



# Heron Resources Limited

## ASX/TSX Release

17 July 2017

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ABN: 30 068 263 098

### Notice of General Meeting for Woodlawn financing

**Heron Resources Limited (ASX:HRR TSX:HER, “Heron” or the “Company”)** refers to its previous announcements regarding the Woodlawn Financing.

The Board of Heron has today approved the Notice of General Meeting in relation to a meeting of shareholders to be held on Thursday August 17<sup>th</sup> 2017 to consider the Woodlawn financing.

The Notice of General Meeting (which incorporates an explanatory statement, a management circular, an independent experts report and an independent valuation report) has been dispatched to shareholders.

A copy of the Notice of General Meeting is attached. It is an important document and shareholders are encouraged to read it in full.

#### About Heron Resources Limited

Heron is engaged in the exploration and development of base and precious metal deposits in Australia. Heron's primary development project is the high-grade Woodlawn Zinc-Copper Project located 250km southwest of Sydney, New South Wales.

For further information regarding Heron please visit [www.heronresources.com.au](http://www.heronresources.com.au) or contact:

#### Heron Resources

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# Heron Resources Limited

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### CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

*This report contains forward-looking statements and forward-looking information within the meaning of applicable Canadian securities laws, which are based on expectations, estimates and projections as of the date of this report. This forward-looking information includes, or may be based upon, without limitation, estimates, forecasts and statements as to management's expectations with respect to, among other things, the timing and amount of funding required to execute the Company's exploration, development and business plans, capital and exploration expenditures, the effect on the Company of any changes to existing legislation or policy, government regulation of mining operations, the length of time required to obtain permits, certifications and approvals, the success of exploration, development and mining activities, the geology of the Company's properties, environmental risks, the availability of labour, the focus of the Company in the future, demand and market outlook for precious metals and the prices thereof, progress in development of mineral properties, the Company's ability to raise funding privately or on a public market in the future, the Company's future growth, results of operations, performance, and business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expect", "intend", "may" and similar expressions have been used to identify such forward-looking information. Forward-looking information is based on the opinions and estimates of management at the date the information is given, and on information available to management at such time. Forward-looking information involves significant risks, uncertainties, assumptions and other factors that could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking information. These factors, including, but not limited to, fluctuations in currency markets, fluctuations in commodity prices, the ability of the Company to access sufficient capital on favourable terms or at all, changes in national and local government legislation, taxation, controls, regulations, political or economic developments in Canada, Australia or other countries in which the Company does business or may carry on business in the future, operational or technical difficulties in connection with exploration or development activities, employee relations, the speculative nature of mineral exploration and development, obtaining necessary licenses and permits, diminishing quantities and grades of mineral reserves, contests over title to properties, especially title to undeveloped properties, the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drill results and other geological data, environmental hazards, industrial accidents, unusual or unexpected formations, pressures, cave-ins and flooding, limitations of insurance coverage and the possibility of project cost overruns or unanticipated costs and expenses, and should be considered carefully. Many of these uncertainties and contingencies can affect the Company's actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. Prospective investors should not place undue reliance on any forward-looking information. Although the forward-looking information contained in this report is based upon what management believes, or believed at the time, to be reasonable assumptions, the Company cannot assure prospective purchasers that actual results will be consistent with such forward-looking information, as there may be other factors that cause results not to be as anticipated, estimated or intended, and neither the Company nor any other person assumes responsibility for the accuracy and completeness of any such forward-looking information. The Company does not undertake, and assumes no obligation, to update or revise any such forward-looking statements or forward-looking information contained herein to reflect new events or circumstances, except as may be required by law. **No stock exchange, regulation services provider, securities commission or other regulatory authority has approved or disapproved the information contained in this report.***



# NOTICE of GENERAL MEETING, EXPLANATORY STATEMENT and MANAGEMENT CIRCULAR



**Heron Resources Limited**

NOTICE IS HEREBY GIVEN of  
a meeting of Shareholders of  
Heron Resources Limited  
ABN 30 068 263 098

**Date of Meeting:**  
Thursday 17 August 2017

**Time of Meeting:**  
2.00pm AEDT

**Place of Meeting:** The Grace Hotel, King Room, Level 1, 77 York Street, Sydney, NSW 2000

## Your Vote is IMPORTANT

### Unanimous Directors' Recommendation to vote in favour

The Independent Directors consider the Proposed Funding Package the best opportunity to progress the Woodlawn Project into development. 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.



The Independent Expert's Report is attached to this Notice of Meeting at Attachment A. The report concludes that the transaction the subject of Resolution 1 in this Notice of General Meeting is **fair and reasonable** to the Company's non-associated Shareholders for the reasons set out in this report.

This Notice of 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 advisor without delay.

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



# Chairman's Letter

Dear Shareholders,

On behalf of the Heron Board, I am pleased to provide you with this Notice of Meeting for the Proposed Funding Package for the construction and operation of the Company's Woodlawn Zinc-Copper Project in NSW, Australia.

The development of Woodlawn has been our stated objective for the last three years and a principal driver for the merger between Heron and TriAusMin that was completed in 2014. Since the merger, Heron has continued to advance the Woodlawn Project through a Preliminary Economic Assessment completed in 2015, a Feasibility Study completed in 2016 and now the securing of the development funding that will enable construction to commence. In addition, in early 2017 we restructured our project portfolio through the spin-out of non-Woodlawn assets into Ardea Resources Limited. This provided Heron with an opportunity to return value to Shareholders via an in-species distribution of Ardea shares, while ensuring that our focus remained firmly on the development of Woodlawn.

The Proposed Funding Package is now being presented to all Heron Shareholders to consider at a meeting to be held on Thursday, 17 August 2017.

Approval of the Proposed Funding Package will deliver a complete financing solution for Woodlawn and enable Heron to commence construction immediately. With commissioning expected to commence in late 2018, we anticipate that we will be delivering zinc into a market which is becoming increasingly constrained in terms of mine supply. The price outlook for zinc, our principal export commodity, is therefore very positive. Heron's transition to becoming a significant producer of zinc and other metals will be a major milestone for the Company.

**The Board believes that all the Resolutions referred to in this Notice of Meeting are in the best interests of the Company and its Shareholders and encourage you to vote in favour of all the Resolutions. You should note that all Resolutions must be passed to give effect to the Proposed Funding Package. The Independent Directors who hold or control Shares intend to vote in favour of all the Resolutions** (subject to no superior proposal emerging).

## ***The Proposed Funding Package***

On 30 June 2017, the Company announced a A\$240 million funding package that was strongly supported by cornerstone private equity funds as well as by the wider institutional investor market.

The Proposed Funding Package will see Heron fully funded through construction and ramp-up at Woodlawn and was arrived at after a thorough and considered investigation of the funding options available to the Company. In the opinion of the Board, the Proposed Funding Package provides the best means for advancing the Woodlawn Project into production. With all major contracts and approvals in place, Heron intends to commence construction of Woodlawn immediately upon completing the transaction.

The Proposed Funding Package comprises a structured investment by the Orion Mine Finance Group including senior debt, a silver stream prepayment, a lead marketing arrangement, and an equity investment, together totalling approximately A\$129 million. In addition, the Company has secured equity investments from existing shareholder Greenstone and co-investment parties (the **Greenstone Parties**) for approximately A\$42 million, from Castllake for approximately A\$33 million, and from a placement to institutional investors for A\$32 million. Finally, the Company has announced a Share Purchase Plan for eligible existing Shareholders to raise up to an additional A\$5 million. Further details are provided in the Explanatory Statement.



# Chairman's Letter

## ***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 proposal for the Greenstone Parties to subscribe for A\$42 million in new Heron Shares resulting in a combined voting power of up to 27.96% in the Company<sup>2</sup> is "fair and reasonable" to Heron Shareholders (increasing from Greenstone's existing 11.75% interest in the Company). This opinion was required, in conjunction with shareholder approval, under item 7 section 611 of the Corporations Act due to the Greenstone Parties' combined voting power increasing above the stated 20% threshold.

The Independent Expert has concluded that, in the absence of a superior offer, the Greenstone Parties' participation in the Proposed Funding Package is both fair and reasonable to Heron Shareholders. In this regard, it is BDO's opinion that the position of Shareholders is more advantageous if the Proposed Funding Package is approved than the position if it is not approved.

## ***Further Information***

Your vote is important in determining whether the Proposed Funding Package proceeds and the Woodlawn Project can move into construction. All Resolutions referred to in the Notice of Meeting must be passed to give effect to the Proposed Funding Package. If the Proposed Funding Package is not approved at the General Meeting, the Company will be unable to proceed with its plans at Woodlawn in the near future.

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 Proposed Funding Package remains the logical and next development step for Heron 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 15 August 2017.

Your Independent Directors believe that the Proposed Funding Package is in the best interests of Heron Shareholders, as set out in this Explanatory Memorandum. 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

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<sup>1</sup> Independent Directors defined as each Board member other than Mark Sawyer (Greenstone's nominated representative to the Board).

<sup>2</sup> Assuming no take-up of the A\$5 million Share Purchase Plan.



# Key Reasons to Vote in Favour of the Resolutions and Support the Proposed Funding Package

1

## Unanimous Directors' Recommendation to Vote In Favour

The Independent Directors<sup>3</sup> consider the Proposed Funding Package the best opportunity to progress the Woodlawn Project into development. 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 Proposed Funding Package will provide all of the funding required to bring the Woodlawn Project into production.

The Woodlawn Project requires pre-production capital of approximately A\$156.3 million and over A\$300 million in total funding requirements which includes post-production capital costs, bond deposits, financing costs and working capital. Although some of this total cost is expected to be funded by the Project's operating cashflow, the majority needs to be sourced externally.

The Company has made extensive efforts in the past two years to obtain funding for the Woodlawn Project. The Company has, through the engagement of financial advisers as well as its own efforts, explored a number of funding options with more than 50 parties contacted and engaged throughout the funding process.

3

## Woodlawn Project Funding is Consistent with Heron's Stated Long Term Corporate Objectives

The rationale for the merger with TriAusMin in 2014 was to bring Woodlawn into production with the assistance of Heron's treasury.

Corporate activity since the merger has been in support of project development with the completion of the Preliminary Economic Assessment and Feasibility Study in the last 2 years.

The zinc market fundamentals remain very supportive, to the benefit of the Woodlawn development timetable.

4

## The Independent Expert Believes the Greenstone Equity Subscription is 'Fair and Reasonable'.

The Independent Expert has concluded that, in the absence of a superior offer, the Greenstone Equity Subscription is **fair and reasonable** to the Non-associated Shareholders.

The Independent Expert concluded that the Greenstone Equity Subscription is fair because the value of a Share after the acquisition (on a minority interest basis) is higher than the value of a Share prior to the acquisition (on a control basis).

In addition, the Independent Expert concluded that the Greenstone Equity Subscription is reasonable because it is fair but also because the advantages of the Greenstone Equity Subscription to Shareholders are greater than the disadvantages. In particular, the Greenstone Equity Subscription will provide critical funding for the Woodlawn Project, strengthens the financial position of the Company and may result in an increase in market capitalisation and in raising the profile of Heron with the global investor market.

Please refer to sections 2, 13 and 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.

<sup>3</sup> Independent Directors defined as each Board member other than Mark Sawyer (Greenstone's nominated representative to the Board).

# Key Reasons to Vote in Favour of the Resolutions and Support the Proposed Funding Package

5

## **Increase in Market Capitalisation and Profile of Heron**

If the Proposed Funding Package is approved and completes, Heron may increase its market capitalisation. As a larger company with a developing project, and a material presence in the zinc market, there is potential for greater broker coverage and overall investor interest in Heron's Shares.

An increase in Heron's market capitalisation, together with increased financial strength may also lead to an increase in the liquidity of the Shares traded on the ASX and TSX.

6

## **Strengthening the Company's Balance Sheet**

The Equity Raising is expected to provide approximately A\$140 million in cash to the Company (before transaction costs), increasing the Company's net asset position by the same amount on a standalone basis.

Raising a substantial proportion of the required funding through equity reduces potential gearing levels and strengthens the balance sheet of the Company overall. This is advantageous to Shareholders as it increases the financial strength of the Company and therefore reduces risk for Shareholders.

7

## **Funding Structure Aligns Major Investors to the Returns of All Shareholders**

The significant equity investments by the Greenstone Parties, Orion and Castlake may help align their investment returns objectives with that of other minority shareholders.





# Key Reasons why you may consider Voting Against the Resolutions and Not Support the Proposed Funding Package

1

You may disagree with the Independent Directors'<sup>4</sup> unanimous recommendation and / or the Independent Expert's conclusion that the transaction is 'fair and reasonable'.

2

Following the approval of the Proposed Funding Package, Shareholders' interest may decrease from 78.31% to 15.39%<sup>5</sup>. Existing Shareholders will suffer a substantial dilution of their shareholding and therefore their capacity to influence the operations of the Company will be reduced.

3

If the Proposed Funding Package is approved, the Greenstone Parties will together have a combined voting power of up to 27.96% of the Company's issued capital, and Orion and Castllake will hold up to 17.39% and 19.90% respectively<sup>6</sup>. With the presence of these significant shareholders, the attractiveness of the Company's Shares to potential investors may reduce and the ability for Shareholders to receive a takeover premium in the future may also be reduced.

<sup>4</sup> Independent Directors defined as each Board member other than Mark Sawyer (Greenstone's nominated representative to the Board).

<sup>5</sup> Excludes Greenstone HRR Holdings II and assumes full take-up of the Share Purchase Plan; excludes existing sophisticated shareholders that participated in the Institutional Placement.

<sup>6</sup> In all cases, assuming no take up under the Share Purchase Plan.





# Notice of General Meeting, Explanatory Statement and Management Circular

## Contents

Notice of General Meeting (Setting out the Proposed Resolutions).....	1
Explanatory Statement (Explaining the Proposed Resolutions) .....	5
Glossary .....	27

Annexure A – Summary of Material Agreements.....	30
Annexure B – Independent Experts Report.....	42
Annexure C – Information Circular .....	112

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## TIME AND PLACE OF MEETING AND HOW TO VOTE

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### VENUE

The General Meeting of the Shareholders to which this Notice of Meeting relates will be held at **2.00pm (AEDT)** on **Thursday, 17 August 2017** at:

The Grace Hotel, King Room  
Level 1, 77 York Street  
Sydney, New South Wales, 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 [www.securitytransfer.com.au](http://www.securitytransfer.com.au) and follow the instructions on your proxy form
- In person at:  
Security Transfer Registrars Pty Ltd  
Suite 913, Exchange Tower  
530 Little Collins Street  
Melbourne, Victoria
- By post to:  
Security Transfer Registrars Pty Ltd  
PO Box 52  
Collins Street West, Victoria, 8007
- By facsimile to +61 8 9315 2233
- By scan and email to [registrar@securitytransfer.com.au](mailto:registrar@securitytransfer.com.au)

Please note that the Proxy Form must be received by the Company not later than **2.00pm (AEDT)** on **15 August 2017**.

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

**In Canada**, a Shareholder desiring to appoint some other person to represent him or her at the Meeting may do so either by inserting such person's name in the blank space provided in that form of proxy or by completing another proper form of proxy and, in either case, mailing, faxing or emailing the form as above, or depositing the completed proxy at the office of:

TSX Trust,  
200 University Street, Suite 300,  
Toronto, Ontario, M5H 4H1.

Tel: 416-361-0930

Fax: 416-595-9593

Email: [TMXEInvestorServices@TMX.com](mailto:TMXEInvestorServices@TMX.com)

All duly completed and executed proxies of Shareholders in Canada must be received by TSX Trust Company not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the City of Toronto, Ontario) prior to the time set for the Meeting or any adjournments or postponements thereof. The information circular containing additional interest prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligation adopted by Canadian Securities Administrators is attached at Annexure C.

Proxy forms received later **2:00am (Toronto Time) on 15 August 2017**, 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 15 August 2017 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.

## NOTICE OF GENERAL MEETING

Notice is given that an General Meeting of the Shareholders of Heron Resources Limited (**Heron** or the **Company**) will be held at The Grace Hotel, King Room Level 1, 77 York Street Sydney, New South Wales, 2000 on 17 August 2017 commencing at 2.00pm (AEDT) to consider, and if thought fit, to pass the Resolutions set out below.

Terms used in this Notice of 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 General Meeting describes the matters to be considered at the General Meeting.

### ORDINARY BUSINESS

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#### 1. RESOLUTION 1 – APPROVAL OF SECURITIES ISSUE TO THE GREENSTONE PARTIES

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 of up to 601,503,761 Shares to the Greenstone Parties as follows:*

- (a) *Greenstone HRR Holdings II (or its nominee), and for the Greenstone Fund Parties to acquire a relevant interest in, up to 398,496,241 Shares, which will increase their voting power in the Company up to 19.30%;*
- (b) *the DUMAC Entities, and for each of the DUMAC Entities to together acquire a relevant interest in, 73,681,373 Shares representing voting power in the Company of 3.14%;*
- (c) *the J. Paul Getty Trust, and for J. Paul Getty Trust to acquire a relevant interest in, 48,545,282 Shares representing voting power in the Company of 2.07%; and*
- (d) *GEF-PUE, LP, and for GEF-PUE, LP to acquire a relevant interest in, 80,780,865 Shares representing voting power in the Company of 3.44%,*

*and the acquisition by those parties and their associates of combined voting power in the Company of an aggregate maximum of 27.96%, for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of General Meeting.*

**Voting exclusion:** The Company will disregard any votes cast on Resolution 1 by any Greenstone Party and any person associated with a Greenstone Party.

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by BDO Corporate Finance (WA) Pty Ltd for the purpose of shareholder approval required under item 7 of section 611 of the Corporations Act for this Resolution 1. The Independent Expert's Report comments on the fairness and reasonableness of the Share issue under this Resolution 1 to the non-associated shareholders of the Company. The Independent Expert has determined that, in the absence of a superior offer, the Share issue to the Greenstone Parties under this Resolution 1 is 'fair and reasonable' to the non-associated Shareholders of the Company.

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#### 2. RESOLUTION 2 – APPROVAL OF SECURITIES ISSUE TO ORION

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

*That, for the purpose of Listing Rule 7.1, and for all other purposes, Shareholders approve the issue of up to 407,894,737 Shares to Orion Mine Finance Fund II LP (or its nominees), for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of General Meeting.*

**Voting exclusion:** The Company will disregard any votes cast on Resolution 2 by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary securities) if the Resolution is passed, and any person



associated with those persons. However, the Company will not disregard any votes cast on Resolution 2 by such person if:

- (a) the person is acting as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) the person is the Chair of the Meeting acting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### 3. RESOLUTION 3 – APPROVAL OF SECURITIES ISSUE TO CASTLELAKE

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

*That, for the purpose of Listing Rule 7.1, and for all other purposes, Shareholders approve the issue of 420,845,260 Shares to Castlake III, L.P. and Castlake IV, L.P., or their nominees (collectively, “Castlake”), for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of General Meeting.*

**Voting exclusion:** The Company will disregard any votes cast on Resolution 3 by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary securities) if the Resolution is passed, and any person associated with those persons. However, the Company will not disregard any votes cast on Resolution 3 by such person if:

- (a) the person is acting as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) the person is the Chair of the Meeting acting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### 4. RESOLUTION 4 – APPROVAL OF SECURITIES ISSUE UNDER THE INSTITUTIONAL PLACEMENT

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

*That, for the purpose of Listing Rule 7.1, and for all other purposes, Shareholders approve the issue of up to 454,123,786 Shares to various institutional investors, for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of General Meeting.*

**Voting exclusion:** The Company will disregard any votes cast on Resolution 4 by any person who may participate in the proposed issue and any person who might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary securities) if the Resolution is passed, and any person associated with those persons. However, the Company will not disregard any votes cast on Resolution 4 by such person if:

- (a) the person is acting as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) the person is the Chair of the Meeting acting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### 5. RESOLUTION 5 – RATIFICATION OF SECURITIES ISSUE TO CASTLELAKE

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

*That, for the purpose of Listing Rule 7.4, and for all other purposes, Shareholders approve and ratify the issue of 45,856,116 Shares in the Company to Castlake, for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of General Meeting.*

**Voting exclusion:** The Company will disregard any votes cast on Resolution 5 by any person who participated in the issue and any person associated with that person. However, the Company will not disregard any votes cast on Resolution 5 by such person if:

- (a) the person is acting as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) the person is the Chair of the Meeting acting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**6. RESOLUTION 6 – RATIFICATION OF PREVIOUS SECURITIES ISSUE TO GREENSTONE HRR HOLDINGS II AND ORION**

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

*That, for the purpose of Listing Rule 7.4, and for all other purposes, Shareholders approve and ratify the issue of up to 57,896,229 Shares in the Company to Orion and Greenstone HRR Holdings II, for the purpose and on the terms set out in the Explanatory Statement accompanying this Notice of General Meeting.*

**Voting exclusion:** The Company will disregard any votes cast on Resolution 6 by any person who participated in the issue and any person associated with that person. However, the Company will not disregard any votes cast on Resolution 6 by such person if:

- (a) the person is acting as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) the person is the Chair of the Meeting acting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## EXPLANATORY STATEMENT

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

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



**SIMON SMITH**  
**Company Secretary**  
Heron Resources Limited

17 July 2017

*The Notice of 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

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

This Explanatory Statement should be read in conjunction with the Notice of 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 General Meeting, please contact the Company Secretary, your stockbroker or other professional adviser.

The information circular containing additional interest prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligation adopted by Canadian Securities Administrators is attached at Annexure C.

### 2. BACKGROUND

#### 2.1 Proposed Funding Package

On 30 June 2017, the Company announced that it will be undertaking a funding package to raise funds for the purposes of developing its high grade Woodlawn Zinc-Copper Mine located 250 km southwest of Sydney in New South Wales (**Woodlawn Project**) (**Proposed Funding Package**). The Proposed Funding Package is to comprise the following:

- (a) **(Equity Raising)**: institutional placement offers to raise, in aggregate, up to approximately A\$140 million which will take place in five tranches:
  - (i) Tranche 1 – a placement of 45,856,116 Shares to Castlake III, L.P. and Castlake IV, L.P. (**Castlake**) at an issue price of A\$0.07 per Share (**Subscription Price**) to raise approximately A\$3.21 million;
  - (ii) Tranche 2 – a placement of 57,896,229 Shares to Greenstone HRR Holdings II L.P. (**Greenstone HRR Holdings II**) and Orion Mine Finance Fund II LP (or one or more of its affiliates) (**Orion**) at the Subscription Price to raise approximately A\$4.05 million;
  - (iii) Tranche 3 - an equity placement of 454,123,786 Shares to various institutional investors (**Institutional Placement**) at the Subscription Price to raise approximately A\$31.79 million;
  - (iv) Tranche 4 – a further placement of 1,169,340,009 Shares to Castlake, Greenstone HRR Holdings II and Orion and a placement of 203,007,520 Shares to the other Greenstone Parties, each at the Subscription Price to raise approximately A\$96.06 million; and
  - (v) Tranche 5 - a share purchase plan whereby shareholders as at the relevant record date will be offered the opportunity to subscribe for up to \$15,000 of Shares at the Subscription Price to raise up to a maximum of A\$5 million (**Share Purchase Plan**);
- (b) **(Loan Facility Agreement)**: a senior secured loan from Orion of US\$60 million;
- (c) **(Silver Stream Agreement)**: a silver stream with Orion, involving a deposit of US\$16 million; and
- (d) **(Marketing Fee Arrangement)**: a lead marketing fee agreement with Orion.

Further details of the Proposed Funding Package are set out below. In addition, summaries of the key terms of the agreements governing the Proposed Funding Package are set out in Annexure A.

## 2.2 Tranches 1, 2 and 4 - Placements to Castlake, the Greenstone Parties and Orion

As announced on 30 June 2017 the Company has entered into agreements with Castlake, the Greenstone Parties and Orion, pursuant to which the Company has agreed to issue:

- (a) under Tranche 1 of the Equity Raising, 45,856,116 Shares at an issue price of A\$0.07 per Share to Castlake to raise approximately A\$3.21 million;
- (b) under Tranche 2 of the Equity Raising:
  - (i) 30,075,964 Shares at an issue price of A\$0.07 per Share to Greenstone HRR Holdings II, to raise approximately A\$2.11 million; and
  - (ii) 27,820,265 Shares at an issue price of A\$0.07 to Orion, to raise approximately A\$1.95 million; and
- (c) under Tranche 4 of the Equity Raising:
  - (i) a further 420,845,260 Shares at an issue price of A\$0.07 per Share to Castlake, to raise approximately A\$29.46 million;
  - (ii) a further 368,420,277 Shares at an issue price of A\$0.07 per Share to Greenstone HRR Holdings II, to raise approximately A\$25.79 million;
  - (iii) 203,007,520 Shares at an issue price of A\$0.07 per Share to the other Greenstone Parties, to raise approximately A\$14.21 million and
  - (iv) a further 380,074,472 Shares at an issue price of A\$0.07 to Orion, to raise approximately A\$26.61 million.

Tranche 1 completed on 4 July 2017 and the ratification of Shares issued under Tranche 1 is the subject of Resolution 5.

Tranches 2 and 4 are scheduled to occur contemporaneously in early September 2017. However, Greenstone HRR Holdings II and Orion, separately, have the right to elect to complete Tranche 2 early.

The subscription funds for Tranche 2 are currently held in escrow and will be released to the Company at Completion. However, each of Greenstone HRR Holdings II and Orion may elect to waive all of the unsatisfied conditions in respect of all or some of the Shares to be issued under Tranche 2, and to be issued all or some of those Tranche 2 Shares provided that such issue can be made without shareholder approval and in the case of Greenstone HRR Holdings II, its voting power does not exceed 19.9% in the Company as a result of the issue.

Completion under Tranches 2 and 4 to each of the Greenstone Parties, Castlake and Orion is conditional on, and expected to occur immediately after Completion under the Institutional Placement.

### Conditions Precedent for Tranche 2 and 4

Completion under Tranches 2 and 4 is subject to the following outstanding conditions precedent being satisfied or waived by no later than 30 September 2017:

- (a) the Company obtaining the necessary shareholder approval to give effect to the issue of Shares under the Castlake Subscription Agreement, the Greenstone Subscription Agreements, the Orion Subscription Agreement and the Institutional Placement, including for the purposes of ASX Listing Rule 7.1 and in the case of the Greenstone Equity Subscription, item 7 of section 611 of the Corporations Act;
- (b) in the case of the Castlake Equity Subscription only, Castlake receiving written notice of non-objection under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) from the Treasurer of the Commonwealth of Australia, to the Treasurer otherwise being precluded from making an order in relation to the subscription of Shares by Castlake under Tranche 4;
- (c) in the case of the Orion Equity Subscription and Castlake Equity Subscription only, ASX granting a waiver from Listing Rule 6.18 in relation to the proposed grant of the Participation Right to Orion and Castlake, respectively;
- (d) all conditions relating to Tranches 2, 3 and 4 becoming unconditional (other than with respect to their respective ASX Conditions, MAC Conditions, concurrent completion under

- the Greenstone Subscription Agreements, Orion Subscription Agreement and Castllake Subscription Agreement and completion under the Institutional Placement);
- (e) certain key conditions precedent under the Loan Facility Agreement have either been satisfied or waived in accordance with the Loan Facility Agreement;
- (f) certain key conditions precedent under the Silver Stream Agreement have either been satisfied or waived in accordance with the Silver Stream Agreement;
- (g) the ASX not indicating to the Company that it will refuse to grant quotation of the Shares issued under Equity Raising or otherwise make quotation conditional (**ASX Condition**); and
- (h) in the case of the Castllake Equity Subscription and Greenstone Equity Subscription only, no material adverse changes occurring before Completion (**MAC Condition**).

If Resolutions 1 to 4 are approved by Shareholders, and subject to any other outstanding conditions precedent being satisfied or waived, and subject to each of Greenstone HRR Holdings II and Orion, separately having the right to elect to complete Tranche 2 early, Completion under Tranches 2 and 4 is expected to occur within 18 business days after the Meeting.

## 2.3 Tranche 3 - Institutional Placement

As announced on 30 June 2017, the Company has received commitments to subscribe for 454,123,786 Shares under the Institutional Placement, including Subscription Receipts to subscribe for 39,285,715 Shares. Shares issued upon conversion of the Subscription Receipts will be quoted on the TSX (**TSX Component**), with the remaining 414,838,071 Shares to be quoted on the ASX (**ASX Component**).

Euroz Securities Limited is sole and exclusive Global Co-ordinator and Bookrunner to the Institutional Placement. Paradigm Capital Inc. and Numis Securities Limited are co-lead managers to the Institutional Placement.

The Institutional Placement is subject to the following outstanding conditions precedent being satisfied:

- (a) the Company obtaining the necessary shareholder approval to give effect to the issue of Shares under the Castllake Subscription Agreement, the Greenstone Subscription Agreements, the Orion Subscription Agreement and the Institutional Placement, including for the purposes of ASX Listing Rule 7.1 and in the case of the Greenstone Equity Subscription, item 7 of section 611 of the Corporations Act;
- (b) in the case of the ASX Component, the ASX Condition;
- (c) in the case of the TSX Component, the TSX not indicating to the Company that it will refuse to grant quotation of the Shares issued under TSX Component or otherwise make quotation conditional;
- (d) all conditions relating to Tranches 2, 3 and 4 becoming unconditional (other than with respect to their respective ASX Conditions, MAC Conditions, concurrent completion under the Greenstone Subscription Agreements, Orion Subscription Agreement and Castllake Subscription Agreement and completion under the Institutional Placement); and
- (e) each of Orion, the Greenstone Parties and Castllake depositing the applicable funds for completion under their respective agreements into an escrow account at least 1 Business Day before the Completion Date.

If Resolutions 1 to 4 are approved by Shareholders, and subject to any other outstanding conditions precedent being satisfied or waived, Completion under Tranche 3 is expected to occur within 18 business days after the Meeting and immediately before Completion under Tranches 2 and 4.

### ASX Component

Shares issued under the ASX Component will be issued under sections 708(8) and (11) of the Corporations Act (sophisticated and professional investor exemptions) without disclosure under Chapter 6D of the Corporations Act.

### TSX Component

The Company intends to lodge a preliminary short form prospectus with the Canadian securities regulatory authorities, including the Ontario Securities Commission in connection with the TSX Component, followed by a final short form prospectus evidencing the final pricing and terms of the



Subscription Receipts. Each Subscription Receipt will be automatically converted and entitle the holder to receive, without payment of additional consideration, one (1) Share upon the satisfaction of certain escrow release conditions, including approval from Shareholders under Resolution 4.

The gross proceeds attributable to the Subscription Receipts will be held in escrow pending satisfaction of the escrow release conditions. If the escrow release conditions have not been satisfied on or prior to 5.00pm (Toronto time) on 31 August 2017 or other time as agreed by the Company and Capital Transfer Agency Inc., the Subscription Receipts will be cancelled and an amount equal to the subscription price attributable to the Subscription Receipts shall be returned to the holders of the Subscription Receipts.

## 2.4 Tranche 5 – Share Purchase Plan

On or around the date of this Notice of Meeting, the Company sent a letter to Shareholders setting out the terms of the offer of Shares by the Company pursuant to the Share Purchase Plan.

Under the terms of the Share Purchase Plan:

- (a) the opening date is anticipated to be 19 July 2017 and is expected to close on 29 August 2017;
- (b) the anticipated maximum number of Shares to be issued by the Company is 71,428,571 Shares;
- (c) the Shares will be issued at A\$0.07; and
- (d) Shareholders with registered addresses in Australia and New Zealand (**Eligible Shareholders**) will each be offered the opportunity to subscribe for a maximum of that number of Shares which when multiplied by the issue price is valued at \$15,000.

Shares issued under the Share Purchase Plan will be issued under ASIC Class Order 09/425 (share purchase plans relief).

## 3. REQUIREMENT FOR SHAREHOLDER APPROVAL

### 3.1 Why is Shareholder approval required?

As a result of the number of Shares to be issued under the Equity Raising, Shareholder approval is required for the Equity Raising to proceed. Separate Shareholder approval (under Resolution 1) is required for the Greenstone Parties as their voting power will exceed the 20% Corporations Act and TSX Company Manual thresholds on Completion as a result of the proposed subscription of Shares under Tranches 2 and 4.

As stated in Sections 2.2 and 2.3, each of Tranches 2, 3 and 4 of the Equity Raising is conditional on the Company obtaining the necessary shareholder approval to give effect to the issue of Shares under the Castletlake Subscription Agreement, the Greenstone Subscription Agreements, the Orion Subscription Agreement and the Institutional Placement, including for the purposes of ASX Listing Rule 7.1 and in the case of the Greenstone Equity Subscription, item 7 of section 611 of the Corporations Act. These approvals are the subject of the Resolutions 1 to 4. Accordingly, each of Resolutions 1 to 4 must be passed in order for the Equity Raising to proceed.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding how to vote in respect of the Resolutions.

ASX has confirmed that Listing Rule 10.1 does not apply to those aspects of the Proposed Funding Package that involve Orion, being the Orion Equity Subscription, the grant or enforcement of the security under the Loan Facility Agreement and the Silver Stream Agreement. Accordingly, shareholder approval is not being sought at the General Meeting for the purposes of Listing Rule 10.1.

### 3.2 Independent Expert's Report

To assist Shareholders in their consideration of Resolution 1, and to satisfy the requirements of the Corporations Act and ASX Listing Rules, the Board has engaged an Independent Expert to opine whether or not the acquisition of Shares by the Greenstone Parties, as contemplated under Resolution 1 (**Greenstone Equity Subscription**) is fair and reasonable to Shareholders who are not associated with the Greenstone Parties.

The Independent Expert has concluded that, in the absence of a superior offer, the Greenstone Equity Subscription is **fair and reasonable** for the following reasons:

- (a) the Greenstone Equity Subscription is fair because the value of a Share after the Greenstone Equity Subscription (on a minority interest basis) is higher than the value of a Share prior to the Greenstone Equity Subscription (on a control basis); and
- (b) the Greenstone Equity Subscription is reasonable because the advantages of the Greenstone Equity Subscription to Shareholders are greater than the disadvantages. In particular, the Greenstone Equity Subscription will provide critical funding for the Woodlawn Project, strengthens the financial position of the Company and may result in an increase in market capitalisation and in raising the profile of Heron with the global investor market.

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 8.3 and the Independent Expert's Report to understand its scope, the methodology of the valuation and the sources of information and assumptions made.

Greenstone HRR Holdings currently own 54,131,658 Shares representing 11.75% of the Shares on issue which will prior to completion be transferred to Greenstone HRR Holdings II. As result, the Greenstone Fund Parties are an "insider" of the Company and the purchase of Equity Securities by Greenstone HRR Holdings II constitutes a "related party transaction" as such terms are defined by Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (**MI 61-101**) adopted by Canadian Securities Administrators. In accordance with MI 61-101, the Company is required, in the absence of exemptions, to obtain a formal valuation for, and minority shareholder approval of, the "related party transaction".

- (a) In the case of the Tranche 2, the Company is relying on the exemptions from the formal valuation and minority approval requirements of MI 61-101 pursuant to which a formal valuation and minority approval are not required in the event that at the time the investment in Tranche 2 of the Equity Raising is agreed to, neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the transaction, insofar as it involves Greenstone HRR Holdings II, exceeds 25 per cent of the aggregate amount of the Shares outstanding upon completion of Tranche 2.
- (b) In the case of Tranche 4, no exemptions are required from MI 61-101 as minority approval will be obtained and an "Independent Expert's Report" will be provided to shareholders which satisfies the requirement of a formal valuation under MI 61-101.

Greenstone HRR Holdings II has agreed to acquire a total of 398,496,241 Shares pursuant to Equity Raising for gross proceeds of A\$27,894,737. Greenstone will own 452,627,899 Shares representing 19.30% of the issued Shares after completion of all Tranches of the Equity Raising (assuming no Shares are issued under the Share Purchase Plan). The participation in the Equity Raising by Greenstone HRR Holdings II was approved by directors of the Company who are independent of that related party. Mr. Mark Sawyer is the nominated representative of Greenstone on the Board and he abstained from approval of this matter.

### 3.3 Directors' recommendation

The Directors, other than Mark Sawyer (**Independent Directors**) do not have any material interest in the outcome of the Resolutions, other than as a result of their interest arising solely in the capacity of Shareholders of the Company.

The Independent Directors consider that the Proposed Funding Package represents a meaningful opportunity that will allow the Company to progress the Woodlawn Project into development phase. 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 the Resolutions are in the best interest of the Company and recommend that Shareholders vote in favour of these 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, being the sole member of Greenstone, the general partner of Greenstone

HRR Holdings and Greenstone HRR Holdings II (see Section 4 for further details). When it became apparent that the Proposed Funding Package would involve a placement of Shares to Greenstone, the Company immediately put in place appropriate corporate governance arrangements to ensure the process of considering alternative financing structures and agreeing the Proposed Funding Package structure did not involve any interested directors, including Mr Sawyer. Mr Sawyer abstains from making a recommendation in relation to Resolutions 1 and 6, being those resolutions to which Greenstone has an interest. However, Mr Sawyer recommends that Shareholders vote in favour of Resolutions 2 to 5, subject to no superior proposal and intends to vote all Shares controlled by him in favour of Resolutions 2 to 5, in the absence of a superior proposal.

## 4. WHO IS GREENSTONE?

This Section 4 has been prepared by Greenstone. The information concerning Greenstone and the intentions, views and opinions contained in this Section 4 are the responsibility of Greenstone. Heron does not assume any responsibility for the accuracy or completeness of the information included in this Section 4.

Greenstone has established and manages the investments of various private equity funds formed for the purposes of investment in the mining and metals sector. The funds typically invest in post exploration development projects and support management teams in bringing projects into production.

### 4.1 Overview of Greenstone

#### (a) The Greenstone Funds

Greenstone HRR Holdings L.P (**Greenstone HRR Holdings**) 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.

In accordance with the incorporation arrangements and operation of prevailing law, Greenstone Delaware as general partner has exclusive responsibility for the management and conduct of the business of Greenstone HRR Holdings 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 HRR Holdings.

The limited partners in Greenstone HRR Holdings cannot take any part in the management or control of the business and affairs of Greenstone HRR Holdings, nor do they have any right or authority to act for or to bind Greenstone HRR Holdings. They do not have a general power to vote (other than in very limited circumstances). The limited partners may also not in any way interfere in the conduct or management of Greenstone HRR Holdings.

Greenstone HRR Holdings II L.P (**Greenstone HRR Holdings II**) is also a Delaware limited partnership formed for the purposes of acquiring Shares under the Equity Raising.

The general partner of Greenstone HRR Holdings II is also Greenstone Delaware.

By Completion, the limited partners of the Greenstone HRR Holdings II will comprise Greenstone HRR Holdings (holding approximately 81% of the limited partnership interests) and other limited partners of Greenstone HRR Holdings. Greenstone HRR Holdings II was set up to make a further investment by Greenstone HRR Holdings in the Company whilst offering existing limited partners an opportunity to co-invest by taking up interests in Greenstone HRR Holdings II. As part of acquiring its interest in Greenstone HRR Holdings II, Greenstone HRR Holdings will transfer its existing investment in the Company to Greenstone HRR Holdings II (comprising 54,131,658 Shares held on its behalf by its general partner, Greenstone Delaware).

The same rights and responsibilities of the general partner and the limited partners of Greenstone HRR Holdings described above also apply to the general partner and limited partners of Greenstone HRR Holdings II.

Accordingly, it is Greenstone Delaware who controls all decisions (including the exercise of voting rights) and the power to dispose of the shares held in Heron and the holdings of the limited partners are entirely passive.



Following successful completion of the Equity Raising, Greenstone Delaware in its capacity as general partner of Greenstone HRR Holdings II will hold a total of 452,627,899 Shares (including the 54,131,658 Shares to which it already holds an interest) comprising 19.30% of the then issued capital of the Company (assuming no Shares are issued under the Share Purchase Plan).

(b) General Partner

Greenstone Delaware is a wholly-owned subsidiary of Greenstone Management Limited (**Greenstone Management**), a company incorporated in Guernsey. As a sole member limited liability Delaware company, Greenstone Delaware has no board of directors and Greenstone Management, as the sole member, makes all decisions for, and controls, Greenstone Delaware. Greenstone Management acts as the investment manager for both Greenstone HRR Holdings and Greenstone HRR Holdings II.

The powers of Greenstone Management are exercised by its board, with the directors of Greenstone Management being Mark Sawyer (UK resident), Michael Haworth (UK resident), Sadie Morrison (Guernsey resident) and Joanna Duquemin Nicolle (Guernsey resident). Mr Sawyer is also a non-executive director of the Company but as one of four directors of Greenstone Management does not control Greenstone Management and therefore the making of investments decisions for Greenstone HRR Holdings, Greenstone HRR Holdings II or any of the Greenstone Parties including in connection with the Shares they hold or will hold.

Following successful completion of the Equity Raising, due to these powers of control described above Greenstone Delaware and Greenstone Management (as general partners of both Greenstone HRR Holdings and Greenstone HRR Holdings II) will also have a relevant interest in a total of up to 452,627,899 Shares comprising 19.30% of the then issued capital of the Company (assuming no Shares are issued under the Share Purchase Plan).

## 4.2 Direct investment in Heron by certain limited partners

During the course of Greenstone offering existing limited partners the opportunity to co-invest into Greenstone HRR Holdings II, certain limited partners elected a preference to invest directly into the Company. These entities were therefore introduced to the Company. They are:

- (a) G LTP LLC, G HSP LLC, G JBD LLC and G ERP LLC, each managed by DUMAC, Inc. (**DUMAC Entities**) who each have agreed to subscribe to Shares in the Company that, in aggregate, total 73,681,373 Shares. 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 23.53% of the limited partnership interests in Greenstone HRR Holdings. 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. Following successful Completion, this subscription will result in the DUMAC Entities holding a direct interest of 73,681,373 Shares being 3.14% of the then issued shares in the Company (assuming no Shares are issued under the Share Purchase Plan).
- (b) The J Paul Getty Trust (**Getty Foundation**) has agreed to subscribe for 48,545,282 Shares in the Company. The Getty Trust was founded in 1953 and is a nonprofit private operating foundation dedicated to supporting the visual arts. The Trust 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 also holds 6.48% of the limited partnership interests in Greenstone HRR Holdings. Following successful Completion, this subscription will result in Getty Foundation holding a direct interest of approximately 48,545,282 Shares being 2.07% of the then issued shares in the Company (assuming no Shares are issued under the Share Purchase Plan); and

- (c) GEF—PUE, LP (**GEF**), an entity affiliated with Global Endowment Management, LP (**Global Endowment**) has agreed to subscribe for 80,780,865 Shares in the Company. Global Endowment is an employee-owned registered investment adviser and fund sponsor based in Charlotte, North Carolina led by Co-Founder and CEO Thruston B. Morton, III. The investor base for the Global Endowment fund is predominately composed of US foundations, endowments and family offices. The Global Endowment fund also holds 25.92% of the limited partnership interests in Greenstone HRR Holdings. Following successful Completion, this subscription will result in Global Endowment holding a direct interest in the Company of 80,780,865 Shares being 3.44% of the then issued shares in the Company (assuming no Shares are issued under the Share Purchase Plan).

As stated above, the limited partner interests in Greenstone HRR Holdings held by these entities does not give them the power to control Greenstone HRR Holdings or the voting or disposal of the Shares held by Greenstone Delaware in its capacity as general partner of Greenstone HRR Holdings II. It is therefore a passive investment.

Similarly, Greenstone does not currently have any agreement, arrangement or understanding with those entities as to how they will in the future act in respect of the Shares 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 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 (the limited partners' subscription agreement being conditional upon the satisfaction or waiver of the conditions precedent in Greenstone HRR Holdings II's subscription agreement and their right of termination being where Greenstone HRR Holdings II has elected to terminate its subscription agreement) 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 27.96%). 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 Completion.

### 4.3 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 development of, and production from, the Woodlawn Project at the earliest possible instance.

If Completion occurs Greenstone has also confirmed that Greenstone 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 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 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 4.2, being the DUMAC Entities, the Getty Foundation and GEF) have made the same confirmations to Greenstone.

Greenstone has provided the Company with this information to assist the Company to meet its obligations under ASIC Regulatory Guide 74. Heron takes no responsibility for any omission from, or any error or false or misleading statement in this Section 4.3.

## 5. WHO IS ORION?

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.

The Orion Mine Finance Group is a mining focused investment business with approximately \$3.04 billion currently under management (as of 31 March 2017) specialising in providing flexible capital investment solutions to mining companies in the base and precious metals sector. Orion Mine Finance Group has demonstrated capability in debt, equity, convertibles, off-take, streaming and royalty investments.

Further information concerning Orion can be found at: <https://www.orionminefinance.com>.

## 6. WHO IS CASTLELAKE?

Castlelake is a global private investment firm managing private funds with more than \$10.3 billion in assets (as of March 31, 2017) on behalf of its limited partners. The Castlelake team is comprised of more than 100 professionals across its Minneapolis headquarters and London office.

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.

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

## 7. ADVANTAGES AND DISADVANTAGES OF THE PROPOSED FUNDING PACKAGE

This Section sets out the key advantages and disadvantages of the Proposed Funding Package (including the Greenstone Equity Subscription) that have been identified by your Directors as at the date of this Explanatory Statement. Shareholders should carefully consider all of the advantages and disadvantages of the Proposed Funding Package and read the meeting documentation including the attached Independent Expert's Report in detail, before deciding how to vote on the Resolutions.

### (a) *Key Advantages*

The Directors consider that the key advantages to the Company and Non-associated Shareholders of completing the Proposed Funding Package (including the Greenstone Equity Subscription) are as follows:

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

Heron is focused on the development of the Woodlawn Project, having completed its project feasibility study and being granted mining lease and project approvals. However the Woodlawn Project is not yet funded and in order for it to be developed, the Company will need to raise sufficient equity and potentially debt to meet the required capital investment.

The Woodlawn Project requires pre-production capital of approximately AUD\$156.3 million and over AUD\$300 million in total funding requirements which include components such as post-production capital costs, bond deposits, financing costs and working capital. Whilst a little over AUD\$100 million is

expected to be funded by the Project's operating cashflow, the balance funding requirements need to be sourced externally.

The Company has made extensive efforts in the past two years to obtain funding for the Woodlawn Project. The Company has, through the engagement of financial advisers as well as its own efforts, explored a number of funding options with more than 50 parties engaged and contacted throughout the funding process.

However these attempts were either unsuccessful or were assessed to be "too expensive" compared to the terms offered by Greenstone and Orion in the Proposed Funding Package, and were not commensurate with the risk of the Project.

The Company's investigations into obtaining debt finance led the Board to decide, and the management team to negotiate, the funding package with Orion and equity funding from Orion, Greenstone and Castllake. Strong equity support from cornerstone investors was considered important given the size of the required capital relative to the Company's current market capitalisation.

Under the Greenstone Equity Subscription, the Greenstone Parties will provide approximately A\$42.11 million in equity funds, representing approximately 31.16% of the total funds that Heron plans to raise through under the Equity Raising (excluding the Share Purchase Plan) and comprises 17.91% of the total funds to be raised under the Proposed Funding Package (excluding the Share Purchase Plan).

The provision of these funds is subject to completion under the Castllake Equity Subscription, Orion Equity Subscription and the Institutional Placement.

Castllake's contribution to the Proposed Funding Package under the Castllake Subscription Agreement comprises 24.18% of the total funds to be raised under the Equity Raising (excluding the Share Purchase Plan) and 13.89% of the total funds to be raised under the Proposed Funding Package (excluding the Share Purchase Plan).

Orion's contribution to the Proposed Funding Package under the Orion Equity Subscription comprises 21.13% of the total funds to be raised under the Equity Raising (excluding the Share Purchase Plan). Together with its funding commitments under the Loan Facility Agreement, Silver Stream Agreement, Orion's contribution comprises 54.68% of the total funds to be raised under the Proposed Funding Package (excluding the Share Purchase Plan).

Together, the Castllake Equity Subscription, Greenstone Equity Subscription, Orion Equity Subscription, the Institutional Placement, the Share Purchase Plan, Loan Facility Agreement and Silver Stream Agreement will provide a significant level of funding for the Woodlawn Project, which is critical for the ability of the Woodlawn Project to be developed in the near future.

(ii) **Strengthens Company's relationship with its cornerstone investor**

Greenstone is currently a major shareholder, holding approximately 11.75% of the total issued capital in the Company. The Greenstone Equity Subscription is expected to bring Greenstone's shareholding from the current 11.75% to up to 19.30%, and the Greenstone Parties a combined shareholding of up to 27.96%. Greenstone is expected to continue being the Company's largest shareholder following the Proposed Funding Package.

