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**Heron Resources Limited**

Heron Resources Limited  
21 Close Way  
Kalgoorlie  
Western Australia 6430



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Heron Resources Limited (ASX code: HRR) has expanded the atmospheric leaching scoping study for the Yerilla Project to evaluate annual production of 20,000 tonnes of nickel. What is the Yerilla Project and how does it relate to the Company's Jump-up Dam Project which the market is more used to hearing about?

**MD Mat Longworth**

The Yerilla Project is the collective name Heron has given to all of its nickel laterite projects in the Eastern Goldfields outside of the Kalgoorlie Nickel Project. These projects are Jump-up Dam, Boyce Creek and Aubils. Jump-up Dam therefore is now only one part of the bigger Yerilla Project, albeit the most advanced from a resource confidence point of view.

Heron always had the view during the heap leach studies that ore from either of Aubils or Boyce Creek could feed into a processing facility at Jump-up Dam. Positive drilling results from Boyce Creek and Aubils has led us to look at a bigger operation utilising ore from all three projects.

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If Jump-up Dam wasn't going to work as a heap leach, why will Yerilla work as an atmosphere leach operation?

**MD Mat Longworth**

There are at least four good reasons why we believe that atmospheric leach will deliver us an economic project where heap leach was unable to do so.

Firstly, atmospheric leaching will allow us to beneficiate the ore before the ore is leached.

Beneficiation is a simple, low cost screening operation which may remove up to 60% of the low grade waste before leaching. This has the effect of increasing the grade of the ore that is ultimately leached by a factor of around 40% and reducing the mass of the ore that is leached.

So 1% Ni mined goes into the leach tanks at say 1.3-1.4% Ni. This should significantly improve the economics of the project as a screen upgrade just wasn't available in heap leach.

The second reason why atmospheric leaching will deliver benefits over heap leaching is that the reduced mass of ore to be leached means less acid is required. Acid and the sulphur from which it is produced are significant components of the project's operating costs. Also the atmospheric leach technology in any event has a lower unit acid consumption compared to heap leaching.

The third reason is that beneficiation allows an increased portion of the Yerilla resource base to be treated (depending on beneficiation performance). This means that the potential exists for a 20,000 tonne of nickel per annum operation over at least a 10 year mine life.

The final immediate advantage of atmospheric leaching over heap leaching is that it requires less water and the water can be more saline. This will be a saving because we believe that we will require less money to search for water as we are confident that we already know where we can source the water from and it will require less money for infrastructure (pipelines, etc.) as the source we intend to use is close to the project.

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The Company's switch from considering Jump-up Dam as a stand alone heap leach operation at 10,000 tonnes of annual nickel production to considering the Yerilla Project as an atmosphere leach operation at 20,000 tonnes of annual production may seem that Heron is starting again from scratch. Is that correct?

#### **MD Mat Longworth**

Certainly not. The majority of the work and testing performed for the pre-feasibility studies for the heap leach operation was in drilling for resource modelling, drilling for ore classification to model leaching characteristics for production scheduling and trial mining to cross check that ore classification. The work done on the intermediate product precipitation is applicable to the atmospheric leach process. The only new part of the work is the actual leaching process. All of that work can be, and is being, used in our scoping study for atmospheric leaching. Indeed if we had to start the atmospheric leaching scoping study from scratch it would take us months longer by reason of having to perform all of that work we conducted during the heap leach studies.

The other thing to note is that through our work on the heap leach studies we developed a strong relationship with BHP-Billiton and were able to execute the Technology and Supply Agreement with them. That agreement gives us access to their intellectual property and patents in relation to atmospheric leaching as well as to other nickel laterite intellectual property that BHP-Billiton owns.

So all in all although the heap leach studies ultimately ended up being negative they have provide us with a tremendous springboard for our atmospheric leaching studies and hopefully project development.

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Your recent drilling program has added a further 20% to contained nickel resources at Jump-up Dam. How will these new resource additions guide your scoping study development options? What is the current focus of exploration in the Yerilla Project?

**MD Mat Longworth**

These additional resources, along with Boyce Creek and Aubils, which are currently being estimated, provide the basis for the expanded project.

These resource upgrades are the culmination of the last 12 months of drilling reflecting also the increased level of understanding from trial mining and extensive drilling including core drilling. The results are extremely positive and enable Heron to target annual production of 20,000 tonnes over an extended mine life.

Exploration in the Yerilla district is focused on two areas. The first is increasing the confidence of the existing resource base so that Heron can confidently model 20,000 tonnes of annual production over a 10 year mine life.

