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Heron Resources has chosen to pursue a 'total nickel focus' targeting non-Kalgoorlie Nickel Project nickel laterite and sulphide production of 10,000 tonnes per annum from 100% Heron-owned projects. What progress have you made toward realising this goal? Where do you see the best opportunities to identify potential economic nickel resources?

COO Mat Longworth

We've made progress in two particular areas: sulphides and laterite.

With laterite, there have been a number of advances in heap leach technology over the last 12 to 18 months and our immediate focus is on defining resources where we might be able to develop suitable heap leach operations. We are examining several metallurgical reference samples to identify the optimum types of nickel mineralisation for heap leaching.

The current program also includes a series of metallurgical column leach tests. To date, the performance of the samples has been particularly good and we're encouraged by what we've seen in the test work results.

We've started drilling in the Yerilla district, around 140km north-east of Kalgoorlie, particularly on the Jump Up Dam prospect, where we've reported 8m at 2.8% nickel from 2 metres depth.

This wasn't just an isolated intersection. We've seen drill intersections of 4m at 1.52% nickel on adjacent drill lines and on a fairly wide spread at 640 metres. The early indications are very encouraging and we hope to recommence drilling on a tighter grid on that area later in August.

With nickel sulphides, Heron has been developing a series of high priority exploration targets over the last 12 months within our tenement portfolio. We've commenced the active exploration of those targets; including electromagnetic (EM) surveying at Cowarna Downs and Trans East projects, to the east of Kalgoorlie, and the Merolia project north east of Laverton. All are highly prospective for nickel sulphide mineralisation.

Our goal in exploration of these nickel sulphide projects is that they can offer shorter lead times and lower capital costs than the large Kalgoorlie Nickel Project a conventional laterite pressure acid leach project.

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Historically, Heron has maintained its primary exposure to a varied suite of commodities, thereby ameliorating price cycle risk. Why have you chosen to leverage Heron toward nickel over other commodities in your portfolio?

COO Mat Longworth

Nickel is the natural focus for the company and we believe that nickel has a very strong future. Since April 1997, Heron has been very much focused on nickel and we've been predominately valued by the market as a nickel laterite company.

Our tenement portfolio at various times has included a variety of commodity exposures, but the overall driving focus of the company has always been on the very large, world-class nickel laterite resources in and around the Kalgoorlie district.

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You estimate exploration expenditure for the September 2006 quarter at A\$1.7 million. What are the immediate exploration priorities for Heron? How will you continue to fund your ongoing exploration commitments ahead of generating operating cashflow?

COO Mat Longworth

In the quarterly report we estimate expenditure for the six months through to December 2006 will be around \$3.4 million.

Our immediate priorities are drilling at the Yerilla nickel laterite project and our nickel sulphide projects at Cowarna Downs, Trans East and Merolia. We are currently conducting EM surveys over these nickel sulphide prospects and some of the early results are encouraging. We're also designing a couple of drill holes to test the results from these surveys.

As far as funding goes, we have around \$9 million cash in the bank which will more than cover our immediate goals. In the event of a discovery and possible development of any discoveries, we have a range of options available. Alongside establishing joint ventures, we have a very supportive shareholder base and continuing equity support provides us with another option to develop these projects.

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What about acquisition opportunities?

COO Mat Longworth

We have appointed Citigroup as an advisor to assist us in identifying corporate opportunities. We're currently at the top or close to the top of the nickel cycle and we've reviewed quite a range of opportunities to date. Our assessment so far has been that none of these rank higher than our own portfolio, so our focus is on organic growth from within our exploration and development portfolio. Of course we will continue to evaluate any opportunity presented to us that complements our existing project base.

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Drilling of the Step 1 resource confirmation program at the Kalgoorlie Nickel Project (KNP) was completed by Inco Ltd. during the June quarter 2006. What is the status of the resource definition program? What have been the key milestones on the KNP project to date?

COO Mat Longworth

Inco has completed 35 holes to basically confirm some of Heron's previous drilling. However, with 35 holes it's very hard to confirm over 400,000 metres of drilling. This program has created in excess of 100,000 assays, along with physical properties and metallurgical performance data to be evaluated. Inco has received the last of these assays and are compiling and interpreting this data to assist with their decision.

The key issue has been to provide Inco with some metallurgical samples to test the 1.5% leach grade after beneficiation assumption. Due to the Australia wide pressure on metallurgical and analytical laboratories, this time frame is probably about three odd weeks behind schedule. To have only suffered that small slippage in the initial time frame is a pretty good job and that's a credit to Inco's project management on this project.

