

# Quarterly Report

March 2009

## HIGHLIGHTS

### KALGOORLIE NICKEL PROJECT

KNP Prefeasibility Study (PFS) was delivered by Vale on 30 January 2009.

- Project sized for up to 36,000 tpa of nickel in intermediate product with a mine life estimated at 34 years.
- High pressure acid leach (HPAL) flow sheet selected as the best leaching technology for the project with Ni and Co extractions of approximately 96% and 93% respectively, and low acid consumption of approximately 280 kg/t.
- Cash operating cost estimate of US\$4.42 per pound of nickel (including cobalt credits). Capital cost estimate of US\$1.5 billion dollars.
- Heron notes Vale has only considered 4 of the 14 deposits defined by Heron to 2004 that make up the KNP.
- Vale has estimated the cost of a Bankable Feasibility Study (BFS) to be US\$50.5 million. Vale has until 30 July 2009 to commence the BFS.

Heron is undertaking a detailed review of:

- Resources
- Ore Transport
- Beneficiation
- Mining
- Metallurgy
- Further Resources

Should Vale withdraw from the KNP and elect not to undertake the BFS, Heron will add value by optimising the current study making use of our in-house project team. Heron will also seek a new partner for development of the project.

### YERILLA NICKEL PROJECT

- Discussions with potential partners progressing.

### ROCKY GULLY NICKEL PROJECT

- Rocky Gully ranked highly amongst Heron's projects as a greenfields sulphide nickel project.
- Exploration has confirmed ultramafic intrusions, disseminated nickel sulphides, and anomalous nickel and copper chemistry.

### CORPORATE AND BUSINESS DEVELOPMENT

- Consolidated cash of A\$31.1M.
- Entry into near production or advanced exploration projects which can be developed as commodity markets strengthen, priority strategy for the Company.
- Non-core tenements have been relinquished to reduce company overheads.

## MARKET COMMENTARY / CORPORATE

The Company's consolidated cash position of A\$31.1 million places Heron in a strong position to identify and acquire quality advanced exploration or near term production assets. Heron aims to capitalise on opportunities resulting from the current economic situation and secure significant projects that can underpin the future growth of the Company. Worldwide data sets of potential opportunities have been compiled and are being systematically reviewed. Six projects, located in Australia, New Zealand Namibia and the United States, have been selected for additional studies by Heron. The Company will continue to develop existing projects with partners.

The nickel market started to see a price improvement at the end of the quarter despite London Metal Exchange (LME) stocks increasing. The build up in nickel metal inventory is despite a very large volume of production being withdrawn from the market through mine closures and new projects being delayed.

The International Nickel Study Group forecasts nickel production to be in surplus in 2009. This surplus and an ongoing weak price put increasing pressure on existing producers and make decisions to bring on future production through new projects difficult for these producers.

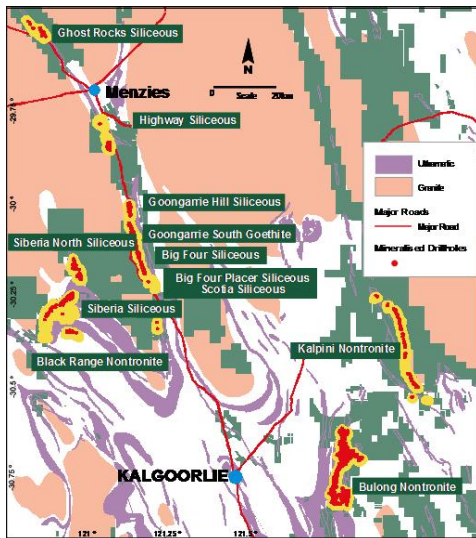
Heron's major shareholders have shut mines and delayed a number of nickel projects under study and construction.

The Company has seen interest in new projects from end users looking to enhance their business through vertical integration. This interest strongly suggests these users expect the price of nickel to improve in the longer term.

The Company continues to pursue the proceedings it commenced in the Supreme Court of Western Australia in December 2007 seeking enforcement of Heron's rights in relation to the Bulong Project resources.

# KALGOORLIE NICKEL PROJECT

**KALGOORLIE NICKEL PROJECT (KNP) (HERON 100%, VALE INCO, A WHOLLY OWNED SUBSIDIARY OF VALE, EARNING 60%)**



Vale Inco, a wholly owned subsidiary of Companhia Vale do Rio Doce (Vale), delivered the PFS for the KNP at the end of January 2009.

