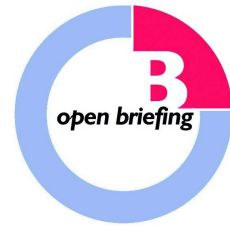


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Lodgement of Open Briefing®**



**Heron Resources Limited**



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21 Close Way  
Kalgoorlie  
Western Australia 6430

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Heron Resources Limited's (ASX code: HRR) has entered into an agreement with Chinese company, Ningbo Shanshan at the Yerilla Nickel Cobalt Project in Western Australia. What are the terms of the agreement? What are the key milestones for the project? What are Heron's obligations toward the agreement?

**MD Mat Longworth**

Shanshan will earn a 70% interest in the Yerilla Project upon completing construction and commissioning the plant to produce concentrate on site at Yerilla. The project will process around a million tonnes of laterite ore per annum, producing a concentrate for further processing in China. Heron will retain a 30% free-carried interest in the project through to commissioning and during production will receive 60% of the LME nickel price for the contained nickel in our share of the product and a lesser percentage for the contained cobalt.

Obviously the first milestone is regulatory approvals in both China and Australia. We are progressing through those at the moment. The next milestone, which is concurrent with regulatory approvals, is test work on ore samples which are currently in China. The next significant milestone is the completion of the pilot plant currently being constructed by Shanshan in China, where we've sent 40 tonnes of ore from Yerilla for testing. We expect that plant to be commissioned probably toward the end of the next quarter and will certainly have a solid understanding of the process well before the end of this calendar year.

The feasibility study will commence in parallel with the pilot test work to determine the viability of the project, potentially leading to the decision to construct.

There's no definitive timetable laid out in the agreement, but both Shanshan and Heron are working very hard to bring the project to fruition as quickly as possible.

In terms of Heron's obligations toward the agreement, we bring a deep understanding of the project. We're providing Shanshan with in-country support, geological support on the ground and managing the tenements so it's really a co-operative venture between Heron and Shanshan and we believe that's the best way for the project to move forward.

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What are the advantages of this deal to Heron? Why has Shanshan chosen to partner Heron in this venture?

**MD Mat Longworth**

From Heron's perspective this deal provides a viable pathway forward for the Yerilla project. The great advantage of this deal is it allows Heron to partner co-operatively with a significant end-user of nickel and cobalt and with someone that takes a strategic long-term view of the metal. As one of the world's largest manufacturers of lithium-ion battery components, Shanshan have identified the Yerilla project as an important part of a vertical integration of raw material supply into their business.

The Heron team have been working on this project for over two years now and we understand the project which will work very well with Shanshan, their technology and metallurgical people in Changsha and the China Southern University. It's also one of the few good pieces of positive news to come out of the nickel industry for some time, certainly this year.

It also is the first time where we see the creation of what would be better termed a concentrate in the nickel-laterite industry rather than a chemical intermediate product. We expect the concentrate to be somewhere between 8-10% contained nickel with the more labour intensive manufacturing work to be done in China producing the end products as part of their battery manufacturing process.

As a partner, Heron was able to offer Shanshan an advanced nickel laterite project which can meet the timing desires of Shanshan due to the extensive study work we have completed over the last two years. For example, the resources are established to Measured, Indicated and Inferred standards under the JORC code; the mining leases are granted with all the long lead time environmental surveys completed; the regulators are familiar with the project and the overall metallurgy and ore-types are well understood throughout the deposit. This really places the Yerilla project well ahead of other nickel laterite projects currently available in Australia.

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Vale, your former partner in the Kalgoorlie Nickel Project (KNP), has elected not to proceed with a full feasibility study and has withdrawn from the project. What options are you considering to develop this project going forward? Is there still an economic case for the project succeeding in the current environment?

## **MD Mat Longworth**

I'll start with the last part of the question first. There's certainly an economic case for the project succeeding - the KNP has always been considered as a long-term project which will go through a number of price cycles through its life. The last eight months has seen a pronounced low in the price of nickel, but this is currently recovering and approaching a level at which the KNP becomes attractive. We believe that in taking a long-term view on nickel, the KNP certainly has a significant future, due to the indicative size of the project, the supporting infrastructure and its location in a stable low sovereign risk environment.

To take the project forward, we're currently optimising the pre-feasibility study, in particular looking carefully at the resource estimation and the mining engineering components of the study. This is in preparation to seek new partners for the project. Heron's deal on Yerilla demonstrates there are definitely parties out there taking long-term strategic views on nickel and as part of a resource supply into their businesses rather than adding to their pipeline of projects as mining companies typically do.

We've spent a fair bit of time in China this year and, in particular, with a number of the universities we found that a lot of research was going into nickel laterite processing on a government directive. They understand that laterite accounts for a vast majority of the nickel resources of the world and will play an increasing role in the delivery of nickel to the market in the years and decades ahead. We certainly see that there's not only an economic case for it, but there are certainly parties out there who would potentially partner Heron on such a significant project to see it into production.

Vale, like many of its peers in the nickel mining business, including BHP-Billiton, Norilsk and Xstrata, have all had to look hard at their asset portfolios and their project pipelines in this time of low nickel prices and make priority adjustments. In particular, Vale has the largest pipeline of projects and the KNP was just part of that pipeline. They were being called on to commit to a US\$50 million feasibility study at the end of next month and in the current environment they had some trouble with that, ranked against the rest of their pipeline projects.

Conversely, there are many companies, who are end users of nickel, for whom US\$50,000 a tonne nickel price is still burnt indelibly into their memory as it was only less than twenty four months ago that that was the price of nickel. These end-users are prepared to take a long-term view to their raw material supply and are looking for vertical integration opportunities for their businesses. Importantly, they don't only come from China. We believe there will be interest from both Japan and Korea.

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At the end of the March quarter, Heron had a cash balance of A\$31.1 million. In light of your current market capitalisation, does this make you vulnerable to predation? What is your strategy to realise maximum value from this position and deliver strong shareholder returns? Where are the opportunities for Heron?

## **MD Mat Longworth**

Heron has quality assets the market is currently undervaluing.

The job of management is to get the market to recognise the value of these assets. The first step was the transaction with Shanshan on the Yerilla project. The next part of the process is to complete the optimisation of the pre-feasibility study on the KNP and then, seek partners.

The third leg of the strategy is to look at the opportunities with cash. At a time when the market undervalues many assets, there's an opportunity for the company to identify good quality assets in good locations which will set the company up for the next cycle and the cycle after with further opportunities for production.

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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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