

# Quarterly Report

June 2009

## HIGHLIGHTS

### KALGOORLIE NICKEL PROJECT

- Vale withdraws from the KNP effective 20 July 2009
- Heron secures all project information including test-work and studies at no cost to the Company
- Heron's initial review of the PFS undertaken by Vale is complete
- Resource estimation is underway with new estimates for Highway and Goongarrie Hill complete
- Heron commences a process to seek new partners for the KNP

### YERILLA NICKEL PROJECT

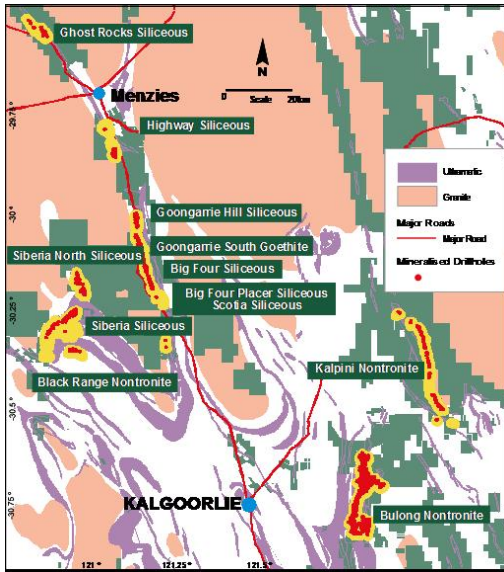
- Heron and Shanshan Co Limited enter into binding agreement
- 40 tonnes of bulk sample shipped to Changsha China for test-work
- Pilot plant construction progressing
- Initial lab test-work in China encouraging

### BUSINESS DEVELOPMENT

- Heron continues to review:
  - New opportunities for acquisition
  - Projects in its own portfolio for farm-out or divestment
- Cash position of \$29m puts Heron in strong position to capitalise on attractive opportunities

# KALGOORLIE NICKEL PROJECT

## KALGOORLIE NICKEL PROJECT (KNP) (HERON 100%)



Heron was advised by Vale Inco, a wholly owned subsidiary of Companhia Vale do Rio Doce (Vale), that it would not proceed with the full feasibility study for the Kalgoorlie Nickel Project (KNP). Accordingly Vale provided Heron a 60 day notice terminating its earn-in to the KNP under the KNP Agreement. Heron and Vale maintain an excellent relationship and have cooperated fully to effect the orderly transfer of data and tenement maintenance obligations during the notice period.

Heron would like to thank the Vale team for their efforts over the last four years.

As a result of this decision, Heron regains total ownership of this major project, with the benefit of access to all technical information generated by the extensive exploration and evaluation program undertaken by Vale since April 2005. Spending on the project by Vale during this period totals approximately \$34.5 million.

Heron remains committed to the belief that there is significant scope to develop a world class nickel project based on the KNP resources. Heron will continue to optimise the current pre-feasibility study (PFS) prepared by Vale utilising Heron's in-house project team and will seek a new partner for the development of the project upon finalisation of this optimisation study.

Areas being addressed by Heron in its optimisation of the PFS include:

- Revision of the resource estimates. The PFS resource estimation methodology used by Vale provides an in-situ estimate only. Heron will use a recoverable resource estimation technique which it believes will provide a significantly better estimate of grade and tonnes providing the building blocks for project optimisation;
- Revision of pit optimisations and mine schedule. The PFS did not result in the optimal mining schedule. Heron will re-run the mine optimisation and mining schedule. Heron believes this will significantly increase the project value; and
- As the PFS considered only four of the 14 deposits making up the KNP, Heron believes the inclusion of the additional deposits which are proximal to the proposed Goongarie processing plant is essential to optimise production rate and capital utilisation

## HERON EVALUATION OF KNP RESOURCES

A review of the resources estimated as part of the PFS has been completed. This review has identified potential for increases in the estimated grade based on methods developed for the Yerilla Project. These methods were validated at Yerilla by reconciliation of trial mining.