Vale's study indicates a project producing up to 36,000 tonnes of mixed nickel cobalt hydroxide product via the high pressure acid leach (HPAL) process, with a capital cost of US\$1.5 billion and an operating cost of US\$4.42 per pound of production based on a 0.75 USD:AUD exchange rate. Vale's study is based on a project treating 2.5Mt of beneficiated leach feed ore per annum through a two autoclave leaching circuit over a project life of 34 years.

The report identifies the following areas for review:

- Further optimisation of the mining schedule incorporating mining multiple pits concurrently;
- Smoothing the Ni production profile in order to reduce project capital cost and maximise capital utilisation;
- Consideration of a third autoclave train as a staged expansion to maintain nickel output in the projects later life, and
- Selection of the most favourable intermediate product; MHP or MSP.

In addition, Heron believes that considerable scope exists for further enhancement of the project through the inclusion of resources not considered by the current study, as well as optimisation of ore beneficiation and ore transport options. The additional resources may allow increased project capacity (to approximately 50,000 tpa Ni in intermediate product) with associated improved project economics.

A summary of Vale's PFS details follow:

The Pre-feasibility Study is a culmination of some 170,000 hours of work costing A\$34.5M representing the end product of Step 3 of the Kalgoorlie Nickel Project Laterite Farm-in and Joint Venture Agreement.

The report states that Heron Resources owns one of the most prospective nickel laterite tenement packages in the world, containing a potential resource of 7Mt of nickel metal. The project has some strategic aspects that made it attractive to Vale Inco:

- good local infrastructure;
- low sovereign risk;
- access to a skilled labour pool;
- low environmental risk for tailings disposal; and
- supportive government, environment agencies and community.





More than 90,000 m of RC and 5,000 m of sonic drilling was completed from 2005 to 2008. The priority targets within the KNP tenements during the PFS were Highway, Goon Hill, Goon South and Siberia North with additional work completed on a number of other prospects.

Mineral Resources were defined for the priority targets and have been classified in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC, 2004)

The flow sheet recommended for Highway, Goon Hill and Siberia North ore utilises a beneficiation circuit to upgrade the nickel for autoclave feed. The Goon South ore does not beneficiate as well as the other prospects however the separated minus 6.35mm fraction can be ground and fed directly to the leaching circuit. The selected leaching process is High Pressure Acid Leaching (HPAL) with neutralisation, solid-liquid separation through counter-current decantation (CCD), secondary neutralisation, and metal precipitation to produce mixed hydroxide precipitate (MHP) or mixed sulphide precipitate (MSP).

The integrated mine plan has a 34 year mine life with mining commencing at Highway and progressing to Goon Hill, Siberia North and Goon South. HPAL feed grade falls below 1.2% Ni after eight years due to the poorer beneficiation performance of the material from Siberia North and Goon South.

Unit operations downstream of secondary neutralisation (ie MHP and MSP circuits, product handling and tailings disposal) were designed using technical information from existing commercial plants. No test work was conducted for these unit operations, as sufficient knowledge exists to support the PFS level study.

Vale estimated mineable resources and beneficiated feed material at the different prospects as shown below:

- Highway 22.8 Mt @ 0.87% Ni upgrades to 7.8 Mt @ 1.48% Ni;
- Goon Hill 21.7 Mt @ 0.77% Ni upgrades to 9.5 Mt @ 1.14% Ni;
- Siberia North 18.1 Mt @ 0.79% Ni upgrades to 10.5 Mt @ 0.99% Ni; and
- Goon South 64.1 Mt @ 0.86% Ni upgrades to 53.6 Mt @ 0.92% Ni.



The KNP has some potential issues with supply of sufficient water and gas and an issue with the currently proposed Goongarrie Conservation Park which covers some of the resource areas all of which are to be addressed during future feasibility studies. Based upon the information collected during Step 3 and knowledge of other similar laterite projects, the optimal material throughput has been defined as 2.5Mt of beneficiated material for autoclave feed (based on a two autoclave scenario). The maximum nickel production from the project is anticipated to be 36ktpa of metal in intermediate product in the fourth year, reducing to 21ktpa after year thirteen. Life of mine average nickel production will be 23ktpa.

