

The Directors
Heron Resources NL
21 Close Way
WEST KALGOORLIE WA 6430

10 March 2000

Subject: Independent Expert's Report

Dear Sirs

Introduction

On 8 February 2000 Centaur Mining & Exploration Limited ("Centaur"), through its wholly owned subsidiary Centaur Nickel Investments Pty Ltd ("Centaur Nickel"), announced it intended to make a takeover offer ("the Offer") for all the issued shares in Heron Resources NL ("Heron") to which it was not already entitled.

The Offer is 30 cents cash for each Heron fully paid ordinary share ("Heron shares") and is unconditional. The Offer expires at 1:00pm Perth time on 23 March 2000, unless extended by Centaur.

Centaur's Part C Statement in relation to the Offer was registered with the Australian Securities and Investments Commission ("ASIC") on 8 February 2000 and served on Heron on 8 February 2000.

The Corporations Law ("the Law") does not require the directors of the target company to appoint an appropriately qualified independent expert to prepare a report on the fairness and reasonableness of an offer received pursuant to the receipt of a Part C Statement.

Notwithstanding the absence of a statutory requirement for such a report, the independent directors of Heron have requested that PricewaterhouseCoopers Securities Limited ("PwCS") prepare a report to assess the fairness and reasonableness of the Offer in order to assist Heron shareholders, and the independent directors in making recommendations to shareholders, in considering whether or not to accept the Offer.

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Summary and Conclusions

In our opinion, the Offer is neither fair nor reasonable to Heron shareholders. Accordingly, we consider the Heron directors would be justified in recommending that shareholders reject the Offer.

In forming our opinion, we have considered the following matters which summarise the major issues addressed in our report:

- (a) our assessed value for Heron shares is in the range of 72 cents to 99 cents on a fully diluted basis, with a preferred value of 86 cents. This value significantly exceeds the 30 cents cash offer for each share made by Centaur. The Offer is therefore not fair. There are no additional factors which cause us to otherwise conclude that the Offer is reasonable;
- (b) our range of values for Heron shares used to assess the fairness of the Offer is based on a 100% interest in the company;
- (c) to assess the value of Heron shares we have adopted the primary approach of valuing and aggregating the values of the major assets and liabilities held by Heron as a going concern. In preparing the valuation of the major assets and liabilities of Heron, we have engaged and relied on a technical expert, Resource Equity Consultants Pty Ltd ("REC") to complete a technical review and valuation of Heron's mineral assets. The values attributed to Heron's mineral assets are in accordance with the valuations undertaken by REC;
- (d) in the three months prior to the takeover announcement, Heron's shares have traded in the range of 23 cents to 31 cents with a weighted average share price of 27 cents. Subsequently, Heron's shares have traded in the range of 32 cents to 39.5 cents with a weighted average share price of 36 cents. Accordingly, we consider that the Offer does not provide a significant premium (if any) over the prices at which Heron shares would otherwise trade and does not incorporate any significant premium to obtain 100% control of Heron. We consider that Heron has strategic value to Centaur, in particular, due to the existence of the Strategic Alliance and the benefits to Centaur of securing ownership of the high grade Goongarrie deposits for the Cawse Stage II expansion;

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- (e) the range of values ascribed to Heron shares represents a significant premium over the highest price that Heron shares have traded during the three months prior to the takeover announcement. It is difficult to determine all the reasons for this significant premium. In part, this will represent the premium above market price attributable to obtaining 100% control of Heron. We consider it is possible that the difference is also due to market perceptions regarding the uncertain implications of the Strategic Alliance with Centaur and the related risks and opportunities to Heron of Cawse Stage II not proceeding;
- (f) if the Offer lapses, it is possible that there may be a reduction in Heron's share price in the shorter term, possibly to a price below the Offer. We consider it unlikely, however, that Heron's shares would trade consistently below 30 cents in the absence of the Offer. Heron's principal projects, whilst still at the inferred resource category, are amongst the highest grade nickel laterite deposits in the State and are favourably located in terms of proximity to existing nickel laterite operations in the Eastern Goldfields; and
- (g) while the possibility of an alternative offer for Heron in the short term is regarded as remote, we consider it cannot be totally dismissed in the long term, nor can the potential for a future higher offer by Centaur.

Acceptance of the Offer may lead to the crystallisation of significant tax liabilities for many Heron shareholders. Heron shareholders should consider their individual income tax circumstances before responding to the Offer. If offerees are in any doubt over what action they should take they should consult an appropriate adviser.

This letter is a summary of our opinion. Our detailed report follows.

Yours faithfully

Andrew J Edwards
Authorised Representative

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1 Report Structure

The remainder of this report is structured as follows:

Sections

- 2 Terms of the Offer
- 3 Scope of this Report
- 4 Industry Analysis
- 5 Background to Heron
- 6 Valuation of Heron
- 7 Evaluation of the Offer
- 8 Declarations and Disclosures

Appendices

- A Glossary of Abbreviations
- B Sources of Information
- C Report from REC

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2 Terms of the Offer

2.1 Takeover Announcement

On 8 February 2000 Were Stockbroking Ltd trading as JB Were & Son ("JB Were"), a member corporation of the ASX, announced on behalf of its client Centaur Nickel, a wholly owned subsidiary of Centaur, that:

- (a) During that day and the period of 14 days from that date, JB Were would, on behalf of Centaur Nickel, acquire at a price of 30 cents (or at any higher or lower price that may be deemed by virtue of section 677 or section 681 of the Law), all Heron shares offered to it at official meetings of the ASX or at official meetings of any subsidiary of the ASX provided such shares may be acquired in the ordinary course of trading on the stock market of that stock exchange.
- (b) During the period of one month commencing on 23 February 2000 (being the first trading day after the end of the said period of 14 days) and ending at the close of trading on 23 March 2000, JB Were would, on behalf of Centaur Nickel, accept at the price of 30 cents (or at any higher or lower price that may be deemed by virtue of section 677 or section 681 of the Law), all Heron shares offered to it at official meetings of the ASX or at official meetings of any subsidiary of the ASX.
- (c) As this is an on-market offer, accepting shareholders may only accept the Offer through members of the ASX and accordingly brokerage and applicable stamp duty will be payable on sales of their Heron shares. The brokerage and applicable stamp duty will be borne by the accepting shareholder. Centaur Nickel will bear its own brokerage and will pay its applicable stamp duty on transfers of Heron shares pursuant to acceptances of the Offer.
- (d) Heron shares will be accepted by JB Were, on behalf of Centaur Nickel, up to the close of trading on the ASX on 23 March 2000 (unless extended as permitted under the Law).
- (e) In accordance with section 684 and section 685 of the Law, at any time before the end of the period in which the Offer remains open for acceptance, Centaur Nickel reserves the right to withdraw or make application to the ASIC to suspend acceptances in respect of those offers that have not been accepted.
- (f) The provisions of Division 1 of Part 6.4 of the Law will apply to the Offer and to all acquisitions pursuant to acceptance of the Offer.

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The above is only a summary of the announcement made by JB Were on behalf of Centaur. The full particulars of the Offer are documented in the Part C Statement prepared by Centaur Nickel.

2.2 Provision of Cash Consideration

Immediately prior to the making of this announcement, Centaur Nickel held legally and beneficially and was entitled to (within the meaning of the Law) 15,890,310 shares representing approximately 19.7% of all Heron shares.

The consideration for the acquisition of the Heron shares to which the Offer relates will be 30 cents per Heron share. If the Offer was fully accepted, the consideration which Centaur Nickel would be obliged to pay would total \$19,475,568.

The necessary funds to pay the consideration will be lent to Centaur Nickel by Centaur. Centaur has irrevocably agreed to provide such funds from its on-hand existing cash reserves.

The Part C Statement prepared by Centaur Nickel states that Centaur's on-hand existing cash reserves (which are beneficially held by Centaur) are well in excess of the total consideration required of \$19,475,568.

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3 Scope of this Report

3.1 Purpose of this Report

It is a requirement of Section 683 of the Law that where a target company receives a Part C Statement in relation to a takeover offer, it must prepare a Part D Statement which includes comment from each of the target company's directors on their recommendations in relation to the takeover offer.

The Law does not require the directors of a target company to commission an independent expert's report on the fairness and reasonableness of a takeover offer received.

Notwithstanding that there is no statutory requirement for an independent expert's report, the independent directors of Heron have requested PwCS to prepare a report which assesses the fairness and reasonableness of the Offer in order to assist Heron shareholders, and the independent directors in making recommendations to shareholders, to consider whether or not to accept the Offer.

3.2 Basis of Evaluation

Given the purpose of our report, we consider it is appropriate that this report be prepared on the same basis as if it had been required under Section 648 of the Law. Section 648 of the Law stipulates the requirement, in certain circumstances, for an independent expert's report to accompany the Part B Statement issued by a target company in response to a takeover offer via a Part A Statement.

