



## HERON RESOURCES LIMITED

### SEPTEMBER 2006 QUARTER HIGHLIGHTS

#### Heron Total Nickel Focus

- Long-term project**, the **Kalgoorlie Nickel Project (KNP)**, partner CVRD Inco Limited completed Step 1 of the farm-in on 25 September 2006 and proceeded to Step 2. The conclusions based on CVRD Inco's Step 1 programs were:
  - KNP is a large nickel resource in a politically stable region with good existing infrastructure which has the potential to achieve the resource target of 120 million tonnes at a 1.5% Ni Leach Feed Grade.
  - KNP is one of the better undeveloped nickel laterite opportunities in the world.
  - No fatal flaws were detected during Step 1, but the core drilling and geological and database interpretations identified geological variability that will be addressed during Step 2.
- Near to Medium-term**, the **Jump-up Dam Heap Leach Project (JDP)**, targeting 10,000tpa nickel production from the 100% Heron-owned project:
  - Jump-up Dam grades and thicknesses are amongst the best encountered by Heron in a decade of nickel laterite evaluation, and include 22m at 1.54% Ni, 28m at 1.24% Ni, and 50m at 1.07% Ni. At a 0.5% Ni cut-off, the head grade is 0.9-1.0% Ni.
  - The Jump-up Dam resource occurs in two adjacent zones, each approximately 2km long, 300m wide and 25m thick. Mineralisation has an average overburden of 10m, and represents an excellent open pit bulk tonnage mining situation.
  - In bench-scale metallurgical heap leach test-work, a 60% nickel recovery occurs within 60 to 100 days, well exceeding recoveries documented for peer projects.
  - A Scoping Study leading to Feasibility is underway, with world-leading heap leach engineering consultant Aker Kvaerner appointed. Establishment of the Jump-up Dam project team has commenced, and feed-stock sourcing for trial programs is current.
- Near-term**, tenement pegging of regional exploration concepts: The Company currently holds some 32,000km<sup>2</sup> as 900 tenements for multi-commodity, world class targets. This asset base has facilitated the current IPOs.

#### Corporate Divestments

**Immediate divestments to unlock value:** Heron announced it is vending its non-core uranium into **Epsilon Energy Limited**, copper-gold into **Rubicon Resources Limited**, and has sold its iron ore to **Polaris Metals NL**.

- **Epsilon** intends lodging its prospectus shortly, for a December 2006 listing. The board has been finalised and a corporate adviser appointed. Vendor shares will be distributed to Heron Shareholders from trust at a suitable time during the 12 months after listing. The record date for Heron Shareholders to be eligible for Epsilon free in specie shares is expected to be early December.
- **Rubicon** intends lodging its prospectus in early 2007. Heron intends that Rubicon vendor shares will be distributed to Heron Shareholders from trust at a suitable time during the 12 months after listing.
- **Polaris** completed acquisition of Heron's iron ore assets, and Heron is now the largest shareholder in Polaris. Heron believes the near term cash-flow potential particularly from the Poondano project at Port Hedland is good, and Heron will initially retain its vendor shares.





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## HERON RESOURCES LIMITED June 2006 Quarterly Report

### 1. SUMMARY

**Nickel Laterite Farm-in and Joint Venture (HRR 100%, CVRD Inco earning 60% by mine commissioning)**

The long term focus of the Company is the **Kalgoorlie Nickel Project (KNP)** with partner CVRD Inco Limited. The target is a project delivering 50,000 to 60,000 tonnes of nickel metal over a 20 year project life at robust cash costs. Heron through the **KNP Farm-in and Joint Venture Agreement (FIJVA)** will have a 40% interest in the final project with a funded pathway through to development.

#### Step 1

CVRD Inco has completed Step 1 of the KNP, and having assessed the results, has decided it will continue onto Step 2 pursuant to the KNP FIJVA.

#### Step 2

The Step 2 program will evaluate economically feasible process and flow-sheets for the KNP by performing batch test work and mini pilot plant scale tests using drill-core samples.

The Program and Budget for the first six months of Step 2 and includes around US\$1 million for drilling and US\$0.7 million for metallurgical test-work, beneficiation and assaying:

1. Bench Scale Metallurgical Tests, involving approximately 100 samples for High Pressure Acid Leaching and Atmospheric Leaching, followed by settling and rheology tests.
2. Crushing, attritioning and scrubbing to determine optimal crush size and to evaluate beneficiation.
3. Bulk metallurgical tests, including drilling to provide sufficient sample for three, 500kg semi continuous pilot high pressure leach runs.
4. Detailed drilling and geological evaluation of the Siberia North and Highway Projects to improve geological understanding in particular the controls on high grade mineralisation and its continuity, and determine drilling types and densities required to adequately define resources and reserves during Step 3 of the Pre-Feasibility Study.

### Laterite Heap Leach (HRR 100%)

The Company commenced a staged Scoping and Feasibility Study into its 100%-owned Jump-up Dam Project, located 150km north-east of Kalgoorlie-Boulder in Western Australia. The study will look at the economic production of nickel via development of a heap leaching operation.

Project timelines are subject to positive technical studies, acid supply contracts, off-take agreements and financing, but are anticipated to approximate the following:

1. Construction of the initial trial leaching circuit during 2007.
2. Production of around 500 - 1,000tpa from a demonstration plant commencing during 2007-2008.
3. Subject to securing suitable project funding, full commercial production is planned to commence in 2009 at a rate of 5,000tpa ramping up to 10,000tpa of nickel production in intermediate product during the 18 months following commencement of commercial leaching.

