assumed conversion of the Notes	604,551,656
Shares issued for Sedgman settlement	10,000,000
Total shares outstanding following the Transaction	1,033,216,261

Source: BDO analysis

## 14. Is the Transaction fair?

The value of a Heron share prior to the Transaction on a control basis and the value of a Heron share following the Transaction on a minority basis, is compared below:

	Ref	Low Ş	Preferred \$	High \$
Value of a Heron share prior to the Transaction (control)	12.3	0.232	0.269	0.306
Value of a Heron share following the Transaction (minority)	13.1	0.135	0.154	0.175

We note from the table above that the value of a Heron share prior to the Transaction (on a control basis) is higher than the value of a Heron share following the Transaction (on a minority basis). Therefore, we consider that the Transaction is not fair.

## 15. Is the Transaction reasonable?

## 15.1 Advantages of Approving the Transaction

## 15.1.1. The Transaction provides the Company with the funding required to progress the Woodlawn Project to its production capacity

Based on our valuation and analysis of the Adjusted Model, the funding required to progress the Woodlawn Project is approximately \$91 million. This funding shortfall arises as a result of the construction delays as well as a slower than originally planned ramp up of production. The Transaction provides the Company with the required funding in order to address this funding shortfall, which may allow the Company to realise the DCF value of the Woodlawn Project. Without access to funding, the DCF value would not be able to be realised.



# 15.1.2. The Transaction avoids the Company triggering an event of default in relation to its existing debt

The Transaction prevents the Company from triggering an event of default and removes the possibility of Orion recalling its senior debt facility. If the Transaction is not approved, there would be a material uncertainty around the Company's ability to continue as a going concern. This is evidenced by the emphasis of matter included in the Company's audit report for the year ended 30 June 2019. The likely impact of triggering an event of default is considered further in section 15.3.1.

## 15.1.3. Our assessment of whether the Transaction is fair presents the worst case scenario for existing Shareholders

Pursuant to the Transaction, the Company proposes to issue the Notes, with a total face value of approximately US\$35 million. As detailed in section 4.5, the number of shares to be issued to Greenstone, Castlelake and Orion on conversion of the Notes are 286,441,425, 267,247,069 and 50,863,162 shares respectively. The number of shares for which the Company is seeking approval for is based on the assumption that the interest is capitalised at 15% per annum and the Notes are held until immediately prior to the Maturity Date (31 December 2024), with the principal and all capitalised interest converted to shares at the conversion price of \$0.25 per share.

Given that the Notes are denominated in US\$, but the conversion price is in A\$, a worst case scenario exchange rate of 0.50 has been used to convert the US\$ denominated Notes to A\$. In our DCF valuation of the Woodlawn Project, we have used a forecast exchange rate of 0.72 used for 2024, which is based from analyst consensus forecasts, as sourced from Bloomberg. Therefore, we consider the exchange rate assumption of 0.50 to be significantly lower than the expected exchange rate for 2024. In calculating the maximum approval levels being sought, it appears that the Company, Greenstone, Castlelake and Orion has chosen an exchange rate that provides the noteholders with flexibility should there be any exchange rate shocks over the term of the Notes. However, based on current information, we do not consider this to be a realistic exchange rate assumption. As such, we consider it relevant to also present the values of a Heron share prior to and following the Transaction based on the forecast exchange rate of 0.72 which was used in our DCF valuation.

Assuming a forecast exchange rate of 0.72, fewer shares will be issued when the Notes convert. Under this scenario, the total number of shares following the Transaction will be:

	Number
Number of shares on issue prior to the Transaction	241,666,912
Rights Issue	176,997,693
Assumed conversion of Convertible Notes at AUD:USD 0.72	419,827,539
Shares issued for Sedgman settlement	10,000,000
Number of shares on issue following the Transaction	848,492,144

Source: BDO analysis

As guided by RG 111, we have considered the Transaction to be a control transaction and have therefore assessed whether it is fair on the basis of comparing a controlling interest value prior to the Transaction with a minority interest value following the Transaction.

Notwithstanding that this is a control transaction, we also consider it relevant to present the value of a Heron share prior to the Transaction on a minority interest basis and following the Transaction on a minority interest basis. This is because, prior to the Transaction, Greenstone, Castlelake and Orion in



aggregate would be considered to hold a controlling interest, therefore meaning that other shareholders hold a minority interest. Therefore, we have presented this comparison between minority interest values pre and post Transaction in reasonableness only. Further, to use this approach in our assessment of whether the Transaction is fair would not be in accordance with RG 111.

Our minority interest values of a Heron share prior to and following the Transaction using the forecast exchange rate used for our DCF valuation is set out in the table below.

	Low	Preferred	High
Value per share (\$) prior to the Transaction on a minority basis	0.172	0.207	0.245
Value per share (\$) following the Transaction on a minority basis	0.164	0.188	0.213

Source: BDO analysis

The above analysis shows that the minority interest values still decline following the Transaction, however the decrease in value is significantly less than that contemplated in our assessment of fairness.

## 15.2 Disadvantages of Approving the Transaction

## 15.2.1. Dilution of existing Shareholders' interests

As detailed in section 4.5 of our Report, if the Transaction is approved and the Notes are held until Maturity Date and converted at an exchange rate of US\$/A\$ of 0.50, existing Shareholders' interests may decrease from 33.4% to as low as 8.4%.

## 15.2.2. Increased presence of significant shareholders

If the Transaction is approved and the Notes are held until Maturity Date and converted at an exchange rate of US\$/A\$ of 0.50, Greenstone, Castlelake and Orion will collectively hold approximately 91.6% of the Company's issued capital. Therefore, the conversion of the Notes will significantly decrease the Company's free float. This is likely to have the impact of reducing the attractiveness of the Company's shares which would reduce relative liquidity. As detailed in section 12.2, Heron's shares already display a low level of liquidity. A lower liquidity for the Company's shares may result in shareholders having difficulty realising their investment, or having to accept significant discounts when realising.

Further, the increased presence of substantial shareholders is likely to deter a takeover bid being made for the Company. Therefore, Shareholders are unlikely to have the opportunity to receive a takeover premium in the future.

## 15.3 Consequences of not approving the Transaction

## 15.3.1. Event of default

On 30 August 2019, the Company announced a technical and operational update in relation to its Woodlawn Project. Included in this announcement was information regarding a standstill arrangement that was reached with the Company's senior debt provider to waive any potential non-compliance with maintaining liquidity levels and other technical matters until 27 September 2019. On 30 September 2019, the Company provided an update by which Orion agreed to provide various waivers in relation to its senior debt facility. These waivers will cease to apply if:

• Satisfactory progress in relation to a proposed funding package is not made by 14 November 2019; and



• If Heron does not call a general meeting of its shareholders by 19 November 2019 for a meeting to be held on or prior to 16 December 2019, and any shareholder approvals required at that meeting in relation to the funding package is not obtained.

We note that per the Company's audited financial statements for the year ended 30 June 2019, the auditor has highlighted a material uncertainty around the Company's ability to continue as a going concern. Further, Heron's senior debt and stream facility have been classified as current due to the breaching of minimum cash covenants, meaning that these amounts are due within the next twelve months.

Management advise that if the shareholder approvals for the conversion of the Notes are not obtained, then the Notes will not be issued. Based on discussions with management, we are not aware of any alternative financing that would be available to the Company. Therefore, the alternative to approving the conversion of the Notes, is likely to be that the Company's debt financiers will recall the amounts owing and the Company would likely be placed into external administration. Under this scenario, the Project will likely be sold to an acquirer that has the ability to fund the Project. However, given the Company would be in financial distress, the sale price would be at a discount to our assessed values in section 13. As such, the sale proceeds would be used to settle the debts owing to the Company's substantial shareholders and other creditors, with any remaining proceeds (if any) to be distributed to Shareholders.

We would not have a reasonable basis to estimate the sale proceeds to be received under a distressed sale scenario, however, we would consider it unlikely to be greater than the value ascribed under the Transaction.

# 15.3.2. Alternative funding may result in greater dilution of existing Shareholders' interests

If the Transaction does not proceed, to avoid being placed into external administration, the Company would need to source alternative funding. If it were able to raise the required funding through an equity issue, it would likely be at a significant discount to the current market price and at a larger discount to the conversion price of the Notes, therefore any additional equity funding would be more dilutive to existing Shareholders than the Transaction.

## 15.4 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Heron a premium over the value resulting from the Transaction.

## 15.5 Practical Level of Control

As detailed in section 4, if the Transaction is approved (and the Notes are converted) then Shareholders will go from holding 33.4% in Heron to holding 8.4%.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. Given that the ownership interests and therefore the level of control of each of Greenstone, Castlelake and Orion differ depending on the extent of conversions, the table below summarises the control implications.



Scenario	Maximum ownership	Level of control under maximum ownership scenario
Only Greenstone Notes convert	60.9%	Greenstone able to block and pass general resolutions and block special resolutions
Only Castlelake Notes convert	56.0%	Castlelake able to block and pass general resolutions and block special resolutions
Only Orion Notes convert	25.3%	Orion able to block special resolutions
All of the Notes convert	Greenstone (42.1%); Castlelake (37.7%); Orion (11.8%)	Greenstone able to block special resolutions and Castlelake able to block special resolutions

#### Source: BDO analysis

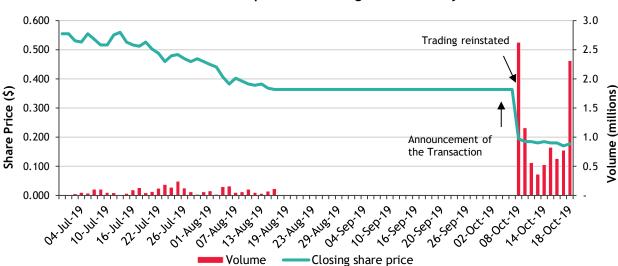
We note that although Greenstone can increase its holding up to a maximum of 60.9% assuming that only the Greenstone Notes are converted, this is an unlikely scenario. We consider this unlikely because Greenstone would likely only convert if the Greenstone Notes are in-the-money, in which case the Castlelake Notes and Orion Notes would also be in-the-money. Therefore, if Greenstone converts, it is unlikely that neither of Castlelake or Orion would convert their notes.

Given that there are three substantial shareholders who are increasing their interest in Heron on conversion of the Notes, we do not consider any one of Greenstone, Castlelake or Orion to be able to exercise a similar level of control as if it held 100% of Heron.

## 15.6 Other considerations

#### Post-announcement pricing

We have analysed the movements in Heron's share price since the Transaction was announced. A graph of Heron's share price leading up to and following the announcement is set out below. For a longer historical period, please refer to Section 12.2 of Our Report which reviews Heron's 12-month preannouncement share price history.



#### Heron share price and trading volume history

Source: Bloomberg

Following the reinstatement of trading in Heron's shares on 8 October 2019, the share price dropped 46.4% from a pre-suspension close of \$0.364 to close at \$0.195. Since then to 18 October 2019, the daily



price of a Heron share has ranged from a low of \$0.170 on 17 October 2019, to a high of \$0.185 reached on 9, 10 and 14 October 2019.

The Transaction was announced on 4 October 2019. As shares remained suspended on that day, the impact of the announcement was not factored into the share price until the Company was reinstated on 8 October 2019. On that day, a total of 2.62 million shares were traded representing approximately 0.61% of Heron's current issued capital. Following the resumption of trading, the price of a Heron share has traded between \$0.170 to \$0.195. Although the price did decline significantly upon the resumption of trading, we note that while the shares were suspended, other material announcements besides the announcement of the Transaction were released by the Company, and therefore the drop in price cannot be attributed solely to the announcement of the Transaction.

Given the importance of the funding arrangements that form part of the Transaction in ensuring Heron's ability to continue as a going concern, there is a risk that the price of a Heron share may decline further should the Transaction not proceed.

## 16. Conclusion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Transaction is not fair but reasonable to Shareholders.

In our opinion, the Transaction is not fair because the value of a Heron share prior to the Transaction on a control basis is greater than the value of a Heron share following the Transaction on a minority interest basis. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages and the consequences of not approving the Transaction. In particular, the Transaction provides the Company with the funding required to progress the Woodlawn Project to its production capacity. Without this funding, we consider it unlikely that the DCF value of the Woodlawn Project could be realised. Further, if the Transaction is not approved, there would be a material uncertainty around the Company's ability to continue as a going concern. Importantly, the Transaction prevents the Company from triggering an event of default in relation to its existing senior debt facility with Orion and removes the possibility of Orion calling for repayment of the senior debt facility.

## 17. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Draft term sheets outlining the funding arrangements in the Transaction, between: Heron and Greenstone, Heron and Castlelake, and Heron and Orion;
- Audited financial statements of Heron for the years ended 30 June 2019, 30 June 2018 and 30 June 2017;
- Heron Finance Report for August and September 2019;
- Independent Technical Specialist and Valuation Report performed by BDA dated 23 October 2019;
- Share registry information;
- RBA's Monetary Policy Decision dated 3 September 2019 and 2 October 2019;
- World Bank;



- Bloomberg;
- Consensus Economics;
- S&P Capital IQ;
- United States Geological Survey; and
- Discussions with Directors and Management of Heron.

## 18. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$105,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Heron in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Heron, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Heron, Greenstone, Castlelake and Orion and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Heron, Greenstone, Castlelake and Orion and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Heron, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Heron and its advisers for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

## 19. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.



Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Corporate Finance Practice Group Leader of BDO in Western Australia, the Global Natural Resources Leader for BDO and a former Chairman of BDO in Western Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 20 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

Ashton Lombardo is a member of the Australian Institute of Chartered Accountants. Ashton has over seven years of experience in Corporate Finance and has facilitated the preparation of numerous independent expert's reports and valuations. Ashton has a Bachelor of Economics and a Bachelor of Commerce from the University of Western Australia and has completed a Graduate Diploma of Applied Corporate Governance with the Governance Institute of Australia.

## 20. Disclaimers and consents

This report has been prepared at the request of Heron for inclusion in the Explanatory Memorandum and Notice of Meeting which will be sent to all Shareholders. Heron engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposed \$91 million funding package for the Company's Woodlawn Zinc-Copper Project.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum and Notice of Meeting. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum and Notice of Meeting other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to the Transaction. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

The forecasts provided to BDO Corporate Finance (WA) Pty Ltd by Heron and its advisers are based upon assumptions about events and circumstances that have not yet occurred. Accordingly, BDO Corporate Finance (WA) Pty Ltd cannot provide any assurance that the forecasts will be representative of results that will actually be achieved.



With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transaction, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Heron, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by Heron.