Importantly, the ASIC has issued Policy Statements and Practice Notes which indicate the principles and matters the ASIC expect a person preparing an expert report under Section 648 (and similar provisions) of the Law to consider and meet. In our determination as to whether the Offer is fair and reasonable, we have had regard to the relevant ASIC pronouncements, in particular, Policy Statement 75 and Practice Notes 42 and 43.

3.2.1 Description of Fair and Reasonable

ASIC Policy Statement 75 provides guidance as to how the terms fair and reasonable should be interpreted in the context of reports prepared pursuant to Section 648 of the Law. We have adopted the same meanings of the terms "fair" and "reasonable" for the purposes of this report.

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Fairness

ASIC Policy Statement 75 defines an offer as fair if the value of the offer consideration is equal to or greater than the value of the securities the subject of the offer. The Policy Statement requires the comparison of values to be made assuming 100% ownership of the target company without regard to the percentage holding of the offeror or its associates in the target company.

Accordingly, we have assessed whether the Offer is fair by comparing the 30 cents being offered with the value of a Heron share.

We have assessed the value of each Heron share by valuing Heron as a whole and dividing this value by the aggregate number of ordinary shares on issue. We have also determined the fully diluted value of Heron's shares assuming that all of Heron's options which are in the money as at 8 March 2000 are exercised.

Reasonableness

ASIC Policy Statement 75 defines an offer as reasonable if it is fair. However, an offer may be reasonable despite not being fair if, as a consequence of other significant factors, it would be beneficial for offerees to accept the Offer in the absence of any higher bid before the close of the Offer.

To assess the reasonableness of the Offer we have considered the following significant factors in addition to our comparison of the 30 cents being offered with the value of each Heron share:

- (a) the extent to which the Offer includes any control premium;
- (b) significant shareholding blocks in Heron and the likelihood of an alternative offer;
- (c) the likely share price and market liquidity of Heron shares in the absence of the Offer; and
- (d) the implications for offerees of accepting or rejecting the Offer.

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3.2.2 Valuation Methodologies

ASIC Practice Note 43 provides guidance on the methodologies an independent expert should consider when valuing a target company for the purposes of forming an opinion as to the fairness of a takeover bid in a report prepared pursuant to Section 648 of the Law. The six methodologies put forward by Practice Note 43 are:

- (a) the discounted cash flow method;
- (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets, on the basis a controlling shareholder would seek to maximise the value of its investment;
- (c) the amount which an alternative acquirer might be willing to offer if all the securities in the target company were available for purchase;
- (d) the amount which would be distributed to shareholders on an orderly realisation of assets;
- (e) the most recent quoted price of listed securities; and
- (f) the current market value of the assets, securities or company.

ASIC Practice Note 43 does not suggest that these are the only valuation methodologies which an expert should consider nor that all of the above methods should be used in each case.

We have determined the value of Heron's shares by reference to the fair value of its net assets. We have done this by aggregating the estimated fair market value of Heron's interests in its various mineral exploration projects and then adding the net value of Heron's sundry other assets and liabilities.

In valuing the core interests and sundry assets of Heron, we have sought to identify the price that could be realised in the open market over a reasonable period where potential acquirers had full information. This value is consistent with the amount an alternative offeror might pay to acquire 100% of Heron and is likely to be equal to or exceed the amount that might be distributed to shareholders following an orderly realisation of assets.

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We have not sought to value Heron as a whole by using either a capitalisation of earnings approach or by discounting the company's future cash flows. In our view, these approaches are not appropriate for a company such as Heron where the majority of assets comprise interests in mineral tenements which are at an exploration stage with uncertain future earnings and cash flows. Discounted cash flows were examined, however, as part of the process of considering the value attributable to the Strategic Alliance with Centaur.

We have cross-checked our assessed values for Heron's shares against the recent prices they have traded at on the ASX.

3.2.3 Control Premium

ASIC Policy Statement 75, requires an expert to complete the assessment of the fairness of an offer in the context of a valuation based on 100% ownership of the target company.

The control premium represents the difference between the pro-rata value per share assuming 100% ownership and the price at which small minority shareholdings trade on the stock exchange. Control premiums do not represent a premium over the fundamental economic value of a company's assets valued on the basis of 100% ownership.

Control premiums are typically paid where an offeror seeks to obtain the benefits of controlling the management of the target company. The Offer is for all Heron shares at the date of the announcement not already held by Centaur. Accordingly, in order for the Offer to be fair, it is likely that it would need to incorporate an appropriate control premium.

3.2.4 Procedural Matters

ASIC Practice Note 43 requires that when an expert is not personally authoritative on all matters which must be determined for the purposes of the report, an appropriate specialist should be retained. In this context, we engaged a technical expert, REC, to assist us in forming our views. REC's scope of work was to complete a technical review and valuation of Heron's principal mining and exploration assets.

REC acknowledge that we have relied upon their specialised expertise in these areas. Within the terms of ASIC Practice Note 43, we confirm we are satisfied REC:

- (a) is competent to undertake the above work;
- (b) is independent of and is perceived to be independent of Heron and Centaur;
- (c) has a clear agreement with us concerning the purpose and scope of the required work;

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- (d) has used assumptions and methodologies which do not appear unreasonable, and are drawn from source data which appears appropriate; and
- (e) consents to the use of its report in the form and context which it is included in Appendix C to this report.

Native title claims have been made with respect to tenements in which Heron has interests. Heron is unable to quantify the effect, if any, a successful claim may have over its tenements and for the purposes of this report, we have not considered the potential adverse effect of a successful claim on the value of any or all of Heron's tenements.

Neither we nor REC have investigated the legal aspects of Heron's interests in tenements or agreements. For the purposes of this report we have relied upon the representations of the directors and management of Heron that it has proper title to all tenements and that those tenements are in good standing.

3.3 Sources of Information

The Heron directors have provided us and REC with complete access to the company's records. In addition, we have made use of publicly available information to assist us in forming our opinions.

We have included at Appendix B a comprehensive list of our sources of information. In addition to the information detailed at Appendix B, we held discussions and obtained information from the directors and management of Heron.

We have not made any site visits to any of Heron's exploration areas.

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4 Industry Analysis

Heron's principal assets comprise lateritic nickel and cobalt interests in the Eastern Goldfields region of Western Australia ("Eastern Goldfields"). We have set out below a brief overview of the nickel and cobalt industries, as well as more recent developments in the laterite nickel projects in Western Australia. Further industry information is contained in the attached report from REC.

4.1 Nickel

Nickel is a metal which is used primarily in alloys to impart strength, toughness and corrosion resistance and to improve their properties at both high and low temperatures. It is principally used in the manufacture of stainless steel which accounts for approximately two thirds of total nickel consumption. It is also used in alloyed steel, nickel based and copper based alloys and the production of electroplating.

Primary nickel, a term used to refer to nickel refined from nickel ore, is categorised into two main product classes referred to as Class 1 and Class 2. Class 1 nickel accounts for approximately 55% of world refined production and is refined with a purity in excess of 99% which is essential for super alloys and electroplating. Class 2 nickel comprises the remaining 45% of world refined production and is a lower grade product primarily used in stainless steel production.

Nickel is found in either sulphide or laterite ore deposits. It has been estimated that sulphide ore deposits account for only 30% of known world nickel reserves but around 60% of current production. Laterite ore deposits comprise of 70% of the known world reserves but only 40% of current production.

The production of nickel is largely dependent on ore type and the technologies available. Sulphide deposits are formed by the induction of hot sulphur rich solutions into host rocks usually as verticle intrusions and are normally mined by underground methods. Laterite deposits are residual near surface oxidised deposits formed by leaching and precipitation from prolonged weathering which are suited to open pit mining.

Recently, there has been a renewed interest in lateritic nickel production. Advances in technology via a new economical hydrometallurgical method is now able to treat laterite ore deposits. This factor, in addition to the depletion of high grade sulphide deposits and environmental concerns surrounding the level of sulphur dioxide emissions, has resulted in the commissioning of a number of laterite projects.

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Nickel production is segregated between the western world's nickel producing industry, which is dominated by a relatively small number of producers, and the former Centrally Planned Economies. The major western world producers are Billiton PLC, Inco Limited, Falconbridge Limited, Eramet-SLN Limited and WMC Limited. These producers account for approximately 39% of total world production. The former Centrally Planned Economies account for approximately 34% of total world production in which the former Soviet Union supplies 23% of total world production.

The demand for nickel production is contingent upon world growth rates, inventory stocks and surpluses of scrap metal. Volatility has remained a feature of the market. World primary nickel consumption is segregated between the western world at 93% and former Centrally Planned Economies of 7%. The major consumers are Western Europe, the United States of America, Japan and developing Asia.

The following table provides a summary of the world's nickel production and consumption for the calendar years ending 31 December 1996 to 1998.