An economic evaluation was not scoped as part of this report. For the base case, the capital cost has been estimated as A\$1,994 million for a plant to create MHP; versus A\$2,192 million for a plant to create MSP. The average operational cost over the life of mine has been estimated to be \$US 4.42 per pound of Ni in MHP; versus \$US 4.59 per pound of Ni in MSP. Following the completion of the PFS report, field work has been focused on rehabilitation in areas affected by PFS work.

## **HERON EVALUATION OF KNP**

### **RESOURCES**

Heron's project team is undertaking a very detailed review of the KNP and the PFS prepared by Vale.

Vale only considered four of the 14 deposits making up the KNP. Heron believes the inclusion of the deposits which are proximal to the proposed Goongarrie processing plant is essential to optimise production rate and capital utilisation.

Detailed review of the resource estimates prepared by Vale on the four deposits considered is nearing completion. Vale's resource estimation methodology resulted in lower grade estimates than previously reported by Heron. Scope exists to re-estimate these resources using optimised parameters to obtain a superior estimate of grade and tonnes and provide the building blocks for further engineering and metallurgical studies.

### **BENEFICIATION**

PFS beneficiation test-work considered beneficiation at 75 micron size or larger. Heron's previous test-work indicated a higher grade of leach feed may be achieved through finer screening of ore without significantly impacting nickel recovery. Heron is currently undertaking test-work to evaluate finer screening on residual slurry samples prepared as part of the PFS. Optimisation of leach feed grade is seen as important in maintaining production over the life of mine.

### **MINING PLAN**

Detailed review of the mining engineering component of the study has commenced. In particular opportunities will be sought to smooth the production profile and reduce risk by accessing more than one ore source simultaneously.

### **ORE TRANSPORT**

A review of the ore transport options is currently underway. The options being considered are overland conveyor, large off highway road trains, satellite beneficiation and pumping slurry into the centralised processing plant and utilising conventional rail from the Highway Resource. The ore transport is a very important component of the study and is critical to the inclusion of additional deposits into the project located further from the plant.

### **METALLURGY**

Further investigation of the optimal intermediate product will be undertaken as part of the review process.

### **PATH FORWARD**

Should Vale decide not to commence the BFS in July and withdraw from the KNP, Heron will address each of the areas for improvement identified in the current review. Following the review, Heron will then work to identify long term partners with a commitment to nickel.

Table 1: Total Mineral Resources for Highway, Goon Hill, Goon South and Siberia North within ore envelope at 0.5% Ni (dry tonnes)

Total Resource (Highway/Goon Hill/Siberia North/Goon South)								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	292,184	0.68	0.05	22.82	0.96	18.68	3.42	2,404
Inferred	74,449	0.69	0.05	20.67	1.67	19.53	4.91	2,558
Total	366,633	0.68	0.05	22.38	1.11	18.85	3.72	2,435

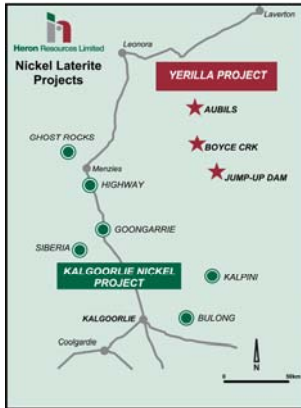
Notes: Figures are for Dry tonnes, using Clay Upper and Clay Lower material only and a 0.5% Ni cutoff

Table 2- Mineral Resources Within Ore Envelope at 0.5% Ni (dry tonnes)

Highway								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	51,296	0.63	0.04	27.93	0.66	10.22	5.77	1,616
Inferred	36,237	0.74	0.06	18.90	2.43	24.56	3.19	3,219
Total	87,533	0.68	0.05	24.19	1.39	16.16	4.70	2,280
Goon Hill								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	40,419	0.64	0.04	29.24	1.00	12.13	3.63	1,675
Inferred	24,347	0.65	0.03	21.82	0.86	12.02	8.99	1,667
Total	64,766	0.64	0.04	26.45	0.94	12.09	5.64	1,672
Siberia North								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	78,806	0.64	0.04	24.56	0.72	17.5	3.03	2,175
Inferred	4,001	0.63	0.04	24.99	0.77	19.04	2.37	2,499
Total	82,807	0.64	0.04	24.59	0.72	17.58	2.99	2,191
Goon South								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	121,663	0.74	0.06	17.4	1.24	25.19	2.61	3,126
Inferred	9,864	0.58	0.04	22.58	1.24	19.76	2.2	2,353
Total	131,527	0.73	0.06	17.79	1.24	24.78	2.58	3,068

Notes Figures are for Dry tonnes, using Clay Upper and Clay Lower material only and a 0.5% Ni cutoff

# YERILLA PROJECT



Heron is progressing discussions with interested parties looking to partner with Heron in developing the Yerilla Project.

