



HERON RESOURCES LIMITED

DECEMBER 2006 QUARTER HIGHLIGHTS

Heron's Key Nickel Projects

Near to Medium-term Production- at the **Jump-up Dam Heap Leach Project**, targeting 10,000tpa nickel production from the 100% Heron-owned project:

- Inferred Mineral Resource estimate of 41.4 Mt grading 0.82% nickel at a lower cut-off of 0.5% nickel. Within this resource an Inferred Mineral Resource of 19.1 Mt grading 1.07% nickel at a 0.75% nickel lower cut-off is estimated. This forms a higher grade core to the deposits, particularly in the Western Zone.
- Scoping Study on track, with engineering consultants Aker Kvaerner Australia co-ordinating the Scoping Study with inputs from Snowden (resource), SKM (environment), Rockwater (process water), SGS Oretest (metallurgical test work) and Aker Kvaerner Australia (process).
- Metallurgical test work continues to deliver encouraging results. Commencement of 4 metre large scale column leach test work.
- Initial bulk samples excavated and dispatched for testwork. Large diameter drilling program for further bulk samples underway.
- Higher grade results from the RC drilling including: 22m @ 1.94% Ni from surface, 30m @ 1.48% Ni from 14m depth and 46m @ 1.46% Ni from 4m depth.
- Acid Plant Option included in Scoping Study, and acid supply discussions continuing.

Long-term Production- the **Kalgoorlie Nickel Project (KNP)**, partner CVRD-Inco Limited continues with Step 2 of the KNP study.

- Drilling to commence March Quarter 2007.
- Batch High Pressure Acid Leach and Continuous Leach Testwork to Commence March Quarter 2007.

Corporate Divestments

Immediate divestments to unlock value: Heron vended its non-core uranium into **Epsilon Energy Limited**, copper-gold into **Rubicon Resources Limited**. Non core divestments are complete, enabling Heron to focus on its key nickel.

Board and Management Team

Appointment of experienced non executive directors with nickel laterite project delivery and operational management experience. Mr Ken Hellsten and Mr Stephen Dennis joined the Board.

Elevation of Mr Mathew Longworth to the role of Managing Director, Mr Longworth steps in to the role to lead the company through the transition from explorer to producer. Mr Ian Buchhorn takes on Strategy as an Executive Director

Appointment of Mr Kevin Reynolds as Project Manager Jump-up Dam, Mr Reynolds a metallurgist with over 20 years project management experience will lead the project delivery team.

Appointment of Mr Robert Klug Commercial Manager- General Counsel, Mr Klug a lawyer, with extensive resources, corporate, and finance, legal experience.





Level 1, 37 Ord Street West Perth

Phone 61 8 92154444
Facsimile 61 8 92154490
Email heron@heronresources.com.au
Website <http://heronresources.com.au>
ABN 30 068 263 098

HERON RESOURCES LIMITED December 2006 Quarterly Report

1 CORPORATE

1.1 Board

Heron Resources announced the appointment of Mr Stephen Dennis and Mr Ken Hellsten to the Board as a Non-Executive Directors in December 2006.

Mr Dennis' and Mr Hellsten's experience in mining and infrastructure substantially increases the Board's capability to deliver on the Company's growth targets in the nickel sector, particularly the Kalgoorlie Nickel and the Jump-up Dam Projects.

Mr Dennis spent 14 years in senior management roles at MIM Holdings Limited, was Group General Manager and Chief Financial Officer of Minara Resources Limited until late 2005, and most recently was Regional Director at Brambles Australia Limited.

Mr Hellsten graduated with first class honours (Geology) from Monash University, and has been employed in senior executive roles ranging from exploration to development and operations in both large and small resources companies.

During the past 12 years Mr Hellsten has led teams responsible for the completion of feasibility studies and project development at the Cawse and Ravensthorpe HPAL nickel laterite projects. Mr Hellsten went on to manage the ramp-up of Cawse which achieved design throughput in 21 months.

The Board regrets to announce that it has accepted the resignation of Non-Executive Director, Dr Allan Trench, who has resigned from the Heron Board due to increased overseas business commitments.

Dr Trench's involvement with the Company, commenced with Heron over three years ago. Dr Trench has assisted in building Heron to where it stands today and he leaves the Board with the Company in a strong position.

1.2 Management

On January 29 Heron's Chief Operating Officer, Mathew Longworth, stepped in to the position of Managing Director while current Managing Director, Ian

Buchhorn, takes on the new role of executive director responsible for strategy.

Mr Longworth's responsibilities have increased in line with his capabilities in managing the Company through the study phase in to development and operations, reflecting the Company's increasing focus on its nickel developments and achieving nickel production during the current period of strong commodity prices.

Mr Longworth takes responsibility for the day-to-day management of the Company's projects.

Importantly for Heron, as a founding director and a driving force behind the Company, Mr Buchhorn will focus his energies on strategic planning and corporate priorities.

In addition to these internal changes, the Company has also made two new appointments to its senior management team as part of the ongoing recruitment process to bolster in-house capabilities.

Mr Kevin Reynolds has joined the Company as Project Manager Jump-up Dam. Mr Reynolds is a metallurgist with over 20 years project management experience and exposure to nickel hydrometallurgy and heap leach technology.

Mr Robert Klug joins the company as Commercial Manager and General Counsel. Mr Klug brings extensive commercial and legal experience with mining companies, financial markets and major national legal practices. Mr Klug most recently held the General Manager Business Development role with a rapidly emerging national mining company.

Mr Klug and Mr Reynolds join Heron Company Secretary Sarah Calvert, Exploration Manager David von Perger, Mr Longworth and Mr Buchhorn on the Executive Leadership Team.

The Company has increased its executive commitment to the Kalgoorlie Nickel Project through having Mr Dennis and Mr Hellsten join Mr Longworth and Mr Buchhorn on the KNP Joint Venture Technical Committee.



Their inclusion on the KNP Technical Committee will increase Heron's ability to contribute constructively to advancing the KNP for the benefit of the Company, and its Shareholders and partners.

The ability to attract and retain the calibre of people that make the new leadership team in the current market also reflects Heron's stage of development and industry recognition of our projects. Heron will continue to seek out and appoint the best personnel to staff and develop the Jump-up Dam Project, a critical component to project success.