At a bench-scale, the current Heron heap leach test-work has obtained recoveries of 60% nickel after 100 days, with two samples demonstrating very fast recoveries of up to 60% within 20 days. This compares very favourably with test results from projects currently in construction where 60% nickel recovery is reached after 300 days.



*Photo Garnierite, green material in chip-trays.*

*The Jump-up Dam drilling has identified a unique high nickel grade mineral termed "garnierite". This could account for the observed high grade laterite intercepts.*



### Nickel Sulphide Production

Heron has sought suitable sulphide nickel projects with near term production potential available for acquisition, both in Western Australia and elsewhere.

Heron will continue to investigate opportunities but will only invest where the broad skill set of Heron will add significant value to the opportunity. Heron's benchmark target is nickel production of 10,000 tonnes of contained metal production inside 4 years.

To date, Heron's existing portfolio of projects offers better value than those offered for sale.

### Nickel Sulphide Exploration

Heron has developed **nickel sulphide targets** both within the areas of 100% Heron nickel rights in the Eastern Goldfields, and within the CVRD Inco KNP tenements.

### Eastern Goldfields Sulphides (HRR 100%)

Electro Magnetic (EM) geophysical surveys evaluated a number of nickel sulphide targets at the **Cowarna Downs, Trans East and Merolia** projects (HRR100%).

Initial drill testing during the Quarter confirmed barren massive sulphides as the EM conductor sources. All targets are located in fertile nickel sulphide belts, and additional targeting programs are planned.

### KNP Sulphides ((HRR 100%, CVRD Inco right to earn 60%))

#### Ghost Rocks

Disseminated primary nickel sulphides were located in reconnaissance laterite drilling in the area of the previously reported Ghost Rocks gossan. While nickel assay results were low at 0.25% Ni, the presence of the sulphides demonstrates the fertility of this belt, and warrants systematic EM surveying.

#### Emu Lake North

A moving loop EM survey was completed at Emu Lake North, identifying a subtle conductor on the margin of a strong stratigraphic conductor. Heron interprets the strong conductor to be due to black shales at the contact between the ultramafic and the underlying felsic volcanics. The subtle conductor occurs in the same stratigraphic position as nickel sulphides intersected to the immediate south by the Jubilee Mines-Image Resources Joint venture (previous Jubilee drilling includes 2m at 6.2% Ni). Mapped nickel sulphide gossan is associated with the Heron EM target.

A drill program has been designed to test this most exciting nickel sulphide prospect. A drill rig is expected to become available during the December Quarter.

## CORPORATE

### CVRD Takeover of Inco

Heron's KNP partner, Inco, has been taken over by integrated Brazil-based minerals producer CVRD.

The CVRD takeover of Inco has no effect on the KNP FIJVA. CVRD (as owner of Inco) is bound by the terms of the FIJVA, including the recently announced Step 2 commitment. CVRD Inco must complete Step 2 by 30 September 2007, and if it so elects, commence Step 3 by 30 October 2007.

Heron has had informal technical discussions with CVRD, and looks forward to developing the KNP, now in partnership with CVRD.

In recent times, CVRD also took over Canico with its Onca Puma nickel laterite project in Brazil. Weda Bay Minerals with its namesake nickel laterite project in Indonesia was taken over by Eramet, and WMC with its integrated Western Australia nickel division fell to BHP Billiton. In 2006 Xstrata took over Falconbridge, and on-going merger and acquisition moves involving Inco with Falconbridge, then Teck Cominco, then Phelps Dodge, and finally CVRD culminated with CVRD successfully acquiring Inco.

In the current high nickel price regime, the world nickel industry, as would be expected, is undergoing major corporate rationalisation, with strong takeover activity as majors seek to secure long term nickel resource bases and strategic assets.

Heron acknowledges the professionalism and hard work of the Inco team with whom we have worked for the past two years, and looks forward to continuing with the team but now under the CVRD banner.