(iii) **Strengthening the Company's balance sheet**

The Equity Raising is expected to provide approximately A\$140 million in cash to the Company (before transaction costs), with the Greenstone Equity Subscription to contribute approximately A\$42.11 million of that amount, increasing the Company's net asset position by the same amount on a standalone basis.

Raising a substantial proportion of the required funding through equity reduces gearing levels and strengthens the balance sheet of the Company overall. This is an advantage to Shareholders as it increases the financial strength of the Company and therefore reduces risk for Shareholders.



The larger equity base also increases the Company's capacity to take on more debt in the event that Heron may require debt funding in the future. Debt financiers may potentially look favourably on the strength of the Company's cornerstone investors and be more likely to provide debt financing in the future.

(iv) **Increase in market capitalisation and profile of Heron with the investor market**

If the Proposed Funding Package (including the Greenstone Equity Subscription) is approved and completes, Heron may increase its market capitalisation. As a larger company, there is potential for greater broker coverage and presence in the zinc market.

An increase in Heron's market capitalisation, together with increased financial strength noted in the Section above may also lead to an increase in the liquidity of the Shares traded on the ASX and TSX.

(v) **The Independent Expert believes the Greenstone Equity Subscription is 'fair and reasonable'**

The Independent Expert has concluded that, in the absence of a superior offer, the Greenstone Equity Subscription is 'fair and reasonable' to the Non-associated Shareholders.

The Independent Expert concluded that the Greenstone Equity Subscription is fair because the value of a Share post-Completion (on a minority interest basis), being between A\$0.069 and A\$0.094 with a preferred value of A\$0.081 is higher than the value of a Share pre-Completion (on a control basis), being between A\$0.064 and A\$0.088 with a preferred value of A\$0.075).

In addition, the Independent Expert considered the following advantages and disadvantages and concluded that the position of Shareholders if the Greenstone Equity Subscription is approved is more advantageous than the position if the Greenstone Equity Subscription is not approved:

Advantages

- (A) the Greenstone Equity Subscription is fair for the reasons stated above;
- (B) the Greenstone Equity Subscription will provide critical funding for the Woodlawn Project;
- (C) the Greenstone Equity Subscription will strengthen the financial position of the Company; and
- (D) the Greenstone Equity Subscription may result in an increase in market capitalisation and in raising the profile of Heron with the global investor market.

Disadvantages

- (A) the Greenstone Equity Subscription will result in a dilution of the shareholding of existing Shareholders; and
- (B) the increased presence of significant shareholders as a result of the Proposed Funding Package may reduce the attractiveness of the Company's shares to potential investors.

Accordingly, in the absence of any other relevant information and/or an alternative proposal, the Independent Expert concluded that the Greenstone Equity Subscription is 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 Proposed Funding Package (including the Greenstone Equity Subscription) are as follows:

(i) **Dilution of shareholdings for existing Shareholders**

Following the approval of the Proposed Funding Package, existing Shareholders' interest (excluding Greenstone and Castllake) may decrease from 78.31% to 15.39% (assuming no Shares are issued under the Share Purchase Plan). Shareholders will suffer a substantial dilution of their shareholding and therefore their capacity to influence the operations of the Company will be reduced.

(ii) **Increased presence of significant Shareholders**

If the Proposed Funding Package is approved, the Greenstone Parties will together hold up to a combined 27.96% of the Company's issued capital, and Orion and Castllake will hold up to 17.39% and 19.90% respectively. With the presence of these significant shareholders, the attractiveness of the Company's Shares to potential investors may reduce and the ability for Shareholders to receive a takeover premium in the future may also be reduced.

## 7.2 What happens if the Proposed Funding Package does not proceed

Shareholder approval and completion under the Castllake Equity Subscription, Greenstone Equity Subscription, the Orion Equity Subscription and the Institutional Placement are inter-conditional. Accordingly, if the Greenstone Equity Subscription, Orion Equity Subscription, Castllake Equity Subscription or the Institutional Placement are not approved under Resolutions 1 to 4, respectively, or do not otherwise complete, none of the others will proceed.

In those circumstances, and the absence of being able to secure alternative funding in the short term, the Company's financial position is such that it would need to urgently consider scaling (and likely would resolve to scale) back the level of activity undertaken in relation to the development of the Woodlawn Project. This would in turn materially adversely affect the prospects of the Company being able to develop the Woodlawn Project in the short to medium term.

An adverse impact on the prospects of the Company may also adversely impact the future share price of the Company. This may mean that equity funding that may be required in the future may be at materially lower prices than prevailing at the date this Explanatory Statement was finalised and hence would likely be highly dilutive to existing Shareholders.

## 7.3 Impact of the Proposed Funding Package on the capital structure of the Company

	Shares held by the Greenstone Parties	Shares held by Orion	Shares held by Castllake	Shares held by other Shareholders	Total
Current	54,131,658	Nil	45,856,116	360,877,723	460,865,497
Shares issued under Tranche 2	30,075,964	27,820,265	Nil	Nil	57,896,229
Shares issued under Tranche 3	Nil	Nil	Nil	454,123,786	454,123,786
Shares issued under Tranche 4	571,427,797	380,074,472	420,845,260	Nil	1,372,347,529
<b>Total</b>	<b>655,635,419</b>	<b>407,894,737</b>	<b>466,701,376</b>	<b>815,001,509</b>	<b>2,345,233,041</b>

Notes: This table is based on the following assumptions:

1. The Company does not issue any additional Shares after 17 July 2017, being the date of this Explanatory Statement, other than as contemplated in the table above.
2. None of the Greenstone Parties, Orion or Castllake or their respective Associates acquire any relevant interest in Shares after 17 July 2017, being the date of this Explanatory Statement, other than as contemplated in the table above.
3. No option holders convert their options into Shares after 17 July 2017, being the date of this Explanatory Statement.
4. No Shares are issued under the Share Purchase Plan.

Therefore, upon Completion, assuming no Shares are issued under the Share Purchase Plan:

- (a) The Greenstone Parties' voting power will increase from 11.75% (54,131,658 Shares of the total 460,865,497 Shares) to 27.96% (being 655,635,419 Shares of the total 2,345,233,041 Shares);
- (b) Orion's voting power will increase from nil to 17.39% (being 407,894,737 Shares of the total 2,345,233,041 Shares); and
- (c) Castlake's voting power will increase from nil to 19.90% (being 466,701,376 Shares of the total 2,345,233,041 Shares).

#### 7.4 Use of funds raised from the Proposed Funding Package

The funds raised from the Proposed Funding Package will be used to construct and operate the Woodlawn Project, as well as for general corporate purposes, as detailed in the table below:

Uses of funds	A\$m
Construction and development of the Woodlawn Project:	
Pre-production capex	156
Post-production capex	23
Reserve accounts / contingency for overruns	33
Environmental bond and bank guarantees	8
Working capital	6
<b>Sub-total</b>	<b>225</b>
Financing and Offer Costs	7
Corporate:	
Corporate office	1
Woodlawn land purchase	2
Woodlawn regional exploration (non-SML20)	5
<b>Total Uses of Funds</b>	<b>240</b>

## 8. RESOLUTION 1 - APPROVAL OF SECURITIES ISSUE TO THE GREENSTONE PARTIES

### 8.1 Background

The Company proposes to issue 601,503,761 Shares at an issue price of A\$0.07 per Share to raise approximately A\$42.11 million under the Greenstone Equity Subscription, which will have the effect of taking the combined Greenstone Parties' voting power in the Company over the 20% threshold.

For background to the Greenstone Equity Subscription, please see Section 2.2.

### 8.2 Regulatory Requirements

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:

1. from 20% or below to more than 20%; or
2. 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 Resolution 1 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 Resolution 1, 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 under Resolution 1 for the Company to issue Shares to the Greenstone Parties which will result in the Greenstone Parties increasing their voting power in the Company to more than 20% for the purposes of item 7 of section 611 of the Corporations Act.

As noted in section 4.2, to the extent that the current arrangements and Greenstone's role in facilitating these direct investments (including being involved in document preparation, the satisfaction of conditions precedent and managing the completion process on behalf of these entities) creates an associate relationship between the Greenstone Parties up to and at the point of Completion, approval is sought for this extended voting power (being 27.96%). For the reasons set out in section 4.2, it is not expected that this extended voting power will continue following Completion.

The information requirements outlined in paragraph 8.2(b) above are set out in Section 8.4 below.

Section 6.4 of the TSX Company Manual has comparable requirements for independent shareholder approval where, amongst other matters, the issuance of securities materially affects control of the listed issuer, which includes circumstances where voting power increases from below 20% to more than 20%. These same provisions of the TSX Company Manual also require independent shareholder approval where "insiders" such as the Greenstone Fund Parties, where Greenstone HRR Holdings currently owns 11.75% of Shares which is in excess of the 10% insider threshold, participate in the equity financing in aggregate of 10% or greater of the market capitalisation of the listed issue, during any six month period, and has not been negotiated at arm's length.

### 8.3 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, the proposal set out in Resolution 1 is fair and reasonable to Shareholder not associated with the Greenstone Equity Subscription.

In analysing whether the proposal set out in Resolution 1 is fair and reasonable when considered from the perspective of the Shareholders (other than the Greenstone Parties and their respective Associates) and to value the benefit given to the Greenstone Parties, the Independent Expert is required to:

- (a) consider whether the advantages of the issue of the Shares to the Greenstone Parties 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 issue of the Shares to the Greenstone Parties;
- (c) inquire whether further transactions are planned between the Company and the Greenstone Parties or any of their respective Associates, and if any, determine whether those transactions would be on an arm's length basis;
- (d) consider the position of Shareholders if the Greenstone Equity Subscription and Proposed Funding Package do not proceed and the consequences of not approving the issue of the Shares to the Greenstone Parties; and
- (e) consider whether the issue of the Shares to the Greenstone Parties, 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 proposal to issue the Shares to the Greenstone Parties is 'fair and reasonable' to Shareholders of the Company not associated with the Greenstone Equity Subscription.

Please refer to Section 7(a)(v) for a summary of the Independent Expert's conclusion, including the advantages and disadvantages of the Greenstone Equity Subscription noted by the Independent Expert. In addition, a complete copy of the Independent Expert's Report is provided at Annexure B.

#### 8.4 Specific information required

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).

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

Following successful Completion, Greenstone HRR Holdings II will hold a total of up to 452,627,899 Shares comprising 19.30% of the then issued capital of the Company (assuming no Shares are issued under the Share Purchase Plan). For the reasons set out in Section 4.1, Greenstone Delaware (as general partner of both Greenstone HRR Holdings and Greenstone HRR Holdings II) and Greenstone Management (as the sole member of Greenstone Delaware) will also have the same relevant interest.

Certain limited partners of Greenstone HRR Holdings will also acquire a total of 203,007,520 Shares comprising 8.66% of the then issued capital of the Company (assuming no Shares are issued under the Share Purchase Plan). For the reasons set out in Section 4.2, approval is also sought for the combined maximum voting power of the Greenstone Parties and those entities (being a total of 27.96% in the Company). For the reasons set out in Section 4.2, given there are no ongoing agreement, arrangement or understanding between the parties in respect of these Shares or Heron, it is not expected that this extended voting power will continue following Completion.

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

(b) *Reasons for the proposed issue of Shares*

The Shares are being issued to the Greenstone Parties as part of the broader Proposed Funding Package being conducted by the Company for the purposes of raising funds to develop the Company's Woodlawn Project. For further information under the intended use of funds raised under the Proposed Funding Package, please refer to Section 7.4.

(c) *Timing of the proposed issue of Shares*

The Shares will be issued on Completion, which is expected to occur in early September 2017.

(d) *Material terms of the proposed issue of Greenstone Shares*

The material terms on which the Shares are to be issued under the Greenstone Equity Subscription are set out in Section 2 of Annexure A.

(e) *Details of terms of other relevant agreements between Greenstone (and its Associates) and the Company, conditional on Shareholder approval*

There are no other contracts or proposed contract 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 Shareholders approval.

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

Please refer to Section 4.3 for details of the Greenstone Parties' intentions regarding the future of the Company upon Completion.

(g) *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, being the sole member of Greenstone, the general partner of Greenstone HRR Holdings and Greenstone HRR Holdings II (see section 4 for further details). When it became apparent that the Proposed Funding Package would

involve a placement of Shares to Greenstone, the Company immediately put in place appropriate corporate governance arrangements to ensure the process of considering alternative financing structures and agreeing the Proposed Funding Package structure did not involve any interested directors, including Mr Sawyer.

- (h) *Details of any person who is intended to or will become a Director if Shareholders agree to the allotment of the Shares under the Greenstone Equity Subscription*

None

- (i) *Directors' recommendations*

Please refer to Section 3.3 above.

On balance and taking into account the advantages and disadvantages of the Greenstone Equity Subscription, the Directors other than Mr Sawyer unanimously recommend that, subject to no superior proposal arising, Shareholders vote in favour of Resolution 1 so as to enable the Greenstone Equity Subscription to proceed. Each Director intends to vote all Shares controlled by him or her in favour of Resolution 1 in the absence of a superior proposal.

- (j) *Independent Expert's Report*

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

## 9. RESOLUTION 2 – APPROVAL OF SECURITIES ISSUE TO ORION

### 9.1 Background

The Company proposes to issue 407,894,737 Shares at an issue price of A\$0.07 per Share to Orion to raise approximately A\$28.55 million under the Equity Raising.

For background to the Equity Raising and the Orion Equity Subscription, please see Section 2.2.

### 9.2 Regulatory Requirements

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.

The issue of Shares pursuant to Resolution 2 will exceed the 15% limit and therefore requires the approval of Shareholders.

The Shares proposed to be issued, for which approval is sought under Resolution 2, comprise 83.91% of the Company's fully diluted issued capital (based on the number of Shares and Options on issue as at the date of this Notice of General Meeting).

In compliance with the information requirements of Listing Rule 7.3, Shareholders are advised of the following information:

- (a) **Maximum number of securities to be issued**

The Company intends to issue a total of 407,894,737 Shares to Orion.

- (b) **Date of issue**

The Shares will be issued as soon as possible but, in any case, not later than 3 months after the date of Shareholder approval pursuant to this Resolution 2 or such later date as approved by ASX.

- (c) **Issue price**

The issue price will be A\$0.07 per Share.

- (d) **The names of the persons to whom the entity will issue the securities or the basis on which those persons will be determined**

The Shares will be allotted to Orion or its nominees, who is not or will not be a related party of the Company.

(e) **Terms of the securities**

The Shares will be fully paid ordinary shares in the capital of the Company on the same terms and conditions as the Company's existing Shares and rank equally in all respects with the existing Shares. The Company will apply to ASX for official quotation of the Shares.

(f) **Intended use of the funds raised**

The Shares are being issued to Orion as part of the broader Proposed Funding Package being conducted by the Company for the purposes of raising funds to develop the Company's Woodlawn Project. For further information under the intended use of funds raised under the Proposed Funding Package, please refer to Section 7.4.

(g) **Voting exclusion statement**

A voting exclusion statement for Resolution 2 is included in the Notice of General Meeting preceding this Explanatory Statement.

### 9.3 Board Recommendation

Please refer to Section 3.3 above.

The Board believes that the proposed issue is beneficial for the Company and unanimously recommends Shareholders vote in favour of this Resolution. It will allow the Company to retain the flexibility to issue further Equity Securities representing up to 15% of the Company's share capital during the next 12 months.

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## 10. RESOLUTION 3 – APPROVAL OF SECURITIES ISSUE TO CASTLELAKE

### 10.1 Background

The Company proposes to issue 420,845,260 Shares at an issue price of A\$0.07 per Share to Castlake to raise approximately A\$29.46 million under the Equity Raising.

For background to the Castlake Equity Subscription, please see Section 2.2.

### 10.2 Regulatory Requirements

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.

The issue of Shares pursuant to Resolution 3 will exceed the 15% limit and therefore requires the approval of Shareholders.

The Shares proposed to be issued, for which approval is sought under Resolution 3, comprise 86.58% of the Company's fully diluted issued capital (based on the number of Shares and Options on issue as at the date of this Notice of General Meeting).

In compliance with the information requirements of Listing Rule 7.3, Shareholders are advised of the following information:

(a) **Maximum number of securities to be issued**

The Company intends to issue a total of 420,845,260 Shares to Castlake.

(b) **Date of issue**

The Shares will be issued as soon as possible but, in any case, not later than 3 months after the date of Shareholder approval pursuant to this Resolution 3 or such later date as approved by ASX.

(c) **Issue price**

The issue price will be A\$0.07 per Share.

(d) **The names of the persons to whom the entity will issue the securities or the basis on which those persons will be determined**

The Shares will be allotted to Castllake or its nominees, who is not or will not be a related party of the Company.

(e) **Terms of the securities**

The Shares will be fully paid ordinary shares in the capital of the Company on the same terms and conditions as the Company's existing Shares and rank equally in all respects with the existing Shares. The Company will apply to ASX for official quotation of the Shares.

(f) **Intended use of the funds raised**

The Shares are being issued to Castllake as part of the broader Proposed Funding Package being conducted by the Company for the purposes of raising funds to develop the Company's Woodlawn Project. For further information under the intended use of funds raised under the Proposed Funding Package, please refer to Section 7.4.

(g) **Voting exclusion statement**

A voting exclusion statement for Resolution 3 is included in the Notice of General Meeting preceding this Explanatory Statement.

### 10.3 Board Recommendation

Please refer to Section 3.3 above.

The Board believes that the proposed issue is beneficial for the Company and unanimously recommends Shareholders vote in favour of this Resolution. It will allow the Company to retain the flexibility to issue further Equity Securities representing up to 15% of the Company's share capital during the next 12 months.

## 11. RESOLUTION 4 – APPROVAL OF SECURITIES ISSUE UNDER THE INSTITUTIONAL PLACEMENT

### 11.1 Background

The Company proposes to issue a total of 454,123,786 Shares at an issue price of A\$0.07 per Share to raise approximately A\$31.79 million under the Institutional Placement to certain institutional investors.

For background to the Institutional Placement, please refer to Section 2.3.

### 11.2 Regulatory Requirements

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.

The issue of Shares pursuant to Resolution 4, including the Shares to be issued upon conversion of the Subscription Receipts, will exceed the 15% limit and therefore requires the approval of Shareholders.

The Shares proposed to be issued, for which approval is sought under Resolution 4, comprise 93.42% of the Company's fully diluted issued capital (based on the number of Shares and Options on issue as at the date of this Notice of General Meeting).

In compliance with the information requirements of Listing Rule 7.3, Shareholders are advised of the following information:

(a) **Maximum number of securities to be issued**

The Company intends to issue a total of 454,123,786 Shares (including 39,285,715 Shares to be issued upon conversion of the Subscription Receipts).



(b) **Date of issue**

The Shares will be issued as soon as possible but, in any case, not later than 3 months after the date of Shareholder approval pursuant to this Resolution 4 or such later date as approved by ASX.

(c) **Issue price**

The issue price will be A\$0.07 per Share.

(d) **The names of the persons to whom the entity will issue the securities or the basis on which those persons will be determined**

The Directors will determine the parties to whom the Shares will be issued and will ensure that these persons will not be related parties of the Company

The Shares will be allotted to institutional investors participating in the Company's Institutional Placement, as announced to ASX on 30 June 2017.

(e) **Terms of the securities**

The Shares will be fully paid ordinary shares in the capital of the Company on the same terms and conditions as the Company's existing Shares and rank equally in all respects with the existing Shares. The Company will apply to ASX and TSX for official quotation of the Shares.

(f) **Intended use of the funds raised**

The Shares are being issued under the Institutional Placement which forms part of the broader Proposed Funding Package being conducted by the Company for the purposes of raising funds to develop the Company's Woodlawn Project. For further information under the intended use of funds raised under the Proposed Funding Package, please refer to Section 7.4.

(g) **Voting exclusion statement**

A voting exclusion statement for Resolution 4 is included in the Notice of General Meeting preceding this Explanatory Statement.

Section 607(g) of the TSX Company Manual has comparable requirements for independent shareholder approval where, amongst other matters, the aggregate number of listed securities issuable is greater than 25% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of closing of the transaction if the price per security is less than the market price.

### 11.3 Board Recommendation

Please refer to Section 3.3 above.

The Board believes that the proposed issue is beneficial for the Company and unanimously recommends Shareholders vote in favour of this Resolution. It will allow the Company to retain the flexibility to issue further Equity Securities representing up to 15% of the Company's share capital during the next 12 months.

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## 12. RESOLUTION 5 – RATIFICATION OF SECURITIES ISSUE TO CASTLELAKE

### 12.1 Background

As noted in Section 2.2, on 4 July 2017, the Company issued 45,856,116 Shares to Castlake.

Accordingly, the purpose of Resolution 5 is for Shareholders to ratify the issue of 45,856,116 Shares which was undertaken by way of a placement without Shareholder approval.

### 12.2 Regulatory Requirements

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 ordinary 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 7.4 states that an issue by a company of securities made without approval under Listing Rule 7.1 is treated as having been made with approval for the purpose of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 and the company's members subsequently approve it.

Listing Rule 7.1A provides that in addition to issues permitted without prior shareholder approval under Listing Rule 7.1, an entity that is eligible and obtains shareholder approval under Listing Rule 7.1A may issue or agree to issue during the period the approval is valid a number of Equity Securities which represents 10% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period as adjusted in accordance with the formula in Listing Rule 7.1. Listing Rule 7.4 provides that a company may reinstate its capacity to issue up to an additional 10% under Listing Rule 7.1A if shareholders ratify the previous issue of securities.

Accordingly, under Resolution 5, the Company seeks from Shareholders approval for, and ratification of, the issue of 45,856,116 Shares to Castl lake comprising the following:

- (a) 41,500,938 Shares so as to restore the capacity of the Company to issue further Equity Securities under Listing Rule 7.1A; and
- (b) 4,611,214 Shares so as to limit the restrictive effect of Listing Rule 7.1 on any further issue of Equity Securities in the next 12 months..

The Shares issued, for which approval and ratification is sought under Resolution 5, comprise 9.43% of the Company's fully diluted issued capital (based on the number of Shares and Options on issue as at the date of this Notice of General Meeting).

In compliance with the information requirements of Listing Rule 7.5, Shareholders are advised of the following information:

- (a) **Number of securities issued**  
Under Resolution 5, the Company seeks from Shareholders approval for, and ratification of, the issue of 45,856,116 Shares.
- (b) **The price at which the securities were issued**  
The Shares were issued for A\$0.07 per Share.
- (c) **Terms of the securities**  
The Shares are fully paid ordinary shares in the capital of the Company on the same terms and conditions as the Company's existing Shares and rank equally in all respects with the existing Shares.  
The Company has applied to ASX for official quotation of the Shares.
- (d) **The names of the persons to whom the entity issued the securities or the basis on which those persons were determined**  
The Shares were issued to Castl lake or its nominees, who is not or will not be a related party of the Company.
- (e) **The use of the funds raised**  
The Shares were issued as part of the broader Proposed Funding Package being conducted by the Company for the purposes of raising funds to develop the Company's Woodlawn Project. For further information under the intended use of funds raised under the Proposed Funding Package, please refer to Section 7.4.
- (f) **Voting exclusion statement**  
A voting exclusion statement for Resolution 5 is included in the Notice of General Meeting preceding this Explanatory Statement.

### 12.3 Board Recommendation

Please refer to Section 3.3 above.

The Board believes that the ratification of these issues is beneficial for the Company as it allows the Company to ratify the above issues of securities and retain the flexibility to issue further securities representing up to 15% of the Company's share capital during the next 12 months, and up to the 10% annual placement capacity under Listing Rule 7.1A without the requirement to obtain prior Shareholder approval. Accordingly, the Board unanimously recommends Shareholders vote in favour of this Resolution.

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## 13. RESOLUTION 6 – RATIFICATION OF SECURITIES ISSUE TO GREENSTONE HRR HOLDINGS II AND ORION

### 13.1 Background

As noted in Section 2.2, each of Greenstone HRR Holdings II and Orion, separately, have the right to elect to complete Tranche 2 early and be issued up to 30,075,964 Shares and 27,820,265 Shares, respectively. Although neither Greenstone HRR Holdings II nor Orion have elected to such early completion, such right could be exercised before the General Meeting.]

Accordingly, the purpose of Resolution 6 is for Shareholders to ratify the issue of up to 57,896,229 Shares which may be, if Greenstone HRR Holdings II and Orion elect to complete Tranche 2 prior to the General Meeting, undertaken by way of a placement without Shareholder approval.

### 13.2 Regulatory Requirements

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 ordinary 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 7.4 states that an issue by a company of securities made without approval under Listing Rule 7.1 is treated as having been made with approval for the purpose of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 and the company's members subsequently approve it.

Accordingly, under Resolution 6, the Company seeks from Shareholders approval for, and ratification of, the issue of up to a total of 57,896,229 Shares to Greenstone HRR Holdings II and Orion under Tranche 2 (further details of which are set out in Section 2.2) so as to limit the restrictive effect of Listing Rule 7.1 on any further issues of Equity Securities in the next 12 months.

The Shares that may be issued, for which approval and ratification is sought under Resolution 6, comprise 11.91% of the Company's fully diluted issued capital (based on the number of Shares and Options on issue as at the date of this Notice of General Meeting).

In compliance with the information requirements of Listing Rule 7.5, Shareholders are advised of the following information:

(a) **Number of securities issued**

Under Resolution 6, the Company seeks from Shareholders approval for, and ratification of, the issue of up to 57,896,229 Shares.

(b) **The price at which the securities were issued**

The Shares will be issued for A\$0.07 per Share.

(c) **Terms of the securities**

The Shares are fully paid ordinary shares in the capital of the Company on the same terms and conditions as the Company's existing Shares and rank equally in all respects with the existing Shares.

The Company has applied to ASX for official quotation of the Shares.

- (d) **The names of the persons to whom the entity issued the securities or the basis on which those persons were determined**

The Shares may be issued to Greenstone HRR Holdings II and Orion before the General Meeting.

- (e) **The use of the funds raised**

The Shares will be issued as part of the broader Proposed Funding Package being conducted by the Company for the purposes of raising funds to develop the Company's Woodlawn Project. For further information under the intended use of funds raised under the Proposed Funding Package, please refer to Section 7.4.

- (f) **Voting exclusion statement**

A voting exclusion statement for Resolution 6 is included in the Notice of General Meeting preceding this Explanatory Statement.

### 13.3 Board Recommendation

Please refer to Section 3.3 above.

The Board, other than Mark Sawyer, believes that the ratification of these issues is beneficial for the Company as it allows the Company to ratify the above issues of securities and retain the flexibility to issue further securities representing up to 15% of the Company's share capital during the next 12 months without the requirement to obtain prior Shareholder approval. Accordingly, the Board, other than Mark Sawyer, unanimously recommends Shareholders vote in favour of this Resolution.



## GLOSSARY

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

<b>A\$ or \$</b>	means an Australian dollar;
<b>AEDT</b>	Australian Eastern Daylight Time;
<b>ASIC</b>	Australian Securities and Investments Commission;
<b>ASX</b>	ASX Limited or the securities market operated by ASX Limited, as the context requires;
<b>ASX Component</b>	the Shares to be issued under the Institutional Placement and quoted on the ASX;
<b>Associate</b>	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;
<b>Board</b>	board of Directors;
<b>Castlelake</b>	Castlelake III, L.P. and Castlelake IV, L.P.;
<b>Castlelake Equity Subscription</b>	the subscription of Shares by Castlelake, as contemplated under Resolution 3, in accordance with the Castlelake Subscription Agreement;
<b>Castlelake Subscription Agreement</b>	the subscription agreement between Castlelake and Company, the material terms of which are summarised in Section 1 of Annexure A;
<b>Chair</b>	chair of the General Meeting;
<b>Company or Heron</b>	Heron Resources Limited (ABN 30 068 263 098);
<b>Completion</b>	completion of the issue of Shares under the Greenstone Equity Subscription, the Orion Equity Subscription and the Castlelake Equity Subscription;
<b>Completion Date</b>	the date on which Completion occurs, which is expected to occur in early September 2017;
<b>Constitution</b>	constitution of the Company;
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth);
<b>Director</b>	director of the Company;
<b>Directors’ Report</b>	the Directors’ report contained in the Annual Report;
<b>DUMAC Entities</b>	has the meaning given to that term in Section 4.2;
<b>Equity Securities</b>	has the meaning given to that term in the Listing Rules;
<b>Explanatory Statement</b>	the explanatory statement that accompanies this Notice of General Meeting;
<b>GEF</b>	has the meaning given to that term in Section 4.2;
<b>Getty Foundation</b>	has the meaning given to that term in Section 4.2;
<b>Greenstone</b>	Greenstone Delaware in its capacity as general partner of Greenstone HRR Holdings and/or Greenstone HRR Holdings II (as the case may be);
<b>Greenstone Delaware</b>	Greenstone Management (Delaware) LLC, a company incorporated Delaware;

<b>Greenstone Equity Subscription</b>	the subscription of Shares by the Greenstone Parties, as contemplated under Resolution 1 in accordance with the Greenstone Subscription Agreements;
<b>Greenstone Fund Parties</b>	Greenstone Management and Greenstone Delaware in its capacity as general partner of Greenstone HRR Holdings and Greenstone HRR Holdings II;
<b>Greenstone HRR Holdings</b>	Greenstone HRR Holdings L.P, a Delaware limited partnership;
<b>Greenstone HRR Holdings II</b>	Greenstone HRR Holdings II L.P, a Delaware limited partnership;
<b>Greenstone Management</b>	Greenstone Management Limited, a company incorporated in Guernsey;
<b>Greenstone Parties</b>	Greenstone HRR Holdings II, the DUMAC Entities, the Getty Foundation and GEF;
<b>Greenstone Subscription Agreements</b>	the subscription agreements between each of the Greenstone Parties and Company, the material terms of which are summarised in Section 2 of Annexure A;
<b>Independent Expert</b>	BDO Corporate Finance (WA) Pty Ltd (ABN 27 124 031 045);
<b>Listing Rules or ASX Listing Rules</b>	official listing rules of the ASX;
<b>Loan Facility Agreement</b>	the senior loan facility agreement between, amongst others, Orion and Company, the material terms of which are summarised in Section 4 of Annexure A;
<b>Marketing Fee Arrangement</b>	the agreement between Orion and Company, the material terms of which are summarised in Section 6 of Annexure A;
<b>Meeting or General Meeting</b>	the general meeting convened by this Notice of General Meeting;
<b>Non-associated Shareholder</b>	a Shareholder, other than a Greenstone Party or an associate of a Greenstone Party;
<b>Notice of General Meeting or Notice of Meeting</b>	this notice of General Meeting;
<b>Option</b>	means an option to acquire a Share;
<b>Orion</b>	Orion Mine Finance Fund II LP (or one or more of its affiliates);
<b>Orion Equity Subscription</b>	the subscription of Shares by Orion, as contemplated under Resolution 2, in accordance with the Orion Subscription Agreement;
<b>Orion Subscription Agreement</b>	the subscription agreement between Orion and Company, the material terms of which are summarised in Section 3 of Annexure A;
<b>Participation Right</b>	In the case of Castlake, the meaning given to that term in Section 1(f) of Annexure A and in the case of Orion, the meaning given to that term in Section 3(h) of Annexure A;
<b>Proxy Form</b>	the proxy form enclosed with this Notice of General Meeting;
<b>Relevant Interest</b>	has the meaning given to it in section 608 of the Corporations Act;
<b>Resolution</b>	resolution contained in this Notice of General Meeting;

<b>Section</b>	a section of this Explanatory Statement;
<b>Share</b>	fully paid ordinary share in the capital of the Company;
<b>Share Purchase Plan</b>	has the meaning given to that term in Section 2.1;
<b>Shareholder</b>	holder of a Share in the Company;
<b>Silver Stream Agreement</b>	the agreement between, amongst others, Orion and Company, the material terms of which are summarised in Section 5 of Annexure A;
<b>TSX</b>	Toronto Stock Exchange;
<b>TSX Component</b>	the Shares to be issued upon conversion of the Subscription Receipts under the Institutional Placement and quoted on the TSX;
<b>US\$</b>	means an American dollar;
<b>VWAP</b>	volume weight average price of Shares; and
<b>Woodlawn Project</b>	the Woodlawn Zinc-Copper Mine located 250 km southwest of Sydney in New South Wales.

## ANNEXURE A - SUMMARY OF MATERIAL AGREEMENTS

### 1. CASTLELAKE SUBSCRIPTION AGREEMENT

The Castllake Subscription Agreement sets out the terms upon which Castllake is to acquire up to 466,701,376 Shares to raise approximately A\$32.67 million (US\$24.83 million based on an exchange rate of AUD/USD 0.76). The key terms of the Castllake Subscription Agreement are as follows:

- (a) **(Castllake Equity Subscription):** Castllake will subscribe for Shares in two tranches:
- (i) 45,856,116 Shares (**Initial Castllake Subscription**) which forms Tranche 1 of the Equity Raising; and
  - (ii) 420,845,260 Shares or such lesser number of Shares that would result in Castllake having a voting power in the Company of no more than 19.90% (**Second Castllake Subscription**) which forms part of Tranche 4 of the Equity Raising,

in each case at an issue price of A\$0.07 (**Subscription Price**). Shares under the Initial Castllake Subscription were issued on 4 July 2017 at an issue price of A\$0.07 to raise approximately A\$3.21 million. Ratification of this Share issue is the subject of Resolution 5.

- (b) **(Conditions Precedent):** Subscription and completion of the Second Castllake Subscription is subject to and conditional on a number of conditions precedent, of which the following are outstanding as at the date of the Notice of Meeting:
- (i) the Company obtaining the necessary shareholder approval to give effect to the issue of Shares under this agreement, the Institutional Placement, the Greenstone Subscription Agreements and the Orion Subscription Agreement including for the purposes of ASX Listing Rule 7.1 and, in the case of the Greenstone Equity Subscription, item 7 of section 611 of the Corporations Act;
  - (ii) Castllake has received the necessary approval from or on behalf of the Treasurer of the Commonwealth of Australia stating or to the effect that:
    - (A) the Commonwealth Government does not object to the transaction contemplated by this agreement;
    - (B) the Treasurer becomes precluded from making an order in relation to this agreement and the transactions contemplated by it; or
    - (C) if an interim order is made, the subsequent period for making a final order prohibiting the transactions contemplated by this agreement elapses without a final order being made;
  - (iii) ASX issues a waiver from Listing Rule 6.18 on terms that are consistent with the terms of the letter dated 8 February 2017 from ASX;
  - (iv) the Greenstone Parties' obligation to subscribe for and the Company's obligation to issue the Shares for the Initial Greenstone Subscription and Second Greenstone Subscription (as defined in the Greenstone Subscription Agreements) becomes unconditional (other than with respect to concurrent completion with the Castllake Subscription Agreement and the Orion Subscription Agreement and completion of the Institutional Placement) and is to occur on the Completion Date;
  - (v) Orion's obligation to subscribe for and the Company's obligation to issue the Shares for the Initial Orion Subscription and the Second Orion Subscription (defined in the Orion Subscription Agreement) becomes unconditional (other than with respect to concurrent completion with the Castllake Subscription Agreement and the Greenstone Subscription Agreements and completion of the Institutional Placement) and is to occur on the Completion Date;
  - (vi) the Company receiving legally binding commitments from investors to subscribe for such number of new Shares to raise a specified minimum amount under the Institutional Placement and all of those commitments being or becoming unconditional (other than certain specified conditions) with the effect that the issue and payment for those new Shares will occur before Completion;

- (vii) certain key conditions precedent under the Loan Facility Agreement have either been satisfied or waived in accordance with the Loan Facility Agreement;
- (viii) certain key conditions precedent under the Silver Stream Agreement have either been satisfied or waived in accordance with the Silver Stream Agreement;
- (ix) the ASX not indicating to the Company that it will refuse to grant quotation of the Shares issued under the Castllake Equity Subscription or otherwise make quotation conditional; and
- (x) no material adverse changes occur between the date of this agreement and immediately prior to completion occurring.

A party may, by not less than 2 Business Days' notice to the other party, terminate this agreement anytime before completion if the conditions above are not satisfied, or waived by 30 September 2017 or become incapable of satisfaction or the parties agree that any of the conditions cannot be satisfied.

- (c) **(Completion):** Completion of the issue of Shares under the Second Castllake Subscription will be simultaneous with the Company's issue of Shares to the Greenstone Parties under the Greenstone Subscription Agreements and issue of Shares to Orion under the Orion Subscription Agreement and is expected to occur in early September 2017;
- (d) **(Board Representation):** On and from Completion, and for so long as Castllake's shareholding in the Company is at least 8.75% (based on the number of voting shares on issue in the Company), Castllake may appoint a nominee director to the Board, and the Company must, on request from Castllake, promptly appoint the relevant nominee director on the same terms as other non-executive directors of the Company (including terms of remuneration) subject to standard good character and appropriate experience director requirements.
- (e) **(Project Governance Representation):** On and from Completion, and until completion of the Woodlawn Project (as determined under the Loan Facility Agreement), Castllake will have the right for its nominee director to participate in the Company's Project Steering Committee or any group tasked from time to time by the Company or any of its related corporations with similar review responsibilities to the Project Steering Committee.
- (f) **(Participation Right):** Subject to Castllake receiving a waiver from Listing Rule 6.18, on and from Completion, Castllake will have the right:
  - (i) to participate in any offer of equity securities by the Company and subscribe for an amount up to the number of equity securities required to ensure that Castllake's holding immediately before completion of the offer, is maintained following completion of the offer, provided that such participating is for cash consideration is:
    - (A) no more favourable than cash consideration paid by third parties; or
    - (B) equivalent in value to non-cash consideration offered by third parties,**(the Participation Right);**
  - (ii) the Participation Right is non-transferrable other than to any entity within the wholly owned group of Castllake; and
  - (iii) the Participation Right will survive Completion and apply for so long as Castllake holds between 10% and 25% (both inclusive).
- (g) **(Termination by Castllake):** Castllake may terminate this agreement at any time before Completion by notice in writing to the Company if:
  - (i) any of the Greenstone Subscription Agreements, Orion Subscription Agreement, Loan Facility Agreement or Silver Stream Agreement is terminated;
  - (ii) the Greenstone Parties, Orion or any of the participants in the Institutional Placement default on their settlement obligations on the Completion Date, provided that in the case of default by the other participants in the Equity Raising (which to avoid doubt does not include the Greenstone Parties or Orion) the Company is not able to procure an alternative participant or participants for the



- same amount and on the same terms (including as to timing including settlement before Completion), as the defaulting participant;
- (iii) the Veolia Cooperation Deed is materially amended, terminated or otherwise ceases to have full force and effect;
  - (iv) any of the representations and warranties of the Company under this agreement are not, or cease to be, true and correct;
  - (v) there is an Event of Default or Potential Event of Default (as defined under the Loan Facility) or there would be an Event of Default or Potential Event of Default, but for any remedy periods;
  - (vi) an order is made or an effective resolution is passed for the winding up or dissolution without winding up (otherwise than for the purposes of reconstruction or amalgamation) of the Company;
  - (vii) a receiver, receiver and manager, judicial manager liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of the Company;
  - (viii) a holder of an encumbrance takes possession of the whole or any substantial part of the undertaking or property of the Company; or
  - (ix) the Company materially breaches the agreement, including breach of any of the undertakings, breach of a Company warranty occurring before completion or does not materially fulfil its obligations under this agreement.
- (h) **(Termination by the Company):** The Company may terminate this agreement at any time before completion by notice in writing to Castlelake if:
- (i) an order is made or an effective resolution is passed for the winding up or dissolution without winding up (otherwise than for the purposes of reconstruction or amalgamation) of Castlelake;
  - (ii) a receiver, receiver and manager, judicial manager liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of Castlelake; or
  - (iii) a holder of an encumbrance takes possession of the whole or any substantial part of the undertaking or property of Castlelake.

## 2. GREENSTONE SUBSCRIPTION AGREEMENTS

The Greenstone Subscription Agreements set out the terms upon which the Greenstone Parties are to acquire a total of 601,503,761 Shares to raise approximately A\$42.11 million (US\$32 million based on an exchange rate of AUD/USD 0.76). The key terms of the Greenstone Subscription Agreements are as follows:

- (a) **(Conditions Precedent):** Subscription and Completion of the Greenstone Equity Subscription is subject to and conditional on a number of conditions precedent, the following of which are outstanding as at the date of the Notice of Meeting:
- (i) the Company obtaining the necessary shareholder approval to give effect to the issue of Shares under Greenstone Subscription Agreements, the Institutional Placement, the Castlelake Subscription Agreement and the Orion Subscription Agreement, including for the purposes of ASX Listing Rule 7.1 and, in the case of the Greenstone Equity Subscription, item 7 of section 611 of the Corporations Act;
  - (ii) Orion's obligation to subscribe for and the Company's obligation to issue the Shares for the Initial Orion Subscription and Second Orion Subscription (defined in the Orion Subscription Agreement) becomes unconditional (other than with respect to concurrent completion with the Castlelake Subscription Agreement and the Greenstone Subscription Agreements and completion of the Institutional Placement) and is to occur on the Completion Date;
  - (iii) Castlelake's obligation to subscribe for and the Company's obligation to issue the Shares for the Second Castlelake Subscription becomes unconditional (other than

with respect to concurrent completion with the Orion Subscription Agreement and the Greenstone Subscription Agreements and completion of the Institutional Placement) and is to occur on the Completion Date;

- (iv) the Company receiving legally binding commitments from investors to subscribe for such number of new Shares to raise a specified minimum amount under the Institutional Placement and all of those commitments being or becoming unconditional with the effect that the issue and payment for those new Shares will occur before Completion;
- (v) certain key conditions precedent under the Loan Facility Agreement have either been satisfied or waived in accordance with the Loan Facility Agreement;
- (vi) certain key conditions precedent under the Silver Stream Agreement have either been satisfied or waived in accordance with the Silver Stream Agreement;
- (vii) the ASX not indicating to the Company that it will refuse to grant quotation of the Shares issued under the Greenstone Equity Subscription or otherwise make quotation conditional; and
- (viii) no material adverse changes occur between the date of this agreement and immediately prior to completion occurring.

A party may, by not less than 2 Business Days' notice to the other party, terminate this agreement anytime before completion if the conditions above are not satisfied, or waived by 30 September 2017 or become incapable of satisfaction or the parties agree that any of the conditions cannot be satisfied.

(b) **(Consideration):** The Greenstone Parties will subscribe for Shares in two tranches:

- (i) an initial subscription by Greenstone HRR Holdings II of Shares worth US\$1,600,041 (approximately A\$2.11 million based on an exchange rate of AUD/USD 0.76) (**Initial Greenstone Subscription**) which forms part of Tranche 2 of the Equity Raising; and
- (ii) a second subscription by the Greenstone Parties of Shares worth an aggregate US\$30,399,959 (approximately A\$40 million based on an exchange rate of AUD/USD 0.76) (**Second Greenstone Subscription**) which forms part of Tranche 4 of the Equity Raising,

in each case at an issue price of A\$0.07 (**Subscription Price**).

(c) **(Escrow of Initial Greenstone Amount):** By 18 July 2017, Greenstone HRR Holdings II must deposit the funds for the Initial Greenstone Subscription (being US\$1,600,041) with a designated escrow agent, to be held on trust for the benefit of the parties (**Initial Greenstone Amount**).

If the agreement is terminated for any reason prior to the issue of the Shares for the Initial Greenstone Subscription, Greenstone HRR Holdings II will be entitled to the Initial Greenstone Amount (inclusive of any accrued interest).

At any time prior to satisfaction of the conditions precedent, Greenstone HRR Holdings II may elect to waive all of the unsatisfied conditions in respect of all or some of the Shares to be issued to Greenstone HRR Holdings II under the Initial Greenstone Subscription, to the extent that Greenstone HRR Holdings II's voting power does not exceed 19.9% in the Company as a result of the issue (**Greenstone Early Issue**).

The amount of Shares issued under the Greenstone Early Issue will be the lower of:

- (i) the number of Shares Greenstone HRR Holdings II elects to be issued under the Greenstone Early Issue; and
- (ii) the higher of:
  - (A) the maximum number that the Company is permitted to issue without shareholder approval as at the date of the Greenstone Early Issue, multiplied by 0.5195; and
  - (B) the maximum number that the Company is permitted to issue without shareholder approval as at the date of the Greenstone Early Issue less

the number of Shares to be issued to Orion under the Orion Early Issue (defined in the Section 3(c) of this Annexure A).

Once Greenstone HRR Holdings II notifies the Company of its election to be issued Shares under the Greenstone Early Issue, the Company must immediately notify Orion. If Orion wishes to elect to be issued Shares under the Orion Early Issue, it must do so within 72 hours of being notified of Greenstone's election.

Completion of the Greenstone Early Issue will occur 5 Business Days after the later of Greenstone HRR Holdings II and Orion electing to be issued Shares under the Greenstone Early Issue or the Orion Early Issue, respectively.

- (d) **(Shortfall):** In the event of a shortfall under the Institutional Placement, each of the Greenstone Parties had the right to apply for additional Shares under that shortfall. However, as announced on 30 June 2017, there was no shortfall under the Institutional Placement and accordingly, these provisions are no longer applicable to the Equity Raising.
- (e) **(Completion):** Completion of the issue of Shares under the Initial Greenstone Subscription (unless issued earlier), Second Greenstone Subscription and Greenstone Shortfall Shares, will take place on the Completion Date. Completion will be simultaneous with the Orion Equity Subscription and the Castlake Equity Subscription and immediately following completion of the Institutional Placement. Quotation of the Shares on the ASX and TSX will occur, at the very latest, within 2 Business Days after Completion Date.
- (f) **(Termination by the Greenstone Parties):** Greenstone HRR Holdings II may terminate the relevant Greenstone Subscription Agreement at any time before completion by notice in writing to the Company if:
  - (i) any of the Castlake Subscription Agreement, Orion Subscription Agreement, Loan Facility Agreement, Silver Stream Agreement, Marketing Fee Arrangement or any of the other Greenstone Subscription Agreements are validly terminated;
  - (ii) the Veolia Cooperation Deed is materially amended, terminated or otherwise ceases to have full force and effect;
  - (iii) any of the representations and warranties of the Company under this agreement are not, or cease to be, true and correct;
  - (iv) there is an Event of Default or Potential Event of Default (as defined under the Loan Facility) or there would be an Event of Default or Potential Event of Default, but for any remedy periods;
  - (v) an order is made or an effective resolution is passed for the winding up or dissolution without winding up (otherwise than for the purposes of reconstruction or amalgamation) of the Company;
  - (vi) a receiver, receiver and manager, judicial manager liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of the Company;
  - (vii) a holder of an encumbrance takes possession of the whole or any substantial part of the undertaking or property of the Company; or
  - (viii) the Company materially breaches the agreement, including breach of any of the undertakings, breach of a Company warranty occurring before completion or does not materially fulfil its obligations under this agreement.

Each of the Greenstone Parties (other than Greenstone HRR Holdings II) may terminate their applicable Greenstone Subscription Agreement at any time before completion by notice in writing to the Company if the Greenstone Subscription Agreement in respect of Greenstone HRR Holdings II is validly terminated.

- (g) **(Termination by the Company):** The Company may terminate this agreement at any time before completion by notice in writing to Greenstone if:
  - (i) an order is made or an effective resolution is passed for the winding up or dissolution without winding up (otherwise than for the purposes of reconstruction or amalgamation) of Greenstone;

- (ii) a receiver, receiver and manager, judicial manager liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of Greenstone; or
- (iii) a holder of an encumbrance takes possession of the whole or any substantial part of the undertaking or property of Greenstone.
- (h) **(Waiver of Anti-Dilution Right):** Subject to certain specified exceptions (including if Completion does not occur in accordance with the Greenstone Subscription Agreements (without amendment or such amendments as is agreed to by Greenstone HRR Holdings II)) Greenstone HRR Holdings II acknowledges and agrees to waive its anti-dilution rights to the extent necessary to allow Orion to be issued Shares under the Orion Early Issue as well as under the Shortfall and to allow Castllake to be issued Shares under Tranche 1 of the Equity Raising.