1.3 Capital Raising

Heron completed a Share Purchase Plan (SPP) which closed on 23 November 2006. Shareholders subscribed to a total of 9,595,770 new Shares at 65 cents raising a total of \$6,237,250.50, which will be used by the Company at Jump-up Dam for resource drilling, metallurgical test work, engineering studies, the current Scoping Study and general working capital.

In conjunction with the SPP, Heron made a placement to Inco pursuant to the Subscription Agreement between Inco Australia Holdings Pty Limited (Inco) and Heron dated 14 April 2005 released to the market as Annexure A to the Substantial Shareholder Notice on 19 April 2005. Inco subscribed to a placement of 940,651 shares at 65 cents. This placement maintains Inco's shareholding in Heron at 9.8028%, raising a further \$611,423.15.

The continued support of all Shareholders including CVRD-Inco is acknowledged.

1.4 Funding for Development of Jump-up Dam Heap Leach Project.

Preliminary discussions have commenced with financial institutions to consider funding options for the Jump-up Dam Project. These discussions will accelerate as the Company progresses its studies on the project.

Epsilon Energy Limited

Epsilon Energy Limited successfully listed on ASX on 13 December 2006. Support for the listing from Heron Shareholders was strong with one quarter of the stock on offer being made available to Heron Shareholders via a priority application. This priority application was more than 4 times oversubscribed leading to the offer being closed early.

The vendor consideration and seed shares will be distributed to Heron Shareholders as of the record date being 11 December 2006 within 12 months of Epsilon listing. The ratio of the in specie distribution will be one Epsilon share for every 12 Heron Shares held. The vendor and seed consideration of a total of 15 million shares has monetised approximately \$6.9 million of value for Heron Shareholders.

1.5 Rubicon Resources Limited

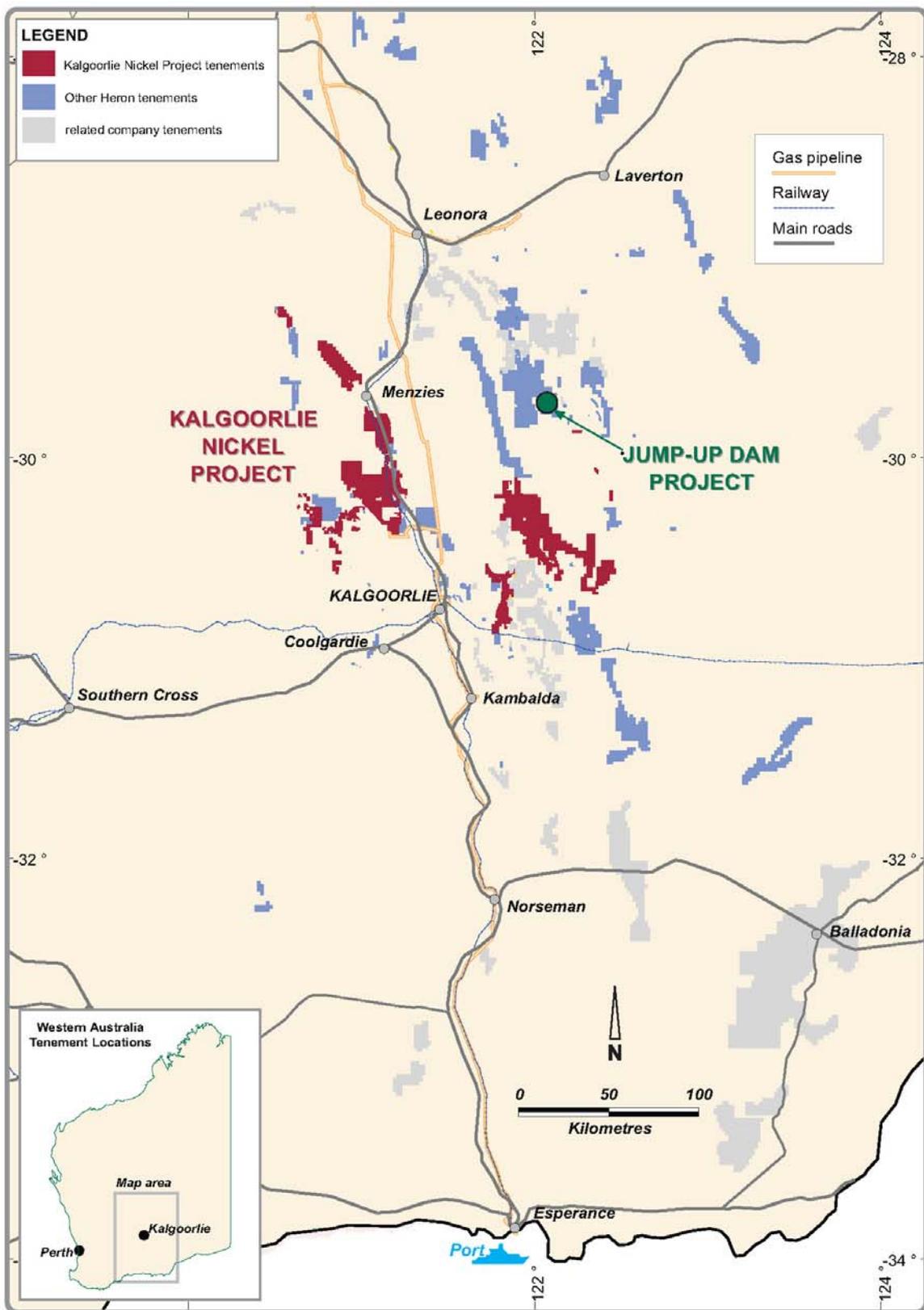
Rubicon Resources Limited closed its Initial Public Offering oversubscribed and early on 12 January 2007. Heron held its EGM to approve the Reduction in Capital on 24 January 2007, with the resolution being passed by an overwhelming majority. Rubicon has now applied for listing on the ASX. The vendor consideration of 25 million shares on a nominal value of \$0.20 has monetised approximately \$5 million for Heron Shareholders, in addition to the priority offer of 3 million Rubicon shares under the IPO process.

The ratio of the in specie distribution will be one Rubicon share for every 7.2 Heron Shares held at the Record Date of 2 February 2007.

