



Heron Resources

TAKEOVER TARGET ?

CARMICHAEL Research

Buy around 34¢ in anticipation of a takeover.....

1. Heron Resources NL (HRR) owns substantial lateritic nickel/cobalt deposits in close proximity to Centaur Mining & Exploration Ltd's (CTR) lateritic nickel/cobalt plant at Cawse near Kalgoorlie.
2. HRR has a Strategic Alliance with CTR to provide ore to the Cawse plant.
3. CTR is currently undertaking a feasibility study into expanding the plant (Cawse Stage II) and could find it difficult to finance Stage II without 100% ownership of HRR's ore deposits.

HRR's immediate strategy has been to continue to upgrade and expand its resource base. In its latest quarterly report HRR announced its global resource base increased by some 200+% to over 400 million tonnes. Based on this increase and the strategic nature of the deposits, we have upgraded our valuation of HRR to around 75¢ per share.

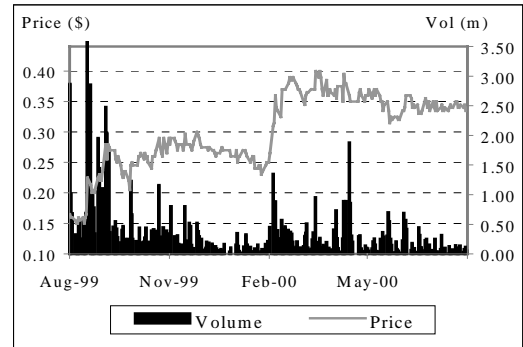
In our opinion HRR's deposits are now of a sufficient size to force a re-think of the location for the Cawse II plant. HRR's resource base elevates it to "key player" status in a future regional rationalisation of the Eastern Goldfields nickel laterite industry.

In February, CTR (17.5% HRR) recognised the potential of HRR's resource base and announced a 30¢ on-market cash takeover offer for the nickel laterite junior. The offer was unsuccessful and CTR warned HRR shareholders, that once the bid closed, HRR's share price would slip below 30¢. This did not occur and the shares have traded around 34¢.

QUARTERLY REPORT UPDATE:

- Since CTR formed the Strategic Alliance with HRR, the Company's resource (at 0.75% Ni cut-off) has increased 214% from 84.9mt to 182.1mt @ 1.07% Ni and 0.08% Co (Strategic Alliance sub-total now 152.2mt). The global resource (0.5% Ni cut off) has increased 233% from 174mt to 405mt @ 0.8% Ni and 0.06% Co. Over that time the nickel price has increased from US\$2.94/lb in August 1999 to US\$4.81/lb. The current price is US\$3.37/lb.
- The Goongarrie South resource is quite spectacular in size and would be the early contributor to the Cawse II Alliance.
- Significant "on-ground" activity comprising in excess of 16,000 metres of drilling and other studies were completed during the June quarter. Approximately 22.5% of the mineralisation within the Strategic Alliance has now been elevated to Indicated status.
- HRR has elected not to send ore to Cawse Stage I as CTR have not sufficiently lowered operating costs at Cawse for there to be a financial benefit to HRR shareholders.

Rating 1-5		****
ASX Code		HRR
Price	cents	34.0
Shares	m	91.0
Options	m	1.8
Market Capitalisation	\$m	32.7
Weekly Turnover	m	3.7
Cash position (as at 30/6/00)	\$m	3.9
Debt	\$m	NIL



VALUATION: We have used QNI's recent investment in Comet Resources' (CRL) Ravensthorpe Project (A\$36m for 40%) as a means of valuing HRR's insitu resource.

QNI's purchase, pro-rated to a 100% interest, equates to A\$0.28/lb of insitu Ni metal equivalent (Ni+4Co) or an insitu value per share of \$1.18 using CRL's current issued capital. Applying the same logic, a similar purchase of HRR would equate to \$1.43 per share for the Strategic Alliance resource base or \$1.70 per share for the entire HRR resource base.