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### 3. ORION SUBSCRIPTION AGREEMENT

The Orion Subscription Agreement sets out the terms upon which Orion is to acquire a total of 407,894,737 Shares to raise approximately A\$28.55 million (US\$21.7 million based on an exchange rate of AUD/USD 0.76). The key terms of the Orion Subscription Agreement are as follows:

- (a) **(Conditions Precedent):** Subscription and completion of the Orion Equity Subscription is subject to and conditional on a number of conditions precedent, of which the following are outstanding as at the date of the Notice of Meeting:
  - (i) the Company obtaining the necessary shareholder approval to give effect to the issue of Shares under this agreement, the Institutional Placement, the Castllake Subscription Agreement and the Greenstone Subscription Agreements, including for the purposes of ASX Listing Rule 7.1 and, in the case of the Greenstone Equity Subscription, item 7 of section 611 of the Corporations Act;
  - (ii) ASX issues a waiver from Listing Rule 6.18 on terms that are consistent with the terms of the letter dated 29 March 2017 from ASX;
  - (iii) the Greenstone Parties' obligation to subscribe for and the Company's obligation to issue the Shares for the Initial Greenstone Subscription and Second Greenstone Subscription becomes unconditional (other than with respect to concurrent completion with the Castllake Subscription Agreement and the Orion Subscription Agreement and completion of the Institutional Placement) and is to occur on the Completion Date;
  - (iv) Castllake's obligation to subscribe for and the Company's obligation to issue the Shares for the Second Castllake Subscription becomes unconditional (other than with respect to concurrent completion with the Greenstone Subscription Agreements and the Orion Subscription Agreement and completion of the Institutional Placement) and is to occur on the Completion Date;
  - (v) the Company receiving legally binding commitments from investors to subscribe for such number of new Shares to raise a specified minimum amount under the Institutional Placement and all of those commitments are or become unconditional with the effect that the issue and payment for those new Shares will occur before Completion;
  - (vi) certain key conditions precedent under the Loan Facility Agreement have either been satisfied or waived in accordance with the Loan Facility Agreement by Orion;
  - (vii) certain key conditions precedent under the Silver Stream Agreement have either been satisfied or waived in accordance with the Silver Stream Agreement by Orion; and
  - (viii) the ASX not indicating to the Company that it will refuse to grant quotation of the Shares issued under the Orion Equity Subscription or otherwise make quotation conditional.

A party may, by not less than 2 Business Days' notice to the other party, terminate this agreement anytime before completion if the conditions above are not satisfied, or waived by

30 September 2017 or become incapable of satisfaction or the parties agree that any of the conditions cannot be satisfied.

- (b) **(Consideration):** Orion will subscribe for Shares in two tranches:
- (i) an initial subscription of Shares worth US\$1,480,038 (approximately A\$1.95 million based on an exchange rate of AUD/USD 0.76) (**Initial Orion Subscription**) which forms part of Tranche 2 of the Equity Raising; and
  - (ii) a second subscription of Shares worth US\$20,219,962 (approximately A\$26.61 million based on an exchange rate of AUD/USD 0.76) or such lesser number of Shares that would result in Orion having a voting power in the Company of no more than 19.90% (**Second Orion Subscription**) which forms part of Tranche 4 of the Equity Raising,

in each case at an issue price of A\$0.07 (**Subscription Price**).

- (c) **(Escrow of Initial Orion Subscription):** By 18 July 2017, Orion must deposit the funds for the Initial Orion Subscription (being US\$1,480,038) with a designated escrow agent, to be held on trust for the benefit of the parties (**Initial Orion Amount**).

If this agreement is terminated for any reason prior to the issue of the Shares for the Initial Orion Subscription, Orion will be entitled to the Initial Orion Amount (inclusive of any interest).

At any time prior to satisfaction of the conditions precedent, Orion may elect to waive all of the unsatisfied conditions in respect of all or some of the Shares to be issued to Orion under the Initial Orion Subscription (**Orion Early Issue**).

The amount of Shares issued under the Orion Early Issue will be the lower of:

- (i) the number of Shares Orion elects to be issued under the Orion Early Issue; and
- (ii) the higher of:
  - (A) the maximum number that the Company is permitted to issue without shareholder approval as at the date of the Orion Early Issue, multiplied by 0.4805; and
  - (B) the maximum number that the Company is permitted to issue without shareholder approval as at the date of the Orion Early Issue less the number of Shares to be issued to Greenstone under the Greenstone Early Issue (as defined in Section 2(c) of this Annexure A).

Once Orion notifies the Company of its election to be issued Shares under the Orion Early Issue, the Company must immediately notify Greenstone HRR Holdings II (on behalf of the Greenstone Parties). If any of the Greenstone Parties wishes to elect to be issued Shares under the Greenstone Early Issue, it must do so within 72 hours of being notified of Orion's election.

Completion of the Orion Early Issue will occur 5 Business Days after the later of Greenstone and Orion electing to be issued Shares under the Greenstone Early Issue or the Orion Early Issue, respectively.

- (d) **(Shortfall):** In the event of a shortfall under the Institutional Placement, Orion had the right to apply for additional Shares under that shortfall. However, as announced on 30 June 2017, there was no shortfall under the Institutional Placement and accordingly, these provisions are no longer applicable to the Equity Raising.
- (e) **(Completion):** Completion of the issue of Shares under the Initial Orion Subscription (unless issued earlier), Second Orion Subscription and Orion Shortfall Shares, will take place on the Completion Date. Completion will be simultaneous with the Greenstone Equity Subscription and the Castlake Equity Subscription and immediately following completion of the Institutional Placement. Quotation of the Shares on the ASX and TSX will occur, at the very latest, within 2 Business Days after Completion Date.
- (f) **(Board Representation):** On and from Completion, and for so long as:
- (i) Orion's shareholding in the Company is at least 10% (based on the number of voting shares on issue in the Company); or



- (ii) there are amounts outstanding under the Loan Facility Agreement,

Orion may appoint a nominee director to the Board, and the Company must, on request from Orion, promptly appoint the relevant nominee director on the same terms as other non-executive directors of the Company (including terms of remuneration) subject to the standard good character and appropriate experience director requirements.
- (g) **(Project Governance Representation):** On and from Completion, and until completion of the Woodlawn Project (as determined under the Loan Facility Agreement), Orion will have the right for its nominee director to participate in the Company's Project Steering Committee or any group tasked from time to time by the Company or any of its related corporations with similar review responsibilities to the Project Steering Committee.
- (h) **(Participation Right):** Subject to Orion receiving a waiver from Listing Rule 6.18, on and from Orion Completion Date, Orion will have the right:
  - (i) to participate in any offer of equity securities by the Company and subscribe for an amount up to the number of equity securities required to ensure that Orion's holding immediately before completion of the offer, is maintained following completion of the offer, provided that such participating is for cash consideration is:
    - (A) no more favourable than cash consideration paid by third parties; or
    - (B) equivalent in value to non-cash consideration offered by third parties,(the **Participation Right**);
  - (ii) the Participation Right is non-transferrable other than to any entity within the wholly owned group of Orion; and
  - (iii) the Participation Right will survive Completion of the Orion Equity Subscription and apply for so long as Orion holds between 10% and 25% (both inclusive).
- (i) **(Termination by Orion):** Orion may terminate this agreement at any time before completion by notice in writing to the Company if:
  - (i) Greenstone fails to deposit the Initial Greenstone Amount in escrow by 18 July 2017;
  - (ii) any of the Greenstone Subscription Agreements, Castlake Subscription Agreement, Loan Facility Agreement, Silver Stream Agreement or Marketing Fee Arrangement is terminated;
  - (iii) the Greenstone Parties, Castlake or any of the participants in the Institutional Placement default on their settlement obligations to occur concurrently with completion provided that in the case of default by the other participants in the Institutional Placement (which to avoid doubt does not include the Greenstone Parties or Castlake) the Company is not able to procure an alternative participant or participants for the same amount and on the same terms (including as to timing including settlement on or before the Completion Date), as the defaulting participant;
  - (iv) the Veolia Cooperation Deed is materially amended, terminated or otherwise ceases to have full force and effect;
  - (v) any of the representations and warranties of the Company under this agreement are not, or cease to be, true and correct;
  - (vi) there is an Event of Default or Potential Event of Default (as defined under the Loan Facility Agreement) or there would be an Event of Default or Potential Event of Default, but for any remedy periods;
  - (vii) an order is made or an effective resolution is passed for the winding up or dissolution without winding up (otherwise than for the purposes of reconstruction or amalgamation) of the Company;
  - (viii) a receiver, receiver and manager, judicial manager liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of the Company;

- (ix) a holder of an encumbrance takes possession of the whole or any substantial part of the undertaking or property of the Company; or
- (x) the Company materially breaches the agreement, including breach of any of the undertakings, breach of a Company warranty occurring before completion or does not materially fulfil its obligations under this agreement.
- (j) **(Termination by the Company):** The Company may terminate this agreement at any time before completion by notice in writing to Orion if:
  - (i) an order is made or an effective resolution is passed for the winding up or dissolution without winding up (otherwise than for the purposes of reconstruction or amalgamation) of Orion;
  - (ii) a receiver, receiver and manager, judicial manager liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of Orion; or
  - (iii) a holder of an encumbrance takes possession of the whole or any substantial part of the undertaking or property of Orion.

#### 4. LOAN FACILITY AGREEMENT

The key terms of the Loan Facility Agreement are as follows:

- (a) **(Quantum of Loan):** US\$60 million.
- (b) **(Drawdown):** The Loan Facility Agreement contains three equal funding portions of US\$20 million, based on milestones related to the construction of the Project and project costs being in line with the financial model agreed upon between Orion and the Company. Multiple Drawdowns are permitted within each funding portion.
- (c) **(Availability Period):** The Loan will be available for drawdown on satisfaction of the conditions precedent and will end, at the very latest, on 30 June 2019.
- (d) **(Key Conditions Precedent):** The Loan Facility Agreement is conditional on:
  - (i) the Castllake Subscription Agreement, Orion Subscription Agreement and Greenstone Subscription Agreement are executed and evidence that completion under each of the agreements has occurred;
  - (ii) the Company receiving not less than A\$133,000,000 in gross proceeds from the Equity Raising with not less than A\$55,000,000 of the gross proceeds raised from the Equity Raising having been spent on project costs or operating costs in accordance with the financial model of the Project;
  - (iii) execution of the Silver Stream Agreement and evidence that the Deposit (defined in the Silver Stream Agreement) has been paid to the Company with not less than US\$10,000,000 of the Deposit spent on project costs or operating costs in accordance with the financial model of the Project;
  - (iv) that all the Project tenements are valid and in good standing;
  - (v) no material adverse event has occurred since 31 December 2016 which has had, or is likely to have, a Material Adverse Effect (defined in the Loan Facility Agreement); and;
  - (vi) other conditions precedent which are customary in a secured loan facility agreement of this kind.
- (e) **(Security):** The Loan Facility Agreement will be a senior secured obligation of Heron Resources and its direct and indirect subsidiaries. Orion will enjoy the benefit of first priority perfected security interest in all assets of Heron Resources and in all assets of its direct and indirect subsidiaries. The first ranking security will be released following repayment in full of the Loan Facility Agreement and other amounts owed to Orion under the terms of the Loan Facility Agreement.

- (f) **(Interest Rate Margin):** 3 month LIBOR plus 7.25% per annum (with reference rate subject to a minimum of 2.5%), to be paid on a quarterly basis, with an additional overdue rate of 5.25% (bringing the overdue interest rate to a total of LIBOR + 12.5% per annum).
- (g) **(Holiday Period):** For a period of five calendar quarters following the initial drawdown **(Holiday Period)**, interest will accrue and be capitalised on a quarterly basis in arrears. No principal payments will be made during the Holiday Period.
- (h) **(Scheduled Principal Repayments):** Following the Holiday Period, principal repayments will be made in twelve quarterly instalments with a set amortisation schedule.
- (i) **(Mandatory Prepayments):** On each scheduled principal repayment date following the Holiday Period, Heron must apply the lesser of 50% of excess cashflow and the outstanding principal amount to mandatory prepayments, less any amount required to ensure that the cash balance in the operating account will be not less than A\$15,000,000 on the repayment date immediately after that mandatory prepayment has been made.

In addition, if:

- (i) Heron or any of its direct or indirect subsidiaries proposes to make a permitted distribution or a payment in respect of an inter-company claim, Heron must first apply the lesser of 25% of the amount (without double counting) of the proposed distribution/payment and the outstanding principal amount as a mandatory prepayment towards the outstanding principal amount; or
- (ii) Heron undertakes one or more capital raisings after the date of the Loan Facility Agreement, Heron must apply an amount equal to 20% of the net proceeds received from the capital raisings as a mandatory prepayment of the outstanding principal amount.
- (j) **(Voluntary Prepayment):** Heron may voluntarily prepay the outstanding funds to Orion in multiples of US\$1 million. If any voluntary prepayment is made within 12 months of a Drawdown, Heron will incur a fee equal to 3% of the outstanding principal owing.
- (k) **(Termination Date):** All outstanding funds under the Loan Facility Agreement must be repaid by 31 December 2022.

---

## 5. SILVER STREAM AGREEMENT

The key terms of the Silver Stream Agreement are as follows:

- (a) **(Silver Stream):** The Company shall sell to Orion, and Orion shall purchase from the Company, 80% of the payable silver mined and processed from the mining tenement SML20 (including successor designations) until the Company has sold and delivered 2.15 million ounces of silver to Orion.  
  
Upon delivery of 2.15 million ounces of silver to Orion, the Silver Stream shall be reduced to 40% of silver produced by the Company from the mining tenement SMI20 (including successor designations) until the Company has sold and delivered 3.40 million ounces of silver to Orion.  
  
Upon delivery of 3.40 million ounces of silver to Orion, the Silver Stream shall be reduced to 25% of silver produced by the Company from the mining tenement SML20 (including successor designations).
- (b) **(Payment):** Orion shall pay to the Company an amount equivalent to 20% of the Silver Market Price for each ounce of refined silver sold in accordance with the Silver Stream Agreement. However, until the Early Termination Amount is credited and reduced to nil, Orion shall pay to the Company 100% of the Silver Market Price, to which 20% will be paid either in cash or by wire transfer to a designated bank account of the Company and the remaining 80% will be credited towards the Early Termination Balance.
- (c) **(Silver Market Price):** The Silver Market Price is the price equal to the prevailing COMEX(First position) Silver Settlement price or the LBMA Silver Price quoted by the London Bullion Market Association (in US Dollars) at Orion's election prior to the relevant settlement date.
- (d) **(Term):** The life of mine of the Woodlawn Project, unless terminated earlier by either party.

- (e) **(Deposit):** Orion shall make a US\$16 million deposit, as a prepayment of the Silver Stream, to be paid to the Company in cash upon satisfaction of the conditions precedent.
- (f) **(Security):** The Silver Stream Agreement will be a secured obligation of the Company subordinate to the security under the Loan Facility. A portion of each silver delivery under the Silver Stream Agreement will be applied to reduce the amount of the Deposit. Orion will agree to release its security created under the Silver Stream Agreement (other than its mining mortgage over SML20 and successor designations) once the Covenant Release Date has occurred.
- (g) **(Covenant Release Date):** The Covenant Release Date occurs when each of the following conditions has been satisfied:
  - (i) the Early Termination Amount has been reduced to nil;
  - (ii) the independent engineer has certified that the Project completion test has been successfully completed in accordance with the Silver Stream Agreement; and
  - (iii) no Company default has occurred and is continuing.
- (h) **(Early Termination Amount):** The Early Termination Amount is the amount initially equal to the Deposit (**Early Termination Balance**) plus all accrued compensation at such time. The Early Termination Balance will be adjusted from time to time (until reduced to nil) as follows:
  - (i) upon each delivery of silver to Orion, the Early Termination Balance will be reduced by an amount equal to 80% of the Silver Market Price for that silver on the day immediately preceding the date of delivery;
  - (ii) upon any payment to Orion of any insurance policy proceeds under the Silver Stream Agreement, the Early Termination Balance will be reduced by the same amount as a deduction; and
  - (iii) on the last day of each calendar year, accrued compensation (calculated and accrued each month in an amount equal to the Early Termination Balance divided by 80) for that calendar year will be added to and form part of the Early Termination Balance.
- (i) **(Key Conditions Precedent):** The obligations under the Silver Stream Agreement are subject to and conditional on a number of conditions precedent, of which the following are outstanding as at the date of the Notice of Meeting:
  - (i) the Castllake Subscription Agreement, Orion Subscription Agreement and Greenstone Subscription Agreement are executed and evidence that completion under each of the agreements has occurred;
  - (ii) the Company receiving not less than A\$133,000,000 in gross proceeds from the Equity Raising with not less than A\$55,000,000 of the gross proceeds raised from the Equity Raising having been spent on project costs or operating costs in accordance with the financial model of the Project;
  - (iii) that all mineral rights are valid and in good standing and that all due diligence enquiries in respect of the Heron group and the Project have been completed, and the results of those enquiries are to Orion's satisfaction;
  - (iv) a report from the independent engineer (Simulus Engineers and Simulus Laboratories) certifying that as at the date of the report:
    - (A) the costs to achieve completion of the Project set out in the financial model constitutes a reasonable estimate of the costs to completion of the Project; and
    - (B) the Company is developing and constructing the Project in accordance with the financial model;
  - (v) no material adverse event has occurred since 31 December 2016 which has had, or is likely to have, a Material Adverse Effect (defined in the Silver Stream Agreement); and
  - (vi) other conditions precedent which are customary in secured streaming arrangements of this kind.

- (j) **(Assignment):** Orion may assign or transfer all or part of its rights and obligations to another party without Heron's consent. Orion will provide Heron with prior notice of any sale or bidding process conducted in connection with an assignment or transfer and will provide Heron the opportunity to bid in that sale process.

## 6. MARKETING FEE ARRANGEMENT

The key terms of the Marketing Fee Arrangement are as follows:

- (a) **(Marketing Agent):** The Company irrevocably appoints and authorises Orion to act as agent in relation to the marketing and promotion of 10% of the lead concentrates produced or derived from the Project.
- (b) **(Term):** The Marketing Fee Arrangement begins on the date of the deposit of US\$ 16 million under the Silver Stream Agreement and expires once the Company has paid the Marketing Fee on the Contract Quantity.
- (c) **(Contract Quantity):** 100,000 tonnes of lead.
- (d) **(Marketing Fee):** 0.2% of the sale proceeds from the sale of lead concentrates produced from the Project (including open market sales or under any mineral streaming agreement) at the Lead Market Price, payable within 5 business days of the applicable payment date. Overdue amounts under the Marketing Fee will accrue interest at a rate of 10% per annum.
- (e) **(Lead Market Price):** The daily London Metal Exchange official cash settlement quotation for standard lead per tonne price in US dollars.
- (f) **(Undertakings):** Heron has given undertakings relating to the Project, processing and commingling of the lead concentrates, compliance with the Marketing Fee Arrangement, payment of taxes and outgoings, the Veolia Cooperation Deed, negative pledges and disposal of Company assets, insurance policies and the granting of encumbrances.
- (g) **(Early Termination):** Upon the occurrence of an Event of Default (defined in the Marketing Fee Arrangement) and while it is continuing, Orion may elect to terminate the Company's obligation to make any further Marketing Fee payments. The Company also has the right to terminate the Marketing Fee Arrangement at any time. Upon the early termination the Company must pay a fee to Orion determined by the formula below within 5 Business Days (defined within the Marketing Fee Arrangement):

$((A - B) \times C) \times 0.002$ , where:

A = the Contract Quantity.

B = number of tonnes of payable lead in respect of which the Marketing Fee has been paid by the Company to Orion under the Marketing Fee Arrangement.

C = the Lead Market Price 1 Business Day prior to the Early Termination Amount becoming due and payable.

- (h) **(Assignment):** Orion may assign or transfer all or part of its rights and obligations to another party without the Company's consent.

The Company may assign or novate any of its rights or obligations with prior written consent, which will not be unreasonably withheld in circumstances where the Company can demonstrate that the proposed transferee is of sound financial standing, has the technical capability to perform the Company's obligations and agrees to enter into a deed of novation agreeing to be bound by the Marketing Fee Arrangement.





## HERON RESOURCES LIMITED Independent Expert's Report

14 July 2017





## Financial Services Guide

14 July 2017

**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 to provide an independent expert's report on the proposal for Greenstone HRR Holdings II L.P. and certain co-investment parties potentially associated with Greenstone HRR Holdings II L.P. to subscribe for Heron Resources Limited's shares to raise up to US\$32 million (or approximately A\$42 million) to part fund the development of its Woodlawn Zinc-Copper Project. You will be provided with a copy of our report as a retail client because you are a shareholder of Heron.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

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, 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

BDO Corporate Finance (WA) Pty Ltd is 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 services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that 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.

### 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.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate 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.



## 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 \$90,000.

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.

### Other Assignments

BDO (NSW) Pty Ltd provided taxation advice on Heron Resources Limited's carried forward tax losses and available fraction. The fee for providing these services was approximately \$20,000.

In January 2017 BDO (NSW) Pty Ltd provided taxation advice for the ATO Class Ruling in relation to the spin out of Ardea Resources Limited. The fee for providing these services was approximately \$120,000.

In January 2017 BDO Corporate Finance (WA) Pty Ltd undertook a financial model audit for Heron Resources Limited in relation to the Woodlawn Zinc-Copper Project located in New South Wales. Our fee for providing those services was approximately \$45,000.

### 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 Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1800 367 287  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

### Contact details

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	3
3.	Scope of the Report	6
4.	Outline of the Transaction	7
5.	Profile of Heron Resources	13
6.	Profile of Greenstone	21
7.	Profiles of Orion and Castllake	22
8.	Economic analysis	23
9.	Industry analysis	24
10.	Valuation approach adopted	30
11.	Pre-Transaction Valuation of Heron Resources	34
12.	Post-Transaction Valuation of Heron Resources	59
13.	Is the Transaction fair?	63
14.	Is the Transaction reasonable?	63
15.	Conclusion	68
16.	Sources of information	69
17.	Independence	69
18.	Qualifications	70
19.	Disclaimers and consents	71
	Appendix 1 - Glossary and copyright notice	
	Appendix 2 - Valuation Methodologies	
	Appendix 3 - Discount Rate Assessment	
	Appendix 4 - Independent Valuation Report prepared by Behre Dolbear Australia Pty Ltd	
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14 July 2017

The Directors  
Heron Resources Limited  
Level 7, 191 Clarence Street  
SYDNEY NSW 2000

Dear Directors

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 30 June 2017, Heron Resources Limited ('Heron Resources' or 'the Company') announced that it had secured an A\$240 million funding package required for the construction and ramp-up of its 100% owned Woodlawn Zinc-Copper Project in New South Wales ('Woodlawn Project' or 'the Project'). The funding package comprises a loan, stream funding and an equity raising.

The equity raising is an institutional placement to raise, in aggregate, approximately A\$140 million which will take place in five tranches ('Equity Raising') as follows:

- Tranche 1 - a placement of 45,856,116 shares to Castllake III, L.P. and Castllake IV, L.P. ('Castllake') at an issue price of A\$0.07 per share to raise approximately A\$3.21 million;
- Tranche 2 - a placement of 30,075,964 shares to Greenstone HRR Holdings II L.P. at an issue price of A\$0.07 per share to raise approximately A\$2.10 million and a placement of 27,820,265 shares to Orion Mine Finance Fund II L.P. ('Orion') at an issue price of A\$0.07 per share to raise approximately A\$1.95 million;
- Tranche 3 - an equity placement of 454,123,786 shares to various institutional investors ('Institutional Placement') at an issue price of A\$0.07 per share to raise approximately A\$31.79 million;
- Tranche 4 - a further placement of 1,372,347,529 shares to Castllake (420,845,260 shares), Greenstone HRR Holdings II L.P. and certain co-investment parties potentially associated with Greenstone HRR Holdings II L.P. ('Greenstone') (totalling 571,427,797 shares, being 368,420,277 to Greenstone HRR Holdings II L.P. and 203,007,520 to the co-investment parties) and Orion (380,074,472 shares) at an issue price of A\$0.07 per share to raise approximately A\$96.06 million; and
- Tranche 5 - a share purchase plan whereby shareholders as at the relevant record date will be offered the opportunity to subscribe for up to A\$15,000 of shares at the issue price of A\$0.07 per share to raise up to a maximum of A\$5 million ('Share Purchase Plan').

We note that Tranche 1, being the placement of 45,856,116 shares to Castllake III, L.P. and Castllake IV, L.P. was completed on 4 July 2017 as announced by the Company on 5 July 2017. However, it is to be noted that our analysis is conducted from a starting share position of Heron Resources as at 14 June 2017 in order to reflect a more complete representation of the Transaction

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and of the A\$240 million complete funding package. Therefore, all references to 'current', 'existing' or expressions of a similar nature with regards to shareholding and the number of shares should be read in the context of a starting share position of Heron Resources as at 14 June 2017.

We understand that the book build process has been completed and binding offers have been obtained to secure all funds from the Institutional Placement. Therefore, we do not expect any shortfall in the Institutional Placement.

Information on the co-investment parties potentially associated with Greenstone HRR Holdings li L.P. can be found in Heron Resources' Notice of Meeting.

Heron Resources has entered into subscription agreements with Greenstone to subscribe for 601,503,761 shares under the Equity Raising that will result in Greenstone potentially increasing its voting power from the current 13.04% to 27.13% (if the Share Purchase Plan is fully subscribed) or from the current 13.04% to 27.96% if no shares are subscribed for under the Share Purchase Plan ('the Transaction' or 'Greenstone Equity Subscription').

Further to the Equity Raising, the Company has also entered into agreements with Orion to provide the following:

- senior secured loan to the Company of US\$60 million ('Loan Facility');
- a silver stream with the Company of US\$16 million ('Silver Streaming Arrangement'); and
- a lead marketing fee agreement ('Marketing Fee Arrangement').

Under the arrangements with Orion, the Company will be required to grant security on the Loan Facility and the Silver Streaming Arrangement.

Orion will also participate in the Equity Raising by committing to an investment of US\$21.7 million to attain no more than a 19.9% shareholding interest in Heron Resources following the subscription ('Orion Equity Subscription').

The Orion Equity Subscription, Loan Facility, Silver Streaming Arrangement and Marketing Fee Arrangement are collectively referred to as 'the Orion Funding Package'.

Castlelake, the third cornerstone investor, will participate in the Equity Raising by committing to an investment of approximately US\$24.8 million ('Castlelake Equity Subscription').

Although developed separately, the Greenstone Equity Subscription, the Orion Funding Package and the Castlelake Equity Subscription have been negotiated to provide a complete funding solution for the Woodlawn Project. Therefore, the Greenstone Equity Subscription, the Orion Funding Package and the Castlelake Equity Subscription are interdependent on one other.

The Greenstone Equity Subscription, the Orion Funding Package, the Castlelake Equity Subscription, the Institutional Placement and the Share Purchase Plan are collectively referred to as 'the Proposed Funding Package'.

The potential increase in Greenstone's voting power to above 20% is subject to approval by shareholders of Heron Resources not associated with Greenstone ('Shareholders') which will be sought under item 7 section 611 ('Section 611') of The Corporations Act 2001 Cth ('Corporations Act' or 'the Act').

All dollar amounts are in Australian dollars ('A\$' or 'AUD') unless otherwise indicated.



## 2. Summary and Opinion

### 2.1 Purpose of the report

The directors of Heron Resources have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether the Transaction is fair and reasonable to Shareholders.

Our Report is prepared pursuant Section 611 (item 7) of the Corporations Act and is to be included in the Explanatory Memorandum and Notice of Meeting ('Notice of Meeting') for Heron Resources in order to assist Shareholders in their decision whether to approve the Transaction.

Whilst our Report is required specifically to provide an opinion on the Transaction, the Greenstone Equity Subscription, the Orion Funding Package, the Castlelake Equity Subscription, the Institutional Placement and the Share Purchase Plan are interdependent on one other and therefore need to be considered together in our overall analysis. Therefore, the Proposed Funding Package is considered through our pre-transaction and post-transaction analyses detailed in the following sections of our Report.

### 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 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 Resources share prior to the Transaction on a control basis compares to the value of a Heron Resources share after the Transaction on a minority interest basis;
- the likelihood of an alternative offer being made to Heron Resources;
- other factors which we consider to be relevant to the Shareholders in their assessment of the Transaction; and
- the position of Shareholders should the Transaction not proceed.

### 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 fair and reasonable to Shareholders.

In our opinion, the Transaction is fair because the value of a Heron Resources' share after the Transaction (on a minority interest basis) is higher than the value of a Heron Resources' share prior to the Transaction (on a control basis).

RG 111.12 states that an offer is reasonable if it is fair. We also considered that the advantages of the Transaction to Shareholders are greater than the disadvantages. In particular, the Transaction will provide critical funding for the Woodlawn Project, strengthens the financial position of the Company and may result in an increase in market capitalisation and in raising the profile of Heron Resources with the global investor market.





## 2.4 Fairness

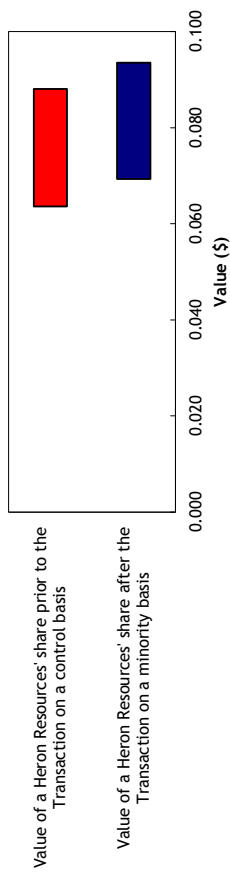
In section 13, we determined that the value of a Heron Resources share after the Transaction (on a minority interest basis) is higher than the value of a Heron Resources share prior to the Transaction (on a control basis), as detailed hereunder.

	Ref	Low \$	Preferred \$	High \$
Value of a Heron Resource share prior to the Transaction (on a control basis)	11.3	0.064	0.075	0.088
Value of a Heron Resource share following the Transaction (on a minority basis)	12.1	0.069	0.081	0.094

Source: BDO analysis

The above valuation ranges are graphically presented below:

### Valuation Summary



Source: BDO analysis

The above pricing indicates that, in the absence of any other relevant information and a superior offer, the Transaction is fair for Shareholders.

## 2.5 Reasonableness

We have considered the analysis in section 14 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 alternative 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
14.1.1	The Transaction is fair	14.2.1	Dilution of the shareholding of existing shareholders
14.1.2	Provides substantial and critical funding for the Woodlawn Project	14.2.2	Increased presence of significant shareholders may reduce the attractiveness of the Company's shares to potential investors

14.1.3 Strengthens the Company's relationship with its cornerstone investor, Greenstone

14.1.4 Strengthens the Company's balance sheet

14.1.5 May result in an increase in market capitalisation and in raising the profile of Heron Resources with the global investor market

Other key matters we have considered include:

Section	Description
14.3	Alternative Proposals
14.4	Practical Level of Control
14.5	Consequences of not approving the Transaction



### 3. Scope of the Report

#### 3.1 Purpose of the Report

Section 606 of the Corporations Act expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. 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.

The Company is seeking Shareholders' approval for the issue of 601,503,761 shares to Greenstone and the acquisition by Greenstone of voting power in the Company of a maximum of 27.96% for the purpose and on the terms of the Transaction. This is included as Resolution 1 in the Notice of Meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Heron Resources, by either:

- undertaking a detailed examination of the Transaction themselves, if they consider that they have sufficient expertise, experience and resources; or
- by commissioning an Independent Expert's Report.

The directors of Heron Resources have commissioned this Independent Expert's Report to satisfy this obligation.

#### 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.

RG 111 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, the subject of the transaction. 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. RG 111 states that when considering the value of the securities

subject of the offer in a control transaction 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 alternate options.

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

- a comparison between the value of a Heron Resources share prior to the Transaction (on a control basis) and the value of a Heron Resources share after the Transaction (on a minority basis) (fairness - see Section 13 '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 14 'Is the Transaction Reasonable?').

#### Valuation assignment

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

#### 4.1 Proposed Funding Package

On 30 June 2017, Heron Resources announced that it has secured an A\$240 million funding package required for the construction and ramp-up of its 100% owned Woodlawn Project. The funding package comprises a loan, stream funding and equity raising.

The Equity Raising is an institutional placement to raise, in aggregate, approximately A\$140 million which will take place in five tranches as follows:

- Tranche 1 - a placement of 45,856,116 shares to Castletlake III, L.P. and Castletlake IV, L.P. at an issue price of A\$0.07 per share to raise approximately A\$3.21 million;
- Tranche 2 - a placement of 30,075,964 shares to Greenstone HRR Holdings II L.P. at an issue price of A\$0.07 per share to raise approximately A\$2.10 million and a placement of 27,820,265 shares to Orion Mine Finance Fund II L.P. at an issue price of A\$0.07 per share to raise approximately A\$1.95 million;
- Tranche 3 - an equity placement of 454,123,786 shares to various institutional investors at an issue price of A\$0.07 per share to raise approximately A\$31.79 million;



- Tranche 4 – a further placement of 1,372,347,529 shares to Castllake (420,845,260 shares), Greenstone (totalling 571,427,797 shares, being 368,420,277 to Greenstone HRR Holdings II L.P. and 203,007,520 to the co-investment parties) and Orion (380,074,472 shares) at an issue price of A\$0.07 per share to raise approximately A\$96.06 million; and
- Tranche 5 – a Share Purchase Plan whereby shareholders as at the relevant record date will be offered the opportunity to subscribe for up to A\$15,000 of shares at the issue price of A\$0.07 per share to raise up to a maximum of A\$5 million.

We understand that the book build process has been completed and binding offers have been obtained to secure all funds from the Institutional Placement. Therefore, we do not expect any shortfall under the Institutional Placement.

Heron Resources has entered into subscription agreements with Greenstone to subscribe for 601,503,761 shares under the Equity Raising that will result in Greenstone potentially increasing its voting power from the current 13.04% to 27.13% (if the Share Purchase Plan is fully subscribed) or from the current 13.04% to 27.96% if no shares are subscribed for under the Share Purchase Plan.

Further to the Equity Raising, the Company has also entered into agreements with Orion to provide the following:

- senior secured loan to the Company of US\$60 million;
- a silver stream with the Company of US\$16 million; and
- a lead marketing fee agreement.

Under the arrangements with Orion, the Company will be required to grant security on the Loan Facility and the Silver Streaming Arrangement.

Orion will also participate in the Equity Raising by committing to an investment of US\$21.7 million to attain no more than a 19.9% shareholding interest in Heron Resources following the subscription.

Castllake, the third cornerstone investor, will participate in the Equity Raising by committing to an investment of approximately US\$24.8 million.

Although developed separately, the Greenstone Equity Subscription, the Orion Funding Package and the Castllake Equity Subscription have been negotiated to provide a complete funding solution for the Woodlawn Project. Therefore, the Greenstone Equity Subscription, the Orion Funding Package and the Castllake Equity Subscription are interdependent on one other.

The Greenstone Equity Subscription requires, as a pre-condition, the concurrent completion of the agreements relating to the Orion Equity Subscription and the Castllake Equity Subscription. The Orion Funding Package and the Castllake Equity Subscription agreements have similar pre-conditions.

Further details of the Transaction, the Orion Funding Package and the Castllake Equity Subscription are set out in the sections below.



#### 4.2 The Transaction

The Transaction comprises:

- a placement of 30,075,964 shares to Greenstone HRR Holdings II L.P. at an issue price of A\$0.07 per share to raise approximately A\$2.10 million by way of the initial placement ('**Greenstone Initial Placement**'); and
- a further placement of 571,427,797 shares to Greenstone HRR Holdings II L.P. and certain co-investment parties potentially associated with Greenstone HRR Holdings II L.P. at an issue price of A\$0.07 per share to raise approximately A\$40 million by way of the second placement ('**Greenstone Equity Placement**').

The potential issue of 601,503,761 shares to Greenstone under the Equity Raising will result in Greenstone potentially increasing its voting power from the current 13.04% to 27.13% (if the Share Purchase Plan is fully subscribed) or from the current 13.04% to 27.96% if no shares are subscribed for under the Share Purchase Plan.

#### Greenstone Initial Placement and Greenstone Equity Placement

Under the Greenstone Initial Placement, Heron Resources will issue and Greenstone HRR Holdings II L.P. will subscribe for US\$1,600,041 (or approximately A\$2.1 million) of fully paid ordinary shares (or such lesser amount as to ensure that Greenstone's voting power in Heron Resources post issue does not exceed 19.9%). Under the Greenstone Equity Placement, Heron Resources will issue and Greenstone will subscribe for a further US\$30.4 million (or approximately A\$40 million) of fully paid ordinary shares.

The price at which Heron Resources' shares will be issued will be \$0.07 per share.

Key conditions precedent include, but are not limited to, the following:

- Shareholders' approval;
- the Institutional Placement remaining on foot;
- certain key conditions precedent to the Orion Loan Facility and the Silver Streaming Arrangement being satisfied;
- the Orion Funding Package and the Castllake Equity Subscription remaining on foot;
- no material adverse change prior to the completion of the Greenstone Equity Subscription; and
- Australian Securities Exchange ('ASX') not indicating that it will refuse to grant quotation of shares issued under Greenstone Equity Subscription or otherwise make quotation conditional.

#### 4.3 Orion Equity Subscription

Orion will subscribe for such number of shares under the Equity Raising as to give Orion up to a 19.9% shareholding interest in Heron Resources post issue. The Orion Equity Subscription comprises:

- US\$1,480,038 (or approximately A\$1.95 million) by way of the initial placement ('**Orion Initial Placement**'); and
- a further US\$20,219,962 (or approximately A\$26.6 million) by way of the second placement ('**Orion Equity Placement**').

#### 4.4 Loan Facility

The terms of the Loan Facility are summarised below:

- Quantum - US\$60 million (plus capitalised interest).
- The Loan Facility will be available for draw down within three equal tranches based on milestones related to project costs being in line with the financial model agreed upon between Heron Resources and Orion:
  - Tranche 1 - US\$20 million;
  - Tranche 2 - US\$20 million; and
  - Tranche 3 - US\$20 million.
- Security - the Loan Facility will be a senior secured obligation of Heron Resources and its direct and indirect subsidiaries. Orion will enjoy the benefit of first priority perfected security interest in all assets of Heron Resources and in all assets of its direct and indirect subsidiaries. The first ranking security will be released following repayment in full of the Loan Facility and other amounts owed by Heron Resources to Orion under the terms of the Loan Facility.
- Maturity Date - 31 December 2022.
- Interest rate margin - LIBOR plus 7.25% per annum (with the reference rate subject to a minimum of 2.5%), to be paid on a quarterly basis, with an additional overdue rate of 5.25% (bringing the overdue margin to a total LIBOR + 12.5% per annum)
- Holiday Period - for a period of the first five calendar quarters following the initial drawdown, interest will accrue and be capitalised on a quarterly basis in arrears. No principal payments will be made during the Holiday Period.
- Scheduled Principal Repayments - following the Holiday Period, principal repayments will be made in nine quarterly instalments with a set amortization schedule.
- Mandatory Prepayments - following the Holiday Period, Heron Resources must apply the lesser of 50% of excess cash flow and the outstanding principal amount to mandatory prepayments, less any amount required to ensure that the cash balance in the operating account will be not less than \$15 million on repayment date, in accordance with repayment dates scheduled under the Loan Facility.
- Voluntary Prepayments - early repayment of the Loan Facility may occur at any time without charges following a 12-month period from last draw down.

#### 4.5 Silver Streaming Arrangement

The terms of the Silver Streaming Arrangement are summarised below:

- Heron Resources shall sell to Orion, and Orion shall purchase from Heron Resources, payable silver mined and processed from the mining tenement SML20 (including successor designations) in the following tiered amounts:
  - 80% of silver mined and subsequently produced at Woodlawn Project until the delivery of 2.15 million ounces of silver; then

- 40% of silver mined and subsequently produced at Woodlawn Project until the delivery of 3.40 million ounces of silver; then
- 25% of silver mined and subsequently produced at Woodlawn Project for the remaining life of mine.
- Term - Life of mine of the Woodlawn Project.
- Deposit - Orion shall make a lump sum US\$16 million deposit, to be paid to Heron Resources in cash once agreed milestones are achieved.
- Stream Purchase Price - 20% of the prevailing relevant spot price of silver (payable in cash).
- Security - the Silver Streaming Arrangement will be a secured obligation of Heron Resources subordinate to the security under the Loan Facility. The remaining 80% of the value (based on the prevailing relevant spot price of silver) of each silver delivery under the Silver Streaming Arrangement will be applied to reduce the amount of the Deposit. Following receipt of an aggregate deposit reduction amount equal to the Deposit plus an interest charge on the Deposit, and following the achievement of the Woodlawn Project milestones to be agreed, Orion will agree to release its security on the Silver Streaming Arrangement.

#### 4.6 Marketing Fee Arrangement

The terms of the Marketing Fee Arrangement are summarised below:

- Quantity - 10% of the Material sold to off-takers.
- Material - payable lead contained in the lead concentrates produced at or by the Woodlawn Project with expected assays subject to review by Orion.
- Marketing Services - Heron Resources shall engage Orion as its Marketing Agent for the sale of the Quantity of Material.
- Marketing Fee - Heron Resources shall pay Orion a marketing fee equal to 2% of the Quantity of Material sold to off-takers. Any overdue amounts will accrue interest at a rate of 10% per annum.
- Term - until Heron Resources sells 100,000 tonnes of payable lead.

#### 4.7 Castlake Equity Subscription

Castlake will subscribe for shares under the Equity Raising in the following tranches:

- a placement of 45,856,116 shares to Castlake III, L.P. and Castlake IV, L.P. at an issue price of A\$0.07 per share to raise approximately A\$3.21 million; and
- a placement of 420,845,260 shares to Castlake III, L.P. and Castlake IV, L.P. at an issue price of A\$0.07 per share to raise approximately A\$29.46 million.

As noted above, Tranche 1, being the placement of 45,856,116 shares to Castlake III, L.P. and Castlake IV, L.P. was completed on 4 July 2017 as announced by the Company on 5 July 2017.



#### 4.8 Shareholding in Heron Resources following the Proposed Funding Package

The following table shows the number of shares that may be issued following the Proposed Funding Package, before considering any exercise of in-the-money options. Greenstone may reach a combined holding of 27.13% (from 13.04% currently held), relative to other Shareholders in Heron Resources.

	Greenstone	Castlake	Orion	Other Shareholders	Total
<b>Existing shareholding</b>					
Issued shares (14 June 2017)	54,131,658	-	-	360,877,723	415,009,381
% shareholding	13.04%	0.00%	0.00%	86.96%	100.00%
<b>Subscription shares</b>					
Greenstone	601,503,761 <sup>1</sup>				601,503,761
Castlake		466,701,376 <sup>2</sup>			466,701,376
Orion			407,894,737 <sup>3</sup>		407,894,737
Institutional Placement				454,123,786 <sup>4</sup>	454,123,786
Share Purchase Plan				71,428,571 <sup>5</sup>	71,428,571
Total subscription shares	601,503,761	466,701,376	407,894,737	525,552,357	2,001,652,231
<b>Total number of shares</b>	<b>655,635,419</b>	<b>466,701,376</b>	<b>407,894,737</b>	<b>886,430,080</b>	<b>2,416,661,612</b>
<b>Shareholding (%)</b>	<b>27.13%</b>	<b>19.31%</b>	<b>16.88%</b>	<b>36.68%</b>	<b>100.00%</b>

Source: Greenstone, Orion, Castlake Subscription Agreements, Company announcements and BDO analysis

Notes:

<sup>1</sup> 30,075,964 shares issued to Greenstone HRR Holdings II L.P. under Tranche 1 and a further 571,427,797 shares issued to Greenstone HRR Holdings II L.P. and certain co-investment parties potentially associated with Greenstone HRR Holdings II L.P. under Tranche 2, at A\$0.07 per share, to raise US\$32 million (or approximately A\$42.1 million at an exchange rate of 0.76 AUD/USD). Existing shareholding of 54,131,658 shares to be transferred to Greenstone HRR Holdings II L.P. prior to completion.

<sup>2</sup> 45,856,116 shares and a further 420,845,260 shares issued to Castlake III, L.P. and Castlake IV, L.P. under Tranche 1 and Tranche 2 respectively, at A\$0.07 per share, to raise approximately US\$24.8 million (or A\$32.67 million at an exchange rate of 0.76 AUD/USD)

<sup>3</sup> 27,820,265 shares and a further 380,074,472 shares issued to Orion Mine Finance Fund II L.P. under Tranche 1 and Tranche 2 respectively, at A\$0.07 per share, to raise US\$21.7 million (or approximately A\$28.6 million at an exchange rate of 0.76 AUD/USD)

<sup>4</sup> 454,123,786 shares issued to institutional investors under the Institutional Placement, at A\$0.07 per share, to raise A\$31.8 million

<sup>5</sup> 71,428,571 shares issued to retail investors under the Share Purchase Plan, at A\$0.07 per share, to raise up to A\$5 million

Shareholders' interests in Heron Resources may be diluted from 86.96% to 36.68% before considering any exercise of in-the-money options. Greenstone's corresponding combined shareholding interest may increase from 13.04% to 27.13%. Castlake's shareholding may increase from nil to 19.31% and Orion's interest may increase from nil to 16.88%.

Assuming that all in-the-money options are exercised, based on a share price of between \$0.08 and \$0.09 per share, an additional 21,158,369 shares will be issued to raise up to \$1.5 million. Greenstone's combined shareholding would reduce to 26.89% and Shareholders' interest will be reduced to 37.23%.

In the event that no shares are subscribed for under the Share Purchase Plan and no in-the-money options are exercised, Greenstone may reach a maximum combined shareholding of 27.96% and Shareholders' interests may be diluted to 34.75%. Greenstone's maximum combined shareholding would reduce to 27.71% and Shareholders' interests may be diluted to 35.33% if all in-the-money options are exercised.



#### 5. Profile of Heron Resources

##### 5.1 History

Heron Resources is an Australian mineral exploration company with its head office located in Sydney, New South Wales ('NSW'). Heron Resources is dual-listed on the ASX and the Toronto Stock Exchange ('TSX').

Heron Resources' primary focus is the development of its 100% owned, Woodlawn Project located 250 kilometres southwest of Sydney, NSW.

The Company's current board members and senior management are shown below:

- Mr Stephen Dennis - Non-Executive Chairman;
- Mr Wayne Taylor - Managing Director and CEO;
- Mr Borden Putnam III - Non-Executive Director;
- Ms Fiona Robertson - Non-Executive Director;
- Mr Mark Sawyer - Non-Executive Director;
- Mr Mike Haworth - Alternate Director for Mr Mark Sawyer;
- Mr Simon Smith - General Manager, Finance & Administration and Company Secretary;
- Mr Andrew Lawry - Chief Operating Officer;
- Mr David von Perger - General Manager, Exploration & Geology; and
- Mr Charlie Kempson - General Manager, Strategy & Business Development.

Major events of the Company's history are summarised in the table below.

Year	Events
2014	On 10 March 2014, Heron Resources entered into an agreement with TriAusMin Limited ('TriAusMin') to combine the two companies by way of a scheme of arrangement. The combined entity focused on the development of the Woodlawn Project and the portfolio of exploration assets located in the Lachlan Fold Belt of NSW, Australia. The \$15.6 million all-scrip merger of Heron Resources and TriAusMin was completed on 5 August 2014.  Pursuant to the completion of the merger of Heron Resources and TriAusMin, Heron Resources listed on the TSX under the trading symbol 'HER' on 5 August 2014.  On 27 August 2014, Heron Resources announced that BHP Minerals Holdings Pty Ltd, a wholly owned subsidiary of BHP Billiton Plc ('BHP'), executed a share sale agreement with respect to their entire 10.4% shareholding in Heron Resources. Sprott Inc and Exploration Capital Partners 2008 LP acquired BHP's 10.4% shareholding.  On 11 September 2014, Heron Resources commenced the 2014 drilling program at the high grade Woodlawn Project.  On 12 September 2014, Heron Resources announced that Inco Australia Holdings Pty Ltd sold their entire holding of 32.4 million shares in Heron Resources, comprising approximately 9% of shares on issue.



