

AUSTRALIAN

RESEARCH



Contents

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Heron Resources Limited (HRR)



Sector Materials	Industry Group Materials	Industry Metals & Mining	Sub Industry Diversified Metals & Mining
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Company Overview

HRR is an emerging low-cost Ni miner targeting production from its 100%-owned Jump Up Dam Project in WA in 2009/2010. There are two other nearby 100%-owned Ni projects, Aubils and Boyce Creek, where successful exploration is finding potential satellite feed for Jump Up Dam. HRR has a 40% interest in the large KNP Project with JV partner CVRD Inco holding 60%. KNP is expected to produce 50,000tpa Ni, but start-up is unlikely before 2013/2014. KNP would make HRR a top-10 producer.

Strategy

HRR is focussed on the development of two projects: the Kalgoorlie Nickel Project (KNP) and Jump Up Dam. CVRD Inco is currently in the process of earning a 60% interest in KNP; that will leave HRR with 40%. KNP is currently the subject of a pre-feasibility study. HRR also owns 100% of the Jump Up Dam project, which is currently in feasibility.

Aegis Comments

Outlook: Ni production of 10,000tpa from Jump Up Dam is targeted for 2010. After crediting the sale of cobalt, the cash operating cost is expected to fall below US\$3.50/lb. The current resource of 22Mt at 1% Ni has a mine life of 15 years, but the Aubils and Boyce Creek projects have the potential to increase mine life and production by expanding Jump Up Dam. Jump Up Dam should deliver a strong cash flow. A full PFS for the KNP project is due in January 2009; this is a potential company-maker for HRR.

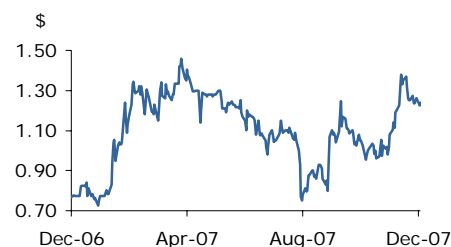
Catalysts: Trial mining and leaching at Jump Up Dam will provide data for a DFS in 2008. 20,000t of ore will be stacked and leached over 10 months. Water for the test plant has been located and all water requirements for Jump Up Dam should be secured during the PFS. Boyce Creek has a resource of 12.8Mt at 0.9% Ni. Significant zones of Ni mineralisation occur at Aubils. Scaling up production to include satellite projects would be a catalyst for re-rating. Infill drilling has found grades as high as 6% Ni.

Risks: There is a risk that the Jump Up Dam trail heap leach may show that the project is uneconomical and, therefore, the project would not go ahead. There is also the risk that, upon completing the pre-feasibility on KNP, CVRD Inco may choose not to proceed with the project. Both scenarios would negatively affect our valuation.

Key investment information

Price:	\$1.24
Price as at:	18-Dec-07
Market Cap (\$M):	292.0
Equiv. Shares (M):	235.49
% Market:	0.01
12Mth Range (\$):	0.68 - 1.47
Shares Traded (\$M pa):	64.9
Index:	n/a

Share price performance



Company contact



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Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	(1.6)	(1.6)	(0.9)	n/a	(<99)	(6.5)	(7.6)	0.0	0.0	0	(18.9)
2007A	0.0	0.0	0.0	n/a	>99	>99	>99	0.0	0.0	0	0.0
2008F	(26.1)	(26.1)	(11.4)	n/a	(11.0)	(0.7)	(0.8)	0.0	0.0	0	(33.4)
2009F	(14.9)	(14.9)	(5.3)	n/a	(24.0)	(1.8)	(2.2)	0.0	0.0	0	(7.3)

¹ NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

Financial Stability

Balance Sheet (Y/E Jun)	06A	07A
Net debt (cash) (\$M)	(9.2)	(29.6)
Total assets (\$M)	34.6	70.9
Net debt/equity (%)	(27.5)	(43.4)
Net interest cover (x)	n/a	n/a
NTA per share (\$)	0.05	0.18
Current ratio (x)	8.6	11.7

As at 30-Jun-07

Net debt (cash) (\$M)	(29.6)
Net debt (cash) / shr (\$)	(0.13)
Net debt (cash) / MktCap (%)	(10.1)

Substantial Shareholders

Kurana Pty Ltd and Ian James Buchorn	17.8%
BHP Billiton Limited	16.1%
Inco Australia Holdings Pty Ltd	14.0%

Board

C Readhead (Chairman)
M Longworth (Managing Director)
S Dennis (Non-Executive Director)
K Hellsten (Non-Executive Director)
I J Buchhorn (Executive Director Strategy)

Key Executives

M Longworth (Managing Director)
K Reynolds (Project Manager Jump-up Dam)
R Klug (Commercial Manager and General Counsel)
S Calvert (Company Secretary)
D von Perger (Exploration Manager)

Differentiating Factors

The Kalgoorlie Nickel Project is a potentially world-class nickel laterite project. One of the key advantages of this project is its location. Kalgoorlie has excellent infrastructure and access due to the established railway network and gas pipelines, as well as a large, skilled mining workforce.

Achievements

Founding director Ian Buchhorn established an extensive portfolio of tenements over laterite Ni resources. Part of the resource is amenable to screen upgrade. This allows the in-situ ore grade to be increased from around 0.7% to a leach feed grade of about 1.5%. Discovery of Jump Up Dam allowed HRR to emerge as a Ni miner in its own right. The quality of KNP is shown by BHPB and CVRD supporting the project by contributing A\$34.5M through placements. Their interests in HRR rose significantly.

Current Projects

Kalgoorlie Nickel Project (KNP): In partnership with CVRD Inco Limited, this project is the subject of a pre-feasibility study (PFS) examining the development of a large long-life nickel operation based on a mineral resource of 903mt at 0.75% nickel centred on Kalgoorlie. KNP completed Step 2 of the PFS in late September 2007. The PFS must be completed by January 2009 and the subsequent bankable study by July 2011, if CVRD Inco elects to proceed with the two remaining steps.

Jump Up Dam: Heron is completing a separate pre-feasibility study for its 100%-owned Jump Up Dam project, which is looking at the development of a heap leach nickel project to produce greater than 10,000t of nickel in intermediate product per annum. On projected mining and processing rates, this project will have a potential mine life approaching 20 years.

Capital Structure

HRR has 234,288,847 shares on issue, and 56,675,000 options on issue. BHP Billiton and CVRD Inco are substantial shareholders, holding 16.1% and 13.96%, respectively.



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