### Divestments

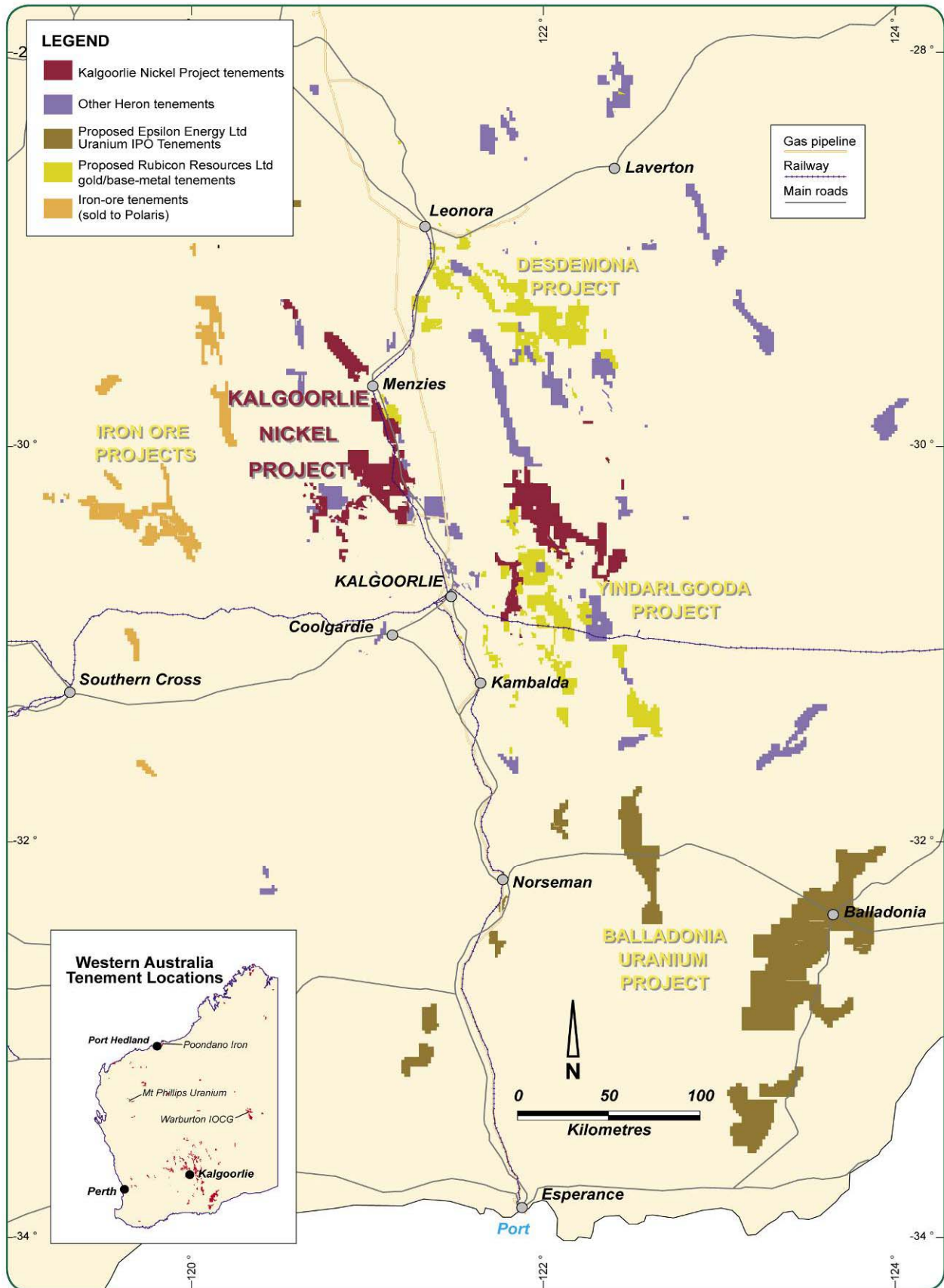
Heron aims to develop into a pure nickel production company, and this strategy has required the de-merger of the Company's non-nickel assets.

The **Rubicon** and **Epsilon** initiatives will require Heron Shareholder approval, with Extraordinary General Meeting (EGM) expected during November 2006 for Epsilon, and late 2006 for Rubicon. On or about five days following the EGMs, the Record Dates will be set for Heron Shareholders for their free in specie share entitlements.

The iron ore assets were sold to **Polaris Metals NL**. Heron representative Ian Buchhorn has joined the Polaris board, and the Company is optimistic of Heron being the recipient of future dividend streams from Polaris as it develops production from the iron ore assets at Poondano and elsewhere.



Figure 1 Heron Tenement Locations



## 2. OPERATIONS REVIEW

### 2.1 Kalgoorlie Nickel Project - CVRD Inco Sole Fund

Heron Nickel Rights 100% for all tenements. CVRD Inco right to earn 60%, sole fund BFS, secure finance.

#### Material Types and Volume Estimation

Previously completed drill-holes by Heron and others were re-logged by CVRD Inco, to standardise Material Type identification.

Prospect	Drill Holes Re-logged	Metres Re-logged
Siberia North	515	23,708
Siberia South	947	26,108
Big Four/Scotia Dam	233	10,686
Goongarrie South	666	35,393
Goongarrie Hill	300	11,327
Highway	292	12,880
Kalpini	152	7,441
<b>total</b>	<b>3,105</b>	<b>127,543</b>

Based on CVRD Inco's core drilling, the re-logging of previous non-core drill-holes, and multi-element geochemical interpretations, both wire-frame models and Indicative Kriging models were completed for volume estimation.

Prospect	Volume million m <sup>3</sup>	Main Material Types
Siberia North	110.0	CUS, CLS
Siberia Central	123.8	CUS, CLS
Siberia South	40.7	CUS, CLS
Scotia Dam	7.5	CUS, SAP
Big Four	46.3	CUS, CUN
Goongarrie South	61.2	CUS, CLS
Goongarrie Hill	55.9	CUS, CLS
Kalpini	61.8	SAP, CUS
Highway	72.3	CUS, CLS
Ghost Rocks	71.0	CUS, CLS
<b>total</b>	<b>650.5</b>	

It is felt that the target of 120 million tonne of suitable ore feed Material Types can be developed from within the above material volumes.

The main conclusion from CVRD Inco's core drilling was that no systematic bias was identified in Heron's RC drill assays, and overall grade estimates are accurate. There was significant short range geological variation in some holes, making quantitative core and RC assay comparisons difficult.

### Kalgoorlie Nickel Project - Heron Initial Fund

Heron Nickel Rights, 100% for all tenements.  
Heron funded, pursuant to Subscription Agreement.

#### Ghost Rocks

An RC drilling campaign was completed with 42 vertical holes totalling 2,449 meters. Low grade siliceous laterite mineralisation was intersected, with no significant resource additions. The immediate focus in the drilled area will be nickel sulphide exploration.