The valuer engaged for the mineral asset valuation, BDA, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully BDO CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes Director

Adam Myers Director



# Appendix 1 - Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
The Adjusted Model	BDO has made certain adjustments to the Model where it was considered appropriate to arrive at an adjusted model
AFCA	Australian Financial Complaints Authority
Agreement	A farm-in agreement between Heron and Alchemy Resources Limited covering the portfolio of Heron's NSW exploration tenements
Alchemy	Alchemy Resources Limited
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
Ardea	Ardea Resources Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDA	Behre Dolbear Australia
BDO	BDO Corporate Finance (WA) Pty Ltd
BDO Tax	BDO Corporate Tax (WA) Pty Ltd
Castlelake	Castlelake, L.P
Castlelake Notes	US\$15.47 million denominated convertible notes issued to one or more investment funds that are managed by Castlelake
The Company	Heron Resources Limited
Corporations Act	The Corporations Act 2001 Cth
DCF	Discounted Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPC	Engineering Procurement and Construction



Reference	Definition
FEED	Front End Engineering Design
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FS	Feasibility Study
FSG	Financial Services Guide
FYxx	Financial year
Galena	Galena Mining Limited
GMP	Guaranteed Maximum Price
Greenstone	Greenstone Management (Delaware) II LLC in its capacity as a general partner of Greenstone Resource II (Australia) Holdings L.P.
Greenstone Notes	US\$16.58 million denominated convertible notes issued to entities associated with Greenstone
Greenstone Resources	Greenstone Resources LP
Heron	Heron Resources Limited
ICSG	International Copper Study Group
IGO	Independence Group NL
Independent Technical Assessment and Valuation Report	Technical assessment and valuation report prepared by BDA
IZLSG	International Zinc and Lead Study Group
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition)
Km	Kilometres
LIBOR	London Interbank Offered Rate
LME	London Metals Exchange
Maturity Date	The maturity date of the Notes, being 31 December 2024



Reference	Definition
The Model	Detailed cash flow model for the Woodlawn Project prepared by the management of Heron with the assistance of advisers
NAV	Net Asset Value
NoC	Notice of Claim
the Notes	The Greenstone Notes, Castlelake Notes and Orion Notes
NSW	New South Wales
Orion	Orion Mine Finance Fund II LP
Orion Notes	US\$2.95 million denominated convertible notes issued to Orion
Oz Minerals	Oz Minerals Limited
PEA	Preliminary Economic Assessment
Peel	Peel Mining Limited
PYBAR	PYBAR Mining Services
QMP	Quoted market price
RBA	Reserve Bank of Australia
Red River	Red River Resources Limited
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO
RG 74	Acquisitions approved by Members (December 2011)
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Rights Issue	a 0.7324 for 1 accelerated non-renounceable entitlement offer at an issue price of \$0.20 per share, available to all shareholders to participate, to raise up to \$35.4 million
Sandfire	Sandfire Resources NL
Section 606	Section 606 of the Corporations Act



Reference	Definition		
Section 611	Section 611 of the Corporations Act		
Sedgman	Sedgman Pty Ltd		
Senior Loan	US\$60 million senior secured loan facility		
Shareholders	Non-associated shareholders of Heron		
Silver Stream Loan	US\$16 million silver stream funding package		
Sky Metals	Sky Metals Limited		
SPP	Share Purchase Plan		
Sum-of-Parts	A combination of different methodologies used together to determine an overall value where separate assets and liabilities are valued using different methodologies		
Тра	Tonnes per annum		
The Transaction	The proposed funding package including a Rights Issue, Greenstone Notes, Castlelake Notes, Orion Notes and stream facility with Orion		
TriAusMin	TriAusMin Limited		
US\$	US Dollar		
U.S. Geological Survey	United States Geological Survey		
Valmin Code	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (2015 Edition)		
Venturex	Venturex Resources Limited		
Woodlawn Project	Woodlawn Zinc-Copper Project		
Woodlawn Project Financing	The Company announced it had secured a \$240 million funding package to assist with development of the Woodlawn Project		

#### Copyright © 2019 BDO Corporate Finance (WA) Pty Ltd

All rights reserved. No part of this publication may be reproduced, published, distributed, displayed, copied or stored for public or private use in any information retrieval system, or transmitted in any form by any mechanical, photographic or electronic process, including electronically or digitally on the Internet or World Wide Web, or over any network, or local area network, without written permission of the author.



No part of this publication may be modified, changed or exploited in any way used for derivative work or offered for sale without the express written permission of the author.

For permission requests, write to BDO Corporate Finance (WA) Pty Ltd, at the address below:

The Directors BDO Corporate Finance (WA) Pty Ltd 38 Station Street SUBIACO, WA 6008

Australia



# Appendix 2 - Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

#### 1 Net asset value ('NAV')

Asset based methods estimate the market value of an entity's securities 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 method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, 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 the liquidation method 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 be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

#### 2 Quoted Market Price Basis ('QMP')

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a liquid and active market in that security.

#### 3 Capitalisation of future maintainable earnings ('FME')

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.



The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

#### 4 Discounted future cash flows ('DCF')

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

#### 5 Market Based Assessment

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.



# Appendix 3 - Independent Technical Assessment and Valuation Report



**Minerals Industry Consultants** 

Tel: 612 9954 4988 Fax: 612 9929 2549 Email: bdaus@bigpond.com

ABN 62 065 713 724

23 October 2019

Mr Sherif Andrawes Partner, Corporate Finance National Practice Leader - Natural Resources BDO Corporate Finance 38 Station Street Subiaco WA 6008

Dear Sir

## INDEPENDENT TECHNICAL SPECIALIST VALUATION THE MINERAL ASSETS OF HERON RESOURCES LIMITED

#### **1.0 INTRODUCTION**

The directors of Heron Resources Limited ("Heron" or "the Company") have engaged BDO Corporate Finance (WA) Pty Ltd ("BDO Corporate Finance") to prepare an Independent Expert's Report ("IER") in relation to a proposed refinancing that will require shareholder approval. Heron is a public company listed on the Australian Securities Exchange ("ASX"). With construction almost complete, Heron has recently started commissioning the processing plant for the Woodlawn Zinc-Copper Project ("the project") near Goulburn in New South Wales ("NSW"), Australia, comprising the Woodlawn Tailings Retreatment Project ("WRP") and the Woodlawn Underground Project ("WUP"). Heron and its advisors, including Azure Capital Limited ("Azure") have provided data and projections of future performances at the Woodlawn project.

BDO has requested that Behre Dolbear Australia Pty Limited ("BDA") act as the Independent Technical Specialist ("ITS") to review and advise on the technical assumptions that form the basis of the BDO valuation and prepare an Independent Technical Specialist Report ("ISR") that sets out the basis of that advice. BDO has requested that BDA also review and prepare a valuation of Heron's other mineral and exploration assets. BDO has provided BDA with a detailed scope for this work for the review. BDO has advised that the relevant mining and exploration assets held by Heron comprise:

#### NSW Mine Development Project

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

#### NSW Regional Tenements

- Woodlawn regional project comprising the Currawang, Cullarin, Cullarin South, Mulloon, Sandy Point, Boro, Kangiara, Burra, Captains Flat, Peelwood, Rosevale and Mayfield prospects in the Woodlawn, Goulburn and Yass regions of NSW (Heron 100%)
- Joint venture with Alchemy Resources Ltd ("Alchemy") on base metal and gold prospects in the Parkes, Barraba and Nyngan regions of NSW (Alchemy has earnt a 51% interest)
- A farm-in and joint venture agreement with Sky Metals Ltd ("Sky Metals", ASX SKY) on Heron's Cullarin, Rosevale and Kangiara projects, whereby Sky Metals has an initial option for 12 months for the expenditure of A\$0.4 million ("M") and can earn an 80% interest in the projects by expenditure of A\$2M over three years.

#### Western Australia ("WA") Tenements

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

Toronto

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

BDA has previously undertaken work on the Woodlawn project as the Independent Engineer ("IE") to the 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 has not undertaken any work for Heron. BDA has visited the Woodlawn project site in NSW. 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, 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, both at the Woodlawn mine site and in the Company's offices in Sydney.

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, Beijing and Guadalajara. 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.

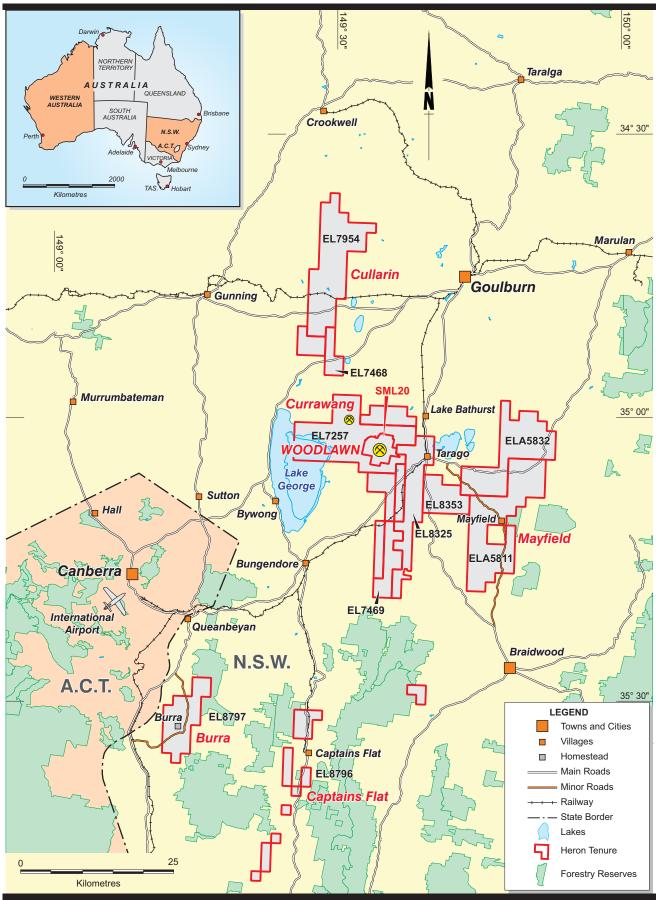
BDA has conducted its review consistent with Australian mining industry standards and in compliance with the Code and Guidelines for Reporting Exploration Results, Mineral Resources and Ore Reserves - Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy ("AusIMM"), Australian 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 BDO Corporate Finance will rely on the BDA Technical Specialist Report and that BDA's report will be appended to the BDO Corporate Finance 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 independent tenement search report for BDA's review that confirms 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 and Azure. 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 BDO Corporate Finance, the independent directors of Heron and their advisors and Heron shareholders to provide independent technical expert opinions on which they can rely in connection with the proposed transaction, and should not be used or relied upon for any other purpose. A draft copy of the report has been provided to Heron for correction of any material errors or omissions. A copy of this report will be included with BDO's Expert Report 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.



Woodlawn Project

## **PROJECT LOCATION PLAN**

BDA - 0189-(03)-September 2019

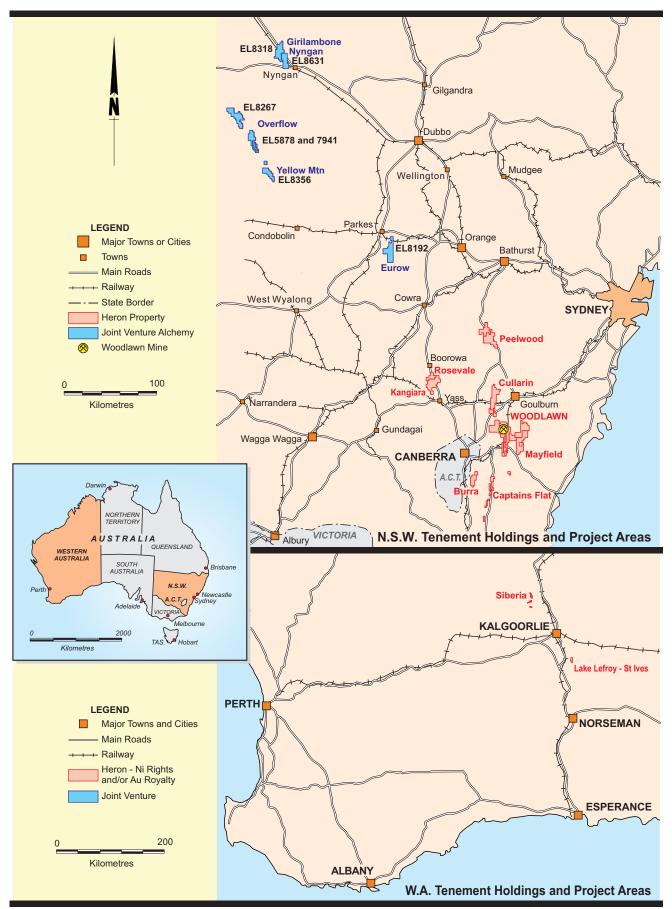
Figure 1

#### Behre Dolbear Australia Pty Ltd



Woodlawn Project

Figure 2 BDA - 0189-(03)-September 2019 SITE LAYOUT Behre Dolbear Australia Pty Ltd



**EXPLORATION TENEMENTS** 

Figure 3

#### 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 regional project comprising the Currawang, Cullarin, Cullarin South, Mulloon, Sandy Point, Boro, Kangiara, Burra, Captains Flat, Peelwood, Rosevale 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 (Alchemy has earnt a 51% interest and can earn a further 29% interest)
- A farm-in and joint venture agreement with Sky Metals on Heron's Cullarin, Rosevale and Kangiara projects, whereby Sky Metals has an option for 12 months for expenditure of A\$0.4M and can earn an 80% interest in the projects by expenditure of A\$2M over three years.

#### 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 BDO on appropriate technical parameters to assist BDO 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 BDO who provided the DCF modelling of the potential extensions. BDA assessed appropriate factors to apply to the DCF modelling provided by BDO 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.

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. Intermet Limited ("Intermet") 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 has 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"). BDA completed a preliminary review of the DFS data in January 2016. 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 and BDA tabled its review in September 2016. From September to November 2016, Crosscut Consulting Limited ("Crosscut") completed a revised WUP mining schedule and Heron further updated the DFS; those changes were incorporated in an Independent Specialist Report prepared for BDO in July 2017. BDA has not conducted any further independent technical reviews since then, but has visited the mine-site and reviewed the project as part of this ISR.

The Woodlawn project plans to recover the tailings stored within the current 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 bioreactor, treating containerised putrescible waste delivered to the nearby siding by rail from Sydney and from there to the site by truck. This has necessitated that Heron coordinate its development projects with the ongoing operations of Veolia and various cooperation agreements are 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 is 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 is estimated at 4.6Mt at 9.4% Zn, 1.5% Cu, 3.6% Pb, 0.7g/t Au and 71g/t Ag; the resource is categorised as Measured, Indicated and Inferred. Based on a 1% Cu cut-off grade, the copper resource is estimated at 2.6Mt averaging 2.6% Cu, 0.7% Zn, 0.1% Pb, 0.2g/t Au and 14g/t Ag; the underground Cu resource is categorised as Indicated and Inferred. An updated 2019 WUP resource estimate has been prepared, but the figures have not yet been published. BDA has reviewed the updated draft and confirms that the estimates are not materially different.

Annual steady state production through the plant is 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. Current planning is that all concentrates will 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, Port Botany or Port Pirie are also being considered. On average, zinc comprises approximately 50% of the payable metal value, with copper contributing around 28%.

The original plant feed estimate was based on 36% Measured, 35% Indicated and 29% Inferred resources (2004 JORC compliant). Infill drilling of both the tailings and underground resources has increased the percentage of Measured and Indicated resources post the PEA. Heron and its consultants have since estimated reserves for both the WRP and the WUP as part of the DFS programme and the DFS was based entirely on Proved and Probable reserves (based on Measured and Indicated resources only). The WRP Proved and Probable reserve (2012 JORC compliant) totals 9.5Mt averaging at 2.2% Zn, 0.5% Cu, 1.3% Pb, 0.3g/t Au and 31g/t Ag. The WUP reserve is classified as Probable and totals 2.8Mt at 5.5% Zn, 1.6% Cu, 1.9% Pb, 0.5g/t Au and 42g/t Ag.

The current Heron mine plan for Woodlawn incorporates the defined underground and tailings reserves plus approximately 1Mt of Inferred resource (3.75Mt in total) which Heron is confident will 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.

#### 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 Resources Ltd on base metal and gold prospects in the Parkes, Barraba and Nyngan regions of NSW. Alchemy has earnt a 51% interest and can earn a further 29% interest. A farm-in joint venture agreement is currently being finalised on Heron's Cullarin and Kangiara projects.

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

#### 2.4 Valuation

#### **Woodlawn Project**

The Woodlawn project has now commenced operations, although still in the commissioning and ramp-up phase, with a completed feasibility study, defined resources and reserves, operating budgets, LOM plans and schedules, and detailed estimates of ongoing capital and operating costs. The Woodlawn mine previously operated in the 1980s and 1990s so 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 BDO and advised on the adoption of appropriate production and cost parameters for the purpose of valuation. BDO 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.

