


Heron Resources

Buy HRR around 69 cents

World-class nickel exposure

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SYMBOL DEFINITIONS

 BASE METALS	 HIGH RISK	 MARKET CAP	\$116 million
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With the price of nickel at record highs, we thought it timely to introduce our Members to Heron Resources, a focused and emerging nickel producer. Heron is currently involved in a joint venture on its Kalgoorlie Nickel Project with one of the world's biggest nickel producers, Inco of Canada. The venture is examining the commerciality of developing Australia's largest undeveloped laterite nickel deposit. BHP Billiton is also on the Heron share register, highlighting how attractive the KNP project is. We believe Heron represents a relatively low risk emerging nickel play for Members.

"The Kalgoorlie Nickel project represents Australia's largest undeveloped nickel resource."

This is our first recommendation for Heron Resources.

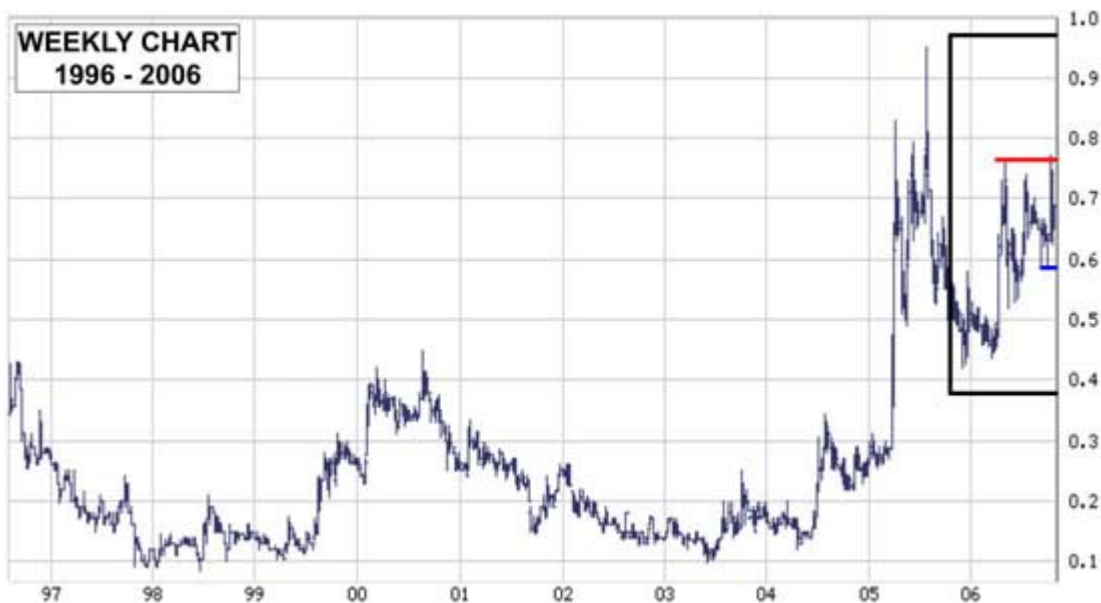
Increased investor support saw Heron commence a major upward trend in 2003. From a low of 8.3 cents in June of that year, the stock posted greater than 11-fold gains to reach an all-time high of 95 cents in August 2005.



Following such extensive gains, the upward trend of any stock would be at risk of pausing for a temporary correction. Heron is no exception with prices touching a low of 42 cents in December 2005. However, in the past 10 months there has been a reconfirmation of upward momentum that has seen Heron posting highs of 77 cents.

In the near term, we anticipate a period of consolidation below resistance at 77 cents. However, we believe downside risks are limited with initial support at 59 cents. Below here, we see the December low of 42 cents underpinning the shares, in our opinion.

Given the resilience of the longer-term upward trend, we believe that the coming months will see Heron will extend higher. A clear break above 77 cents will target a retest of the all-time high of 95 cents with new highs beyond here achievable in time.



Heron Resources is not your typical speculative junior resources play. The company listed ten years ago and has since focused solely on pursuing development of its extensive nickel laterite deposits in Western Australia. It has the potential to develop into a major world-class nickel player and generate large, longer-term returns for Members.

Its primary asset is the Kalgoorlie Nickel Project (KNP). The project is a potentially world class nickel laterite project located within the Kalgoorlie Goldfields district in Western Australia. It hosts a global resource of 890 million tonnes grading 0.7% Ni and 0.05% Co. The project aims to be a 50,000 tonne p.a. nickel-in-concentrate producer (Heron's share 20,000 tonnes p.a.) using High Pressure Acid Leach (HPAL) technology.