A review of the resource classification for the Jump-up Dam deposit within the Yerilla Project identified a risk based simulation evaluation of the classification may upgrade the level of confidence in the resource and permit classification of a larger proportion into the measured category. A proposal from specialist external resource consultants was received.

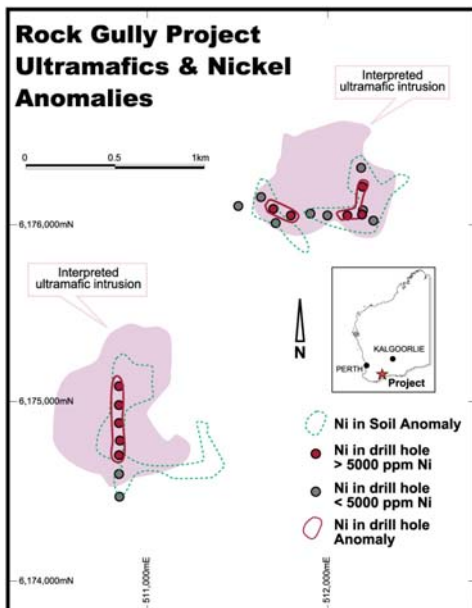
Environmental studies were completed to facilitate rapid permitting of the project once discussions with partners are finalised. This is a significant competitive advantage the Yerilla Project has over other laterite projects in Western Australia.

# ROCKY GULLY NICKEL SULPHIDE PROJECT



A detailed review of the Company's nickel sulphide targets ranked the Rocky Gully project as the most prospective greenfields project within Heron's portfolio. Being greenfields the potential rewards can be great, concurrently the risks are also high. To manage these risks the Company is considering potential partners to further test these targets.

The project covers some 1,109km<sup>2</sup> of the Proterozoic Albany Fraser Mobile Belt 70km north-west of Albany in south-west Western Australia. The project hosts nickel sulphide mineralisation in intrusive rocks with many similarities to the Voisey's Bay mine of Vale Inco's in Canada.



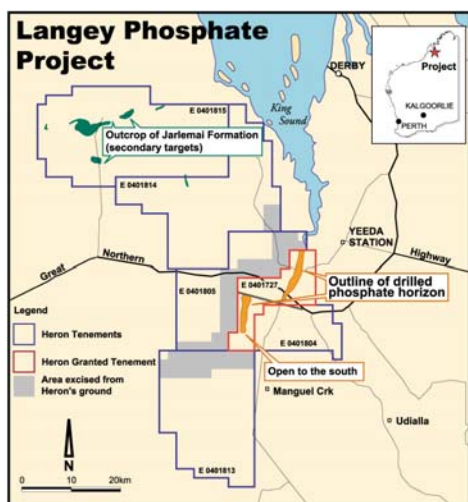
Drilling confirmed nickel, copper and platinum anomalism associated with ultramafic intrusions. The two drill tested bodies are roughly 1.5km<sup>2</sup> in area. There are interpreted to be up to 6 such potential bodies within the project.

The drilling returned maximum nickel of 0.9% and copper of 0.12%. Drilling indicated three anomalous zones within the intrusive bodies.

The drilling intersected relatively un-deformed, differentiated, ultramafic rocks within the highly deformed mobile zone adding weight to the interpreted younger intrusive nature of the ultramafics (similar to Voisey's Bay).

Drilling and subsequent petrological studies identified fine grained disseminated pentlandite, millerite (nickel sulphides), chalcocopyrite (copper sulphide) and pyrrhotite in the bedrock drill chips. This together with favourable bedrock litho-geochemistry suggests a fertile environment for nickel sulphide mineralisation, ranking the project highly.

# LANGEY CROSSING PHOSPHATE PROJECT



Last quarter reconnaissance drilling and costeaning program were completed at the 100% owned Langey Phosphate project located some 40km south of Derby, Western Australia.

