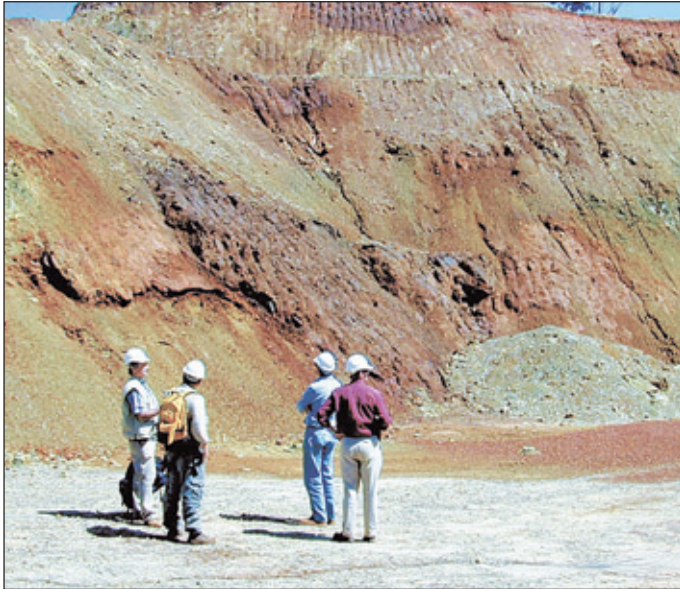


Heron joins nickel's big hitters



PROJECT MANAGEMENT: On the Boulder Block pit floor, part of Heron's Kalgoorlie nickel project. *Photo: Courtesy Heron Resources*

Mark Mentiplay

WITH the hands-on financial and technical backing of the second largest nickel producer in the world, Heron Resources could have its world-class \$1.4 billion Kalgoorlie nickel project in production in 2013.

Initial Heron scoping studies envisage production of 50,000 tonnes a year (tpa) over 25 years, putting it among the top ranking nickel mines in the world.

But, while managing director Ian Buchhorn cautions on the amount of work that still has to be done, Heron and the project seem to have the right ingredients.

Heron's two major shareholders are successful international mining giants Inco of Canada and Australian BHP Billiton, with 10.2 per cent and 9.9 per cent respectively.

Inco, which will earn 60 per cent of the project, is the second largest nickel producer in the world and will move to number

one soon when, as expected, its current \$15b bid for fellow Canadian nickel producer Falconbridge is successful.

Importantly Inco, capitalised at \$10 billion and producing 200,000tpa of nickel, is a specialist in extracting nickel from the difficult laterite ore.

Inco has already established an office in Kalgoorlie from which to run the upcoming diamond drilling program to confirm the current huge 120 million tonne resource grading 1.5 per cent nickel. The program is scheduled for completion in July next year.

Then follows a series of metallurgical, engineering stages, a pilot plant by September 2007, and ultimate plant design up to a bankable feasibility study scheduled for completion by July 2011.

Mr Buchhorn told *WA Business News* these were deadline limits and it was hoped they would be met sooner.

Construction of such a

proposed plant – a 120mt leach-feed operation producing 4,000,000tpa for 25 years and a more much expensive high-pressure, high-temperature acid leach facility – would typically take two years to get up and running, with ramp-up taking another six to 12 months. Minara Resources' (nee Anaconda Nickel) injury plagued Murrin Murrin laterite project indicates this timetable is not always achievable, however.

For its 60 per cent stake, Inco will solely fund more than \$90 million in feasibility studies and exploration and secure all project debt funding for the project, which has an estimated construction price tag of \$1.4 billion to be funded via \$980m debt and \$420 million equity.

The equity financing will be on the joint venture interests, with Inco up for \$252 million and Heron \$168 million, Heron's capped at \$19 million with the balance to be lent to Heron by Inco and repaid from project cash flow.

Mr Buchhorn said Heron was also in discussions with Inco regarding a nickel sulphide exploration joint venture under which Inco could earn 60 per cent on discovery under similar terms to the laterite joint venture.

It is easier and cheaper to extract nickel from sulphide ores via conventional crushing, grinding and floatation to produce a nickel-rich concentrate.

Heron's resources are huge by any standard and contain a total 357mt grading a low 0.7 per cent nickel and 0.05 per cent copper. They extend from around Kalgoorlie north to Leonora and Laverton, and south down to Esperance.

The company's share price has moved from around 50 cents in late May this year to spike to 90 cents with the July joint venture signing with Inco, to fall back to around 56 cents.

At those levels the company has a market cap of \$91 million, has \$12 million in the bank and is debt free.

Through the nickel hoops

IF anyone knows the problems associated with developing laterite nickel mines, it is Minara Resources CEO Peter Johnston.

He and his team have sweated blood to get the Murrin Murrin nickel, cobalt and copper producer in WA up to 40,000 tonnes per year nameplate production.

The mine was opened in mid 1999 under Anaconda Nickel's banner and, after numerous failures, reached 36,000tpa nickel in August this year.

"When it comes to laterite nickel lessons, Minara can write the book," Mr Johnston said.

"Here beginneth the lesson. "You need a strong technical base and a strong partner. A junior just can't do it.

"It is capital intensive and becoming increasingly so. There is no cheap entry. I know, we tried it.

"Good infrastructure is critical.

"Maintenance is intensive. High-pressure acid leach at 255°C using concentrated sulphuric acid. It's about the most aggressive process you can get.

"Construction. You can't get a laterite plant up in less than five years.

"Costs. Titanium prices have risen 12-fold in three years and you use of lot of titanium building a laterite plant.

"The good news is there's not much on the horizon, so I can't see any real change in world nickel production before 2010-2012."