The KNP is the largest undeveloped high-grade nickel laterite resource in Australia. Its ore type possesses significant metallurgical benefits compared to other operating Western Australian laterite nickel projects, and it has major sovereign and metallurgical risk advantages over competing international nickel laterite projects. One of the world's major new nickel sources, the Goro nickel laterite project in New Caledonia, is currently plagued with landowner issues.

Inco of Canada is the project partner in the KNP and it can earn a 60% stake in the project. Inco became involved with the project in 2005 and within days, BHP Billiton acquired an on-market stake of 11.2% in Heron. Inco subsequently responded by subscribing to a 10.1% placement in Heron. The presence of both major miners on the Heron share register in our view provides tremendous dynamic tension that can only be of longer-term benefit for Heron shareholders. Inco and BHP respectively hold stakes of 9.9% and 9.6% in Heron at the present time.

The Inco-Heron joint venture has reached the first of four project milestones, with Step 1 completed in July 2006. This involved the completion of 53 diamond drill holes to confirm earlier drilling, as well as metallurgical test work. This work recently confirmed a leach feed resource of 120 million tonnes @ 1.5% Ni.

Inco proceeded to Step 2 of the Pre-feasibility Study in September 2006. The joint venture is completing a US\$2 million program during the first six months of Step 2. Subject to meeting technical milestones, Inco is sole funding the Study at a minimum cost of US\$18 million. Inco has until September 30 2007 to complete the Step 2 leaching and beneficiation test-work and determine the appropriate drilling methods and spacings to complete the Step 3 drill-out, which Inco must complete by January 2009.

Inco can earn a 60% stake in the project by completing a Bankable Feasibility Study by July 2011 and

securing project financing. Heron has capped its equity share at 4.5% of the total equity requirement, with Inco to lend Heron the balance of the equity funding. The downside risk for Heron is therefore limited in our view.

Nickel laterite developments are in most respects almost completely the opposite of typical sulphide nickel developments, such as Jubilee's Cosmos development. Sulphide resources are typically harder to find, but once a company proves their commerciality, their higher grade makes them highly lucrative to exploit. From a treatment perspective, they are also typically straightforward. Therefore, the risk is essentially borne up-front in the exploration stage.

With regard to laterite nickel deposits, the exploration phase tends to be easier. Nickel laterites generally tend to disperse themselves in shallow blankets near to surface and resources tend to be large. The risk lies not in the resource definition but in the processing, as laterite deposits are more metallurgically complex. The chequered history of the former Anaconda Nickel Murrin Murrin operation (now owned by Minara Resources) is testament to this.

Because of the complex metallurgical test work and production planning involved, laterite nickel deposits tend to require hefty development and capital budgets, usually measured in the hundreds of millions of dollars. They also require substantial infrastructure in the form of power and transport.

Hence, the involvement of Inco in the KNP comforts us, as it off lays much of the project capital and development risk. The project location not far from Kalgoorlie also provides enormous logistical benefits.

While the KNP has enormous medium to longer-term upside, some Members may find the lack of shorter-term sex appeal an issue. To this end, Heron recently announced a scoping and feasibility study into its 100%-owned Jump-up Dam nickel laterite project, situated 150km northeast of Kalgoorlie in Western Australia.

Exploration work began in June this year and has included drilling and metallurgical test work. The aim is to define a JORC-compliant Inferred Resource by February 2007 and to upgrade part of the resource to Indicated status with completion of a pre-feasibility study by July 2007. Heron aims to have a Measured Resource as part of the Bankable Feasibility Study by late 2007.

Heron aims to commence full commercial production in 2009 at a rate of 5,000 tonnes p.a. (compared with 20,000 tonnes attributable share at KNP from 2011). The project effectively complements the large, longer-term KNP, both of which are part of the company's overall nickel strategy focused on turning Heron into a 50,000 tonnes p.a. nickel producer over a 10-year period.

We believe Heron Resources represents an extremely attractive longer-term nickel exposure for Members. The company currently holds cash reserves of \$7.2 million. With two emerging projects in its portfolio and potential dynamic tension between two resource heavyweights in Inco and BHP Billiton, the stock will generate significant interest for investors.

We recommend Heron Resources as a Buy to all Members around 69 cents.

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