#### Goongarrie Hill North

An RC drilling campaign was completed with 35 vertical holes totalling 1,542 meters. High grade siliceous laterite mineralisation was intersected. The prospect is to be offered to CVRD Inco for inclusion within the KNP, and significantly complements the Goongarrie Hill resource inventory.

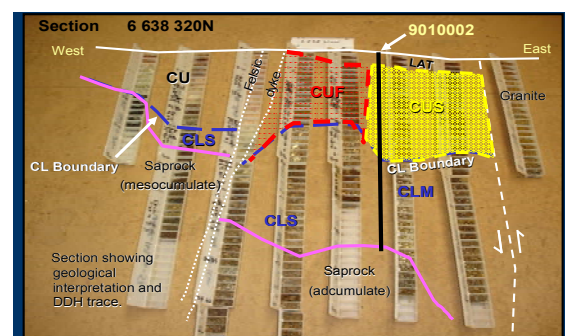
#### Big Four

An RC drilling campaign was completed with 168 vertical holes totalling 7,544 meters. Medium grade nontronitic mineralisation with subordinate siliceous was intersected. The relatively large volume of nontronite was atypical for the Goongarrie line of mineralisation. Resource estimates will be upgraded.

#### Bulong

The current RC drilling campaign was completed with 122 vertical holes totalling 5,062 meters. Main outcomes were:

- There is a reasonable prospect of extending the Boulder Block pit to the immediate east of the existing high grade pit.
- Saprolitic and siliceous ore positions are likely to be found in the south-east project area at Mt Magnetic. It is likely that these positions, whilst small, could contain material of high grade with low stripping ratios, given the partially stripped nature of the terrain.



