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Heron Resources Limited

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Date of lodgement: 16-Oct-2007

Title: Open Briefing®. Heron Resources. Progress at Jump-up Dam

Record of interview:

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Heron Resources Limited (ASX code: HRR) has been granted mining leases to proceed with trial mining and leaching to demonstrate the viability of the Jump-up Dam project commencing in the last quarter 2007. What are the parameters and scope of the trial mining? How will these results guide development of the project?

MD Mat Longworth

The mining leases cover the entire project, giving Heron access to mine subject to approvals for all the Jump-up Dam resource and processing. We are finalising the permitting for the construction of the demonstration project and Heron announced Board approval for the trial mining and demonstration this week. The mining component will involve two pits and mine approximately 100,000 tonnes of ore, from which we will initially blend and agglomerate 20,000 tonnes of ore for leaching.

The construction of the demonstration pads, ore processing, tankage and ponds will take approximately three months, and we anticipate that we'll commence mining in early January 2008 and commence the stacking of the first cell in early February. The leaching process of the four cells will take approximately nine months, including the stacking, curing, rinse cycle and reclamation phases.

The trial is designed to feed key information into the definitive study such as mining and grade control, representative samples and expected ore feeds. As well, leaching performance in the heap leach environment versus the column leach test work we have done will be evaluated. Other areas for investigation will include scale-up factors, the geotechnical information on the stability of the heaps, the ability of the heaps to remain permeable, and also the reclamation of the leach residue. Reclamation of the leach residue is pretty important to our ability to use on/off leach pads, which significantly reduces our capital exposure.

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The pre-feasibility study for the Jump-up Dam Project is scheduled for completion in November 2007. What are you expecting from the results of that study and what are your options going forward?

MD Mat Longworth

During the pre-feasibility, we've made some gains in the area of processing flow sheets, and lifted resource confidence at Jump-up Dam and defined additional resources at Boyce Creek, which adds to our mining options.

We continue to hone the costs, and understand the key financial drivers to the project and we believe the definitive study may provide the opportunity for additional cost savings proven during the demonstration however, these are too conceptual at this stage to be included in the pre-feasibility due to lack of testing.

Key consumables such as sulphur and labour are under pressure due to external market forces, and we need to be innovative to address these areas.

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Laterite nickel can be treated by either heap or pressure-leaching, with both being capital intensive propositions. What are your development options at Jump-up Dam? How has your initial testwork compared to similar type operations? What contingencies have you in place to secure a reliable water supply?

MD Mat Longworth

Heron has actually had a reasonable amount of exposure to pressure acid leaching, and continues to do so through our Kalgoorlie Nickel Project in partnership with CVRD-Inco. Over the last ten years, we've had significant experience with nickel laterites, and have found that iron oxide nickel ores are better suited to pressure acid leaching flow sheets and, more recently, that clay saprolite-dominated ores process reasonably well through heap leaching.

Jump-up Dam has a predominance of clay-style ore types, and our test work shows that Jump-up Dam compares pretty favourably with the performance of other deposits where heap leach is being contemplated.

On the water front, our exploration is defining the water resources required for the full-scale project. We have secured and permitted the water required for the demonstration, and we expect to have secured the water for the full scale project during the definitive feasibility study.

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You have made new nickel discoveries at Aubils and Boyce Creek, close to Jump-up Dam. What have been the significant results of your exploration program to date? Does the proximity of this discovery have the potential for satellite feed to Jump-up Dam? What impact would this have on your Jump-up cash cost models?

MD Mat Longworth

Boyce Creek is located 25 kilometres to the north of Jump-up Dam. It's also a clay-style mineralisation which, our experience tells us, should be amenable to heap leach. Boyce Creek has the possibility to enhance our early grades and extend mine life out past 20 years at 10,000 tonnes of production. This has a beneficial impact on our cost models, and is being contemplated in the pre-feasibility and definitive study models.

Aubils is a much larger project, located 70 kilometres to the north of Jump-up Dam. Drilling to date has identified mineralisation over an 8 kilometres strike length, and has a width up to one kilometre. We're currently drilling there to close the drill spacing and permit the estimation of a resource. Owing to the scale of the mineralised area the drilling takes some significant time, and it may be six months of continuous drilling to reduce the drill spacing down to a 160 by 80 metre drill pattern.

Initial indications are that there are some clay-based mineralisation styles; however, a larger component is silicious limonite, or iron oxide style mineralisation. From our test work we know the iron oxide style mineralisation may well be amenable to beneficiation or what we know as screen upgrade.

Once we have a handle on the size of the resource, the distribution of mineralisation styles, and the beneficiation characteristics of the resource, we'll evaluate options for processing this deposit. At this stage, it's a little too early to say which direction we might go with the Aubils deposit.

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Can you provide an update on progress at the Kalgoorlie Nickel Project?

MD Mat Longworth

Last week, we announced that our partners, CVRD-Inco, had completed Step 2 of the pre-feasibility into the Kalgoorlie Nickel Project. They're currently compiling a report on the results of this work, and under the agreement, have until the 30th of November to make a decision to commit to Step Three and finalisation of the full pre-feasibility study.

During Step 2, they evaluated high-pressure acid leach and heap leach processing, and undertook test work for each of those particular process flow sheets on a range of mineralisation from the resources located within the Kalgoorlie Nickel Project.

We're encouraged by the work we've seen to date, and look forward to reviewing the results in detail from CVRD-Inco after which we will be able to provide the market with a more detailed update on these results.

Should CVRD-Inco proceed to Step 3, they've got 14 months to complete a full pre-feasibility study, and that would involve a significant amount of drilling metallurgical test work, and engineering. During this stage we anticipate a much greater news flow of project related data.

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Global nickel oversupply fears have implications for new start-up projects. What are the advantages of Heron's projects? Where do you see the markets moving and the growth opportunities for Heron?

MD Mat Longworth

All the predictions and projections we've seen indicate that there will be a continuing strong demand for nickel. This demand to date has required the addition of around 50,000 tonnes of new nickel production per annum. China over the last 18 months has resorted to high-cost nickel pig iron in an effort to plug this gap. We've not seen a single large nickel project come on-stream, on time, or on budget in the last ten years. For the oversupply scenario, we would need to see these projects completed on time, meeting the ambitious ramp-up schedules, and levelling off in demand.

Heron is investigating the application of heap leach extraction to reduce capital costs and the complexity of extracting nickel from laterite ores. We currently estimate the capital costs of heap leaching in the order of between US\$14 and US\$15 per pound of annual production. This could be reduced for larger projects. This compares with a pressure acid leaching capital cost in the order of US\$25 per pound of annual production. The cost of developing a large nickel sulphide operation would not be too dissimilar in today's cost environment.

Heron's initial growth opportunities come from the development of Jump-up Dam, and then development of the Kalgoorlie Nickel Project. Future growth may be augmented by the Aubils project, and exploration success throughout our extensive tenement portfolio.

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Thank-you Mat.

For further information on Heron Resources Limited visit www.heronresources.com.au or call Mat Longworth on (08) 9215 4444.

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