Having completed the Epsilon Energy and Rubicon Resources de-mergers, Heron will focus on Nickel development and exploration through its 100% owned Jump-up Dam project and the KNP in conjunction with CVRD-Inco.



Figure 1 Heron and related companies Tenement Locations



2. KEY NICKEL PROJECTS

2.1.1 Jump-Up Dam

The Jump-up Dam Heap Leach Project is owned and managed 100% by Heron Resources and located 150 km north east of Kalgoorlie-Boulder.

2.1.2 Study

The Jump-up Dam Scoping Study is on track for completion in the March Quarter. Engineering consultants Aker Kvaerner Australia are co-ordinating the Scoping Study with inputs from Snowden (resource), SKM (environment), Rockwater (process water), SGS Orestest (Metallurgical test work) Aker Kvaerner Australia (process).

The Scoping Study is examining potential economic production of nickel via development of a heap leaching operation. Initial scale of operations targets 5,000 tonnes of nickel in intermediate product increasing to 10,000 tonnes per annum. Cobalt credits of up to 250 tonnes of cobalt once production achieves 10,000 of nickel. An Acid Plant option is included in the Scoping Study.

A Pre-Feasibility Study is anticipated to commence during the March 2007 Quarter. Large scale column test work including down stream metal recovery investigations and resource drilling is underway to feed into the Pre-Feasibility Study.

2.1.3 Resource and Geology

In January, Heron announced an Inferred Mineral Resource estimate of 41.4 Mt grading 0.82% nickel at a lower cut-off of 0.5% nickel at Jump-up Dam Project. Within this resource an Inferred Mineral Resource of 19.1 Mt grading 1.07% nickel at a 0.75% nickel lower cut-off is estimated (Table 1). This forms a higher grade core to the deposits, particularly in the Western Zone. Nickel laterite mineralisation is hosted in surficial deposits of weathered olivine cumulate ultramafic located 5 kilometres west of the Keith Kilkenny Fault within the Menangina Domain of the Kurnalpi Terrane.

Estimated independently by Snowden Mining Industry Consultants from Heron's data, the mineral resource is based on some 250 reverse circulation (RC) drill holes on a 160 metre by 80 metre grid pattern with limited infill drilling on an 80 metre by 80 metre grid pattern. Due to the

relatively wide spaced drill coverage, the estimate has been classified as an Inferred Mineral Resource in accordance with the JORC Code, 2004. The nickel laterite mineralisation consists of nontronitic and siliceous varieties and metallurgical test work indicates that the resource is likely to be amenable to heap leach extraction technology. Assays for all elements were determined by XRF fusion on two metre samples, split at the drill rig, with quality control samples routinely inserted into the sample stream.

Snowden recommended reporting of the estimate using both ordinary kriging (OK) and uniform condition (UC) estimation methods because the current wide spacing of the drilling data results in an overly diluted assessment of the deposit when the OK estimate is considered in isolation. The UC estimation method gives a more realistic estimate of the tonnage and grade that will be available when close-spaced drilling is carried out during future mining. The UC estimate is derived from the OK estimate for the deposit where nickel grades have been estimated into large 80 metre by 80 metre by 3 metre blocks from the current data. The derived UC estimate is based on the assumption that future selective mining units (SMUs) will have dimensions of 10 metres by 10 metres by 3 metres, and future exploitation of the deposit will allow selection of the SMUs from within the larger OK blocks at either a 0.5% nickel or 0.75% nickel cut-off grade.

Importantly a UC estimate can only be used to estimate a single element and as such, the accessory elements of cobalt and magnesia were estimated in the OK model as listed in Table 2 below. Heron anticipates that as drill density increases, future OK estimates will approach the tonnage and nickel grade estimated by the UC method. In addition, when close spaced data is available, reliable local estimates can be made for all the 13 elements analysed, which will be required to understand the full chemistry and blending possibilities of the Jump-up Dam deposit.

Table 1 Jump Up Dam Inferred Mineral Resource Estimate by Uniform Conditioning (10 m x 10 m x 3 m selective mining units)

Block cut-off Grade (%Ni)	Tonnage (Mt dry)	Ni (%)
0.50	41.4	0.82
0.75	19.1	1.07



Table 2 Jump Up Dam Inferred Mineral Resource Estimate by Ordinary Kriging (80 m x 80 m x 3 m blocks)				
Block cut-off Grade (%Ni)	Tonnage (Mt dry)	Ni (%)	Co (%)	MgO (%)
0.50	49.5	0.74	0.04	11.7
0.75	18.8	0.94	0.06	9.6

Some 355 holes for 18,300 meters of drilling have been completed to date. The resource is largely closed off, but further drilling required in the central area where there is potential for further low-grade (siliceous) mineralisation. Drilling to improve resource confidence and provide the basis for mine planing commenced in January 2007.

Higher grade results continue to be returned from the RC drilling including (at 0.5% Ni cut-off):

- JDRC234 26m @ 1.34% Ni from surface;
- JDRC244 22m @ 1.44% Ni from 28m;
- JDRC252 22m @ 1.94% Ni from surface;
- JDRC253 20m @ 1.53% Ni from 2m;
- JDRC277 30m @ 1.48% Ni from 14m;
- JDRC348 42m @ 1.25% Ni from 20m and
- JDRC349 46m @ 1.46% Ni from 4m.

A more detailed tabulation of results drill results is provided in Table 3.

Detailed sampling and mapping of a large costean and the existing chrysoprase pit to understand the controls on mineralisation was completed.

Results from horizontal channel sampling of the costean include (0.5% Ni cut-off):

- JDCO01 16m @ 1.1% Ni (2-4m depth) and
- JDCO03 30m @ 2.5% Ni (4-6m depth).

A detailed aeromagnetic survey was completed during the Quarter to improve understanding of the controls on mineralisation including reviewing the potential for nickel sulphide mineralisation.

Detailed multi-spectral logging of all RC drill chips to facilitate detailed semi quantitative mapping of key minerals was completed through the CSIRO. Distribution of differing laterite material types based on their mineralogy is key to understanding the metallurgical performance of specific ore types.

2.1.4 Mining

Preparation of conceptual mining schedules has commenced. Full mining and pit geotechnical studies will be implemented during the Pre-Feasibility Study once resource confidence is sufficient to estimate ore reserves.

