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Heron Resources Limited  
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**Date of lodgement:** 05-Aug-2005

**Title:** Open Briefing®. Heron Resources. MD on Outlook & Strategy

**Record of interview:**

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Heron Resources Limited has signed a deal with Canadian nickel major, Inco Ltd to develop the Kalgoorlie Nickel Project (KNP) in Western Australia. What are the key components of the deal? Is the deal subject to any conditions? What work has been done on the project to date?

**MD Ian Buchhorn**

Under Heron's definitive Joint Venture Agreement that was signed with Inco on 30 July 2005, Heron will be free-carried through the completion of the already well advanced pre-feasibility study (PFS) and the bankable feasibility study (BFS). Upon each step of the feasibility studies returning a satisfactory outcome and both parties agreeing to proceed Inco will then procure all project debt financing together with 95.5% of any equity funding required for the project.

Inco is only entitled to its 60% interest in the project upon all these milestones being met. This represents a change from the previously announced March 2005 letter agreement, as Inco will no longer earn a 25% interest following the completion of the BFS.

The transaction still requires Heron shareholders' approval and authorisation from the Minister for State Development, in accordance with the Western Australia Mines Act, but we don't expect any problems.

Inco has already commenced its work programs. We are currently integrating both company databases and re-logging existing drill holes, to plan our ongoing drilling program for the KNP.

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Resource conversion at KNP is the main focus for Heron ahead of the PFS. What are you spending on exploration? Does Heron still need to prove a mineable resource of 120 Mt at 1.5% nickel for a mine life of at least 25 years under the terms of the agreement?

**MD Ian Buchhorn**

The 120 Mt at 1.5% nickel was an assumption from our scoping study last year. Step one of the KNP agreement will aim to confirm the validity of a 25 years or possibly longer mine life. Approximately \$4.5 million of the \$12.375 million raised from Inco in our April 2005 placement is marked for exploration targeting further laterite resource expansion of the KNP, together with nickel sulphide target generation over the next three years.

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If these conditions are not met could Inco walk away? What would your options be if Inco did pull out? Does Heron have any protection? Would a takeover of Inco affect the legitimacy of this agreement?

**MD Ian Buchhorn**

We are setting up a management committee and once we've signed off on a given program and budget for a given Step, that program has to proceed through to completion. However Inco has the right to withdraw from the JV upon each Step's completion.

In the event Inco withdrew Heron would retain all the mining information that the JV work program has generated and that information would be available to any subsequent partner.

The executed definitive agreement is contractually binding on both Heron and Inco and any future owner.

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Are there conditions where Heron can walk away?

**MD Ian Buchhorn**

Heron has the right to terminate Inco's earn-in if Inco fails to meet its material obligations including timetable commitments. Inco is required to either withdraw or proceed further on the completion of each individual Step. There is no scope to put things on hold while you make up your mind, other than the occurrence of certain extraneous events and obviously force majeure.

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Capital expenditure for the KNP is currently forecast at A\$1.4 billion in the July 2004 Sinclair Knight Merz scoping study. What are Heron's funding obligations for the project? What are your options to raise these funds?

**MD Ian Buchhorn**

It's probably best to use a working example based on the A\$1.4 billion to answer that question. If we presume the debt to equity mix is 70:30, this would mean the project debt component would be A\$980 million, which Inco would need to procure, and the equity funding would be A\$420 million.

If Inco completes a BFS and procures funding then they will have earned their 60% interest in the project with Heron retaining a 40% interest. As a result, the A\$420 million equity funding would be split A\$252 million to Inco and A\$168 million to Heron. Heron has to make an upfront contribution of 4.5% of the total equity funding, so 4.5% of the A\$420 million means Heron's contribution is capped at A\$19 million for a A\$1.4 billion project. In this scenario Inco would lend Heron the A\$149 million balance of its equity contribution. This loan would be repaid from 80% of Heron's share of future profits. Our capital financing options are many and upon reaching this milestone, Heron will be in a considerably stronger market position.

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What are the key events in the KNP development timeline?