	('000 tonnes)		
	1996	1997	1998
Sulphide concentrate production	654	664	720
Laterite ore production	419	433	401
World mine production	1,073	1,097	1,121
Net world consumption	938	1,008	997

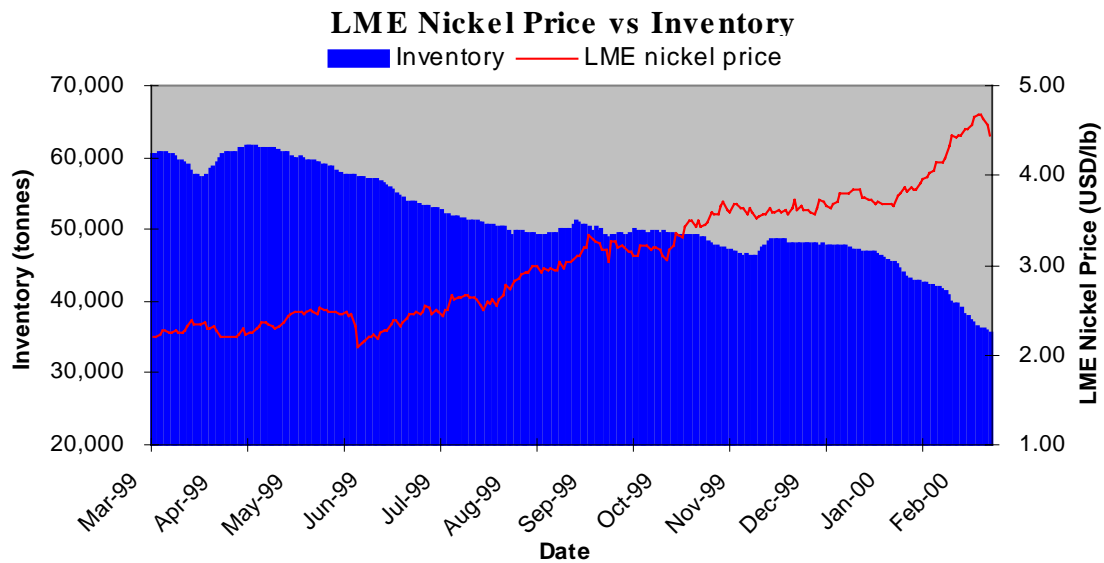
Source: AME Mineral Economics

The London Metal Exchange ("LME") is the world's principal exchange for the trading of primary nickel. Nickel prices have shown a history of considerable volatility that has been caused by supply/demand imbalances. In 1998 and early 1999, the nickel price fell to a cycle low of USD \$1.80 per pound due to concerns of oversupply because of increased production from new laterite nickel producers and weakening demand from Asia. The resultant scale-back of production by major nickel producers, together with the production problems incurred by the new laterite producers that have yet to achieve full production capacity, has led to nickel prices increasing during 1999 and 2000 to a high of USD \$4.69 per pound.

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The following graph illustrates the relationship between the LME spot price of nickel and inventory stockpiles over the 12 month period to 29 February 2000.



Source: D.J. Carmichael Pty Ltd

Future nickel prices will be driven by production levels and economic growth in key consumer nations.

Significant production is anticipated to commence within the Eastern Goldfields region of Western Australia. This factor in addition to increasing supply from other manufacturers is expected to lead to lower longer term prices than those experienced. Reuters has obtained the opinion of 26 analysts that have forecast a mean average nickel price of US\$3.48 a pound for the year 2000.

REC have assumed a long term nickel price of US\$3.00 per pound for the purposes of their analysis.

4.2 Cobalt

Cobalt is primarily produced as a co-product in copper refineries and a by-product in nickel refineries. The major use for cobalt is in the manufacture of steel and super alloys, the chemicals industry, batteries, pigments and paints. Although cobalt is considered to be a by-product for nickel producers, it remains a valuable resource to reduce the operating costs of a mining and processing operation.

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The five largest cobalt producing nations in the world are Zambia, the Democratic Republic of Congo, Canada, Australia and Russia. The African producers account for 25% of world cobalt production. World consumption of cobalt totalled in the order of 29,500 tonnes in 1998.

Cobalt metal is not priced on the LME but is traded on the free market. The two major grades of cobalt metal traded are 99.3% and 99.8% cobalt with their respective prices quoted by Metal Bulletin magazine twice weekly. As with primary nickel prices, historical cobalt prices have been volatile in view of expected quantities and timing of supply and stock levels. Historical cobalt prices have risen to USD\$32 a pound (99.8% cobalt) in late 1995 and a low of USD\$11.30 (99.8% cobalt) by the end of 1998.

The reduced supply from African producers, lower general stock levels and anticipated strong demand for the metal is expected to add support to the present cobalt prices during the current year. The long term supply of cobalt is expected to increase with the expansion in the Eastern Goldfields operations and will provide downward pressure on the price for cobalt. REC have assumed a long term forecast cobalt price of USD\$10 a pound in their analysis.

4.3 Nickel Laterite in the Eastern Goldfields

The Eastern Goldfields has historically demonstrated its potential to host major discoveries in both gold and laterite nickel.

Presently, there are three laterite nickel projects which have been commissioned in the Eastern Goldfields. These are:

- (a) the Murrin Murrin Project ("Murrin Murrin"), owned 60% by Anaconda Nickel Limited ("Anaconda") and 40% by Glencore International AG ("Glencore");
- (b) the Cawse Nickel Operations ("Cawse"), owned 100% by Centaur; and
- (c) the Bulong Project ("Bulong"), owned 100% by Preston Resources Limited ("Preston").

All three projects are using a high pressure acid leach ("HPAL") method to dissolve the metals in their front end processing. This technology was first used commercially at Moa Bay in Cuba in the late 1950's and, until recently, was the only operation using the HPAL process to treat lateritic ore. Each project, however, uses a different back end process for metal recovery. All of the Eastern Goldfield projects have experienced varying difficulties in successfully achieving their targeted production levels.

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Each of the above nickel producers are at varying stages of either expanding, or investigating the viability of expanding, existing operations, as detailed below:

Laterite Nickel Project	Metal Production (tonnes per annum)			
	Current Design Capacity		Proposed/Under Consideration	
	Ni	Co	Ni	Co
Murrin Murrin (Anaconda)	45,000	3,000	115,000	9,000
Cawse (Centaur)	10,000	1,500	40,000*	3,000
Bulong (Preston)	9,000	700	40,000	700
Total	64,000	5,200	195,000	12,700

* With the possibility of increasing to 50,000 tpa.

Source: ASX and other company announcements

Although the above laterite nickel projects indicate a total current capacity of 64,000 tonnes nickel, significant nickel production is not anticipated to occur until mid year 2000. RBC Dominion Securities Inc. estimates nickel production from these three facilities to range between 25,000 to 30,000 tonnes of nickel during 2000.

Anaconda is in the process of commencing the construction of the proposed stage II expansion and has also signed agreements with Preston and Centaur to finance bankable feasibility studies for the potential upgrade and expansion of the existing capacity of both Cawse and Bulong. Market commentators have remarked that the laterite nickel regional expansion within the Eastern Goldfields is being largely driven by Anaconda, which now has as a major shareholder Anglo American Plc.

Centaur has advised that following recent agreements with Gilt Edge Mining NL, Heron and Julia Mines NL, it has sufficient potential nickel laterite resources to support the proposed stage II expansion. Industry commentators have remarked that Cawse Stage II is unlikely to proceed without Centaur owning all of the resources required for that expansion.

Preston's prospective expansion is considered the least likely due to the financial difficulties it is currently experiencing.

Based upon the world figures for 1998, the current capacity of the Eastern Goldfields producers represents 5.7% of world nickel mine production and 6.4% of net world nickel consumption. If all of the potential capacity expansions do proceed, this share would increase to 17.4% and 19.7% respectively, making the Eastern Goldfields a significant global producer of both nickel and cobalt.

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In addition to the above laterite nickel producers, there exists a number of junior resource companies with laterite nickel resources in the Eastern Goldfields region. These companies are:

- (a) Heron;
- (b) Comet Resources NL ("Comet"), which in November 1999 entered into a joint venture with Queensland Nickel Industries (owned by Billiton) for the development of its Ravensthorpe deposit;
- (c) Golden State Resources NL; and
- (d) the merger of the laterite nickel tenement interests of Western Metals Limited and GME Resources Limited to form NiWest announced on 16 February 2000.

Two further publicly listed junior resource companies have laterite nickel resources located in New South Wales, being:

- (a) Black Range Minerals NL (Syerston resource); and
- (b) Jervois Mining NL (deposits at Young and Port Macquarie).