New estimates were prepared during the quarter for the Goongarrie Hill and Highway Deposits. Once the estimates are complete for Goongarrie South, Siberia North and Big Four, engineering studies will commence to optimise the new resources and schedule mining to maximise returns.

## **MINING PLAN**

A review of the mining section of the PFS has been completed. A number of opportunities have been identified which are expected to significantly improve the final mine schedule and overall project economics. The main areas for improvement are expected to come from:

- Allowing a more unconstrained and selective mining sequence;
- Allowing for concurrent mine development of more than one resource; and
- Applying more rigorous pit optimisation methods including cut off grade analysis within the pit optimisation process.

## **ORE TRANSPORT**

An ore transport sub-study has been completed and has shown that high capacity (300t) truck haulage is the most effective ore transport method for the project.

## **METALLURGY**

Review of the PFS Metallurgy has been completed. The review confirms the metallurgical performance presented in the PFS including:

- Beneficiation performance;
- HPAL as preferred leach technology;
- High HPAL leach extractions (typically 93-96% Ni and 91-95% Co) with relatively low acid consumption (200-350kg/t); and
- Opportunity for partial neutralisation using beneficiation middlings product.

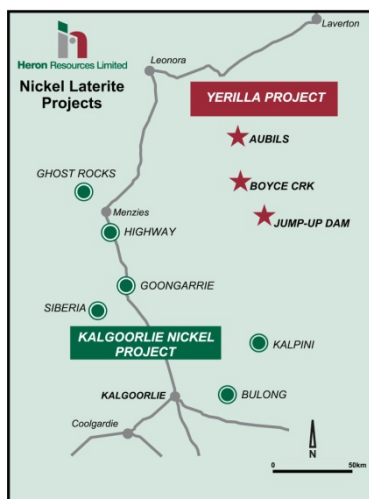
## **PATH FORWARD**

A revised PFS will be prepared founded on the revised resource estimates currently underway. The main inputs to the revision will be:

- Revised resources estimates for Highway, Goongarrie Hill, Goongarrie South and Siberia North
- Inclusion of the Big Four resource
- Complete revision of the mine optimisation and scheduling process.
- Incorporation of metallurgical performance and costs based on the Vale PFS, with geo-metallurgy described using Heron's geochemical classification scheme.
- Revised capital cost estimates based on the requirements of the optimised production schedule.

It is hoped that these revisions will result in a significantly enhanced project.

# YERILLA PROJECT



Heron has entered into a binding Framework Agreement (Agreement) with Ningbo Shanshan Co Ltd (SHA:600884; Shanshan) with respect to Heron's Yerilla Nickel Cobalt Project.

The Agreement provides for Shanshan to undertake a feasibility study into treating ore from Heron's Yerilla Project utilising technology being provided by Shanshan, to produce a nickel and cobalt concentrate for further processing in China.

Shanshan is one of world's largest producers of materials for lithium ion battery manufacture and as such is a significant end user of nickel and cobalt.

Shanshan, is currently constructing a pilot plant at its facilities in the city of Changsha, China to test the compatibility of Yerilla ore with its processing technology. A 40 tonne bulk sample of Yerilla ore has been shipped to Changsha for this test work. The bulk sample has cleared Chinese customs and is undergoing laboratory scale test work while the pilot plant is being constructed. The process is designed to produce a nickel cobalt alloy concentrate with a target nickel grade of between 6-10%. Preliminary laboratory work on Heron's ore sample suggests these grades are possible. Heron will work with Shanshan during the pilot process to collect critical data for Australian project approvals.

Subsequent to a positive feasibility study outcome, Shanshan may earn a 70% interest in the Yerilla project by sole funding construction and commissioning of the project to an agreed capacity. The Agreement is subject to Chinese and Australian regulatory approvals.