#### **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.

#### **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 valued the individual WA joint venture, royalty and residual rights interests; the resulting values are not material and BDA has therefore not detailed the individual valuation estimates for the WA assets, but has included the sum of the valuations in the summary tabulation.

#### Valuation Summary

BDO has determined the valuation of the Woodlawn project and this valuation is discussed in the BDO report. BDA has determined a value of the potential extensions to the Woodlawn mine life, less advanced projects, exploration properties and interests and a summary of these asset valuations is shown in Table 2.1.

Property	Valuation (A\$M)			Comments
	Low	Most Likely	High	
Woodlawn Mine Project – Defined Mine Plans				
Underground and Tailings Operations	BDO	BDO	BDO	Proved/Probable reserves +1Mt Inferred - see BDO Report
Woodlawn Mine Project – Potential Extensions				
Underground Lenses and Extensions	5.5	11.0	16.5	Additional 1-3 years extension
Woodlawn Mine Project – Satellite Deposits				
Currawang and Cowley Hills	1.3	1.7	2.0	Potential additional feed
NSW Regional Tenements/Interests				
Woodlawn Regional	2.6	2.9	3.1	9 ELs north and south of Woodlawn
Sky Metals Farm-In Tenements	0.5	1.5	2.5	3 ELs north and northwest of Woodlawn
Alchemy Joint Venture	1.0	1.5	1.9	8 ELs, Alchemy 51% earnt
Lachlan Fold Belt EL Applications	0.0	0.0	0.0	Mayfield
Subtotal NSW Interests	4.1	5.9	7.5	
Western Australian Tenements/Interests				
Subtotal WA Interests	0.3	0.5	0.7	Current value of potential future rights and royalty payments
Total Exploration Interests	11.2	19.1	26.7	

## Table 2.1 Valuation Summary of Heron's Mineral Assets

#### 3.0 VALUATION METHODOLOGY

#### 3.1 Effective Date

The effective date for the valuation is 23 October 2019.

#### 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)

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 on licenses 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. BDO has undertaken the valuation of Heron's Woodlawn project using the NPV 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 a well-established production history, appropriate 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 is underway and processing of underground development ore has commenced. BDA has reviewed the technical assumptions of the Woodlawn project model and has advised BDO 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 BDO appropriate valuation parameters in terms of 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 pay a higher price where this potential was considered high. 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.

#### 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 is 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 and have been advised that the only other recent assessments have been various brokers' reports.

#### **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 September 2019. Meetings have been held with Heron management and 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 2017, 2018
- Heron Resources Ltd Quarterly Reports 2017, 2018, 2019
- Heron Woodlawn Presentation Noosa July 2019
- Stock Exchange and Press Announcements Heron Resources Ltd

#### **Woodlawn Project Reports**

- Heron Tenement Schedule HRRTenSched Current BDA.xlsm
- Woodlawn Zinc-Copper Project Mineral Resource and Ore Reserve 2019 Draft Heron Resources Ltd, September 2019
- Heron Board Visit Presentation 190918
- Woodlawn Monthly Project Report May 19 v3
- Woodlawn Monthly Project Report June 19 v6
- Woodlawn Monthly Project Report July 19 v2 (Processing)
- Woodlawn Monthly Project Report Aug19 v6 Process updated
- Woodlawn Monthly Report August 2019 Board Pack 20190913
- Woodlawn Technical Review Optiro Pty Ltd, December 2018
- Updated 190923 Heron Model (Annual tonnages & Grades)
- 20180402 Woodlawn Process Plant Operating Budget CK modified new sched
- 1177\_Tarago Operations-Sedgman-EPC Contract Part 3 Annex 1 Scope
- 20170331 Mining Inventory Inclusion in BCFM
- Woodlawn Mining-E Budget 19-20v7\_Contract mck
- 20190820 Action Plan
- Tenement RL Invoice Payment Check Heron Resources Ltd
- 190918 Heron Model (sent HRR)
- BDO Letter of Instruction (Signed) Sept 19
- Woodlawn Plant Ramp Up Confidential Report METS Engineering J5292, Damian Connelly 20/08/19
- Woodlawn Mining Plan Review Rev1, SRK Consulting HRN012, Anne-Marie Ebbels, 16/08/19
- Woodlawn Prod Ramp-Up Debottlenecking Schedule Rev 2
- Woodlawn Zinc-Copper Project Mineral Resource and Ore Reserve 2019 Draft Heron Resources Ltd, September 2019

#### **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 has completed infill and exploration drilling programmes, metallurgical testwork and a feasibility study on the re-development of the underground mine together with the reprocessing of the historical tailings.

#### 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.

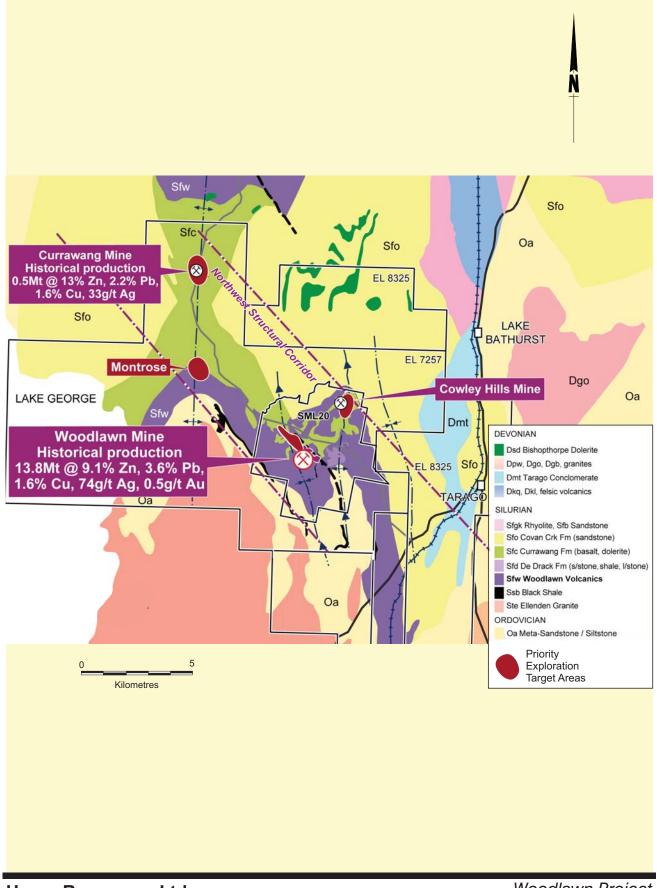
Prior to recent drilling, ten separate lenses of mineralisation were recognised (Lenses A to J), some of which may be faulted displacements of original continuous lodes. Historical mining focussed on lenses A, B and C, with additional resources mined from a number of smaller lenses, D-J (Figure 5).

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 west 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 5-10m for the smaller lenses (Figure 6).

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 anastomising, 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 tailings feed and multiple lenses underground should help to mitigate any impact on production of localised failures.

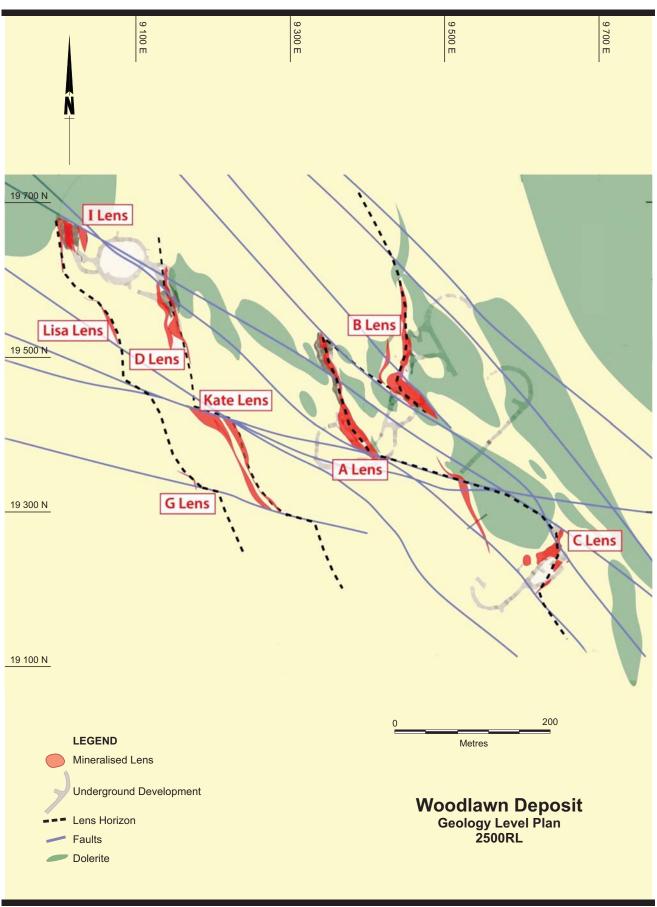


Woodlawn Project

Figure 4

BDA - 0189-(03)-September 2019

## WOODLAWN GEOLOGY

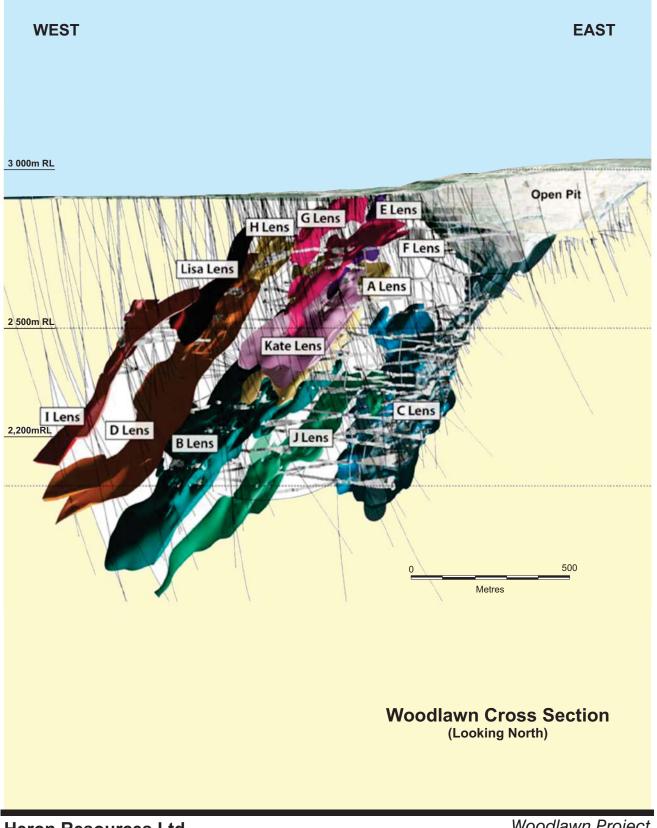


Woodlawn Project

#### Figure 5 BDA - 0189-(03)-September 2019

## **GEOLOGY LEVEL PLAN VIEW 2500mRL**

Behre Dolbear Australia Pty Ltd



Woodlawn Project

Figure 6

BDA - 0189-(03)-September 2019

UNDERGROUND LENSES AND RESOURCE BLOCK MODEL

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% chalcopyrite, 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 has 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, deferring the need to drill deeper exploration targets. Much of this 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 mined 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 has increased confidence in the underground mineralisation distribution.

# Underground Drill Definition of Inferred Resources

Heron's LOM plan is based on the 2.8Mt of underground reserves plus approximately 1Mt of Inferred material, with the latest mine plan being based on 3.75Mt of ore out of a total 7.2Mt of underground resource. 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.

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 (G2 and G3 Inferred resources in the 2018 resource estimate have been converted to Measured and Indicated by the latest infill drilling campaign)
- 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; a number of these locations were included in Denehurst mine plans in the 1990s.
- *C* approximately 80,000t from 550m depth at the lower levels of C lens; planned to be mined by Denehurst; 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; an infill drill campaign is planned for 2020
- *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.

Heron has developed an upside, potential mine plan based on its estimated long term conversion of Inferred resources and exploration targets into mining inventory (Figure 7). 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 have been largely converted to Measured and Indicated in the latest (2019) draft resource update and incorporated in detailed stope design was in the early production schedule. Metallurgical testwork on G2 samples has shown 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 program to confirm the extent of the mineralisation has been designed for 2019.

#### Kate Lens North Extensions

Down-hole EM modelling has 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.

#### Kate Deeps

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.

#### B Lens North

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.

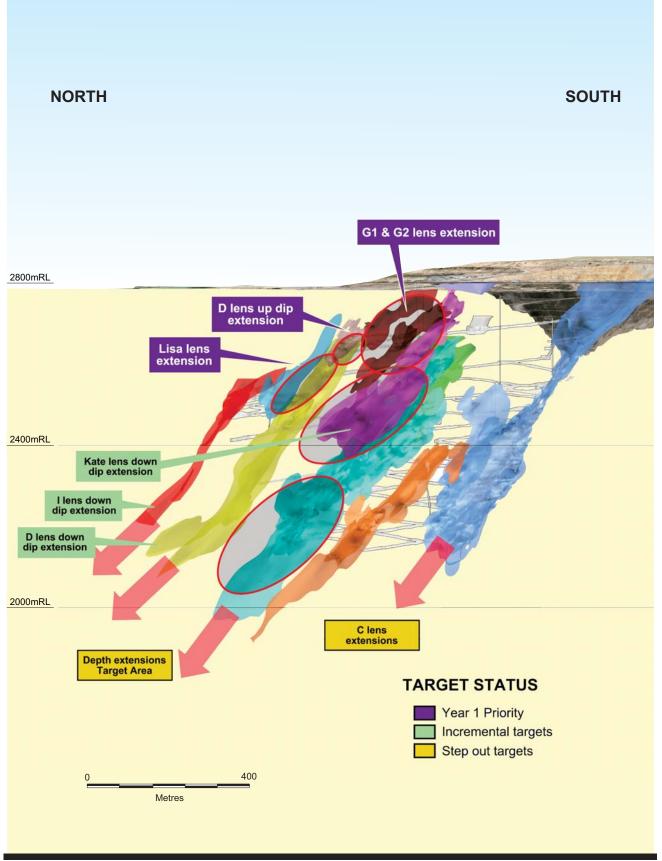
Heron drilled two holes in 2016 and both intersected significant mineralisation. EM modelling indicates a target zone with a strike of 150-250m. If confirmed with infill drilling, this area could add substantially to the mining inventory. Heron considers the area has potential for an additional 0.5-1.0Mt 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.

#### 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 Resources Ltd** 

Woodlawn Project

Figure 7 BDA - 0189-(03)-September 2019

# **UNDERGROUND LENSES - EXTENSION TARGETS**

# D Lens

D lens comprises two lodes, D1 and D2. Both are open down dip.

### C Lens

C lens was the major lens mined within the Woodlawn open pit. The lens remains open at depth with potential for additions 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 more than double the current underground mining inventory. Heron's current life of mine plan is based on 2.8Mt of underground reserve plus 1Mt of Inferred resources. BDA notes that, of the defined Measured and Indicated underground resource of 4.1Mt, Heron has been able to convert 2.8Mt into reserve, a conversion factor of around 65%. This conversion allows for mining factors, stope designs, and ore sterilised through development requirements and pillars, and probably gives a reasonable guide to likely mineable conversion rates of future underground resources.

Heron's estimate of additional Inferred resources and target tonnage from Woodlawn underground lenses, convertible to mining inventory, totals 4.8Mt. While BDA accepts there is significant exploration potential, BDA suggests that a willing and knowledgeable buyer at this stage of the project would consider an additional two years production (approximately 2Mt of additional inventory) from underground targets to be a reasonable and likely outcome in terms of a current valuation approach. The valuation of the Woodlawn underground potential is further discussed in Section 7.