The most recent recorded mineral resources, which are all of inferred resource category, held by the junior resource companies is provided in the following table:

Company	Resource (mt)	Ni %	Co %	Ni Cut-off %
Heron	182.5	1.07	0.09	0.75
Comet Resources NL	152.2	0.80	0.04	N/A
Golden State Resources NL	22.0	0.80	0.06	N/A
NiWest	109.0	1.01	0.07	0.70
Black Range Minerals NL	107.4	0.66	0.11	0.60
Jervois Mining NL	104.0	0.68	0.07	N/A

Source: Company announcements

Industry commentators have remarked that one more major industry participant may seek to align itself with a nickel laterite project in Australia. This could occur through one of the junior explorers noted above.

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5 Background to Heron

5.1 History

Heron was incorporated on 17 February 1995 and listed on the ASX on 7 August 1996 after an initial public raising of \$8 million. Its principal activity comprises the exploration and development of mineral resources within Australia, in particular, nickel and gold deposits in the Eastern Goldfields.

Since listing on the ASX, Heron has pursued a strategy of acquiring substantial tenement holdings in order to maximise its exposure to possible new ore discoveries.

Following the acquisition of strategic laterite nickel tenements during the period between 1997 and 1999, Heron has focused its activities on laterite nickel. Heron has retained 100% ownership of its strategic laterite nickel holdings and has prioritised funds in pursuit of obtaining an economically viable laterite nickel ore body.

In order to enable the continued exploration of its gold tenements, Heron maintains nine joint venture agreements over 106 gold tenements to explore for mineral deposits. The joint venture partners will provide a minimum expenditure commitment of \$0.7 million per annum and will need to expend a minimum outlay of \$7.45 million before equity is transferred. Heron is entirely free-carried up to the commencement of mining and retains a 20% to 50% interest in each of the projects.

At present, Heron has no revenue producing assets and therefore has had to rely on share placements and tenement exchanges as well as the Strategic Alliance with Centaur (as discussed below) to fund ongoing tenement acquisition and exploration.

5.2 Relationship between Heron and Centaur

On 17 September 1999, Heron entered into a Strategic Alliance with Centaur Nickel Pty Ltd, a wholly owned subsidiary of Centaur. Pursuant to this agreement:

- (a) Centaur paid Heron \$3.132 million in cash, of which \$3 million can only be used by Heron for the purpose of funding the exploration programs on particular tenements specified by the Strategic Alliance (“the Specified Tenements”);
- (b) Centaur granted Heron an entitlement to toll mill parcels of ore at 10,000 tonnes per quarter through the current Cawse processing plant for generating metallurgical data and interim cash flow from later in 2000 possibly until mid 2004 when, in the opinion of REC, the proposed expansion of Cawse (“Cawse Stage II”) could be in the commissioning phase;

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- (c) Heron granted Centaur non-executive board representation;
- (d) Heron granted Centaur, the option (which Centaur exercised on 28 September 1999) to be issued 10,440,000 fully paid ordinary shares in Heron for no additional consideration;
- (e) Assuming that Cawse Stage II proceeds:
 - (i) Heron has granted Centaur, from the date of practical completion of the plant for Cawse Stage II, the exclusive right for 30 years to toll mill ore from those parts of the Specified Tenements which become delineated as ore reserves under the Cawse Stage II feasibility study; and
 - (ii) Centaur has granted Heron an entitlement to not less than 20% of the annual ore feed to be processed through Cawse Stage II. Heron will retain ownership of the nickel metal produced from ore supplied and will pay a toll milling charge to Centaur. Heron will not otherwise contribute towards the financing of Cawse Stage II;
- (f) Heron granted Centaur the right of first refusal to toll mill any other ore (excluding delineated ore reserves per (e) above) which is mined from the Specified Tenements or other nickel laterite tenements held by Heron within a 100 km radius of the Cawse processing plant ("Sphere of Influence"), in the event Heron proposes to toll mill any such ore. There are no restrictions to Heron mining and milling such ore other than by toll milling; and
- (g) Heron granted Centaur the first right to accept an offer on the disposal, assignment or farm-out of an interest in the Specified Tenements or tenements in the Sphere of Influence.

The feasibility study for Cawse Stage II (which must demonstrate a processing capacity greater than 1.5mtpa for 30 years) is required to be completed by 19 August 2001. Amongst other things, Heron can terminate the agreement if Centaur does not award the principal construction contract necessary for the construction of Cawse Stage II within two years after completion of the feasibility study. Centaur can terminate the agreement at any time up to 90 days before completion of the feasibility study.

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At this time, there is no certainty that Cawse Stage II will proceed. It is also possible that even if Cawse Stage II does proceed, the Strategic Alliance is terminated by Centaur prior to that time. However, it appears unlikely that Cawse Stage II would proceed without Centaur having access to Heron's ore in one manner or another.

5.3 Operations and Main Projects

5.3.1 Summary of Projects

Heron currently maintains a portfolio of 420 tenements covering a total area of 14,709 km² of which 13,284 km² is located within the Eastern Goldfields. A summary of Heron's interests in mineral tenements as at 30 June 1999 is provided below.

Prospect	Mineral	Number of Projects	Number of Tenements	Area km²
Strategic Alliance Projects	Ni/Au	3	46	903.71
Keith Kilkenny Province	Ni/Au	6	127	2,858.81
Scotia Kanowna Province	Ni/Au	2	20	290.88
Emu Fault Province	Ni/Au	3	36	1140.89
Mungari Province	Au	1	14	45.81
Leonora Laverton Province	Ni/Au	5	41	591.13
Lawrence Find Province	Cu/Zn/Au/Ni	1	7	858.03
Ida Fault Province	Ni/Au	6	56	809.16
Kambalda Domain	Ni/Au	3	30	114.88
Southern Cross Province	Fe/Au/Ni	3	10	885.54
Norseman Province	Au	1	2	19.13
Bremer-Eucla Palaedrainage Province	Oil Shale/Sulphur	2	29	4765.6
Gawler Craton Province	Au/Cu/ Diamond	1	2	1,425.00
Total		37	420	14,708.57

Extensive details of these interests are provided in the report from REC included as Appendix C to this report. Particulars of Heron's more significant projects are summarised below.

5.3.2 Major Projects

Heron's major prospects consist of the three laterite nickel projects covered by the Strategic Alliance, namely Goongarrie Nickel Project ("Goongarrie"), Ghost Rocks Nickel Project ("Ghost Rocks") and the Kalpini Nickel Project ("Kalpini"). Heron also has other significant projects located within the Keith Kilkenny Province ("Keith Kilkenny").

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Heron's inferred nickel resources at a 0.50% Ni cut-off as at 31 December 1999 were:

	Resource (mt)	Ni %	Co %	NiEq %*
Goongarrie	202.3	0.83	0.07	1.12
Ghost Rocks	49.6	0.73	0.06	0.95
Kalpini	92.3	0.81	0.05	1.02
Strategic Alliance sub-total	344.2	0.81	0.06	1.07
Other nickel projects	48.4	0.86	0.06	1.09
Total	392.6	0.82	0.06	1.07

* Defined as contained nickel plus four times contained cobalt expressed as a percentage.

Source: Heron

Heron's deposits are still at the inferred resource estimate category. Nevertheless, its nickel laterite exploration grades represent the highest documented in the Eastern Goldfields.

5.3.3 Strategic Alliance Projects

Goongarrie comprises 24 tenements covering an area of 181.11 km² located approximately 60 km north by north-west of Kalgoorlie. Heron acquired the project area during 1999 via an outright tenement purchase and the exchange of non-nickel tenements. A sectional interpretation and resource estimation has been completed covered by reconnaissance drilling. Additional drilling programs have been scheduled for this year.

Ghost Rocks comprises three tenements covering an area of 207.20 km² located 140 km north by north-west of Kalgoorlie. Heron acquired the project area during 1999. A sectional interpretation and resource estimation has been completed for the project area covered by reconnaissance drilling.

Kalpini comprises 19 tenements covering an area of 515.40 km² located approximately 65 km north-east of Kalgoorlie and 25 km north of the Cawse mining operation and treatment plant. Heron acquired the project following two transactions which occurred during 1996 and 1998. A pre-feasibility and scoping study was completed in March 1999 which identified Heron could produce 26,800tpa nickel metal and 2,230tpa cobalt based on a 2.8mtpa plant.

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5.3.4 Other Nickel Projects

Of the other nickel projects, the two most significant are considered to be the Keith Kilkenny prospects of Lake Rebecca and Yerilla.

Lake Rebecca represents tenement holdings within the Mulgabbie Nickel Project. The project covers an area of 4.37 km² and is located 110 km north-east of Kalgoorlie. Scoping studies are current and metallurgical assessment on bulk drill samples has commenced.

Yerilla represents tenement holdings within the Edjudina Nickel Project. This project covers an area of 671.37 km² and is located approximately 125 km north by north-east of Kalgoorlie. Drill holes have been completed.