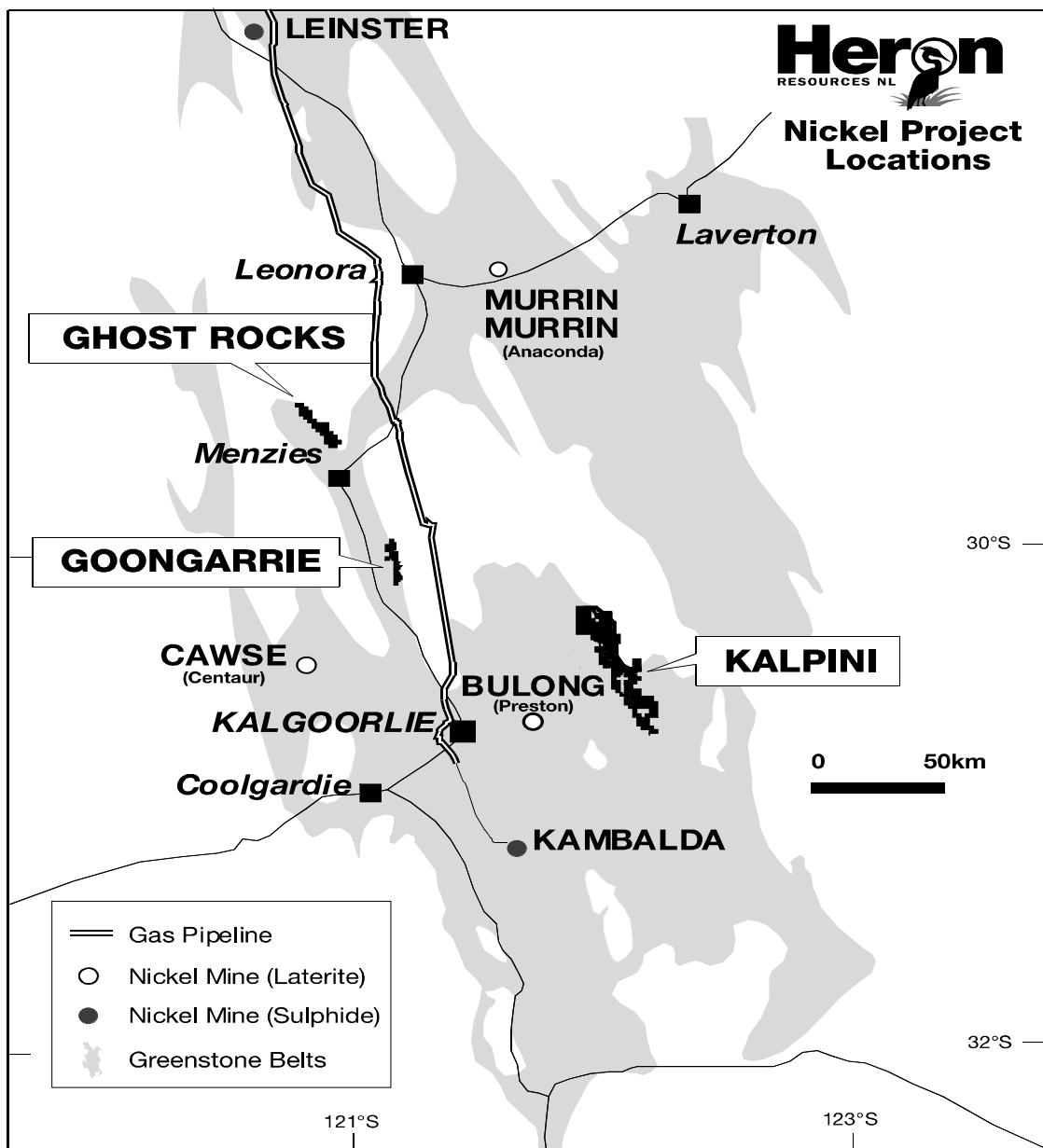
CRL is now trading at a 53% discount to the insitu value per share. Using CRL's current share price as a benchmark for calculating the discount to be applied to nickel laterite projects in the pre-development phase, HRR should trade at \$0.76 per share.

BACKGROUND: HRR listed in 1996 and in early 1997 HRR decided to balance its portfolio and in July 1997 commenced exploration for lateritic nickel and the acquisition of prospective targets. In August 1999 HRR and CTR entered into a Strategic Alliance whereby HRR can toll mill ore through the Cawse Stage I plant and is entitled to provide a minimum 20% feed for Cawse Stage II.

The board comprises Rod Evans (Chairman), Ian Buchhorn (Managing Director), Bob Colville (Director) and Peter Lee (CTR Rep). Board's direct/indirect interest is 34% of issued capital.

RISKS: Delays in the granting of ML's due to the Native Title process. The political risk profile for Australian projects offers the lowest risk compared to the major producing countries of Cuba, Indonesia and New Caledonia.

Financing of a large standalone project will be difficult without a major strategic or technical partner for leverage in raising the significant funds required to construct a mining and treatment operation.



14th August, 2000

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