It is envisaged mining will be by open pit methods, with 700,000 tonnes of ore required to be mined and stacked annually to achieve an interim 5,000 tonnes of contained nickel production ramping up to 1.4 million tonnes to achieve the 10,000 tonnes. It is likely mining will commence at the northern ends of both Eastern and Western Zones of mineralisation where strip ratios are expected to be very low and mineralised grades high. Blending of ore will be undertaken to maximise grade and geotechnical heap stability.

Contractor mining with a truck and excavator fleet is anticipated.

2.1.5 Bulk Sampling

A 160 metre long trench was excavated to maximum of 6 metres depth to facilitate bulk sampling of mineralisation for initial large scale agglomeration and leaching test work. Two large composite samples were prepared and dispatched to SGS Oretest for evaluation. In addition, a bulk sample was obtained from the chrysoprase pit from within the northern portion of the Eastern Zone siliceous mineralisation and dispatched for evaluation at SGS Oretest. This composite is currently leaching in a 4 metre high column. In addition, large diameter Calweld drilling has recently commenced to provide further bulk sample material from planned mining depths.





Excavation of the Costean on Section 3200N



Garnierite veining from the costean.

2.1.6 Metallurgy

Large scale four metre high column test work has commenced at SGS Oretest, and will continue through Pre-Feasibility Studies to investigate geotechnical, metallurgical and water balance aspects of a heap operation. Inter-stage heap solution flows and heap management practice will be simulated to provide solutions for metal recovery tests. The extraction curve is shown below in Figure 6 demonstrating approximately 50% extraction after 20 days on a composite from the chrysoprase pit in the northern end of the Eastern Zone.

A total of 16 samples from Jump-up Dam have been submitted to SGS Oretest for one metre column leaching. Current results are summarised as extraction curves in figure 6.

Design of a test program for preliminary product evaluation is underway. This test work will prepare mixed intermediate product from leach solutions from Jump-up Dam mineralisation. Evaluation of product quality and efficiency of precipitation and impurity removal are key steps to understanding and defining the process and precursors to marketing studies and discussions.

2.1.7 Process

Aker Kvaerner Australia is progressing well with the process options being evaluated as part of the Scoping Study. Mass balances are complete for open circuit and recycle circuit leaching and precipitation sections of the flow sheets. Equipment sizing is complete and enquiries are currently with potential suppliers for budget pricing. Heron is continuing to study flow sheets for both mixed hydroxide and mixed sulphide intermediate products. Marketing assessments are required prior to committing to either product flow sheet.

Heron has included an acid plant option in the Scoping Study. The study will look at the trade off between higher capital expenditure and reduced operating expenditure associated with an acid plant. Included in the study is evaluation of the lead time on acid plants sourced from various suppliers.

Heron is undertaking a study of alternative acid supply options, and preliminary discussions have been held with potential acid suppliers.

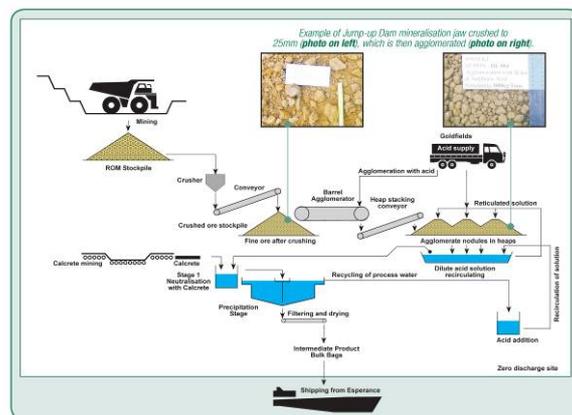


Figure 2 Schematic Flow Sheet

2.1.8 Water Resources

Rockwater ground water consultants were engaged to undertake a desk top study of process and camp water supply options and to identify potential targets for exploration. Initial electromagnetic geophysical survey traverses are underway and drilling is planned for the March 2007 Quarter.

Optimisation of process recycle will be undertaken during the Pre-Feasibility Study along with evaluation of water harvesting options and surface water management.



2.1.9 Environment

SKM were engaged to undertake the environmental segment of the Scoping Study.

Flora surveys of the project area were completed during the quarter and fauna surveys are planned for the March Quarter. No declared rare or priority flora species were identified in the survey.

Heron's environmental consultants will commence the approvals process for the trial mining and leaching during the March 2007 Quarter. Details of the trials are required from the Scoping Study prior to commencement of this approvals process.

2.1.10 Community

A project briefing was provided to the Menzies Shire Council in January 2007. Once the Scoping Study is complete, a co-ordinated consultation program with all stakeholders will commence.

2.1.11 Procurement

As part of the cost estimation process for the Scoping Study, potential suppliers are being approached for budget pricing and delivery time estimates.

During the March 2007 Quarter the Company will commence seeking expressions of interest from potential suppliers for both capital plant and operating consumables.

The Scoping Study is identifying long lead time items for the process and existing lead times. This will allow orders for key long lead time items to be made consistent with the development schedule.

2.1.12 Marketing

To enable Heron to make a decision on the optimum intermediate product, a detailed marketing study will be commissioned.