5.4 Capital Structure and Ownership

Heron's capital structure and market capitalisation as at 8 March 2000 were as follows:

Security	Number on Issue	Market Price (cents)	Market Capitalisation \$'000
Fully paid ordinary shares	80,808,872	36	29,091
Unexercised options, each to acquire one fully paid ordinary share:			
- at 25 cents, on or before 30/6/2000	10,000,000	Not quoted	N/A
- at 25 cents, on or before 28/8/2001	100,000	Not quoted	N/A
- at 25 cents, on or before 1/09/2001	150,000	Not quoted	N/A
- at 25 cents, on or before 15/12/2001	500,000	Not quoted	N/A
- at 25 cents, on or before 05/3/2002	50,000	Not quoted	N/A
- at 25 cents, on or before 19/12/2002	200,000	Not quoted	N/A
- at 35 cents, on or before 19/12/2002	200,000	Not quoted	N/A
- at 45 cents, on or before 19/12/2002	200,000	Not quoted	N/A
- at 55 cents, on or before 19/12/2002	200,000	Not quoted	N/A
- at 65 cents, on or before 19/12/2002	200,000	Not quoted	N/A

The top five shareholders of Heron as at 22 February 2000, being those holding either directly or indirectly in excess of 2% of the company's issued capital, together with their corresponding option entitlements were as follows:

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Shareholder	Shares		Options		Shares + Options	
	Number '000	Portion of Total	Number '000	Portion of Total	Number '000	Portion of Total
Ian James Buchhorn	21,238	26.3%	10,150	86.0%	31,388	33.9%
Centaur Nickel	15,890	19.7%	-	-	15,890	17.2%
Koltai Holdings Pty Ltd	1,967	2.4%	-	-	1,967	2.1%
Barmenco Pty Ltd	1,900	2.4%	-	-	1,900	2.0%
GHK Mining Pty Ltd	1,580	2.0%	740	6.3%	2,320	2.5%
Sub total	42,575	52.8%	10,890	92.3%	53,465	57.7%
Other	38,234	47.2%	910	7.7%	39,144	42.3%
Total	80,809	100%	11,800	100%	92,609	100%

5.5 Significant Share Transactions

The following transactions involving large parcels of Heron shares have occurred in the year prior to the takeover announcement;

- (a) during January 1999, Heron placed 10,000,000 fully paid ordinary shares at an issue price of 12.5 cents per share for working capital purposes;
- (b) pursuant to a letter of mandate dated 2 July 1999, 768,872 fully paid ordinary shares were provided to Carmichael First Capital Pty Ltd at a issue price of 23 cents per share;
- (c) on 28 September 1999, 10,440,000 fully paid ordinary shares were issued to Centaur pursuant to the exercise of its option under the Strategic Alliance (refer Section 5.2); and
- (d) during the four month period before the date of the takeover announcement, Centaur acquired 2,005,912 additional shares in Heron at a weighted average price of 27 cents per share.

5.6 Results

Heron's results for the last two financial years ended 30 June 1998 and 30 June 1999 as well as the six month period ended 31 December 1999 are summarised below:

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	Audited 30 June 1998 \$'000	Audited 30 June 1999 \$'000	Unaudited 31 Dec 1999 \$'000
Revenue			
Interest received	220	82	104
Proceeds from sale of tenements	-	67	-
Total revenue	220	149	104
Expenditure			
Operating costs	283	688	481
Abnormal item - exploration expenditure written off	480	5,141	-
Total expenditure	763	5,829	481
Operating loss before income tax	(543)	(5,680)	(377)
Income tax attributable to operating loss	-	-	-
Operating loss after income tax	(543)	(5,680)	(377)

Heron has no revenue producing exploration assets and has operated at a loss since incorporation.

5.7 Financial Position

Heron's balance sheets as at 30 June 1998, 30 June 1999 and 31 December 1999 are summarised below:

	Audited 30 June 1998 \$'000	Audited 30 June 1999 \$'000	Unaudited 31 Dec 1999 \$'000
Current Assets			
Cash	2,468	1,286	2,848
Receivables	6	4	10
Total Current Assets	2,474	1,290	2,858
Non-Current Assets			
Property, plant and equipment	194	166	141
Exploration & evaluation costs	11,073	7,682	9,170
Total Non-Current Assets	11,267	7,848	9,311
Total Assets	13,741	9,138	12,169

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	Audited 30 June 1998 \$'000	Audited 30 June 1999 \$'000	Unaudited 31 Dec 1999 \$'000
Current Liabilities			
Accounts payable	233	15	98
Provisions	48	64	78
Total Liabilities	281	79	176
Net Assets	13,460	9,059	11,993
Shareholders' Equity			
Share capital	14,550	15,830	19,141
Accumulated losses	(1,090)	(6,771)	(7,148)
Total Shareholders' Equity	13,460	9,059	11,993

In examining the above balance sheets, it should be noted that accumulated costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, or by its sale, or where the activities in the area have not reached the stage which permits a reasonable assessment of the existence of economically recoverable reserves.

5.8 Statement of Cash Flow

Heron's cash flows for the last two financial years ended 30 June 1998 and 30 June 1999 as well as the six month period ended 31 December 1999 are summarised below:

	Audited 31 June 1998 \$'000	Audited 30 Jun 1999 \$'000	Unaudited 31 Dec 1999 \$'000
Cash Flows from Operating Activities			
Interest received	224	84	83
Proceeds from sale of tenements	-	67	15
Payments to suppliers	(212)	(531)	(458)
Net Cash Flows from Operating Activities	12	(380)	(360)
Cash Flows from Investing Activities			
Exploration expenditure	(3,014)	(2,031)	(974)
Acquisition of plant and equipment	(103)	(21)	(236)
Net Cash Flows from Investing Activities	(3,117)	(2,052)	(1,210)
Cash Flows from Financing Activities			
Proceeds from issue of shares	-	1,250	3,132
Net Decrease in Cash Held	(3,105)	(1,182)	1,562

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	Audited 31 June 1998 \$'000	Audited 30 Jun 1999 \$'000	Unaudited 31 Dec 1999 \$'000
Cash at the beginning of the financial period	5,573	2,468	1,286
Cash at the End of the Financial Period	2,468	1,286	2,848
Non Cash Financing and Investing Activities	1,350	30	179

Non cash financing and investing activities comprise the purchase of interests in mineral tenements for which Heron issued shares as consideration.

Of the above \$2.8 million in cash, Heron has advised us that an additional \$176,000 has been spent on general tenement expenditure since 31 December 1999. A significant portion of the remaining balance can be used only for exploration on tenements covered by the Strategic Alliance (refer Section 5.2). For work outside the Strategic Alliance tenements, Heron would draw on the remaining balance and/or from new funds raised by the exercise of existing options or by other means.

5.9 Expenditure Commitments

In order to maintain current rights to tenure for exploration and mining tenements, Heron had the following discretionary exploration expenditure requirements for the three financial years ended 30 June 1999:

	Audited 30 June 1997 \$'000	Audited 30 June 1998 \$'000	Audited 30 June 1999 \$'000
No later than 1 year	1,450	2,000	2,000
Later than 1 year but no later than 2 years	1,450	2,000	2,000
Later than 2 years but not later than 5 years	4,350	4,000	6,000
Total	7,250	8,000	10,000

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6 Valuation of Heron

6.1 Summary

We have assessed the value of Heron as a whole to be in the range of \$63.6 million to \$88.5 million.

Based on the 80.809 million shares currently on issue, we have assessed the value of each Heron share to be in the range of 79 cents to \$1.10, with a preferred value of 94 cents. Assuming that all of Heron's options which are in the money as at 8 March 2000 are exercised, the value of each Heron share would be in the range of 72 cents to 99 cents, with a preferred value of 86 cents.

Details of our valuation are summarised in the following table:

	Low \$'000	Preferred \$'000	High \$'000
Goongarrie	40,000	47,000	54,000
Kalpini	12,500	16,500	20,500
Ghost Rocks	4,000	5,000	6,000
Other exploration interests	4,500	5,000	5,400
Other net assets/(liabilities)	2,647	2,647	2,647
Net value of Heron	63,647	76,147	88,547
Number of shares on issue ('000)	80,809	80,809	80,809
Undiluted value of each Heron share (cents)	79	94	110
Net value of Heron as per above	63,647	76,147	88,547
Cash received upon the exercise of in the money options	2,820	2,820	2,820
Adjusted net value of Heron	66,467	78,967	91,367
Adjusted number of shares on issue ('000)	92,009	92,009	92,009
Diluted value of each Heron share (cents)	72	86	99

We have valued Heron's core interests and other assets on the basis that these assets are controlled by a single owner. Accordingly our valuation of Heron implicitly includes a control premium and should be considered in that context.

Our assessed values for Heron shares are well above prices at which the Company's shares have traded on the ASX both before and after announcement of the Offer. Potential reasons for this are considered at Section 6.3.2.