- 2015
- On 27 February 2015, Heron Resources announced that it had renewed the mining lease for the Woodlawn Project with the NSW Trade and Investment Division of Resources and Energy. The lease was renewed for a 15-year term commencing 16 November 2014.
- On 22 April 2015, Heron Resources completed the Preliminary Economic Assessment ('PEA') on the Company's 100% owned and fully permitted Woodlawn Project. Highlights included a post-tax net present value ('NPV') of \$300 million based on an initial capital requirement of \$140 million and an initial 11-year mine life.
- On 26 May 2015, Heron Resources appointed Azure Capital Limited ('Azure') as the leading independent corporate advisory firm, to help evaluate funding options for the potential staged development of the Woodlawn Project.
- On 2 July 2015, Metalicity Limited elected to exercise their option to acquire a 90% interest in Rocky Gully for a consideration of 14,375,000 Metalicity Limited shares valued at \$0.02 per share. Heron Resources will retain a 10% interest in the Rocky Gully tenements to the completion of a feasibility study.
- On 24 July 2015, Heron Resources entered into a binding agreement with Greenstone Resources L.P. ('Greenstone Resources'), whereby Greenstone Resources invested \$6.8 million in Heron Resources by way of a private placement. The agreements also allowed for a potential additional investment by Greenstone Resources of \$13.2 million towards funding the staged construction of the Woodlawn Project.
- On 17 August 2015, Heron Resources completed the stage one \$6.8 million investment from Greenstone Resources. The placement was priced at \$0.126 per share.
- On 9 September 2015, Heron Resources released an update on the Woodlawn Project which highlighted that the Front End Engineering Design study had been completed by GR Engineering Services.
- On 20 October 2015, Heron Resources released an updated estimate of the Woodlawn Tailings Retreatment Project ('WRP') Mineral Resource based on the requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition) ('JORC Code 2012'). The updated Mineral Resource estimate comprised 9.83 million tonnes of Measured and Indicated resources at 6.2% zinc equivalent ('ZnEq').
- On 2 December 2015, Heron Resources released the full Woodlawn Retreatment Project 2015 Mineral Resources Technical Report (N143-101) on the System for Electronic Document Analysis and Retrieval ('SEDAR').
- 2016
- On 30 May 2016, Heron Resources entered into a farm-in agreement with Alchemy Resources Limited ('Alchemy') covering the portfolio of Heron Resources' NSW exploration tenements.
- On 29 June 2016, Heron Resources released the results of its Feasibility Study ('FS') for the Woodlawn Project. The \$11.0 million FS provided the support for the viability to produce zinc, copper and lead concentrates to market over a significant Reserve-based mine life.
- On 7 July 2016, Heron Resources commenced a 2,500m diamond drilling program targeting the northern extensions of the Woodlawn Project.
- On 26 July 2016, Heron Resources released the full Woodlawn Feasibility Study on SEDAR.
- On 10 August 2016, Heron Resources announced its intention to restructure and demerge its non-Woodlawn asset portfolio in NSW and Western Australia, with a focus on gold and nickel, through the

- proposed listing of its wholly owned subsidiary, Ardea Resources Limited ('Ardea'). Ardea's development focus is the Lewis Ponds Gold-Zinc project in central NSW and exploration focus is the Mt Zephyr and Bardoc Tectonic Zone gold projects located in the Eastern Goldfields of WA.
- On 11 November 2016, Heron Resources advised that Ardea had lodged a prospectus with ASIC on 9 November 2016 for the proposed initial public offer of up to 30 million fully paid shares at an issue price of \$0.20 per share including a priority offer to existing Heron Resources shareholders to raise up to \$6 million before costs and an offer of 12,445,028 options in total to Heron Resources, the lead manager and the corporate adviser.
- A supplementary prospectus was lodged by Ardea with ASIC on 18 November 2016.
- 2017
- A second supplementary prospectus was lodged by Ardea with ASIC on 6 January 2017.
- On 23 January 2017, Heron Resources announced that each of the conditions to the spin-off of Ardea had been satisfied and the offer had successfully closed on 20 January 2017. Approximately \$5.2 million was raised under Ardea's initial public offer.
- On 23 January 2017, Eastern Goldfields Limited ('Eastern Goldfields') announced that it had signed an agreement with Heron Resources and Ardea, whereby Eastern Goldfields would acquire:
- 100% title to the Sibera gold mining tenements in return for payment of \$100,000 plus a 1.5% royalty on the gross revenue from gold production at any of the tenements capped at 150,000 ounces of gold; and
  - the gold rights in respect of the Sibera gold rights tenements with Heron Resources retaining title and the nickel rights.
- On 9 February 2017, Alchemy announced that diamond drilling had commenced at Overflow Historic Gold and Base Metal Mine, located in NSW.
- On 29 March 2017, Heron Resources announced that it had entered into a new Cooperation Deed with Vedalia Environmental Services (Australia) Pty Ltd governing the joint use of the Woodlawn Project.
- On 31 March 2017, Heron Resources announced that it had received its Environmental Protection License from the NSW Environmental Protection Authority covering proposed construction, mining and processing activities at the Woodlawn Project.
- Additionally, on 31 March 2017, Alchemy Resources announced that it had received strong gold and silver intercepts from their first drill hole at Overflow Prospect, NSW.
- On 11 April 2017, Heron Resources announced that it had initiated a follow-up drilling program at its Woodlawn Project, aiming to cover resource expansion for early mine production as well as confirmation of geotechnical conditions and shallow mine excavation drilling to assist with backfilling.
- On 4 May 2017, Heron Resources announced that it awarded a \$107m guaranteed maximum price Engineering, Procurement and Construction ('EPC') contract to Sedgman for a 1.5m tonne per annum mineral processing plant and associated infrastructure at Woodlawn.
- On 10 May 2017, Heron Resources signed an off-take agreement for Woodlawn zinc, copper and lead concentrates to be produced from its Woodlawn Project. Louis Dreyfus Company Metals has been awarded the base metal concentrate off-take from the Woodlawn Project from commencement of production through to the end of 2021. The off-take covers 100% of the zinc, copper and lead concentrates produced over this period.





## Year Events

On 24 May 2017, Heron Resources announced that it had awarded the project development earthworks contract for its Woodlawn Project to Ertech Pty Ltd.

On 2 June 2017, the founding Director of Heron Resources, Mr Ian Buchhorn, stepped down as Director.

On 13 June 2017, Heron Resources provided an exploration update from the drilling program recently commenced at the Woodlawn Project, which noted that the program had progressed well and returned a number of mineralised intercepts.

On 20 June 2017, Heron Resources announced results of a reconnaissance rotary airblast drilling program at the Crosby prospect.

## 5.2 Historical Balance Sheet

Statement of Financial Position	Reviewed as at 31-Dec-16 \$'000s	Audited as at 30-Jun-16 \$'000s	Audited as at 30-Jun-15 \$'000s	Audited as at 30-Jun-14 \$'000s
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	16,513	22,891	24,015	32,915
Trade and other receivables	825	522	362	337
Investments	-	-	-	1,359
Assets held for distribution to owners	8,778	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>26,116</b>	<b>23,413</b>	<b>24,377</b>	<b>34,611</b>
<b>NON-CURRENT ASSETS</b>				
Trade and other receivables	491	35	35	35
Investments	1,570	1,907	2,328	3,321
Property, plant and equipment	71	436	493	58
Exploration and evaluation costs carried forward	26,540	31,068	27,119	4,578
<b>TOTAL NON-CURRENT ASSETS</b>	<b>28,672</b>	<b>33,446</b>	<b>29,975</b>	<b>7,992</b>
<b>TOTAL ASSETS</b>	<b>54,788</b>	<b>56,859</b>	<b>54,352</b>	<b>42,603</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	730	893	1,461	281
Provisions	918	840	740	560
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,648</b>	<b>1,733</b>	<b>2,201</b>	<b>841</b>
<b>NON-CURRENT LIABILITIES</b>				
Provisions	63	42	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>63</b>	<b>42</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>1,711</b>	<b>1,775</b>	<b>2,201</b>	<b>841</b>
<b>NET ASSETS</b>	<b>53,077</b>	<b>55,084</b>	<b>52,151</b>	<b>41,762</b>
<b>EQUITY</b>				
Contributed equity	138,409	138,409	131,680	116,035
Options Reserve	1,290	935	522	582
Accumulated losses	(86,622)	(84,260)	(80,051)	(74,855)
<b>TOTAL EQUITY</b>	<b>53,077</b>	<b>55,084</b>	<b>52,151</b>	<b>41,762</b>

Source: Audited financial statements for the year ended 30 June 2014, 30 June 2015 and 30 June 2016, and reviewed half-yearly financial statements for the period ended 31 December 2016.



The audited and reviewed financial statements of Heron Resources are unqualified.

## Commentary on Historical Balance Sheet

- Cash and cash equivalents has decreased from \$22.9 million as at 30 June 2016 to \$16.5 million as at 31 December 2016. This was primarily due to:
  - exploration and development expenditure of \$3.8 million; and
  - payments for services and administration expenses of \$2.5 million.
- Set out below is the breakdown for current trade and other receivables:

Current - Trade and other receivables	Reviewed as at 31-Dec-16 \$'000s	Audited as at 30-Jun-16 \$'000s	Audited as at 30-Jun-15 \$'000s	Audited as at 30-Jun-14 \$'000s
Accrued interest receivable	29	56	96	157
Prepayments	197	75	13	31
GST receivable	161	82	86	24
Debtor - Ardea	269	-	-	-
Sundry debtors	169	309	167	125
<b>TOTAL TRADE AND OTHER RECEIVABLES</b>	<b>825</b>	<b>522</b>	<b>362</b>	<b>337</b>

Heron Resources provided a loan to Ardea for tenement and post initial public offering costs. The debtor balance is to be repaid by Ardea in cash.

- Current investments of \$1.4 million as at 30 June 2014 relate to the following:
  - investment in Black Oak Mineral Ltd of \$0.06 million; and
  - investment in TriAusWin of \$1.3 million.
- Assets held for distribution to owners of \$8.8 million as at 31 December 2016 reflect the assets and liabilities of Ardea which were subsequently spun-out.
- Non-current trade and other receivables of \$0.5 million as at 31 December 2016 primarily relates to the non-current portion of the loan provided by Heron Resources to Ardea (\$456,000) which was subsequently repaid via the issue of 10 million options in Ardea on 9 February 2017.
- The breakdown for non-current investments is as set out below:

Non-current - Investments	Reviewed as at 31-Dec-16 \$'000s	Audited as at 30-Jun-16 \$'000s	Audited as at 30-Jun-15 \$'000s	Audited as at 30-Jun-14 \$'000s
Centennial Mining Limited	529	673	1,122	1,441
Golden Cross Resources Limited	-	-	953	1,880
Metalicity Limited	1,006	1,006	75	-
Newamu Pty Ltd	178	178	178	-
Alchemy Resources Ltd	35	50	-	-
Assets held for distribution to owners	(178)	-	-	-
<b>NON-CURRENT - INVESTMENTS</b>	<b>1,570</b>	<b>1,907</b>	<b>2,328</b>	<b>3,321</b>

Assets held for distribution to owners of \$0.18 million as at 31 December 2016 reflect the investment held in Newamu Pty Ltd which was subsequently spun-out to Ardea.

- Set out below is the breakdown for property, plant and equipment:

Property, plant and equipment	Reviewed for the six months to 31-Dec-16 \$'000s	Audited as at 30-Jun-16 \$'000s	Audited as at 30-Jun-15 \$'000s	Audited as at 30-Jun-14 \$'000s
Plant and equipment	13	22	22	24
Office equipment and furniture	42	70	106	34
Motor vehicles	16	19	24	-
Land	-	325	341	-
<b>TOTAL PROPERTY, PLANT &amp; EQUIPMENT</b>	<b>71</b>	<b>436</b>	<b>493</b>	<b>58</b>

Land of \$0.3 million as at 30 June 2015 related to freehold land at Lewis Pond, acquired upon the acquisition of TriAusMin. This was later spun-out as an asset of Ardea.

- Current and non-current provisions comprise provisions for rehabilitation and employee entitlements such as annual leave and long service leave.
- The movement in contributed equity over the review period can be explained by the following:
  - On 5 August 2014, Heron Resources issued 107,891,936 fully paid ordinary shares to complete the acquisition of TriAusMin on the basis of 1 Heron Resources share for every 2.33 TriAusMin shares.
  - On 17 August 2015, Heron Resources issued 54,131,658 shares to Greenstone Resources at \$0.126 per share, raising approximately \$6.8 million.

### 5.3 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Reviewed for the six months to 31-Dec-16 \$'000s	Audited for the year ended 30-Jun-16 \$'000s	Audited for the year ended 30-Jun-15 \$'000s	Audited for the year ended 30-Jun-14 \$'000s
<b>Revenue</b>				
Other income	290	1,081	1,137	1,389
<b>Expenses</b>				
Accountancy fees	(96)	(11)	(12)	(26)
Audit fees	(34)	(18)	(40)	(38)
Consultants expense	(17)	-	(99)	(155)
Depreciation expense	(40)	(57)	(55)	(54)
Directors fees	(155)	(310)	(232)	(173)
Employee benefits expense	(495)	(1,034)	(993)	(309)
Insurance expense	(90)	(75)	(139)	(57)
Legal fees	(66)	(166)	(129)	(183)
Equity settled share based payments	(355)	(457)	(173)	(449)
Rental Expenses	(131)	(340)	(323)	-
Other expenses from ordinary activities	(652)	(892)	(789)	(598)
Exploration expenditure expensed	(743)	(1,715)	(2,092)	(3,497)
Exploration expenditure written off	-	(1,181)	-	(405)

18

Statement of Comprehensive Income	Reviewed for the six months to 31-Dec-16 \$'000s	Audited for the year ended 30-Jun-16 \$'000s	Audited for the year ended 30-Jun-15 \$'000s	Audited for the year ended 30-Jun-14 \$'000s
Investment gain/(loss)	222	921	(1,490)	(1,834)
Loss from continuing operations before income tax	(2,362)	(4,254)	(5,429)	(6,389)
Income tax expense	-	-	-	-
Loss from continuing operations after income tax	(2,362)	(4,254)	(5,429)	(6,389)
Other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>(2,362)</b>	<b>(4,254)</b>	<b>(5,429)</b>	<b>(6,389)</b>

Source: Audited financial statements for the year ended 30 June 2014, 30 June 2015 and 30 June 2016, and reviewed financial statements for the half-year ended 31 December 2016.

### Commentary on Historical Statement of Comprehensive Income

- Set out below is the breakdown for other income:

Other Income	Reviewed for the six months to 31-Dec-16 \$'000s	Audited for the year ended 30-Jun-16 \$'000s	Audited for the year ended 30-Jun-15 \$'000s	Audited for the year ended 30-Jun-14 \$'000s
Gain/(loss) on disposal of fixed assets	-	(6)	5	8
Gain/(loss) on disposal of investments	-	35	30	-
Interest received	250	717	945	1,331
Bonus issue of AYC options	-	-	110	-
Proceeds from disposal interest in Rocky Gully	-	288	-	-
Proceeds from disposal interest in Overflow	-	26	-	-
Sundry income	40	21	47	50
<b>TOTAL OTHER INCOME</b>	<b>290</b>	<b>1,081</b>	<b>1,137</b>	<b>1,389</b>

On 2 July 2015, Heron Resources sold a 90% interest in Rocky Gully to Metalicity Limited for a consideration of 14,375,000 Metalicity Limited shares valued at \$0.02 per share.

As consideration for the farm-in agreement entered into with Alchemy in regards to Heron Resources' Overflow, Eurrow and Girilambone projects, Heron Resources received 2,000,000 Alchemy shares and 2,500,000 options with a three-year term and an exercise price of \$0.10.

- Exploration expenditure expensed as incurred related to exploration costs incurred at Heron Resources' various exploration tenements located in NSW and Western Australia.
- Exploration expenditure written off \$1.2 million for the financial year ended 30 June 2016 related to the spin-out of the non-Woodlawn assets into Ardea. The capitalised exploration assets spun-out were Lewis Ponds and Kalgoolie Nickel Project ('KNP'). However, Lewis Ponds has not been impaired as it has been classified as the flagship asset in Ardea; the \$1.2 million impairment related solely to the KNP asset.

19



## 5.4 Capital Structure

The share structure of Heron Resources as at 14 June 2017 is outlined below:

	Number
Total ordinary shares on issue	415,009,381
Top 20 shareholders	250,604,735
Top 20 shareholders - % of shares on issue	60.39%
Source: Company's share register	

The range of shares held in Heron Resources as at 14 June 2017 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	304	167,635	0.04%
1,001 - 5,000	765	2,380,778	0.57%
5,001 - 10,000	524	4,204,067	1.01%
10,001 - 100,000	1,145	41,808,985	10.08%
100,001 - and over	298	366,447,916	88.30%
<b>TOTAL</b>	<b>3,036</b>	<b>415,009,381</b>	<b>100.00%</b>
Source: Company's share register			

The ordinary shares held by the most significant shareholders as at 14 June 2017 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Greenstone HRR Holdings LP	54,131,658	13.04%
Canadian Register	48,721,260	11.74%
Citicorp Nom PL	27,743,342	6.69%
Hazurn PL	21,296,200	5.13%
Subtotal	151,892,460	36.60%
Others	263,116,921	63.40%
<b>Total ordinary shares on issue</b>	<b>415,009,381</b>	<b>100.00%</b>
Source: Company's share register		

We note that subsequent to this date, Heron Resources announced on 5 July 2017 that Castlake completed Tranche 1 of the Castlake Equity Subscription on 4 July 2017, bringing the total number of shares in Heron Resources to 460,865,497.

As at the date of our Report, Heron Resources has the following options on issue:

Expiry Date	Exercise Price	Number of Options
4 December 2020	\$0.072	20,300,000
5 March 2018	\$0.29	1,000,000
20 November 2018	\$0.07	858,369
23 October 2017	\$0.12	21,459
1 September 2021	\$0.134	400,000
1 February 2022	\$0.11	2,650,000
		<b>25,229,828</b>
Source: Company's option register		



## 6. Profile of Greenstone

Greenstone Resources is a private equity fund which has established and manages the investments of various private equity funds formed for the purposes of investment in the mining and metals sector. The funds typically invest in post exploration development projects and support management teams in bringing projects into production.

Since its inception, Greenstone Resources has raised in excess of US\$460m from investors and retains those funds under management. Further information concerning Greenstone Resources can be found at <https://www.greenstoneresources.com/>

Greenstone HRR Holdings L.P. ('Greenstone HRR Holdings') is a Delaware limited partnership that was formed in 2015 for the purpose of undertaking Greenstone's original investment in the Company. Greenstone Management (Delaware) L.L.C. ('Greenstone Delaware'), a Delaware incorporated company, is the general partner of Greenstone HRR Holdings.

In accordance with the incorporation arrangements and operation of prevailing law, Greenstone Delaware has exclusive responsibility for the management and conduct of the business of Greenstone HRR Holdings 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 HRR Holdings.

The limited partners in Greenstone HRR Holdings cannot take any part in the management or control of the business and affairs of Greenstone HRR Holdings, nor do they have any right or authority to act for or to bind Greenstone HRR Holdings. The limited partners do not have a general power to vote (other than in very limited circumstances) and may also not in any way interfere in the conduct or management of Greenstone HRR Holdings.

Greenstone HRR Holdings II L.P. is also a Delaware limited partnership formed for the purposes of acquiring Heron Resources' shares under the Equity Raising. The general partner of Greenstone HRR Holdings II L.P. is also Greenstone Delaware.

By completion, the limited partners of the Greenstone HRR Holdings II L.P. will comprise Greenstone HRR Holdings and other limited partners of Greenstone HRR Holdings. Greenstone HRR Holdings II L.P. was set up to make a further investment by Greenstone HRR Holdings in Heron Resources whilst offering existing limited partners an opportunity to co-invest by taking up interests in Greenstone HRR Holdings II L.P.. As part of acquiring its interest in Greenstone HRR Holdings II L.P., Greenstone HRR Holdings will transfer its existing investment in Heron Resources to Greenstone HRR Holdings II L.P. (comprising 54,131,658 Heron Resources shares held on its behalf by its general partner, Greenstone Delaware).

The same rights and responsibilities of the general partner and the limited partners of Greenstone HRR Holdings described above also apply to the general partner and limited partners of Greenstone HRR Holdings II L.P. Accordingly, it is Greenstone Delaware who controls all decisions (including the exercise of voting rights) and the power to dispose of the shares held in Heron Resources, and the holdings of the limited partners are entirely passive.

Greenstone Delaware is a wholly-owned subsidiary of Greenstone Management Limited, a company incorporated in Guernsey. As a sole member limited liability Delaware company, Greenstone Delaware has no board of directors and Greenstone Management Limited, as the sole member, makes all decisions for, and controls, Greenstone Delaware. Greenstone Management Limited acts as the investment manager for Greenstone HRR Holdings and Greenstone HRR Holdings II L.P..

The powers of Greenstone Management Limited are exercised by its Board, with the directors of Greenstone Management Limited being Mark Sawyer (UK resident), Michael Haworth (UK resident), Sadie Morrison (Guernsey resident) and Joanna Duquemin Nicolle (Guernsey resident). Mr Sawyer is also a non-executive director of the Company but, as one of four directors of Greenstone Management Limited, does not control Greenstone Management Limited and therefore the making of investments decisions for Greenstone HRR Holdings, Greenstone HRR Holdings II L.P. or the co-investment parties, including in connection with the shares they hold or will hold in Heron Resources.

Following successful completion of the Equity Raising, due to these powers of control described above, Greenstone Delaware and Greenstone Management Limited (as general partners of both Greenstone HRR Holdings and Greenstone HRR Holdings II L.P.) will also have a relevant interest in a total of up to 452,627,899 shares in Heron Resources, comprising 19.30% (assuming no shares are issued under the Share Purchase Plan).

## 7. Profiles of Orion and Castlelake

### 7.1 Orion

Orion L.P. 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.

The Orion Mine Finance Group is a mining focused investment business with approximately \$3.04 billion currently under management (as of 31 March 2017) specialising in providing flexible capital investment solutions to mining companies in the base and precious metals sector. Orion Mine Finance Group has demonstrated capability in debt, equity, convertibles, off-take, streaming and royalty investments.

Further information concerning Orion can be found at: <https://www.orionminefinance.com>

### 7.2 Castlelake

Castlelake is a global private investment firm managing private funds with more than \$10.3 billion in assets (as of March 31, 2017) on behalf of its limited partners. The Castlelake team is comprised of more than 100 professionals across its Minneapolis headquarters and London office.

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.

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

## 8. Economic analysis

### 8.1 Global

Overall, the global economy is continuing to grow at a moderate level, entering 2017 with more momentum than what was originally anticipated. Labour market conditions in advanced economies have improved over the past year, with growth in global industrial production and trade also picking up.

In China, growth was stronger over the second half of 2016 which was supported by higher spending on infrastructure and property construction. This has come as a result of China shifting away from an economy dependent on manufacturing, to one driven by consumer demand. High and rising debt, combined with excess capacity in some sectors remains a risk to its medium-term outlook for growth. Global financial markets have seen improved sentiment following a period of increased volatility. However, uncertainty regarding the global economic outlook and policy settings for major jurisdictions continues. Whilst globally, monetary policy remains accommodative, further increases in US interest rates are expected over the year ahead and there is no longer an expectation of additional monetary easing in other major economies.

### 8.2 Australia Commodity prices

Commodity prices have increased significantly in recent months, following a steep decline over the past few years. The increase in commodity prices is partly attributable to factors such as increased Chinese demand for bulk commodities. Chinese authorities have also restricted domestic production to reduce overcapacity, which has further contributed to the appreciation of prices. These higher price levels are unlikely to be sustained, with forecasts assuming that much of the recent increase in commodity prices will be unwound over the next couple of years.

The increase in commodity prices has seen a consequent increase in Australia's terms of trade. The increase bucks a declining trend in Australia's terms of trade, which have steadily declined over the past four years.

### Domestic growth

In Australia, the available information suggests that the economy is growing moderately. The Australian economy has experienced a large decline in mining investment. However, this is being offset by growth in other areas such as residential construction, government expenditure and exports. Despite higher commodity prices boosting the profits of resource firms, the increase is expected to be temporary. Consequently, it is unlikely that stronger commodity prices will translate into materially higher investment or employment in the resource sector.



Inflation is expected to increase gradually as the economy strengthens, and as the effects of some factors that have been weighing on domestic cost pressure dissipate, including earlier declines in the terms of trade and falling employment in mining-related industries. The increase in underlying inflation is likely to be gradual.

#### Credit growth

Credit growth has picked up over the last three months, partly due to a number of large privatisations being financed by business credit. Furthermore, loan approvals data suggests that lending to investors has risen over the past few months, which is consistent with the increase in investor housing loan approvals.

Conditions in the established housing market have strengthened recently, although there is substantial variation across the country. Briskly rising housing prices in some markets are showing signs of easing. In some other markets, housing prices are declining. Rent increases have also been the slowest for 20 years.

Growth in housing debt has outpaced the slow growth in household incomes, although recent supervisory measures should help address the risks associated with these high and rising levels of indebtedness.

#### Currency movements

The recent increase in the terms of trade have been associated with an appreciation of the Australian dollar. An overall depreciating Australian dollar since 2013 has assisted the ongoing adjustment of the economy towards non-resource sectors following the end of the mining boom; an appreciating exchange rate could complicate that process.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Philip Lowe, Governor. Monetary Policy Decision 4 July 2017

## 9. Industry analysis

### 9.1 Zinc

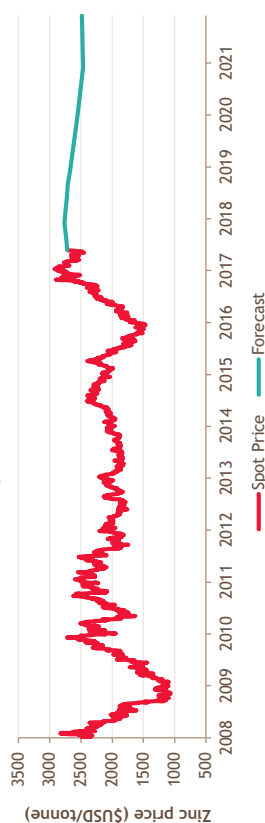
Globally, zinc is the most used metal after iron, aluminium and copper. It is typically found in complex deposits alongside lead and silver. It is an element known for its unique protective capacity given it is resistant to corrosion and as such a substantial portion of zinc is used for galvanising steel. 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 of mining and smelting. The mining process involves extraction from both underground and open pit mines, producing a zinc ore typically containing approximately 5% to 15% zinc. This ore is then crushed and ground to produce a zinc concentrate that contains approximately 55% zinc. The zinc concentrate is then put through a smelting process to produce refined zinc metal.

#### Zinc prices

The US dollar price for zinc is listed on the London Metals Exchange. The global balance between demand for and supply of zinc, along with speculative influences determine the price of zinc.

Zinc Spot and Forecast Price



Source: Bloomberg, Consensus Economics and BDO analysis

As a result of the demand drivers, the price of zinc has closely followed global economic conditions. Following the global financial crisis the price of zinc decreased significantly from approximately US\$2,800 per tonne in early 2008, to a low of around US\$1,000 per tonne in late 2008. Since the global financial crisis, the price of zinc has recovered and more recently has seen strong growth with the price of zinc reaching a high of US\$2,924 per tonne on 10 February 2017. The closure of big zinc mines and mothballed capacity has seen the price of zinc reach its highest price levels since 2007.

According to Consensus Economics the long term forecast zinc price is expected to decline through to 2021 to around US\$2,480 per tonne. The figure above illustrates the historical fluctuations in the zinc spot prices from January 2008 to June 2017 and the Consensus forecasts for zinc prices through to 2021.

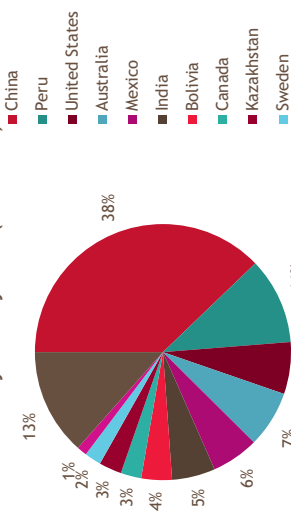
#### Zinc Production and Usage

China is estimated to account for approximately 38% of the global demand for refined zinc in 2016, with demand expected to continue to grow, supported by ongoing public sector spending on infrastructure and the production of manufactured goods. Zinc mine production in Australia decreased by almost 50% as a result of the closure of the Century Mine in 2015 and temporary production cutbacks at the George Fisher and Lady Loretta Mines.

Total world production is estimated to decrease by approximately 7% in 2016, from 12.3 million tonnes ('Mt') in 2015 to approximately 11.9Mt. Global refined zinc production in 2016 is estimated to decrease by around 3% to 13.2Mt and metal consumption is estimated to remain unchanged at 13.6Mt, leading to a production-to-consumption deficit of about 349,000 tonnes of refined zinc.



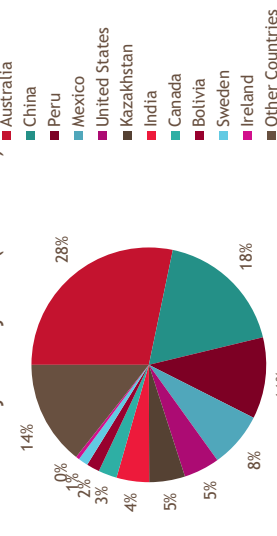
Zinc Production by Country 2016 (Estimated)



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 highly concentrated in terms of market share with the three largest companies, BHP, Glencore Xstrata and Minerals and Metals Group Limited accounting for the majority of the market share. The figure below outlines estimated global zinc reserves by country for 2016.

Zinc Reserves by Country 2016 (Estimated)



Source: U.S. Geological Survey

Combined with the lead and silver industries which are closely tied with zinc mining, in Australia the industries are collectively expected to increase revenue to approximately \$4.6 billion by 2020-21, reflecting an annualised increase of 1.7%.

## 9.2 Copper

Copper is a soft, malleable, ductile metal used primarily for its excellent electrical and thermal conductive properties and its resistance to corrosion. As well as electrical and electronic applications, copper is utilised extensively as an alloy. Copper is produced from an oxide or sulphide ore from which it is converted to copper metal.

The majority of copper ore bodies can be classified as either porphyries (where copper occurs in igneous rock), strata bound ore bodies (sedimentary rock), and volcanic hosted massive sulphide deposits (volcanic rock along with other base metal sulphides). In these deposits, copper is mined in very low concentrations

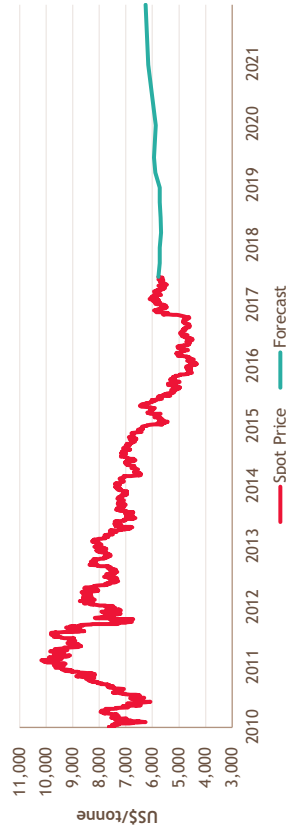
and consequently is a volume intensive process. For this reason, open pit mining is the preferred method of extraction, however underground mining and leach mining are also used in limited circumstances.

## Copper Prices

Copper is a global commodity and, as such, prices are determined by global supply and demand factors. Due to this, copper prices have historically reflected global economic cycles and experienced major fluctuations reflecting equity market movements. At the beginning of 2008, supply concerns, falling inventories and increased demand from emerging economies provoked a significant and accelerated rise in copper prices. As with most commodities, prices fell during the global financial crisis. Prices have since overtaken the increases which occurred in 2008, occurring during the latter half of 2010 and throughout the beginning of 2011, reaching a peak of just over US\$10,000 per tonne in February 2011. Since that peak, prices have shown a continued downward trend.

The average copper price from January 2017 through to June 2017 has been US\$5750 per tonne, ranging from a low of US\$5,461 per tonne on 8 May 2017 to a high of US\$6,104 per tonne on 13 February 2017. The increase in copper prices mid-February 2017 was due to strike action at the world's largest copper mine Escondido, located in Chile. In addition, output has been scaled back at the large Grasberg mine in Indonesia amid export restrictions and contractual disputes with the Indonesian government. According to Consensus Economics the long term forecast copper price is expected to remain unchanged through to 2021 at around US\$6,262 per tonne.

London Metals Exchange Copper Price

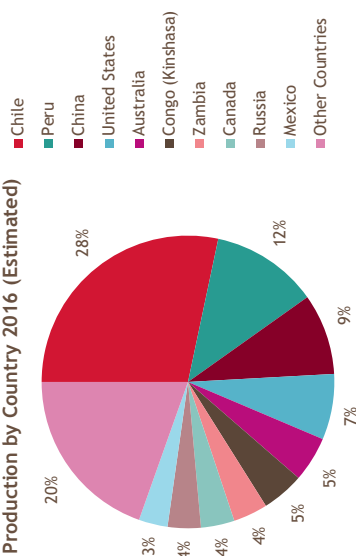


Source: Bloomberg, Consensus Economics and BDO analysis

## Copper Production

Most of the world's copper comes from South and Central America, particularly in Chile and Peru. In 2016, Chile, China and Peru have been estimated to account for approximately 50% of the world's copper production. Although Australia has substantive reserves of copper, in terms of production, Australia has been estimated to account for 5% in 2016. The graph below shows the split between the different country's estimated productions for the year 2016.

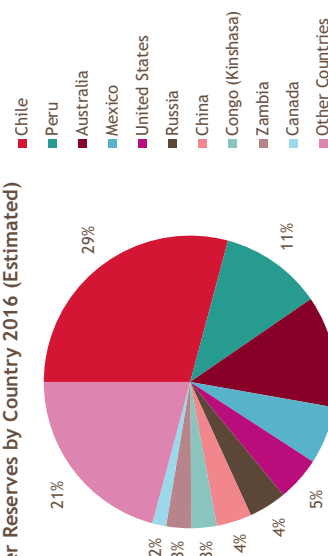
Copper Production by Country 2016 (Estimated)



Source: U.S. Geological Survey

As at 2016, Chile, Australia and Peru are collectively estimated to account for just over 50% of global reserves of copper. A figure illustrating an estimated country breakdown of reserves for 2016 is shown below:

Copper Reserves by Country 2016 (Estimated)



Source: U.S. Geological Survey

The dominant consumers include China, Japan and India. China acquires approximately 33.7% of the Australian copper exports given the demand influenced by the above average growth of urbanisation and energy use. Japan accounts for approximately 32.4%, and commonly utilises copper concentrates for further processing into final copper goods.

The Australian copper industry revenue is expected to grow at an annualized 2.5% over the five years through to 2020-21, or up to \$7 billion. Over the short to medium term, the industry revenue is forecast to decrease by 3.9% in 2016/17 due to lower global copper prices and weaker demand from China and India.

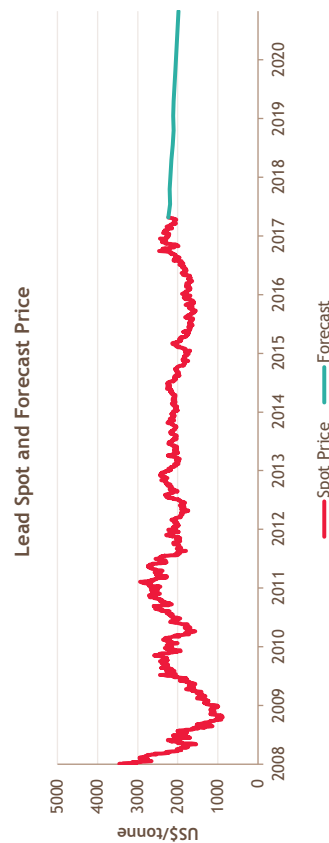
### 9.3 Lead

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 US dollar price for lead is listed on the London Metals Exchange. Lead is a global commodity and, as such, prices are determined by global supply and demand factors. The historical prices for lead from 2008 along with forecast projects to 2021 are illustrated in the graph below.



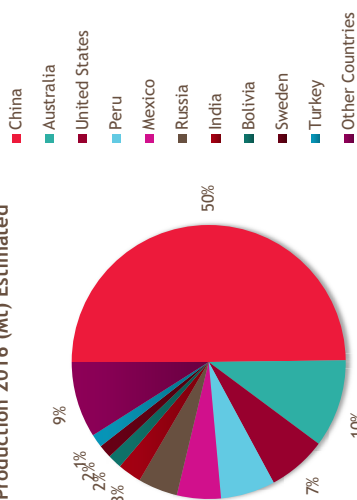
Sources: Bloomberg, Consensus Economics

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 US\$2,595 per tonne in 2007 to an average US\$1,726 per tonne in 2009. According to Consensus Economics, the long term forecast lead price is projected to drop slightly through to 2020/21 to approximately US\$2000 per tonne.

#### Lead Production

China accounts for approximately 49% of the global production of lead, followed by Australia, USA, Peru and Mexico. Global mine production of lead is estimated to decrease in 2016 to approximately 4.8Mt following reduction in production and mine closures in Australia and the United States.

Lead Production 2016 (Mt) Estimated



Sources: US Geological Survey

As at 2015, there were over 120 lead producing projects globally. The largest lead project is Doe Run Mines, which is controlled by Doe Run Company located in Missouri, USA. Other major lead projects include Cannington and Mt Isa Zinc in Australia, and Red Dog also located in the USA.

## 10. 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 '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 the company's individual assets and liabilities.

### 10.1 Valuation of Heron Resources prior to the provision of the Proposed Funding Package

In our assessment of the value of a Heron Resources share prior to the provision of the Proposed Funding Package ('Pre-Transaction'), we have chosen to employ the following methodologies:

- Sum-of-Parts method, as our primary method, which estimates the market value of a company by separately valuing each asset and liability of the company. The value of each asset may be determined using different methods and the component parts are then aggregated using the NAV methodology; and
- QMP approach as our secondary method as this represents the value that a Shareholder can receive for a share if sold on the market.

#### Sum-of-Parts

We have used the Sum-of-Parts method to estimate the Pre-Transaction fair market value of Heron Resources by aggregating the estimated fair market values of its underlying assets and liabilities, having consideration to the following:

- value of Heron Resources' interest in the Woodlawn Project (applying the DCF methodology) on the assumption that Heron Resources will have to raise the capital required (proposed to be provided under the Proposed Funding Package) through a notional capital raising;
- value of Heron Resources' interest in the residual resources (inferred resources) of the Woodlawn Project not included in the DCF, and the value of Heron Resources' other exploration assets (having reliance on the valuation carried out by an independent technical expert);
- amount of cash received from a notional capital raising (which is required to fund the Woodlawn Project);
- present value of Heron Resources' corporate costs; and
- value of other assets and liabilities of Heron Resources (applying the cost approach under the NAV method).

#### Methodologies adopted

We have chosen these methodologies for the following reasons:

- as Heron Resources has one flagship project which is the Woodlawn Project, its core value is in the future cash flows to be generated from developing the Project;
- cash flows from the 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 life of mine of the Woodlawn Project has been prepared based on ore reserves and resources identified by Heron Resources and provides a sufficiently reasonable basis to apply the DCF methodology;
- the ability to obtain funding for the Woodlawn Project is assumed through a notional capital raising assumed to be undertaken by Heron Resources;



- the residual resources (inferred resources) of the Woodlawn Project not included in the DCF and other exploration assets are valued using alternative valuation methodologies (including exploration expenditure, the yardstick method, joint venture terms, where relevant, and comparable transactions) by an independent technical expert, as we do not have reasonable grounds to include them in the DCF valuation (the valuation approach undertaken by the independent technical expert is contained in its report in Appendix 4);
- as Heron Resources' projects are not currently generating income nor are there any historical profits that could be used to represent future earnings, the FME approach is not appropriate;
- other assets and liabilities of Heron Resources are valued using the NAV method; and
- the QMP basis is a relevant methodology to consider because Heron Resources' shares are listed on the ASX and TSX, 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 Resources' 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.

#### Notional capital raising

The assumptions that we undertake in the Sum-of-Parts valuation approach to derive the Pre-Transaction value of a Heron Resources share, differs from the Sum-of-Parts valuation approach to derive the value a Heron Resources share following the Proposed Funding Package, in that the Pre-Transaction value takes into account the capital that Heron Resources will have to raise without the provision of the funds from Greenstone, Orion, Castllake and other providers of funds under the Proposed Funding Package.

On this basis, Heron Resources will require the capital to be raised through alternative methods in order to meet the funding requirement of the Woodlawn Project. We have considered the likely price at which Heron Resources will have to place its shares to a third party or to current shareholders under a capital raising to raise the capital required.

Whilst we understand that it may not be likely for Heron Resources to raise capital in this manner, we are required by RG 111.15 to assess the funding requirements for a company that is not in financial distress when considering its value, especially when using the DCF methodology. Therefore, we have assumed a 'notional' capital raising that is likely to result in significant dilution for the Company in order to raise this capital.

Other than the Proposed Funding Package, we are not aware of any other funding options that could provide a viable alternative to this approach. In particular, we note that the bank funding option was terminated when two of the four banks withdrew from the process. This is discussed further in section 14.1.2.

To determine the likely issue price, we have considered the volume weighted average trading price ('VWAP') of Heron Resources' shares and the discount at which shares have been issued by ASX listed companies when compared with the companies share prices prior to the date of the announcement of a capital raising.

#### Technical Expert

In performing our valuation of Heron Resources' Woodlawn Project using the DCF method, we have relied on the technical assessment and valuation report prepared by Behre Dolbear Australia Pty Ltd ('BDA')



dated 5 July 2017 ('Independent Technical Assessment') 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 residual resources not included in the DCF valuation and Heron Resources' other exploration assets ('Heron Resources' Other Mineral Assets').

BDA's 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 JORC Code 2012.

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. A copy of BDA's Independent Technical Assessment is attached in Appendix 4.

#### QMP

We have chosen the QMP methodology as a further cross check. The QMP basis is a relevant methodology to consider because Heron Resources' shares are listed on the ASX and TSX. This means that there is a regulated and observable market where Heron Resources' 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.

### 10.2 Valuation of Heron Resources following to the provision of the Proposed Funding Package

In our assessment of the value of a Heron Resources share following the Proposed Funding Package ('Post-Transaction'), we have adopted the Sum-of-Parts methodology.

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

- value of Heron Resources' interest in the Woodlawn Project (applying the DCF method) on the assumption that Heron Resources will raise the required funds through Greenstone and Orion under the Proposed Funding Package;
- value of Heron Resources' interest in the residual resources (inferred resources) of the Woodlawn Project not included in the DCF, and the value of Heron Resources' other exploration assets (having reliance on the valuation carried out by an independent technical expert);
- amount of cash received from Proposed Funding Package (which is required to fund the Woodlawn Project);
- present value of Heron Resources' corporate costs; and
- value of other assets and liabilities of Heron Resources (applying the cost approach under the NAV method).

In performing our valuation of the Woodlawn Project using the DCF method, we have relied on the Independent Technical Assessment 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 residual resources (inferred resources) not included in the DCF valuation and Heron Resources' other exploration assets.





## 11. Pre-Transaction Valuation of Heron Resources

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

- value of Heron Resources' interest in the Woodlawn Project;
- value of Heron Resources' Other Mineral Assets;
- amount of cash received from a notional capital raising;
- present value of Heron Resources' corporate costs; and
- value of other assets and liabilities of Heron Resources.

We used the QMP approach as our secondary valuation method. Heron Resources is listed on the ASX and TSX, which provides an indication of the market value where an observable market for the securities exists and this reflects the minimum value that a Shareholder will receive for the sale of their shares on market.

### 11.1 Sum-of-Parts valuation of Heron Resources

The value of Heron Resources' assets on a going concern basis is reflected in our valuation below:

Summary of Assessment	Section	Low Value \$'000s	Preferred Value \$'000s	High Value \$'000s
DCF value of Woodlawn Project	11.1.1	54,000	69,000	84,000
Add: Value of Other Mineral Assets	11.1.4	24,700	36,959	48,618
Add: Cash received from notional capital raising	11.1.5	240,116	240,116	240,116
Add: Other assets and liabilities	11.1.6	21,033	21,033	21,033
Less: Present value of corporate costs	11.1.7	(22,074)	(22,074)	(22,074)
<b>Value of Heron Resources under Sum-of-Parts method</b>		<b>317,775</b>	<b>345,034</b>	<b>371,693</b>
Number of Heron Resources shares on issue ('000s)	11.1.8	4,997,631	4,582,953	4,220,493
<b>Value per share (\$)</b>		<b>0.0636</b>	<b>0.0753</b>	<b>0.0881</b>

Source: BDO Analysis

The table above indicates that the Pre-Transaction value of a Heron Resources share on a control basis is between \$0.064 and \$0.088, with a preferred value of \$0.075.

### 11.1.1. DCF valuation of the Woodlawn Project

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

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



### 11.1.1.1. Future Cash Flows

A detailed cash flow model for the Woodlawn Project was prepared by management of Heron Resources ('the Model'). The Model estimates the future cash flows expected from zinc, lead and copper production at the Woodlawn Project based on determined JORC compliant reserves and resources. The Model depicts forecasts of real pre-tax and post-tax cash flows over the life of mine on a monthly and annual basis. We have reviewed the Model and the 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 to reflect cash flows on a nominal basis. The Model was prepared based on estimates of a production profile, operating costs and start-up and sustaining capital expenditure. The main assumptions underlying the Model include:

- mining and production volumes;
- stockpile movements;
- commodity prices;
- operating costs;
- start-up and sustaining capital expenditure;
- foreign exchange rates;
- royalties and corporate tax; and
- discount rate.

We undertook the following analysis on the Model:

- appointed BDA as technical expert to review, and where required, provide changes to the technical assumptions underlying the Model;
- conducted independent research on certain economic and other inputs such as commodity prices, exchange rates, inflation and discount rate applicable to the future cash flows of the Woodlawn Project;
- held discussions with Heron Resources' management regarding the preparation of the forecasts in the Model and its views; and
- performed a sensitivity analysis on the value of the Woodlawn Project as a result of flexing selected assumptions and inputs.

We have not undertaken a review of the cash flow forecasts 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 a technical expert

BDA was engaged to prepare a report providing a technical assessment of the Woodlawn Project assumptions underlying the Model. BDA's assessment involved the review and provision of input on the reasonableness of 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, scheduling and plant utilisation);
- operating costs (comprising direct operating expenditure and certain fixed costs);
- capital expenditure (development and sustaining capital required); and
- other relevant assumptions.

The Woodlawn Project is expected to have an initial mine life of 11 years.

A copy of BDA's Independent Technical Assessment is included in Appendix 4.

### 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. As the prices for zinc, lead and copper obtained from our research sources are quoted on a nominal basis, we applied an inflation rate to convert all uncontracted costs into nominal terms in the Adjusted Model.

In our assessment of the inflation rate, we have considered forecasts prepared by economic analysts and other publicly available information including broker consensus to arrive at our inflation rate assumptions. Historical inflation rates in 2015 and 2016 were on average 1.5% per annum in both years. The Reserve Bank of Australia's ('RBA') target inflation rate is between 2% and 3%. On this basis, we have assumed the inflation rate in Australia going forward will be 2.5% on average for the forecast period.

#### Foreign Exchange

All commodity prices are stated in United States Dollars ('USD' or 'US\$'), the forecasts relating to costs in the Adjusted Model are in AUD and our valuation is in AUD. The conversions from USD to AUD were undertaken using the following foreign exchange rate assumptions:

Exchange Rates AUD/USD	2017	2018	2019	2020	2021+
	0.74	0.76	0.77	0.79	0.79

Source: Bloomberg



### Revenue Assumptions

Heron Resources will receive revenue from the sale of the following products:

- Zinc concentrates;
- Lead concentrates; and
- Copper concentrates;

By-product credits are also generated from the sale of silver and gold contained within the above three concentrates.

In obtaining forecast commodity prices we have considered:

- historical spot and forward prices from Bloomberg; and
- most recent Consensus Economics price forecasts.

