Volume 1, Issue 4, December 2006

Heron Explorer

A quarterly communication from Heron Resources, keeping you informed of our latest projects, initiatives and business opportunities.

Epsilon Energy

The Explorer chats to Matt Gauci, the Managing Director of Heron's uranium listing Epsilon Energy, which listed on the ASX on 13 December, 2006.

Can you explain to investors why an IPO was chosen as a vehicle for Heron's uranium assets, as opposed to the assets remaining in the Company or being sold or joint ventured to another Company?

Despite their prospectivity, the market hasn't fully valued the assets alongside the nickel projects inside Heron. The legislative framework surrounding uranium mining in Australia is currently being reviewed and is expected to be met with positive change for the industry.

So with the uranium assets in a dedicated company, run by experienced management and with adequate funding we believe that is the best corporate vehicle for the uranium assets to be recognised to extract their true value.

How will Epsilon's proposed capital structure work and how will Heron shareholders gain from their involvement in the new Company?

The company has recently listed on the ASX at a 50% premium.

Heron will continue to hold 37.5% of the Company and intends to distribute these Shares to its shareholders on a pro-rata basis. The record date for the in-specie distribution was 11 December 2006. Heron intends to undertake the in specie distribution of the Shares to its shareholders within 12 months after Epsilon's Shares were quoted on ASX, being the 13 December.

A key element of any new listing is management, and the Epsilon board includes some well-known names in the resources and uranium sectors. What do you see as the key strengths of the board?

A key strength of our board and management team is its uranium industry experience. We are fortunate to have substantial uranium mining and exploration experienced people involved directly in the Company. Chairman Bruce Larson and I have previously worked with Rio Tinto on their uranium assets and the board has the objective of delivering growth and yield returns for shareholders.

My experience in the uranium industry, includes operational management roles at the Kintyre Uranium Project in Western Australia with the Rio Tinto Group and as a founding Director of uranium explorer Scimitar Resources Limited (ASX:SIM). Mr Larson, also with the

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Rio Tinto Group for more than 20 years, held various senior management roles in business development and exploration, as well as in project development, particularly at the Kintyre Uranium Project, and is currently a Director of Wildhorse Energy Limited (ASX:WHE) as well as the newly formed industry leadership group the Australian Uranium Association.

Other board members also have strong uranium backgrounds including University of Western Australia Professor of Geophysics in the School of Earth & Geographical Sciences Mike Dentith, who has 20 years experience in minerals and petroleum industry including research on sandstone-hosted uranium mineralisation.

Heron COO, Mathew Longworth is also a Non-Executive Director while senior geologist Stefan Gawlinski takes up the role as Exploration Manager for the Company. Both Mat and Stefan have significant experience with major through to junior mining and exploration companies in Australia. Stefan has a record of achievements in all facets of exploration including resource discoveries and delineations, project management, recruitment, environment and safety gained with companies, including Rio Tinto Zinc Ltd, Mt Martin Gold Mines, Normandy Mining Ltd, Newmont Australia Ltd and Oxiana Ltd.

Epsilon controls a large tenement holding across Australia prospective for uranium. Can you tell us a little about the key projects located?

The Company controls the rights to uranium mineralisation at seven key projects covering 8,851km2 of prospective tenements in four Australian States. There are over 50 tenements in total under Epsilon's management.

The focus is on geological environments that are suitable for large tonnage-low operating cost uranium systems, primarily sandstone-hosted, calcrete-hosted deposits, using the Beverley, Mulga Rock and Yeelirrie deposits as appropriate models, three of Australia's largest uranium deposits.

The Balladonia Uranium Project in the Eucla Basin (WA) represents a large scale uranium exploration concept seeking sandstone-hosted deposits within a project area covering 6,563km2. The geological environment is comparable to the Frome Basin in SA, and the Gunbarrel Basin in WA, host to more than ten sandstone-hosted uranium deposits. The favourable features are adjoining radiogenic granite uranium sources, large extensive palaeochannels containing rock types favourable for accumulation of uranium, and an encouraging suite of previous uranium exploration results.

The Mt Phillips Project in the Gascoyne Complex (WA), represents a more targeted exploration and development project, focusing on delineated calcrete – hosted uranium deposits. The project area contains known uranium mineral inventories over an area of 392km2 with recent grab samples returning values of 0.024% to 0.708% U3O8 in pits. A drilling program is planned on the granted tenements, to expand the continuous high-grade carnotite uranium mineralisation. The highest values from material in valleys were reported to be at 1.18% U3O8, with the target model being the Yeelirrie, that has a contained resource of 52,500t U3O8.

The remaining assets in Epsilon's portfolio are located in more established uranium provinces and states, particularly the West Frome Project in the Frome Basin, South Australia, the Mt Denison Project in the Ngalia

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Basin, Northern Territory and the Pandanus West Project in the Georgetown–Townsville uranium field, Queensland. These projects are targeting sandstone-hosted uranium deposits, intrusive-related and volcanic-related uranium mineralisation.

