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Heron
RESOURCES LIMITED



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MEMORANDUM

TO : Margaret Atkin
FROM : Ian Buchhorn, David Crook
DATE : Tuesday 22 October 2002

HERON SUBMISSION INQUIRY INTO RESOURCES EXPLORATION IMPEDIMENTS

Dear Margaret

1. Heron Representatives

Heron Resources Limited ("Heron") will be represented by:

Ian Buchhorn BSc (Hons), Dip Geosci, MAusIMM

Managing Director

Ian Buchhorn is a Mineral Economist and Geologist. He has worked on nickel, gold, lead-zinc and diamond projects in southern Africa. In Australia, Mr Buchhorn has worked on bauxite and industrial mineral mining and exploration, gold and base metal project generation, gold mine operation and in corporate evaluations. He has 30 years' experience as an economic geologist, and for the last 16 years, has acquired and developed projects throughout the Eastern Goldfields of Western Australia, commissioned several open cut gold mines, and has been a Registered Mine Manager. Mr Buchhorn is active within the local community, serving as a Councillor for the City of Kalgoorlie-Boulder.

Discovery Record:

- Weipa refractory grade white bauxite.
- Various gold mines in Eastern Goldfields, including, Nazzari, lodes at McPherson's Reward, Double A, Tarmoola (recognized potential of adjoining leases and recommendation led to acquisition).
- Have already held or acquired adjoining ground involved in several Eastern Goldfields discoveries over last 10 years, including Karonie-French Kiss, Chalice, Silver Swan, Carasue Dam, Kundana.
- Joint discoverer of Goongarrie Nickel Laterite (a world class discovery).

David Crook BSc, MAusIMM

Exploration Manager

David Crook is an exploration and mining Geologist with 23 years' experience gained in primarily Western Australia. Mr Crook has worked for a number of companies on a range of commodities including gold, tungsten, diamonds, nickel sulphide, lead-zinc and recently, nickel laterite. Mr Crook has been involved in exploration and mining operations in Eastern Goldfields and Southern Africa where he has commissioned several open pit mines. He was part of the discovery team at Radio Hill, was senior geologist at Gidgee Gold Mine for 10 years during which time 500,000oz were added to reserves. Mr Crook is also active within the community and is Past President of a local Rotary club.

Discovery Record:

- Gold development at various Northern Goldfields deposits, including Cork Tree Well, Mt Morgans, Paddys Flat-Meekatharra, Coolgardie.
- Joint discoverer at Gidgee Mine of 500,000oz produced, and additional resources remain.
- Joint discoverer of massive nickel sulphide at Radio Hill, resource development at Mt Sholl.
- Joint discoverer of Goongarrie Nickel Laterite (a world class discovery), secured Native Title consents.

2. Terms of Reference

2.1 Assessment of Resource Endowment

- World mining investment ideally seeks bulk tonnage, low unit cost projects (BHPB, Rio Tinto, Anglo American style of targets), and by definition these are large capex projects. With high capex projects, a key investment criteria is **low sovereign risk** and **availability of infrastructure**, which is a **key attraction of Australia**.
- **Australia is geologically well endowed with bulk-tonnage style commodity targets** in iron ore (Pilbara), nickel (laterites of Eastern Goldfields), bauxite-alumina (Darling Ranges, Cape York, Mitchell Plateau), base metals (Willyama-Broken Hill, Cloncurry, Bangemall Basin), mineral sand (coastal plain WA, Murray Basin Vic), coal (throughout Australia), oil shale (eastern Queensland, southern WA).
- **Australia, with Canada, USA and New Zealand, will always be competitive exploration domains for small to medium-sized mineral companies**, which means an expectation of exploration success and resource replenishment.

Heron always seeks to develop target concepts which will appeal to large companies as potential funders.

2.2 Role of Small Companies (in the Heron context)

- Heron as a **small company** and an **active Explorer**, has a **very low administration cost base**, and its **largest individual cost centre is drilling**. In a typical year, Heron raises \$2.5m through share placement, spends \$2.5m on exploration, and drills 20,000m of RC costing \$1m in direct drill and assay costs. Administration costs are typically \$250,000, so we spend 10% of our budget on administration, **40% on drilling**, with 30% on mining tenement applications and rent and 20% on new project generation. Large companies often have the reverse outcome in administration versus drilling.

No large company spends 40% of its exploration budget on drilling, and many would not complete 20,000m per annum of exploration RC drilling as Heron does.

The golden rule of mineral exploration: **“You don’t find ore bodies unless you drill”**. Any tax or investment assistance to the exploration industry must stress “green- and brownfields” drilling.