As part of the transaction Shanshan agreed to subscribe for 12,046,940 Heron shares (being 4.99% of the issued share capital of Heron) at a 20% premium to the 15 day VWAP, subject to Shanshan Board approval if required and Chinese Commerce Department's Approval. Part of these approvals have not yet been fully granted and accordingly the parties have agreed to extend the time for obtaining all such approvals for 60 days.

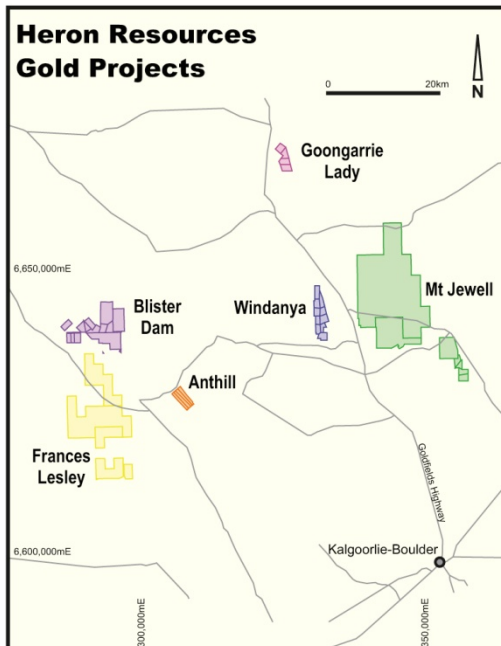
Shanshan's adviser, Huashan Capital, has been issued 4,818,776 options to acquire Heron shares at an exercise price of \$0.30, exercisable upon Shanshan's decision to commence construction of the plant.

Shanshan also has the option to subscribe for two further tranches of Heron shares; each equivalent to 5% of the Company's then issued capital, at a price 10% above the 15 day VWAP upon a decision to commence construction and upon completion of construction respectively.

Detailed documentation of the joint venture agreement is progressing in parallel with obtaining required regulatory approvals. Shanshan has appointed Changsha Engineering and Research Institute of Nonferrous Metallurgy to assist with the feasibility study and design of the operation. Heron will provide in country support and assistance with approvals on a cost reimbursement basis.

# EXPLORATION PROJECTS

## Eastern Goldfields



The Company is completing a detailed review of its tenements holdings in the Eastern Goldfields of Western Australia. With Vale withdrawing from the KNP a considerable package of ground has become available to Heron that is prospective for both gold and nickel-sulphide exploration. During this review the Company has considerably reduced the tenement footprint of the KNP, restricting it to areas of known nickel laterite potential.

### Gold Prospects

The key gold interests identified to date are listed below with a summary of some of the more significant results that have been compiled through open-file searches. Please note these drill results have been reported by previous explorers in public open-file reports made available through the Department of Minerals and Petroleum; they have not been verified by Heron, and must not be considered to represent economic mineralisation but are provided to convey that similar gold mineralisation could be found through drilling in these prospect areas. These drill intervals may not represent true widths of mineralisation.

#### Anthill

- CRC01 (308638mE, 6625995mN): 50m @ 1.42g/t gold from 30m,
- CRC10D (308529mE, 6625981mN): 3.8m @ 23.8g/t gold from 133,
- CRC24D (308605mE, 6625917mN): 22m @ 1.63g/t gold from 73m,
- CRC040 (308649mE, 6625980mN): 14m @ 2.32g/t gold from 32m.

#### Windanya

- TLRC041 (332378mE, 6638757mN): 8m @ 4.24g/t gold from 73m,
- TLRC031 (332368mE, 6638557mN): 6m @ 3.16g/t gold from 88m,
- HMRC06 (332003mE, 6637965mN): 2m @ 8.39g/t gold from 170m,
- PCN021 (332396mE, 6640750mN): 1m @ 24.2g/t gold from 86m.

#### Blister Dam

- BDA144 (295550mE, 6637480mN): 4m @ 1.34g/t gold from 41m,
- BDA153 (295330mE, 6637490mN): 14m @ 2.89g/t gold from 62m,
- BDA140 (295180mE, 6637630mN): 5m @ 1.82g/t gold from 35m.