Based on our analysis, we have adopted the following future zinc prices (in nominal terms):

Zinc Prices US\$/t	2018	2019	2020	2021	2022+
	2,715	2,563	2,465	2,481	2,520

Source: Bloomberg & Consensus Economics

Based on our analysis, we have adopted the following future lead prices (in nominal terms):

Lead Prices US\$/t	2018	2019	2020	2021	2022+
	2,141	2,062	1,985	1,980	2,033

Source: Bloomberg & Consensus Economics

Based on our analysis, we have adopted the following future copper prices (in nominal terms):

Copper Prices US\$/t	2018	2019	2020	2021	2022+
	5,701	5,867	6,153	6,263	6,508

Source: Bloomberg & Consensus Economics

Based on our analysis, we have adopted the following future silver prices (in nominal terms):

Silver Prices US\$/oz	2018	2019	2020	2021	2022+
	18.05	18.46	18.85	18.89	19.72

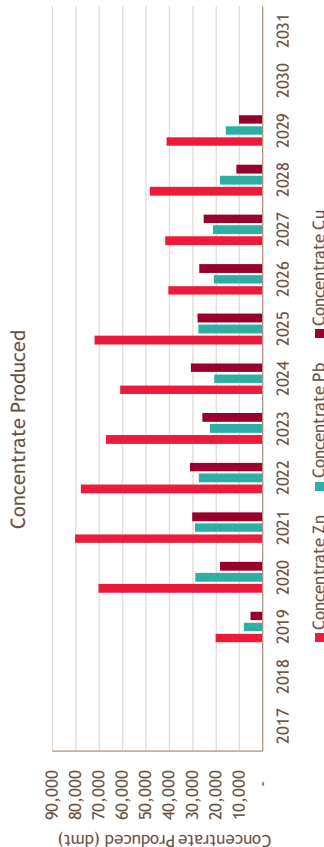
Source: Bloomberg & Consensus Economics

Based on our analysis, we have adopted the following future gold prices (in nominal terms):

Gold Prices US\$/oz	2018	2019	2020	2021	2022+
	1,249	1,271	1,278	1,264	1,313

Source: Bloomberg & Consensus Economics





Source: Adjusted Model

### Operating Costs

Operating costs included in the Adjusted Model consists of mining costs (fixed and variable), processing costs, marketing costs, treatment costs, refining costs, transportation costs, administration and owners costs, and other costs (fixed and variable).

### Capital Expenditure

The total capital expenditure, in nominal terms, comprises \$160.8 million in pre-production costs and \$138.5 million in post-production costs. The Adjusted Model also accounts for contingencies on capital expenditure.

### Royalties

Heron Resources will be liable to pay the following NSW state government royalties upon the commencement of operations at the Woodlawn Project:

- a 4% Ad Valorem royalty on the total value of zinc recovered or the ex-mine value of zinc;
- a 4% Ad Valorem royalty on the total value of lead recovered or the ex-mine value of lead;
- a 4% Ad Valorem royalty on the total value of copper recovered or the ex-mine value of copper;
- a 4% Ad Valorem royalty on the total value of gold recovered or the ex-mine value of gold; and
- a 4% Ad Valorem royalty on the total value of silver recovered or the ex-mine value of silver.

### Taxation

Tax has been applied at a notional rate of 30% which represents the current corporate tax rate in Australia. The tax calculation also takes in to account Heron Resources' brought forward tax losses in the revenue account, which comprises:

- tax losses of \$90.0 million as at 14 December 2016; and
- subject to available fraction tax losses of \$53.3 million from the merger of TriAusMin and Heron Resources.



### Closure costs

The closure costs of \$9.6 million in the Woodlawn Project are assumed to be incurred in FY29 when mining activity ceases.

### 11.1.2. Discount Rate

We have selected a nominal after tax discount rate in the range of 10% to 14% per annum to discount the cash flows from the Woodlawn Project to their present value. We have used a discount rate of 12% in our base case.

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

- the rate of return for comparable ASX and TSX listed base metal exploration and producing companies; and
- the risk profile of Heron Resources as compared to other base metal exploration and producing companies.

A detailed consideration of how we arrived at our adopted discount rate range is shown in Appendix 3.

### 11.1.3. Sensitivity Analysis

The estimated value of the Woodlawn Project is derived under the DCF approach. Our valuation is highly sensitive to changes in the forecast of zinc, lead and copper prices and discount rate. We have therefore included an analysis to consider the value of the Woodlawn Project under various pricing scenarios and in applying:

- a change of +/- 10% to the zinc price;
- a change of +/- 10% to the lead price;
- a change of +/- 10% to the copper price;
- a change of +/- 10% to the gold price;
- a change of +/- 10% to the silver price;
- a change of +/- 10% to operating costs;
- a change of +/- 10% to capital costs;
- a change of +/- 10% the USD:AUD exchange rate; and
- a discount rate in the range of 8% to 16%.

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

Flex	Zinc Price	Lead Price	Sensitivity Analysis (NPV A\$'000)			Copper Price	Gold Price	Silver Price
-10%	31,840	58,733	45,068	66,729	61,754			
-8%	39,252	60,786	49,834	67,163	61,754			
-6%	46,663	62,838	54,599	67,596	64,611			
-4%	54,075	64,885	59,365	68,030	66,040			
-2%	61,486	66,919	64,131	68,464	67,469			
0%	68,897	68,897	68,897	68,897	68,897			
2%	76,309	70,845	73,663	69,331	70,326			
4%	83,720	72,777	78,429	69,764	71,755			
6%	91,131	74,708	83,195	70,198	73,183			
8%	98,543	76,640	87,961	70,632	74,612			
10%	105,954	78,571	92,727	71,065	76,041			

Source: BDO analysis

Flex	Exchange Rate	Sensitivity Analysis (NPV A\$'000)			Opex (All)	Capex (All)
-10%	139,236	103,305	93,415			
-8%	123,945	96,424	88,511			
-6%	109,305	89,542	83,608			
-4%	95,274	82,660	78,704			
-2%	81,817	75,779	73,801			
0%	68,897	68,897	68,897			
2%	56,485	62,016	63,994			
4%	44,549	55,134	59,090			
6%	33,064	48,252	54,187			
8%	22,005	41,371	49,283			
10%	11,347	34,489	44,380			

Source: BDO analysis

Discount Rate Sensitivity (NPV A\$'000)	10%	12%	14%	16%
8%	123,923	94,294	68,897	47,039
				28,153

Source: BDO analysis

Considering the valuation outcomes above, we estimate the fair value of the Woodlawn Project to be in the range of \$54 million to \$84 million, with a midpoint value of \$69 million.

#### 11.1.4. Value of Heron Resources' Other Mineral Assets

We instructed BDA to value all of the residual resources (inferred resources) of the Woodlawn Project under the Valmin Code 2015 that are not included in the Model. We also instructed BDA to value Heron Resources' other exploration assets.

BDA has valued the residual resources (inferred resources) of the Woodlawn Project not included in the DCF by assessing 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 (as an upside case) three to four years. As these are additional underground potential from known resources and likely minable extensions, this valuation approach is assessed to be reasonable.

BDA has also valued Currawang and Cowley Hill projects, which are satellite deposits of the Woodlawn Project, on a similar basis based on former production performance and geological and geophysical data as assessed by BDA.

Other exploration assets have been valued by BDA based on exploration expenditure, joint venture terms, related or comparable transactions or yardstick measures as appropriate in each case.

The value of Heron Resources' Other Mineral Assets is summarised in the table below:

Valuation of Heron Resources' Other Mineral Assets	Low Value	Most Likely	High Value
	\$'000s	\$'000s	\$'000s
Woodlawn potential extensions (residual resources)	8,000	16,000	24,000
Woodlawn deposits (Currawang & Cowley Hills)	10,300	12,900	15,500
NSW - Woodlawn Regional	4,300	4,650	5,000
NSW - Alchemy Resources JV	1,800	3,000	3,600
NSW - Lachlan Fold Belt EL applications	-	9	18
Western Australian tenements/interests	300	400	500
<b>Value of Heron Resources' Other Mineral Assets</b>	<b>24,700</b>	<b>36,959</b>	<b>48,618</b>

Source: BDA's Independent Technical Assessment and BDO analysis

BDA concluded that the value of Heron Resources' Other Mineral Assets is between \$24.7 million and \$48.6 million, with a most likely or preferred value of \$37.0 million.

#### 11.1.5. Notional capital raising

We are required by RG 111.15 to assess the funding requirements for a company that is not in financial distress when considering its value, especially when using the DCF methodology. Therefore, we have included a notional capital raising in lieu of the Proposed Funding Package, as if the Proposed Funding Package has not been implemented, and the Company will be required to fund the development of the Woodlawn Project in an alternative manner.

The table below match how the funding requirements of the Woodlawn Project are funded by the proposed funding sources as follows.

Uses of funds:	A\$m
Construction and development of the Woodlawn Project	155
Pre-production capital expenditure	23
Post-production capital expenditure (not funded by project cash flows)	54
Other project related costs (including financing costs and working capital)	232
<b>Subtotal</b>	<b>29</b>
Corporate and other financing & offer costs	261
<b>Total uses of funds</b>	<b>261</b>

Source: Heron's management and BDO analysis



Funding sources:		A\$m
Construction and development of the Woodlawn Project		
Cornerstone equity, Institutional Placement and Share Purchase Plan		140
Silver Streaming Arrangement		21
Loan facility (including ~A\$7 million capitalised interest during construction)		86
<b>Subtotal</b>		<b>247</b>
Cash (as at 31 May 2017)		14
<b>Total uses of funds</b>		<b>261</b>

Source: Heron's management and BDO analysis

Other than the Proposed Funding Package, we are not aware of any other funding options that could provide a viable alternative to this approach. In particular, we note that the bank funding option was terminated when two of the four banks withdrew from the process.

On this basis, Heron Resources will be required to raise an equivalent of US\$182.5 million (or approximately A\$240 million at an exchange rate of USD:AUD 0.76) through a notional capital raising in order to meet the funding requirements of the Woodlawn Project. We have increased this amount to reflect our estimate of the gross amount that will need to be raised to meet the costs likely to be incurred in conducting the capital raising. We have assessed the costs of a capital raising to be approximately 6% of the funds raised. Therefore, Heron Resources will be required to raise an equivalent of \$255.4 million.

In order to determine the likely price at which Heron Resources 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 VWAP of Heron Resources' shares and 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. We considered the discount at which shares have been issued since January 2016 by ASX listed mining companies to raise capital. From our analysis, the average discount for ASX listed mining companies was 32.6%.

We have also considered the discount at which shares have been issued since January 2016 by ASX listed mining companies with market capitalisations between nil and \$100 million (a band in which Heron Resources' market capitalisation falls in). From our analysis, the average discount was 23.4%. Given our analysis and the size of the notional capital raising, we consider a discount in the range of 25% to 30% will be required to provide a sufficient incentive for investors to participate in any raising that Heron Resources would perform.

In section 11.2 of our Report we consider the QMP of Heron Resources' shares. From this analysis, we assessed that the value of a Heron Resource share, based on market pricing was between \$0.09 and \$0.117 which includes a control premium of between 20% and 30%. As the notional capital raising will be priced on a minority interest basis (since the placement will not be to a party who will gain more than 20%), we removed the control premium applied in our QMP valuation to arrive back at a price of between \$0.08 and \$0.09 per share.

In order to raise an equivalent of US\$182.5 million (or approximately A\$240 million at an exchange rate of USD:AUD 0.76) plus costs of capital raising of 6% of the funds raised, to provide the funding required to develop the Woodlawn Project, between 3.784 billion and 4.561 billion new shares will need to be issued at between \$0.08 and \$0.09 per share.



Notional Capital Raising:			
	Low	Mid	High
Amount to be raised (US\$ million)	182.488	182.488	182.488
Exchange Rate (USD:AUD)	0.76	0.76	0.76
Amount to be raised (A\$ million)	240.116	240.116	240.116
Plus placement fee (6%)	15.326	15.326	15.326
<b>Total amount to be raised (A\$ million)</b>	<b>255.442</b>	<b>255.442</b>	<b>255.442</b>
Share price (A\$/share)	0.09	0.085	0.08
Placement Discount (%)	25%	27.5%	30%
Share price: Applied (A\$/share)	0.0675	0.0616	0.0560
<b>Number of shares to be issued ('000)</b>	<b>3,784,326</b>	<b>4,146,786</b>	<b>4,561,464</b>

Source: BDO analysis

### 11.1.6. Valuation of Other Assets and Liabilities

Other assets and liabilities of Heron Resources represent the assets and liabilities that have not been specifically adjusted. From our review 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 represents a summary of the assets and liabilities identified:

Statement of Financial Position	Note	Reviewed as at 31-Dec-16 \$'000s	Adjusted Value \$'000s
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	a	16,513	16,027
Trade and other receivables	b	825	825
Assets held for distribution to owners	c	8,778	-
<b>TOTAL CURRENT ASSETS</b>		<b>26,116</b>	<b>16,852</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	d	491	35
Investments	e	1,570	5,767
Property, plant and equipment	f	71	60
Exploration and evaluation costs carried forward	g	26,540	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>28,672</b>	<b>5,862</b>
<b>TOTAL ASSETS</b>		<b>54,788</b>	<b>22,714</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	h	730	730
Provisions	i	918	888
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,648</b>	<b>1,618</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		63	63
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>63</b>	<b>63</b>
<b>TOTAL LIABILITIES</b>		<b>1,711</b>	<b>1,681</b>
<b>NET ASSETS</b>		<b>53,077</b>	<b>21,033</b>

Source: Heron Resources' reviewed half-yearly financial statement for the period ended 31 December 2016, management accounts (unaudited) for the period ended 31 May 2017 and BDO analysis



We have been advised that there has not been any significant change in the net assets of Heron Resources since 31 December 2016 and that the above assets and liabilities represent their fair market values apart from the adjustments detailed below. Additionally, nothing has come to our attention as a result of our procedures that would suggest the need for any further adjustments.

**Note a) Cash and cash equivalents**

We have adjusted the cash and cash equivalents balance as follows:

	\$'000s
Cash balance as at 31 May 2017	14,505
Add: Cash received from notional exercise of options	1,522
<b>Adjusted value of cash and cash equivalents</b>	<b>16,027</b>

Source: Heron Resources' management

As determined in section 5.4 of our Report, the options expiring on 4 December 2020 with an exercise price of \$0.072 and on 20 November 2018 with an exercise price of \$0.07 are in-the-money. Therefore, if these options are exercised the Company will receive an additional \$1.52 million.

**Note b) Current trade and other receivables**

Current trade and other receivables balance as at 31 December 2016 has not been included in our DCF valuation. As such, we have accounted for this balance as other assets on the statement of financial position. There has not been a material movement in current trade and other receivables, and therefore, we have not adjusted the balance as at 31 December 2016.

**Note c) Assets held for distribution to owners**

Assets held for distribution to owners of \$8.8 million as at 31 December 2016 reflect the assets and liabilities of Ardea which were spun-out. On 23 January 2017, Heron Resources announced that each of the conditions to the spin-off of Ardea had been satisfied and the offer had successfully closed on 20 January 2017. Therefore, we have removed the entire balance of \$8.8 million as at 31 December 2016.

**Note d) Non-current trade and other receivables**

Non-current trade and other receivables balance as at 31 December 2016 has not been included in our DCF valuation. As such, we have accounted for this balance as other assets on the statement of financial position. However, we reduced this balance by \$0.456 million which was the amount owed to Heron Resources by Ardea that has been repaid via the issue of 10 million Ardea options to Heron Resources.

**Note e) Investments**

Non-current investments of \$1.6 million as at 31 December 2016, relate to the following investments held in the following companies, at fair value:

- Centennial Mining Limited;
- Metalicity Limited; and
- Alchemy Resources Ltd.

The fair market value of these non-current investments did not change materially as at 31 May 2017 but the balance increased with the addition of 10 million Ardea options held by Heron Resources as a result of the spin-off of the non-Woodlawn assets to Ardea, which successfully listed on the ASX on 9 February

2017. We revalued the Ardea options (carried at \$3.72 million) included in the value of non-current investments as follows:

Value of 10 million Ardea options	Details
Valuation Date	10 July 2017
Expiry Date	9 February 2020
Underlying Ardea share price	\$0.64
Exercise price	\$0.25
Risk free rate	1.97%
Volatility	90%
<b>Value per option</b>	<b>\$0.474</b>
Total number of options issued	10,000,000
<b>Total value</b>	<b>\$4,740,000</b>

Source: RBA and BDO analysis

We adjusted the investment balance for the following material movements since 31 December 2016:

	\$'000s
Investment balance as at 31 December 2016	1,570
Add/Less: adjustments to the fair value of existing shares (as per 31 May 2017 balance)	(543)
Add: value of 10 million Ardea options	4,740
<b>Adjusted value of Investments</b>	<b>5,767</b>

Source: BDO analysis

On 16 May 2017, Ardea announced the issue of up to 26,436,923 loyalty option pursuant to the initial public offering of Ardea where it proposed to issue one free loyalty option for every three fully paid shares in Ardea to all eligible shareholders on the record date of 22 May 2017. Given that the exercise price of these loyalty options is \$0.77 exercisable any time within 12 months from the date of issue (or prior to 31 May 2018), which is out-of-the-money, we did not consider the value of loyalty options issued to Heron to be material, and therefore, have not included the valuation of these options for this purpose.

**Note f) Property, plant and equipment**

We have adjusted the property, plant and equipment balance of \$0.07 million as at 31 December 2016 by \$0.01 million as this relates to the Woodlawn Project, which has been valued in our DCF valuation of the Woodlawn Project.

**Note g) Exploration and evaluation costs carried forward**

We removed the entire balance of \$26.5 million of exploration and evaluation costs carried forward as at 31 December 2016 as it relates to the Woodlawn Project, which has been valued in our DCF valuation of the Woodlawn Project.

**Note h) Trade and other payables**

Trade and other payables balance as at 31 December 2016 has not been included in our DCF valuation. As such, we have accounted for this balance as other liabilities on the statement of financial position. There

has not been a material movement in current trade and other payables, and therefore, we have not adjusted the balance as at 31 December 2016.

**Note i) Current provisions**

Of the current provisions balance of \$0.92 million as at 31 December 2016, \$0.03 relates to rehabilitation provision for the Woodlawn Project. As such, we have removed the balance of current provisions relating to rehabilitation in connection with the Woodlawn Project, which has been valued in our DCF valuation of the Woodlawn Project.

### 11.1.7. Present value of corporate costs

Based on the cash flow report for the half-year ended 31 December 2016, administration costs totalled \$1.7 million. Management has advised us that, of the \$1.7 million administration costs, \$0.7 million related to expenditure for tenements now owned by Ardea. Management provided us with the forecast corporate costs for the three years to 2020. We note that some corporate costs were allocated to the Woodlawn Project, which were already included in the model.

Based on our benchmarking of other companies with similar profiles, and having considered those corporate costs that were already included in our DCF valuation, we estimated the corporate costs for Heron to be as follows:

Corporate Costs	Annualised FY2017 \$'000s	Forecast FY2018 \$'000s	Forecast FY2019 \$'000s	Forecast FY2020 \$'000s
Forecast of corporate costs	3,100	2,800	3,000	3,200

Source: Heron Resources management and BDO analysis

We calculated the annual corporate costs over the remaining life of mine of the Woodlawn Project, inflating these costs at 2.5% per annum over the entire period. The net present value of Heron Resources' corporate costs discounted at 12% per annum is estimated to be \$22.07 million.

### 11.1.8. Number of Heron Resources shares on issue

In the Sum-of-Parts valuation approach to derive the Pre-Transaction value of Heron Resources, we take into account the notional capital raising that Heron Resources will have to raise without the provision of the funding from Greenstone and Orion under the Proposed Funding Package.

As discussed in section 11.1.5, in order to raise an equivalent of US\$182.5 million (or approximately A\$240 million at an exchange rate of USD:AUD 0.76) plus costs of capital raising of 6% of the funds raised, to provide the funding required to develop the Woodlawn Project, between 3.784 billion and 4.561 billion new shares will need to be issued at an issue price of between \$0.08 and \$0.09 per share.

We have also assumed the exercise of all in-the-money options, which will result in an additional 21,158,369 shares on a diluted basis.

A summary of the adjustment to Heron Resources' shares on issue as at 14 June 2017 is provided in the table below:

Shares on issue ('000)	Low	Mid	High
Shares on issue as at 14 June 2017	415,009	415,009	415,009
Number of shares to be issued from the exercise of all in-the-money options	21,158	21,158	21,158
Number of shares required to be issued for capital raising	3,784,326	4,146,786	4,561,464
Shares on issue prior to the Proposed Funding Package	4,220,493	4,582,953	4,997,631

Source: BDO analysis

### 11.2 Quoted Market Prices for Heron Resources Securities

Heron Resources is listed on both the ASX and TSX. Therefore, in order to provide a comparison to the valuation of Heron Resources in Section 11.1, we have also assessed the quoted market price of Heron Resources' shares for both the ASX and TSX.

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 of 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.

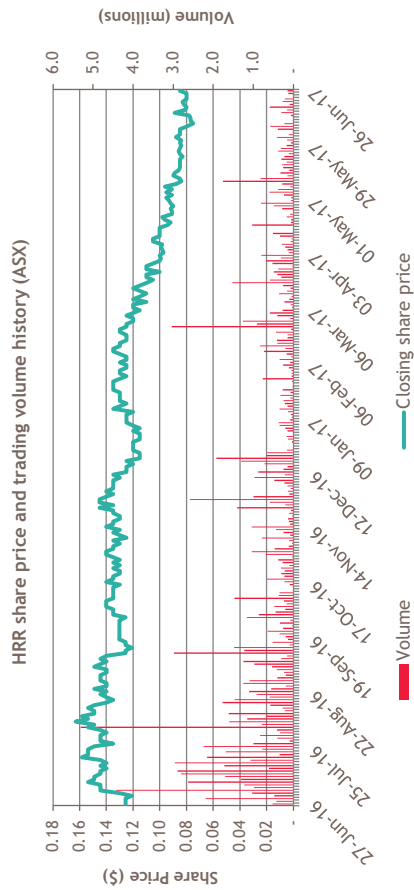
Whilst Greenstone will not be obtaining 100% of Heron Resources, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. The expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 14.

Therefore, our calculation of the quoted market price of a Heron Resources 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

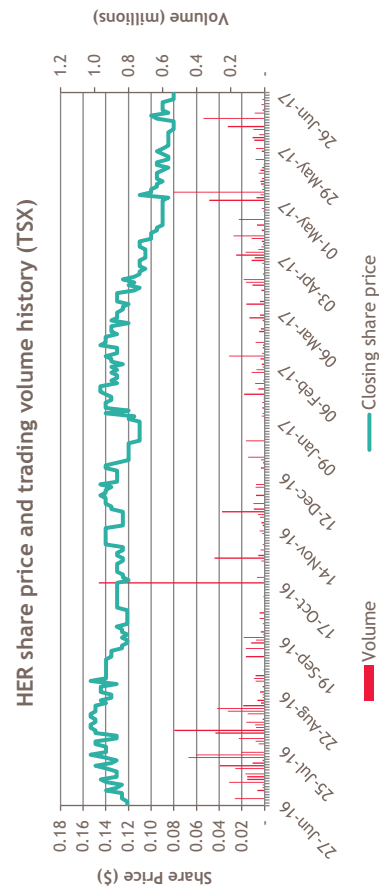
Our analysis of the quoted market price of a Heron Resources share is based on the pricing prior to the announcement of the Proposed Funding Package. This is because the value of a Heron Resources share after the announcement may include the effects of any change in value as a result of the Proposed Funding Package. However, we have considered the value of a Heron Resources share following the announcement when we have considered reasonableness in Section 14.

Information on the Proposed Funding Package was announced to the market on 30 June 2017. Therefore, the following charts provide a summary of the share price movements on the ASX and TSX, over the 12 months to 26 June 2017 which was the last trading day prior to the announcement.



Source: Bloomberg

The daily price of Heron Resources' shares on the ASX, from 27 June 2016 to 26 June 2017 has ranged from a low of \$0.075 on 8 June 2017 to a high of \$0.168 on 4 August 2016. The Company's share price exhibited a volatile trend earlier in the assessed period, fluctuating from a close of \$0.135 on 27 July 2016 to a high of \$0.168 on 4 August 2016. From February 2017 to June 2017, the Company's share price steadily declined to a low of \$0.075 on 8 June 2017. The highest single day of trading was on 4 August 2016, when 5,311,192 shares were traded.



Source: Bloomberg

The daily price of Heron Resources' shares on the TSX, from 27 June 2016 to 26 June 2017 has ranged from a low of Canadian Dollars ('C\$' or 'CAD') 0.075 on 8 June 2017 to a high of CAD 0.165 on 12 January 2017. The highest single day of trading was on 18 October 2016, when 975,369 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	\$ (movement)	Closing Share Price Three Days After Announcement	\$ (movement)
26/06/2017	Trading Halt	0.085	▲ 6.3%	0.085	▲ 0.0%
20/06/2017	Heron's Regional Exploration results at Crosby Prospect	0.083	▲ 1.2%	0.080	▼ 3.6%
13/06/2017	Woodlawn returns multiple sulphide intercepts from G2 Lens	0.078	▲ 1.3%	0.080	▲ 2.6%
24/05/2017	Heron signs \$12M Earthworks contract at Woodlawn	0.085	▲ 2.4%	0.084	▼ 1.2%
10/05/2017	Heron signs Off-take agreement for Woodlawn Concentrates	0.084	▼ 4.5%	0.089	▲ 6.0%
04/05/2017	Heron award A\$107M EPC Contract at Woodlawn	0.095	▲ 4.4%	0.088	▼ 7.4%
28/04/2017	Quarterly Activities Report and Appendix 5B	0.092	▲ 2.2%	0.091	▼ 1.1%
11/04/2017	Heron initiates Woodlawn pre-mine entry Drill Program	0.105	► 0.0%	0.100	▼ 4.8%
31/03/2017	Alchemy Resources announcement at Overflow	0.099	► 1.0%	0.098	▼ 1.0%
31/03/2017	Heron receives NSW Environmental Protection Licence	0.099	► 1.0%	0.098	▼ 1.0%
29/03/2017	Heron signs new Cooperation Deed with Veolia	0.105	► 4.5%	0.100	▼ 4.8%
09/02/2017	ALY: Alchemy Commences Drilling at Overflow	0.125	► 0.0%	0.135	▲ 8.0%
30/01/2017	Quarterly Activities Report and App 5B	0.130	► 3.7%	0.130	► 0.0%
23/01/2017	EGS: Acquisition of new ground at Siberia	0.130	► 0.0%	0.135	▲ 3.8%
23/01/2017	Ardea Resources Ltd satisfaction of Conditions for Spin off	0.130	► 0.0%	0.135	▲ 3.8%
06/01/2017	Ardea Resources Limited - Second Supplementary Prospectus	0.125	▲ 4.2%	0.125	► 0.0%
06/01/2017	Ardea Project Update - KNP Coalt and Lewis Ponds	0.125	▲ 4.2%	0.125	► 0.0%
06/01/2017	Kalgoorlie Nickel Project - Cobalt Zones	0.125	▲ 4.2%	0.125	► 0.0%
06/01/2017	KNP Cobalt Zone - Australia's Premier Cobalt Resource	0.125	▲ 4.2%	0.125	► 0.0%
21/11/2016	Ardea Resources Ltd - Supplementary Prospectus	0.130	► 0.0%	0.145	▲ 11.5%
11/11/2016	Ardea Resources Ltd Prospectus	0.135	▲ 3.8%	0.135	► 0.0%
31/10/2016	Quarterly Activities Report and Appendix 5B	0.135	▲ 3.8%	0.135	► 0.0%
18/10/2016	Heron records 9.8m @ 28% ZnEq in shallow G2 Lens at Woodlawn	0.140	▲ 7.7%	0.130	▼ 7.1%
29/09/2016	Update on Spin off of Ardea Resources Ltd	0.126	▼ 3.5%	0.135	▲ 7.4%



On 9 February 2017, Alchemy announced that diamond drilling had commenced at Overflow Historic Gold and Base Metal Mine, located in NSW. On the date of the announcement, the share price remained unchanged; however, over the three subsequent trading days increased by 8% to close at \$0.135.

On 23 January 2017, the following announcements were made in relation to the Company:

- Eastern Goldfields announced that it had signed an agreement with Heron Resources and Ardea, whereby Eastern Goldfields would acquire:
  - 100% title to the Sibera gold mining tenements in return for payment of \$100,000 plus a 1.5% royalty on the gross revenue from gold production at any of the tenements capped at 150,000 ounces of gold; and
  - the gold rights in respect of the Sibera gold rights tenements with Heron Resources retaining title and the nickel rights.
- the Company announced that each of the conditions precedent to the spin-off of Ardea had been satisfied and the offer had successfully closed on 20 January 2017. Approximately \$5.2 million was raised under Ardea's initial public offer.

On the date of the aforementioned announcements, the Company's share price remained unchanged; however, increased by 3.8% over the three subsequent trading days to close at \$0.135.

On 6 January 2017, the following announcements were made by the Company:

- the Company announced that a second supplementary prospectus was lodged by Ardea with ASIC;
- the Company released an update on Ardea and its project activities, as disclosed in the prospectus lodged with ASIC on 9 November 2016 and supplementary prospectus lodged 18 November 2016. The update highlighted recent technical advancements were realised within Ardea's projects being the KNP, Lewis Ponds and new tenement applications complementing existing Ardea projects; and
- the Company announced that Ardea had completed an independent resource statement for specific portions of KNP. The announcement detailed the new estimate for the KNP cobalt zone, being 49.7Mt at 0.12% cobalt and 0.86% nickel.

On the date of the aforementioned announcements, the market responded positively with the share price increasing by 4.2% to close at \$0.125. There were no further share price movements over the three subsequent trading days.

On 21 November 2016, the Company released the supplementary prospectus to be read in conjunction with the prospectus dated 9 November 2016 issued by Ardea. On the date of the announcement, the share price remained unchanged; however, increased over the three subsequent trading days by 11.5% to close at \$0.145. No new price sensitive announcements were made by Heron Resources over the subsequent three trading days.

On 11 November 2016, the Company advised that Ardea had lodged a prospectus with ASIC on 9 November 2016 for the proposed initial public offer of up to 30 million fully paid shares at an issue price of \$0.20 per share including a priority offer to existing Heron Resources shareholders to raise up to \$6 million before costs and an offer of 12,445,028 options in total to Heron Resources, the lead manager and the corporate adviser. On the date of the announcement, the market responded positively with the share price increasing by 3.8% to close at \$0.135. There were no further share price movements over the three subsequent trading days.

53



Date	Announcement	Closing Share Price Following Announcement \$ (movement)	Closing Share Price Three Days After Announcement \$ (movement)
28/09/2016	Heron confirms significant B Lens extension at Woodlawn	0.130 ▶ 0.0%	0.135 ▲ 3.6%
06/09/2016	Heron confirms B Lens & shallow G Lens extension at Woodlawn	0.144 ▼ 3.2%	0.140 ▼ 3.2%
10/08/2016	Heron's Gold-Nickel Spin-out	0.158 ▲ 3.1%	0.154 ▼ 3.0%
29/07/2016	Quarterly Activities Report and Appendix 5B	0.144 ▶ 0.0%	0.144 ▶ 0.0%
07/07/2016	Heron begins Drilling of Northern Extn Targets at Woodlawn	0.154 ▲ 6.4%	0.144 ▼ 6.1%
29/06/2016	Heron delivers robust Feasibility Study for Woodlawn Project	0.126 ▶ 0.0%	0.144 ▲ 14.8%

Source: Bloomberg, BDO analysis

On 26 June 2017, the Company's securities were placed in a trading halt, pending the release of an announcement. On the date of the announcement, Heron's share price increased by 6.3% to close at \$0.085. The share price remained unchanged over the three following trading days due to the trading halt and a subsequent voluntary suspension of the Company's securities.

On 20 June 2017, the Company reported the results of its reconnaissance RAB drilling program at its wholly-owned Kangiara Project. On the date of the announcement, the share price increased by 1.2% to close at \$0.083 however over the subsequent three trading days, declined by 3.6% to close at \$0.080.

On 10 May 2017, Heron announced that it had entered into an off-take agreement for the zinc, copper and lead concentrates to be produced from its Woodlawn Project. On the date of the announcement, the Company's share price decreased by 4.5% to close at \$0.084 and continued to increase by 6.0% over the subsequent three trading days to close at \$0.089.

On 4 May 2017, the Company announced that it had awarded an Engineering, Procurement and Construction contract for its Woodlawn Project to Sedgman, a member of the CIMIC Group. On the date of the announcement, the Heron share price increased by 4.4% to close at \$0.095. However, over the subsequent three trading days, the share price decreased by 7.4% to close at \$0.088.

On 11 April 2017, the Company announced that it had initiated a follow-up drilling program at its Woodlawn Project. The announcement advised that the program would target the resource expansion at the shallow G2 Lens position in addition to confirmatory drilling of the initial decline route, and shallow mine excavation drilling to assist with backfilling. On the date of the announcement, the Company's share price remained unchanged however decreased by 4.8% over the subsequent three trading days to close at \$0.100.

On 29 March 2017, Heron announced that it had entered into a new Cooperation Deed with Veolia Environmental Services (Australia) Pty Ltd governing the joint use of the Woodlawn Project site. The entering of this agreement represented one of the key prerequisites for advancing Woodlawn Project financing. On the date of the announcement, the Company's share price decreased by 4.5% to close at \$0.105. Over the three subsequent trading days, the share price continued to decrease a further 4.8% to close at \$0.100.

52





On 18 October 2016, the Company released assay results from the drilling program recently completed at its Woodlawn Project. On the date of the announcement, the market responded positively with the share price increasing by 7.7% to close at \$0.140. However, over the subsequent three trading days the share price decreased by 7.1% to close at \$0.130.

On 29 September 2016, the Company provided an update on the restructure and de-merger of its non-Woodlawn asset portfolio in NSW and WA through the listing on ASX of its wholly owned subsidiary, Ardea. The update mentioned an amended record date and detailed treatment of foreign shareholder entitlements. On the date of the announcement, the market responded negatively with the share price declining by 3.5% to close at \$0.126. However, over the three subsequent trading days the share price increased by 7.4% to close at \$0.135.

On 28 September 2016, the Company released assay and down hole electromagnetic survey results from the drilling program recently completed at its Woodlawn Project. On the date of the announcement, the share price remained unchanged; however, over the three subsequent trading days increased by 3.6% to close at \$0.135.

On 6 September 2016, the Company released initial results from the drilling program completed at its Woodlawn Project. On the date of the announcement, the market responded negatively with the share price decreasing by 3.2% to close at \$0.144. The share price continued to decline by 3.2% over the subsequent three trading days to close at \$0.140.

On 10 August 2016, the Company advised that its Board had committed to restructuring its non-Woodlawn asset portfolio in NSW and WA with a focus on gold and nickel, through the proposed listing of its wholly owned subsidiary, Ardea. On the date of the announcement, the market responded positively with the share price increasing by 3.1% to close at \$0.158. However, over the subsequent three trading days the share price decreased by 3.0% to close at \$0.154.

On 7 July 2016, the Company announced the commencement of drilling activities at its Woodlawn Project. On the date of the announcement, the market responded positively with the share price increasing by 6.4% to close at \$0.154. However, over the subsequent three trading days the share price decreased by 6.1% to close at \$0.144. No new price sensitive announcements were made by Heron Resources over the subsequent three trading days.

On 29 June 2016, the Company announced the results of its Feasibility Study for its Woodlawn Project. On the date of the announcement, the share price remained unchanged; however, increased by 14.8% over the subsequent three trading days to close at \$0.144.

To provide further analysis of the market prices for a Heron Resources share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 26 June 2017.

ASX	26-Jun-17	10 Days	30 Days	60 Days	90 Days
Closing Price	\$0.085				
Weighted Average		\$0.082	\$0.083	\$0.088	\$0.101
Source: Bloomberg, BDO analysis					
TSX	26-Jun-17	10 Days	30 Days	60 Days	90 Days
Closing Price	CAD 0.080				
Weighted Average		CAD 0.092	CAD 0.088	CAD 0.094	CAD 0.099
Source: Bloomberg, BDO analysis					



The above weighted average prices are prior to the date of the announcement of the Proposed Funding Package, to avoid the influence of any increase in price of Heron Resources' shares that has occurred since the Proposed Funding Package was announced.

An analysis of the volume of trading in Heron Resources' shares for the twelve months to 26 June 2017 is set out below:

ASX	Share price low	Share price high	Cumulative Volume traded	As a % of issued capital
1 Day	\$0.085	\$0.088	139,054	0.03%
10 Days	\$0.078	\$0.089	1,899,896	0.41%
30 Days	\$0.075	\$0.089	6,095,754	1.32%
60 Days	\$0.075	\$0.105	15,427,549	3.35%
90 Days	\$0.075	\$0.130	29,848,844	6.48%
180 Days	\$0.075	\$0.155	60,809,992	13.19%
1 Year	\$0.075	\$0.168	139,533,156	30.28%

Source: Bloomberg, BDO analysis

TSX	Share price low	Share price high	Cumulative Volume traded	As a % of issued capital
1 Day	\$0.080	\$0.080	-	0.00%
10 Days	\$0.080	\$0.100	465,459	0.10%
30 Days	\$0.075	\$0.100	1,109,167	0.24%
60 Days	\$0.075	\$0.135	2,977,622	0.65%
90 Days	\$0.075	\$0.140	3,779,023	0.82%
180 Days	\$0.075	\$0.165	6,882,228	1.49%
1 Year	\$0.075	\$0.165	12,027,216	2.61%

Source: Bloomberg, BDO analysis

This table indicates that Heron Resources' shares display a low level of liquidity, with 6.48% of the Company's current issued capital on the ASX and 0.82% of the TSX being traded in a 90-day 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 Resources, there is an absence of a liquid and active market with 6.48% of the Company's issued capital being traded on the ASX and 0.82% being traded on the TSX in a 90-day period. Our assessment is that a range of values for Heron Resources' shares based on market pricing on the ASX, after disregarding post announcement pricing, is between A\$0.08 per share and A\$0.09 per share.

### Control Premium

The quoted market price per share reflects the value to minority interest shareholders. In order to value a Heron Resources' share on a control basis, we have added a control premium that is based on our analysis set out below.

We have reviewed the control premiums paid by acquirers of mining companies listed on the ASX and TSX. In assessing the appropriate sample of transactions from which to determine an appropriate control premium, we have excluded transactions where the acquirer obtained a controlling interest at a discount (i.e. less than 0% premium). Based on the data provided by Bloomberg, approximately 70% of transactions were undertaken at a control premium in the range of 0% and 60%. As such, we have also excluded transactions where the acquirer obtained a controlling interest at a premium greater than 60%.

We have summarised our findings below:

#### ASX: General Mining Companies:

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2016	4	94.87	27.20
2015	6	449.46	39.93
2014	10	150.96	31.54
2013	6	24.37	28.58
2012	12	154.94	35.29
2011	15	773.05	29.17
2010	16	1,130.86	30.31
2009	18	149.21	33.38
2008	7	664.41	34.62
	Mean	399.12	32.22
	Median	154.94	31.54

Source: Bloomberg, BDO analysis

The above table indicates that the long term average control premium paid by acquirers of general mining companies on the ASX is approximately 32.2%.

The mean and median figures above are calculated based on the average deal value and control premiums for each respective year. To ensure our data is not skewed we have also calculated the mean and median of the entire data set comprising control transactions from 2008 onwards, as set out below.



Entire Data Set Metrics		Average Deal Value (AU\$m)	Average Control Premium (%)
Mean		471.45	32.17
Median		50.80	33.28

Source: Bloomberg, BDO analysis

#### TSX: General Mining Companies:

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2016	4	410.25	33.02
2015	11	274.51	35.29
2014	10	475.20	23.29
2013	11	237.14	26.28
2012	12	741.85	33.44
2011	16	1,330.43	27.10
2010	21	1,210.73	30.17
2009	14	225.91	24.00
2008	12	466.52	34.82
	Mean	596.95	29.71
	Median	466.52	30.17

Source: Bloomberg, BDO analysis

The above table indicates that the long term average control premium paid by acquirers of general mining companies on the TSX is approximately 29.7%.

We have also calculated the mean and median of the entire data set comprising control transactions from 2008 onwards, as set out below.

Entire Data Set Metrics		Average Deal Value (AU\$m)	Average Control Premium (%)
Mean		688.26	29.41
Median		244.23	29.53

Source: Bloomberg, BDO analysis

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; and
- level of liquidity in the trade of the acquiree's securities.

In determining the appropriate control premium for Heron Resources, we reviewed control transactions of a similar nature and scale. We considered this to be an appropriate approach, noting that the average control premium is influenced by factors such as whether the consideration is cash or scrip and the deal size. Therefore, in order to determine the appropriate control premium for Heron Resources, we focused on transactions where the deal size was in excess of \$100 million. This analysis showed that approximately 42% of the transactions included had an observed control premium in the range of 20% to 40%.

Since the average control premium in 2016 was 27.2%, with an average deal value of \$94.9 million, we consider that an appropriate control premium to apply to the valuation of Heron Resources' shares is between 20% and 30%.

#### Quoted market price including control premium

Applying a control premium to Heron Resources' quoted market share price results in the following quoted market price value including a premium for control:

	Low \$	Midpoint \$	High \$
Quoted market price value	0.08	0.085	0.09
Control premium	20%	25%	30%
<b>Quoted market price valuation including a premium for control</b>	<b>0.096</b>	<b>0.106</b>	<b>0.117</b>

Source: BDO analysis

Therefore, our valuation of a Heron Resource share based on the quoted market price method and including a premium for control is between \$0.096 and \$0.117, with a midpoint value of \$0.106.

#### 11.3 Assessment of Heron Resources Value

The results of the valuations performed are summarised in the table below:

	Low \$	Preferred \$	High \$
Sum-of-Parts (section 11.1)	0.064	0.075	0.088
QMP method (section 11.2)	0.096	0.106	0.117

Source: BDO analysis

We note the values obtained under the QMP method are higher than the values obtained from the Sum-of-Parts method. The difference between the values under the QMP method and the Sum-of-Parts method may be explained by the following:

- the QMP value reflects investors' perception of the future prospects of the Woodlawn Project and may have taken into account more positive sentiment on the future commodity prices and the prospects of the Woodlawn Project;
- investors may have made different assumptions on the Woodlawn Project, including exchange rates, discount rates, inflation rates and level of required dilution that may affect their valuation of the Woodlawn Project;
- investors may also have different assumptions around a notional capital raising price and structure that may affect their valuation of the Company; and

- our analysis in section 11.2 shows that the liquidity for Heron Resources' shares was only moderate and therefore an absence of sufficiently active trading market to reflect a fair market value of the Company's shares.

Therefore, we consider the Sum-of-Parts method to be the most appropriate method to value a Heron Resource share prior to the Proposed Funding Package. Based on our analysis, we consider the value of a Heron Resources share prior to the Proposed Funding Package to be between \$0.064 and \$0.088, with a preferred value of \$0.075.

#### 12. Post-Transaction Valuation of Heron Resources

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

- value of Heron Resources' interest in the Woodlawn Project;
- value of Heron Resources' Other Mineral Assets;
- amount of cash received from a Proposed Funding Package (included in the DCF value);
- present value of Heron Resources' corporate costs; and
- value of other assets and liabilities of Heron Resources.

#### 12.1 Sum-of-Parts valuation of Heron Resources

The value of Heron Resources' assets on a going concern basis is reflected in our valuation below:

Summary of Assessment	Section	Low Value \$'000s	Preferred Value \$'000s	High Value \$'000s
DCF value of Woodlawn Project	12.1.1	56,000	71,000	86,000
Add: Value of Other Mineral Assets	12.1.2	24,700	36,959	48,618
Add: Cash received from Equity Raising	12.1.3	140,116	140,116	140,116
Add: Other assets and liabilities	12.1.4	21,033	21,033	21,033
Less: Present value of corporate costs	12.1.5	(22,074)	(22,074)	(22,074)
<b>Value of Heron Resources under Sum-of-Parts method</b>		<b>219,775</b>	<b>247,034</b>	<b>273,693</b>
Minority discount	12.1.6	23.1%	20.0%	16.7%
<b>Value of Heron Resources under Sum-of-Parts method</b>		<b>169,007</b>	<b>197,627</b>	<b>227,986</b>
Number of Heron Resources shares on issue ('000s)	12.1.7	2,437,820	2,437,820	2,437,820
<b>Value per share on a minority basis (\$)</b>		<b>0.0693</b>	<b>0.0811</b>	<b>0.0935</b>

Source: BDO analysis

The table above indicates that the Post-Transaction value of a Heron Resources share on a minority basis is between \$0.069 and \$0.094, with a preferred value of \$0.081.

### 12.1.1. DCF valuation of the Woodlawn Project

We have performed our DCF valuation of the Woodlawn Project after the Proposed Funding Package having consideration to the following:

- US\$60 million Loan Facility;
- US\$16 million Silver Streaming Arrangement; and
- Marketing Fee Arrangement.

All other project assumptions of the Woodlawn Project are detailed in section 11.1.1.

#### Discount Rate

We have selected a nominal after tax discount rate in the range of 10% to 14% per annum to discount the cash flows from the Woodlawn Project to their present value. We have used a discount rate of 12% in our base case.

In selecting this range of discount rates, we have considered the capital structure of Heron Resources following the Proposed Funding Package. A detailed consideration of how we arrived at the adopted discount range is shown in Appendix 3.

#### Sensitivity Analysis

Similar to our Pre-Transaction valuation of the Woodlawn Project, our Post-Transaction valuation of the Woodlawn Project is highly sensitive to changes in the forecast of zinc, lead and copper prices and discount rate. We have therefore included an analysis to consider the Post-Transaction value of the Woodlawn Project under various pricing scenarios and in applying:

- a change of +/- 10% to the zinc price;
- a change of +/- 10% to the lead price;
- a change of +/- 10% to the copper price;
- a change of +/- 10% to the gold price;
- a change of +/- 10% to the silver price;
- a change of +/- 10% to operating costs;
- a change of +/- 10% to capital costs;
- a change of +/- 10% the USD:AUD exchange rate; and
- a discount rate in the range of 8% to 16%.

The following sensitivities have been prepared to assist Shareholders in considering the potential effects to the Post-Transaction value of the Woodlawn Project if our base case assumptions change.

Flex	Zinc Price	Lead Price	Sensitivity Analysis (NPV A\$'000)		
			Copper Price	Gold Price	Silver Price
-10%	34,322	61,239	47,550	69,211	64,236
-8%	41,734	63,288	52,316	69,645	64,236
-6%	49,145	65,335	57,082	70,079	67,093
-4%	56,557	67,377	61,847	70,512	68,522
-2%	63,968	69,405	66,613	70,946	69,951
0%	71,379	71,379	71,379	71,379	71,379
2%	78,791	73,322	76,145	71,813	72,808
4%	86,202	75,249	80,911	72,246	74,237
6%	93,613	77,175	85,677	72,680	75,665
8%	101,025	79,102	90,443	73,114	77,094
10%	108,436	81,028	95,209	73,547	78,523

Source: BDO analysis

Flex	Exchange Rate	Sensitivity Analysis (NPV A\$'000)	
		Opex (All)	Capex (All)
-10%	139,829	105,787	95,884
-8%	124,952	98,906	90,986
-6%	110,706	92,024	86,084
-4%	97,051	85,142	81,182
-2%	83,953	78,261	76,281
0%	71,379	71,379	71,379
2%	59,299	64,498	66,478
4%	47,682	57,616	61,576
6%	36,505	50,735	56,675
8%	25,741	43,853	51,773
10%	15,368	36,971	46,871

Source: BDO analysis

8%	10%	12%	14%	16%
116,460	92,085	71,379	53,720	38,602

Source: BDO analysis

Considering the valuation outcomes above, we estimate the fair value of the Woodlawn Project after the Proposed Funding Package to be in the range of \$56 million to \$86 million, with a midpoint value of \$71 million.

### 12.1.2. Value of Other Mineral Assets

The Post-Transaction value of Other Mineral Assets is the same as the Pre-Transaction value of Other Mineral Assets. Refer to section 11.1.4 for further details regarding the value of Other Mineral Assets.

### 12.1.3. Cash received from Equity Raising

As per the terms of the Equity Raising, Heron Resources intends to raise \$140 million.



#### 12.1.4. Other Assets and Liabilities

The Post-Transaction value of other assets and liabilities is the same as the Pre-Transaction value of other assets and liabilities. Refer to section 11.1.6 for further details regarding the value of other assets and liabilities.

#### 12.1.5. Corporate costs

The Post-Transaction present value of corporate costs is the same as the Pre-Transaction present value of corporate costs. Refer to section 11.1.7 for further details regarding the present value of corporate costs.

#### 12.1.6. Minority Discount

The value of a Heron Resources share derived under the Sum-of-Parts method is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the company which allows them to have an individual influence in the operations and the value of that company. However, if the Proposed Funding Package (and thereby the Transaction) is approved, the current Shareholders will be minority holders in Heron Resources, meaning that their individual holding will not be considered significant enough to have an individual influence in the operations and value of that company.