The drilling program has delineated the shallow phosphate horizon over some 14 kilometres of strike north and south of the Great Northern Highway.

The results indicate that a horizon of phosphatic nodules is present at the base of the glauconitic (potassium clay) Jarlemai Formation (sandstone) over the tested strike length of 14 kilometres. Phosphate grades for the nodular horizon over the 0.5 metre sample interval averaged approximately 4.2%  $P_2O_5$ . The phosphate nodules themselves have an average grade of approximately 21%  $P_2O_5$ , indicating that the target horizon contains about 20% nodules by weight. This calculated average nodule concentration is supported by costean mapping. The nodule horizon appears to be thicker and better developed in the northern part of the area.

The horizon comes to within a metre of the surface on the eastern side and then gently dips to the west for a distance of over one kilometre. The phosphate horizon consists of both scattered and more packed nodules within an approximately two metre thick host glauconitic unit.

The Company is evaluating the broader region in an effort to find thicker and higher grade phosphate horizons. The Company is in discussions with parties who are interested in funding further exploration and development in the area through Farm-In arrangements.

## JORC Compliance Statements

Mathew Longworth  
Managing Director

The information in this report that relates to Highway and Goon Hill Mineral Resources is based on information compiled by Dr Sia Khosrowshahi who is a Member of the Australian Institute of Mining and Metallurgy. Dr Sia Khosrowshahi is an employee of Golder Associates and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the resource estimation activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Sia Khosrowshahi consents to the inclusion in this report of the matters based on his information in the form and context that it appears. Note that Mineral Resources that are not Ore Reserves do not have demonstrated viability.

The information in this report that relates to Siberia North and Goon South Mineral Resources is based on information compiled by Ian Hart who is a Member of the Australian Institute of Geoscientists. Ian Hart is an employee of Vale Exploration and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the resource estimation activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ian Hart consents to the inclusion in this report of the matters based on his information in the form and context that it appears. Note that Mineral Resources that are not Ore Reserves do not have demonstrated viability.

The information in this report that relates to Mineral Resources is based on information compiled by James Ridley who is a Member of the Australasian Institute of Mining and Metallurgy. James Ridley is a full time employee of Heron Resources Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the resource estimation activities undertaken to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. James Ridley consents to the inclusion in this report of the matters based on his information in the form and context that it appears. Note that Mineral Resources that are not Ore Reserves do not have demonstrated viability.

The information in this report that related to Exploration is based on information compiled by David von Perger who is a member of Australian Institute of Mining and Metallurgy. David von Perger is a full time employee of Heron Resources Limited. David von Perger has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the exploration activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. David von Perger consents to the inclusion in this report of the matters based on his information in the form and context that it appears.

Appendix 5B

MINING EXPLORATION ENTITY QUARTERLY REPORT

Name of entity

HERON RESOURCES LIMITED

ABN

30 068 263 098

Quarter ended (current quarter)

31 March 2009

*Consolidated statement of cash flows*

Cash flows related to operating activities	Current Qtr \$A'000	Year to Date (9 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for: (a) exploration and evaluation	(907)	(5,069)
(b) development		
(c) production		
(d) administration	(496)	(2,498)
1.3 Dividends received		
1.4 Interest and other items of similar nature received	367	1,703
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)-GST	22	48
	<b>(1,014)</b>	<b>(5,816)</b>
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	(12)	(102)
(b) equity investment		
(c) other fixed assets		(6)
1.9 Proceeds from sale of: (a) prospects		
(b) equity investment		
(c) other fixed assets	3	149
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
	<b>(9)</b>	<b>41</b>
<b>Net Investing Cash Flows</b>		
1.12 Total operating and investing cash flows (carried forward)	<b>(1,023)</b>	<b>(5,775)</b>

1.12 Total operating and investing cash flows (brought forward)	(1,023)	(5,775)
<b>Cash flows related to financing activities</b>		
1.13 Proceeds from the issue of shares, options, etc.		
1.14 Proceeds from the sale of forfeited shares		
1.15 Proceeds from borrowings		
1.16 Repayment of borrowings		
1.17 Dividends paid		
1.18 Other (provide details if material)		
<b>Net financing cash flows</b>	-	-
<b>Net increase (decrease) in cash held</b>	(1,023)	(5,775)
1.19 Cash at beginning of quarter/year to date	32,158	36,910
1.20 Exchange rate adjustments		
1.21 Cash at end of quarter	31,135	31,135