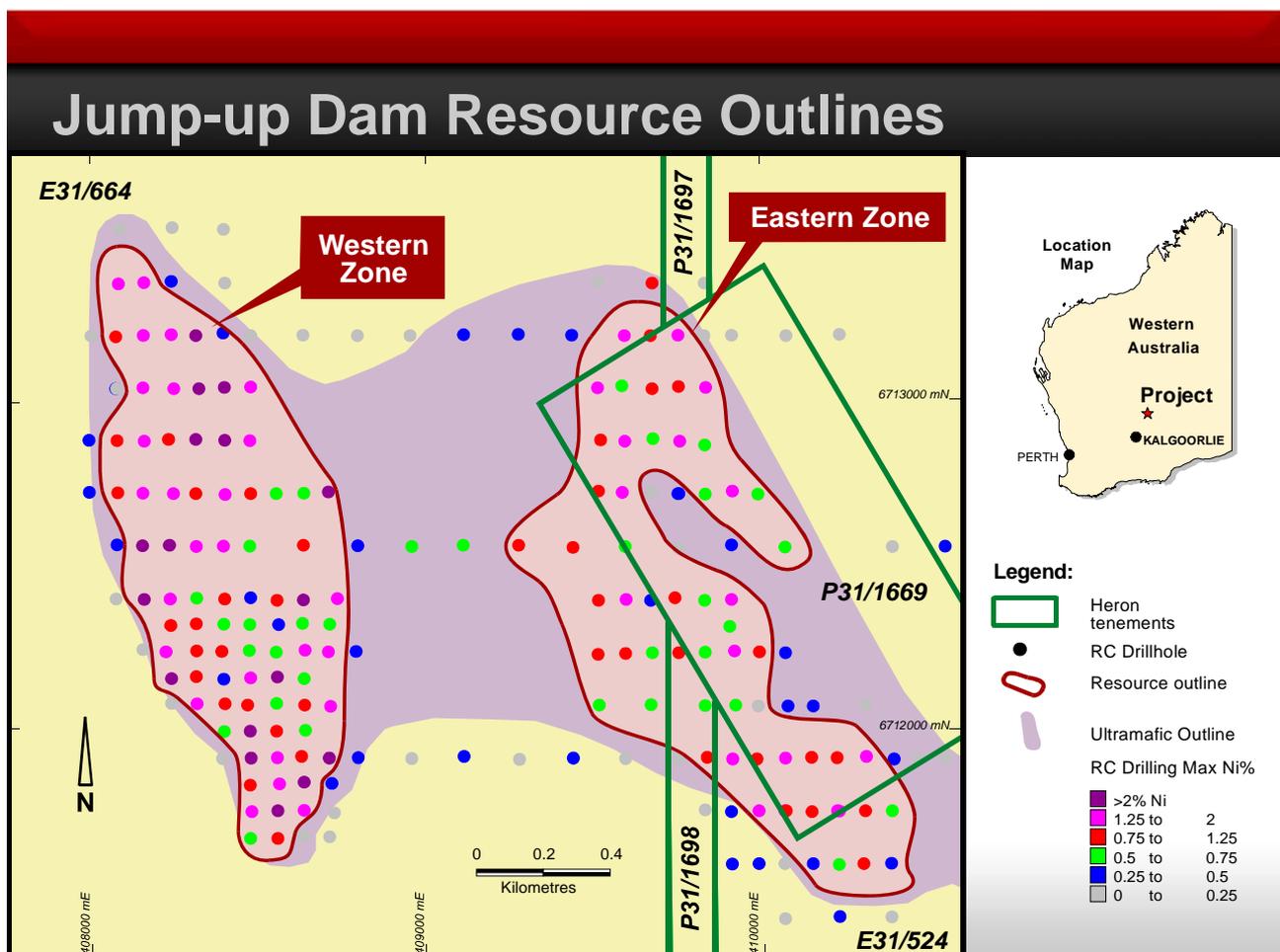


Figure 3 Jump-up Dam RC drill Layout and Resource Outlines



Nickel Extraction Against Time in Days

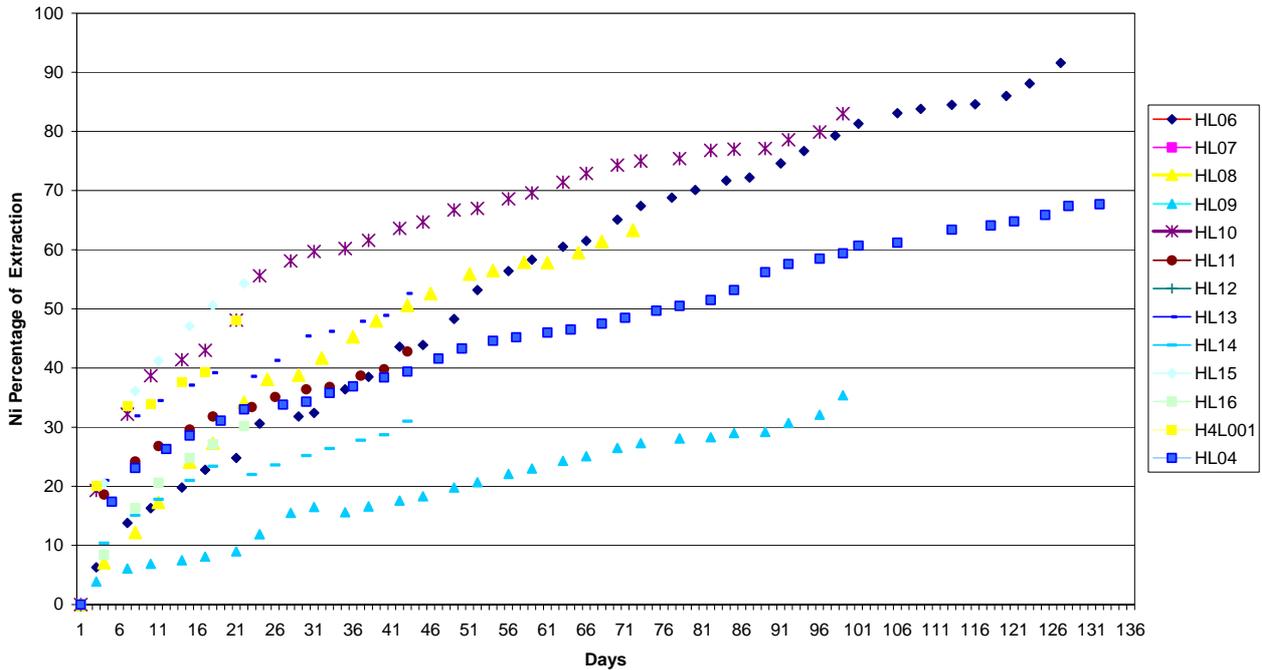


Figure 4 Nickel extraction over time for composite samples note H4L001 is 4 meter column

Table 3 Significant RC Drill Intercepts (0.5% Ni cut-off and ≥ 1.0% Ni)