#### Woodlawn Extension

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 174km<sup>2</sup> 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. Downhole EM ("DHEM") surveys are planned 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 1,206km<sup>2</sup> as a regional project exploration area. There is reasonably good 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 Resource/Reserve Estimation

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 has provided specialist geostatistical input and has undertaken 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 updated 2019 resource estimate is still being finalised and has not yet been published. BDA has reviewed a draft report and the numbers do not differ materially from the 2018 estimate. The 2018 underground resource estimate is shown in Table 5.1.

Category	Tonnes			Grade			<b>Contained Metal (tonnes)</b>		
	Mt	% Zn	% Pb	% Cu	g/t Au	g/t Ag	Zn	Pb	Cu
Polymetallic									
Measured	0.5	13.7	4.9	1.3	0.3	80	68,500	24,500	6,500
Indicated	2.2	10.2	3.9	1.5	0.8	78	224,400	85,800	33,000
Inferred	1.9	7.3	3.0	1.5	0.8	61	138,700	57,000	28,500
Total	4.6	9.4	3.6	1.5	0.7	71	431,600	167,300	68,000
Copper									
Indicated	1.9	0.7	0.1	2.6	0.2	14	13,300	1,900	49,400
Inferred	0.7	0.7	0.1	2.5	0.1	12	4,900	700	17,500
Total	2.6	0.7	0.1	2.6	0.2	14	18,200	2,600	66,900
Overall Total	72	63	2.4	1.9	0.5	51	449,800	169,900	134,900

 Table 5.1

 Summary of Heron 2018 Resource Estimate - Woodlawn Underground

Note: polymetallic resource quoted at a 7% ZnEq cut off; copper resource quoted at a 1% Cu cut off; subsequent to the date of this report, on 30 October 2019, Heron issued a Mineral Resource and Ore Reserve update – the updated 2019 Woodlawn Underground resource totalled 7.4Mt at 6.0% Zn, 2.2% Pb, 1.9% Cu, 0.5g/t Au and 48g/t Ag; in BDA's opinion the variances between the 2018 and 2019 estimates are not material and do not have a material impact on valuation

The polymetallic resource is based on a 7% Zinc Equivalent ("ZnEq") cut off; the copper resource is 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 is:

$$ZnEq = Zn\% + Cu\%*3.12 + Pb\%*0.81 + Au g/t*0.86 + Ag g/t*0.03$$

The metal prices used in the calculation are 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.

Validation work has been carried out to confirm the reasonableness of the modelling and grade interpretation. The estimates have been reconciled against previous stoping data, and recent infill drilling and sludge drilling from underground have been largely confirmatory of the grade estimates. The latest (unpublished) 2019 resource updates are generally consistent with the 2018 resource estimate. Overall, BDA considers the underground resource estimate provides a reasonable and appropriate guide to the known Woodlawn underground mineralisation.

The underground reserve estimate (Table 5.2) is based on Measured and Indicated resources only. The reserve work has been independently carried out by SRK and updated with detailed mine plans and revised development assumptions by Crosscut in October 2016. While the mine plan and mining schedule has been updated with the latest drilling and interpretations, there has been no formal update of the 2016 DFS reserve.

BDA considers the mining dilution and recovery allowances to be reasonable, and that the reserve represents a reasonable, and probably conservative, estimate of the recoverable underground ore. It is likely that the underground reserves will increase with further drilling and underground development and upgrade of some of the Inferred material, subject of course to the underlying economic factors such as metal prices.

Table 5.2
Summary of Heron 2016 DFS Reserve - Woodlawn Underground

Category	Tonnes	Grade				<b>Contained Metal (tonnes)</b>			
	Mt	% Zn	% Pb	% Cu	g/t Au	g/t Ag	Zn	Pb	Cu
Polymetallic - Probable	1.8	8.1	2.9	1.2	0.6	57	147,900	52,900	21,800
Copper - Probable	1.0	0.6	0.1	2.4	0.2	14	5,900	1,200	23,400
Total	2.8	5.5	1.9	1.6	0.5	42	153,800	54,100	45,200

Note: reserve quoted at a 7% ZnEq cut off; subsequent to the date of this report, on 30 October 2019, Heron issued a Mineral Resource and Ore Reserve update – the updated 2019 Woodlawn Underground reserve totalled 3.1Mt at 5.2% Zn, 1.8% Pb, 1.6% Cu, 0.4g/t Au and 38g/t Ag; in BDA's opinion the variances between the 2016 and 2019 estimates are not material and do not have a material impact on valuation

In accordance with JORC conventions, the reserves estimates above are based only on the Measured and Indicated resources, with mining factors applied. The DFS underground mining studies examined several scenarios, including the "Reserves Only" case, using the 2.8Mt estimated in Table 5.2, as well as studies that included the full mining inventory, which comprised 3.8Mt and included 1.0Mt of Inferred resources in addition to the reserves in Table 5.2. It is anticipated that this Inferred material is likely to be upgraded to Measured and Indicated by infill drilling, prior to mining. Heron's current mining schedule and Base Case Financial Model is based on 3.75Mt of underground ore, grading 5.3% Zn, 1.9% Pb, 1.5% Cu, 0.5g/t Au and 43g/t Ag. BDA considers that the reserve provides a reasonable but conservative estimate of the ore tonnes likely to be mined from underground, and that the Heron mining schedule, which includes Inferred material, provides a fair guide to the initial production. However, in BDA's opinion it is likely that additional underground ore will be defined by detailed underground drilling, and possibly be exploration of adjacent and nearby prospects, leading to an extension of the currently proposed mining schedule.

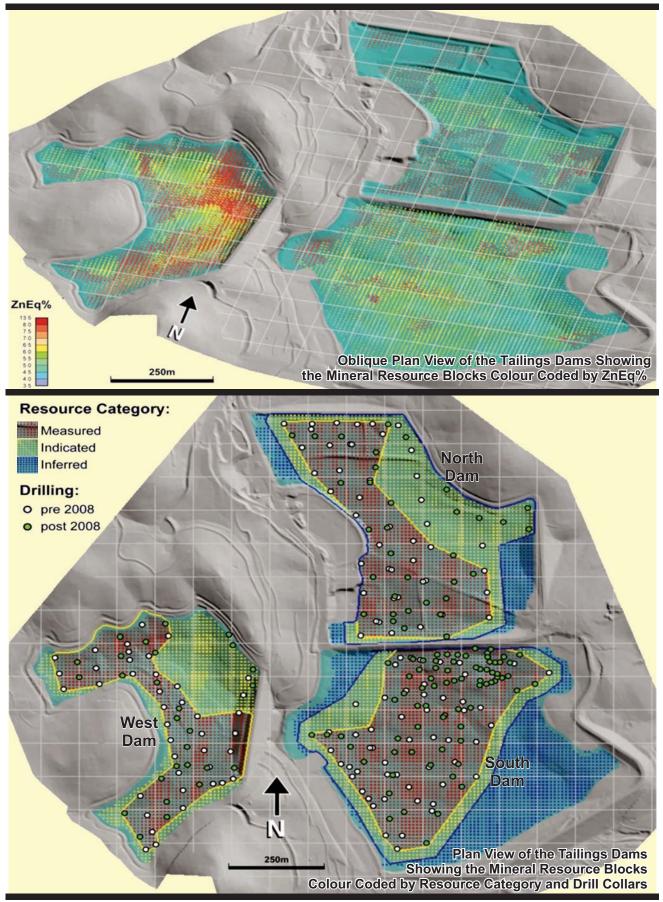
The tailings resource (Table 5.3) is well defined by survey data and systematic drilling (Figure 8). The resource estimate correlates well with production records. In estimating the tailings reserve (Table 5.4), and in accordance with the requirements of the JORC Code, reasonable allowances have been made for mining factors, including recovery and dilution. Both the Tailings resource and reserve figures remain as published in the 2016 DFS. Overall BDA considers the tailings resource and reserve estimates provide a reasonable guide to the in situ and recoverable mineralisation respectively.

Category	Tonnes			Grade			Conta	ined Metal (to	nnes)
	Mt	% Zn	% Pb	% Cu	g/t Au	g/t Ag	Zn	Pb	Cu
South Dam									
Measured	2.8	2.5	1.2	0.5	0.3	27	70,200	34,500	13,000
Indicated	0.5	2.4	1.3	0.5	0.3	26	12,400	6,400	2,500
Inferred	0.9	2.3	1.2	0.5	0.2	24	19,700	10,300	4,200
Total	4.2	2.4	1.2	0.5	0.3	26	102,300	51,200	19,700
West Dam									
Measured	2.1	2.0	1.5	0.6	0.4	36	41,000	30,300	12,300
Indicated	1.7	2.0	1.4	0.7	0.4	34	34,200	23,900	11,300
Total	3.8	2.0	1.4	0.6	0.4	35	75,200	54,200	23,600
North Dam									
Measured	0.5	3.4	1.8	0.5	0.3	46	16,100	8,300	2,500
Indicated	0.3	2.7	1.6	0.4	0.3	42	8,000	4,700	1,100
Inferred	0.1	2.7	1.8	0.4	0.3	51	1,900	1,200	300
Total	0.8	3.1	1.7	0.5	0.3	45	26,000	14,200	3,900
North Dam Retreated									
Measured	1.2	2.0	1.1	0.4	0.3	30	23,800	13,400	4,400
Indicated	0.7	2.2	1.2	0.5	0.3	30	15,800	8,900	3,200
Inferred	0.2	2.3	1.2	0.4	0.3	30	4,000	2,100	700
Total	2.1	2.1	1.2	0.4	0.3	30	43,600	24,400	8,300
Total	10.9	2.3	1.3	0.5	0.3	32	247,100	144,000	55,500

 Table 5.3

 Summary of Heron 2016 DFS Resource Estimate - Woodlawn Tailings

Note: subsequent to the date of this report, on 30 October 2019, Heron issued a Mineral Resource and Ore Reserve update – the updated 2019 Woodlawn Tailings resource totalled 10.8Mt at 2.2% Zn, 1.3% Pb, 0.5% Cu, 0.3g/t Au and 31g/t Ag; in BDA's opinion the variance between the 2016 and 2019 estimates are not material and do not have a material impact on valuation



Heron Resources Ltd

Woodlawn Project

**TAILINGS DAMS - MINERAL RESOURCE BLOCKS** 

Category	Tonnes	Tonnes			Grade				<b>Contained Metal (tonnes)</b>			
	Mt	% Zn	% Pb	% Cu	g/t Au	g/t Ag	Zn	Pb	Cu			
All Dams												
Proved	6.4	2.2	1.3	0.5	0.29	31	140,800	83,200	32,000			
Probable	3.2	2.1	1.3	0.5	0.33	32	67,200	41,600	16,000			
Total	9.5	2.2	1.3	0.5	0.31	31	208,000	124,800	48,000			

Table 5.4
Summary of Heron 2016 DFS Reserve - Woodlawn Tailings

Note: subsequent to the date of this report, on 30 October 2019, Heron issued a Mineral Resource and Ore Reserve update – the updated 2019 Woodlawn Tailings reserve totalled 9.3Mt at 2.2% Zn, 1.3% Pb, 0.5% Cu, 0.3g/t Au and 31g/t Ag; in BDA's opinion the variance between the 2016 and 2019 estimates are not material and do not have a material impact on valuation

#### 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 B lens not included in reserves.

At present, the operation has not established access to the former underground workings and plans for that are on hold. While the LOM plans and schedules indicate that the long-term mine layout will ultimately include significant sections of the existing decline where it is located in waste, with provision for rehabilitation and increased ground control, Heron has indicated it will not make the break-through until the condition of the old workings are thoroughly understood.

Heron is in the process of dewatering the old workings, and 2.8km of new underground mine development has been completed. 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.

For the WRP, the mining of the tailings from the dams is relatively straightforward. The system, which is currently operating, uses high-pressure water monitoring to extract the tails for pumping to the plant; in the unlikely event this proves difficult due to compaction, then the use of excavators and/or swamp dozers to supplement the feed to the gravel pumps may be considered. However, given the tailings reclamation operations to date, BDA considers the current approach both appropriate and feasible.

The previous underground mining at Woodlawn mainly adopted overhand cut and fill methods and targeted the three major lenses (A, B, C), with smaller tonnages from five other lenses (D-J). Depending on ground conditions, and subject to gaining access to the old underground workings, 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 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 in-fill 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 has prepared an underground production schedule that mines only Probable reserves over approximately six years, there is an alternative plan that mines reserves, a portion of the Inferred resources and remnant stopes.

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 currently being achieved; the forecast ramp-up for the underground mining operations has been progressively increased over the first 12 months of stope production, ranging from 12,000 tonnes per month ("tpm") in August 2019 to around 30,000tpm in December 2019, increasing to 40,000tpm by July 2020, ultimately giving a total underground mining life of approximately seven years.

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 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 former mining areas, 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 2.68Mt of Probable reserves, 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 0.8Mt, 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 should 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 5.5.

Item	Units	Units Production Year (July-June, from 20)								)		
		19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	Total
WUP Ore Mined	Mt	0.350	0.479	0.706	0.735	0.658	0.692	0.140	-	-	-	3.76
Ore Grade – ZnEq	%	11.54	14.46	15.84	13.82	13.80	11.13	8.89	-	-	-	13.40
WRP Tails Mined	Mt	0.841	0.722	0.471	0.395	0.500	0.438	1.222	1.500	1.500	1.500	9.09
Ore Grade - ZnEq	%	5.8	5.1	5.1	5.3	5.3	5.1	6.1	5.9	5.8	5.2	5.60
Total Mined	Mt	1.192	1.201	1.177	1.130	1.158	1.130	1.362	1.50	1.50	1.50	12.85
Ore Grade - ZnEq	%	7.4	8.8	11.5	10.8	10.1	8.8	6.4	5.9	5.8	5.2	7.9

Table 5.5

#### Woodlawn Mine Summary LOM Production Schedule – Reserves + Inferred (Inventory)

\*Note: tonnages exclude 91,500t TDS WRP and 23,000t WUP mined in 2018/19

It will be noted that the production levels from underground in the schedule progressively increase, building up steadily to a peak of 735,000t in 2022/23, then reducing in the final year 2025/26. The LOM average over approximately seven years of underground operations (2019 to 2025) is 537,000 tonnes per annum ("tpa"). 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.

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 records of the previous operations, 1978 to 1998; subsequent data includes metallurgical testwork conducted in 2006/07, 2012, 2014/15, recent testwork since 2016 and current 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 tails 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.

# 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 has advised BDA it has concentrate off-take agreements that all accept 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 55% 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 for the first six years.

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 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 for TDW was better quality, with a slightly lower recovery, while the TDW zinc concentrate was better 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 the concentrates will be acceptable marketable products. 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 head grade, 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**

BDA has reviewed the Heron production plan, which shows, after preliminary commissioning in 2018/19, treatment of underground ore and tailings materials in campaigns for a period of ten years from 2019/20 to 2028/29, producing Cu, Pb and Zn concentrates. The LOM plan indicates treatment of tailings only for the last three years of operation, but this could change with additional drill definition of extensions to the underground ore lenses. The lead and copper concentrates produced from the treatment of tailings from TDN in the latter years are relatively low grade, however, marketing Expressions of Interest provided by Heron have indicated that a Pb concentrate with a grade as low as 35% Pb will be saleable.