#### Goongarrie Lady

- GL 280-3 (324986mE, 6670849mN): 12m @ 9.00g/t gold from 30m,
- GL 290-1 (324984mE, 6670859mN): 16m @ 6.73g/t gold from 24m,
- GDC002 (324970mE, 6670824mN): 6m @ 4.88g/t gold from 43m,
- GL 080-1 (325072mE, 6670655mN): 8m @ 3.00g/t gold from 35m.

The Company is in discussions with several groups interested in acquiring these gold interests either through outright purchase or earn-in arrangements. The Company is assessing these offers on their merits.

### Nickel Sulphide Projects

Several nickel sulphide exploration projects exist within the Company's extensive ground holding around Kalgoorlie, both within the KNP tenements and non-KNP tenements. The Company is undertaking a detailed review of the nickel sulphide potential within this tenure and late in the quarter targeted two areas, Highway and Avoca Downs for reconnaissance EM surveys.

Additional areas within the Heron tenure are also being reviewed in detail for their nickel sulphide potential with further areas to be targeted with EM surveys in the coming months.

### Rocky Gully Nickel Sulphide Project

Discussions continued during the quarter with a number of parties potentially interested in earning into the project. Field work during the quarter identified an extension of the nickel/copper anomaly in the north west area and also confirmed the presence of a number of regional nickel anomalies in the broader tenement area.

## MARKET COMMENTARY / CORPORATE

### Market

General commodity prices improved during the quarter, with nickel improving up towards US \$7.50/lb. Further price improvement will begin to positively improve outlook for nickel laterite developments.

### Status of Bulong Litigation

Heron's Supreme Court Litigation against two companies in the Norilsk group (previously LionOre) and the Receivers' of the Bulong group of companies is currently proceeding through the discovery process. Heron estimates that the discovery process will be complete within the next 2-3 months. While it is difficult to estimate with any certainty, Heron is hopeful that the trial will be held in early 2010.

### JORC Compliance Statements



**Mathew Longworth**  
Managing Director

The information in this report that relates to Mineral Resources is based on information compiled by James Ridley who is a Member of the Australasian Institute of Mining and Metallurgy. James Ridley is a full time employee of Heron Resources Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the resource estimation activities undertaken 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'. James Ridley consents to the inclusion in this report of the matters based on his information in the form and context that it appears. Note that Mineral Resources that are not Ore Reserves do not have demonstrated viability.

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.

Appendix 5B

MINING EXPLORATION ENTITY QUARTERLY REPORT

Name of entity

HERON RESOURCES LIMITED

ABN

30 068 263 098

Quarter ended (current quarter)

30 June 2009

*Consolidated statement of cash flows*

Cash flows related to operating activities	Current Qtr \$A'000	Year to Date (12 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for: (a) exploration and evaluation (b) development (c) production (d) administration	(1,188)	(6,257)
1.3 Dividends received		
1.4 Interest and other items of similar nature received	212	1,915
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)-GST	(15)	33
	<b>(1,553)</b>	<b>(7,369)</b>
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investment (c) other fixed assets	(7) (5) (13)	(109) (5) (19)
1.9 Proceeds from sale of: (a) prospects (b) equity investment (c) other fixed assets		149
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
	<b>(25)</b>	<b>16</b>
<b>Net Investing Cash Flows</b>		
1.12 Total operating and investing cash flows (carried forward)	<b>(1,578)</b>	<b>(7,353)</b>

1.12 Total operating and investing cash flows (brought forward)	(1,578)	(7,353)
<b>Cash flows related to financing activities</b>		
1.13 Proceeds from the issue of shares, options, etc.		
1.14 Proceeds from the sale of forfeited shares		
1.15 Proceeds from borrowings		
1.16 Repayment of borrowings		
1.17 Dividends paid		
1.18 Other (provide details if material)		
<b>Net financing cash flows</b>	-	-
<b>Net increase (decrease) in cash held</b>	(1,578)	(7,353)
1.19 Cash at beginning of quarter/year to date	31,135	36,910
1.20 Exchange rate adjustments		
	29,557	29,557
1.21 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
1.22 Aggregate amount of payments to the parties included in item 1.2	263
1.23 Aggregate amount of loans to the parties included in item 1.10	