Hole	Zone	North	East	From	To	Width	Ni%	Co%
JDRC0234	Western	6713123	408323	0	26	26	1.34	0.06
JDRC0235	Western	6713123	408303	4	28	24	1.2	0.08
JDRC0236	Western	6713123	408283	20	34	14	1.24	0.07
JDRC0237	Western	6713123	408258	12	26	14	1.18	0.15
JDRC0238	Western	6713123	408238	14	42	28	1.14	0.08
JDRC0239	Western	6713123	408218	64	72	8	1.22	0.03
JDRC0240	Western	6713124	408198	28	40	12	1.3	0.06
JDRC0244	Western	6713123	408121	28	50	22	1.44	0.06
JDRC0252	Western	6713206	408322	0	22	22	1.94	0.02
JDRC0253	Western	6713205	408302	2	22	20	1.53	0.08
JDRC0254	Western	6713205	408283	2	28	26	1.39	0.05
JDRC0255	Western	6713205	408262	2	34	32	1.6	0.07
JDRC0256	Western	6713204	408244	0	32	32	1.18	0.08
JDRC0257	Western	6713204	408221	6	42	36	1.26	0.13
JDRC0258	Western	6713202	408200	10	42	32	1.01	0.07
JDRC0266	Western	6713280	408157	44	48	4	1.19	0.04
JDRC0267	Western	6713280	408083	18	40	22	1.08	0.17
JDRC0268	Western	6712962	408401	8	58	50	1.06	0.08
JDRC0272	Western	6712961	408084	38	48	10	1.11	0.1
JDRC0275	Western	6712805	408238	14	30	16	1.07	0.05
JDRC0277	Western	6712801	408377	14	44	30	1.48	0.04
JDRC0278	Western	6712639	408080	24	72	48	1.08	0.04
JDRC0280	Western	6712643	408241	26	34	8	1.11	0.06
JDRC0282	Western	6712642	408475	12	48	36	1.08	0.05
JDRC0284	Western	6712642	408638	22	36	14	1.17	0.05
JDRC0288	Western	6712478	408161	20	60	40	1.06	0.06
JDRC0313	Eastern	6713039	409879	0	12	12	1.14	0.13



Hole	Zone	North	East	From	To	Width	Ni%	Co%
JDRC0314	Eastern	6713121	409845	2	24	22	1.00	0.07
JDRC0348	Eastern	6711842	410077	20	62	42	1.26	0.08
JDRC0349	Eastern	6711843	410001	4	50	46	1.46	0.17

Table 4 Significant Costean Channel Sample Intercepts (0.5% Ni cut-off and \geq 1.0% Ni)

Costean Sample Interval	Description	Start MGA-N	Start MGA-E	From	To	Width	Ni%	Co%
JDCO0002	Costean North Face 2-4m	6713201	408360	0	16	16	1.1	0.1
JDCO0003	Costean North Face 4-6m	6713201	408344	0	30	30	2.5	0.15
JDCO0005	Costean South Face 2-4m	6713199	408360	0	16	16	1.1	0.11
JDCO0006	Costean South Face 4-6m	6713199	408344	0	30	30	2.3	0.1



2.2 Kalgoorlie Nickel Project - CVRD Inco Sole Fund

(Heron Nickel Rights 100%. CVRD-Inco right to earn 60%, sole fund BFS, secure finance.)

CVRD-Inco continues to manage the KNP and is progressing with the Step 2 Program. Drilling at Siberia North and Highway will commence during the March Quarter.

2.2.1 Resource and Geology

General

Some 15 PQ triple tube diamond drill holes, for metallurgical batch tests, were logged using CSIRO's Hylogger hyper spectral imaging system. The results to date show distinct mineralogical zones which when combined with the textural data from visual logging assist in relating material domains and metallurgical characteristics.

Siberia North

An electrical resistivity imaging (ERI) survey was completed on 400m line spacing across all granted tenements. In total data from 22.1 line kilometers over 11 lines were acquired using INCO personnel and one contract geophysical operator. Preliminary results and interpretation show a number of major structures controlling basement topography and internal variations within the regolith which in some cases relate to intense silicification. An integrated interpretation with geology and assays will be undertaken upon receipt of the final processed data.

A review of the geology and drill results of Siberia has commenced and an initial drilling program has been designed that will include:

- a minimum of 75 RC drill holes to bring the line spacing to maximum 400 meter spacing
- to extend existing lines with more RC drilling to achieve drill lines with 80 meter distance between hole centers
- approximately 500 meters of HQ TT diamond drilling (8 to 10 drill holes) to bring more confidence to the geological model and to test previous drill results where results are suspected to be potentially affected by wet samples

A detailed aeromagnetic survey over Siberia North is scheduled for February 2007. The survey specifications include a line spacing of 25m and terrain clearance of ~25m.

Highway

An RC drill program proposal has been prepared for early 2007 to test areas that had significant end-of-line intercepts and/or to test and confirm previous significant RAB drill results on existing lines.

An ERI survey is planned to commence in mid January 2007.

2.2.2 Metallurgy

Crush Test Work

Twenty five (25) composites of the +12.5mm sample material from Step 1 samples, were selected for tests into the amount of material reporting to the finer screen fractions following crushing at 6mm, 3mm and 1mm. This data will assist in correlating the differences in the screen results from the Heron RC drilling and Inco Step 1 diamond drilling program. Samples have been submitted to Ammtec Pty Ltd with results pending.

Batch Tests

Sixteen composites were chosen for the batch pressure leach tests at CSIRO's facilities in Perth. Testwork will commence in the March Quarter results will follow.

Synthetic process water approximating the expected available site process water is to be used during testing.

The test work includes the following:

- Thickening and Rheology Testwork
- HPAL Leaching
- Atmospheric Leaching
- HPAL/Neutralization
- Leach Residue Settling

Continuous HPAL and Atmospheric Testwork

The material for the continuous HPAL/Atmospheric leach tests to be undertaken by Inco Technical Services Limited will be collected from three drill holes using the large diameter Caldwell rig. The holes will be located at Goongarrie Hill, Highway and Siberia North. This drilling program is expected to commence in mid February.



3 Exploration

3.1.1 Regional Nickel Sulphide

Heron is undertaking regional exploration for sulphide mineralisation within its extensive portfolio of 100% owned tenements and within selected tenements included in the KNP.