The second focus of current exploration in the Yerilla region is defining the local calcrete available for use as a neutralisation agent to replace the more expensive imported limestone. Proving up enough calcrete with the right neutralisation properties to 100% replace limestone in the project will enhance project economics.

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So when will you know if the Yerilla Project looks positive utilising Atmospheric Leaching technology?

**MD Mat Longworth**

The Scoping Study is due for completion in July/August of this year so we will know at that time whether the project warrants progression to a pre-feasibility study.

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You mentioned that you will follow a partnering process similar to KNP for development of the Yerilla Project. What does that mean?

**MD Mat Longworth**

At 20,000 tonnes per annum, Yerilla will be a significant nickel producer requiring capital expenditure to build in the order of \$1 billion. At that sort of scale it is too big for Heron to develop alone. So we will look to attract a partner to develop the project with us soon after completion of the scoping study.

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In your March 2008 quarterly report, the Board announced it had made a strategic decision to “acquire a near term production asset”. Can you provide any more detail on the progress of your evaluation? Why have you chosen to diversify your interests away from your core strength in nickel? Does this mean that organic growth has become too expensive?

**MD Mat Longworth**

This company has been very successful at identifying and developing large long-life projects and then teaming up with majors to realise these projects. We’ve done this with the Kalgoorlie Nickel Project and Yerilla looks like going the same way.

Whilst being a strong model, development timetables for large projects are longer and the market seems to reward current cash flow much more highly than future cash flow from these large projects. We are looking to build on our current larger, longer term assets by acquisition of a near-term production or producing asset. This building process may well take us outside of nickel and potentially outside of Australia.

Rather than limiting ourselves geographically or to one commodity, we believe it is more important to secure a quality cash flow. We’ve completed two evaluations on projects which did not meet our requirements however, we’re still talking to many parties and actively seeking opportunities. Our priority though is securing a positive cash flow to help fund our KNP and Yerilla exploration and development aspirations as first cabs off the rank.

We don’t see organic growth as expensive. The reality is that it has longer lead times and a much greater risk-reward profile. We’re not stepping away from that model, but adding the cash flow project to generate market recognition in the near term and be self sufficient from a working capital and short term funding point of view.

We very much intend to continue the organic growth success Heron has had to date and remain very active in exploration with a range of targets which may form the basis for our next major project. One is at the Balladonia Project, where we have extensive resources of low grade (lignite) coal identified from previous exploration campaigns. These resources also have high Fischer Oil yields which we will evaluate, in light of oil prices heading towards A\$150 a barrel. We have always believed the lignites to be a core commodity of interest at the Balladonia Project, and have briefly looked at the commercialisation potential of this vast resource previously. With the growing global focus on clean energy, and in particular coal gasification technologies, these now warrant examination in more detail.

Interestingly, the Fischer Oil yields from the early test work have been quite significant and that probably sets the Balladonia project apart from a number of the other lignite projects around Australia. It’s still very early days for the project and we’ll be evaluating our approach over the next six to twelve months. If the project has legs, we’ll adopt a very similar model as the KNP and Yerilla. That is, bring it up to a level of resource; do the scoping study work and then look for external parties to bring in both technology and assistance in terms of developing the project.

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Heron holds a substantial cash reserve (A\$42 million at 31 March 2008). What are your plans to pursue long-term shareholder value?

**MD Mat Longworth**

Our major corporate shareholders have invested in Heron Resources for its quality project pipeline rather than necessarily a quick capital return. In fact, two of them actually contributed through placements to the strong cash position we currently have. We don't believe we're vulnerable due to our cash position. Rather, it puts us in a very strong position to focus on our growth strategy of development of our major projects, exploration to find further major projects and the acquisition of quality cash flow opportunities.

The drivers to shareholder value are the current pre-feasibility study for the Kalgoorlie Nickel Project, due for completion in January 2009 and the Yerilla Project scoping study, due for completion in July/August of this year. Next is the cash flow project acquisition followed, longer term, by exploration leading to new additional major projects.

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Can you give us an update on progress at the Kalgoorlie Nickel Project?

**MD Mat Longworth**

Vale Inco are halfway through the pre-feasibility study - which is due for completion in January of next year - before it has 6 months to decide whether to commit to the definitive feasibility study. We are very pleased with the progress Vale is making and the urgency with which they are working. The results they are achieving from their various drilling and metallurgical test work are pleasing and we look forward to working with them as they approach the deadline for progression to the next stage.

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Thank you Mat.

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For further information on Heron Resources Limited visit [www.heronresources.com.au](http://www.heronresources.com.au) or call Mat Longworth on (08) 9215 4444.

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