



two of the world's largest diversified resources houses on its share register, providing dynamic tension. These major shareholders are BHP Billiton and Brazil's CVRD, which each maintain respective stakes of 15.6% and 13.46% in Heron.



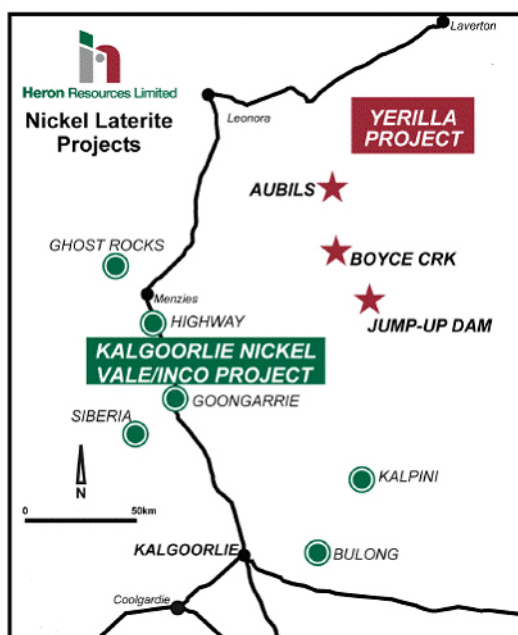
As a reminder to Members, Heron boasts stakes in two very attractive, large-scale emerging nickel developments in Western Australia. We will examine the latest developments with respect to both projects in this report.

Of course, sentiment in the nickel laterite sector has probably never been better, with BHP Billiton just recently commissioning its brand new Ravensthorpe development in Western Australia.

Heron's primary project is the Kalgoorlie Nickel Project (KNP) in joint venture with CVRD (HRR 40%, CVRD 60%), a project which has enormous medium to longer-term upside. The project hosts a potentially world-class nickel laterite development, situated in the heart of the Kalgoorlie Goldfields district.

The project hosts a global resource of 903 million tonnes grading 0.74% Ni and 0.04% Co, for a contained nickel metal resource of around 6.6 million tonnes. CVRD is currently conducting a Pre-feasibility Study (PFS) to define exactly what proportion of this large resource can be economically extracted and processed.

The project's eventual aim will be to produce between 40,000 and 60,000 tonnes annually of nickel-in-concentrate, using High Pressure Acid Leach (HPAL) technology. The KNP has the potential for a 30-40 year mine life.



So how does the joint venture with CVRD work? CVRD can earn a 60% stake in the KNP by completing a series of four project milestones.

CVRD achieved Step 1 in July 2006, when it completed a programme of diamond drilling as well as metallurgical test-work, which confirmed that the KNP did indeed contain a world-class nickel resource, including a leach-feed resource of around 120 million tonnes @ 1.5% Ni.

Inco then proceeded to Step 2 of the Pre-feasibility Study in September 2006, which involved a work programme budgeted at a minimum cost of US\$18 million, which was completed in the latter stages of 2007 and saw leaching and beneficiation test-work, as well as working out the appropriate drilling methods and patterns to complete the next phase of work, which is the Step 3 drill-out.

Step 3 is currently underway and involves resource, engineering and metallurgical test-work that must be completed by January 2009. A budget of \$13.8 million was established for the first six months of the study to May 2008, with a further budget for the next six months to be established shortly. Infill resource drilling commenced at the end of 2007 and there are currently four drilling rigs on site.

Upon the completion of Step 3 in January 2009, CVRD has a six-month window to decide whether it will commit to a full Bankable Feasibility Study (BFS). In all, CVRD can earn its 60% stake in the KNP by completing a BFS by July 2011, in addition to securing project financing.

Importantly, Heron has capped its equity share at 4.5% of the total equity requirement, with CVRD to lend Heron the balance of the equity funding. This

means that Heron has a 40% stake in a 95.5% geared project and has only to make a minimal equity contribution towards construction. The financial risk exposure for Heron is therefore nicely contained.

Now let's turn our attention to Heron's second major project development, formerly known as the Jump-up Dam project, but which is now referred to as the Yerilla Project. The project is 100%-owned by Heron and lies 150km northeast of Kalgoorlie.

Heron commenced exploration activity on the project during 2006 and announced an initial JORC-compliant Inferred nickel resource during early 2007. The initial resource comprised 41.4 million tonnes @ 0.82% Ni at a 0.5% cut-off grade. Further upgrades since then have led to a current combined nickel resource, comprising Measured, Indicated and Inferred estimates, of around 67 million tonnes @ 0.75% Ni (using a 0.5% cut-off).

Unfortunately, the proposed heap-leach treatment option that was initially favoured to treat the Yerilla project ore was found to be unviable, meaning a switch to a more robust treatment option, comprising atmospheric leaching. Heron is now currently involved in an expanded Scoping Study examining the use of atmospheric leaching to conceptually produce around 20,000 tonnes annually of nickel-in-concentrate.



The revised treatment option is not all bad news; in fact there are numerous positives. First and foremost, the use of atmospheric leaching will allow Heron to beneficiate (upgrade) its ore before beginning the leach process. What this means is that up to 60% of the lower-grade ore can be removed before leaching, effectively boosting the grade of the ore that is ultimately leached by around a factor of 40%.

The second attraction of atmospheric leaching is that the reduced mass of ore to be treated means less acid consumption. Sulphuric acid to extract the nickel from the ore is one of the biggest costs in a nickel laterite project, so the

capacity to reduce its use will have a big positive impact on eventual operating costs.

Heron Resources aims to have its Scoping Study completed on Yerilla by July-August 2008, which will allow the company to make a decision on whether to progress the project to a Pre-Feasibility Study (PFS). If the company elects to push the button on a PFS, as we expect it will, then the PFS should be completed by January 2009.

Given the substantial capital requirements necessary for the development of a nickel laterite operation, Heron is assessing options with respect to bringing in a joint venture partner in a similar way as its KNP, shortly after completion of its Scoping Study.

Heron currently boasts a strong cash position of around \$42 million, so it is well placed to fund ongoing work at Yerilla.

With interests in two emerging, potentially world-class nickel projects and the dynamic tension provided by having two of the world's biggest mining houses on its register, we maintain our firm view that Heron Resources is an unique opportunity with little apparent downside for investors.

**Accordingly, Heron Resources will remain firmly within the Fat Prophets Mining and Resources portfolio; however for Members with no current exposure, we recommend the stock as a Buy around \$0.56.**

## Snapshot HRR

### Heron Resources

Explore for and develop mineral resources within Australia with particular emphasis on open cut nickel and gold deposits in the Eastern Goldfields of WA.

Market Capitalisation	A\$135m
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