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Heron Resources Limited



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Heron Resources Limited (ASX code: HRR) has acquired an option to purchase the A1 Gold Mine at Woods Point in Victoria. What are the terms of the agreement? What was the rationale behind this decision? What experience does Heron have in gold project development and production?

MD Mat Longworth

Heron has an option to purchase the A1 Gold Mine with an option term of 24 months. The price paid to enter into the option was A\$760,000 and the exercise price of the option is A\$240,000 plus 20 million Heron shares. All up the deal is worth approximately A\$6 million. The option period (two years) allows Heron to undertake extensive evaluation of the mine, including both the historic workings and the exploration potential identified by the vendors and our own due diligence.

Eighteen months ago, Heron took the decision that we should be adding a near-term cash flow project to our portfolio. The cash flow project is to ensure that the company was able to self-fund while going through the process of developing its larger, longer-term nickel laterite projects.

After looking at more than 50 opportunities around the world in the last eighteen months, the A1 Gold Mine came to our attention earlier this year and ticked all the boxes for us. First, it is a project of a scale that is feasible within our current cash resources. It is located in a favourable jurisdiction with low sovereign risk that has clear and transparent approvals process. It's well supported by excellent infrastructure and services and offers the potential for strong returns. We're talking about a 24 month option period and subject to positive evaluation, production about six months later.

Both at Board and management level, we have quite extensive experience in both the development and operation of gold mines. At Board level, we have three geologists, all of whom have been actively involved in mine operation, development and discovery over the last 25 years. Our management team brings extensive knowledge in the development of gold projects. We will also add to this experience and are seeking a very experienced resident manager to drive the engineering and evaluation process forward.

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Gold mineralisation in Victoria is typically narrow-veined and structurally-defined, with a number of companies historically struggling to profitably mine Victorian gold. What has been the history of gold production at the A1 Gold Mine? How will Heron evaluate the best approach and methods to profitably mine the A1 Gold Mine?

MD Mat Longworth

Historic production from the A1 Gold Mine is approximately 450,000 ounces spread from discovery in 1861 through to when it last closed in 1992. Most of that production was from reefs running above 22 grams per tonne. Reefs running at a lower grade were left behind as they were uneconomic to mine. This was dictated by the antiquated infrastructure available at the mine and mining methods employed at the time.

As part of our evaluation, we will put in a new decline down to the 14-Level which will allow us to haul larger tonnages much more economically than was historically possible in the mine. We will be using diesel and rubber tyred haul vehicles rather than rail which was used previously. This will improve efficiency and lower mining costs in the mine. We anticipate being able to reduce our mining costs such that a large proportion of the remnant reefs that were historically unmined become economic. These reefs would be mined by air leg hand mining.

Historic mining and our evaluation of the A1 Gold Mine identified a series of quartz vein stock works present in the mine that run somewhere between 7 and 15 grams per tonne gold on old mine plans. These provide a larger tonnage mechanised mining target which wasn't economically possible previously. These stock works will form the base load of our anticipated production from the A1 Gold Mine and the source for the majority of gold ounces.

The A1 gold mineralisation is hosted by mafic dykes, very similar to the Eastern Goldfields of WA. The structural controls and style are similar to what we see at Mount Charlotte on the Golden Mile, Paddington and in other mafic dyke and dolerite-hosted gold mineralisation environments. It is these similarities which gave us the confidence to become involved in the A1 Gold Mine. We therefore believe the A1's geology is quite different to the structurally-controlled and geometrically complex sediment-hosted deposits of the Bendigo and Ballarat fields where companies have struggled to operate profitable goldmines.

Our evaluation of the A1 Gold Mine will focus on profitability which we anticipate will result from quality mining, quality ounces and quality margins. Many of the companies that have become involved in the Victorian gold fields have attempted to mine at a rate determined by the mill capacity, their hedge book or their corporate strategy of wanting to become large scale 200,000 ounce plus per year producers. Underground mines like the A1 Gold Mine typically have a natural rate at which they can be mined profitably.

This is dictated by the resource geometry and the geology rather than the mill capacity or some accounting artifice. We'll be looking to develop the A1 Gold Mine to produce somewhere between 25-30,000 ounces per annum on a consistent basis governed by maximum margin per ounce for an extended period of time. Our initial target will be a mine life somewhere between four and five years, however we could potentially see a mine life extending well beyond that as the current suite of production targets are evaluated.

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Why is it necessary, and how easy will it be, to establish a JORC-compliant resource?

MD Mat Longworth

A JORC-compliant resource is necessary because it will give us the confidence to invest in production. It is also necessary to adequately plan and optimise the mining schedule and to identify where we are going to be sourcing ore from, at what time and what grade.

There have always been questions over the ability to define JORC-compliant resources in relation to Victorian narrow vein gold deposits. Most of the issues that have arisen, concern the structurally complex deposits at Ballarat and Bendigo. We believe that we should see some distinct differences between those deposits and the Woods Point mafic-hosted styles which tend to be more continuous and less geometrically complex. Therefore we believe we will be able to establish a JORC compliant resource.

We recognise that the only real way to get a good estimate on grade is through trial mining and bulk sampling and our plans include a bulk sampling plant and a gravity plant on site. We'll have a mining crew assigned to making safe the historic workings for sampling access. We'll be taking samples in selected areas, anywhere between one and two tonnes, and using the on-site gravity plant to get an accurate estimate of gold grade. Recognition of that coarse gold and tackling it through the on-site bulk sampling plant is the first step we'll be taking to get a good handle on the recovered production grade.

There has been some significant advances made by Victorian mines in estimation of gold grade and we'll be assessing those in conjunction with our own experience in terms of grade estimation. We anticipate we will be able to get a JORC-compliant resource in place reasonably early and continue to build on that resource. Classification of the resource will depend on the data and the results of the test work as they come to hand.

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You have determined the cost of the evaluation program, including development of the decline and the feasibility study to be A\$18 million. How have you derived his figure? Are you confident you can achieve these milestones inside your two-year timeframe? What are the immediate priorities?

MD Mat Longworth

The immediate priority is the approval of the works program which is being evaluated by the Department of Primary Industry and the regulators. We anticipate that approval will be forthcoming shortly. The development and evaluation has been subject to detailed planning to ensure we have correctly defined the scope of work, scheduling and budgeting and we anticipate that we will be close to our expected timeline and cost.

Any variation will come from what we discover as we open up the old workings through both rehabilitation of the existing workings and the extension of the decline, so we have included prudent contingency provisions to cover these unknowns.

Importantly we have been able to draw on the experience of the current owners so we believe we have done everything practical to understand the key issues and plan for those. Budgeting uses rates from a mining contractor we've engaged who is experienced in working on the A1 Gold Mine. We've been able to do this for both the cost and rate of development. Our initial work will be geotechnical diamond drill holes for the decline and they'll be starting shortly.

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Can you provide an update on recent progress at the Yerilla Nickel-Cobalt Project?

MD Mat Longworth

Shanshan are currently undertaking the laboratory scale test work on the Yerilla ore sent to China and are in the final stages of construction and commissioning of the pilot plant. We anticipate that the commissioning runs will commence in the coming weeks. Once the commissioning is complete, piloting of the Yerilla ore will commence and we expect we'll have the initial results from that pilot work toward the end of the current calendar year.

Once that work is completed, and pending successful results, that data will feed into the feasibility study for the project and from the feasibility study that will determine a construction timetable, the cost and the scale of the project. There are always a few challenges, but we've been able to, along with our partner Shanshan, bring a lot of resources to bear on those challenges and are pleased with progress to date.

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Thank you Mat.

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

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