**Figure 2** Geological interpretation, Kalpini chip trays  
This is the style of Material Type volume estimation.



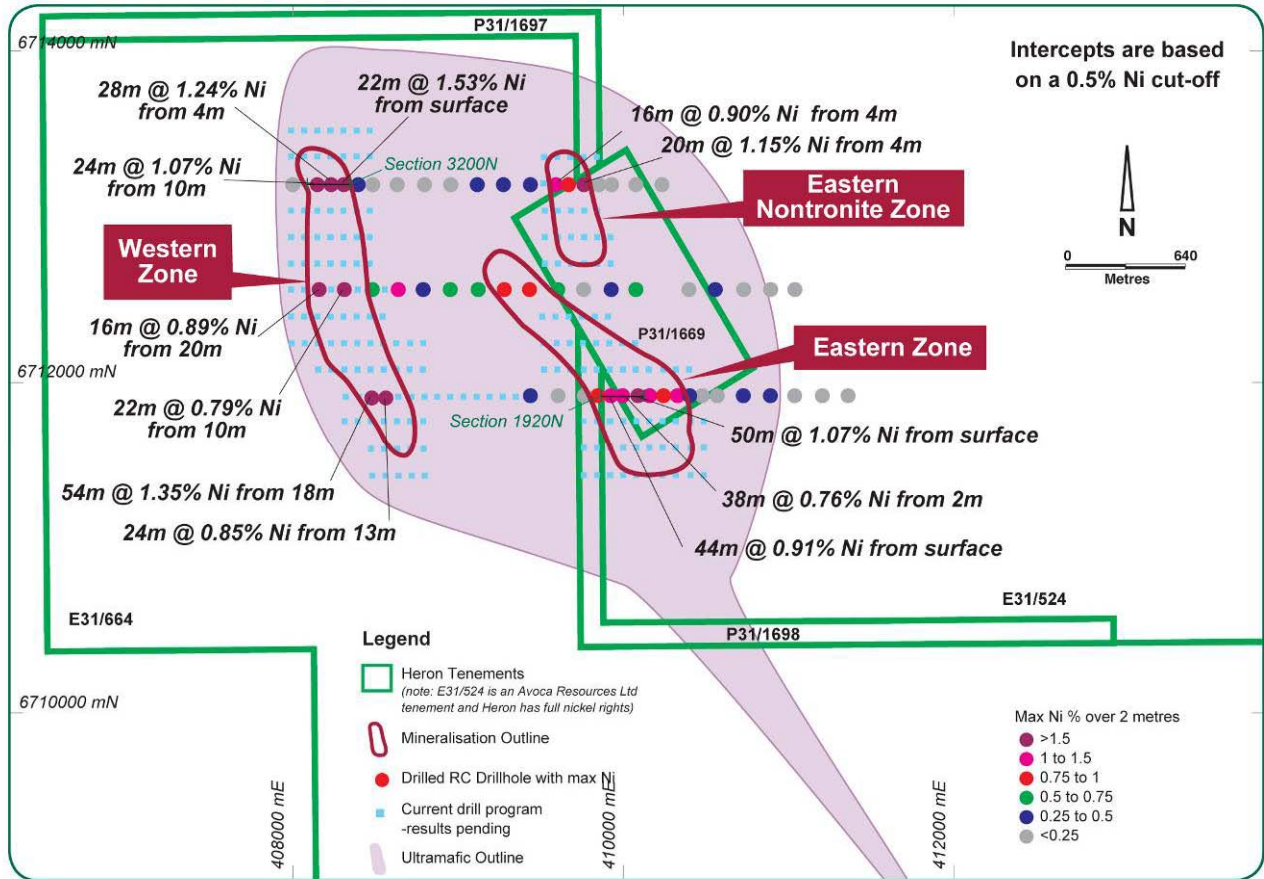


Figure 3 Jump-up Dam RC Drill Layout and Summary of Results

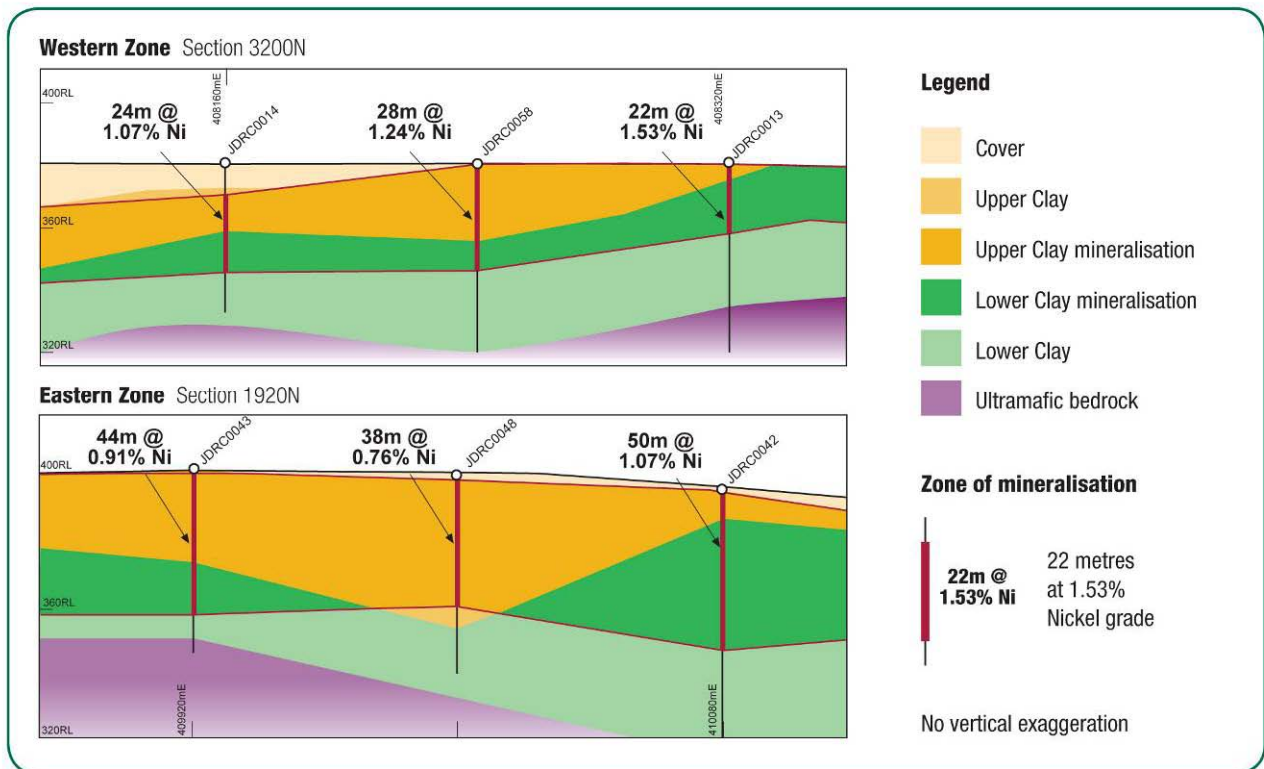


Figure 4 Jump-up Dam RC Drill Sections



## 2.2 Jump-up Dam Project (Heron 100%)

Heron commenced initial drilling at Jump-up Dam in June 2006, with the initial regional reconnaissance program returning a number of significant shallow nickel intersections. Drilling to date has consisted of 7,126m in 162 holes with drilling on nominal 640m spaced lines, currently in-filling to 160x80m. A summary of significant results is in Table 3 following.

Mineralisation is located in a siliceous **Eastern Zone** and a siliceous-nontronite **Western Zone**, and as Table 3 demonstrates, mineralisation is consistently shallow and of good thickness down-hole and width across strike.

Drilling completed to date on the 640m spaced lines suggests the two zones each have strike lengths approaching 2km, and widths of 300m and thickness 25m. Resource estimation is current and we expect potential to produce 10,000tpa nickel for a significant mine life (subject to on-going metallurgical test-work).

Of interest, with Jump-up Dam being well away from any saline lake margins, the ore is very low in chlorine at 0.099% Cl. Combined with the high nickel head grades and limonitic nontronite mineralogy, the ore would be expected to be a prime custom mill feed for a conventional PAL plant.

The current drilling program is designed to allow estimation of an initial JORC-compliant resource upon which to base the Scoping Study, and design the Pre-Feasibility Study programs including large scale column leach test work and trial leach pads.

Screen upgrade results were received for the initial drill program:

- > For the **Western Zone**, a total of 77 samples including sub-grade were submitted, with average head grade of 0.82% Ni screen upgrading to 1.29% Ni, being a 66% grade increment.
- > For the **Eastern Zone**, a total of 74 samples including sub-grade were submitted, with average head grade of 0.77% Ni screen upgrading to 1.02% Ni, being a 39% grade increment.

Although the screen upgrades are encouraging, it is likely that the silica and saprolite fragments which are removed by screening will contribute to the load stability of the stacked heap, so in an operating situation, there may be no advantage to screen.

Drilling is continuing, with the rig contracted to complete 10,000m during the current program, to facilitate a JORC-compliant resource estimate.