3.1.2 KNP Tenements

Emu Lake North

Heron completed two of a planned four hole RC program at Emu Lake for 500 metres. These holes targeted a number of EM conductors associated with known nickel sulphide mineralisation along the eastern contact of a fertile ultramafic unit. The initial two holes and down hole electromagnetic surveying failed to adequately explain the initial anomaly. A program to twin an existing sulphide bearing historical drill hole is planned along with detailed surface fixed loop EM to obtain additional targeting information.

Ghost Rocks

A review of recently acquired aeromagnetic data indicates a number of discrete anomalies possibly related to nickel sulphide accumulations. Programs of exploration are planned to evaluate these targets.

3.1.3 Non KNP Tenements

Geochemical sampling, mapping and regional evaluation programs continued at 15 project areas. The regional evaluation study undertaken by its consultant continued with a number of key points feeding into Heron's tenement acquisition and exploration ranking criteria.



MATHEW LONGWORTH MANAGING DIRECTOR

The information in this report that related to Mineral Resources is based on information compiled by Mark Murphy who is a member of the Australian Institute of Geoscientists. Mark Murphy is an employee of Snowden Mining Industry Consultants. Mark Murphy has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the resource estimation activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mark Murphy consents to the inclusion in this report of the matters based on his information in the form and context that it appears.

The information in this report that related to Exploration is based on information compiled by David von Perger who is a member of Australian Institute of Mining and Metallurgy. David von Perger is a full time employee of Heron Resources Limited. David von Perger has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the exploration activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. David von Perger consents to the inclusion in this report of the matters based on his information in the form and context that it appears.

3.2 Regional Exploration

3.2.1 Trans Find East

Forty reconnaissance RC holes were completed on six east west lines to test potential laterite and bedrock lithology's. Results of this program are pending. Restricted zones of laterite mineralisation were encountered by drilling.

3.2.2 Aubils

Initial reconnaissance drilling of 23 holes for 1263 metres were completed at the Aubils project. Assay results are awaited. A number of zones of interesting nickel laterite mineralisation were encountered during drilling requiring further drill testing. A detailed aeromagnetic survey was completed over the project area processing of the data is underway.

3.2.3 Yerilla

Planning for initial drill testing is well advanced and will commence upon grant of additional tenements. A detailed aeromagnetic survey is being acquired. These surveys will assist identifying the controls on laterite mineralisation and provide key targeting tools for identifying prospective zones for sulphide mineralisation.

3.2.4 Rocky Gully

The Rocky Gully prospect is located some 60km NW of Albany within the Albany Fraser gneiss complex. Recent laterite sampling in the area has returned encouraging results of up to 0.37% Ni, 0.13% Cu, 86ppb Pt and 24ppb Pd confirming the nickel sulphide prospectivity in the area. Further sampling is being planned to identify areas for follow-up EM surveys and drilling. Previous work in the area has identified circular ultramafic pipes considered prospective for Voisey Bay style nickel sulphide mineralisation.



1.13 Total operating and investing cash flows (brought forward)	(3,230)	(5,278)
Cash flows related to financing activities		
1.14 Proceeds from the issue of shares, options, etc.	7,105	7,175
1.15 Proceeds from the sale of forfeited shares		
1.16 Proceeds from borrowings		
1.17 Repayment of borrowings		
1.18 Dividends paid		
1.19 Other (provide details if material) - Capital Raising Expenses		
Net financing cash flows	7,105	7,175
Net increase (decrease) in cash held	3,875	1,897
1.20 Cash at beginning of quarter/year to date	7,200	9,178
1.21 Exchange rate adjustments		
	11,075	11,075
1.22 Cash at end of quarter		

**Payments to directors of the entity and associates of the directors,
payments to related entities of the entity and associates of the related entities**

	Current Qtr \$A'000
1.23 Aggregate amount of payments to the parties included item 1.2	230
1.24 Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Directors fees, salaries and superannuation (A\$178,362). Provision of office accommodation by director-related entity (A\$15,500). Provision of legal advice by director-related entity (A\$36,457).

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Epsilon Energy Limited (former subsidiary company of Heron Resources Limited), listed on the ASX on 13 December 2006. As consideration pursuant to the Agreement for tenements and settlement of intercompany loans, Heron Resources Limited received 15,000,000 shares and 10,000,000 options valued at \$1,420,000 in Epsilon Energy Limited.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

See attached schedule



Financing facilities available

Add notes as necessary for an understanding of the position

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	7,000
4.2 Development	0
Total	7,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to related items in the accounts as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	65	822
5.2 Deposits at call	10,625	6,008
5.3 Bank Overdraft		
5.4 Other (provide details)		
Property Rental bond	47	47
Environmental bonds	279	264
Escrow Accounts	59	59
Total: cash at end of quarter (Item 1.22)	11,075	7,200

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at Begin of Quarter	Interest at End of Quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	See attached schedule		
6.2	Interests in mining tenements acquired or increased	See attached schedule		

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (\$)	Amount paid up per security (see note 3) (\$)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during Quarter				
(a) Increases through share issues				
(b) Decreases through returns of capital, buybacks, redemptions				
Ordinary securities	179,477,347	179,477,347		
7.3 Changes during Quarter *				
(a) Increases through share issues	1,410,000	1,410,000	\$0.25	\$0.25
(b) Decreases through returns of capital, buybacks	10,532,575	10,532,575	\$0.65	\$0.65
7.4 Convertible debt securities <i>(description)</i>				
7.5 Changes during Quarter				
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>			<i>Exercise Price</i>	<i>Expiry Date</i>
	2,307,000	Nil	\$0.25	30/06/2007
	2,791,000	Nil	\$0.25	16/12/2007
	3,000,000	Nil	\$0.25	31/12/2007
	125,000	Nil	\$0.25	31/12/2008
	450,000	Nil	\$0.60	30/06/2009
	1,650,000	Nil	\$0.70	1/06/2010
	5,000,000	Nil	\$0.70	7/09/2010
	1,150,000	Nil	\$0.70	1/11/2010
	5,000,000	Nil	\$0.70	7/09/2016
	2,750,000	Nil	\$1.50	31/12/2015
7.8 Issued during Quarter				
	1,300,000	Nil	\$0.70	1/06/2010
	5,000,000	Nil	\$0.70	7/09/2010
	1,150,000	Nil	\$0.70	1/11/2010
	5,000,000	Nil	\$0.70	7/09/2016
	2,750,000	Nil	\$0.70	31/12/2015
7.9 Exercised during Quarter				
	1,300,000	1,300,000	\$0.25	30/06/2007
	110,000	110,000	\$0.25	16/12/2007
7.10 Expired during Quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest.