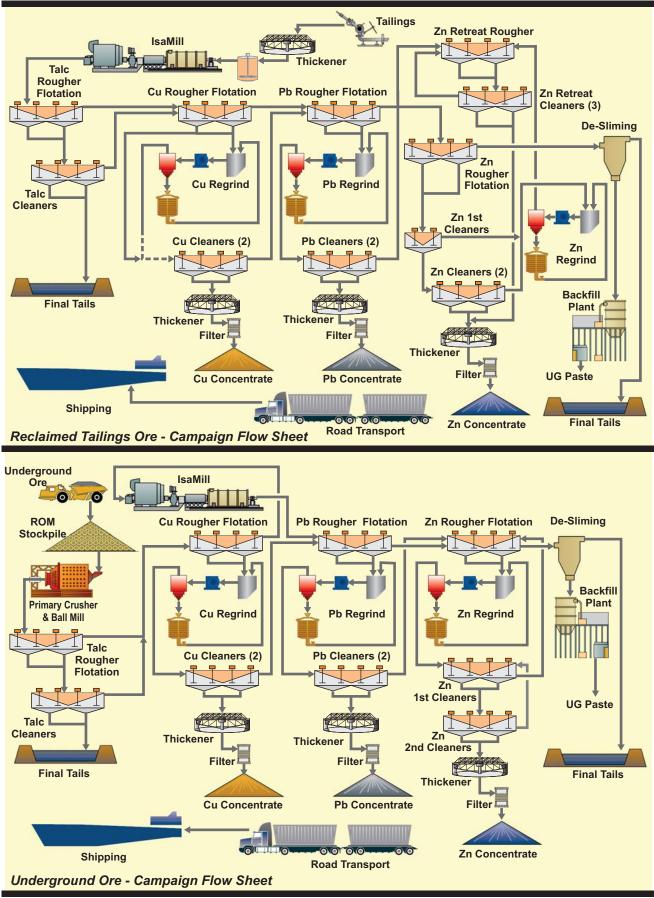
In the first full year of operation in 2019/20, Heron plans to process predominantly TDS tailings material, with underground ore contributing around 29% of total mill feed tonnage. Excluding the last three years (2026/27 - 2028/29), when only tailings is being treated, production from underground mining will contribute approximately 45% of all ore processed, peaking at around 65% of mill feed in 2023.

Heron proposes to process the tailings and ore from underground through separate comminution circuits and in separate processing campaigns (Figure 9). From the testwork reviewed, BDA considers the campaign approach to be appropriate. Heron plans additional tests, including locked cycle testwork; BDA considers that additional testwork would be beneficial to improve confidence in specific concentrate grades and metal recoveries.

The project production schedule was broadly based on a fifteen-month ramp-up period for underground ore, building up to a rate equivalent to approximately 180kt per quarter. 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.

#### **Observations from Site Visit**

Heron commenced construction of the processing plant in September 2017 with the expectation of commissioning the plant in December 2018. The Woodlawn plant is now in the commissioning phase, treating predominantly reclaimed tailings from TDS up to the end of August 2019. BDA visited the site in September 2019 and has reviewed the monthly operations reports for the May-August period, with results since the start of plant commissioning in early May summarised in Table 5.6.



**Heron Resources Ltd** 

Woodlawn Project

PROCESS PLANT FLOW SHEETS

Figure 9

Parameter	Units	May	June	July	August	Sept	Plan TDS
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	61.4	NA	93.5
	Hours (hr)	455	362	505	458	NA	
UG Treated	t	0	0	0	1,119	15,042	
	t/hr	0	0	0	76.9	ŇA	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	

Table 5.6
Plant Commissioning Performance to Date

Note: limited preliminary September data is available as shown – those marked NA were not available at the time of writing

As shown in Table 5.6, up to the end of August the concentrate grades are approaching target levels, while recoveries remain well below target. In September, Cu and Pb concentrate grades results have deteriorated while metal recoveries have improved slightly. Zinc concentrate grades generally continue to improve and are better than forecast, although recoveries that were steadily increasing dropped in September. Such variations are not unexpected during the ramp-up phase of an operation. Tailings treatment throughputs are close to expectations for this stage of ramp-up and the plant total utilisation is generally improving. These performances do not currently meet the financial model forecasts and BDA considers that the model forecasts for this early commissioning and ramp up period may be optimistic. However, it is reasonable to expect that the concentrate grade targets will be met by the June 2019/20 target date, though prudence suggests that recoveries may take up to six months longer and will be dependent upon the tailings/underground plant feed mix.

During BDA's site visit on 21 September 2019, the following observations were made:

#### **Tailings Recovery Operation**

- The tailings hydraulic mining system was working reasonably well with hourly throughputs up to 178tph, or about 94% of forecast. BDA was unable to observe the delivery of tailings to the concentrator as the plant was treating underground material at the time of the visit. The lower grade tailings "capping" material is being separately removed and pumped to the new TSF.
- BDA was advised that the initial two-stage pumping system from the tailings reclaim station to the concentrator was inadequate to send the slurry to the plant with the original polymer lined centrifugal pumps. To address this issue, the pump liners and impellers were changed to metal alloy, but these liners and impellers have proved to have a very short wear life of about five days. Heron has re-routed the delivery pipeline, which will reduce the pipeline length by about 800m. While this will reduce line pressure and assist the pumping, the long-term solution requires an upgrade to the pumps, thereby allowing the return to polymer liners. Heron advises that provision has been made to upgrade the pumps in the near future.

#### **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 it to block. Installation of a grizzly along with a rock breaker is required and Heron advises that this equipment has already been approved and a cost estimate has been provided.
- 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 are presently being experienced. Heron indicated it would need to strengthen the structure.
- The secondary crusher appears capable of treating the required throughput.
- The screening plant has been installed as a double-deck screen as specified in the Sedgman Process Design Criteria ("PDC"); however, BDA was advised that the lower deck has been equipped with a 14mm aperture while the PDC specifies 10mm. This has serious consequences with the downstream grinding circuit, reducing its throughput capacity. BDA has estimated the cost of this change-out as shown in Table 5.9.

# **Primary Ore Grinding Circuit**

• The ball mill grinding 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, as discussed above, but there also appears to be a major restriction relating to the bank of eight 150mm diameter classifying hydrocyclones. The PDC calls for 250mm diameter and BDA's calculations confirm this size. It is recommended that the existing hydrocyclone set-up be replaced with larger units. BDA has estimated the cost of this change-out as shown in Table 5.9.

#### **Flotation Circuit**

- The flotation circuit is considered generally fit for purpose, with adequate throughput capacity and regrinding installations.
- However, the reagent lines are relatively inaccessible for the management of dosage rates and flows; BDA has estimated the cost of this change-out as shown in Table 5.9.
- 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; Heron has provided a cost estimate to cover this work as shown in Table 5.8.

#### General

• A number of features combine to impact on the operability of the plant: the bunding is inadequate, thereby making clean-up difficult, the lack of pump redundancy contributes to more plant downtime, and there is poor access to various areas, with a lack of walkways and stairways. These issues are targeted for modification to provide more efficient plant operations.

#### **Financial Model Processing Inputs**

The latest financial model presented to BDA is "190923 Heron Model xlsm", Scenario 6, which adopts a downside case for metallurgical recoveries and is considered reasonably conservative. BDA suggests the following:

- For the U/G material treatment, 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, but the pump upgrades as discussed above will be necessary to consistently achieve nameplate.
- Plant utilisation has been on target to-date, with August at about 72%. However, as reflected in the ramp-up schedule, it will take at least the next six months to reach the design of 92.3% and some plant modifications are required.
- Concentrate grades are approaching expectations, especially for the copper and zinc concentrates. The lead concentrate performance has not been as encouraging. Nevertheless, BDA considers that the forecast grades will be achieved in May/June 2020, although attaining projected recoveries may take up to six months longer. However, that is reflected in the downside recoveries adopted in the model.
- Metal recovery to the respective concentrates should be attainable within twelve months.
- Predicted operating costs are considered reasonable, with unit cost targets reached by early 2021.

#### 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\$3.6M. 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 and proximity (within 200m) to the open pit and it allows 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 ample facilities to collect and treat any site water contamination.

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 Hickory's Paddock. TDS, containing 4.2Mt, will be treated first, then TDW, containing 3.8Mt and finally TDN, containing 2.9Mt. The slimes component of the new tailings not used as underground paste fill will initially be stored in a new TSF4 and later in the mined-out TDS.

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 forming the south wall of TSF4. This is a cross valley type facility, with a starter embankment followed by further staged constructions as required, utilising the downstream construction to maximise the volume of impounded tailings.

TSF4 proposed maximum capacity at the final stage will be approximately 4Mt of tailings or approximately 2.5Mm<sup>3</sup> using the assumed tailings settled density. TSF4 stage capacities are Stage 1: 0.46Mm<sup>3</sup>, Stage 2: 1.21Mm<sup>3</sup>, Stage 2A: 2.08Mm<sup>3</sup> and Stage 3: 2.51Mm<sup>3</sup>.

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, to 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 reprocessing 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 July 2019, as updated by Heron in the current model, is A\$29.3M on a current value non-escalated basis, plus a A\$9.6M closure provision in 2029/30, as shown in Table 5.7.

Summary of Estimated Sustaining and Deferred Capital								
Item	2019/20 A\$M	2020/21 A\$M	2021/22 A\$M	2022/23 A\$M	2023/24 A\$M	2024/25 A\$M	25/26-29/30 A\$M	Total A\$M
Total Sustaining Capital Closure	12.6	2.8	2.1	1.6	1.6	1.6	6.9 9.6	29.3 9.6
Total	12.6	2.8	2.1	1.6	1.6	1.6	16.5	38.9

# Table 5.7 Summary of Estimated Sustaining and Deferred Capital

The estimates of underground development capital for mining have been prepared consistent with current (limited) experience. In BDA's opinion, these estimates are generally reasonable; 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, these estimates are reasonable and accurate within  $\pm 15\%$ .

Heron has advised that additional provisions have been made to cover modifications designed to remedy some specific issues identified in the concentrator and elsewhere, as follows:

#### Table 5.8

#### Heron Capital Costs Estimated Modification Upgrades

Capital Cost Item	Estimated Cost A\$'000
De de brastan (addition)	200
Rock breaker (addition)	200
Extra Pump Modifications	600
Tailings Reclaim Booster Pump	60
Dual Cab Light Vehicle	50
Sedgeman (non-deferred costs)	450
Laser Alignment Equipment	40
Third Evaporator Unit	200
De-Watering Wells & Pumps	150
Underground Paste Fill Reticulation	200
Total	1,950

BDA has reviewed the capital cost inputs to the financial model and considers some further minor additional capital in 2019/20 is needed to address the identified modifications required in the plant to achieve nameplate capacity. Also, after discussions at site, BDA also believes it would be prudent to add A\$0.5M to the forecast cost of each of the replacement plugs to be installed in the old declines, between the Veolia bio reactor in the former open pit and the new underground workings. Table 5.9 lists the estimates of these costs; BDA notes these are "order of magnitude" estimates only, based on experience and discussions with site operators.

#### Table 5.9

#### **BDA Capital Costs Estimates for Extra Modification Upgrades**

Capital Cost Item	Estimated Cost A\$'000	
Primary Grind Cyclone Upgrade	500	
Change-out Screen Deck in Crushing Circuit, 14mm to 10mm	70	
Additional Bunding Around Thickeners	400	
Re-plumb Reagent Lines to Allow Measurement of Flows	100	
Additional Provision for Decline Plug installations	1,000	
Total	2,070	

The modified life of mine sustaining and deferred capital costs, including the Heron proposed additions and the BDA recommendations, are shown in the project capital forecast as summarised in Table 5.10.

e e			0				,	
Item	2019/20 A\$M	2020/21 A\$M	2021/22 A\$M	2022/23 A\$M	2023/24 A\$M	2024/25 A\$M	25/26-29/30 A\$M	Total A\$M
Total Sustaining Capital Process Plant Provisions	12.6 3.0	2.8	2.1	1.6	1.6	1.6	6.9	29.3 3.0
BDA Plug Provisions Closure		0.5	0.5				9.6	1.0 9.6
Total	15.6	3.3	2.6	1.6	1.6	1.6	16.5	42.9

Table 5.10 Summary of Estimated Sustaining and Deferred Capital (With BDA Additions)

#### 5.13 **Operating Costs**

The WUP mine operating costs have been based on the current mining contract, taking into consideration the proposed mining methods and projected productivities; the estimates appear consistent with experience to date with Pybar Mining as the underground contractor. BDA has reviewed the operating costs inputs to the financial model and has advised BDO as to the amounts considered appropriate for the analysis. Table 5.11 provides a summary of the estimates; BDA considers the mine operating cost estimates reasonable, within  $\pm 15\%$ .

Table	5.11
-------	------

WUP Mine Operating Costs – Financial Years (July-June, from 2019/20)

Item	Units	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27-29/30	Total
Mining										
Underground Ore	Mt	0.35	0.48	0.71	0.74	0.66	0.69	0.14		3.76
Mine Operating Costs*	A\$M	66.7	68.0	72.2	52.5	32.1	26.4	6.2		324.1
Unit U/G Mine Costs*	A\$/t ore	184.5	142.0	102.2	71.4	48.8	38.2	44.1		87.6
Processing										
WUP Ore Treated**	Mt	0.28	0.52	0.69	0.74	0.67	0.71	0.18	-	3.78
WRP Ore Treated	Mt	0.84	0.72	0.47	0.40	0.50	0.44	1.22	4.50	9.09
Total Ore Treated	Mt	1.12	1.24	1.16	1.14	1.17	1.15	1.41	4.50	12.87
Process Opex Costs***	A\$M	37.9	38.5	37.1	37.2	37.3	36.0	36.3	111.6	371.9
Unit WUP Process Costs	A\$/t ore	33.9	32.2	32.2	32.8	32.0	33.8	28.4	-	32.5
Unit WRP Process Costs	A\$/t ore	33.6	30.2	31.9	32.8	31.8	27.6	25.4	24.8	27.4
Site Administration										
Site Admin Costs	A\$M	6.6	6.2	6.2	6.2	6.2	6.2	6.2	21.8	65.8
Unit Admin Costs/t Treated	A/t	5.9	5.0	5.4	5.5	5.3	5.4	4.4	4.7	5.1
<b>Total Site Operating Costs</b>	A\$M	68.7	77.7	78.0	77.6	76.9	76.2	49.9	133.5	638.5

mine operating costs include approximately \$2/t for WRP tailings reclaim plus \$2.1M WRP set-up in 2019/20;

\*\* WUP ore processed includes approximately 0.23Mt ore mined 2018/19

\*\*\* process operating costs 2026/27 to 28/29 based on treatment of WRT material only, at 1.5Mtpa at A\$24.80/t

For the WRP material reclamation, Heron operates 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 \$2/t, delivered to the thickener at the plant. Ramp-up is estimated to take 18 months to achieve steady-state operations.

BDA notes that it is currently early in the ramp-up period and the actual costs to-date reflect that. However, indications are that the cost estimates are reasonable in the longer term and the expectations would be that the unit cost estimates will be achieved, with an accuracy of  $\pm 15\%$ , until there is a history established.

The ore concentrator operating cost estimates were determined using established methodologies and appear reasonably consistent with experience to date. The individual cost line items such as reagents, labour and power are comparing well with the budget, which is now eighteen months old. The overall month and month-to-date unit actual operating costs are A\$36.15/t treated and A\$34.13/treated respectively compared with the budget reported in the monthly report of \$33.72 for August and \$36.97/t treated for year-to-date. BDA considers the cost estimates are reasonable and, until there is a history established, 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.

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  $\pm 15\%$ .

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 the 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  $\pm 15\%$ .