- Heron as a **small company is able to move quickly**, since key decision-making is by the geologists:
 - On 14 November 2001, Minotaur announced its Prominent Hill copper-gold discovery on the Stuart Shelf of South Australia.
 - Two hours after the announcement, Heron had worked out a geological model for the newly announced discovery interpreting it as a close analogy to the 150 year old Moonta copper mining centre. Heron was able to access regional geophysical data from the South Australian Primary Industry and Resources website, and Heron’s subsidiary Avoca Resources Limited then acquired a 16,000km² land holding in the prospective domain within 2 days.
 - Five months later on 15 April 2002, Avoca listed on ASX, raising \$7m to fund its exploration, Stuart Shelf the leading project.
- Heron as a **small company is not stifled by regimented exploration guidelines** and minimum target hurdles, which result in large companies rejecting all but a small fraction of property offers.
 - In April 2002 Heron, through subsidiary Regent Resources Limited, commenced pegging in the Kimberley Basin of northern Western Australia, on the basis of strong geological analogies between the Stuart Shelf-Adelaide Rift of South Australia and the Lamboo Complex-Spewah Basin in the Kimberleys, and specifically targeting a single area for barite (to supply Timor Gap oil exploration drilling mud).
 - From a niche industrial mineral target, once analysis of WA Geological Survey data bases commenced, it was quickly obvious that a multitude of Proterozoic age, rift-related mineralisation targets are present. World-wide, rifts are a dominant host for base metal ore deposits including Cu-Ni-PGM sulphide breccia as at Norilsk, iron oxide breccia complex hosted Cu-Au-U-REE as at Olympic Dam, basalt-sediment hosted Cu-Co as in the Zambian Copperbelt and carbonatite associated Ba-F veins as in the Adelaide Rift. Subsequent to Heron commencing its Kimberley pegging, there has been somewhat of a localised “pegging boom”, based on a reportedly epithermal gold discovery by an adjoining diamond explorer. Heron’s Kimberley ground is now surrounded by competitors, including a multi-national gold explorer.
 - Project areas totaling 4,449km² within 25 Exploration Licence applications have now been acquired in the Kimberley Basin. Heron’s principal target has now developed into nickel-copper. There is however a wealth of other commodity targets, which are a very attractive portfolio for joint venture to a multi-national explorer.

2.3 Impediments to accessing capital (in the Heron context)

- There will always be that certain month in a three to five year investment cycle where funds can be raised, based on a new discovery, a niche commodity event, government policy or purely illogical market sentiment. In Heron's case:
 - IPO raised \$8.0m in August 1996 on the back of the Silver Swan nickel sulphide discovery.
 - Raised \$3.1m in August 1999, placement at \$0.30 when share price was \$0.15, because a new nickel project required access to Heron's nickel laterite ore reserves in order to expand its plant.
 - Raised \$2.8m in February 2001 to fund Pre-feasibility Study drilling at Goongarrie Nickel.
 - Raised \$1.0m in December 2001, forming a relationship with an international resource investor.
- Accessing capital is controlled dominantly by prevailing market sentiment. Government can only positively influence the market through its taxation policy.

2.4 Access to land including Native Title (in the Heron context)

- **Heron's Corporate Governance statement, Annual Report 2002:**
"ABORIGINAL CULTURE AND HERITAGE
The consolidated entity is subject to and compliant with all aspects of Aboriginal Heritage regulation in respect of its exploration and development activities. The Directors are not aware of any regulation which is not being complied with. The Directors are committed to cultural respect and Indigenous Reconciliation".
- **We seek Native Title outcomes which benefit the greater community, Annual Report 2002:**
"Heron Philosophy and Community Role

Heron is an equal opportunity employer, committed to the betterment of the community of Kalgoorlie-Boulder. The Company is proud to be a long term sponsor of Ngunytyju Tjitji Pirni Aboriginal Corporation ("NTP"), an organisation committed to Aboriginal mother's and children's health in the Eastern Goldfields. The Company's funding of NTP and a Heron Scholarship Scheme are part of the Company's negotiated Native Title access arrangement. The funding assistance provided by Heron has helped NTP achieve a nation-wide recognition as a leader in indigenous paediatrics, for which Heron is most proud.

Heron, as do all Australian mineral explorers, works within the framework of Native Title. The Company is committed to a policy of cultural respect and negotiation with the Aboriginal custodians of our exploration land. To the claimants of this land and the Goldfields Land and Sea Council, we once again express our appreciation of their patient negotiation. The recent year has been a period of great progress, in which the key Mining Leases at Goongarrie and Kalpini were granted for mining".
- **We live, play and work in the same community as the claimant groups, we share aspirations.**

Heron would hope that we have earned the respect of Claimant groups, and that we are thus able to sit down and negotiate sound commercial outcomes to allow the grant of mining tenements.

2.5 Environmental access (in the Heron context)

- Heron's leading project at Goongarrie occurs within an environmentally significant area, so we are by necessity required to conduct exploration in a particularly careful manner. We got off to a bad start, remedied our procedures very quickly, and hopefully now enjoy a hard-earned respect from CALM and DMPR. Our simple strategy is to ensure stakeholders are well informed, and most importantly, we promote joint field visits at every opportunity to review our environmental practices.
- On pastoral properties, our strategy is to retain the local pastoralist as site access contractor, which means all work complies with the stakeholder (and CALM, DMPR) environmental standards.