Limestone resources have been pegged at Kitchener on the Transline, as a potential neutraliser source.

## Metallurgical Test-work

Eleven bulk drill samples from Jump-up Dam have been submitted for metallurgical test-work at SGS Lakefield Oretest Pty Ltd in Perth, for agglomeration and one metre column leach tests. Agglomeration involves forming competent nodules of mineralisation by tumbling the mineralisation with a binder which gives the sample strength to support the mass of mineralisation above in the heap, and ensure the dilute acid can circulate through the column of ore.

Heron is encouraged by the leaching times, including Composites 7 and 10 reaching 60% of nickel extraction in 100 days, and Composite 4 reaching 70% after 130 days. Leaching on samples HL01 and HL02 was terminated with over 90% Ni being recovered in a 100 day period.

Laboratory scale results need not scale up to an operating plant situation, but none-the-less, results compare favourably to those reported by projects in construction being 60% nickel recovery after 336 days.

Rates of nickel leaching are ore type dependent and will not be fully understood until large scale column leach tests are completed on a range of ore types and using bulk-sized material, planned for 2007.

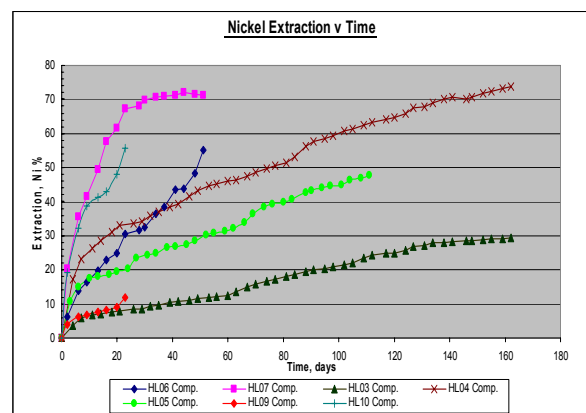


Figure 5 1m column Leach Rates

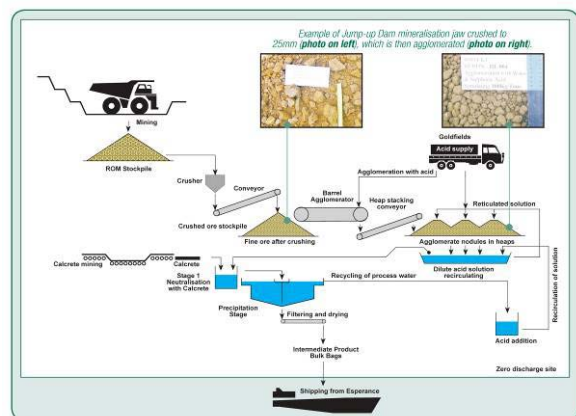


Figure 6 Jump-up Dam Conceptual Flow-sheet

<b>Zone</b>	<b>Hole ID</b>	<b>North MGA m</b>	<b>East MGA m</b>	<b>From metres</b>	<b>To metres</b>	<b>Width metres</b>	<b>Ni %</b>	<b>Co %</b>
Western	JDRC0013	6713200	408320	0	22	22	1.53	0.04
Western	JDRC0014	6713200	408160	10	34	24	1.04	0.09
Western	JDRC0058	6713200	408240	4	32	28	1.24	0.09
Western	JDRC0016	6712560	408160	20	36	16	0.89	0.03
Western	JDRC0017	6712560	408320	10	32	22	0.79	0.05
Western	JDRC0064	6711920	408560	13	48	24	0.85	0.03
Western	JDRC0065	6711920	408480	18	72	54	1.35	0.06
Western	JDRC0075	6713040	408480	0	44	44	1.03	0.03
Western	JDRC0076	6713040	408400	0	26	26	1.42	0.07
Western	JDRC0077	6713040	408320	0	34	34	1.14	0.06
Western	JDRC0078	6713040	408240	10	40	30	0.73	0.02
Western	JDRC0079	6713040	408160	26	46	20	0.80	0.06
Western	JDRC0081	6712720	408240	4	48	44	0.84	0.09
Western	JDRC0082	6712720	408160	4	28	24	0.98	0.09
Western	JDRC0084	6712560	408400	10	26	16	0.87	0.06
Western	JDRC0085	6712560	408240	28	32	4	1.79	0.14
Western	JDRC0095	6711760	408640	20	36	16	0.94	0.04
Western	JDRC0096	6711760	408560	12	54	42	1.08	0.10
Western	JDRC0097	6711760	408480	8	36	28	0.83	0.08
Western	JDRC0089	6712400	408160	28	54	26	1.31	0.10
Western	JDRC0090	6712080	408720	2	8	6	1.11	0.13
Western	JDRC0092	6712080	408400	12	26	14	0.62	0.02
Eastern	JDRC0004	6713200	409760	4	26	20	1.15	0.07
Eastern	JDRC0005	6713200	409600	4	20	16	0.90	0.05
Eastern	JDRC0041	6177920	410240	10	32	22	0.60	0.06
Eastern	JDRC0042	6177920	410080	0	50	50	1.07	0.05
Eastern	JDRC0043	6177920	409920	0	44	44	0.91	0.06
Eastern	JDRC0047	6177920	409840	4	22	18	0.69	0.04
Eastern	JDRC0048	6177920	410000	2	40	38	0.76	0.05
Eastern	JDRC0049	6177920	410160	8	36	28	0.77	0.04
Eastern	JDRC0050	6177920	410320	4	24	20	0.92	0.09
Eastern	JDRC0056	6713200	409680	4	28	24	0.69	0.02