1. Inco Limited, as general partner of Inco Australia Limited Partnership and Inco Resources (Australia) Pty Limited may earn a 60% interest in the Kalgoorlie Nickel Project tenements through completing a Feasibility Study and procuring finance to build a nickel laterite mining and processing operation, with the cost of feasibility estimated to be \$90,000,000 (US\$68,000,000 assuming an exchange rate of 0.75).
2. Bronzewing Gold NL (Bronzewing) may earn a 70% interest in precious metals from Heron's King of Creation Project through expending \$250,000 within four years.
3. Jackson Gold Limited (Jackson) may earn a 70% interest in gold and silver minerals through expending \$300,000 within four years. Once Jackson earns its equity, Heron may at its sole discretion contribute on a pro-rata basis, or convert to a 20% free-carried equity to the completion of a Bankable Feasibility Study that recommends commencement of mining, or convert to a 2.5% royalty for recovered metal.
4. Yilgarn Mining Limited (YML) may earn a 70% interest in the Kanowna South Project by expenditure of \$700,000 within three years of the grant of the Kanowna South Project tenements. YML will reimburse Heron for certain expenses (\$30,000). Upon earning the 70% interest, YML will free carry Heron's 30% interest through to a Decision to Mine (should YML proceed to that position).
5. Heron entered into an Option Agreement with Gary and Raymond Jefferies and other parties for tenements in the Bencubbin area on 28 June 2006. The option is for two years and if exercised allows Heron to purchase the tenements 100%. Heron must spend a minimum of \$100,000 during the option period and keep the tenements in good standing.
6. Heron announced on the 10th November 2006 that Epsilon Energy Limited (Epsilon) had lodged a prospectus with ASIC and ASX to acquire Heron's uranium tenement assets in Western Australia, Northern Territory, South Australia and Queensland for 15 million Epsilon shares. Epsilon subsequently listed on the ASX on the 13 December 2006.
7. Heron announced on the 13th December 2006 that Rubicon Resources Limited (Rubicon) had lodged a prospectus with ASIC and ASX to acquire Heron's gold and copper tenement assets in Western Australia and Queensland for 25 million Rubicon shares.

6.1 Interests in Mining Tenements transferred, relinquished, reduced or lapsed

<i>Tenement</i>	<i>Nature of Interest</i>	<i>% Begin Quarter</i>	<i>% End Quarter</i>
M31/00296	REGISTERED HOLDER	100	0
E39/01111	REGISTERED HOLDER	100	0
E28/01192	REGISTERED HOLDER	100	0
P31/01709	REGISTERED HOLDER	100	0
P31/01714	REGISTERED HOLDER	100	0
P31/01715	REGISTERED HOLDER	100	0
E25/00331	REGISTERED HOLDER	100	0
E24/00130	REGISTERED HOLDER	100	0
P25/01214	REGISTERED HOLDER	100	0
E28/01013	REGISTERED HOLDER	100	0
E15/00920	REGISTERED HOLDER	100	0
E28/01503	REGISTERED HOLDER	100	0
E38/01726	REGISTERED HOLDER	100	0
E38/01244	REGISTERED HOLDER	100	0
E28/01605	REGISTERED HOLDER	100	0
E40/00122	REGISTERED HOLDER	100	0
E40/00186	REGISTERED HOLDER	100	0
E36/00492	REGISTERED HOLDER	100	0
E37/00753	REGISTERED HOLDER	100	0
E63/00986	REGISTERED HOLDER	100	0
E39/00538	REGISTERED HOLDER	100	0
E30/00159	REGISTERED HOLDER	100	0

6.2 Interests in Mining Tenements acquired or increased

<i>Tenement</i>	<i>Nature of Interest</i>	<i>% Begin Quarter</i>	<i>% End Quarter</i>
E31/00730	REGISTERED APPLICANT	0	100
E16/00335	REGISTERED APPLICANT	0	100
E39/01256	REGISTERED APPLICANT	0	100
E37/00876	REGISTERED APPLICANT	0	100
M31/00476	REGISTERED APPLICANT	0	100
M31/00477	REGISTERED APPLICANT	0	100
M31/00478	REGISTERED APPLICANT	0	100
E28/01680	REGISTERED APPLICANT	0	100
E38/01951	REGISTERED APPLICANT	0	100
E36/00596	REGISTERED APPLICANT	0	100
E39/01265	REGISTERED APPLICANT	0	100
E39/01269	REGISTERED APPLICANT	0	100
E15/00942	REGISTERED APPLICANT	0	100
E31/00734	REGISTERED APPLICANT	0	100
E31/00735	REGISTERED APPLICANT	0	100
M31/00479	REGISTERED APPLICANT	0	100
E77/01380	REGISTERED APPLICANT	0	100
E77/01381	REGISTERED APPLICANT	0	100
E31/00738	REGISTERED APPLICANT	0	100
E31/00739	REGISTERED APPLICANT	0	100

E16/00334	Registered Applicant	0	100
E28/01673	Registered Applicant	0	100
E69/02291	Registered Applicant	0	100
E69/02292	Registered Applicant	0	100
E16/00335	Registered Applicant	0	100
E31/00730	Registered Applicant	0	100
E28/01674	Registered Applicant	0	100
E39/01256	Registered Applicant	0	100
E37/00876	Registered Applicant	0	100
E28/01678	Registered Applicant	0	100
M31/00476	Registered Applicant	0	100
M31/00477	Registered Applicant	0	100
M31/00478	Registered Applicant	0	100
E28/01680	Registered Applicant	0	100

Compliance Statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
2. This statement does give a true and fair view of the matters disclosed.

Sarah Helen Calvert

Sign here: _____
Company Secretary

Date: 31/01/07

Print name: Sarah Helen Calvert

Notes

1. The Quarterly Report is to provide a basis for informing the market how the entity's activities have been financed for the past Quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The "Nature of Interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
3. **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
4. The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
5. **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