Therefore, we have adjusted our valuation of a Heron Resources share following the Proposed Funding Package to reflect the minority interest holding. The minority discount is based on the inverse of the control premium and is calculated using the formula  $1/(1+\text{control premium})$ .

As discussed in section 11.2 of our Report, we consider an appropriate control premium for Heron Resources to be in the range of 20% to 30%, giving rise to a minority interest discount in the range of 16.7% to 23.1%.

#### 12.1.7. Number of Heron Resources shares on issue

The Proposed Funding Package will result in 2,001,652,231 new shares as determined in section 4.7 of our Report. Including the number of shares of 415,009,381 as at 14 June 2017 and 21,158,369 shares that could be issued in relation to the exercise of all in-the-money options, the total number of shares on issue would be 2,437,819,981 following the Proposed Funding Package, on a diluted basis.

Number of shares	
Number of shares as at 14 June 2017	415,009,381
Shares to be issued under the Proposed Funding Package	2,001,652,231
Shares to be issued in relation to the exercise of all in-the-money options	21,158,369
<b>Total</b>	<b>2,437,819,981</b>

Source: BDO analysis



#### 13. Is the Transaction fair?

To assess if the Transaction is fair, RG 111.31 stipulates that in a control transaction a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction allowing for a minority discount.

The value of a Heron Resource share prior to the Proposed Funding Package on a control basis and the value of a Heron Resource share following the Proposed Funding Package on a minority basis are compared below.

	Ref	Low \$	Preferred \$	High \$
Pre-Transaction value of a Heron Resources share (on a control basis)	11.3	0.064	0.075	0.088
Post-Transaction value of a Heron Resource share (on a minority basis)	12.1	0.069	0.081	0.094

Source: BDO analysis

We note from the table above that the Post-Transaction value of a Heron Resource share (on a minority basis) is higher than the Pre-Transaction value of a Heron Resource share (on a control basis). Therefore, we consider the Transaction to be fair.

#### 14. Is the Transaction reasonable?

##### 14.1 Advantages of Approving the Transaction

We have considered the following advantages when assessing whether the Transaction is reasonable.

##### 14.1.1. The Transaction is fair

As set out in section 13, the Transaction is fair. RG 111.12 states that an offer is reasonable if it is fair.

##### 14.1.2. Provides substantial and critical funding for the Woodlawn Project

Heron Resources is focussed on the near term development of the Woodlawn Project having completed its project feasibility study and having been granted mining lease and project approvals. However, the Woodlawn Project is not yet funded and in order for it to be developed, the Company will need to raise sufficient equity and potentially debt to meet the expected capital investment. The availability of funding is critical for the Company to best realise the value of the Woodlawn Project for its Shareholders.

The Woodlawn Project requires significant capital for the development of the project, working capital and other project related funding requirements such as bond deposits and financing costs. This funding requirement is set out in section 11.1.5.

Prior to entering into advanced negotiations with Greenstone, Orion and Castllake, Heron Resources had made extensive efforts during the previous 18 months to investigate and assess funding options for the Woodlawn Project. Heron Resources has, through the engagement of financial advisers as well as its own efforts, explored a number of funding options with a significant number of parties engaged and contacted



throughout the funding process. We have reviewed the correspondence between Heron Resources and the various parties engaged in the funding process. Funding options included:

- traditional project finance banks;
- commercial banks;
- non-bank lenders;
- stream and royalty providers;
- bond arrangers;
- convertible and other mezzanine finance providers; and
- control and non-control equity investors at both the asset and corporate level.

In undertaking investigations and assessments of these funding options, Heron Resources discarded or terminated discussions for all options other than the Greenstone, Orion and Castllake proposals, on the basis that it provided a cost effective solution meeting the large majority of capital needs for Heron Resources and was able to be executed in a realistic timeframe.

These options included advanced discussions with four commercial and traditional project finance banks. When two of the four banks withdrew from the process, Heron Resources concluded that the project finance process would not be able to be completed within a reasonable timeframe and was at high risk of eventual failure, and therefore terminated the process.

The Company's investigation of these debt finance options led the board to decide, and the management team to negotiate, the funding package with Orion and equity funding from Greenstone and Castllake.

The Company's ability to raise the required equity funding on its own is uncertain given the size of the required capital raising relative to the Company's current market capitalisation.

Greenstone may provide up to A\$42 million in equity funds through the Transaction. This provides approximately 30% of the total funds that Heron Resources plans to raise through its capital raising process.

The proposed funding package from Orion to fund the Woodlawn Project comprises the Loan Facility, Silver Streaming Arrangement, Orion Equity Subscription and Marketing Fee Arrangement. The Orion Equity Subscription may provide up to A\$28.6 million in equity funds which accounts for approximately 20.4% of the total funds that Heron Resources plans to raise through its capital raising process.

The Castllake Equity Subscription may provide up to A\$32.7 million in equity funds which accounts for approximately 23.4% of the total funds that Heron Resources plans to raise through its capital raising process.

Together, the Transaction, the Orion Equity Subscription and the Castllake Equity Subscription, may provide up to 74% of the total funds Heron Resources plans to raise through its capital raising, which is a significant proportion.

Together with the Loan Facility of US\$60 million and the Silver Streaming Arrangement of US\$16 million, Greenstone and Orion are providing a significant level of funding for the Woodlawn Project, which is critical for the ability of the Project to be developed in the near future.



This increases the likelihood of the Woodlawn Project being developed and delivering potential returns to Shareholders. This means that Shareholders may hold shares in an operating company that has a likelihood of paying dividends.

#### **14.1.3. Strengthens the Company's relationship with its cornerstone investor, Greenstone**

Greenstone is currently a major shareholder, holding approximately 13.04% of the total issued shares of Heron Resources. The Transaction is expected to bring Greenstone's voting power from the current 13.04% to a maximum shareholding of 27.96%. Greenstone is expected to continue being the Company's largest shareholder following Transaction.

At the first stage of Greenstone's investment in Heron Resources, which was announced to the market on 24 July 2015, Greenstone acquired ownership and control of 54,131,658 ordinary shares to provide A\$6.8 million to Heron Resources for the development of the Woodlawn Project and for working capital and general corporate purposes. This made Greenstone Heron Resources' largest shareholder at that time with 13.04% interest. The agreed arrangements at that time indicated that a potential additional investment by Greenstone of A\$13.2 million (or such amount as would take Greenstone's interest to up to 19.9% of Heron Resources' shares) would be made towards the equity funding component of the construction of the Woodlawn Project. As such, the intention at that point in time was not for Greenstone to exceed 19.9% shareholding in Heron Resources.

The Transaction reflects Greenstone's strong financial support and commitment to Heron Resources and its Woodlawn Project throughout the investigations of financing options for the Woodlawn Project. This substantial level of shareholding interest in Heron Resources strengthens the Company's relationship with Greenstone. Given this level of investment that Greenstone has made, it is more likely than not, that Greenstone continues to provide its support as a major shareholder in the future.

#### **14.1.4. Strengthens the Company's balance sheet**

The Transaction is expected to provide up to US\$32 million (or approximately A\$42 million) in cash to Heron Resources, increasing the Company's net asset position by the same amount on a standalone basis.

Raising a substantial proportion of the required funding through equity reduces gearing levels and strengthens the balance sheet of the Company overall. This is an advantage to Shareholder as it increases the financial strength of the Company and therefore reduces risk for Shareholders.

The larger equity base also increases the Company's capacity to take on more debt in the event that Heron Resources may require debt funding in the future. Debt financiers may potentially look favourably on the strength of the Company's cornerstone investor, Greenstone, and be more likely to provide debt financing in the future.

#### **14.1.5. Increase in market capitalisation and raising the profile of Heron Resources with the investor market**

If the Transaction is approved, Heron Resources may increase its market capitalisation. As a larger company, there is potential for greater broker coverage and presence in the zinc market.





An increase in Heron Resources' market capitalisation, together with the increased financial strength noted in the section above may also lead to an increase in the liquidity of the Company's shares traded on the ASX and TSX.

Further, the profile of Heron Resources is heightened due to the global reach through both cornerstone investors, Greenstone, Orion and Castllake.

#### 14.2 Disadvantages of Approving the Transaction

If the Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed below:

##### 14.2.1. Dilution of the shareholding of existing Shareholders

Following the approval of the Transaction, Shareholders' interests may decrease from 86.96% to 36.68% (if the Share Purchase Plan is fully subscribed) or from 86.96% to 34.75% if no shares are subscribed for under the Share Purchase Plan. Shareholders will suffer a substantial dilution of their shareholding and therefore their capacity to influence the operations of the Company will be reduced.

##### 14.2.2. Increased presence of a significant shareholders may reduce the attractiveness of the Company's shares to potential investors

If the Transaction is approved, Greenstone may hold up to a combined 27.96% of the Company's issued capital. With the presence of significant shareholders (including Orion and Castllake), the attractiveness of the Company's shares to potential investors may reduce and the ability for Shareholders to receive a takeover premium in the future is also reduced.

However, we note that as Greenstone is a financial investor their primary goal is to generate a return on their investment which we consider to be consistent with a Shareholder's primary goal. Therefore, although it is likely that any offer to acquire the Company would require Greenstone's acceptance, we do not consider that an increase in Greenstone's investment, as a result of approving the Transaction, will deter a takeover offer being made or accepted by the Company if any acceptable offer is made.

#### 14.3 Alternative Proposal

As set out in section 14.1.2, Heron Resources has, through the engagement of financial advisers as well as its own efforts, explored a number of funding options with a significant number of parties engaged and contacted throughout the funding process. However, all these attempts at obtaining funding were either unsuccessful or were assessed to be 'too expensive' compared to the terms offered by Greenstone, Orion and Castllake, and did not commensurate with the risk of the Project.

We are unaware of any alternative proposal that might offer the Shareholders a premium over the value ascribed to, resulting from the Transaction and the Proposed Funding Package.

#### 14.4 Practical Level of Control

If the Transaction is approved then each of Greenstone, Orion and Castllake may hold interests of up to 27.96%, 17.39% and 19.90% in Heron Resources. In addition to this, each of Greenstone, Orion and Castllake will be entitled to appoint a nominee director to the board of Heron Resources.



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 required 75% of shares on issue to be voted in favour to approve a matter. If the Transaction is approved and Greenstone's voting power remains above 25%, then Greenstone will be able to block special resolutions.

Heron Resources' board currently comprises five directors. Each of Greenstone, Orion and Castllake will be entitled to appoint a nominee director to the board of Heron Resources which will take Heron Resources' Board to seven directors (including a nominee from Greenstone, Mark Sawyer, who is already a director on the board). This means that nominated directors by cornerstone investors, Greenstone, Orion and Castllake will make up approximately 43% of the Board.

In our opinion, while Greenstone will be able to significantly influence the activities of Heron Resources, it will not be able to exercise a similar level of control as if it held 100% of Heron Resources. As such, Greenstone should not be expected to pay a similar premium for control as if it were acquiring 100% of Heron Resources.

#### 14.5 Consequences of not Approving the Transaction

##### Consequences

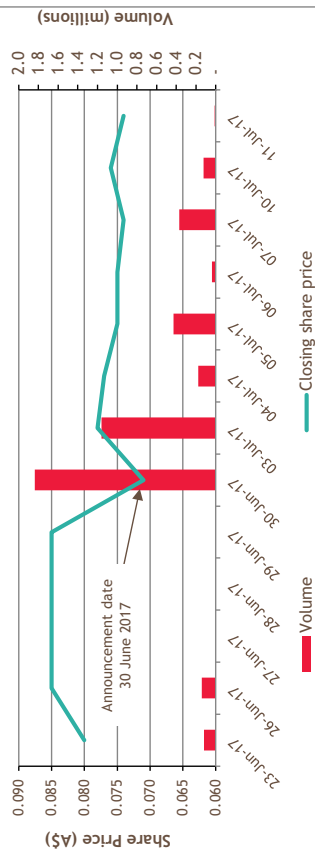
Prior to entering into advanced negotiations with Greenstone, Orion and Castllake, Heron Resources had made extensive efforts during the previous 18 months to investigate and assess funding options for the Woodlawn Project. Heron Resources has, through the engagement of financial advisers as well as its own efforts, explored a number of funding options with a significant number of parties engaged and contacted throughout the funding process.

If the Transaction is not approved, Heron Resources will have to reassess its funding options and recommence the funding process again. There is no certainty that Heron Resources may be able to revisit previous funding options and there is no certainty that the Company will be successful in obtaining the funding it requires for the Woodlawn Project. There is no certainty that the Company will be able to successfully negotiate more superior terms to the terms of the Proposed Funding Package.

##### Post announcement pricing

We analysed movements in Heron Resources' share price on both the ASX and the TSX since the Transaction was announced. A graph of Heron Resources' share price since the announcement is set out below.

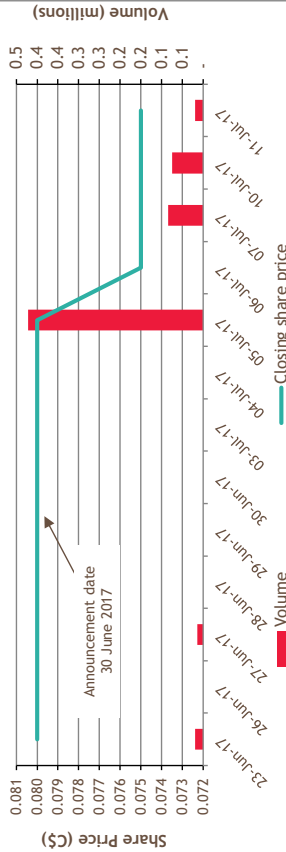
HRR share price and trading volume history - post announcement (ASX)



Source: Bloomberg

The share price of Heron Resources on the ASX fell by over 15% following the announcement, recovered slightly and subsequently settled below the last closing price before the announcement.

HER share price and trading volume history - post announcement (TSX)



Source: Bloomberg

The share price of Heron Resources on the TSX fell by over 6% following the announcement and has settled below the last closing price before the announcement.

Given the above analysis, it is uncertain if Heron Resources' share price may decline further if the Transaction is not approved.

## 15. Conclusion

We have considered the terms of the Transaction as outlined in the body of our Report and have concluded that, in the absence of a superior offer, the Transaction is fair and reasonable to Shareholders.

## 16. 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;
- Audited financial statements of Heron Resources for the years ended 30 June 2015 and 30 June 2016;
- Reviewed half-year financial statements of Heron Resources for the six months ended 31 December 2016;
- Unaudited management accounts of Heron Resources for the period ended 31 May 2017;
- Independent Technical Assessment Report and Valuation of Heron Resources mineral assets dated 5 July 2017 performed by BDA;
- Equity Raising Agreement;
- Transaction Agreements with Greenstone;
- Orion Equity Subscription Agreement;
- Loan Facility Agreement;
- Silver Streaming Arrangement Agreement;
- Marketing Fee Arrangement Agreement;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Heron Resources.

## 17. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$90,000 (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 Resources in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Heron Resources, 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 Greenstone, Orion and Heron Resources 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 Greenstone, Orion and Heron Resources and their respective associates. A draft of this report was provided to Heron Resources and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.



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## 18. 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 Sheriff 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.

Sheriff 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 29 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. Sheriff Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 19 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.



## 19. Disclaimers and consents

This report has been prepared at the request of Heron Resources for inclusion in the Explanatory Memorandum and Notice of Meeting which will be sent to all Heron Resources Shareholders. Heron Resources engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposal for Greenstone Management (Delaware) LLC to subscribe for Heron Resources Limited's shares to raise up to US\$32 million (or approximately A\$42 million) to part fund the development of its 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 Greenstone and Orion. 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 Resources 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 actual be achieved. BDO Corporate Finance (WA) Pty Ltd disclaims any possible liability in respect of these forecasts. We note that the forecasts provided do not include estimates as to the effect of any future emissions trading scheme should it be introduced as it is unable to estimate the effects of such a scheme at this time.

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 Resources, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by Heron Resources.

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
A\$ or AUD	Australian Dollars
The Act	The Corporations Act 2001 Cth
Adjusted Model	BDO has made certain adjustments to the Model where it was considered necessary to arrive at an adjusted model
Alchemy	Alchemy Resources Limited
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Ardea	Ardea Resources Limited
Azure	Azure Capital Limited
BDA	Behre Dolbear Australia Pty Ltd
BDO	BDO Corporate Finance (WA) Pty Ltd
BHP	BHP Billiton Plc
C\$ or CAD	Canadian Dollars
CAPM	Capital asset pricing model
Castlelake	Castlelake III, L.P. and Castlelake IV, L.P.
Castlelake Equity Subscription	An equity subscription of approximately US\$24.8 million (or approximately AS\$32.67 million) through the issue of 45,856,116 shares to Castlelake III, L.P. and Castlelake IV, L.P. at an issue price of A\$0.07 per share under Tranche 1 and a further 420,845,260 shares to Castlelake III, L.P. and Castlelake IV, L.P. at an issue price of A\$0.07 per share under Tranche 2
The Company	Heron Resources Limited
Corporations Act	The Corporations Act 2001 Cth
DCF	Discounted Future Cash Flows

Reference	Definition
Eastern Goldfields	Eastern Goldfields Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPC	Engineering, Procurement and Construction
Equity Raising	An institutional placement to cornerstone and institutional investors to be undertaken by Heron Resources to raise approximately A\$140 million
FME	Future Maintainable Earnings
FS	Feasibility Study
Greenstone	Greenstone HRR Holdings II L.P. and certain co-investment parties potentially associated with Greenstone HRR Holdings II L.P.
Greenstone HRR Holdings	Greenstone HRR Holdings L.P.
Greenstone Delaware	Greenstone Management (Delaware) LLC, a company incorporated in Delaware
Greenstone Initial Placement	Greenstone will subscribe for US\$1.6 million under Tranche 1 of the Greenstone Equity Subscription
Greenstone Equity Placement	Greenstone will subscribe for US\$30.4 million under Tranche 2 of the Greenstone Equity Subscription
Greenstone Equity Subscription	Greenstone may subscribe for 601,503,761 shares in Heron Resources to part fund the Woodlawn Project via the Greenstone Initial Placement and Greenstone Equity Placement
Greenstone Resources	Greenstone Resources L.P.
Heron Resources	Heron Resources Limited
Heron Resources' Other Mineral Assets	Residual resources (inferred) not included in the DCF valuation of the Woodlawn Project and Heron Resources' other exploration assets
Independent Technical Assessment	Technical assessment and valuation report prepared by BDA dated 5 July 2017
Institutional Placement	An equity placement whereby Heron Resources will raise approximately US\$24.2 million or approximately A\$31.8 million from various institutional investors
JORC Code 2012	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition)

Reference	Definition
KNP	Kalgoorlie Nickel Project
Loan Facility	A senior secured loan of US\$60 million provided to Heron Resources by Orion
Marketing Fee Arrangement	Lead marketing fee arrangement entered into between Orion and Heron Resources
The Model	Detailed cash flow model for the Woodlawn Project prepared by the management of Heron Resources with the assistance of advisors
Mt	Million tonnes
Notice of Meeting	Explanatory Memorandum and Notice of Meeting
NAV	Net Asset Value
NPV	Net Present Value
NSW	New South Wales
Orion	Orion Mine Finance Fund II LP
Orion Initial Placement	Orion will subscribe for US\$1.5 million under Tranche 1 of the Orion Equity Subscription
Orion Equity Placement	Orion will subscribe for US\$20.2 million under Tranche 2 of the Orion Equity Subscription
Orion Equity Subscription	An equity subscription up to US\$21.7 million via the Orion Initial Placement and Orion Equity Placement
Orion Funding Package	Orion Equity Subscription, Loan Facility, Silver Streaming Arrangement and Marketing Fee Arrangement
PEA	Preliminary Economic Assessment
Post-Transaction	Heron Resources or a Heron Resources share following the provision of the Proposed Funding Package
Pre-Transaction	Heron Resources or a Heron Resources share prior to the provision of the Proposed Funding Package
Proposed Funding Package	A\$140 million Equity Raising including the Transaction, Orion Equity Subscription, Castletlake Equity Subscription, US\$60 million Loan Facility, US\$16 million Silver Streaming Arrangement and Marketing Fee Arrangement
The Project	Woodlawn Zinc-Copper Project located in NSW
QMP	Quoted market price





Reference	Definition
RBA	Reserve Bank of Australia
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)
Section 611	Section 611 of the Corporations Act
SEDAR	System for Electronic Document Analysis and Retrieval
Share Purchase Plan	An offer to shareholders to subscribe for up to A\$15,000 of shares at an issue price of A\$0.07 per share to raise up to a maximum of A\$5 million
Shareholders	Shareholders of Heron Resources not associated with Greenstone
Silver Steaming Arrangement	A silver stream of US\$16 million provided to Heron Resources by Orion
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
The Transaction	Greenstone may subscribe for 601,503,761 shares in Heron Resources to part fund the Woodlawn Project via the Greenstone Initial Placement and Greenstone Equity Placement
TriAusMin	TriAusMin Limited
TSX	Toronto Stock Exchange
US\$ or USD	United States Dollars
Valmin Code	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (2015 Edition)
Valuation Engagement	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.
VWAP	Volume Weighted Average Price
WA	Western Australia



Reference	Definition
WACC	Weighted Average Cost of Capital
Woodlawn Project	Woodlawn Zinc-Copper Project located in NSW
WRP	Woodlawn Tailings Retreatment Project
ZnEq	Zinc Equivalent

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## 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 – Discount Rate Assessment

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 Resources share, the Adjusted Model assumes that the Woodlawn Project is 100% equity funded via the notional 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 Resources share, the Adjusted Model includes all cash inflows and outflows relating to the Loan Facility and the Silver Streaming Arrangement. 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.

CAPM calculates the cost of equity and is calculated as follows:

$$\begin{aligned}
 \text{CAPM} &= R_f + \beta \times (R_m - R_f) \\
 \text{Where:} & \\
 K_e &= \text{expected equity investment return or cost of equity in nominal terms} \\
 R_f &= \text{risk free rate of return} \\
 R_m &= \text{expected market return} \\
 R_m - R_f &= \text{market risk premium} \\
 \beta &= \text{equity beta}
 \end{aligned}$$

The individual components of CAPM are discussed below.

### Risk Free Rate (Rf)

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 used the current yield to maturity on the 10-year Commonwealth Government Bond, which was 2.36% per annum as at 27 June 2017.

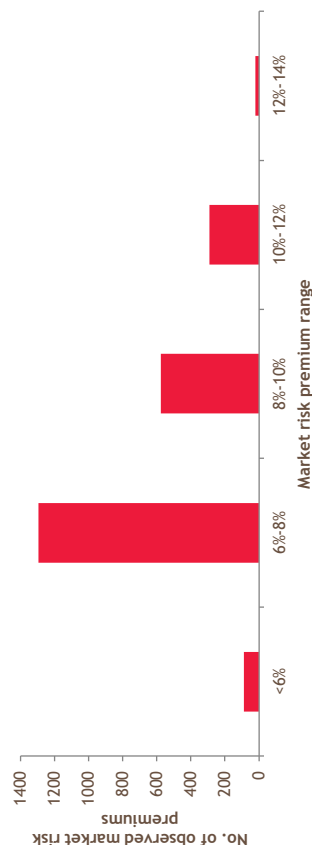
### Market Risk Premium ( $R_m - R_f$ )

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.

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 government bond rates.

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 past nine years. Our research indicated the market risk premium in Australia has ranged from a low of 4.01% to a high of 13.07%. The mean and median market risk premium in Australia is 8.07% and 7.54% respectively.

Australian Market Risk Premiums



The graph above illustrates the frequency of observations of the Australian market risk premium over the past nine 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 ( $\beta_e$ ) by applying the following formula:

$$\beta_u = \beta_e / (1 + D/E \times (1 - t))$$

In order to assess the appropriate equity beta for the Woodlawn Project, we have had regard to the equity beta of Heron Resources and of ASX listed companies involved in similar activities in similar industry sectors. The geared betas below have been calculated against the All Ordinaries Index, using monthly data over a two-year period.

Company	Market Capitalisation 27 June 2017 (\$m)	Geared Beta ( $\beta_g$ )	Gross Debt/Equity (%)	Ungeared Beta ( $\beta_u$ )
Ivanhoe Mines Ltd	4,157.37	1.26	3%	1.47
Independence Group	2,188.57	1.19	18%	1.29
Hudbay Minerals	1,978.84	2.36	70%	1.89
Sierra Metals Inc	523.50	0.73	42%	0.66
Arizona Mining Inc	489.14	0.98	-	1.08
Trevi Mining Corporation	450.89	1.78	31%	1.46
Metals X Limited	435.68	0.59	4%	0.58
Capstone Mining Corp	429.55	2.00	40%	1.90
Terramin Australia Limited	327.78	0.51	25%	0.90
Nautilus Minerals Inc	151.88	0.69	-	0.62
TNG Limited	116.65	0.72	-	0.77
Red River Resources	94.42	0.82	-	0.82
Canadian Zinc Corporation	55.84	1.15	-	1.15
Canada Zinc Metals Corp.	47.59	0.82	-	0.82
Rathdowney Resources	46.03	0.43	-	0.43
Ironbark Zinc Limited	40.46	1.06	-	1.06
Nevada Zinc Corporation	24.33	0.70	-	0.70
Encounter Resources	17.93	1.10	-	1.10
Argent Minerals	16.23	0.93	-	0.93
Inzinc Mining Ltd	14.89	0.53	-	0.53
Marindri Metals Pty Ltd	13.27	0.95	-	0.95
PNX Metals Limited	12.54	0.91	31%	0.75
Consolidated Zinc	9.23	0.68	13%	0.62
Overland Resources Limited	5.78	0.72	-	0.72
Pistol Bay Mining Inc	2.85	1.30	-	1.30
<b>Weighted average (excluding top three largest companies by market capitalisation)</b>				<b>Mean</b>
				<b>Median</b>
				<b>0.98</b>
				<b>0.90</b>
				<b>1.03</b>

Source: Bloomberg and BDO analysis

Descriptions of comparable listed companies are summarised as follows.

Company Name	Exchange	Company description
Ivanhoe Mines Ltd	TSX	Ivanhoe Mines Ltd. engages in the exploration, development, and recovery of minerals and precious gems located primarily in Africa. Its principal projects include the Platreef project located on the Northern Limb of South Africa's Bushveld Complex; the Kamoa project, including the Kakula copper discovery located on the Central African Copperbelt in the Democratic Republic of Congo (DRC); and the Kipushi mine located on the DRC's Copperbelt. Ivanhoe Mines Ltd. was incorporated in 1993 and is headquartered in Vancouver, Canada.
Independence Group	ASX	Independence Group NL operates as a diversified mining, development, and exploration company in Australia. It holds a 100% interest in the Long nickel mine located in Kambalda in Western Australia; the Jaguar zinc, copper, and silver mine located in Western Australia; and the Nova project located in the Fraser Range, Western Australia. The company also holds a 30% interest in the Tropicana Gold project located in Western Australia; and 100% interest in the Stockman project, a copper, zinc, lead, silver, gold, and volcanogenic massive sulphides project located in the East Gippsland region, Victoria. Independence Group NL was founded in 2000 and is headquartered in South Perth, Australia.
Hudbay Minerals	TSX	Hudbay Minerals Inc., an integrated mining company, together with its subsidiaries, focuses on the discovery, production, and marketing of base and precious metals in North and South America. The company owns four polymetallic mines, four ore concentrators, and a zinc production facility in northern Manitoba and Saskatchewan, Canada, as well as in Cusco, Peru; and a copper project in Arizona, United States. HudBay Minerals Inc. was founded in 1927 and is based in Toronto, Canada.
Sierra Metals Inc	TSX	Sierra Metals Inc. engages in acquisition, exploration, extraction, production, and commercialization of mineral concentrates containing silver, copper, lead, zinc, and gold in Mexico and Peru. The company has 3 producing mining properties that include the Yauricocha mine located in the Yauyos province in western central Peru; the Bolivar mine located in the Piedras Verdes mining district of Chihuahua, Mexico; and the Cusi mine located in the Chihuahua State, Mexico. Sierra Metals Inc. was incorporated in 1996 and is headquartered in Toronto, Canada.
Arizona Mining Inc	TSX	Arizona Mining Inc. operates as a mineral exploration and development company in Canada. It explores for silver, lead, zinc, copper, gold, electrolytic manganese metal, and manganese manto oxide. The company holds 80% interest in the Hermosa property.



Company Name	Exchange	Company description
Trevali Mining Corporation	TSX	<p>Arizona Mining Inc. was incorporated in 1975 and is headquartered in Vancouver, Canada.</p> <p>Trevali Mining Corporation, a natural resource company, engages in the acquisition, exploration, development, and production of mineral properties in Peru and Canada. It explores for zinc, lead, silver, copper, and gold deposits. The company primarily holds interests in the Santander property located in the province of Huaral, Departamento de Lima, Peru; and the Caribou property located in the province of New Brunswick, Canada. It also owns interests in the Halfmile property, as well as the Stratmat property located in Northumberland County of northeast New Brunswick, Canada. In addition, the company owns interest in the Ruttan copper-zinc massive sulphide deposit located in Manitoba, Canada. Trevali Mining Corporation was incorporated in 1964 and is headquartered in Vancouver, Canada.</p> <p>Metals X Limited engages in the operation of tin and gold mines; and exploration and development of precious and base metals projects in Australia. The company operates through Renison Tin Project, Wingellina Nickel Project, Higginsville Gold Operation, South Kalgoorlie Operation, Central Murchison Gold Project, Fortnum Gold Project, and Northern Territory Projects segments. The company holds a 50% interest in the Renison tin project located on the west coast of Tasmania. It also holds a pipeline of assets from exploration to production, including gold development projects in Western Australia and the Northern Territory; and the Wingellina nickel project. Metals X Limited was incorporated in 2004 and is based in West Perth, Australia.</p> <p>Capstone Mining Corp engages in the mining, exploration, and development of mineral properties in the United States, Mexico, Canada, and Chile. It explores for copper, zinc, lead, molybdenum, silver, and gold deposits. The company holds interests in the Pinto Valley Mine, an open pit copper mine located in Arizona, the United States; the Cozamin Mine, an underground, copper-silver mine located in the state of Zacatecas, Mexico; the Kutcho Project, a copper-zinc project located in British Columbia, Canada; and the Minto Mine, an open pit and underground copper mine located in Yukon, Canada. It also holds a 70% interest in the Santo Domingo copper-iron project located in Chile. Capstone Mining Corp is headquartered in Vancouver, Canada.</p>
Capstone Mining Corp	TSX	
Terramin Australia Limited	ASX	<p>Terramin Australia Limited, together with its subsidiaries, engages in the exploration, evaluation, and development of base and precious metal, and other economic mineral projects in Australia and</p>



Company Name	Exchange	Company description
Nautilus Minerals Inc	TSX	<p>internationally. The company explores for zinc, lead, gold, copper, silver, molybdenum, and other rare earth elements. 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.</p> <p>Nautilus Minerals Inc., a seafloor resource exploration company, explores and develops the ocean floor for copper, gold, silver, and zinc seafloor massive sulphide deposits. It also explores for manganese, nickel, copper, and cobalt nodule deposits. The company's principal project is the Solwara 1 Project located in the Bismarck Sea, Papua New Guinea. It also has operations in Canada, Australia, Tonga, Solomon Islands, Fiji, New Zealand, and internationally. Nautilus Minerals Inc. is headquartered in Vancouver, Canada.</p>
TNG Limited	ASX	<p>TNG Limited engages in the exploration, evaluation, and development of mineral properties in the Northern Territory and Western Australia in Australia. It explores for iron ore, vanadium, titanium, gold, lead, zinc, silver, nickel, and copper. The company primarily holds a 100% interest in the Mount Peake Vanadium-Titanium-Iron Project located to the northwest of Alice Springs in Arunta Geological Province in the Northern Territory. TNG Limited is based in Subiaco, Australia.</p>
Red River Resources	ASX	<p>Red River Resources Limited engages in the exploration and evaluation of mineral projects in Australia. It explores for zinc, copper, lead, gold, silver, and base metal deposits. The company focuses on the development of the Thalanga zinc project, which is located in Townsville in Central Queensland. Red River Resources Limited is headquartered in Melbourne, Australia.</p>
Canadian Zinc Corporation	TSX	<p>Canadian Zinc Corporation engages in the exploration and development of natural resource properties in Canada. The company's principal project is the Prairie Creek Project, a zinc-lead-silver property located in the Northwest Territories. It also owns land package in central Newfoundland, which comprises lead and zinc deposits. The company was formerly known as San Andreas Resources Corporation and changed its name to Canadian Zinc Corporation in May 1999. Canadian Zinc Corporation was founded in 1965 and is headquartered in Vancouver, Canada.</p>
Canada Zinc Metals Corp.	TSX	
Rathdowney Resources	TSX	<p>Rathdowney Resources Ltd., together with its subsidiaries, engages in the acquisition, exploration, and development of mineral properties in Poland and Ireland. The company primarily explores for zinc, lead, and silver deposits. Its flagship project is the Olza project comprising</p>





Company Name	Exchange	Company description
McArthur and Caranbirini projects located in Northern Territory. The company was formerly known as Brumby Resources Limited. Brumby Resources Limited was incorporated in 2006 and is based in West Perth, Australia.		
PNX Metals Limited	ASX	PNX Metals Limited, together with its subsidiaries, engages in the research, development, and exploration of mineral properties in the Northern Territory and South Australia. The company explores for gold, silver, zinc, lead, copper, iron ore, and other base metals. It primarily holds 100% interest in the Hayes Creek project located in the Pine Creek region of the Northern Territory. PNX Metals Limited is based in Rose Park, Australia.
Consolidated Zinc Limited	ASX	Consolidated Zinc Limited operates as a diversified minerals exploration company in Australia, Mexico, and Mongolia. The company primarily explores for zinc, lead, silver, uranium, and copper deposits. It holds interests in the Plomosas mine located in the northern Mexican state of Chihuahua. Consolidated Zinc Limited is based in West Perth, Australia.
Overland Resources Limited	ASX	Overland Resources Limited discovers, acquires, explores for, and develops mineral deposits in Australia and Canada. The company explores for zinc and lead deposits. It holds interests in the Yukon base metal project located in the Selwyn Basin, Yukon Territory. The company is headquartered in Subiaco, Australia.
Pistol Bay Mining Inc	TSX	Pistol Bay Mining Inc. engages in the exploration and development of precious and base metal properties in North America. The company explores for zinc, copper, and silver ores. It has an option to acquire a 100% interest in the Dixie property located to the southeast of Red Lake, Ontario. Pistol Bay Mining Inc. was incorporated in 1995 and is headquartered in Vancouver, Canada.

Source: Bloomberg and respective Company websites

#### Selected Beta (8)

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; and
- there are varying stages of development of the comparable companies' projects compared to the Woodlawn Project.

In selecting the range of comparable companies to assess the appropriate equity beta, we analysed the betas based on varying stages of exploration and development. Explorers and developers bear development and funding risks compared to producers who bear little to no development and funding risks as these producing companies have projects that are already operating. Heron will have little to no



Company Name	Exchange	Company description
Ironbark Zinc Limited	ASX	the Zawlercie, Rokitno, and Checchio concessions located in the Upper Silesian Mining District of Poland. The company was incorporated in 2008 and is based in Vancouver, Canada.  Ironbark Zinc Limited explores and evaluates mineral properties in Greenland and Australia. The company primarily explores for zinc, gold, copper, silver, lead, and precious metals. Its projects include the Citronen zinc-lead project located in northern Greenland; the Westersvig base metal project located in eastern Greenland; the Washington Land project in North West Greenland; and the Fiery Creek project, the Peakview project, and the Captains Flat project located in New South Wales. The company was formerly known as Ironbark Gold Limited and changed its name to Ironbark Zinc Limited in November 2009. Ironbark Zinc Limited is based in Subiaco, Australia.
Nevada Zinc Corporation	TSXV	Nevada Zinc Corporation, a mineral exploration company, primarily focuses on the acquisition, exploration for, and development of mineral properties in Nevada, as well as in Yukon, Canada. The company explores for zinc and lead. Its principal property is the 100% owned Lone Mountain project located near Eureka, Nevada. Nevada Zinc Corporation was incorporated in 2010 and is headquartered in Toronto, Canada.
Encounter Resources	ASX	Encounter Resources Limited operates as an exploration and resource development company in Western Australia. The company explores for zinc, copper, gold, uranium, silver, lead, and cobalt deposits. Its flagship project is the Yeneena project located in the Paterson Province of Western Australia. Encounter Resources Limited was founded in 2004 and is based in West Perth, Australia.
Argent Minerals	ASX	Argent Minerals Limited engages in the discovery, extraction, and marketing of precious and base metals in Australia. The company explores for gold, silver, copper, zinc, and lead deposits. It primarily holds a 100% interest in the Kempfield Polymetallic Project located in New South Wales. Argent Minerals Limited was incorporated in 2007 and is based in Sydney, Australia.
InZinc Mining Ltd	TSXV	InZinc Mining Ltd. engages in the acquisition and exploration of mineral properties in Canada. It holds 100% interest in the West Desert zinc-copper-iron-indium project located in western Utah, the United States. InZinc Mining Ltd. was incorporated in 1997 and is headquartered in Vancouver, Canada.
Marindi Metals Pty Ltd	ASX	Marindi Metals Limited explores for and develops mineral properties in Australia. It primarily explores for manganese, zinc, lead, silver, and base metals. The company holds interest in the Newman Zinc Project located in Western Australia. It also owns interests in the



funding risks if the Transaction is approved. However, Heron will bear significant funding risk if the Transaction is not approved.

We note from our analysis that the betas of explorers and developers appear to have a lower average beta compared to producers who appear to have a higher average beta. We attribute this to the market's perception that producers have to ride through current weak commodity prices compared to explorers and developers who are not immediately exposed to current weak commodity prices and have more control over their levels of exploration and development activity.

Our assessment of the beta for the Woodlawn Project would lie somewhere between the betas of explorers and developers and the betas of producers. Having regard also to the weighted average beta (excluding the top three largest companies by market capitalisation in the table above since they will still be substantially larger than Heron Resources post-funding), we consider that an appropriate ungeared beta to apply to the Woodlawn Project is between 0.9 and 1.1 with a midpoint beta of 1.0.

**Pre-Transaction** - The proposed capital structure for the Woodlawn Project is assumed to be 100%, in accordance with the Adjusted Model. As such the re-gear beta is the same as the ungeared beta.

**Post-Transaction** - The proposed capital structure for the Woodlawn Project is assumed to be 32% debt and 68% equity, in accordance with the Adjusted Model. We have re-gear the project beta to 1.19 to 1.46 with a midpoint beta of 1.33.

#### Cost of Equity

##### Pre-Transaction:

As assessed above, we noted that Heron will bear significant funding risk if the Transaction is not approved. Therefore, we adjusted the beta for our Pre-Transaction Valuation to 1.20 to 1.40.

We have assessed the cost of equity to be in the range of 10% to 14% with a mid-point value of 12%.

Input	Value Adopted	
	Low	High
Risk free rate of return	2.36%	2.36%
Equity market risk premium	6.00%	8.00%
Beta (geared)	1.20	1.40
<b>Cost of Equity</b>	<b>9.56%</b>	<b>13.56%</b>

Source: Bloomberg, RBA and BDO analysis

##### Post-Transaction:

We have assessed the cost of equity to be in the range of 10% to 14% with a midpoint value of 12%.

Input	Value Adopted	
	Low	High
Risk free rate of return	2.36%	2.36%
Equity market risk premium	6.00%	8.00%
Beta (geared)	1.19	1.46
<b>Cost of Equity</b>	<b>9.53%</b>	<b>14.04%</b>

Source: Bloomberg, RBA and BDO analysis



## Appendix 4 – Independent Valuation Report

5 July 2017

Mr Sheriff Andrewes  
 Partner, Corporate Finance  
 National Practice Leader - Natural Resources  
 BDO Corporate Finance  
 38 Station Street  
 Subiaco  
 WA 6008

cc: Ms Evelyn Tan  
 Associate Director, Corporate Finance  
 BDO Corporate Finance (WA) Pty Ltd  
 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 set of proposed transactions that will require non-related party shareholder approval. Heron is a public company listed on the Australian Stock Exchange Limited ("ASX") and the Toronto Stock Exchange ("TSX"). Heron has recently completed a Feasibility Study 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").

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, and Rosevale 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 and Nyngan regions of NSW (Alchemy earning 51%) plus additional applications near Nyngan currently held 100% by Heron.

*Western Australia ("WA") Tenements*

- Bulong gold and nickel joint venture with Southern Gold Ltd in the Kalgoorlie region of WA – Heron 20%
- Gold royalty interest in the North Kalgoorlie nickel projects of Eastern Goldfields Ltd, Kalgoorlie region of WA
- Nickel interests in the Frances Lesley nickel project of Carnegie Gold Pty Ltd in the Kalgoorlie region of WA

Denver      New York      Toronto      London      Guadalajara      Santiago      Sydney

- Nickel interests in the Kalgoorlie gold project of Metaliko Resources Ltd, Kalgoorlie region of WA
- Free-carried 10% interest in the Metalicity Albany Fraser project in the Albany region of WA
- Nickel laterite interests in the Hampton nickel tenements of Pioneer Nickel in the Kalgoorlie region of WA
- Pre-emptive right to the nickel laterite in the Kalgoorlie Nickel tenements of Ramelius Resources Ltd, Kalbaldia region of WA
- Base metals and gold royalty interest in the St Ives project of St Ives Gold Mining Co Pty Ltd, Kalbaldia region of WA
- Gold Royalty interest in the Yarri project of China Mining Ltd in the Kalgoorlie region of WA
- Gold royalty interest in the KCGM Gidgi project of KCGM Ltd in the Kalgoorlie region of WA
- Nickel rights in the Kanowna Belle project of Northern Star Resources Ltd in the Kalgoorlie region of WA.

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. 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. 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 IORC Code") and in accordance with the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets ("VALMIN Code 2015").

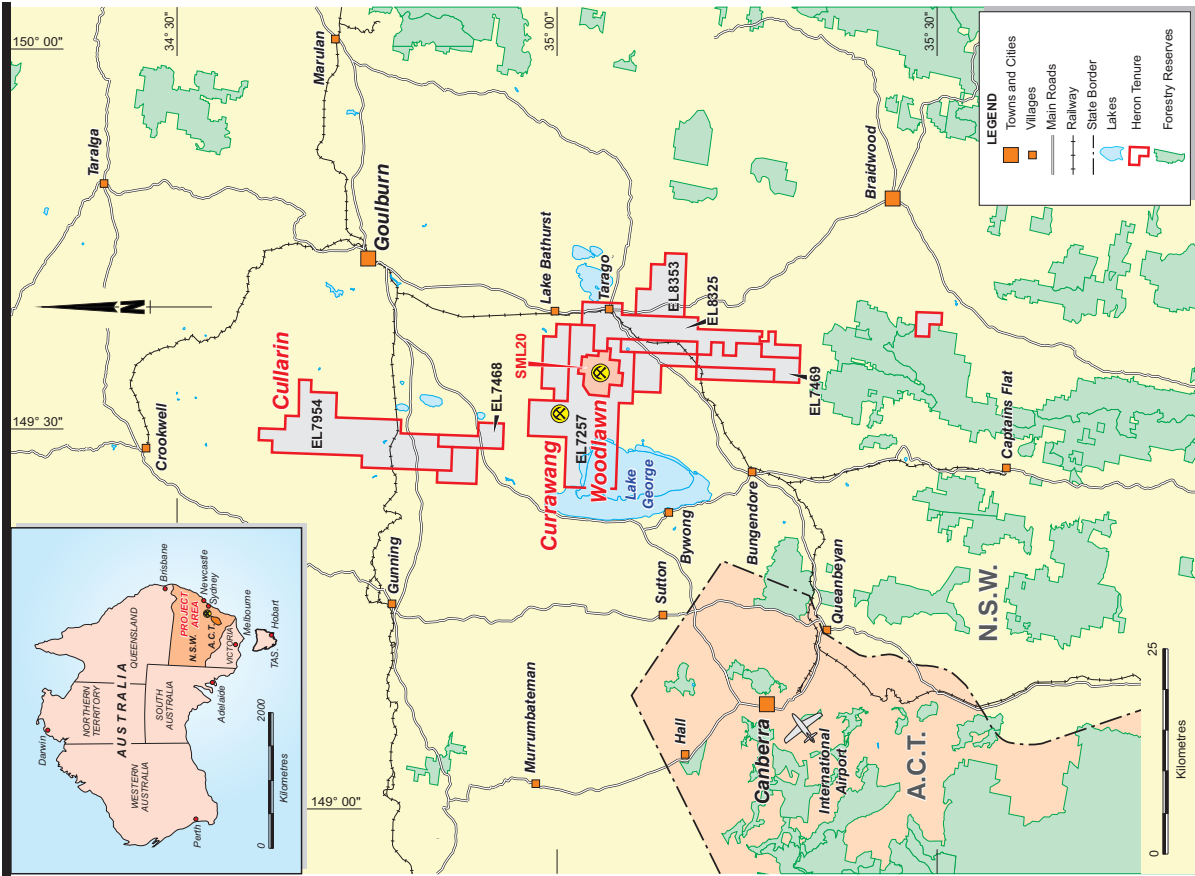
BDA confirms that it is independent of all parties in the proposed transactions and has no interest in the assets or parties involved. BDA understands that BDO Corporate Finance will rely on the BDA Technical Specialist Report and that BDA's report, or a summary thereof, will be appended to the BDO Corporate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

BDA has not undertaken an audit of the data or re-estimated the resources or reserves. BDA has not independently verified the current ownership status and legal standing of the material tenements of Heron that are the subject of this report; 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.

This report contains forecasts and projections based on data provided by Heron. BDA's assessment of the most likely production schedule, the projected capital and operating costs and the estimate of mine life are based on technical reviews of project data and discussions with technical personnel. 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 and the independent directors of Heron and their advisors 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. 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.

**BEHRE DOLBEAR**



Heron Resources Ltd

Woodlawn Project

Figure 1

PROJECT LOCATION PLAN

BDA - 0189-02-April 2017

Behre Dolbear Australia Pty Ltd



Heron Resources Ltd

Woodlawn Project

Figure 2

SITE LAYOUT

BDA - 0189-02-April 2017

Behre Dolbear Australia Pty Ltd



2.0 EXECUTIVE SUMMARY

2.1 Overview

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

NSW Mine Development Project

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

NSW Regional Tenements

- Woodlawn regional project comprising the Currawang, Cullarin, Cullarin South, Mulloon, Sandy Point, Boro, Kangiara, and Rosevale 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 and Nyngan regions of NSW (Alchemy earning 51%) plus additional tenement applications near Nyngan currently held 100% by Heron.

Western Australia ("WA") Tenements

- Bulong gold and nickel joint venture with Southern Gold Ltd in the Kalgoorlie region of WA – Heron 20%
- Gold royalty interest in the North Kalgoorlie nickel projects of Eastern Goldfields Ltd, Kalgoorlie region of WA
- Nickel interests in the Frances Lesley nickel project of Carnegie Gold Pty Ltd in the Kalgoorlie region of WA
- Nickel interests in the Kalgoorlie gold project of Metaliko Resources Ltd, Kalgoorlie region of WA
- Free-carried 10% interest in the Metalicity Albany Fraser project in the Albany region of WA
- Nickel laterite interests in the Hampton nickel tenements of Pioneer Nickel in the Kalgoorlie region of WA
- Pre-emptive right to the nickel laterite in the Kalgoorlie Nickel tenements of Ramelius Resources Ltd, Kalbada region of WA
- Base metals and gold royalty interest in the St Ives project of St Ives Gold Mining Co Pty Ltd, Kalbada region of WA
- Gold Royalty interest in the Yarli project of China Mining Ltd in the Kalgoorlie region of WA
- Gold royalty interest in the KCGM Gidgi project of KCGM Ltd in the Kalgoorlie region of WA
- Nickel rights in the Kanowna Belle project of Northern Star Resources Ltd in the Kalgoorlie region of WA.

The tenement locations are shown in Figure 3.