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6.2 Net Asset Values

In forming our views on the fair market values of Heron's mineral assets, we have utilised the valuations undertaken by REC which are set out in their report.

We have summarised below the approaches REC have adopted in valuing Heron's mineral assets as well as our approach to Heron's other assets and liabilities.

6.2.1 Goongarrie

REC have formed the view that Goongarrie alone is likely to be able to supply most of the ore that Heron is obligated to provide for Cawse Stage II pursuant to the Strategic Alliance. Goongarrie is considered to have sufficient resources for this purpose and is strategically located in relation to Cawse. REC's analysis indicates that feed available from Centaur's own tenements for Cawse Stage II is likely to be no more than 167 mt of a total required minimum of 240 mt of run of mine ore.

REC have valued Goongarrie by discounting the cash flows estimated to be generated from Heron providing Goongarrie ore to Centaur in accordance with the minimum requirements of the Strategic Alliance. That is, 20% of an assumed capacity expansion of 40,000 tonnes per annum. They have then cross-checked the value resulting from this approach against relevant market benchmarks from recent comparable transactions ("yardstick method").

The discounted cash flow ("DCF") model used by REC for this purpose reflects the following major assumptions;

- (a) the successful commissioning of Cawse Stage II;
- (b) that essentially all of the existing inferred ore reserves at Goongarrie will be required by Centaur for Cawse Stage II; and
- (c) that no more than the minimum 20% of the Cawse Stage II feed requirements will be supplied by Heron.

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All of the above are uncertain at this time. Cawse Stage II may not proceed within the time frame stipulated under the Strategic Alliance. However, if this occurred, Heron would be free to seek to establish a stand-alone operation at Goongarrie or otherwise deal with this resource. Equally, if Cawse Stage II did proceed, in practice, it seems likely that significant quantities of lower grade ore within Goongarrie would not be delineated as ore reserves for Cawse Stage II and would therefore be available to Heron for other uses.

In recognition of these uncertainties, REC has applied a discount of 25% to the values derived under their DCF model.

REC's DCF based values are quite sensitive to a wide range of factors. This includes, but is not limited to, changes in toll mill costs, metal recoveries, the price of nickel and cobalt, the discount rate applied and operational delays in Cawse Stage II.

REC have cross-checked their values derived on this basis against yardstick based values. The two approaches generate similar values.

6.2.2 *Kalpini and Ghost Rocks*

As noted above, it is REC's view that only Goongarrie is likely to be required to satisfy Heron's obligations to provide ore for Cawse Stage II under the Strategic Alliance. This leaves open the possibility for Heron to seek to establish stand-alone operations at Kalpini and/or Ghost Rocks or deal with these projects in another way.

A pre-feasibility and scoping study has been completed by independent consultants on Kalpini. However, REC consider there are too many uncertainties to use a DCF approach for producing a reliable valuation of Kalpini. Further, REC believe the resource base established at Kalpini to date does not clearly justify a stand-alone operation unless likely capital costs can be significantly reduced.

Ghost Rocks is similarly considered by REC as unlikely to support a stand-alone operation at present. More likely, in REC's view, is that Ghost Rocks may ultimately be developed in conjunction with other resources in the area, on a strategic alliance or joint venture basis.

Kalpini and Ghost Rocks have been valued by REC using the yardstick method. In calculating the value of these interests using this method, REC considered relevant market benchmark information obtained from recent transactions involving projects at a similar stage of development.

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6.2.3 Comparable Transactions Used by REC

The recent comparable transactions used by REC to derive yardstick based values for Goongarrie, Kalpini and Ghost Rocks are set out at Section 11.2 of REC's report and are summarised below:

Transaction	Value per tonne Ni (\$)	Value per tonne NiEq* (\$)	REC comments in relation to transaction
Cawse Extended	0.18	21	Dated agreement, though otherwise similar to Goongarrie
Abednego	0.45	43	Early use at Murrin Murrin; more information known
Mount Margaret	0.14	14	Remote project, similar to Ghost Rocks
Pinnacles	0.18	17	Low tonnage deposit but well located for Bulong
Sale of Ramu	0.19	14	More advanced than other projects but PNG connection
Syerston	0.38	34	Different style; more advanced and benefits from Pt credit

* Defined as contained nickel plus four times contained cobalt expressed as a package.

6.2.4 Other Exploration Interests

Heron's remaining mineral assets were valued by REC principally by using the multiple of past expenditure method based upon their knowledge and experience. The most significant of Heron's remaining mineral assets are Keith Kilkenny and the Scotia Kanowa Province which REC has valued at \$2.9 million and \$1.3 million respectively. No other single province was valued at more than \$300,000.

6.2.5 Other Net Assets/(Liabilities)

After due inquiry, we believe all other assets and liabilities are fairly represented at book value on the basis that Heron continues to operate in accordance with its current strategy and as a going concern.

6.3 Share Price Values

6.3.1 Trading History

The performance of Heron's shares on the ASX during the 12 months period ended 29 February 2000 is summarised in the table below and depicted graphically thereafter.

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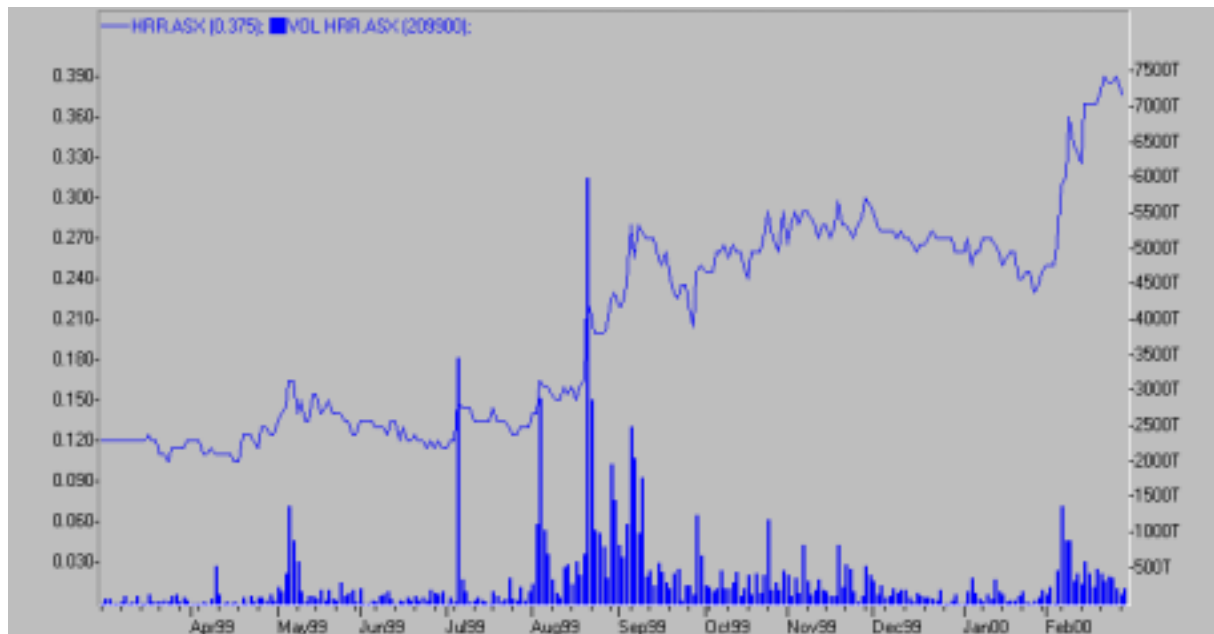
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Month	Share Price (cents)			Traded '000	Volumes	
	Low	High	Weighted Average		Percentage of Shares then on Issue	Number of transactions
March 1999	10	14	12	810	1.2%	43
April	11	13	12	1,298	1.9%	49
May	13	18	15	5,213	7.5%	209
June	12	14	12	1,571	2.3%	78
July	12	15	13	5,323	7.6%	109
August	14	24	19	24,839	35.7%	1026
September	21	30	25	15,791	22.7%	826
October	23	31	27	6,443	8.0%	396
November	27	30	28	6,401	8.0%	314
December	26	30	27	2,400	3.0%	169
January 2000	23	28	26	2,161	2.7%	133
1-7 February*	24	31	27	2,139	2.6%	105
8-29 February*	32	39.5	36	6,397	7.9%	546

* The Takeover announcement was made on 8 February 2000.