# 5.15 Financial Model Inputs

The BDO valuation is based on a project financial model provided by Heron. BDA notes that the model being used for analysis adopts a downside case for metallurgical recoveries (Scenario 6) and as a consequence, is considered reasonably conservative. In spite of the delays and difficulties with the construction programme, the ramp-up now appears to be proceeding reasonably well, but with several typical modifications identified to accomplish full capacity and performance. BDA has reviewed the technical assumptions including the capital and operating costs inputs to the financial model and has advised BDO as to the factors considered appropriate for the analysis. BDA's principal comments 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. 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. However, no changes to the model are suggested. The methodology adopted to determine the costs is regarded as reasonable, consistent with industry standards and should be achievable, provided the mine access decline and dewatering programme proceed according to schedule.
- The underground mining production as proposed in the latest schedules appears appropriate and provides ore as required within the ramp-up schedule. However, BDA does not expect concentrator throughput to reach design levels until the grinding circuit improvements are instituted. BDA estimates that the modifications may not be completed until the first quarter of 2020, but the project is forecast to be in ramp-up until then as reflected in the model, and no changes to the model are suggested.
- BDA considers the ore processing schedule for treatment of the tailings reclaim material is reasonable with respect to throughput once the planned pump and pipeline modifications have been completed. The latest model, "190923 Heron Model.xlsm" assumes that the tails reclaim and process plant treatment rates will reach an equivalent rate of 1.5Mtpa by December 2019. 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 a four-quarter ramp-up for metal recoveries to concentrate, but has used more conservative recoveries than indicated from test-work (recoveries to concentrate reduced by up to 6% for Zn, 8% for Pb and 5% for Cu). BDA suggests that concentrate grades will likely be achieved as projected in the model (i.e. by June 2020) but metal recoveries may take another six months (December 2020). However, the model uses a downside scenario for recoveries, which takes account of that aspect, and no additional adjustments to the model are suggested.
- The capital cost inputs are generally consistent with the updated estimates as advised. BDA has suggested some minor additions to the capital expenditure to address some shortcomings in the current design.
- The underground mining, tailings reclamation and process plant operating cost inputs as estimated are considered reasonable and reasonably consistent with experience to date. BDA considers the operating cost estimates are accurate to ±15%.
- 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.
- The financial model includes a capital provision for additional contingencies which amounts to A\$100k per month for October 2019 to September 2020 for a total of A\$1.2M, provided to cover costs for the "known unknowns". This item is a further provision against plant commissioning modifications that have not to date been identified; BDA considers at this point it is reasonable to retain this provision as additional to other currently estimated modification costs.
- BDA considers that the charges for the various transport categories are acceptable as are the insurance costs.
- TCs and RCs vary year-to-year and are set by international benchmarks related to much larger concentrate sales contracts. For example 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. On this basis, 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 provided payabilities which are consistent with contractual arrangements for similar mixed concentrates. BDA concludes that these reductions are a result of the final negotiations between Heron and the successful off-takers and appear reasonable based on BDA's knowledge of comparable arrangements.

#### 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 tenements and 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 174km<sup>2</sup> 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 1,206km<sup>2</sup> (including EL 7257) as a regional project exploration area.

On 9 October 2019 Heron announced a farm-in and joint venture agreement with Sky Metals Ltd over three of its NSW regional tenements, Cullarin, Rosevale and Kangiara.

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

Tenement	Tenement Name	Location	Area km <sup>2</sup>	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	14.11.20
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 7954*	Cullarin	25km W of Goulburn	143.9	19.06.12	19.06.22
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
EL 8400*	Kangiara	27km WNW of Yass	147.0	20.10.15	20.10.24
EL 8573*	Rosevale	30km WNW of Yass	49.3	23.05.17	23.05.23
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
ELA 5811	Mayfield	20km SE of Woodlawn	165.3	Pending	-
ELA 5832	Sandy Point	20km SE of Woodlawn	124.7	Pending	-

Heron's Woodlawn Project Tenements

Note: total EL area 1,206km<sup>2</sup> granted plus 290km<sup>2</sup> under application; \*asterisked tenements are subject to a farm-in agreement with Sky Metals; 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

#### Currawang

The Currawang Prospect (100% Heron), located some 10km north northwest of the Woodlawn mine in EL7257, was discovered directly to the east of the historic Currawang copper mine (circa 1890 onwards). 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.

#### 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; follow-up down hole EM is planned.

#### 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. Follow-up down hole EM surveys are planned.

#### 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; we do not consider this NSR has any material impact on our current valuation of these properties.

#### Cullarin

The Cullarin project (Breadalbane prospect) (EL 7954, EL 7468) 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. Heron has announced a farm-in and joint venture agreement with Sky Metals over the Cullarin, Rosevale and Kangiara tenements.

#### 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-leadzinc-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.

#### Kangiara and Rosevale

The Kangiara and Rosevale projects (EL 8400, EL 8573) are located 90km northwest of Woodlawn and 26km north northwest of the town of Yass, and covers 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. As noted above, Heron has announced a farm-in and joint venture agreement with Sky Metals over the Kangiara, Rosevale and Cullarin tenements.

# Burra

The Burra project (EL 8797) is located 60km southwest of Woodlawn and hosts the historical London Bridge and Burra VMS workings with significant zinc and lead intersections. Mineralisation is hosted within Siluro-Devonian limestones, overlain by volcanics. Heron is considering farming out this property.

#### Captains Flat

The Captains Flat project (EL 8796) is located 65km south of Woodlawn. No work has been carried out on the area to date.

# Mayfield

Heron has applied for ELs (ELA 5811, ELA 5832) in the Mayfield area of NSW, 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.

# 6.2 Alchemy Joint Venture

Heron has an interest in a joint venture with ASX-listed Alchemy Resources Ltd on base metal and gold prospects in the Parkes and Nyngan regions of NSW. Alchemy has earnt 51% by expenditure of A\$1M on exploration and can earn a further 29% interest (80% in total) by expending a further A\$1.5M over two years. The joint venture farm-in agreement dated May 2016 covers 674km<sup>2</sup> of the Lachlan Fold Belt in central NSW, including ELs 5878, 7941 and 8267 (Overflow), 8192 (Eurow), 8318 (Girilambone) and 8356 (Yellow Mountain).

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 Farm-In and Joint Venture Agreement

On 9 October 2019 Heron announced a farm-in and joint venture agreement with Sky Metals Ltd on Heron's Cullarin, Rosevale and Kangiara projects, whereby Sky Metals has an initial option for 12 months for the expenditure of A\$0.4 million ("M") and can earn an 80% interest in the projects by expenditure of a further A\$1.6M (total A\$2M) over three years. Sky Metals will issue Heron 10 million SKY options with a 24 month term and an exercise price of A\$0.15, exercisable once Sky Metals has commenced the farm-in expenditure; the Sky share price at the time of the announcement was A\$0.09. On completion of the A\$2M expenditure, a joint venture is formed with Heron being free-carried to completion of a Definitive Feasibility Study or until A\$10M (inclusive of farm-in expenditure) has been spent.

# 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 42km<sup>2</sup>. 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 24km<sup>2</sup>. 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
- Near-mine former producers Currawang and Cowley Hills
- Woodlawn regional exploration project comprising the Cullarin South, Mulloon, Sandy Point, Boro, Peelwood, Burra, and Captains Flat prospects in NSW
- EL applications at Mayfield, east of Woodlawn
- Sky Metals farm-in/joint venture on the Cullarin, Rosevale and Kangiara prospects
- Alchemy base metal and gold joint venture 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 in operation, with mining and processing of tailings underway and treatment of underground development ore in progress; development is well advanced and initial stoping has commenced. The project has defined resources and 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 so mining conditions and processing parameters are well understood.

BDO Corporate Finance has undertaken the valuation of the Woodlawn mine project by applying the discounted cash flow method as well as other considerations (see BDO Independent Expert Report). BDO Corporate Finance has appointed BDA as the technical expert to provide an assessment and guidance regarding the technical assumptions in the financial model of the Woodlawn mine project.

Heron has provided a development scenario and life of mine plan based on the underground and tailings reserves, plus approximately 1Mt of underground 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 considered the capital and operating cost projections. BDA has advised BDO as to the reasonableness of the production and cost parameters for the purpose of the valuation.

BDA notes that subsequent to the date of this report, on 30 October 2019, Heron issued an update to the Woodlawn Mineral Resources and Ore Reserves. BDA has considered the updated resource and reserve statement and does not consider the update to have a material impact on the valuation, nor does it require any adjustment to the DCF model.

BDO Corporate Finance has also 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 23 October 2019.

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 would add a minimum of 1 year of additional mine life, most likely two years, and possibly (as an upside case) three years; BDA has derived a range of values for the additional underground potential on this basis
- *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, farm-in or joint venture terms as appropriate in each case. These properties comprise:
  - Heron's regional ELs to the north and south of Woodlawn
  - Sky Metals farm-in tenements Cullarin, Rosevale and Kangiara
  - Alchemy base metal and gold joint venture
- WA Regional Projects and Tenements 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). In BDA's opinion the resulting values are not material; BDA has not detailed the individual valuation estimates for the WA assets, but has included the sum of the valuations in the summary tabulation.

# 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 – Defined Mine Plan

The Woodlawn project is well advanced with defined resources and reserves, a life of mine plan and schedule, and detailed estimates of capital and operating costs; mining and processing operations are underway. The Woodlawn mine previously operated in the 1980s and 1990s so mining conditions and processing parameters are well understood.

Heron has provided a development scenario and life of mine plan based on the underground and tailings reserves, plus approximately 1Mt of underground 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 these plans and advised BDO on the adoption of appropriate production and cost parameters for the purpose of valuation. BDO has undertaken the valuation of the Woodlawn project based on discounted cashflow methodology.

BDO's valuation of the Woodlawn project is discussed in the BDO 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 7.2Mt of underground resource at Woodlawn. From the Measured and Indicated resource of 4.6Mt, Heron has defined a reserve of 2.8Mt, a conversion rate of approximately 60%. Applying this conversion rate to the total resource of 7.2Mt would give a potential mineable tonnage of 4.3Mt. The current life of mine plan is based on approximately 2.8Mt of underground reserve and approximately 1Mt of converted Inferred resource material, totalling 3.8Mt and implying perhaps an additional 0.5Mt of mineable ore could be realised from the remaining defined resources.

However, BDA considers that the principal exploration value of the Woodlawn underground deposit lies not in the potential conversion of the remaining known resources, but in the extension of those resources down dip and along strike. BDA has reviewed the details of the additional underground potential. From the information reviewed BDA considers there is good potential for a material expansion of the underground resource. 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, most likely two years, and possibly (as an upside case for the purpose of valuation) three additional years. It should be noted that an additional year of mine life in terms of underground resources requires only around 0.7Mt of underground ore (see Production Schedule Table 5.5), with the balance of the mill capacity being utilised by tailings material. BDA has reviewed what impact such extensions are likely to have on the value of the project and from this data has derived a range of values representing the additional underground potential.

Based on BDO's valuation of the Woodlawn project, each year's extension of the project life based on the definition of additional underground ore, and allowing for additional development costs, adds approximately A\$11M to the project NPV (average annual incremental value considering one, two and three year's extension). In terms of valuing this exploration upside, given that while most of this potential is based on known 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 exploration potential of A\$5.5-16.5M with a most likely value (indicative of an average discounted value of two years of additional production) of A\$11.0M.

BDA notes that this value is approximately double the most likely value ascribed to Heron's NSW regional tenements and interests based on exploration expenditure, farm-in and joint venture terms (A\$5.9M - see Table 7.1); in BDA's opinion this is an appropriate ranking considering the approach of a willing and knowledgeable buyer.

# 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 an additional 3-4 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 valuable 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\$5.5M (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\$1.65M. 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\$1.3-2.0M ( $\pm$ 20%) with a most likely value of A\$1.7M 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 12 granted ELs covering approximately 1,206km<sup>2</sup> (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 the subject of the Sky Metals farm-in 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.

Heron has advised BDA that discussions are underway with Omya Australia Pty Ltd ("Omya") concerning assessment of a limestone deposit at Mt Fairy within EL8325, southeast of Woodlawn. Heron has proposed that Omya would make a A\$0.05M annual facilitation payment to access and drill the deposit, followed by an annual A\$0.03M payment or 3.5% royalty payment if Omya determines to proceed with an application to mine the limestone. The potential payments are relatively modest and BDA does not consider these discussions have a material impact on the overall assessment of value above.

# 7.7 Sky Metals Farm In

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. Expenditure to date on these three ELs totals 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 provides an option period of 12 months in which Sky Metals must spend A\$0.4M on inground exploration. Sky Metals can then determine whether or not to proceed with the farm-in. If it proceeds it must spend a further A1.6M (A2.0M in total) to earn an 80% interest in the properties. At this stage total expenditure would total approximately A3M and it might be reasonable to expect the PEM would be 2.5-2.9, or higher if a resource has been defined, giving a potential value of A7.5-8.7M, with Heron's 20% share being A1.5-1.7M.

While the decision to proceed with the farm-in expenditure, and the results of such expenditure, remain speculative, and concerns possible events in one to three years' time, overall it would appear that there could be little additional value accruing to Heron, given that it is reducing from a 100% to 20% ownership interest. However, the agreement allows Heron to maintain an interest in the tenements and fulfil expenditure obligations while conserving cash for higher priority targets within and adjacent to Woodlawn mine. If Sky Metals exploration is successful, there could be a re-rating of the share value, giving Heron a potential gain from its 10 million SKY options, and if the project proceeds to a feasibility study, Heron is free carried for another A\$10M of expenditure.

BDA accepts the value to Heron of the agreement, based on the above considerations, but in terms of current exploration value, there is no cash payment and the options are currently out of the money, so the option agreement (A\$0.4M for the right to earn an 80% interest) could be interpreted as putting a current minimum value on 100% of the tenements of A\$0.5M. To proceed to earn the 80% interest would require total expenditure of A\$2M implying a value for 100% of the tenements of A\$2.5M. Heron currently holds 100% interest in the properties. BDA considers that the terms of the option and farm-in agreement joint venture agreement can be interpreted to imply a current value in the range of A\$0.5-2.5M. BDA notes that this range encompasses the PEM value range of A\$1.8-2.2M. Overall BDA suggests that a range of A\$0.5-2.5M with a most likely value of A\$1.5M gives a reasonable estimate of current value.

# 7.8 Alchemy Joint Venture

Heron has an interest in a joint venture with Alchemy Resources Ltd on base metal and gold prospects in the Parkes and Nyngan regions of NSW. Alchemy has earnt a 51% interest by expenditure of A\$1M on exploration and can earn a further 29% interest by expending a further \$1.5M over two years. The joint venture farm-in agreement dated May 2016 covers 674km<sup>2</sup> of the Lachlan Fold Belt in central NSW. Based on the JV agreement, Heron's current 49% interest in the JV could be deemed to be worth A\$1M.

Expenditure on the project to date is approximately A\$1.6M. At the Overflow project drilling has intersected broad zones of gold and base metal mineralisation. At Nyngan an initial alumina resource has been defined, additional to the underlying nickel-cobalt laterite mineralisation. BDA would apply a prospectivity enhancement multiple of 2.0-2.4 (see Section 3, Valuation Methods) to the expenditure giving a valuation of A\$3.2-3.8M or A\$1.6-1.9M for Heron's 49% interest.

Based on both the joint venture terms and the project expenditure BDA assigns a value of A\$1.0-1.9M to Heron's interest in the joint venture, with a most likely value of A\$1.5M.

# 7.9 EL Applications Woodlawn Area

Heron has an EL application in the Mayfield area, 20km southeast of Woodlawn, ELA 5811. The area is considered prospective for base metals and gold mineralisation. The application has not yet been granted and there has been no significant expenditure. BDA has not assessed any material value relating to the EL applications.

# 7.10 Valuation – WA Regional Projects and Tenements

BDA has undertaken a valuation of Heron's WA joint venture interests, royalty interests or residual rights. BDA 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, and that a willing and knowledgeable buyer would assess a probability of only 5-10%. BDA has applied these factors to the potential payments, resulting in an overall value range of A\$0.3-0.7M with a most likely value of A\$0.5M. Overall the assessed values are not considered material and BDA has therefore not detailed the individual WA property valuations, but has included the sum of the values of the WA assets in the overall asset valuation table.

#### 7.11 Valuation Summary

BDO has determined the valuation of the Woodlawn project and this valuation is discussed in the BDO report. BDA has determined a value of the less advanced projects, exploration properties and interests and a summary of these asset valuations is shown in Table 7.1.