1.24 Explanation necessary for an understanding of the transactions

Directors fees, salaries and superannuation (A\$247,088). Provision of office accommodation by director-related entity (A\$15,833).
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**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

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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
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## 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	2,900
4.2 Development	
4.3 Production	
4.4 Administration	1,000
<b>Total</b>	<b>3,900</b>

## 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	194	236
5.2 Deposits at call	28,730	30,251
5.3 Bank Overdraft		
5.4 Other (provide details)		
Property Rental bond	48	48
Environmental bonds	514	530
Escrow Accounts	71	70
<b>Total: cash at end of quarter (Item 1.22)</b>	<b>29,557</b>	<b>31,135</b>

## 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) (\$)
<b>7.1 Preference securities</b> <i>(description)</i>				
<b>7.2 Changes during Quarter</b> (a) Increases through share issues (b) Decreases through returns of capital, buybacks, redemptions				
<b>Ordinary securities</b>	240,938,847	240,938,847		
<b>7.3 Changes during Quarter *</b> (a) Increases through share issues (b) Decreases through returns of capital, buybacks				
<b>7.4 Convertible debt securities</b> <i>(description)</i>				
<b>7.5 Changes during Quarter</b> (a) Increases through issues (b) Decreases through securities matured, converted				

**7.6 Options***(description and conversion factor)*

		<i>Exercise Price</i>	<i>Expiry Date</i>
1,450,000	Nil	\$0.6864	1/06/2010
5,000,000	Nil	\$0.6864	7/09/2010
1,050,000	Nil	\$0.6864	1/11/2010
5,000,000	Nil	\$0.6864	7/09/2016
2,750,000	Nil	\$1.4864	31/12/2015
100,000	Nil	\$1.38	30/06/2011
100,000	Nil	\$1.48	30/06/2011
100,000	Nil	\$1.54	30/06/2011
1,500,000	Nil	\$1.00	05/06/2012
2,500,000	Nil	\$1.50	05/06/2013
3,500,000	Nil	\$2.00	05/06/2013
5,250,000	Nil	\$2.50	05/06/2014
100,000	Nil	\$1.48	02/01/2012
100,000	Nil	\$1.50	02/01/2012
4,818,776	Nil	\$0.30	09/06/2014
2,600,000	Nil	\$0.25	25/06/2012
4,200,000	Nil	\$0.425	25/06/2014
7.7 Issued during Quarter			
	4,818,776	Nil	\$0.30
	2,600,000	Nil	\$0.25
	4,200,000	Nil	\$0.425
7.8 Exercised during Quarter			
7.9 Expired during Quarter	250,000	Nil	\$0.6864
7.10 Debentures (totals only)			
7.11 Unsecured notes (totals only)			

**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. During the quarter, Vale Inco a subsidiary of Vale were earning 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. Vale Inco withdrew from this agreement during the quarter.
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. This agreement has been assigned to A1 Minerals Limited.
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. Epsilon Energy Limited may earn an initial 51% interest in Mineral Sands Rights for tenements in the Balladonia area through expenditure of \$150,000 including a minimum of 2,500 metres of drilling in the first year. Epsilon has withdrawn from this agreement.