The next step in the KNP project focuses on the metallurgical processing and testing which includes leaching test work and flow sheet design. The detailed resource and initial reserve definition doesn't actually cut in until Stage 3, which we anticipate Inco will commence in line with requirements under the agreement.

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When do you expect a decision to be made on KNP Stage 2?

COO Mat Longworth

We're as keen on understanding that decision as anyone and we've had a number of meetings with Inco and they've indicated that they will be in a position to inform Heron of their decision whether to proceed to Stage 2, ahead of the required date at the end of September

By that time Inco will also have in place a program and budget to cover their obligations under Stage 2. Inco has indicated that on the current schedule there will be no slippage in the program dates under the KNP agreement.

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Phelps Dodge and Teck-Cominco are competing to acquire KNP partner, Inco Ltd. Does this takeover have any impact on your deal with Inco? Do you see the emergence of 'super' nickel companies having an influence on supply fundamentals and longer term price negotiations?

COO Mat Longworth

Heron and Inco have a Farm-in and Joint Venture agreement; basically a contract which; subject to a number of decision points by Inco during the farmin stages, is binding on both parties. Regardless of whether Phelps Dodge or Teck-Cominco or another party acquires Inco, they'll be looking to extract the maximum amount of value out of their acquisition.

The KNP is one of the larger nickel projects around and provides compelling value in terms of sovereign risk, environment conducive to mining and availability and proximity to key infrastructure. Having a stronger, and potentially larger, partner will be a distinct advantage in funding and driving the KNP forward.

With demand still outstripping supply, the super nickel companies will be in a much stronger position to negotiate better contractual prices in the future. The spot market, which has seen nickel prices pushing US\$13 a pound more recently, underpins a solid supply imbalance that these larger companies are hoping to capture through acquisition.

Often these larger companies tend not to put in as much money into grass roots exploration, preferring to joint venture into or acquire projects and companies. This has two impacts: further tightening of the supply side, because there is not the pipeline of very early stage projects available; secondly, creating a niche role for companies like Heron, who have extensive local knowledge, the ability to peg tenements and generate good quality exploration projects which can then be brought to super companies such as Inco and BHP Billiton.

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Your 'total nickel focus' strategy sees a divestment of your non-nickel assets into companies in which Heron will initially be a major shareholder. One, Rubicon Resources, will list as a separate vehicle containing Heron's gold and base metal assets. What is the strategy for Rubicon and will Heron maintain a longer-term interest in the company?

COO Mat Longworth

Once Rubicon lists, Heron will receive a vendor consideration; the major proportion of that vendor consideration is intended to be returned to Heron shareholders by an in-specie distribution 12 months after listing. Heron will also hold an option component as part of the vendor consideration. Heron's Managing Director, Ian Buchhorn, will sit on the Rubicon board, but that will be the limit of Heron's day to day influence on Rubicon. Post listing, Rubicon will be a wholly independent company from Heron.

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With uranium prices currently at record highs above US\$45 per pound, why are you choosing to vend your uranium assets into new IPO Balladonia Energy?

COO Mat Longworth

We've got a very large and significant nickel portfolio. Being a relatively small company, we are busy exploring and developing these assets. The market just hasn't valued those assets inside Heron.

Our belief is that if these assets sit in a dedicated uranium company, with experienced and dedicated management, they will be valued by the market. Balladonia Uranium will have the funds and uranium experience to guide those projects forward.

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What is the status of both IPO's? What are the risks for Heron shareholders?

COO Mat Longworth

Both IPO's are progressing very well. We've announced a very experienced and credentialed development and mining team to lead Rubicon. Former Birla GM Geology and Business, Peter Eaton has been appointed as the Managing Director and Former Barrick President of Australian African Operations, John Shipp as Chairman.

With Balladonia we've appointed Matthew Gauci as Managing Director. Matt brings more than 10 years of uranium experience and has previously been a non-executive director of a listed uranium explorer.

The structure we have looked for is something which minimises the risks for all shareholders in Balladonia and Rubicon.

Heron shareholders maintain their exposure to any upside in the assets which go into each of these companies through distributions of the vendor consideration to our shareholders. These companies are going to be well funded and managed with a view to developing their key projects. This allows Heron to focus on developing its nickel portfolio without the distractions of trying to maintain a large tenement base across a range of commodities.

This is really a win-win position for Heron shareholders, who get to participate in three strong companies going forward, rather than just one.

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Thank-you Mat.

For further information on Heron Resources Limited visit www.heronresources.com.au or call Mat Longworth or Ian Buchhorn on (08) 9091 9253.

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