Property		Valuation (A\$M)	)	Comments
	Low	Most Likely	High	
Woodlawn Mine Project – Defined Mine Plans				
Underground and Tailings Operations	BDO	BDO	BDO	Proved/Probable reserves +1Mt Inferred - see BDO Report
Woodlawn Mine Project – Potential Extensions				
Underground Lenses and Extensions	5.5	11.0	16.5	Additional 1-3 years extension
Woodlawn Mine Project – Satellite Deposits				
Currawang and Cowley Hills	1.3	1.7	2.0	Potential additional feed
NSW Regional Tenements/Interests				
Woodlawn Regional	2.6	2.9	3.1	9 ELs north and south of Woodlawn
Sky Metals Farm-In Tenements	0.5	1.5	2.5	3 ELs north and northwest of Woodlawn
Alchemy Joint Venture	1.0	1.5	1.9	8 ELs, Alchemy 51% earnt
Lachlan Fold Belt EL Applications	0.0	0.0	0.0	Mayfield
Subtotal NSW Interests	4.1	5.9	7.5	
Western Australian Tenements/Interests				
Subtotal WA Interests	0.3	0.5	0.7	Current value of potential future rights and royalty payments
Total Exploration Interests	11.2	19.1	26.7	

# Table 7.1 Valuation Summary of Heron's Mineral Assets

# 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, 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 in Denver, New York, Toronto, Vancouver, London, Hong Kong, Guadalajara 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, Azure Capital Limited and BDO Corporate Finance. 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 BDO Corporate Finance 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 Azure. BDA has no reason to doubt the validity of the information provided by Heron and Azure, but is not able to warrant its accuracy. 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 information provided. 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.

This report is provided to BDO Corporate Finance in connection with the valuation and proposed transaction 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 C Hancock Executive 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

huluty

John McIntyre Managing Director - BDA



# Appendix 4 - Corporate cost comparable companies

Company Name	Business Description
Regis Resources Limited (ASX:RRL)	Regis Resources Limited is a gold production company. It has a 100% interest in the Duketon project located in the North Eastern Goldfields of Western Australia; and the McPhillamys project situated in the Central Western region of New South Wales. Regis Resources Limited was incorporated in 1986 and is headquartered in Perth, Australia.
Sandfire Resources NL (ASX:SFR)	Sandfire Resources NL is an Australian copper producer. The company's flagship project is its 100% owned DeGrussa copper-gold mine located in the Bryah Basin mineral province of Western Australia The company operates through DeGrussa Operations, and Exploration and Evaluation segments. It primarily explores for copper, gold, and silver, as well as volcanogenic massive sulphide deposits. Sandfire Resources NL was incorporated in 2003 and is based in West Perth, Australia.
Grange Resources Limited (ASX:GRR)	Grange Resources Limited is involved in the mining, processing, and sale of iron ore; and exploration, evaluation, and development of mineral resources at the Southdown Magnetite and related Pellet plant projects. It owns interests in the Savage River magnetite iron ore mine located to the southwest of the city of Burnie. The company is based in Burnie, Australia.
Mount Gibson Iron Limited (ASX:MGX)	Mount Gibson Iron Limited, engages in mining and processing of hematite iron ore deposits in Australia. The company primarily operates the Extension Hill mine site in the Mid-West region of Western Australia; and haulage of the ore via road and rail for export from the Geraldton Port. It is also involved in mining and direct shipment of hematite iron ore at the Koolan Island mine site in the Kimberley region of Western Australia; and the treasury management activities. The company was founded in 1996 and is based in West Perth, Australia.
Aeris Resources Limited (ASX:AIS)	Aeris Resources Limited, together with its subsidiaries, produces and sells copper, gold, and silver products. The company also explores for copper ores. Its flagship asset is the Tritton Copper Operations located in New South Wales. The company was formerly known as Straits Resources Limited and changed its name to Aeris Resources Limited in December 2015. Aeris Resources Limited was incorporated in 2010 and is headquartered in Brisbane, Australia.
Hillgrove Resources Limited (ASX:HGO)	Hillgrove Resources Limited operates as a mining company in Australia and Indonesia. The company explores for copper, gold, and silver deposits. Its flagship project is the Kanmantoo Copper mine and associated regional exploration targets located in the Adelaide Hills region of South Australia. The company is based in Unley, Australia.
Dacian Gold Limited (ASX:DCN)	Dacian Gold Limited engages in the processing of gold properties in Australia. It primarily focuses on its 100% owned Mount Morgans Gold project located in the Western Australia. The company was incorporated in 2011 and is based in Como, Australia.
Millennium Minerals Limited (ASX:MOY)	Millennium Minerals Limited mines and processes gold properties in Australia. It holds a 100% interest in the Nullagine gold project that covers an area of 276 square kilometres located in the East Pilbara of Western Australia. The company is based in Belmont, Australia.



Company Name	Business Description
Blackham Resources Limited (ASX:BLK)	Blackham Resources Limited is an Australian gold producer. The company holds interest in the Matilda Gold project and the Wiluna Gold Plant located in Australia. Blackham Resources Limited is based in West Perth, Australia.
Red River Resources Limited (ASX:RVR)	Red River Resources Limited is an Australian zinc producer. The company owns an interest in the Thalanga base metals project located in Queensland; and the Hillgrove project situated in Armidale, New South Wales. Red River Resources Limited is based in Charters Towers, Australia.

Source: CapitalIQ and BDO analysis



# Appendix 5 - Discount rate

Determining the correct discount rate, or cost of capital, for a business requires the identification and consideration of a number of factors that affect the returns and risks of a business, as well as the application of widely accepted methodologies for determining the returns of a business.

The discount rate applied to the forecast cash flows from a business represents the financial return that will be required before an investor would be prepared to acquire (or invest in) the business.

**Pre-Transaction -** In our Pre-Transaction valuation of a Heron share, the funding shortfall in the Adjusted Model is financed with US\$10 million in offtake funding, a refinancing of its existing debt and a notional equity capital raising. As such, the cash flows derived from the Adjusted Model are equity cash flows. Therefore, the appropriate discount rate to use is a cost of equity.

**Post-Transaction** - In our Post-Transaction valuation of a Heron share, the Adjusted Model includes all cash inflows and outflows relating to the Notes and the Debt Restructure. As such, the cash flows derived from the Adjusted Model are equity cash flows. Therefore, the appropriate discount rate to use is a cost of equity.

The capital asset pricing model ('CAPM') is commonly used in determining the market rates of return for equity type investments and project evaluations. The CAPM provides the required return on an equity investment.

# Cost of Equity and Capital Asset Pricing Model

CAPM is based on the theory that a rational investor would price an investment so that the expected return is equal to the risk free rate of return plus an appropriate premium for risk. CAPM assumes that there is a positive relationship between risk and return, that is, investors are risk averse and demand a higher return for accepting a higher level of risk.

САРМ	
K <sub>e</sub>	$= R_f + \beta x (R_m - R_f) + \alpha$
Where:	
K <sub>e</sub>	= expected equity investment return or cost of equity in nominal terms
R <sub>f</sub>	= risk free rate of return
R <sub>m</sub>	= expected market return
R <sub>m</sub> - R <sub>f</sub>	= market risk premium
в	= equity beta
α	= inherent risk adjustment

CAPM calculates the cost of equity and is calculated as follows:

The individual components of CAPM are discussed below.

# Risk Free Rate (R<sub>f</sub>)

The risk free rate is normally approximated by reference to a long term government bond with a maturity equivalent to the timeframe over which the returns from the assets are expected to be received.

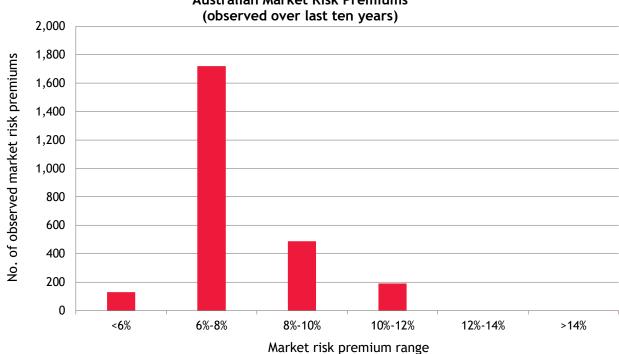
We have considered current and implied forward yields for the 10-year Australian Government Bond yield, together with historical long term average bond yields. Based on our analysis, we have adopted a long term estimate of the 10-year Australian Government Bond yield of 1.5%.



# Market Risk Premium (R<sub>m</sub> - R<sub>f</sub>)

The market risk premium represents the additional return that investors expect from an investment in a well-diversified portfolio of assets. It is common to use a historical risk premium, as expectations are not observable in practice. In order to determine an appropriate market risk premium in Australia, we analysed historical data. Our sample of data included the daily historical market risk premiums in Australia over the last ten years, from 9 October 2009 to 9 October 2019. Our research indicated the market risk premium in Australia has ranged from a low of 4.01% to a high of 11.78%.

The market risk premium is derived on the basis of capital weighted average return of all members of the S&P 200 Index minus the risk free rate, which is dependent on the 10-year Australian Government Bond rate.



Australian Market Risk Premiums

Source: Bloomberg and BDO analysis

The graph above illustrates the frequency of observations of the Australian market risk premium over the past ten years. The graph indicates that a high proportion of the sample data for Australian market risk premiums lie in the range of 6% to 8%. This is supported by the long term historical average market risk premium of between 6% and 8%, which is commonly used in practice. For the purpose of our report we have adopted a market risk premium of between 6% and 8%.

# **Equity Beta**

Beta is a measure of the expected correlation of an investment's return over and above the risk free rate, relative to the return over and above the risk free rate of the market as a whole; a beta greater than one implies that an investment's return will outperform the market's average return in a bullish market and underperform the market's average return in a bearish market. On the other hand, a beta less than one implies that the business will underperform the market's average return in a bullish market and outperform the market's average return in a bearish market.



Equity betas are normally either an historical beta or an adjusted beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. An adjusted beta is calculated based on the assumption that the relative risk of the past will continue into the future, and is hence derived from historical data. It is then modified by the assumption that a stock will move towards the market over time, taking into consideration the industry risk factors which make the operating risk of the company greater or less risky than comparable listed companies.

It is important to note that it is not possible to compare the equity betas of different companies without having regard to their gearing levels. Thus, a more valid analysis of betas can be achieved by "ungearing" the equity beta ( $\beta_a$ ) by applying the following formula:

$$B_a = B / (1+(D/E \times (1-t)))$$

In order to assess the appropriate equity beta for the Woodlawn Project, we have had regard to the equity betas of ASX listed companies with projects similar in nature to the Woodlawn Project, with respect to commodity types and location. Our analysis includes exploration and development companies as well as companies in production. Given that the Woodlawn Project is expected to move into production in the near term, we consider these companies to represent an appropriate comparator set on which to assess the discount rate.

Company	Market Capitalisation	Geared Beta	Gross Debt/Equity	Ungeared Beta	R <sup>2</sup>
	09-Oct-19	(B)	(%)	(Ba)	
	(A\$m)				
Independence Group NL (ASX:IGO)	3,698	1.39	5%	1.34	0.19
OZ Minerals Limited (ASX:OZL)	3,028	1.14	0%	1.14	0.21
Sandfire Resources NL (ASX:SFR)	1,012	1.30	0%	1.30	0.16
Metals X Limited (ASX:MLX)	142	1.24	<b>9</b> %	1.16	0.06
Aurelia Metals Limited (ASX:AMI)	393	0.76	0%	0.76	0.01
Galena Mining Limited (ASX:G1A)	132	1.00	0%	1.00	0.02
Red River Resources Limited (ASX:RVR)	82	1.19	0%	1.19	0.05
Peel Mining Limited (ASX:PEX)	68	0.96	0%	0.96	0.01
Venturex Resources Limited (ASX:VXR)	46	0.98	0%	0.98	0.01
Mean	955.67	1.11		1.09	0.08
Median	142.00	1.14		1.14	0.05

The geared betas below have been calculated against the S&P All Ordinaries Index, using daily data over a two-year period from 9 October 2017 to 9 October 2019.

Source: Bloomberg and BDO analysis

# Selected Beta (B)

In selecting an appropriate beta for the Woodlawn Project, we have considered the similarities between the comparable companies selected above. The comparable similarities and differences noted are:

• the comparable companies' mining and exploration assets have varying risk profiles depending on the maturity of the assets and the stages and location of production;



- Independence Group NL ('IGO'), Oz Minerals Limited ('Oz Minerals'), Sandfire Resources NL ('Sandfire'), Metals X Limited ('Metals X'), Aurelia Metals Limited ('Aurelia') and Red River Resources Limited ('Red River'), all have operating mines within Australia, with the exception of Oz Minerals which has operating mines in Brazil and Australia; and
- Galena Mining Limited ('Galena'), Peel Mining Limited ('Peel') and Venturex Resources Limited ('Venturex') are development and exploration companies, with base metal projects in Australia.

While the development of the Woodlawn Project is still ongoing, it is forecast that Heron will move from developing to operating in the near future. As such, we consider the betas of operating companies, to be most reflective of the beta of Heron going forward.

A summary of our final data set is summarised below.

		Geared Beta	Gross Debt/Equity	Ungeared Beta
Company		<b>(</b> B <b>)</b>		(Ba)
Independence Group NL (ASX:IGO)		1.39	4.6%	1.34
OZ Minerals Limited (ASX:OZL)		1.14	0.0%	1.14
Sandfire Resources NL (ASX:SFR)		1.30	0.1%	1.30
Metals X Limited (ASX:MLX)		1.24	9.2%	1.16
Red River Resources Limited (ASX:RVR)		1.19	0.0%	1.19
	Mean	1.25	0.03	1.23
	Median	1.24	0.00	1.19

Having regard to the above, we consider an appropriate ungeared beta to apply to the Woodlawn Project to be between 1.30 and 1.40.

# Gearing

Before a discount rate can be determined, the proportion of funding provided by debt and equity (i.e. gearing ratio) over the forecast period must be determined.

# Pre Transaction Debt to Equity Ratio

In our calculation of the debt to equity ratio on a Pre-Transaction basis, we have adjusted Heron's debt and equity components as at 30 September 2019, assuming that the Company will obtain a US\$10 million offtake agreement and that Heron's outstanding debt will be rolled over at maturity. We also account for the issue of shares to Sedgman and the equity raised from the Rights Issue and notional capital raise. Our calculations are set out below:

Pre transaction debt to equity ratio	\$ millions
Debt	
Senior debt balance as at 30 September 2019	97.6
Silver stream balance as at 30 September 2019	43.5
Add: assumed US\$10 million offtake agreement	14.8
Total Debt	155.9
Equity	
Total shareholders equity at 30 September 2019	87.5
Issue of shares to Sedgman	2.0
Add: equity raised under Rights Issue and notional capital raising	76.2



Pre transaction debt to equity ratio	\$ millions
Total equity	165.7
Debt to equity ratio	94.1%

Source: Management accounts for the period ended 30 September 2019, BDO analysis. Assumes USD/AUD exchange rate of 1.4806.

We have therefore assessed the debt to equity, on a Pre-Transaction basis, to be 94.1%. We have regeared Heron's assessed ungeared beta to be between 2.16 and 2.32.

