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December 2007 Quarterly Review

USA teetering, commodities roaring

EXTRACT

Contents

This is an extract from the December 2007 Junior Resources Quarterly Review.

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Heron Resources Limited (HRR)



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

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 as at February 2008.

Outlook: The recent assessment of Jump-up Dam as non-economical is a disappointment for HRR. Under the Intellectual Property licensing agreement with BHP, HRR has 5 years to commence construction of a licensed project in order to not see the contract made void. The inclusion of atmospheric leach has the potential to increase resource utilisation and production efficiencies. It is being examined to see if it can also optimise the Jump-dam project, which recently was placed on care and maintenance.

Catalysts: HRR Ni production target of 10,000tpa from Jump-up may not be realised due to the project's lack of economic feasibility. HRR believes it can find a solution through atmospheric leach technology. If this improves the efficiency and cost effectiveness of the project allowing for an adequate return on investment this will translate to unlocking shareholder value. Boyce Creek has a resource of 12.8Mt at 0.9% Ni. Scaling up production to include satellite projects would be a catalyst for re-rating

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. A global increase in capital costs of developing major projects is weighing heavily on the sector, as is the current difficulty in raising substantial sums of capital. Both scenarios would negatively affect our valuation.

Earnings Summary

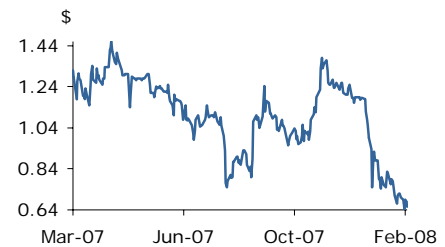
Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2007A	0.0	0.0	0.0	n/a	>99	>99	>99	0.0	0.0	0	0.0
2008F	(25.9)	(25.9)	(11.4)	n/a	(5.3)	(0.4)	(0.4)	0.0	0.0	0	(33.1)
2009F	(29.9)	(29.9)	(8.4)	n/a	(7.2)	(0.6)	(0.6)	0.0	0.0	0	(7.4)
2010F	34.2	34.2	8.6	n/a	7.0	0.6	0.6	0.0	0.0	0	6.7

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

Key investment information

Price:	\$0.66
Price as at:	29-Feb-08
Market Cap (\$M):	163.8
Equiv. Shares (M):	235.44
% Market:	0.01
12Mth Range (\$):	0.61 - 1.47
Shares Traded (\$M pa):	62.4
Index:	n/a

Share price performance



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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 (%)	(18.1)

Substantial Shareholders

Kurana Pty Ltd and Ian James Buchorn	17.8%
BHP Billiton Limited	14.7%
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.

Recent Events

25 January 2008 – Jump-Up Dam: Recent results from the PFS have led management to conclude that the Heap Leach process for the Jump-up Dam is not economically feasible and would provide an unfavourable return on investment. This was due to escalation of the capital and operating costs for the project since the Scoping Study conducted in April 2007. An alternative processing option involving Atmospheric leach technology is in the process of being evaluated in the hope of optimising the economics.

22 January 2008 – Technology Licensing & Product Supply: HRR has entered into a master technology licensing and product supply agreement with BHP. The agreement covers Jump-up Dam and other nickel laterite projects in the Eastern Goldfields, excluding the Kalgoorlie Nickel Project. Heron is now licensed to the relevant parts of BHP's Intellectual Property relating to Nickel Laterite Technology. In return BHP has the right to purchase at market the first 50% of any product generated from projects at Eastern Goldfields using the technology.

23 November 2007 – Kaloorlie Nickel Project: A \$13.8M program has been approved for the first 6 months of the 14 month Pre-Feasibility Study (PFS) at the Kalgoorlie Nickel Project (KNP). Heron's JV partner CVRD will provide the funding for the pre feasibility budget. The PFS is currently in progress and due to be completed January 2009. The program will involve a significant drilling component to confirm the confidence in the KNP resources. It will also provide the basis to estimate reserves, mine planning and metallurgical test work.

Capital Structure

HRR has 240.9M shares on issue, and 56.7M unlisted options on issue. BHP Billiton and CVRD Inco are substantial shareholders, holding 14.91% and 13.96%, respectively.



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