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

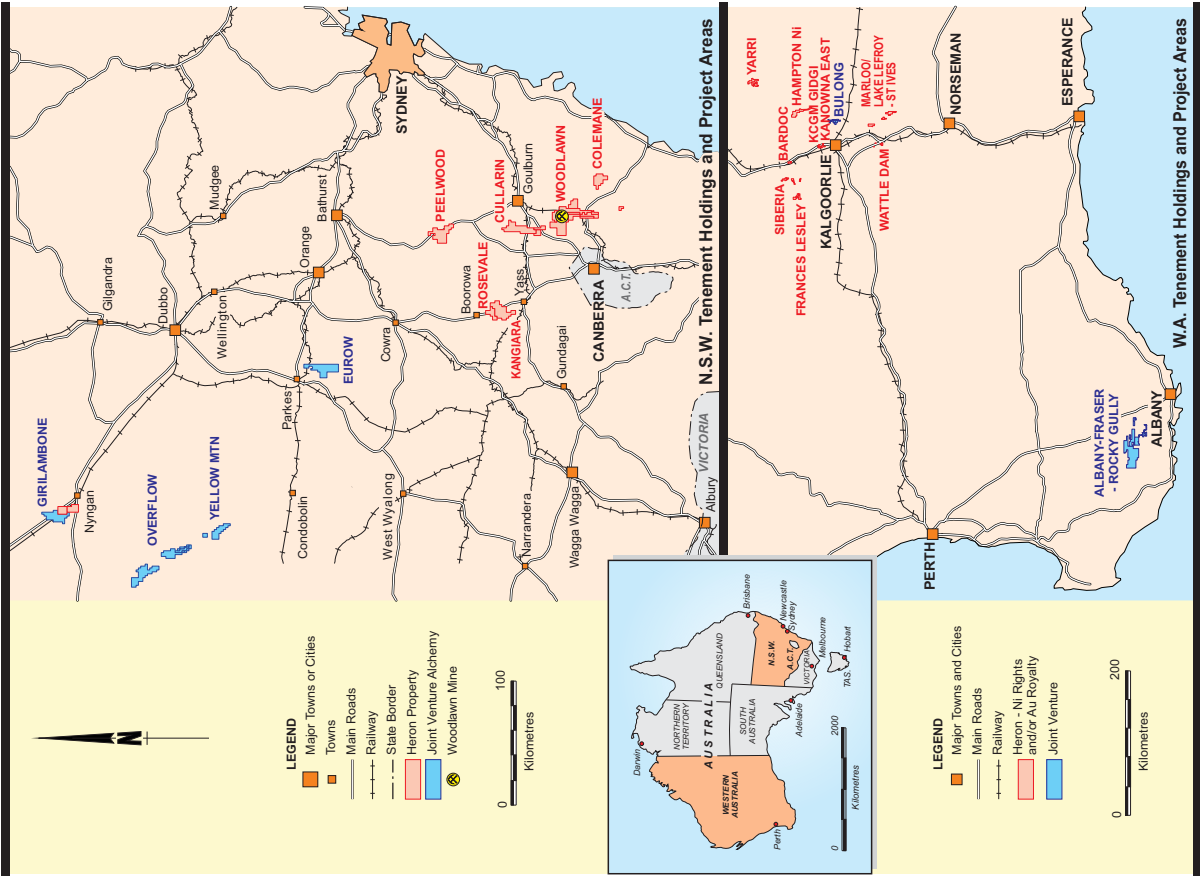
For the Woodlawn project, where capital and operating costs and production schedules are reasonably well defined through the preparation of a Feasibility Study ("FS"), BDA has reviewed the resources and reserves, the life of mine ("LOM") production schedule and capital and operating cost projections 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 has assessed a range of values to derive an appropriate valuation for the potential extensions to the project.

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.



Heron Resources Ltd

Figure 3  
BDA - 0189-102-April 2017

EXPLORATION TENEMENTS

Behre Dolbear Australia Pty Ltd



## 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; TRO changed its company name to TriAusMin Limited ("TriAusMin") in 2010. Internet Limited ("Internet") prepared a Preliminary Feasibility Study ("PFS") for TRO in 2007 and subsequently, later that year, completed a Bankable Feasibility Study ("BFS"), covering the mining and re-treatment of the tailings material. However, while these studies provided a useful guide, they have been largely superseded by the more recent work and additional drilling and testwork carried out by Heron.

Heron acquired its interest in the property in 2014 following a merger with TriAusMin, and has completed significant additional drilling, testwork and resource estimation. During 2015, SRK Consulting (Australia) 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. 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 are incorporated in this review.

Heron proposes 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 bio-reactor, treating containerised putrescible waste delivered to the nearby siding by rail from Sydney and from there to the site by truck. Heron is required to 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 is 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, and a maximum depth of 700m, the polymetallic resource is estimated at 4.6Mt at 9.3% Zn, 1.6% Cu, 3.5% Pb, 0.7g/t Au and 69g/t Ag; the resource is categorised as Measured, Indicated and Inferred. The copper resource is estimated at 2.0Mt averaging 2.8% Cu, 0.8% Zn, 0.2% Pb, 0.2g/t Au and 15g/t Ag; the underground Cu resource is categorised as Indicated and Inferred.

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 PEA plant feed estimate was based on 36% Measured, 35% Indicated and 29% Inferred resources. 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 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 43g/t Ag.

The current Heron mine plan for Woodlawn incorporates the defined underground and tailings reserves plus 1Mt of Inferred resource 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 and Nyngan regions of NSW where Alchemy is earning a 51% interest. Heron has made a tenement application adjacent to existing JV ground near Nyngan (this application is currently 100% held by Heron).

In Western Australia Heron has a portfolio of interests including gold royalties on projects in the Kalgoorlie region, nickel rights to various tenements in the Kalgoorlie and Kambalda regions, and minority interests in joint ventures in the Kalgoorlie and Albany regions of W.A.

## 2.4 Valuation

### Woodlawn Project

The Woodlawn project is well advanced with a completed feasibility study, 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.

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, joint venture terms, yardstick measures and any relevant comparable recent transactions to determine value.

BDA has valued the individual WA joint venture, royalty and residual rights interests but BDO has determined that the resulting value is not material; 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.

Table 2.1  
Valuation Summary of Heron's Mineral Assets

Property	Valuation (A\$M)			Comments
	Low	Most Likely	High	
<b>Woodlawn Mine Project – Defined Mine Plans</b>				
Underground and Tailings Operations	BDO	BDO	BDO	Proved/Probable reserves +1Mt Inferred – see BDO Report
<b>Woodlawn Mine Project – Potential Extensions</b>				
Underground Lenses and Extensions	8.0	16.0	24.0	Additional 1-3 years extension
<b>Woodlawn Mine Project – Satellite Deposits</b>				
Currawang and Cowley Hills	10.3	12.9	15.5	Potential 1 year additional feed
<b>NSW Regional Tenements/Interests</b>				
Woodlawn Regional	4,300	4,650	5,000	7 ELs north and south of Woodlawn
Alchemy Resources Joint Venture	1,800	3,000	3,600	6 ELs, Alchemy earning 51%
Lachlan Fold Belt EL Applications	0.000	0.009	0.018	Rosevale, Peelwood, Coleman
<i>Subtotal NSW Interests</i>	<i>6.1</i>	<i>7.7</i>	<i>8.6</i>	
<b>Western Australian Tenements/Interests</b>				
<i>Subtotal WA Interests</i>	<i>0.3</i>	<i>0.40</i>	<i>0.5</i>	
<b>Total Exploration Interests</b>	<b>24.7</b>	<b>37.0</b>	<b>48.6</b>	

**3.0 VALUATION METHODOLOGY****3.1 Effective Date**

The effective date for the valuation is 1 April 2017.

**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. BDA has reviewed the technical assumptions of the Woodlawn project model.

There is significant potential for extensions to several of the known underground lodges 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 satellite operations. For these, and more remote prospects, BDA has also 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. The ratios used commonly cover a substantial range which is generally attributed to the 'quality' of the ounces in question. Low cost ounces are clearly worth more than high cost ounces. 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 0.5-5.0, 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.

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- 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.

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**4.0 SOURCES OF INFORMATION**

BDA has undertaken a site visit to the Woodlawn Mine in NSW in August 2016. 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 are listed below:

**Heron - Public Information**

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

**Woodlawn Project Reports**

- TriAusMin Woodlawn Tailings Retreatment Project Feed Study - GR Services Engineering Ltd, March 2012
- Woodlawn Project Environmental Assessment, - TriAusMin & Parsons Brinckerhoff, April 2013
- Special (Crown & Private Land) Mining Lease No. 20 renewal letter - NSW Department of Trade and Investment (Resources & Energy), February 2015
- Technical Report (N143-101) Preliminary Economic Estimate of the Woodlawn Project - SRK, May 2015
- Project Approval - NSW Department of Planning and Infrastructure, July 2013
- Annual Environmental Management Report (AEMR) June 2014 to July 2015 - Heron Resources Ltd, 2015.
- Heron Resources Woodlawn Project WRP Front End Engineering and Design Report - GR Services Engineering Ltd, August 2015.
- Woodlawn Feasibility Study Update - Heron Resources Ltd, September 2015
- Woodlawn Hydraulic Mining - Fraser Alexander, October 2015
- Review of Woodlawn Slope Designs - SRK Consulting, October 2015
- Woodlawn Retreatment Project, 2015 Mineral Resources Technical Report (NI 43-101) - GeoRes, Nov 2015
- Tail Mining Cost Estimates, Woodlawn Hydraulic Mining - Fraser Alexander, December 2015
- Capital Cost Estimate Spreadsheet "20160610 Owners Costs V4.xlsx" - Heron Resources Ltd, June 2016
- Technical Report (N143-101) Feasibility Study for the Woodlawn Project New South Wales, Australia - Heron Resources Limited, July 2016
- Woodlawn Development Phase Study Project Schedule - GR Engineering Services, July 2016/2.7
- 20161016 HRR Model House Projects - NBL.xlsx, October 2016
- 2.2.7 20161101 HRR Model House Projects - PF.xlsx, November 2016
- Schedules Breakdown, Renmant Mining 161107 November 2016.XLSX
- A719-D01-10070-RT-0001\_H WIAI Capex Breakdown v2.xlsx, March 2017
- BDO Instruction letter-BDA, Heron Resources 22-03-17.pdf, March 2017
- 20.4.1.1 20170321 HRR Woodlawn Reserves + 1Mt Inferred Monthly.xlsm, March 2017
- 7.5.8 Underground Mine Schedule WUP\_3P\_Revision3\_170220.pdf, March 2017
- 7.5.10 Woodlawn\_Inventory Mining Cost Model\_Rev2\_170220 - Monthly CK Amended.xlsx
- Crosseut Woodlawn\_Inventory Mining Schedule\_Rev2\_29 Mar 17.xlsx
- Heron Tenement Summary For BDA Mar17.xlsx
- Crosseut Woodlawn Annual Inventory Mining Schedule\_Rev2\_170329.xlsx, March 2017
- 20.4.1.2 20170321 HRR Woodlawn 15 Year Case Quarterly.xlsx, March 2017
- 20.4.1.6 20170629 HRR Woodlawn Reserves + 1Mt Inferred Monthly.xlsm, June 2017
- 20.4.1.7 20170629 HRR Woodlawn 15 Year Case Quarterly.xlsm, June 2017

**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 IORC 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 re-processing 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 bodies. 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 anastomosing, sub-parallel shears.

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







The geology of the tailings deposits is relatively simple and uniform, comprising sub-horizontal layers of crushed ground and processed ore, spreading out from the various spigot points around the dam perimeters. The mineralogy of the tailings mirrors the original ore source, averaging around 3-4% sphalerite, 1-2% 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 K and L lenses and in demonstrating extensions to other known lenses. Significant thicknesses and grades have been intersected in the K 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 K with B, D and K together accounting for more than 80% of the mined tonnage.

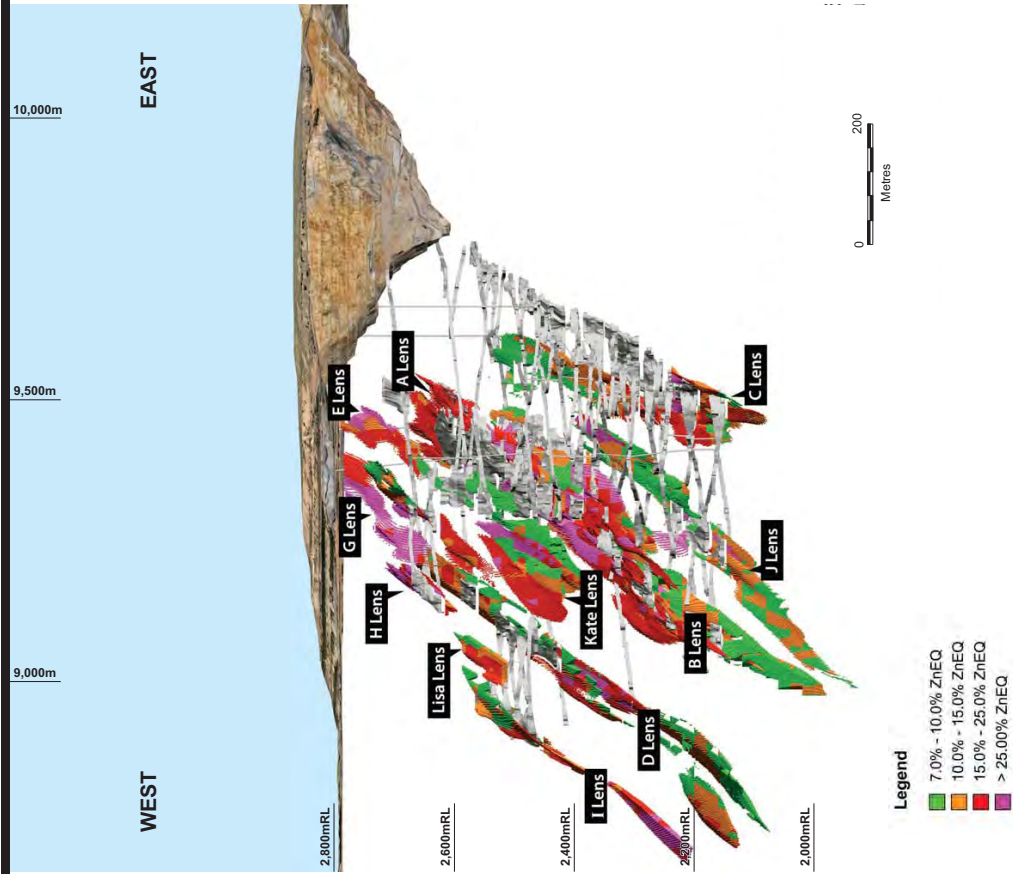
A number of lenses show potential for up-dip, shallow, reasonably high grade mineralisation and could provide additional locations for early underground production. Some of these areas cannot be effectively drilled from surface, and will await detailed drilling from the underground decline and development.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

Underground Drill Definition of Inferred Resources

Heron's mine plan is based on the 2.8Mt of underground reserves plus 1Mt of Inferred material, totalling 3.8Mt of a total 6.6Mt 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 planned development. While additional drill definition will be required from underground, 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:

- G2 – approximately 20,000t at a depth of 50-100m, approximately 30m from the decline; high grade mineralisation intersected by decline sterilisation drilling in March 2017
- G1/G3 – approximately 80,000t at a depth of 175-250m, directly below mined high grade G1 zinc-rich stopes
- A – approximately 35,000t at a depth of 150m at the top of A lens, above previously mined stopes with high grade sulphides mapped in the backs
- B – approximately 180,000t from 150m depth at the top of B lens and northern extensions adjacent to and above old workings; 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
- K – 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



Woodlawn Deposit  
Mineral Resource Block Model May 2016  
Measured, Indicated and Inferred Blocks  
with ZnEq Grades  
(Looking North)

- *L* – 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.

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

Drilling in 2016 confirmed significant high grade mineralisation close to the proposed route of the decline. A programme of diamond drilling has been planned to assess the potential for significant additions to the early production mine inventory and, if successful, to allow detailed stope and development design. Heron estimates potential for an additional 100,000t plus of ore grade mineralisation. Metallurgical testwork on G2 samples has shown good metal recoveries.

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.

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.

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 or a new lens system in this area and is a significant exploration target.

*Lisa Lens*

## V Lens

D Lens

D lens at depth comprises two lodes, D1 and D2. Both are open down dip.

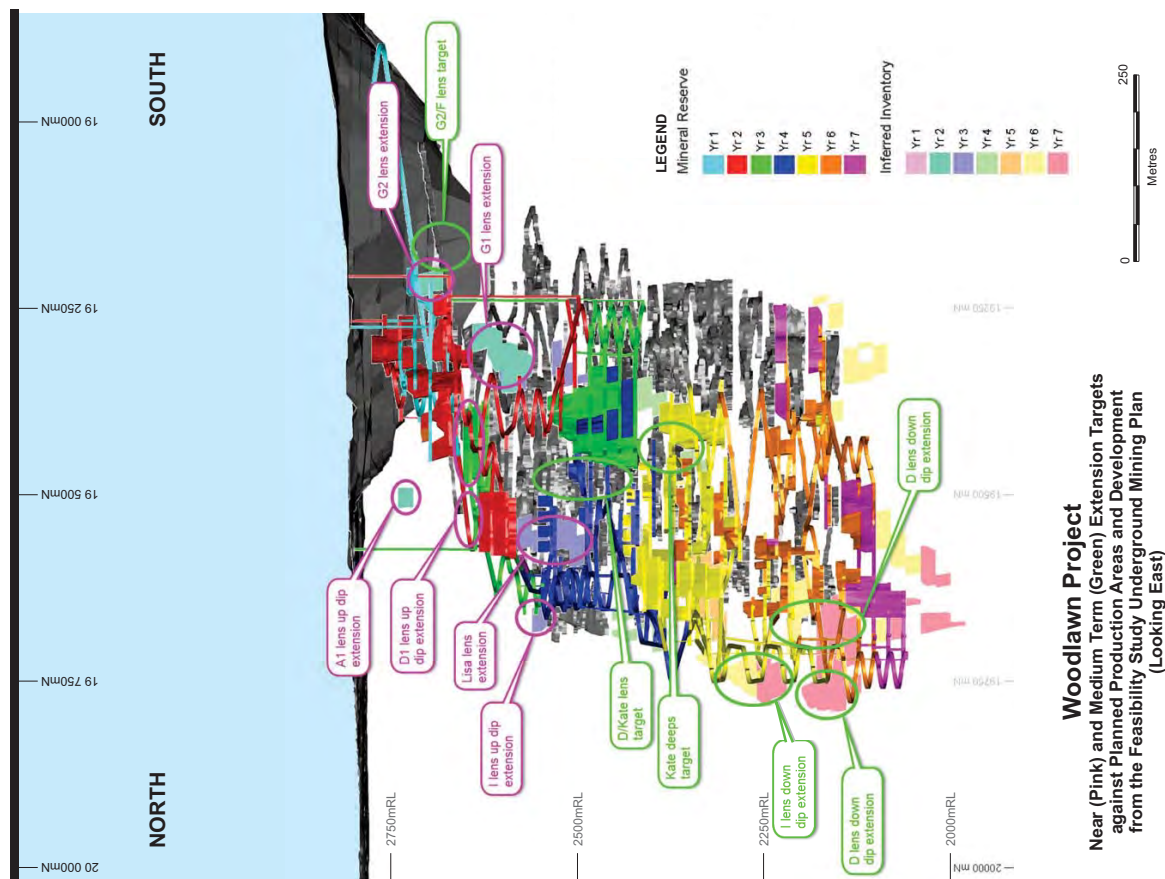


Figure 7

UNDERGROUND LENSES - EXTENSION TARGETS

Behre Dolbear Australia Pty Ltd

DDA - 0182/02-April 2017

*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 800-1200m.

*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 has been re-established and underground operations are underway.

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, slope 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 Region**

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 (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). Currawang provided approximately 0.5Mt of ore to the previous Woodlawn operation but there are no current resources or reserves defined at Currawang. Heron has examined the drill data, particularly the indication of down dip potential, and estimates that an additional 1Mt of mineralised material could be proved up at Currawang and mined and trucked to the Woodlawn plant.

The Cowley Hills deposit which also provided ore (35,000t) to the previous Woodlawn operation, is located within the SML (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 0.25Mt of feed for Woodlawn.

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 giving the Company access to approximately 770km<sup>2</sup> as a regional project exploration area. There is 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

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independent review of the resource estimates. The 2016 DFS underground resource estimate is shown in Table 5.1.

**Table 5.1**  
**Summary of Heron 2016 DFS Resource Estimate - Woodlawn Underground**

Category	Tonnes Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes)		
							Zn	Pb	Cu
<b>Polymetallic</b>									
Measured	0.4	13.3	4.4	1.3	0.2	72	53,200	17,600	5,200
Indicated	2.2	10.4	3.9	1.5	0.8	80	228,800	85,800	33,000
Inferred	2.0	7.3	2.9	1.5	0.8	56	146,000	58,000	30,000
<b>Total</b>	<b>4.6</b>	<b>9.3</b>	<b>3.5</b>	<b>1.6</b>	<b>0.7</b>	<b>69</b>	<b>428,000</b>	<b>161,400</b>	<b>68,200</b>
<b>Copper</b>									
Indicated	1.5	0.8	0.2	2.8	0.2	15	12,000	3,000	42,000
Inferred	0.5	0.8	0.2	2.8	0.1	14	4,000	1,000	14,000
<b>Total</b>	<b>2.0</b>	<b>0.8</b>	<b>0.2</b>	<b>2.8</b>	<b>0.2</b>	<b>15</b>	<b>16,000</b>	<b>4,000</b>	<b>56,000</b>

*Note: resource quoted at a 7% ZnEq cut off*

The resource is based on a 7% Zinc Equivalent ("ZnEq") 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 shown below:

$$\text{ZnEq} = \text{Zn}\% + \text{Cu}\% \times 3.12 + \text{Pb}\% \times 0.81 + \text{Au g/t} \times 0.03$$

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. 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. 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 Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes)		
							Zn	Pb	Cu
<b>Polymetallic</b>									
Probable	1.8	8.1	2.9	1.2	0.6	57	147,900	52,900	21,800
<b>Copper</b>									
Probable	1.0	0.6	0.1	2.4	0.2	14	5,900	1,200	23,400
<b>Total</b>	<b>2.8</b>	<b>5.5</b>	<b>1.9</b>	<b>1.6</b>	<b>0.5</b>	<b>43</b>	<b>153,800</b>	<b>54,100</b>	<b>45,200</b>

*Note: reserve quoted at a 7% ZnEq cut off*

In accordance with JORC conventions, the reserves estimates, as represented 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 2.2, as well as studies that included the full mining inventory, which comprises 3.8Mt and includes 1.0Mt of Inferred resources in addition to the reserves in Table 2.2. While it is anticipated that this Inferred material is likely to be upgraded to Measured and Indicated by infill drilling, prior to mining, Heron's Base Case Financial Model ("BCFM") 2.2.7 2016/101 HRR Model House Projects - PF.xlsm, November 2016, has dealt only with the reserves. BDA considers that approach appropriate as a reserve-only plan, and reasonably conservative, with potential for additional underground mining in the future.

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 2.4), and in accordance with the requirements of the JORC Code, reasonable allowances have been made for mining factors, including recovery and dilution. Overall BDA considers the tailings resource and reserve estimates provide a reasonable guide to the in situ and recoverable mineralisation respectively.

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**Table 5.3**  
**Summary of Heron 2016 DFS Resource Estimate - Woodlawn Tailings**

Category	Tonnes Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes) Zn Pb Cu
<b>South Dam</b>							
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
<b>Total</b>	<b>4.2</b>	<b>2.4</b>	<b>1.2</b>	<b>0.5</b>	<b>0.3</b>	<b>26</b>	<b>102,300 51,200 19,700</b>
<b>West Dam</b>							
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
<b>Total</b>	<b>3.8</b>	<b>2.0</b>	<b>1.4</b>	<b>0.6</b>	<b>0.4</b>	<b>35</b>	<b>75,200 54,200 23,600</b>
<b>North Dam</b>							
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
<b>Total</b>	<b>0.8</b>	<b>3.1</b>	<b>1.7</b>	<b>0.5</b>	<b>0.3</b>	<b>45</b>	<b>26,000 14,200 3,900</b>
<b>North Dam Retreated</b>							
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
<b>Total</b>	<b>2.1</b>	<b>2.1</b>	<b>1.2</b>	<b>0.4</b>	<b>0.3</b>	<b>30</b>	<b>43,600 24,400 8,300</b>
<b>Total</b>	<b>10.9</b>	<b>2.3</b>	<b>1.3</b>	<b>0.5</b>	<b>0.3</b>	<b>31</b>	<b>247,100 144,000 55,500</b>

**Table 5.4**  
**Summary of Heron 2016 DFS Reserve - Woodlawn Tailings**

Category	Tonnes Mt	% Zn	% Pb	Grade % Cu	g/t Au	g/t Ag	Contained Metal (tonnes) Zn Pb Cu
<b>All Dams</b>							
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
<b>Total</b>	<b>9.5</b>	<b>2.2</b>	<b>1.3</b>	<b>0.5</b>	<b>0.31</b>	<b>31</b>	<b>208,000 124,800 48,000</b>

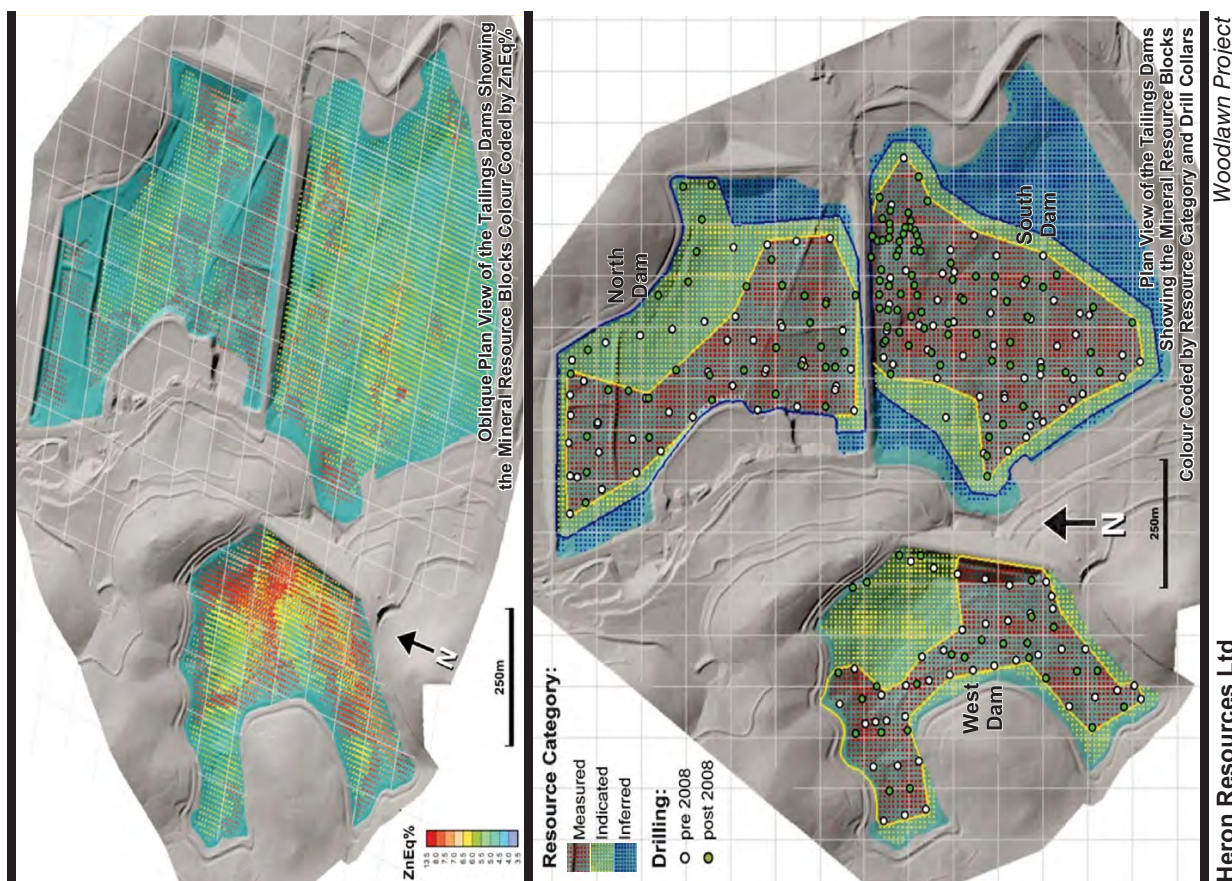
## 5.6 Mining/Extraction

The current WUP plan involves the re-establishment of the mine via a box cut adjacent to the western wall of the former open pit (Figure 2). Much of the initial decline development will be new, generally located to the west of the previous decline to provide access to the new mining areas. Under the revised plans and schedules prepared by Crosscut, access will include significant sections of the existing decline where it is located in waste, with provision for rehabilitation and increased ground control. Once access to the underground workings is available, the mine plan includes the initial installation of secondary plugs in the upper sections of the existing decline to supplement the existing measures and provide stronger and more robustly engineered barriers from the Veolia bio reactor operations in the open pit and, subject to more detailed assessment, the establishment of acceptable safety factors against potential failure. Heron has indicated that it is in the process of commencing dewatering the mine, but access to the underground workings is not currently available to allow assessment of the status of the existing decline and ground conditions. It is considered that there are some risks associated with the existing plugs; these will be addressed through the installation of the new plugs, with provisions to mitigate the identified risks through gas monitoring and detailed engineering.

For the WRP, the mining of the tailings from the dams should be relatively straightforward. It is proposed to use 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 success of the previous dredging operation, BDA considers the proposed approach 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-I). Depending on ground conditions, Heron proposes to pursue remnant mining in areas where economic mineralisation remains around old stopping areas. However, the majority of mining operations in the early years in the WUP will be from previously unmined areas and newly defined mineralisation (particularly in K lens), accessed from the new decline. However, as the mine is developed and slope definition and in-fill drilling is completed, it is anticipated that some areas currently in the Inferred category will be mined.

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**Figure 8**  
**TAILINGS DAMS - MINERAL RESOURCE BLOCKS**  
BDA - 0189-102-April 2017  
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With regard to the WUP, Crosscut has recently updated the mining plans and schedules, incorporating all new stopes, development in ore and remnant mining. Crosscut has developed two underground mining schedules, one that mines only Probable reserves over approximately six years and one that mines both reserves and a portion of the Inferred resources. 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 comparable to those forecast in the FS, but over an additional year compared with the FS, for a total underground mining life of approximately seven years. Whereas previous estimates separated the reserves into polymetallic (predominantly zinc) and copper reserves, the more recent Crosscut schedules consider all ore as polymetallic, supported by metallurgical testwork results. The schedules have split the reserves into the sources of the ore, being New Areas, Development and Remnant Areas. As a result of some minor modifications to some stope designs, the revised schedules on reserves show a slight reduction in tonnes mined (2.7Mt compared with 2.8Mt reserve) and a slight increase in grades, to 5.8% Zn, 2.0% Pb, 1.7% Cu, 0.4g/t Au and 41g/t Ag. These changes have been incorporated in the financial model and are considered reasonable estimates, within 5% of previous reserve and mine plan estimates.

BDA has reviewed the geotechnical data, but there remain some uncertainties in terms of what will be encountered on re-entry. However, from the information provided by Heron, and reference to numerous reports from Beck Engineering, Barrett Fuller, Coffey Mining, SRK and Crosscut, it appears the ground conditions in the planned new stopping 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; 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 hanging wall support, should result in improved mining conditions compared with the historical areas.

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.

Mining in and around the old workings (referred to as remnant areas) generates around 0.7Mt, or 25% of the ore from underground over the life-of-mine ("LOM"), with mining in new areas contributing 59% (1.6Mt) and development 16% (0.4Mt) respectively. Heron proposes that old stopping areas that are open will be paste-filled to provide support and more stable conditions, particularly around the crown pillar areas, and provision for this is included in the mine plan. Of the remnant ore in the LOM plan, the tonnage estimates generally exclude the extraction of the crown, floor and rib pillars around the former stopping areas.

The mining methods include underhand longitudinal and transverse open stopping, 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 stopping methods generally appropriate for the anticipated conditions in both new areas and remnant mining, but recommends that both the methods and the costs 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 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 remnant mining represents only around 25% of the underground ore in the mine plan (or 6% of all plant feed); 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. Crosscut has developed an underground mining schedule to address some former issues and 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.

Table 5.5

Woodlawn Mine Summary LOM Production Schedule – Reserves + Inferred (Inventory)

Item	Units	Production Year										Total
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
WUP Ore Mined	Mt	0.361	0.483	0.668	0.617	0.676	0.746	0.152	-	-	-	3.702
Ore Grade – ZnEq	%	12.21	17.60	15.1	14.3	11.4	12.4	10.8	-	-	-	13.4
WRP Tails Mined	Mt	0.825	0.776	0.498	0.575	0.486	0.381	1.238	1.500	1.500	1.500	10.075
Ore Grade – ZnEq	%	5.7	5.8	5.6	5.7	6.1	6.2	6.2	6.4	6.1	5.7	6.0
Total Mined	Mt	1.19	1.26	1.17	1.19	1.16	1.13	1.41	1.50	1.50	1.50	13.777
Ore Grade – ZnEq	%	7.6	9.7	11.0	10.2	9.2	10.3	6.7	6.4	6.1	5.7	8.0

Note: Year 2018 production is based solely on 0.18Mt tailings retreatment at 5.4% ZnEq; tailings retreatment will continue in parallel thereafter with the underground production.

It will be noted that the production levels from underground in the revised schedule progressively increase, building up steadily to a peak of 746,000t in Year 6, then reducing in the final year. The LOM average over approximately eight years of underground operations (2018 to 2025) is 463,000 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 stopping 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 operation from 1978 to 1998; subsequent data includes metallurgical testwork conducted in 2006/07, 2012 and 2014/15 and more recent, testwork which was conducted during the first six months of 2016.

The plan is to treat the tailings and underground materials separately in campaigns through the same plant. The previous concept (included in the PEAs) was to blend WUP and WRP materials as feed to the concentrator. This concept was refined in the DFS in favour of campaigning the ore feeds. Significant testwork was conducted on various blends of feed materials, leading ultimately to the decision to campaign the ore. The primary difference between historic tails retreatment and that now proposed 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). It is proposed that the processing plant will treat the tailings to produce separate zinc, copper and lead flotation concentrates. The previous Denehurst re-treatment operation produced only a low quality zinc concentrate from the TDN material, but this was without any additional fine grinding as planned by Heron.

WRP testwork indicated that retreatment of the tailings material could produce good zinc concentrate grades, and saleable, but not high grade, lead and copper concentrates. In all cases, the lead concentrates are of a low Pb content but do carry reasonably high silver values. The lead concentrates produced are of relatively low grade, however Heron has provided BDA with a number of concentrate off-take Expressions of Interest ("EOIs"), and these all accept a minimum lead content of 35% Pb in the concentrate.

The performance of the TDS material is important for the early phase of the operation, in that it will comprise almost 55% of the plant feed for the first five years of operation; the remaining feed material in that period will be underground polymetallic ore. The 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 recent WRP testwork programme incorporated several process improvements that enhance the recoveries and concentrate grades of all three metals. Some of these improvements include:

- grinding the WRP material using an IsaMill
- closed circuit cleaning of the pre-float detritor mills for rougher concentrates prior to cleaning and re-cleaning
- regrounding using inert media detritor mills for rougher concentrates prior to cleaning and re-cleaning
- regrounding copper circuit tailings prior to lead and zinc flotation
- introduction of a zinc cleaner tailings re-treatment circuit.

There has been a reasonable amount of testwork conducted on samples from TDS over the past year. This testwork incorporated the new concepts of fine primary grind and concentrate regrind and the results were encouraging.

Heron conducted three testwork programmes on a single composite sample from a portion of TDS. However, during the first half of 2016, as part of programme P0571, locked cycle and bench-scale testwork was also conducted on new material from TDS taken in April 2016. Previous work conducted in 2011 (P0348) tested a TDS composite sample which was of a similar head grade to those reported in the 2006 drilling campaign and can be considered reasonably representative of the TDS deposit. The two 2016 TDS locked cycle samples reported reasonably close concentrate grades and recoveries for the three main metals, Zn, Cu and Pb.

In February 2016 Heron conducted bench-scale testwork on TDW and TDN samples. The tests to date 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 program. 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 should 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.

TDW lead concentrates are also likely to be at the lower end of the specification range, taking into consideration recent testwork results. Nevertheless, by blending the underground concentrates with the tailings retreatment concentrates, an acceptable concentrate should be achievable. Heron advises that further testwork is planned on TDW samples to confirm that acceptable lead concentrates can be produced. In October 2016 Heron conducted a single seven-stage locked cycle test on a TDW sample. The results indicated that the products and recoveries would be similar to those obtained with the locked-cycle tests for the TDS samples.

In the financial model, Heron has assumed that the material from TDW and TDN will respond similarly to material from TDS, but at lower recoveries. BDA accepts that the flowsheet developed for TDS and the underground material is sufficiently robust to treat the material from the other two dams. The latest locked-cycle test for TDW indicated that, compared to the TDS material, the copper concentrates were identical 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 well down 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 has conducted numerous bench-scale and locked cycle tests completed on K lens material. BDA agrees that the concentrates from the K lens will be acceptable marketable products.

Several bench-scale tests have been conducted on both fresh and transitional material from E and G lens samples and three tests were conducted on H lens fresh material. The head grades and metallurgical responses of scouting tests on these different samples showed some variation in performance. 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 such ore. However, the copper and zinc concentrates are all quite good, albeit with varying recoveries.

In October 2016, Heron conducted a single locked-cycle test on what has been termed as an "Early Production Composite". This composite is reported to be a blend of G, H and D lens material in a ratio proportional to the amount to be mined over the first 18 months of operation. The concentrates produced by this test were excellent for all three metals, with acceptable grades and high recoveries. BDA suggests that, as part of ongoing activities to improve confidence in forecasts, Heron should conduct additional locked-cycle tests on other likely ore blends from the underground operation.

Heron tested three samples of copper-only material. These were single bench-scale tests and the copper cleaner concentrates performed well in terms of grade and recovery. The three tests reported different copper grades to

concentrates, indicating varying mineralogy, which is supported by the fact that two of the tests did not produce a zinc concentrate, while the third test yielded a good zinc concentrate. Some of these results, when used in the financial model, demonstrated a similar economic result to treatment as polymetallic ore; however, given the lack of locked cycle testwork on the copper ores, final economic modelling was undertaken using polymetallic recoveries (which significantly understate copper performance for the massive copper ore).

Heron has not conducted any further copper-only tests; BDA considers that locked cycle tests on the copper ores would provide more reliable metallurgical performance projections for use in the financial modelling and suggests that it is likely that the locked-cycle testwork would confirm better metallurgical performance. Given that the Heron mining schedule does not produce significant amounts of copper ore until around the fourth year of the underground operations, BDA expects that additional tests will be conducted in the interim. The campaigning of copper-only material through the treatment circuit as well as updated testwork on the polymetallic underground material has improved the forecast quality of some of the concentrates.

All the 2015 and 2016 tests were conducted by Australian Minmet Metallurgical Laboratories Pty Ltd (AMML) and reported in April and May 2016.

#### Process Schedule

BDA has reviewed the Heron production plan, which shows treatment of underground ore and tailings materials in campaigns for a period of eleven years from 2019 to 2029, producing Cu, Pb and Zn concentrates. The LOM plan indicates treatment of tailings only for the last four years of operation, but this could change with further exploration success and definition of additional underground ore. The lead and copper concentrates produced from the treatment of tailings from TDN in these latter years are relatively low grade, however, recent marketing EOI's provided by Heron have indicated that a Pb concentrate with a grade as low as 35% Pb will be saleable.

In the first year of operation, Heron is scheduling to process largely TDS material, with underground ore contributing around 20% of mill feed tonnage. Thereafter underground polymetallic ore production ramps up to provide around 55% of mill feed.

Heron proposes to process the tailings and ore from underground through separate comminution circuits and in separate processing campaigns (Figure 9). The previous concept was to blend the ground pulps to feed a single flotation circuit to realise capital and operating cost savings. From the testwork reviewed, BDA considers the campaign approach to be appropriate. As discussed, the metallurgical characteristics of each material are based on limited specific testwork and, as such, the financial performance year-by-year could vary. The DFS includes additional testwork results including locked cycle testwork; while BDA accepts that there has been sufficient testwork to support the DFS and the financial modelling, additional testwork would be beneficial to improve confidence in specific concentrate grades and metal recoveries.

The DFS production schedule is generally 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 presented in the updated BCFM to be reasonable. Experience with other base metals operations shows ramp up to full production performance (including realisation of steady-state operating costs) could take 12-18 months.

#### 5.8 Infrastructure

The main infrastructure items of power and water supply, telecommunications and roads are readily available, were established for the previous operation and are being used by Veolia at site.

Infrastructure provisions for the new project development appear generally adequate and appropriate for the scale of the proposed operation. Provision for integrating existing site roads, buildings, water supplies, telecommunications and site infrastructure with planned new items of infrastructure appear reasonable and appropriate.

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\$3.577 million (“M”) that will need to be provided prior to operations commencing. The Mining Lease has recently been renewed for a period of 15 years with an expiry date of 16 November 2029.

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 to the approval includes changes to the location of the underground portal and paste plant and proximity (within 200m) to the open pit.

The approval allows mining operations at the Woodlawn site until 31 December 2034.

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 off-site 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 conceptual 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.

These existing TSFs are subject to periodic independent inspection. The latest independent inspection was by URS conducted in May 2015. All three dams are assessed to be High C consequence category as per NSW Dam Safety Committee DSC3F (rev 2012).

Coffey is the engineering design firm for the new proposed Tailings Storage Facility No.4 (TSF4). A draft TSF4 design report has been completed by Coffey (December 2015). The TSF design is in accordance with ANCOLD guidelines (2012) and NSW Dams Safety Committee (DSC) DSC3A.

The proposed new TSF4 facility will be located between the processing plant and the northern wall of TDN forming the south wall of TSF4. This will be 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.

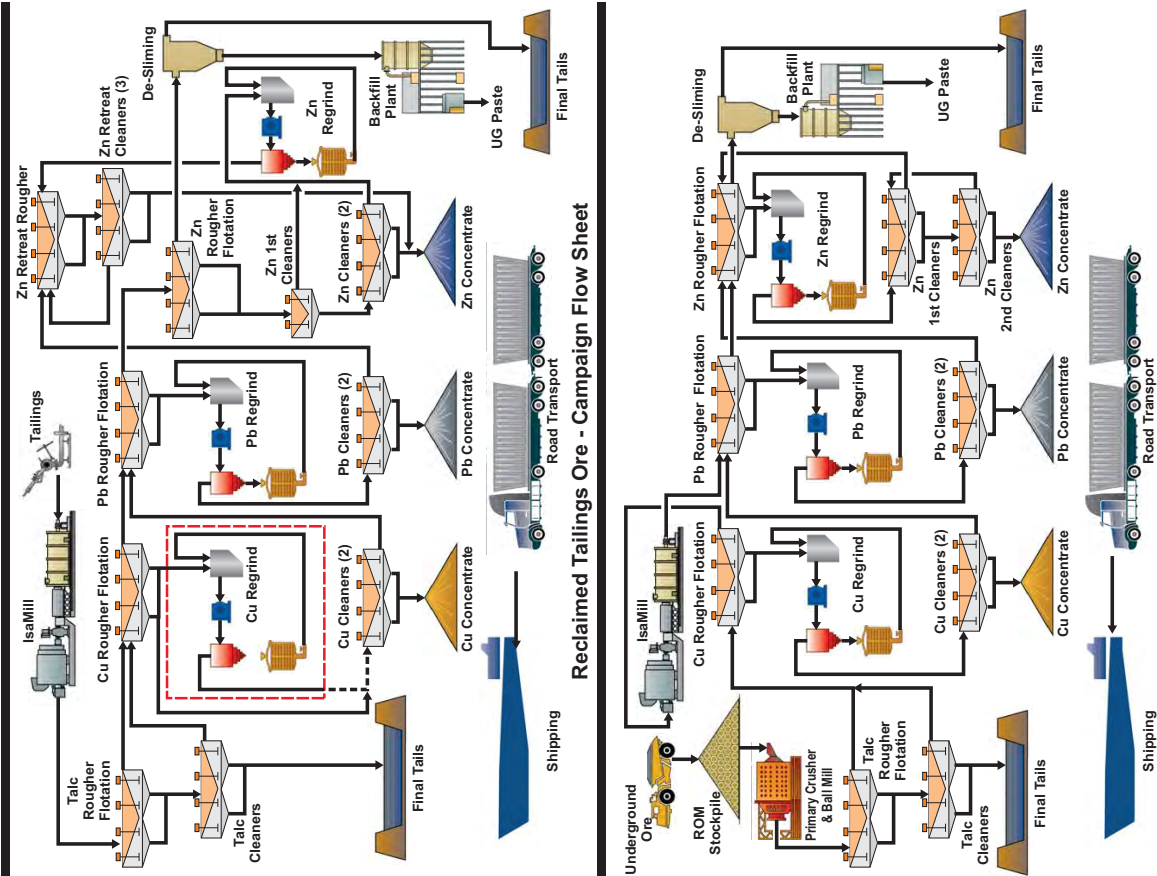


Figure 9  
BDA - 0189-102-April 2017

Woodlawn Project  
Heron Resources Ltd

PROCESS PLANT FLOW SHEETS  
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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 at least the Starter Case mine life. Following completion of re-processing of TDW and TDN tailings, further storage capacity will be available if required.

## 5.12 Capital Costs

The total life of mine capital estimate as updated by Heron in March 2017 is A\$280.2M, comprising A\$155.5M pre-commissioning capital, A\$23.0M post-commissioning capital and A\$101.6M post-production capital. Post-commissioning capital is defined by Heron as the capital required for the mine to achieve a break-even cash position. BDA has reviewed the capital cost inputs to the financial model and has advised BDO as to the amounts considered appropriate for the analysis. The updated capital cost estimate is summarised in Table 5.6.

Table 5.6

### Capital Cost Summary

Item	Estimate A\$M
<b>Pre-Commissioning</b>	
Underground Development and Rehabilitation	5.0
Resource Upgrade Drilling	0.6
Mining Services	7.5
Paste Plant	6.9
Treatment Plant and Services	87.9
Earthworks and Roads	8.0
Construction and Engineering	11.8
Tailings Storage (TSF4)	4.5
Commissioning, First Fills, Other	3.3
Owners Costs and Pre-Operating Costs	8.4
Additional Contingency	11.5
<b>Subtotal</b>	<b>155.5</b>
<b>Post-Commissioning</b>	
Underground Development and Rehabilitation	14.0
Resource Upgrade Drilling	0.7
Mining Services	5.1
TSF4 First Lift	1.7
Additional Contingency	1.5
Working Capital	-
<b>Subtotal</b>	<b>23.0</b>
<b>Post Production</b>	
Underground Development and Rehabilitation	85.5
Resource Upgrade Drilling	4.3
Mining Services	3.5
Additional Contingency	8.4
<b>Subtotal</b>	<b>101.6</b>
<b>Total</b>	<b>280.2</b>

BDA has recast the estimate summary for the pre-production period, i.e. the pre-commissioning and post-commissioning items in Table 5.6, into a more conventional format for ease of analysis, separated out direct costs, indirect costs and contingency and excluded working capital. The recast estimate is set out in Table 5.7.

Heron has assembled the estimate summaries from estimates of mining capital prepared by SRK, a proposal for the engineering, procurement and construction ("EPC") of the treatment plant and services from its preferred EPC contractor, estimates of tailings storage facility (TSF) costs prepared by Coffey and Heron and estimates of owner's costs prepared by Heron. BDA considers that the methodology and the data used in preparing the estimates of direct costs are generally reasonable and appropriate for a feasibility study although the estimate for the TSF is based on the lowest budget quote and for that reason may be an underestimate.

The engineering, procurement and construction management ("EPCM") costs for the treatment plant and services facilities at around 12% of direct and indirect costs are considered low; in BDA's experience, a typical percentage for projects such as Woodlawn is between 15% and 20%. However, BDA notes that the demand for such services has reduced in recent times with attendant reductions in contractor margins and that the preferred offer to enter into an EPC Contract referred to in the Implementation sections below includes the provision of

EPCM services. If an EPC contract is let on the basis of a guaranteed maximum sum, the risk of overrun in the cost of providing EPCM services will rest with the contractor.

The total contingency allowance included in the updated estimate for pre-production capital is A\$11.9M, which equates to around 8.3% of the estimated cost before contingency. The industry standard for contingency for a feasibility study is between 10% and 15%. As noted below, the firming up of the EPC contract price for the ore treatment plant and services means that a somewhat lower contingency allowance is warranted.

