

Emerging Resources Selection

Heron Resources – HRR

The Background

Heron Resources is no ordinary spec mining company. The CEO is a prolific pegger of prospective ground around Kalgoorlie. Over the past 10 years he has managed to gather the largest Nickel Laterite resource in Australia and one of the largest in the world. Testing has shown an economic project which is called the Kalgoorlie Nickel Project which holds over 100 million tonnes of nickel ore.

Over the course of 2004 and 2005 several major global nickel players conducted due diligence on the KNP to determine its economic potential. In 2005 Inco struck a deal for a 60/40 joint venture to develop the KNP. Such was the interest that BHP immediately bought 10% of the company and Inco then also bought 10% to ensure that they had control. Inco is the largest nickel producer in the western world and are very keen to bring this project on stream as the global demand for nickel over the coming 10 to 20 years is projected to outstrip supply from depleting mines.

The Deal

The deal is one of the historic deals in Australian mining history. Inco will fund all pre-feasibility and feasibility studies before deciding to commit to a \$1.5 billion plant that will produce 50,000 tonnes of nickel per annum with a mine life of 20+ years. This would be the largest nickel mine in Australia and the second largest nickel mine in the world. **At today's nickel prices of US\$30,000 per tonne, the revenue will equate to approximately US\$1,500,000,000 revenue per annum. 40% of this is Heron's share. If US\$500 is allowed for costs then the free cashflow to Heron is tremendous.**

The Project

The KNP is big. It requires several rigs drilling 24 hours a day, 7 days a week conducting drilling to prove up the 2004 scoping study conducted by Heron. This will continue for another 18 months and the results will determine the next commitment by Inco. So far the results concur with the scoping study and the results are coming in better than expected. Inco has fast tracked some parts of the process. The time line is longer than other projects due to the size – this is going to be a massive project on a world scale. Production is not expected until 2012/13 however a pilot plant may be in operation before then. However that is only 5 years away and one need only look at Fortescue Metals chart to see how the price might move.

The Bonuses

Heron has recently announced a new project independent of the KNP with Inco. The Jump Up Dam nickel deposit could be in production as soon as 2008 for an initial rate of 5000 tonnes per annum and with a ramp up to 10,000 tonnes pa. This is like a Sally Malay all by itself. Jump Up Dam is being funded by a Share Purchase Plan currently underway.

Another bonus is that shareholders will receive new free shares in two companies that are being spun out of Heron which are assets non-core to Heron's nickel focus. Shareholders will receive an "in-specie distribution" of these shares sometime over the coming 3 months. One is for a base metals company called Rubicon Resources and one is for an energy company called Epsilon Energy.

The Case for Attraction

Apart from the probability that this stock could emulate the chart of Jubilee Resources over the coming 5 years, the Issued Capital is very tight. Management holds 25.5%, Inco holds 9.9% and BHP holds 9.6%. A further 10% is held by a Melbourne investment company so over 55% is held by top 4 shareholders. 70% of stock is held by top 10 shareholders and those who are holding it will keep it in super funds for the long term. Earnings per share could be enormous once this production kicks in. The price will not wait until then. It will most likely increase in a step by step motion as stock is collected and the milestones for the project continue to be met.

The Risks

Risks exist of course. Inco is being taken over by CVRD of South America. Executives of CVRD have met with Heron and now have people involved with the KNP on the ground with Inco and Heron staff. They have expressed their desire to progress the project as fast as the process allows. BHP as shareholders and with a progressed project at Ravensthorpe, would likely takeover the slack if Inco was to pull out. Also with the new Jump Up Dam coming on-stream in 2008 it takes much of the risk out of the picture.

Heron Resources represents a relatively low risk emerging nickel company with very attractive upside and minimal downside.

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