**MD Ian Buchhorn**

Step 1 involves confirmation diamond drilling and must be finished within 12 months of the 30 July 2005 commencement date. Step 2 is flow-sheet selection and must be completed within 26 months after the commencement date. The full PFS is required to be completed within 42 months. The critical timeline is completing the BFS inside 72 months.

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When would construction likely commence?

**MD Ian Buchhorn**

Inco is contractually required to commence construction as soon as possible after completion of the BFS. However, if the feasibility study is bankable and a decision to mine has not been made by Inco within two years after the completion of the feasibility study, then Heron has the right to update the feasibility study and make a decision to mine as operator, on a 50:50 basis, subject to Inco not electing to proceed on the updated study. If a decision to mine is not made within five years of completion of Inco's first feasibility study, Inco's rights under the agreement lapse.

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On a global scale, where will the KNP sit on the competitor cost curve? Will you be able to reduce cost through claiming any cobalt credits?

**MD Ian Buchhorn**

Our target leach feed grade is 1.5% nickel. That's already higher than Murrin Murrin and Ravensthorpe, so intuitively you would have to say our cash costs should be very competitive on the basis of our higher leach feed grade.

The KNP has access to existing roads, rail, ports, a natural gas pipeline and a very skilled workforce in the Kalgoorlie region. This proximity to existing infrastructure means we should be competitive on the cash cost curve, particularly when compared to the “wet tropical” nickel laterites.

Heron’s run of mine ore is predominantly siliceous with typical cobalt grades expected to be 0.05%. This is higher than Ravensthorpe, but lower than Murrin Murrin. However Heron has a particular manganese-bearing ore type at Goongarie South. With this ore at a 1.5% nickel leach feed, Heron would expect to see a cobalt grade around 0.15%. This is very high for an Australian laterite project.

Heron previously completed diamond drilling work at Goongarie and identified hits of up to 3% cobalt. The cobalt present in the KNP ore will give Heron an important additional revenue stream during times of high cobalt prices.

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The limonite ore at the KNP is similar to that found at Inco’s Goro project in New Caledonia. Will Inco do any pilot testing of the KNP ore at Goro? What are the advantages of the Goro treatment process?

**MD Ian Buchhorn**

The Goro and KNP limonite ore are identical in field appearance. We’ve still got a lot of test work to complete before we can confirm their metallurgical responses are similarly comparable. Pilot testing at Goro could be an option, but that would be Inco’s call. There are also suitable testing facilities already operating in Australia.

We know that the Goro flow sheet works, so it’s a very good starting point for the KNP. However we have a number of other options to explore through the feasibility study to determine the best flow sheet to use at the KNP.

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In an October 2003 presentation on Goro’s Process Inco’s Vice-President of Technology and Engineering, Dr Gord Bacon said “a (laterite nickel) project below 1.3% at the autoclave feed point will not be economically viable and will lose money”. The anticipated feed grade at the KNP is 1.5% nickel. Are you confident of keeping beneficiation at or above that grade?

**MD Ian Buchhorn**

To date our test work on KNP ore, using RC drill bottle rolls on half kilogram samples and bulk samples of around 90 kilograms, has given us a minimum leach grade above 1.3% nickel. Part of the KNP orebody at Siberia is an extension of the Cawse nickel laterite mine. At Cawse, they have reported leach feed grades of around 1.5% nickel and higher from the several pits they’ve already mined, so our confidence of achieving 1.5% nickel is well placed.

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Inco and BHP Billiton are significant shareholders in Heron. What do you see as their intentions for Heron and the KNP?

**MD Ian Buchhorn**

These shareholders are nickel industry leaders and their presence on the share register is a major endorsement for the KNP. Inco's intention clearly is to get the KNP into production. I would like to think we have excellent relations with both.

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Heron shares have closed at a 12-month high following the announcement of the KNP Definitive Agreement with Inco. What do you see as the next trigger for a re-rating of Heron shares? Is the upside of the Inco agreement already factored into your current share price?

**MD Ian Buchhorn**

I don't like to speculate on the market's future movements but I am confident that if Heron continues to achieve its key milestones, namely Steps 1, 2, 3 and the Feasibility Study, these achievements will be duly recognised. We believe the KNP is a potential world class asset.

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Thank you Ian.

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