Table 5.7

### Capital Cost Summary: BDA Format

Item	Estimate A\$M
<b>Pre-Production Capital</b>	
Mining	13.2
Treatment Plant and Services	
<i>Direct Costs</i>	
Earthworks and Roads	7.9
Process Facilities	70.0
Infrastructure and Services	21.4
<i>Subtotal Direct Costs</i>	<i>99.3</i>
<i>Indirect Costs</i>	
EPCM Costs	12.8
Commissioning/First Fills/Spares	4.4
Freight	2.8
<i>Subtotal Indirect Costs</i>	<i>20.0</i>
Treatment Plant and Services Subtotal	119.3
Tailings Storage Facility	4.5
TSF Facility	
Tailings Storage Facility Subtotal	4.5
Owners Costs and Pre-Operating Costs	8.4
Contingency	
Treatment Plant and Services Contingency	10.8
Underground Mine Contingency	1.1
Contingency Subtotal	11.9
<i>Pre-Production Total</i>	<i>157.3</i>
<b>Deferred and Sustaining Capital</b>	
On-going Underground Mine Capital	113.1
Underground Mine Capital Contingency	9.9
<i>Deferred and Sustaining Capital Total</i>	<i>123.0</i>
<b>Total Life of Mine Capital</b>	<b>280.2</b>

BDA notes that if an EPC contract for the treatment plant and services facilities is let as proposed, then A\$6.0M of contingency will effectively be allocated to the contractor. An additional contingency of around 5% of the EPC Contract sum has been included in the estimate of costs for the treatment plant and services facilities for items which are likely to have been omitted from the EPC Contract scope. The estimate of mining costs is based on preliminary designs and limited geotechnical information. For that reason, a contingency of around 8.3% of the estimated mine development costs has been included in the estimate of mining costs. In BDA's opinion, these contingency allowances are reasonable and appropriate.

The estimated life of mine sustaining and deferred costs shown in the project financial model is A\$122.9M as summarised in Table 5.8.

Table 5.8

### Summary of Estimated Sustaining and Deferred Capital

Item	2018 A\$M	2019 A\$M	2020 A\$M	2021 A\$M	2022 A\$M	2023 A\$M	2024+ A\$M	Total A\$M
Mining Capital	3.1	30.9	26.8	18.7	15.3	15.5	2.7	113.0
Mining Capital Contingency	0.3	2.4	2.5	1.7	1.4	1.4	0.1	9.9
<b>Total</b>	<b>3.4</b>	<b>33.3</b>	<b>29.3</b>	<b>20.4</b>	<b>16.7</b>	<b>16.9</b>	<b>2.8</b>	<b>122.9</b>

The estimates of deferred capital for mining have been prepared by SRK using similar methodology and data as for the estimate of initial costs. In BDA's opinion, these estimates are reasonable; BDA notes that a contingency allowance of 8.6% has been included in the estimate of development mining costs, however, some additional sustaining capital may be required.



### 5.13 Operating Costs

The WUP mine operating costs have been estimated from first principles, taking into consideration the proposed mining method and projected productivities and budget quotes from five mining contractors; the estimates appear generally consistent with experience in similar operations elsewhere in Australia and have used unit rates from the mid-range contract estimate submitted by Pybar Mining as the underground mining cost basis. BDA has reviewed the capital costs inputs to the financial model and has advised BDO as to the amounts considered appropriate for the analysis. Table 5.9 provides a summary of the estimates.

Table 5.9

WUP Mine Operating Costs

Item	Units	2019	2020	2021	2022	2023	2024	2025	Total
Underground Ore Tonnes	Mt	0.36	0.48	0.67	0.62	0.68	0.75	0.15	3.70
Total Mine Operating Costs	ASM	22.2	33.1	34.7	34.2	33.4	33.9	8.4	199.8
Unit Mine Operating Costs	AS/t ore	61.4	68.5	51.9	55.4	49.5	45.5	55.3	54.0

BDA considers that SRK/Heron/Crosscut should revisit these costs when slope definition drilling from underground and additional information from more detailed planning becomes available. BDA currently considers the underground mine operating cost estimates reasonable, within  $\pm 15\%$ .

For the WRP material reclamation, Heron intends to operate the hydraulic mining system using its own employees from the processing plant. Based on contractor budget quotes, Heron has estimated the operating costs over the project life, delivered to the thickener at the plant. Ramp-up is estimated to take 18 months to achieve "steady state" operations, at average operating costs of \$1.79/t over the project. BDA considers the reclamation estimates reasonable within  $\pm 15\%$ , including Owner's costs additional to the contractors' estimates.

Process operating cost estimates for the DFS report were determined using established methodologies. The processing plant estimated operating costs for treating the tailings material at the rate of 1.5Mt/pa are AS\$17.55/t treated, with the treatment of underground material estimated to cost AS\$22.19/t treated. BDA considers the cost estimates to be reasonable, with the underground costs reflecting the higher cost of crushing and grinding the primary ore. The DFS report states that operating cost estimate accuracy is  $\pm 10\%$ , however, BDA considers that the estimates are more likely to be accurate to  $\pm 15\%$ . The costs exclude concentrate transport and concentrate treatment charges which have been separately estimated by the Company.

Overall operating cost estimates are considered reasonable at this stage of assessment with an overall accuracy of around  $\pm 15\%$ . Underground mining is projected to be the major cost item and BDA considers that, with the anticipated ground conditions, it is unlikely that these costs will be materially less than currently estimated.

### 5.14 Implementation

The capital cost estimate is based on the process plant and services facilities being constructed under an engineering, procurement and construction ("EPC") contract to be administered and supervised by a Heron project team. As noted under capital costs above, Heron has subsequently advised that it intends to enter into such an EPC contract with Sedgman Pty Ltd ("Sedgman"), a division of international construction group CIMIC Ltd. The Owner's cost estimate indicates that the Heron project team is to comprise a project manager, two construction supervisors and two administration personnel. In BDA's opinion, the project team may need to be bolstered to successfully deliver the project.

The underground mine development is proposed to be carried out under a mining contract to be let and administered by Heron management. There are currently no details of the proposed contract conditions.

Subject to satisfactory contracts being let to suitable contractors, BDA considers such a contracting strategy is reasonable and appropriate. However, BDA considers that Heron should consider bolstering the proposed Owner's project team by including additional technical expertise in the mining and processing areas and additional project personnel to manage the EPC Contract to ensure that the mining and process plant contractors meet their design and construction obligations.

The timetable set out in the current EPC project schedule for the treatment plant and services facilities included in the DFS Report shows the treatment plant being complete and commissioned in around 80 weeks from the award of the EPC Contract. The EPC Contractor has commenced front end engineering and design ("FEED") activities and subject to financing and approvals being in place the construction period is scheduled to commence in mid-2017. The current schedule reflected in the BCFM shows commissioning of the treatment plant with ore in mid-2019. In BDA's opinion, the total duration of the construction phase reflected in the BCFM is achievable. However, the start date for the site activities is conditional on Heron obtaining the

BEHRE DOLBEAR

necessary financing and statutory approvals and making a final commitment to go-ahead with the project in May 2017.

The mining development schedule is based on Heron managing the tailings reclamation operation such that reclaimed tailings can be fed to the treatment plant in 2019. Underground mining rehabilitation and further development is planned to commence in 2018 with underground stone production commencing in 2019. The underground mining development schedule is considered by BDA to be achievable subject to the ground conditions being reasonably manageable. However, it should be recognised that there is a risk of unfavourable ground conditions being encountered with consequent delays in bringing the underground back into production.

### 5.15 Financial Model Inputs

The BDO valuation is based on a project financial model provided by Heron. BDA has reviewed the technical assumptions including the capital and operating costs inputs to financial model and has advised BDO as to the amounts 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 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. 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 are available according to schedule.
- BDA considers the ore processing schedule is reasonable with respect to throughput. The underground mining ramp-up as proposed in the latest schedules appears appropriate and provides ore as required within the ramp-up schedule. The tailings reclaim ramp-up takes about three quarters to reach 88% of the nameplate 1.5Mt/pa throughput rate but does not operate annually at this rate until the underground mining is complete, late in the life of the project. The ramp-up schedule as it relates to tonnes throughput is considered reasonable. Including underground ore, Heron has adopted a four-quarter ramp-up for metal recoveries to concentrate. To accommodate the progressive achievement of operating costs, Heron has used the full throughput rate outgoings during the ramp-up period which, due to lower productivity in that period, allows for higher unit operating costs. BDA considers that a 12-18 month ramp-up for unit throughput, utilisation, recovery and operating costs provides a realistic schedule.
- BDA considers that plant operating conditions and performances for the different ore types (WRP - TDS, TDW and TDN and WUP - polymetallic and copper-only) may differ from the forecast metallurgical performance parameters in the financial model, and that the model projections may be optimistic in later years. During the years that underground materials are separately campaigned from the tailings materials, the various concentrates can be blended in order to comply with the minimum off-take specifications. However, during the latter years of operation, only TDW (2026-27) and TDN materials (2027-2029) are treated and blending options would only apply if additional underground ore is defined. During these latter years, both the copper concentrate from TDN and the lead concentrates from both TDW and TDN are likely to be relatively low grade. The DFS financial model assumes that the recoveries from these materials will be around 2% less than the TDS recoveries; in BDA's opinion, this may be optimistic for the TDW lead concentrates and for all three concentrates from TDN. A significant proportion of TDN material has already been re-treated once, although it is recognised that there remains some relatively high grade untreated material.
- BDA considers that the recent metallurgical testwork together with the previous testwork and previous operations is sufficient to support the process flowsheet design and the DFS parameters. BDA notes that the latest underground polymetallic bench-scale results for the variability samples from lenses E, G, H and Kate vary significantly. BDA accepts that in some instances, locked cycle tests may show better performance than the model assumptions, but overall considers a sensitivity should be applied to the financial model projections. Once the ongoing testwork programme, including locked cycle tests, is completed, the metallurgical performance will be better understood and defined.
- The DFS process plant operating cost inputs as estimated are considered reasonable and consistent with the proposed activities. BDA considers the operating cost estimates are accurate to  $\pm 15\%$ .
- The capital cost inputs are generally consistent with the updated estimates discussed above and appropriate modifications have been made to indirect costs and contingency provisions.

BEHRE DOLBEAR

was extracted. Further exploration is planned and Heron considers the prospect also has open pit potential, with a target of 0.5Mt of base metal mineralisation treatable through the Woodlawn plant.

#### Montrose

The Montrose prospect lies 6km west northwest of Woodlawn. Limited drilling in the 1980s and 90s intersected intense pyrite-sericite alteration and zones of modest grade mineralisation. EM geophysical anomalies provide clear targets for follow up drilling.

#### Hayshed

The Hayshed prospect is located some 4.5km southeast of Woodlawn and comprises an elongate aeromagnetic anomaly associated with a geochemical anomaly. It is located on the 100% Heron owned EL7257, however, a royalty is payable to Variscan Mines Ltd on certain granitic blocks that make up this tenement. Modelling is underway to define a drill target.

#### Cullarin

The Cullarin project (Els 7954, 7468) is located 20km northwest of Woodlawn and covers the northern extent of the prospective Silurian felsic volcanic sequence. Previous drilling has identified priority targets where mineralised intercepts (Cu and Au) have been reported. Historic drilling has identified broad zones of gold mineralisation at the Wet Lagoon prospect.

#### Kanglara

The Kanglara project (EL8400) is located 90km northwest of Woodlawn and covers Silurian felsic volcanics and sedimentary rocks. Kanglara 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 requiring follow-up drilling at the Crosby prospect. Pyritic zones have been mapped within rhyolitic and dacitic volcanics. Heron considers the area has potential for both base metals and gold and is planning follow-up sampling and mapping prior to commencing a drill programme to test for mineralisation at depth.

#### Other Woodlawn Prospects

East and west along strike of the Cowley Hills deposit EM surveys have identified anomalies at the Kalua and Allianoyoniga prospects. At Kalua silica pyrite alteration has been mapped in rhyolitic volcanic rocks. At Hickory's Paddock, soil sampling has defined a 300m long base metal anomaly associated with a gossanous black shale horizon. These prospects require follow up drill testing.

### 6.2 NSW Regional Tenements

#### Alchemy Resources Joint Venture

Heron has a free carried interest in a joint venture with Alchemy Resources Ltd on base metal and gold prospects in the Parkes and Nyngan regions of NSW. Alchemy is earning 51% by expenditure of A\$3M on exploration. The joint venture farm-in agreement dated May 2016 covers 674km<sup>2</sup> of the Lachlan Fold Belt in central NSW.

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 Cobarr-style gold and base metals. 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. Aircore drill holes have extended the potential zone north and south of the old workings and follow up RC drilling is planned.

The Giralambone project is located 25km northwest of Nyngan. Copper-gold mineralisation occurs within mafic units of the Ordovician Giralambone Beds. 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.

Two EL applications, prospective for nickel, cobalt, copper and gold have been taken up by Heron adjacent to the Nyngan tenure; BDA understands that, if granted, these areas may be incorporated into the Alchemy joint venture.

### 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 variety of tenement joint venture, rights and royalty interests covering gold, nickel and base metals in the Kalgoorlie, Kambalda and Albany regions.

#### 6.1 Woodlawn and Woodlawn 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 Cowley Hills deposit which also provided ore to the previous Woodlawn operation is located within the SML.

North and south of EL 7257, and to the west, the felsic volcanics, the prospective host for YMS deposits, are covered by a number of other Heron exploration licenses giving the Company access to approximately 770km<sup>2</sup> as a regional project exploration area.

There is good potential for discovery of further deposits within trucking distance of the Woodlawn plant. Heron's Woodlawn project tenements are listed in Table 6.1.

Table 6.1

Heron's Woodlawn Project Tenements

Tenement	Tenement Name	Location	Area km <sup>2</sup>
SML 20	Woodlawn Underground Mining Lease	Woodlawn – 40km SSW of Goulburn	0.24
EL 7257	Currawang	40km SSW of Goulburn	174.3
EL 7468	Cullarin South	25km SW of Goulburn	19.72
EL 7469	Mulloon	50km SSW of Goulburn	61.7
EL 7954	Cullarin	25km W of Goulburn	143.9
EL 8325	Sandy Point	50km SSW of Goulburn	179.8
EL 8353	Boro	40km S of Goulburn	44.94
EL 8400	Kanglara	27km NNE of Yass	147.0

*Note: Heron also has an EL application 30km NW of Yass (ELA 5433 Rosevale – 49.3km<sup>2</sup>) but the area is considered prospective for gold rather than base metals*

The Currawang mine, 10km to the northwest 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.

#### 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 spillic 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.

Exploration for additional resources at Currawang and Currawang East is planned by Heron using aeromagnetic and EM data along with geological interpretation. Historic drilling has intersected mineralisation beneath the current mine workings and Heron is planning a follow-up programme to test the down plunge extension of these intercepts. Heron estimates that an additional 1Mt of mineralisation could be defined at Currawang and trucked to Woodlawn for processing. BDA has reviewed the data and considers there is some potential for a future modest 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 spillic volcanics of the Currawang Basalt. Mining was undertaken between 1989 and 1991, but only some 35,000t of ore



Technical Specialist Report – Mineral Assets of Heron Resources Limited Behre Dolbear Australia Pty Limited	July 2017 Page 37
<b>EL Applications Woodlawn Area</b> Heron has three EL applications in the general Woodlawn area, ELA 5433 (Rosevale), 5473 (Peelwood) and 5474 (Colemane) covering a total of 256km <sup>2</sup> . The Rosevale ELA is located 30km northwest of Yass and is considered prospective for gold mineralisation. The Peelwood application 90km north of Woodlawn is located south of the historic Peelwood mine and is considered prospective for volcanic massive sulphides. The Coleman area 35km southeast of Woodlawn has potential for copper, cobalt and lead mineralisation.	
<b>6.3 Western Australia Tenements and Interests</b>	
<b>Bulong Gold Project- Southern Gold Ltd Joint Venture</b> The Bulong project is located 30-40km east of Kalgoorlie and is a joint venture with Southern Gold Ltd ("Southern Gold"). Southern Gold is spending A\$1M on exploration to earn an 80% interest. Heron has a free carried 20% interest to completion of a Bankable Feasibility Study. The project areas are adjacent to the Southern Gold's operating Cannon gold mine and the focus is gold exploration. The project tenements comprise one exploration licence (6 blocks), seven mining leases and eight prospecting licences covering approximately 60km <sup>2</sup> . Much of the joint venture area is covered by transported material. Southern Gold is trialling geochemical and bio-geochemical surveys and if successful in detecting anomalies related to the underlying prospective horizons, RAB drilling will be used for follow up. To date no quality drill targets have been identified and no ore intercepts have been achieved.	
<b>Siberia and Black Range Projects - Eastern Goldfields Limited</b> 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. The tenements were formerly held principally for their nickel laterite potential. No ore grade gold intercepts have been achieved to date.	
<b>Frances Lesley Nickel Project - Eastern Goldfields Limited</b> The project area lies 60km northwest of Kalgoorlie and comprises one exploration licence covering approximately 45km <sup>2</sup> . The tenement is owned by Eastern Goldfields but Heron retains the nickel rights	
<b>Bardoc Gold Project – Metaliko Resources Ltd</b> The project area is located 50-60km north northwest of Kalgoorlie and comprises one mining lease and one prospecting licence covering approximately 10km <sup>2</sup> . Heron retains the nickel rights over the area.	
<b>Albany Fraser Project – Metalicity Ltd Joint Venture</b> The project area is located 90-100km northwest of Albany on the southern coast of WA, and comprises three exploration licences over an area of approximately 800km <sup>2</sup> . Heron retains a free-carried 10% interest in the project through to completion of a pre-feasibility study. Heron originally sold a 90% interest in the tenements to Metalicity for a 13.375M share allocation (worth approximately A\$110,000 at time of transaction). No significant mineralisation has been identified.	
<b>Hampton Nickel Project – Pioneer Nickel Ltd</b> The tenements comprise two exploration licences located 60km northeast of Kalgoorlie and covering an area of approximately 36km <sup>2</sup> . Heron retains an interest in any nickel laterite deposits within the tenements.	
<b>Wattle Dam Project – Ramelius Resources Ltd</b> The project is located 65km south of Kalgoorlie, in the Kambalda region, and comprises five mining leases and one exploration licence covering approximately 10km <sup>2</sup> . Heron retains a pre-emptive right over any nickel laterite resources.	
<b>Marlloo Dam/Lake Lefroy Project - St Ives Gold Mining Co Pty Ltd</b> The project is located in the Kambalda region, 70km southeast of Kalgoorlie and comprises four exploration licences covering approximately 95km <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.	

BEHRE DOLBEAR

Technical Specialist Report – Mineral Assets of Heron Resources Limited Behre Dolbear Australia Pty Limited	July 2017 Page 38
<b>Yarri Project - China Mining Ltd</b> The project is located 160km northeast of Kalgoorlie and comprises two exploration licences covering approximately 80km <sup>2</sup> . Heron retains a 2.5% royalty over any gold production.	
<b>Gidgi Project - KCGM Ltd</b> The project is located 14km northeast of Kalgoorlie, and comprises one exploration licence covering approximately 40km <sup>2</sup> . Heron retains a 1% net smelter return on any gold production, plus the rights to a payment of A\$5M if more than 1Mozs of gold are produced or are defined in reserves.	
<b>Kanowna East Project - Northern Star Resources Ltd</b> The project is located 22km northeast of Kalgoorlie, and comprises one mining lease covering 2km <sup>2</sup> . Heron retains the nickel rights over the area.	

BEHRE DOLBEAR

## 7.0 VALUATION DISCUSSION

### 7.1 Overview

The assets valued herein comprise:

- Woodlawn underground and tailings zinc-lead-copper project in NSW
- Woodlawn regional project comprising the Currawang, Cullarin, Mulloon, Sandy Point, Boro, and Kangara prospects in NSW
- Alchemy base metal and gold joint venture in NSW
- EL applications in the Woodlawn region
- Bulong gold and nickel joint venture with Southern Gold Ltd in Western Australia ("WA") – Heron 20%
- Gold royalty interest in the North Kalgoorlie nickel projects of Eastern Goldfields Ltd
- Nickel interests in the Frances Lesley nickel project of Carnegie Gold Pty Ltd in WA
- Nickel interests in the Kalgoorlie gold project of Metaliko Resources Ltd
- Free-carried 10% interest in the Albany Fraser project in WA
- Nickel laterite interests in the Hampton nickel tenements of Pioneer Nickel in WA
- Pre-emptive right to the nickel laterite in the Kalgoorlie Nickel tenements of Ramelius Resources Ltd in WA
- Base metals and gold royalty interest in the St Ives project of St Ives Gold Mining Co Pty Ltd in WA
- Gold Royalty interest in Yarri project of China Mining Ltd in WA
- Gold royalty interest in the KCGM Gidgi project of KCGM Ltd in WA
- Nickel rights in the Kanowna Belle project of Northern Star Ltd in WA.

The Woodlawn project is well advanced with a completed feasibility study, 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 of 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 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.

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 1 April 2017.

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 to four 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 value to these prospects principally on the basis of the potential of the projects to supply additional feed to the Woodlawn plant; 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, joint venture terms, related or comparable transactions, joint venture terms or yardstick measures as appropriate in each case
- *WA Regional Projects and Tenements* – BDA has ascribed a value to these exploration prospects and tenements based on exploration expenditure, joint venture terms, related or comparable transactions, joint venture terms or yardstick measures as appropriate in each case. BDO has determined that the resulting value is not material; 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.

### 7.2 General Assumptions

BDA's valuations 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 a completed feasibility study, 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.

Heron has provided a development scenario and life of mine plan based on the underground and tailings reserves, plus 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 net present value 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 re-established 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 6.6Mt of underground resource at Woodlawn. From the Measured and Indicated resource of 4.1Mt, Heron has defined a reserve of 2.8Mt, a conversion rate of approximately 65%. Applying this conversion rate to the total resource of 6.6Mt would give a potential mineable tonnage of 4.3Mt. The current life of mine plan is based on 2.8Mt of underground reserve and 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 1 year additional mine life, most likely two years, and possibly (as an upside case for the purpose of valuation) three to four years. 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 AS\$16m 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 AS\$8-24M with a most likely value (indicative of a discounted value of two years of additional production) of AS\$16.0M.

As a cross check on this estimate, BDA has also approached the valuation using a yardstick value for base metal resources in the ground of 2-3% of the in-situ value. BDA has derived this value from undertaking net present value analysis of base metal projects, allowing for development, mining, and processing recovery and costs. Applying these factors to the tonnes required to provide one year of underground production at Woodlawn, and assuming a typical average Woodlawn underground grade, BDA assesses a value of between AS\$8.2M (at 2%) and AS\$12.2M (at 3%). Taking the lower figure for one year as the minimum value of the exploration potential and three years at the higher figure as representing the upside maximum value, BDA assesses a value for the underground exploration potential of AS\$8.2-36.6M with a preferred figure (representing two years potential at a mean value) of AS\$20.4M.

#### 7.5 Valuation – Currawang and Cowley Hill 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 and Currawang East is planned by Heron using aeromagnetic and EM data along with geological interpretation. Historic drilling has intersected mineralisation beneath the current mine workings and Heron is planning a follow-up programme to test the down plunge extension of these intercepts. Heron estimates that an additional 1Mt of mineralisation could 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 is planned and Heron considers the prospect also has open pit potential, with a target of 0.5Mt of base metal mineralisation treatable through the Woodlawn plant.

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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 1.5Mt of satellite feed to the Woodlawn plant. BDA considers this a reasonable target, but suggests that overall production of between 0.5Mt and 1Mt would be the most likely outcome for valuation purposes, with an upside potential of 1.5Mt. Given that both projects are previous producers, BDA considers that a willing and knowledgeable buyer would ascribe 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. Ore from Currawang or Cowley Hills would be likely to supplement the mill feed towards the end of the project life (though, given the higher grade of the historical Currawang production, it could also replace some of the lower grade tailings material). BDA has assessed the added value of additional production towards the end of the project mine life and has used this parameter as a guide to the value that a willing and knowledgeable buyer would ascribe to the Currawang and Cowley Hills prospects, discounting Heron's estimated tonnage potential by 50% to recognise the exploration risk.

The incremental value of 1Mt of additional feed from Currawang is approximately AS\$23M (based on the relatively high grade of the Currawang mineralisation). BDA considers that a willing and knowledgeable buyer would assess the recovery of 0.5Mt of additional feed from Currawang as being a reasonable estimate of likely potential. BDA has applied this yardstick to the incremental value. BDA considers that a willing and knowledgeable buyer would ascribe a value in a range of AS\$9.2-13.8M with a most likely value of AS\$11.5M as representative of the exploration value of the former producer.

A similar process has been applied to the Cowley Hills prospect. Heron has estimated that an additional 0.25Mt of mill feed is likely to be recovered from Cowley Hills, which would add approximately AS\$2.8M incremental value to the Woodlawn project. BDA considers that a willing and knowledgeable buyer would value the project based on the likelihood of recovering approximately half of this tonnage; BDA has applied this yardstick to the incremental value. On this basis BDA considers that a willing and knowledgeable buyer would ascribe a value in a range of AS\$1.1-1.7M to the Cowley Hills project with a most likely value of AS\$1.4M as representative of the exploration value of the former producer.

BDA has applied the 2-3% of in situ value yardstick discussed in Section 7.4 as a check on these valuations. For 0.5Mt of Currawang mineralisation this gives a range of AS\$6.7-10.1M and for 0.125Mt of Cowley Hills mineralisation, a range of AS\$1.1-1.8M. These values are generally consistent with the estimates above.

#### 7.6 Valuation – NSW Regional Projects and Tenements

The Woodlawn and Kangiara regional Lachlan Fold Belt tenements comprise seven granted ELs covering 772km<sup>2</sup>. 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 mapping, geochemical and geophysical surveys and interpretation are underway in other areas. Specific target areas include Cullarin (Wet Lagoon), Montrose, Hayshed, Crosby, Hickory's Paddock, Kalua and Allianonyongga.

EL7257 also includes the Currawang mine but Currawang and Cowley East (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 (excluding Currawang and Cowley Hills) 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 AS\$1.72M. Given the number of targets and drill intersections, BDA considers a PEM factor in the range of 2.5-2.9 is appropriate, giving a value range of AS\$4.3-5.0M; BDA has adopted a mid-point of AS\$4.65M as the most likely value.

#### Alchemy Resources Joint Venture

Heron has a free carried interest in a joint venture with Alchemy Resources Ltd on base metal and gold prospects in the Parkes and Nyngan regions of NSW. Alchemy is earning 51% by expenditure of AS\$3M on exploration. 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 49% interest in the JV could be deemed to be worth AS\$3M.

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Expenditure on the project to date is A\$1.448M. The Overflow project appears to be the key priority target to date and drilling has intersected broad zones of gold and base metal mineralisation. BDA would apply a prospectivity enhancement multiple of 2.5 to the expenditure giving a valuation of A\$3.6M or A\$1.8M for Heron's 49% interest. BDA considers the relatively recent joint venture agreement terms provide the most relevant valuation guide and on this basis, assigns a value of A\$3M to Heron's interest in the joint venture, with a low range value of A\$1.8M based on the project expenditure factor.

The recent EL applications in the Nyngan area are currently in Heron's name but BDA understands these, if granted, are likely to be incorporated in the Alchemy joint venture. As applications, with no certainty of granting, BDA does not consider these, at this stage, add any material value to the joint venture interests.

#### EL Applications Woodlawn Area

Heron has three additional EL applications in the general Woodlawn area, ELA 5433 (Rosevale), 5473 (Peelwood) and 5474 (Colemane), covering a total of 256km<sup>2</sup>. The Rosevale ELA is located 30km northwest of Yass and is considered prospective for gold mineralisation. The Peelwood application 90km north of Woodlawn is located south of the historic Peelwood mine and is considered prospective for volcanic massive sulphides. The Colemane area 35km southeast of Woodlawn has potential for copper, cobalt and lead mineralisation. Heron has spent approximately A\$6,000 per area on research, review and application. The applications have not yet been granted but all are considered to have some exploration merit. As these tenements are not yet granted, and there is no certainty they will be granted, BDA has assessed a nominal value range from zero to the nominal expenditure or A\$0-0.018M.

#### 7.7 Valuation – WA Regional Projects and Tenements

BDA has undertaken a valuation of each of Heron's WA joint venture interests, royalty interests or residual rights. BDO has determined that the assessed values are not material. 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.

#### 7.8 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 7.3.

Table 7.3  
Valuation Summary of Heron's Mineral Assets

Property	Valuation (A\$M)			Comments
	Low	Most Likely	High	
<b>Woodlawn Mine Project – Defined Mine Plans</b>				
Underground and Tailings Operations	BDO	BDO	BDO	Proved/Probable reserves + IMt Inferred – see BDO Report
	8.0	16.0	24.0	Additional 1-3 years extension
<b>Woodlawn Mine Project – Potential Extensions</b>				
Underground Lenses and Extensions	10.3	12.9	15.5	Potential 1 year additional feed
<b>Woodlawn Mine Project – Satellite Deposits</b>				
Currawang and Cowley Hills				
<b>NSW Regional Tenements/Interests</b>				
Woodlawn Regional	4.300	4.650	5.000	7 ELs north and south of Woodlawn
Alchemy Resources Joint Venture	1.800	3.000	3.600	6 ELs, Alchemy earning 51%
Lachlan Fold Belt EL Applications	0.000	0.009	0.018	Rosevale, Peelwood, Colemane
<b>Subtotal NSW Interests</b>	<b>6.1</b>	<b>7.7</b>	<b>8.6</b>	
<b>Western Australian Tenements/Interests</b>				
<b>Subtotal WA Interests</b>	<b>0.3</b>	<b>0.40</b>	<b>0.5</b>	
<b>Total Exploration Interests</b>	<b>24.7</b>	<b>37.0</b>	<b>48.6</b>	

*Note – unless there is a strong reason to favour the upside or downside potential, BDA has taken an upper and lower range around the most likely assessed value of ±20%*

#### 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, Mr Richard Frew, and Mr Adrian Brett, 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"). Mr McIntyre is also a Certified Valuer as a Member of the International Institute of Mineral Appraisers ("IIMA"), formerly the American Institute of Mineral Appraisers ("AIMA").

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 40 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 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 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.

**Mr Richard Frew** (BE Civil, MIE Aust) is a Senior Associate of BDA with more than 40 years' experience as a planning, estimation and contracts engineer. He is experienced in contract management, feasibility study review, financial modelling, capital cost estimation, infrastructure, project controls, critical path analysis, project implementation and contract assessment. He has worked on a large number of projects providing management and project services to the owners or financiers, including major projects in Australia, the Philippines, Argentina, Mauritania, New Zealand and Romania.

**Mr Adrian Brett** (BSc (Hon) Geol., MSc Envir., MEnvir. Law, MAIMVA(CMV)) is a Senior Associate of BDA with more than 40 years' experience in environmental and geo-science, including the fields of environmental planning and impact assessment, site contamination assessments, environmental audit, environmental law and policy analysis and the development of environmental guidelines and training manuals. He has worked in an advisory capacity with several United Nations, Australian and overseas government agencies. He has completed assignments in Australia, Indonesia, Thailand, Laos, the Philippines, the Middle East, Africa and South America.



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 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 and BDO Corporate Finance. BDA has been 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.

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 use thereof by Heron and BDO Corporate Finance, Heron agrees to indemnify and hold harmless BDA and its shareholders, directors, officers, and associates against any and all losses, claims, damages, liabilities or actions to which they or any of them may become subject under any securities act, statute or common law and will reimburse them on a current basis for any legal or other expenses incurred by them in connection with investigating any claims or defending any actions.

This report is provided to the Directors of Heron and 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



John McIntyre  
Managing Director - BDA

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## ANNEXURE C – INFORMATION CIRCULAR

The Company is a reporting issuer in Canada. Accordingly, pursuant to the requirements of National Instrument 51-102 - Continuous Disclosure Obligations (“NI 51-102”) of the Canadian Securities Administrators, the following disclosure is required to be included with this Explanatory Memorandum. In this management information circular (“Circular”), unless otherwise indicated, all references to “CDN\$” refer to Canadian dollars and all references to “A\$” refer to Australian dollars. This Circular is dated 17 July 2017.

### **PURPOSE OF SOLICITATION**

This Circular is furnished in connection with the solicitation of proxies by the management of the Company for use at the Meeting.

Solicitation of proxies will be primarily by mail but may also be by telephone, facsimile or in person by Directors, officers and employees of the Company who will not be additionally compensated therefore. Brokers, nominees or other persons holding Shares in their names for others shall be reimbursed for their reasonable charges and expenses in forwarding proxies and proxy material to the beneficial owners of such shares. The costs of soliciting proxies will be borne by the Company.

### **APPOINTMENT AND REVOCATION OF PROXIES**

Enclosed with the Notice is a form of proxy for use at the Meeting. **A Shareholder has the right to appoint up to two persons (who need not be Shareholders) to attend and act for the Shareholder and on the Shareholder’s behalf at the Meeting other than the person designated in the form of proxy and may exercise such right by inserting the full name of the desired person(s) in the blank space provide in the form of proxy.**

A proxy will not be valid unless it is signed by the Shareholder or by the Shareholder’s attorney duly authorized in writing. If the Shareholder appoints a body corporate as the Shareholder’s proxy to attend and vote for the Shareholder at the Meeting, then the representative of the body corporate must produce the Certificate of Appointment of Representative prior to admission. A person executing a proxy, or acting, on behalf of a corporation or another individual must provide documentation evidencing his or her authority to sign the proxy or act on behalf of the Shareholder at the Meeting, as the case may be.

If the Shareholder is entitled to cast two or more votes at the Meeting, then the Shareholder may appoint not more than two proxies. Where the Shareholder appoints more than one proxy the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If such proportion or number of votes is not specified each proxy may exercise half of the Shareholder’s votes.

The proxy to be acted upon must be delivered:

(a) in respect of Shareholders registered on the Company’s Australian share register, prior to 2.00 pm (AEDT) on 15 August 2017 by:

- **ONLINE** visit [www.securitytransfer.com.au](http://www.securitytransfer.com.au) and follow the instructions on your proxy form
- **BY MAIL** Security Transfer Registrars Pty Ltd, PO Box 52, Collins Street West, Victoria, 8007
- **BY FAX** +61 8 9315 2233
- **IN PERSON** Security Transfer Registrars Pty Ltd, Suite 913, Exchange Tower, 530 Little Collins Street, Melbourne, Victoria

and

(b) for Shareholders registered on the Company’s Canadian share register, in addition to the above mail, fax and email options, proxies must be received no later than 48 hours prior to the Meeting (and for clarity) by 2.00 am Toronto time, 15 August 2017 by:

- **Post to:** TMX Equity Transfer Services Inc.  
200 University Avenue, Suite 300,  
Toronto, Ontario, Canada M5H 4H1; or
- **Facsimile at:** +416 595 9593

**REVOCATION OF PROXIES**

A proxy given pursuant to this solicitation may be revoked by instrument in writing executed by the Shareholder or by his/her attorney authorized in writing, and delivered either to the registered office of the Company or the above mentioned address of TMX Equity Transfer Services Inc. at any time up to and including close of business on the last business day preceding the day of the Meeting, or any adjournment thereof at which the proxy is to be used, or to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law.

**VOTING OF PROXIES**

Shares represented by properly executed proxies in favour of persons designated in the printed portion of the enclosed form of proxy will be voted for each of the matters referred to in the Notice, as described in this Circular, or withheld from voting or voted against if so indicated on the form of proxy. The form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice, or other matters, which may properly come before the Meeting. At the time of printing of the Circular, management of the Company knows of no such amendments, variations or other matters to come before the Meeting.

**VOTING BY NON-REGISTERED SHAREHOLDERS**

Only registered Shareholders or the persons they appoint as their proxies are permitted to vote at the Meeting. Most Shareholders are “non-registered” or “beneficial” Shareholders (“Non-Registered Shareholders”) because the Shares they own are not registered in their names but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased the Shares. Shares beneficially owned by a Non-Registered Shareholder are registered either: (i) in the name of an intermediary (“Intermediary”) that the Non-Registered Shareholder deals with in respect of the Shares; or (ii) in the name of a clearing agency (such as CDS Clearing and Depository Services Inc. (“CDS”)) of which the Intermediary is a participant. In accordance with applicable securities law requirements, the Company will have distributed copies, via mail or electronically, of the Notice, this Circular, the form of proxy and a request card for interim and annual materials (collectively, the “Meeting Materials”) to the clearing agencies and Intermediaries for distribution to Non-Registered Shareholders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Shareholders unless a Non-Registered Shareholder has waived the right to receive them. Intermediaries often use service companies to forward the Meeting Materials to Non-Registered Shareholders. Generally, Non-Registered Shareholders who have not waived the right to receive Meeting Materials will either:

- (i) be given a voting instruction form which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Shareholder and returned to the Intermediary or its service company, will constitute voting instructions (often called a “voting instruction form”) which the Intermediary must follow. Typically, the voting instruction form will consist of a one page pre-printed form. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (“Broadridge”) in Canada and the United States. Broadridge typically prepares a machine-readable voting instruction form, mails those forms to Non-Registered Shareholders and asks Non-Registered Shareholders to return the forms to Broadridge or otherwise communicate voting instructions to Broadridge (by way of the Internet or telephone, for example). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of the shares to be represented at the Meeting. Sometimes, instead of the one page pre-printed form, the voting instruction form will consist of a regular printed proxy form accompanied by a page of instructions which contains a removable label with a bar-code and other information. In order for this form of proxy to validly constitute a voting instruction form, the Non-Registered Shareholder must remove the label from the instructions and affix it to the form of proxy, properly complete and sign the form of proxy and submit it to the Intermediary or its service company in accordance with the instructions of the Intermediary or its service company. A Non-Registered Shareholder who receives a voting instruction form cannot use that form to vote his or her Shares at the Meeting; or
- (ii) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of Shares beneficially owned by the Non-Registered Shareholder but which is otherwise not completed by the Intermediary. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the Non-Registered Shareholder when submitting the proxy. In this case, the Non-Registered Shareholder who wishes to submit a proxy should properly complete the form of proxy and deposit it

with TMX Equity Transfer Services Inc. at 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1, Fax Number: 416.595.9593.

In either case, the purpose of these procedures is to permit Non-Registered Shareholders to direct the voting of the Common Shares they beneficially own. Should a Non-Registered Shareholder who receives one of the above forms wish to vote at the Meeting, or any adjournment(s) or postponement(s) thereof, (or have another person attend and vote on behalf of the Non-Registered Shareholder), the Non-Registered Shareholder should strike out the persons named in the voting instruction form and insert the Non-Registered Shareholder or such other person's name in the blank space provided. In either case, Non-Registered Shareholders should carefully follow the instructions of their Intermediary, including those regarding when and where the voting instruction form is to be delivered.

A Non-Registered Shareholder may revoke a voting instruction form or a waiver of the right to receive Meeting Materials and to vote which has been given to an Intermediary at any time by written notice to the Intermediary provided that an Intermediary is not required to act on a revocation of a voting instruction form or of a waiver of the right to receive Meeting Materials and to vote, which is not received by the Intermediary at least seven (7) days prior to the Meeting.

Non-Registered Shareholders fall into two categories: those who object to their identity being made known to the issuers of securities which they own ("Objecting Beneficial Owners" or "OBOs") and those who do not object to their identity being made known to the issuers of the securities they own ("Non-Objecting Beneficial Owners" or "NOBOs"). Subject to the provisions of NI 54-101, issuers may request and obtain a list of their NOBOs from intermediaries. Pursuant to NI 54-101, issuers may obtain and use the NOBO list in connection with any matter relating to the affairs of the issuer, including the distribution of proxy-related materials directly to NOBOs. The Company is not sending Meeting Materials directly to the NOBOs. The Company will use and pay intermediaries and agents to send the Meeting Materials and also intends to pay for intermediaries to deliver the Meeting Materials to the OBOs. As more particularly outlined below under the heading "Notice-and-Access", Meeting Materials will be sent to Non-Registered Shareholders using the Notice-and-Access Provisions.

### **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

No person who has been a Director or executive officer of the Company at any time since the beginning of its last completed financial year or any associate of any such Director or executive officer has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting.

### **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

The authorized share capital of the Company consists of an unlimited number of Shares. As of the date of the Circular, the Company has 460,865,497 Shares issued and outstanding.

The Company shall make a list of all persons who are registered holders of Shares as at the close of business at 5pm (Toronto time) on 12 July 2017 (the "Record Date") and the number of Shares registered in the name of each person on that date. Each Shareholder is entitled to one vote for each Share in that Shareholder's name as it appears on the list.

To the knowledge of the directors and executive officers of the Company, as of the date hereof, no person or company beneficially owns, controls or directs, directly or indirectly, voting securities of the Company carrying 10% or more of the voting rights attached to all outstanding Shares, other than as set out below:

<b>Name of Shareholder</b>	<b>Number of Common Shares<sup>(1)(2)</sup></b>	<b>Percentage of Common Shares<sup>(1)(2)</sup></b>
Ian Buchhorn	46,790,959 <sup>(3)</sup>	10.2%
Greenstone HRR Holdings L.P.	54,131,658	11.7%

**Notes:**

- (1) The information as to Shares beneficially owned, controlled or directed, not being within the knowledge of the Company, has been obtained by the Company from publicly disclosed information and/or furnished by the Shareholder listed above.
- (2) On a non-diluted basis.
- (3) Of the 46,590,959 Shares noted above, 2,518,241 are held directly by Mr. Buchhorn, 2,137,690 Shares are held directly by his spouse, while the remainder are held by the following companies controlled by Mr. Buchhorn: Hazurn Pty Ltd (23,732,480 Shares), Kurana Pty Ltd (16,576,556 Shares) and Manorina Mining Pty Ltd (1,825,992 Shares).



**MATTERS TO BE ACTED UPON AT THE MEETING**

This Circular has been prepared for the information of members of the Company in connection with the business to be transacted at the General Meeting of members of the Company to be held at 2.00pm (Sydney Time) on 17 August 2017 at The Grace Hotel, King Room, Level 1, 77 York Street, Sydney, New South Wales, 2000. Please see the Explanatory Memorandum attached to this Circular for full details of the matters to be acted upon at the Meeting.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table provides details of the equity securities of the Company authorized for issuance as of the financial year ended 30 June 2017 pursuant to the Company's equity compensation plan currently in place:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<sup>(1)</sup></b>
Equity compensation plans approved by securityholders	23,934,621	0.072	17,566,317
Equity compensation plans not approved by securityholders	Nil	N/A	N/A
<b>Total</b>	<b>23,934,621<sup>(2)</sup></b>	<b>0.072</b>	<b>17,566,317</b>

**Notes:**

- (1) Based on a total of 41,500,938 stock options issuable pursuant to the Plan, representing approximately 4.3% of the issued and outstanding Shares as at 30 June 2017.
- (2) Representing approximately 5.7% of the issued and outstanding Shares as at 30 June, 2017.

**INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

During the year ended 30 June 2017, no director, executive officer or associate of any director or executive officer of the Company was indebted to the Company, nor were any of these individuals indebted to any other entity which indebtedness was the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by the Company, including under any securities purchase or other program.

**INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Since the commencement of the Company's most recently completed financial year, no informed person of the Company, or any associate or affiliate of any informed person or nominee, has or had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or will materially affect the Company or any of its subsidiaries, other than Greenstone HRR Holdings LP which is an informed person as it holds more than 10% of the outstanding Shares. See "Voting Securities and Principal Holders Thereof". Greenstone HRR Holdings LP has completed and proposes to complete the transactions described in the Explanatory Statement.

**APPOINTMENT OF AUDITOR**

Ernst & Young LLP, Chartered Professional Accountants, were appointed as the auditors of the Company on 25 November 2015.

**ADDITIONAL INFORMATION**

Copies of the Company's annual information form, annual financial statements and management discussion and analysis for its most recently completed financial year filed pursuant to applicable Canadian securities laws are available through the SEDAR at [www.sedar.com](http://www.sedar.com). Information concerning the Company may be obtained by any shareholder free of charge by contacting the Company Secretary on +61 2 9119 8111.

**BOARD APPROVAL**

The contents of this Circular have been approved and its mailing authorized by the board of directors of the Company.

**SHARE REGISTRY:**

Security Transfer Australia Pty Ltd

**All Correspondence to:**

PO BOX 52  
Collins Street West VIC 8007  
Suite 913, Exchange Tower  
530 Little Collins Street  
Melbourne VIC 3000  
T: 1300 992 916 F: +61 8 9315 2233  
E: registrar@securitytransfer.com.au  
W: www.securitytransfer.com.au

Code:

HRR

Holder Number:

## PROXY FORM

THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, PLEASE CONTACT YOUR STOCK BROKER OR LICENSED PROFESSIONAL ADVISOR.

### VOTE ONLINE

Lodge your proxy vote securely at [www.securitytransfer.com.au](http://www.securitytransfer.com.au)

1. Log into the Investor Centre using your holding details.
2. Click on "Proxy Voting" and provide your Online Proxy ID to access the voting area.

### SECTION A: Appointment of Proxy

I/We, the above named, being registered holders of the Company and entitled to attend and vote hereby appoint:

☐

The meeting chairperson

OR

or failing the person named, or if no person is named, the Chairperson of the meeting, as my/our Proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the Proxy sees fit) at the General Meeting of the Company to be held at 2pm AEST on Thursday 17 August 2017 at The Grace Hotel, King Room, Level 1, 77 York Street, Sydney, New South Wales 2000 and at any adjournment of that meeting.

### SECTION B: Voting Directions

Please mark "X" in the box to indicate your voting directions to your Proxy. The Chairperson of the Meeting intends to vote undirected proxies in FAVOUR of all the resolutions. In exceptional circumstances, the Chairperson of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

**RESOLUTION**

1. APPROVAL OF SECURITIES ISSUE TO THE GREENSTONE PARTIES

For Against Abstain\*

☐
☐
☐

2. APPROVAL OF SECURITIES ISSUE TO ORION

☐
☐
☐

3. APPROVAL OF SECURITIES ISSUE TO CASTLELAKE

☐
☐
☐

4. APPROVAL OF SECURITIES ISSUE UNDER THE INSTITUTIONAL PLACEMENT

☐
☐
☐

5. RATIFICATION OF SECURITIES ISSUE TO CASTLELAKE

☐
☐
☐

6. RATIFICATION OF PREVIOUS SECURITIES ISSUE TO GREENSTONE HRR HOLDINGS II AND ORION

☐
☐
☐

If no directions are given my proxy may vote as the proxy thinks fit or may abstain. \* If you mark the Abstain box for a particular item, you are directing your Proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### SECTION C: Signature of Security Holder(s)

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Security Holder

Security Holder 2

Security Holder 3




Sole Director & Sole Company Secretary

Director

Director/Company Secretary

**Proxies must be received by Security Transfer Australia Pty Ltd no later than 2pm AEST on Tuesday 15 August 2017.**

Name:

(    )

This is the name and address on the Share Register of the Company. If this information is incorrect, please make corrections on this form. Shareholders sponsored by a broker should advise their broker of any changes. Please note that you cannot change ownership of your shares using this form.

If the person you wish to appoint as your Proxy is someone other than the Chairperson of the Meeting please write the name of that person in Section A. If you leave this section blank, or your named Proxy does not attend the meeting, the Chairperson of the Meeting will be your Proxy. A Proxy need not be a shareholder of the Company.

To direct the Proxy how to vote place an "X" in the appropriate box against each item in Section B. Where more than one Proxy is to be appointed and the proxies are to vote differently, then two separate forms must be used to indicate voting intentions.

You are entitled to appoint up to two (2) persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second Proxy, an additional Proxy form may be obtained by contacting the Company's share registry or you may photocopy this form.

- a) On each of the Proxy forms, state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each Proxy may exercise, each Proxy may exercise half of your votes; and
- b) Return both forms in the same envelope.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be lodged with the Company before the meeting or at the registration desk on the day of the meeting. A form of the certificate may be obtained from the Company's share registry.

The proxy form does not need to be returned to the share registry if the votes have been lodged online.

**Email** registrar@securitytransfer.com.au

Personal information is collected on this form by Security Transfer Australia Pty Ltd as the registrar for securities issuers for the purpose of maintaining registers of security holders, facilitating distribution payments and other corporate actions and communications. Your personal details may be disclosed to related bodies corporate, to external service providers such as mail and print providers, or as otherwise required or permitted by law. If you would like details of your personal information held by Security Transfer Australia Pty Ltd or you would like to correct information that is inaccurate please contact them on the address on this form.