**6.1 Interests in Mining Tenements transferred, relinquished, reduced or lapsed. (includes tenements that have lapsed and/or expired that may have subsequent Heron tenement in place)**

<i>Tenement</i>	<i>Nature of Interest</i>	<i>% Begin Quarter</i>	<i>% End Quarter</i>
	Registered Holder	100	0
E24/00134	Registered Holder	100	0
E28/01673	Registered Holder	100	0
E28/01674	Registered Holder	100	0
E28/01678	Registered Holder	100	0
E28/01767	Registered Holder	100	0
E29/00669	Registered Holder	100	0
E30/00289	Registered Holder	100	0
E31/00348	Registered Holder	100	0
E31/00581	Registered Holder	100	0
E31/00708	Registered Holder	100	0
E31/00739	Registered Holder	100	0
E31/00786	Registered Holder	100	0
E31/00812	Registered Holder	100	0
E31/00837	Registered Holder	100	0
E39/01178	Registered Holder	100	0
E39/01265	Registered Holder	100	0
E45/03258	Registered Holder	100	0
E53/01119	Registered Holder	100	0
E63/00958	Registered Holder	100	0
E63/01173	Registered Holder	100	0
E63/01219	Registered Holder	100	0
E63/01220	Registered Holder	100	0
E69/01473	Registered Holder	100	0
E69/01474	Registered Holder	100	0
E69/01475	Registered Holder	100	0
E69/01476	Registered Holder	100	0
E69/01477	Registered Holder	100	0
E69/01478	Registered Holder	100	0
E69/01479	Registered Holder	100	0
E69/01480	Registered Holder	100	0
E69/01481	Registered Holder	100	0
E69/01482	Registered Holder	100	0

<i>Tenement</i>	<i>Nature of Interest</i>	<i>% Begin Quarter</i>	<i>% End Quarter</i>
E69/01492	Registered Holder	100	0
E69/01493	Registered Holder	100	0
E69/01495	Registered Holder	100	0
E69/01499	Registered Holder	100	0
E69/01500	Registered Holder	100	0
E69/01717	Registered Holder	100	0
E69/01742	Registered Holder	100	0
E69/01743	Registered Holder	100	0
E69/02075	Registered Holder	100	0
E69/02076	Registered Holder	100	0
E69/02077	Registered Holder	100	0
E69/02079	Registered Holder	100	0
E69/02080	Registered Holder	100	0
E69/02291	Registered Holder	100	0
E69/02292	Registered Holder	100	0
ELA 214/08	Registered Holder	100	0
M24/00928	Registered Holder	100	0
M25/00123	Registered Holder	100	0
M27/00272	Registered Holder	100	0
P15/04678	Registered Holder	100	0
P15/04728	Registered Holder	100	0
P24/04286	Registered Holder	100	0
P25/01841	Registered Holder	100	0
P26/03292	Registered Holder	100	0
P26/03293	Registered Holder	100	0
P26/03497	Registered Holder	100	0
P26/03498	Registered Holder	100	0
P26/03618	Registered Holder	100	0
P27/01661	Registered Holder	100	0
P28/00983	Registered Holder	100	0
P28/01050	Registered Holder	100	0
P28/01051	Registered Holder	100	0
P28/01052	Registered Holder	100	0
P29/01914	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>
E24/00165	Registered Applicant	0	100
E25/00413	Registered Applicant	0	100
E29/00736	Registered Applicant	0	100
E38/02302	Registered Applicant	0	100
E39/01465	Registered Applicant	0	100
E39/01466	Registered Applicant	0	100
E57/00791	Registered Applicant	0	100
E77/01672	Registered Applicant	0	100
E77/01680	Registered Applicant	0	100
L31/00060	Registered Applicant	0	100
L39/00196	Registered Applicant	0	100
M31/00480	Registered Applicant	0	100
P16/02631	Registered Applicant	0	100
P16/02632	Registered Applicant	0	100
P16/02633	Registered Applicant	0	100
P16/02634	Registered Applicant	0	100

P16/02635	Registered Applicant	0	100
P16/02636	Registered Applicant	0	100
P16/02637	Registered Applicant	0	100
P24/04457	Registered Applicant	0	100
P24/04458	Registered Applicant	0	100
P24/04459	Registered Applicant	0	100
P24/04465	Registered Applicant	0	100