**Payments to directors of the entity and associates of the directors,  
payments to related entities of the entity and associates of the related entities**

	Current Qtr \$A'000
1.22 Aggregate amount of payments to the parties included in item 1.2	265
1.23 Aggregate amount of loans to the parties included in item 1.10	

1.24 Explanation necessary for an understanding of the transactions

Directors fees, salaries and superannuation (A\$248,178). Provision of office accommodation by director-related entity (A\$16,562).
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**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

See attached schedule
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## Financing facilities available

*Add notes as necessary for an understanding of the position*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,000
4.2 Development	
4.3 Production	
4.4 Administration	500
<b>Total</b>	<b>1,500</b>

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to related items in the accounts as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	236	94
5.2 Deposits at call	30,251	31,415
5.3 Bank Overdraft		
5.4 Other (provide details)		
Property Rental bond	48	48
Environmental bonds	530	531
Escrow Accounts	70	70
<b>Total: cash at end of quarter (Item 1.22)</b>	<b>31,135</b>	<b>32,158</b>

## Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at Begin of Quarter	Interest at End of Quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	See attached schedule		
6.2	Interests in mining tenements acquired or increased	See attached schedule		

## Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (\$)	Amount paid up per security (see note 3) (\$)
7.1 Preference securities (description)				
7.2 Changes during Quarter				
(a) Increases through share issues				
(b) Decreases through returns of capital, buybacks, redemptions				
<b>Ordinary securities</b>	240,938,847	240,938,847		
7.3 Changes during Quarter *				
(a) Increases through share issues				
(b) Decreases through returns of capital, buybacks				
7.4 Convertible debt securities (description)				
7.5 Changes during Quarter				
(a) Increases through issues				
(b) Decreases through securities matured, converted				

7.6 Options  
(description and conversion factor)

		<i>Exercise Price</i>	<i>Expiry Date</i>
250,000	Nil	\$0.5864	30/06/2009
1,450,000	Nil	\$0.6864	1/06/2010
5,000,000	Nil	\$0.6864	7/09/2010
1,050,000	Nil	\$0.6864	1/11/2010
5,000,000	Nil	\$0.6864	7/09/2016
2,750,000	Nil	\$1.4864	31/12/2015
100,000	Nil	\$1.38	30/06/2011
100,000	Nil	\$1.48	30/06/2011
100,000	Nil	\$1.54	30/06/2011
1,500,000	Nil	\$1.00	05/06/2012
2,500,000	Nil	\$1.50	05/06/2013
3,500,000	Nil	\$2.00	05/06/2013
5,250,000	Nil	\$2.50	05/06/2014
100,000	Nil	\$1.48	02/01/2012
100,000	Nil	\$1.50	02/01/2012
7.7 Issued during Quarter			
7.8 Exercised during Quarter			
7.9 Expired during Quarter			
7.10 Debentures (totals only)			
7.11 Unsecured notes (totals only)			

**Compliance 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest.**

1. Vale Inco a subsidiary of Vale may earn a 60% interest in the Kalgoorlie Nickel Project tenements through completing a Feasibility Study and procuring finance to build a nickel laterite mining and processing operation.
2. Bronzewing Gold NL (Bronzewing) may earn a 70% interest in precious metals from Heron's King of Creation Project through expending \$250,000 within four years. This agreement has been assigned to A1 Minerals Limited.
3. Jackson Gold Limited (Jackson) may earn a 70% interest in gold and silver minerals through expending \$300,000 within four years. Once Jackson earns its equity, Heron may at its sole discretion contribute on a pro-rata basis, or convert to a 20% free-carried equity to the completion of a Bankable Feasibility Study that recommends commencement of mining, or convert to a 2.5% royalty for recovered metal.
4. Epsilon Energy Limited may earn an initial 51% interest in Mineral Sands Rights for tenements in the Balladonia area through expenditure of \$150,000 including a minimum of 2,500 metres of drilling in the first year. Thereafter, Heron has the right to contribute or Epsilon can earn up to a 70% interest in the Mineral Sands Rights by expending a further \$250,000 in the following year.