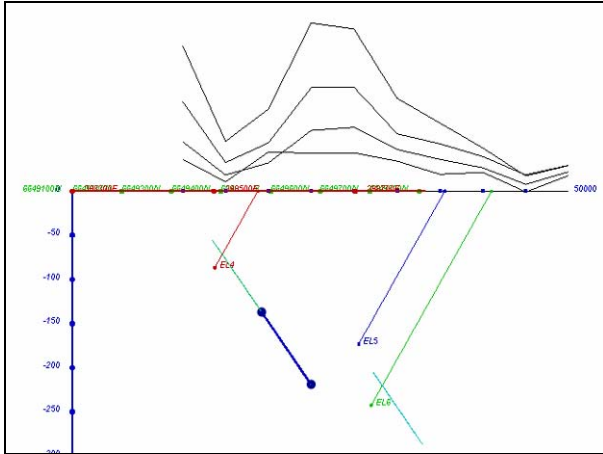


## 2.3 Regional Nickel Sulphide

### 2.3.1 KNP Tenement Area

#### Emu Lake North

Drill approval was obtained for a 4 hole 780m RC program to test high priority EM targets, shown below:



#### Ghost Rocks

A review of recently acquired aeromagnetic data indicates a number of discrete anomalies possibly related to nickel sulphide accumulations.

### 2.3.2 Non KNP Tenement Area

#### Cowarna Downs

A fixed loop EM program was completed. RC drill testing confirmed the anomaly source to be massive barren sulphides associated with a chert horizon (2 holes, 348m).

#### Trans East and Roe Hills South

Reconnaissance RC drilling was completed (50 holes, 2,790m). No nickel sulphide targets were generated.

#### Merolia

Heron completed an EM survey to validate a 1970s conductor anomaly. The EM anomaly was interpreted as a surficial source and drilling was not warranted. Soil geochemistry is planned to determine the nickel sulphide fertility of the target ultramafic unit.

**IAN BUCHHORN**  
**MANAGING DIRECTOR**

*"The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr. Ian Buchhorn, who is a Member of The Australasian Institute of Mining and Metallurgy" "Mr. Buchhorn is a full-time employee of the company". "Mr. Buchhorn has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Buchhorn consents to the inclusion in the report of the matters based on his information in the form and context in which it appears".*

## 3. Epsilon Energy Limited

Chairman Bruce Larson and Managing Director Matthew Gauci expect to be lodging the Epsilon prospectus in the first week of November, aiming for a December 2006 listing. Additionally, non-executive directors Professor Michael Dentith from the University of WA and Mat Longworth from Heron have joined Epsilon.

A sponsoring and corporate advice mandate has been signed with a Perth-based merchant bank.

Epsilon controls some 8,851km<sup>2</sup> of uranium exploration ground in established uranium provinces in NT, SA, WA and Queensland. The focus is upon large tonnage sandstone-hosted and calcrete-hosted deposits, amenable to low cost mining and processing.

The leading project is Balladonia, where Epsilon has identified widespread radiometric anomalism in previous drilling of oil shales. The geological setting is comparable to that of Frome Basin in South Australia, and the Gunbarrel Basin in Western Australia, hosts to more than 10 sandstone-hosted uranium deposits.

The Board of Heron is most confident in Epsilon's ability to deliver value to Heron Shareholders.

## 4. Rubicon Resources Limited

Chairman John Shipp and Managing Director Peter Eaton expect to lodge the Rubicon prospectus in early 2007. An underwriting agreement has been signed with an Eastern States-based sharebroker, and a corporate advisory mandate signed with a Perth-based international accounting firm.

The Rubicon tenement and project structure has been finalised and the key projects, covering some 10,000 km<sup>2</sup> have been established. Rubicon has focussed upon large contiguous tenement packages located on crustal-scale gold and base metal-endowed structures. The leading projects are the Warburton IOCG target, and Yindarlgooda VMS and gold targets. Project generation studies at Yindarlgooda have identified excellent walk-up gold drill target for testing upon the listing of Rubicon.



## Appendix 5B

## MINING EXPLORATION ENTITY QUARTERLY REPORT

Name of entity

HERON RESOURCES LIMITED

ABN

30 068 263 098

Quarter ended (current quarter)

30 September 2006

*Consolidated statement of cash flows*

Cash flows related to operating activities	Current Qtr	Year to Date (3 months)
	\$A'000	\$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for: (a) exploration and evaluation	(1,173)	(1,173)
(b) development		
(c) production		
(d) administration	(842)	(842)
1.3 Dividends received		
1.4 Interest and other items of similar nature received	141	141
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)-GST Paid	69	69
	(1,805)	(1,805)
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	(78)	(78)
(b) equity investment	(259)	(259)
(c) other fixed assets	(73)	(73)
1.9 Proceeds from sale of: (a) prospects		
(b) equity investment	167	167
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
	(243)	(243)
<b>Net Investing Cash Flows</b>		
1.13 Total operating and investing cash flows (carried forward)	(2,048)	(2,048)



1.13 Total operating and investing cash flows (brought forward)	(2,048)	(2,048)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from the issue of shares, options, etc.	70	70
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		
<b>Net financing cash flows</b>	<b>70</b>	<b>70</b>
<b>Net increase (decrease) in cash held</b>		
1.20 Cash at beginning of quarter/year to date	9,178	9,178
1.21 Exchange rate adjustments		
	7,200	7,200
<b>1.22 Cash at end of quarter</b>		