What is the advantage of such a diverse project portfolio?

The diverse project portfolio is a representation of our exploration and development strategy which has considered geopolitical certainty, geological variation and mineral economics. As a second mover in this cycle of the expansion of the uranium industry, it is important to be cognisant of all relevant factors that have recently effected the industry and those that are likely to continue to be an influential force.

From a geopolitical perspective, a recent Federal Government taskforce into uranium mining, processing and nuclear energy in Australia found that government policies are restricting the expansion of the Australian mining and export industry. Australia's eight state and territory governments currently limit uranium mining to three sites in only two states, with divergent views towards uranium mining across the governing landscape.

While the taskforce report has called for these restrictive policies to be addressed and Epsilon supports this view, the Company has also sort to disperse its risk by maintaining an extensive portfolio across both states where uranium mining and processing is supported, such as NT and SA, and those states where we believe a change in policy is evolving, such as WA and QLD.

In terms of Geological variation, Epsilon is primarily seeking large tonnage low operating cost uranium systems. In Australia, these predominantly occur within either Sandstone hosted deposits or Calcrete hosted deposits.

Sandstone deposits constitute about 18% of world uranium resources and 7% of Australia's total resources. Orebodies of this type are commonly low to medium grade (0.05 - 0.4% U3O8) and individual orebodies are small to medium in size (ranging up to a maximum of 50,000 tonnes U3O8). Conventional mining/milling operations of sandstone-hosted deposits have been progressively undercut by lower cost ISL mining methods.

Calcrete deposits comprise about 4% of world uranium resources. Calcrete deposits represent 5% of Australia's total reserves and resources of uranium, and 25% of WA's, with Yeelirrie in WA by far the world's largest calcrete deposit. Other significant deposits in WA include Minindi Creek, Lake Way, Centipede, Thatcher Soak and Lake Maitland. Calcrete deposits are commonly associated with high tonnage near-surface mineralization and this is the target style at our Mt Phillips and Ida Valley projects.

In terms of mineral economics of the various styles of uranium mineralization we are seeking, a recent study on the development of the sandstone-hosted Honeymoon Project in SA, estimated an operating cash cost of US$12.40/lb over the projected mine life, using ISL as the mining method. While a recent study of the development of the Lakeway and Centrepede deposits in WA, have projected an operating cost of US$21.00/lb, using conventional open pit mining as a method. This is consistently below the industry cash cost curve of operating mines, given a of U3O8 spot price of approximately US$65/lb, and presents robust project economics, once Epsilon delineates and develops a resource.

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In summary we feel we are targeting the style of uranium mineralisation in the right Australian states with the appropriate exploration models, that will provide shareholders with both growth and yield returns.

Where do you initially plan to spend the money you are raising in the float?

Proceeds from the Offer will fund an active exploration strategy initially focussing on our two lead projects, Mt Phillips in the Gascoyne Region, WA, and Balladonia in the Eucla Basin, WA. Field and Desktop work has commenced and drill rigs are booked for both projects early in the new year. We are very pleased to have commenced exploration so soon after listing, and this is indicative of the pace we intend to move at and the commitment we have for uranium exploration in Australia.

At Mt Phillips, field exploration has been completed, which has optimised drill hole siting and a preliminary rock chip and stream sediment sampling program is currently been assayed. Historical results indicate high grade calcrete uranium with results ranging from 0.024% to 0.708% U3O8. This will be followed by a targeted drill program in January to confirm the extensions of the known uranium mineral inventories within and nearby the tenement boundaries.

At Balladonia, desktop exploration work has commenced, so to optimise drill hole siting with a follow-up drill program of historical uranium work completed by Rio Tinto Exploration at the Balladonia Uranium Project, planned for January. This will allow the Company to better understand the regional system of adjoining radiogenic granite uranium sources, the large extensive palaeochannels and the rock types that are favourable for accumulation and supergene enrichment of uranium.

What are your thoughts on the outlook for the uranium market?

Epsilon is bullish on the outlook for the uranium industry, particularly in Australia. We support some of the recent analysts reports on the price of uranium breaching the US$100/lb in the next 12 months.

Moreover, to better understand the importance of the Australia's uranium resources to global energy requirements, one must consider current global energy policy, which is now seeing the need for clean, secure and economic energy sources as critical. Developing and developed nations such as China, India, Russia, Europe and North America, are leading the development of the Nuclear Energy industry and its this demand that will drive the industry.

A recent government report on the development of the Australian Uranium industry quoted Australia's in ground resources of Uranium to worth a staggering US$275 billion. The Olympic Dam project in South Australia alone contains more than four times the energy resources than the entire North West Shelf in WA. A phenomenal statistic, given our states focus on the importance of LNG.

What we are experiencing in the development of the uranium industry and the nuclear energy industry worldwide is not, by any stretch of the imagination, a boom cycle that will subside soon. This is undoubtedly a step change in global energy policy, which along with sentiments, drives economics, and we as Australians are fortunate to be better positioned than any country in the world to capitalise on this global shift in policy.