**6.1 Interests in Mining Tenements transferred, relinquished, reduced or lapsed. (includes tenements that have lapsed and/or expired that may have subsequent Heron tenement in place)**

<i>Tenement</i>	<i>Nature of Interest</i>	<i>% Begin Quarter</i>	<i>% End Quarter</i>
E16/00295	Registered Holder	100	0
E24/00159	Registered Holder	100	0
E25/00241	Registered Holder	100	0
E25/00271	Registered Holder	100	0
E25/00397	Registered Holder	100	0
E28/01563	Registered Holder	100	0
E28/01841	Registered Holder	100	0
E28/01842	Registered Holder	100	0
E28/01854	Registered Holder	100	0
E29/00407	Registered Holder	100	0
E31/00586	Registered Holder	100	0
E31/00817	Registered Holder	100	0
E31/00821	Registered Holder	100	0
E31/00825	Registered Holder	100	0
E31/00826	Registered Holder	100	0
E31/00830	Registered Holder	100	0
E31/00831	Registered Holder	100	0
E31/00832	Registered Holder	100	0
E31/00833	Registered Holder	100	0
E31/00836	Registered Holder	100	0
E31/00841	Registered Holder	100	0
E36/00677	Registered Holder	100	0
E36/00694	Registered Holder	100	0
E37/00960	Registered Holder	100	0
E37/00969	Registered Holder	100	0
E38/01695	Registered Holder	100	0
E38/01724	Registered Holder	100	0
E38/02101	Registered Holder	100	0
E39/01076	Registered Holder	100	0
E39/01244	Registered Holder	100	0
E39/01303	Registered Holder	100	0
E39/01383	Registered Holder	100	0
E47/01975	Registered Holder	100	0
E63/01258	Registered Holder	100	0

<b>Tenement</b>	<b>Nature of Interest</b>	<b>% Begin Quarter</b>	<b>% End Quarter</b>
E69/02078	Registered Holder	100	0
E80/03508	Registered Holder	100	0
E80/04043	Registered Holder	100	0
L31/00042	Registered Holder	100	0
L31/00052	Registered Holder	100	0
L31/00053	Registered Holder	100	0
M16/00385	Registered Holder	100	0
M28/00127	Registered Holder	100	0
P24/03859	Registered Holder	100	0
P27/01550	Registered Holder	100	0
P27/01551	Registered Holder	100	0
P27/01552	Registered Holder	100	0
P27/01553	Registered Holder	100	0
P27/01554	Registered Holder	100	0
P27/01555	Registered Holder	100	0
P27/01556	Registered Holder	100	0
P27/01557	Registered Holder	100	0
P27/01558	Registered Holder	100	0
P27/01559	Registered Holder	100	0
P27/01560	Registered Holder	100	0
P27/01561	Registered Holder	100	0
P39/04348	Registered Holder	100	0

6.2 Interests in Mining Tenements acquired or increased

<b>Tenement</b>	<b>Nature of Interest</b>	<b>% Begin Quarter</b>	<b>% End Quarter</b>
E04/01878	Registered Applicant	0	100
E16/00373	Registered Applicant	0	100
E16/00374	Registered Applicant	0	100
E25/00400	Registered Applicant	0	100
E25/00401	Registered Applicant	0	100
E27/00408	Registered Applicant	0	100
E28/01920	Registered Applicant	0	100
E29/00717	Registered Applicant	0	100
E31/00854	Registered Applicant	0	100
E31/00856	Registered Applicant	0	100
E31/00859	Registered Applicant	0	100
E45/03382	Registered Applicant	0	100
P24/04434	Registered Applicant	0	100
P24/04435	Registered Applicant	0	100
P24/04436	Registered Applicant	0	100
P24/04437	Registered Applicant	0	100
P24/04438	Registered Applicant	0	100
P25/02062	Registered Applicant	0	100
P28/01175	Registered Applicant	0	100
P28/01176	Registered Applicant	0	100
P28/01177	Registered Applicant	0	100
P28/01179	Registered Applicant	0	100
P39/04992	Registered Applicant	0	100
P39/04993	Registered Applicant	0	100
P39/04994	Registered Applicant	0	100
P39/04995	Registered Applicant	0	100
P39/04996	Registered Applicant	0	100
P39/04997	Registered Applicant	0	100
P77/03971	Registered Applicant	0	100
P77/03972	Registered Applicant	0	100