# Post Transaction Debt to Equity Ratio

On a Post-Transaction basis, we have adjusted Heron's debt and equity components as at 30 September 2019, for the funding package included in the Transaction. In terms of debt, we account for the US\$10 million repayment of Orion's debt facility and the addition of a US\$3 million new silver stream. Our post-Transaction valuation is predicated on the assumption that the Notes are held to Maturity Date and converted based on a US\$/A\$ exchange rate of 0.50. Therefore, in calculating the equity value for gearing purposes, we have treated the Notes as equity. We have also adjusted the book value of equity to reflect the Rights Issue as well as the Sedgman settlement. Our calculations are set out below:

Post transaction debt to equity ratio	\$ millions
Debt	
Senior debt balance as at 30 September 2019	97.6
Silver stream balance as at 30 September 2019	43.5
Less: Repayment of loan (US\$10 million)	(14.8)
Add: New silver stream	4.4
Total Debt	130.7
Equity	
Total shareholders equity at 30 September 2019	87.5
Conversion of the Notes	51.8
Issue of shares as part of Rights Issue	35.4
Issue of 10 million shares to Sedgman at 20 cents each	2.0
Total equity	176.7
Debt to equity ratio	74%

Source: Management accounts for the period ended 30 September 2019, BDO analysis. Assumes USD/AUD exchange rate of 1.4806.

We have therefore assessed the debt to equity, on a Post-Transaction basis, to be 74%. We have regeared Heron's assessed ungeared beta to be between 1.97 and 2.12.



# **Cost of Equity**

Our assessment of the cost of equity is as follows.

# **Pre-Transaction:**

We have assessed the cost of equity to be in the range of 14% to 20% with a midpoint value of 17%.

Input	Value A	Value Adopted	
	Low	High	
Risk free rate of return	1.50%	1.50%	
Equity market risk premium	6.00%	8.00%	
Beta (ungeared)	1.30	1.40	
Beta (regeared)	2.16	2.32	
Cost of Equity (rounded)	14%	20%	

Source: BDO analysis

# Post-Transaction:

We have assessed the cost of equity to be in the range of 13% to 18% with a rounded midpoint value of 16%.

Input	Value A	Value Adopted	
	Low	High	
Risk free rate of return	1.50%	1.50%	
Equity market risk premium	6.00%	8.00%	
Beta (ungeared)	1.30	1.40	
Beta (regeared)	1.97	2.12	
Cost of Equity (rounded)	13%	18%	

Source: BDO analysis

# **Comparable Listed Companies**

Descriptions of comparable listed companies used for our assessment of beta are summarised as follows:

Company Name	Company Description
Independence Group NL (ASX:IGO)	Independence Group NL operates is a mining company with operations in Australia. It operates through Nova Operation and Tropicana Operation segments. The company owns a 100% interest in the Nova project, which produces nickel, copper, and cobalt concentrates located to the east- northeast of Norseman; and 30% interest in the Tropicana gold mine covering 3,600 square kilometres of tenements located to the east northeast of Kalgoorlie. It also engages in the exploration of nickel and copper projects located in Western Australia, Northern Territory, and South Australia, as well as Greenland. The company was founded in 2000 and is headquartered in Perth, Australia.



Company Name	Company Description
OZ Minerals Limited (ASX:OZL)	OZ Minerals Limited engages in mining, and processing of mining projects in Australia. It owns and operates the Prominent Hill Copper-Gold mine located in northern South Australia; the Carrapateena project located in South Australia; and the Antas mine located in the state of Pará in the northern region of Brazil. The company also holds interests in the West Musgrave copper-nickel project located in the Musgrave Province, Western Australia; Pedra Branca project located in the southern part of the Carajás in the state of Pará in the North of Brazil; and the CentroGold project located in the state of Maranhão in northern Brazil. In addition, it holds an agreement to acquire interest in the West Musgrave copper- nickel project located in the Musgrave Province, Western Australia. Further, the company has interests in the Paraiso, Pantera, Lannavaara, East Musgrave, Punt Hill, Oaxaca, Coompana, and Eloise properties. The company was founded in 2008 and is headquartered in Adelaide, Australia.
Sandfire Resources NL (ASX:SFR)	Sandfire Resources NL is a mining company with projects in Australia and internationally. The company's flagship project is a 100% owned DeGrussa copper-gold mine located in the Bryah Basin mineral province of Western Australia. The company also explores for copper, gold, and silver, as well as volcanogenic massive sulphide deposits. Sandfire Resources NL was incorporated in 2003 and is based in West Perth, Australia.
Metals X Limited (ASX:MLX)	Metals X Limited operates tin and copper mines in Australia. It operates through Renison Tin Operations, Nifty Copper Operations, Maroochydore Copper Project, and Wingellina Nickel Project segments. The company holds a 50% interest in the Renison tin project located on the west coast of Tasmania; and a 100% interest in the Nifty copper project, as well as Maroochydore copper project in Western Australia. It also holds a 100% interest in the Central Musgrave project that covers an area of 2,000 square kilometres of exploration tenure, including the Wingellina nickel- cobalt limonite deposit, the Claude Hills nickel deposit, and the Mt Davies exploration prospects located in the Central Musgrave ranges. The company was incorporated in 2004 and is based in Perth, Australia.
Aurelia Metals Limited (ASX:AMI)	Aurelia Metals Limited explores for and develops mineral properties in Australia. The company primarily explores for gold, silver, lead, zinc, and copper deposits. The company holds interests in the Hera project located to the south-east of Cobar in Central New South Wales; and the Peak gold mines situated near Cobar in Western New South Wales. The company was formerly known as YTC Resources Limited and changed its name to Aurelia Metals Limited in June 2014. Aurelia Metals Limited is headquartered in Orange, Australia.
Galena Mining Limited (ASX:G1A)	Galena Mining Limited engages in the acquisition and exploration of mineral projects in Australia. It explores for copper, gold, lead, silver, zinc, and manganese deposits. The company owns a 100% interest in the Abra Base Metals project located in the Gascoyne region, Western Australia. Its projects also include the Mulgul and the Jillawarra- woodlands projects. Galena Mining Limited was incorporated in 2016 and is based in Subiaco, Australia.
Red River Resources Limited (ASX:RVR)	Red River Resources Limited is an Australian zinc producer. The company owns an interest in the Thalanga base metals project located in Queensland; and the Hillgrove project situated in Armidale, New South Wales. Red River Resources Limited is based in Charters Towers, Australia.



Company Name	Company Description
Peel Mining Limited (ASX:PEX)	Peel Mining Limited explores for and develops precious, base, and specialty metal resources in New South Wales and Western Australia, Australia. It explores for copper, zinc, lead, silver, gold, and tungsten deposits. The company's principal projects include the Mallee Bull copper project comprising an area of 80 square kilometres located in the central New South Wales; the Cobar Superbasin project that comprise 23 exploration licenses and applications covering an area of approximately 2,800 square kilometres located in the Cobar Basin of New South Wales; and the Wagga Tank project, which include four tenements located in the Cobar Basin of New South Wales. Peel Mining Limited was founded in 2006 and is based in West Perth, Australia.
Venturex Resources Limited (ASX:VXR)	Venturex Resources Limited, together with its subsidiaries, engages in the exploration and development of mineral resources in Australia. It primarily explores for copper, zinc, lead, silver, and gold deposits. The company's flagship project is the Sulphur Springs project that includes Sulphur Springs and Kangaroo Caves volcanogenic massive sulphide deposits and tenements covering 6,000 hectares of the Panorama Trend located near Port Hedland, Pilbara, Western Australia. Its principal project also includes the Whim Creek project, which comprises the Mons Cupri, Whim Creek, Salt Creek, and Evelyn VMS deposits, as well as tenements covering 18,000 hectares of the Whim Creek and Mallina basins situated to the south west of Port Hedland, Western Australia. The company was incorporated in 2006 and is based in West Perth, Australia.

Source: Capital IQ and BDO analysis



# Appendix 6 - Comparable companies cost of debt

Company Name	Company Description
Pilbara Minerals Limited (ASX:PLS)	Pilbara Minerals Limited engages in the exploration, development, and operation of mineral resources in Australia. The company holds a 100% interest in the Pilgangoora lithium-tantalum project located in the Pilbara region of Western Australia. Pilbara Minerals Limited was incorporated in 2005 and is headquartered in West Perth, Australia.
Image Resources NL (ASX:IMA)	Image Resources NL operates as a mineral sands mining company. The company focuses on mining, ore processing, and production of heavy mineral concentrates. Its flagship projects are the Boonanarring and Atlas projects, which are North Perth Basin mineral sands projects located in Western Australia. The company is based in West Perth, Australia.
Cardinal Resources Limited (ASX: CDV)	Cardinal Resources Limited, together with its subsidiaries, engages in the exploration and development of mineral properties in Ghana. It primarily explores for gold deposits. The company's principal project is Namdini Gold project located in the Bolgatanga region. Cardinal Resources Limited was incorporated in 2010 is based in West Perth, Australia.
New Century Resources Limited (ASX: NCZ)	New Century Resources Limited operates as a base metal producer with operations in Australia and the United States. The company explores for zinc, lead, and coking coal deposits. It holds interests in the Century mine located in Queensland, Australia; and the Kodiak project located in Alabama. The company was formerly known as Attila Resources Limited and changed its name to New Century Resources Limited in July 2017. New Century Resources Limited was incorporated in 2010 and is based in Melbourne, Australia.
Altura Mining Limited (ASX:AJM)	Altura Mining Limited engages in the exploration, development and operation of mineral properties in primarily in Australia. Its main operations are Lithium Mining, Exploration Services, and Mineral Exploration segments. The company has begun production of spodumene at its 100% owned Pilgangoora Lithium project located in the Pilbara region of Western Australia. It also provides drilling services to mining and exploration companies. The company is based in Perth, Australia.
Terramin Australia Limited (ASX:TZN)	Terramin Australia Limited, together with its subsidiaries, engages in the exploration, evaluation, and development of base and precious metals, and other economic mineral deposits in Australia and internationally. The company primarily explores for zinc, lead, gold, and copper deposits. Its flagship project is the Tala Hamza zinc project located on the Mediterranean coast in Algeria. The company was incorporated in 1993 and is based in Fullarton, Australia.
Australian Pacific Coal Limited (ASX:AQC)	Australian Pacific Coal Limited acquires, explores for, develops, and produces thermal and metallurgical coal prospects in Australia. The company holds interests in the Dartbrook project covering a total of 3,268 hectares located in the coal region of the Hunter Valley, New South Wales; and various coal tenements in the Bowen, Surat, Galilee, and Clarence-Moreton basins, Queensland. Australian Pacific Coal Limited is based in Brisbane, Australia.
Source: Capital IO and BDO analysis	

#### Source: Capital IQ and BDO analysis



# **AGM Registration Card**

If you are attending the meeting in person, please bring this with you for Securityholder registration.

[EntityRegistrationDetailsLine1Envelope] [EntityRegistrationDetailsLine2Envelope] [EntityRegistrationDetailsLine3Envelope] [EntityRegistrationDetailsLine4Envelope] [EntityRegistrationDetailsLine5Envelope] [EntityRegistrationDetailsLine6Envelope]

# [HolderNumber]

Holder Number: [HolderNumber]

# Vote by Proxy: HRR

Your proxy voting instruction must be received by **2:00PM (AEDT) on Tuesday 3 December 2019,** being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

# SUBMIT YOUR PROXY VOTE ONLINE

# Vote online at https://investor.automic.com.au/#/loginsah

Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Voting form.

- ✓ Save Money: help minimise unnecessary print and mail costs for the Company.
- It's Quick and Secure: provides you with greater privacy, eliminates any postal delays and the risk of potentially getting lost in transit.
- Receive Vote Confirmation: instant confirmation that your vote has been processed. It also allows you to amend your vote if required.

# SUBMIT YOUR PROXY VOTE BY PAPER

#### Complete the form overleaf in accordance with the instructions set out below.

# YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Company's share register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal: https://investor.automic.com.au/#/home Shareholders sponsored by a broker should advise their broker of any changes.

#### **VOTING UNDER STEP 1 - APPOINTING A PROXY**

If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that Individual or body corporate. A proxy need not be a Shareholder of the Company. Otherwise if you leave this box blank, the Chairman of the Meeting will be appointed as your proxy by default.

#### DEFAULT TO THE CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Voting Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP

#### VOTES ON ITEMS OF BUSINESS - PROXY APPOINTMENT

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

#### APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Voting Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Voting Forms together. If you require an additional Proxy Voting Form, contact Automic Registry Services.

# SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided

Individual: Where the holding is in one name, the Shareholder must sign.

**Joint holding**: Where the holding is in more than one name, all of the Shareholders should sign.

**Power of attorney:** If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Voting Form when you return it.

**Companies**: To be signed in accordance with your Constitution. Please sign in the appropriate box which indicates the office held by you.

Email Address: Please provide your email address in the space provided.

By providing your email address, you elect to receive all communications dispatched by the Company electronically (where legally permissible) such as a Notice of Meeting, Proxy Voting Form and Annual Report via email.

#### CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Company's share registry online at https://automic.com.au.

#### ATTENDING THE MEETING

Completion of a Proxy Voting Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Voting Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.

#### POWER OF ATTORNEY

If a representative as power of attorney of a Shareholder of the Company is to attend the Meeting, a certified copy of the Power of Attorney, or the original Power of Attorney, must be received by the Company in the same manner, and by the same time as outlined for proxy forms.



10	Return your completed form All enquiries to Automic	
Contact <mark>US</mark>	BY MAIL O IN PERSON R BY EMAIL	
act	Automic Automic meetings@automicgroup.com.au	
ntc	GPO Box 5193 Level 5, 126 Phillip Street PHONE 1300 288 664 (Within Australia)	
ပိ	Sydney NSW 2001         Sydney NSW 2000         1500 288 664 (Within Adstratid)           +61 2 9698 5414 (Overseas)         +61 2 9698 5414 (Overseas)	
	Complete and return this form as instructed only if you do not vote online	
	I/We being a Shareholder entitled to attend and vote at the Annual General Meeting of Heron Resources Limited, to be held at 2:00PM (AEDT) on Thursday 5 December 2019 at Automic Group Level 5, 126 Phillip Street, Sydney NSW 2000 hereby:	
hxc		
Pro	Appoint the Chairman of the Meeting (Chair) OR if you are not appointing the Chairman of the Meeting as your proxy, please write in the box provided below the name of the person or body corporate you are appointing as your proxy or failing the person so	
our	named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no	
tΥc	directions have been given, and subject to the relevant laws as the proxy sees fit and at any adjournment thereof.	
STEP 1: Appoint Your Proxy		
dd	The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.	
A :	Unless indicated otherwise by ticking the "for"," against" or "abstain" box you will be authorising the Chair to vote in accordance	
Р 1	with the Chair's voting intention. AUTHORITY FOR CHAIR TO VOTE UNDIRECTED PROXIES ON REMUNERATION RELATED RESOLUTIONS	
STE	Where I/we have appointed the Chair as my/our proxy (or where the Chair becomes my/our proxy by default), I/we expressly	
0)	authorise the Chair to exercise my/our proxy on Resolution 1 (except where I/we have indicated a different voting intention below)	
	even though Resolution 1 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel, which includes the Chair.	
	Resolutions For Against Abstain	
	1. Adoption Of Remuneration Report (Non-Binding Resolution)	
ion		
ect	2. Re-Election Of Borden Putnam lii As A Director	
Dir		
ing	3. Approval Of Greenstone Convertible Note Issue	
Vot		
Your Voting Direction	4. Approval Of Castlelake Convertible Note Issue	
	5. Approval Of Orion Convertible Note Issue	
Ю		
STEP	6. Approval Of Debt Restructure	
S		
	Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands	
	or on a poll and your votes will not be counted in computing the required majority on a poll.	
	SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED	
റ്റ	Individual or Securityholder 1 Securityholder 2 Securityholder 3	
tail		
De		
act	Sole Director and Sole Company Secretary     Director     Director / Company Secretary       Contact Name:	
onte		
Ŭ		
e t	Email Address:	
He		
gn		
3: Sign Here + Contact Details		
<u>м</u>	Contact Daytime Telephone Date (DD/MM/YY)	
STEP		
0		

By providing your email address, you elect to receive all of your communications despatched by the Company electronically (where legally permissible).