Source for table and graph: IRESS

Heron's daily closing share price and trading volumes



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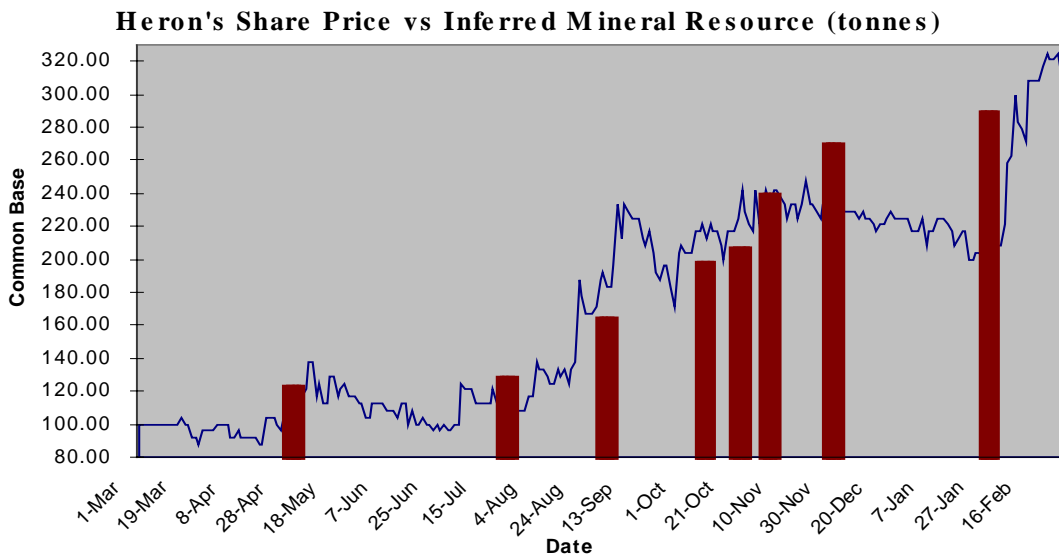
In the period from 1 March 1999 to 7 February 2000 (the day immediately prior to Centaur's takeover announcement), Heron's share price has traded in the range of 10 cents to 31 cents and has displayed an upward trend. Volumes traded have varied significantly each month.

The general movement in Heron's share price and the periods of significant trading activity in its shares is consistent with the following events:

- (a) the announcement of the Strategic Alliance which occurred mid August 1999;
- (b) announcement of laterite nickel resource upgrades in September and October 1999;
- (c) the release to the ASX of Heron's 30 September and 31 December 1999 quarterly reports which contained further updates of Heron's inferred resources; and
- (d) a significant increase in nickel spot prices.

Following Centaur's takeover announcement and up to 8 March 2000. Heron's share price has traded in the range of 32 cents to 39.5 cents with a weighted average share price of 36 cents. The volume of shares traded during this period represents 9.2% of Heron's total issued capital.

Using a common base of 100, the relative increase in Heron's closing share price compared to announcements of its inferred resources at a 0.5% cut-off during the preceding 12 months to 29 February 2000 is shown by the following graph.



Note: Heron's share price is depicted by the line. The inferred mineral resource is depicted by the columns.

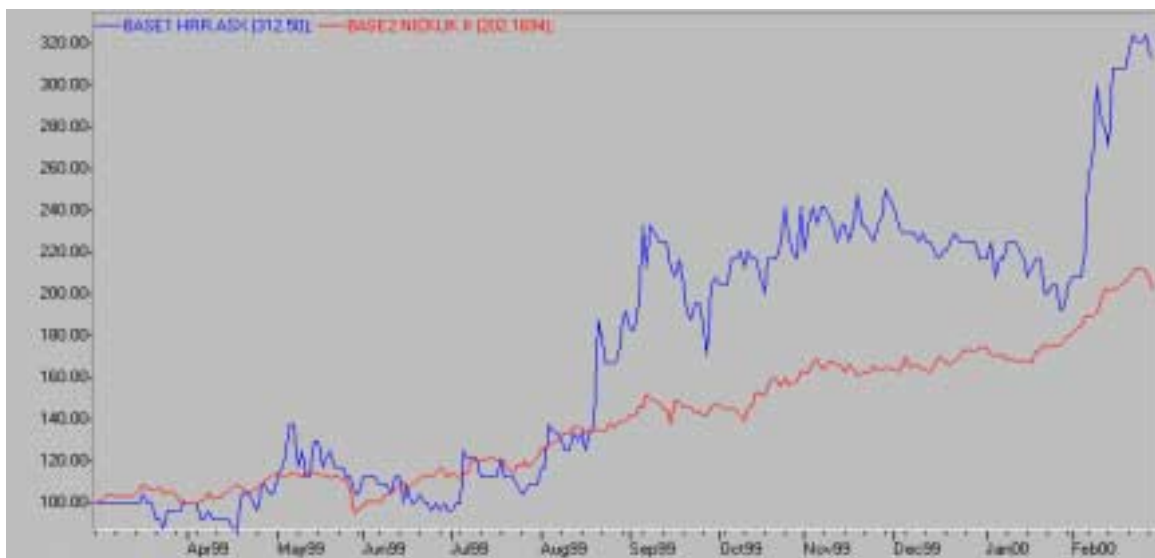
Source: IRESS and company announcements

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Using a common base of 100, the relative increase in Heron's closing share price compared to the nickel spot price during the preceding 12 months to 29 February 2000 is illustrated by the following graph.

Heron's Share Price vs Nickel Spot Price



Source: IRESS

The graph above indicates a positive relationship between Heron's share price and the spot price of nickel. Up until the end of August, however, the share price has underperformed the nickel spot price. Following the announcement of the Strategic Alliance and significant ore resource upgrades in September and October, the share price has outperformed the spot nickel price.

Comparing the two graphs above, we observe that there appears to be a stronger relationship between Heron's share price and its inferred mineral resources than the nickel spot price. This is consistent with the fact that Heron is a junior resource company which is still in the exploration phase. It is therefore to be expected that Heron's inferred mineral resources would have a stronger short term effect on its share price than the nickel spot price unless movements in the nickel price reflected a change in the long term industry outlook.

6.3.2 Comparison with Valuation of Heron Shares

The value we have ascribed to Heron shares is considerably higher than the prices at which Heron's shares have traded on the ASX.

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During the three month period prior to the takeover announcement, Heron's share price ranged from a low of 23 cents to a high of 31 cents, with a weighted average price of 27 cents. Heron's share price as at 8 March 2000 was 36 cents. The value we have ascribed to Heron shares in Section 6.1 ranges between 72 cents and 99 cents on a fully diluted basis.

Part of this difference is represented by the premium for control attributable to obtaining 100% ownership of Heron. For successful Australian takeovers in recent years, the average premium over the market price prior to a bid's announcement has typically been in the range of 20% to 40%. While this is considered the 'normal range' for observed control premiums, many transactions have been observed to occur at values which lie significantly outside of this normal range. Using typical takeover premiums, the control premium component would be in the range of 7 to 14 cents, although as noted, control premiums can be much larger or smaller than this range. We consider that a significant premium can be justified, particularly by Centaur, to obtain 100% control of Heron due to:

- (a) the benefit of securing ownership of the high grade Goongarrie deposits for Cawse Stage II; and
- (b) the quality and geographic location of Heron's resources which makes it attractive to existing industry participants in the Eastern Goldfields or another party seeking to align itself in the nickel laterite industry in that region.

The remaining difference between our value of Heron shares and the share market price is difficult to evaluate. A possible explanation is that the market has discounted the value of Heron's shares as a result of uncertainty over the implications to Heron of the Strategic Alliance, at least until the decision is taken on whether Cawse Stage II will proceed. The provisions of the Strategic Alliance are quite complicated and it could be considered by the market that this agreement has reduced some of the alternatives otherwise available to Heron or another party seeking to control or align with Heron. The market may have factored in a greater risk to the probability of Cawse Stage II proceeding and the related risk this presents to Heron. There may also be concerns with the capacity of the industry to undertake further transactions in nickel laterite deposits at prices which have been paid in the recent past.

Our valuation of Heron reflects prices paid in the recent past for nickel laterite projects. The impact of the Strategic Alliance has been explicitly considered in the valuation of Goongarrie and the ascribed value is consistent with yardstick based values for that project. The Strategic Alliance has not been regarded as detracting from the value of Heron. We consider this to be an appropriate approach for the purposes of our assessment.

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7 Evaluation of the Takeover Offer

7.1 Summary

We have valued the shares of Heron in the range of 72 cents to 99 cents on a fully diluted basis, with a preferred value of 86 cents. This value significantly exceeds the Offer of 30 cents for each Heron share. Accordingly, in our opinion, the Offer is not fair. Furthermore, as detailed below, there are no additional factors which cause us to conclude that the Offer is reasonable.

7.2 Absence of any Control Premium

It is usual for a takeover offer to incorporate a premium over the price at which small parcels of shares trade to reflect the benefits of 100% control of a company. As previously discussed premiums of 20% to 40% have typically been paid over pre bid market prices although transactions have been observed to occur at values significantly outside of this range.

The Offer represents no premium to the highest traded price of Heron shares during the last full week prior to the announcement of the bid. Consequently, the Offer does not incorporate a premium for control to reflect the benefits to Centaur of acquiring 100% of Heron.