**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	237
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\$177,751). Provision of office accommodation by director-related entity (A\$20,775). Provision of legal advice by director-related entity (A\$39,296).
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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

Nil
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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	1,100
4.2 Development	0
<b>Total</b>	<b>1,100</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	822	355
5.2 Deposits at call	6,008	8,456
5.3 Bank Overdraft		
5.4 Other (provide details)		
Property Rental bond	47	0
Environmental bonds	264	264
Escrow Accounts	59	116
<b>Total: cash at end of quarter (Item 1.22)</b>	<b>7,200</b>	<b>9,178</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) (\$)
7.1 Preference securities (description)				
7.2 Changes during Quarter				
(a) Increases through share issues				
(b) Decreases through returns of capital, buybacks, redemptions				
7.3 Ordinary securities	167,534,772	167,534,772		
7.4 Changes during Quarter *				
(a) Increases through share issues	200,000 19,172	200,000 19,172	\$0.33 \$0.25	\$0.33 \$0.25
(b) Decreases through returns of capital, buybacks				
7.5 Convertible debt securities (description)				
7.6 Changes during Quarter				
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)			<i>Exercise Price</i>	<i>Expiry Date</i>
	3,607,000	Nil	\$0.25	30/06/2007
	2,901,000	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
	350,000	Nil	\$0.70	1/06/2010
7.8 Issued during Quarter	350,000	Nil	\$0.70	1/06/2010
7.9 Exercised during Quarter	200,000 19,172	200,000 19,172	\$0.33 \$0.25	\$0.33 \$0.25
7.10 Expired during Quarter				
7.11 Debentures (totals only)				
7.12 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. 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. Dampier Mining Pty Ltd (Dampier) may earn an initial 60% interest in the mineral rights of the Bandicoot Range Project by the expenditure of \$200,000 within three years of the grant of the Project tenement. Dampier will pay Regent \$25,000 when the Project tenement is granted. Heron or its nominee may then elect to contribute to expenditure on a pro-rata basis or Dampier can spend a further \$200,000 to earn a further 20% interest. Upon earning an 80% interest, Dampier will pay Heron or its nominee a further \$100,000 and free-carry Heron's interest through to a Bankable Feasibility Study (should Dampier so proceed).
5. 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).
6. By an Agreement between Portman Mining Limited and Heron dated 31 May 1999, Heron sold to Portman the rights to explore and mine for iron ore at Bungalbin, and also agreed to sell the Bungalbin tenements as mining leases to Portman. Heron has a royalty based on tonnes of iron ore sold by Portman. The Agreement allowed five years to Portman to commence mining operations (which it has not done), but also provided for a two year extension of that period, which Heron agreed to (to July 2007).
7. 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.
8. Heron entered into an asset sale agreement on 14 July 2006, with Polaris Metals NL (Polaris), whereby Heron has sold and Polaris has bought certain iron-ore mining tenements held by Heron. Heron is to receive 29,729,703 Polaris shares and 15,000,000 Polaris performance options in consideration for the transaction.



## 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>
M16/00493	Registered Holder	100	0
M16/00494	Registered Holder	100	0
M16/00495	Registered Holder	100	0
E08/01642	Registered Applicant	100	0
E70/02768	Registered Applicant	100	0
E15/00807	Registered Applicant	100	0
E80/02951	Registered Applicant	100	0
E80/02953	Registered Applicant	100	0
E24/00133	Registered Applicant	100	0
EPM15032	Registered Applicant	100	0
E16/00326	Registered Applicant	100	0
E24/00120	Registered Holder	100	0
P16/02149	Registered Holder	100	0
P16/02150	Registered Holder	100	0
P16/02151	Registered Holder	100	0
P24/03773	Registered Holder	100	0
P24/03774	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>
EPM15714	Registered Applicant	0	100
EPM15719	Registered Applicant	0	100
EPM15720	Registered Applicant	0	100
EPM15721	Registered Applicant	0	100
EPM15722	Registered Applicant	0	100
P16/02335	Registered Applicant	0	100
P16/02336	Registered Applicant	0	100
P16/02337	Registered Applicant	0	100
P16/02338	Registered Applicant	0	100
P16/02339	Registered Applicant	0	100
E29/00613	Registered Applicant	0	100
E38/01911	Registered Applicant	0	100
E38/01244	Registered Applicant	0	100
E69/02252	Registered Applicant	0	100
E69/02253	Registered Applicant	0	100
E31/00729	Registered Applicant	0	100
E28/01660	Registered Applicant	0	100
E29/00618	Registered Applicant	0	100
E80/03717	Registered Applicant	0	100
E70/03044	Registered Applicant	0	100
E383/06	Registered Applicant	0	100
E384/06	Registered Applicant	0	100
P15/04820	Registered Applicant	0	100
E38/01926	Registered Applicant	0	100
E63/01061	Registered Applicant	0	100
E70/03052	Registered Applicant	0	100
P39/04557	Registered Applicant	0	100
P39/04558	Registered Applicant	0	100
P39/04559	Registered Applicant	0	100
E24/00149	Registered Applicant	0	100
E39/01254	Registered Applicant	0	100
E39/01255	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.



Sign here: \_\_\_\_\_  
Company Secretary

Date: 31/10/06

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.