Centaur is in a unique position to obtain synergistic benefits from a successful takeover of Heron due to the proximity of Goongarrie and its importance to Cawse Stage II.

7.3 Potential for an Alternative Bid

We have considered the possibility of higher alternative offers being made for Heron. In this regard, we have been advised by the directors of Heron that no alternative offers have been received to date and are not expected prior to expiration of the Offer. We are of the view that another bidder for Heron is unlikely to emerge in the immediate future.

Heron's single largest shareholder prior to the takeover announcement was Mr Ian James Buchhorn who had a total direct and indirect interest of 26.3% (undiluted basis). Mr Buchhorn has no intention to make a rival offer for Heron's shares. There are no other significant Heron shareholders other than Centaur which we believe would be likely to bid for Heron.

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Accordingly, at present Centaur appears to be the only probable bidder for Heron. We are of the view, however, that in the longer term the possibility of an alternative offer cannot be totally dismissed, although such an offer would need the support of Centaur and Mr Buchhorn in order to be successful.

7.4 Market for Heron Shares Post Bid

We are not aware that Centaur has increased its interest in Heron through this bid. Consequently, there is a high probability that there will still be sufficient Heron shares available to allow an efficient and liquid market.

The Heron share price rose in response to the takeover announcement. Whilst information included in this report may lead to a re-rating of Heron's share price it is possible that if the Offer lapses there may be a reduction in the market price for Heron shares in the shorter term. Based on our analysis in this report, however, we would expect Heron's share price in the longer term to trade above the Offer.

7.5 Potential Taxation Liabilities Facing Shareholders

Heron's shares have shown significant capital growth over recent years and when considering their response Heron shareholders should note that acceptance of the Offer may result in capital gains or income tax liabilities.

Heron shareholders should consider their individual income tax circumstances before responding to the Offer. We recommend that if offerees are in any doubt over what action they should take they should consult an appropriate adviser.

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8 Declarations and Disclosures

8.1 Qualifications

PwCS is beneficially owned by the partners of PricewaterhouseCoopers ("PwC"), a large international firm of chartered accountants and business advisors. PwCS is a licensed securities dealer under the Law and, as such, is licensed to provide advice on security related matters.

Mr Andrew Edwards, the person responsible for the preparation of this report, is a Perth based partner in PwC with extensive experience in the preparation of corporate valuations and the provision of corporate financial advisory services to corporations involved in capital raisings, merger and acquisition situations.

8.2 Reliance on this Report

This report has been prepared solely for the purposes detailed in Section 3.1 of this report and should not be used for any other purpose. This report has been prepared solely for the benefit of the independent directors of Heron and for the benefit of those persons who are expressly entitled to accept the Offer. We accept no responsibility for any reliance on this report by any parties other than those for whom it was intended, or for any purpose other than that for which it was prepared.

Notwithstanding the opinions given within this report, we advise that an offeree's decision as to whether or not to accept the Offer may be influenced by their particular circumstances (eg taxation considerations). We recommend that if offerees are in doubt over what action they should take, then they should consult their own professional advisers for independent advice on what is the appropriate action to take under their individual circumstances.

8.3 Reliance on Information

In preparing this report we have relied upon information made available to us by Heron. Based upon our discussions and inquiries, we have no reason to believe that the information provided to us by Heron was inaccurate, misleading or incomplete. However, we have not endeavoured to seek any independent confirmation of its accuracy, reliability or completeness. In particular, we do not imply, nor should it be construed, that we have carried out any form of audit or other verification of the financial information provided.

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Independent Expert's Report

In preparing this report we have also relied upon the information and opinions expressed in the REC report.

In addition, we considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

Neither we nor REC have investigated the legal aspects of Heron's interests in tenements or agreements. For the purposes of this report we have relied upon the representations of the directors and management of Heron that it has proper title to all tenements and that those tenements are in good standing.

The conclusions of this report are based on assessments made, and information available at the date of this report. Accordingly, we reserve the right (but will be under no obligation) to amend the conclusions of this report insofar as further information relevant to the forming of our conclusions becomes known to us after the date of this report, but prior to the expiry of the Offer.

The statements and opinions included in this report are therefore given in good faith and in the belief that they are based upon information which, on reasonable grounds, is not false, misleading or incomplete. Accordingly, we assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information that is otherwise.

8.4 Independence

We have considered our independence from both Heron and Centaur, having regard to ASIC Policy Note 42, and we do not consider that there are any circumstances which conflict with our independence from either Heron or Centaur or which hinder our ability to provide objective independent advice to persons entitled to accept the Offer.

Neither PwCS, PwC nor the author of this report have, at the date of this report, or have had within the previous two years, any shareholding in or other relationship with either Heron or Centaur (other than the provision of professional services for time based fees) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Offer.

Neither PwCS, PwC nor the author of this report have any interest in the outcome of the Offer.

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PwCS is entitled to receive a fee from Heron based on normal professional hourly rates for the time taken in respect of the preparation of this report. In addition to this fee, REC is also entitled to receive a separate fee from Heron based on normal professional hourly rates for the time taken in respect of the preparation of the report commissioned by PwCS and included in Appendix C of this report. All fees are payable regardless of whether or not the Offer is accepted by the shareholders of Heron.

8.5 Indemnity

The terms of PwCS's appointment include a provision that Heron will indemnify PwCS, PwC, its employees, officers and agents against any claim, liability, loss or expense, cost or damage and liabilities arising out of reliance on any information or documentation provided by Heron which is false or misleading or incomplete.

8.6 Consent

PwCS has consented in writing to the inclusion of this report in the form and context in which it appears as an annexure to the supplementary Part D Statement prepared by the independent directors of Heron which will be distributed to Heron shareholders.

Neither PwCS nor PricewaterhouseCoopers have authorised or caused the issue of all or any part of the supplementary Part D Statement. Neither the whole or any part of this report nor any reference to it may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior consent of PwCS to the form and context in which it appears.

Glossary of Abbreviations

Anaconda	Anaconda Nickel Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited
Au	Gold
Bulong	Bulong Nickel Project
Cawse	Cawse Nickel Operations
Cawse Stage II	the proposed expansion of Cawse
Centaur	Centaur Mining & Exploration Limited
Centaur Nickel	Centaur Nickel Investments Pty Ltd
Co	Cobalt
Comet	Comet Resources NL
Cu	Copper
Company	Heron Resources NL
DCF method	discounted cash flow method
Eastern Goldfields	Eastern Goldfields Region of Western Australia
Fe	Iron
Ghost Rocks	Ghost Rocks Nickel Project
Glencore	Glencore International AG
Goongarrie	Goongarrie Nickel Project
Heron or HRR	Heron Resources NL
Heron shares	Heron fully paid ordinary shares
HPAL	high pressure acid leach process
independent directors in the money options	directors of Heron which are independent of Centaur options where the exercise price is less than the share price
JB Were	JB Were & Son
Kalpini	Kalpini Nickel Project
Keith Kilkenny	Keith Kilkenny Province
Law	Corporations Law
LME	The London Metal Exchange
mt	million tonnes
mtpa	million tonnes per annum
Murrin Murrin	Murrin Murrin Nickel Project

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Independent Expert's Report

Glossary of Abbreviations (continued)

Ni	Nickel
NPV	net present value
Offer	the takeover offer by Centaur for all Heron shares
Preston	Preston Resources Limited
PwC	PricewaterhouseCoopers
PwCS	PricewaterhouseCoopers Securities Ltd
REC	Resource Equity Consultants Pty Ltd
Specified Tenements	tenements specified by the Strategic Alliance
Sphere of Influence	100 km radius of the Cawse processing plant
Strategic Alliance	the Strategic Alliance Agreement
tpa	tonnes per annum
weighted average share price	the total value of shares traded during a period divided by the total volume of shares traded during that period
yardstick method	relevant market benchmarks from recent comparable transactions
Zn	Zinc

Sources of Information

1. the Strategic Alliance Agreement;
2. Heron Resources NL – company records including annual, half yearly and quarterly reports, geological reports, and other information;
3. Stockbroker reports on the laterite nickel industry and Australian nickel companies;
4. The REC report;
5. Centaur’s Part C Statement;
6. IRESS – integrated real time equity system;
7. Heron’s Part D Statement;
8. Thompson Financial Securities Data – takeover premiums within the Australian resource industry;
9. Mining Journal, London;
10. AME Mineral Economics;
11. D.J. Carmichael Pty Limited;
12. Connect 4 – company announcements;
13. Abednego Nickel Limited – Part B Statement;
14. QNI Limited – Part B Statement;
15. KPMG Corporate Finance (Aust.) Pty Ltd – Independent Experts Report addressed to Centaur Mining & Exploration Limited dated 8 December 1999; and
16. Northwind Resources NL independent assessment of New Hampton Goldfields Limited dated 18 October 1999.