2.6 Public provision of geoscientific data (in the Heron context)

- The basis of Heron's asset creation is public geoscientific data. There can never be too much data, and we would encourage the DMPR's continued excellence in:
 - Expedition release of company open-file reports.
 - Generation of regional magnetic, gravity, regolith, landsat and remote sensing data.
 - Systematic multi-element geochemical surveys (soil, stream, magnetic concentrate).
- Heron shares a close working relationship with the Kalgoorlie GSWA office, and we have collaborated on conferences and ore genesis studies on nickel laterite.

2.7 Relationship with Indigenous communities

- ***Claimant Representation***

Heron has found that in practice Native Title Claimants that negotiate using official Representative Bodies are more likely to reach an equitable outcome. There are some Native Title Claimant Groups that continue to use independent representation, who clearly start negotiations from the position of recovering their own personal costs before negotiating Heritage Protection Protocols. Such settlements do not benefit the wider indigenous community and are often out of step with the draft State Guidelines regarding Heritage Protection. There should be strong encouragement for all Claimant Groups to use officially recognised Representative Bodies. These Bodies should be adequately funded and staffed. The result will be consistent negotiations towards accepted outcomes, and benefits to the community through properly managed benefit packages.

- ***The Tenement Objection Process***

It is unlikely that new Claimant Groups will become successfully Registered, and accordingly, the process of advertising a Mining Tenement Application (a four month process) and waiting to see who might object, is redundant, as the Claimants are now known. Claimants should be notified at the time of tenement application, as is the pastoralist or land holder, and given a brief period in which to object. A consistent Heritage Protection Protocol (which is unofficially in wide use already) should be formalised so that all Parties are dealt with in a fair manner. This would speed up the grant of tenements thereby facilitating the new wave of exploration, and remove the perception (correct or otherwise) that "Native Title" is holding up Exploration.

Exploration and Mining agreements should not be disjunctive. Compensation Guidelines should be established and regulated by Law for Mining Leases. At present there is no provision for compensation to be paid as Native Title has not been established. Many Companies resort to paying compensation to expedite their mining operations, and in this regard the public perception that "Native Title" is holding up mining development is true. Negotiations for all mining tenements should be restricted by the NNTT to Heritage protection matters and Determinations made as soon as compensation becomes the sticking point. Compensation should follow once Native Title is established, or if made now, should go to community groups, never as cash payments to select groups.

2.8 Contributions to regional development

- Government's key role in the minerals industry is provision of infrastructure:
 - Richard Court's facilitation of the GGT natural gas pipeline was a masterstroke in mineral development, and is largely responsible for the generation of the "greenfields" nickel laterite industry. This industry, using the GGT natural gas, can potentially supply 30% of the world nickel market.
 - The rail network in the Goldfields should be extended to Mt Keith and Murrin Murrin (initial capex by government, but repayment by user groups).
 - Sealed road required to link Kalgoorlie and the Pilbara, to service new mining opportunities.
 - Sealed road required to link Kalgoorlie and Alice Springs.
 - Water supply to the Goldfields requires implementing of strategies.

2.9 Secure Title

- Heron has invested many millions of dollars in its belief that Nickel Laterite technology will gradually replace the exploitation of nickel sulphides as primary nickel supply. The hype of the late 1990s has been replaced by the grim realization that the Nickel Laterite projects are not licences to print money as once espoused, and it could still be a number of years before Heron's Goongarrie is developed as a mine. It is entirely reasonable to expect that when such an investment has been made, secure title can be achieved, so that expenditure is not required simply to keep the Tenements in good standing.
- Planting of tenements (taking a lease through mining law by claiming the leaseholder has done insufficient work) should be controlled through making plaintiffs liable for damages where claims are vexatious or frivolous, and requiring a bond to be lodged with claims to guard against frivolous claims.

3. Conclusions

3.1 Heron is very comfortable and satisfied with the industry in which it operates. We have sought to occupy a market niche which:

- Heron uses its **intellectual skill to acquire ground, generate targets, and then seek project funding**, as governed by quantifiable risk. The government tools to expedite this strategy are all clearly available to Heron, and our competitors.

With our Goongarrie nickel project, we can see medium term cashflow potential, so we seek to continue to maintain 100% ownership. Ultimately, some \$800m in capex will be required for Goongarrie, and we know at this level of funding, the source is likely to be offshore.

With our Kimberley base metal projects, potential cashflow is further away, so we will seek farm-out, once we have completed project generation field programs. The statutory system allows this action.

- Heron has a **close and respectful relationship with the Native Title claimant groups** of our exploration province. This greatly assists our exploration.
- Heron realizes that as a small explorationist, it has a symbiotic relationship with larger well funded mining companies, and Heron's survival and prosperity requires a market place where large companies are encouraged to also prosper.
- Heron seeks to **define itself in the equity market as a lateral thinker, a very aggressive driller of targets, technically robust, and a strong communicator with its shareholders**. If we can do this, and maintain the confidence of our shareholders, we will continue to be able to raise venture capital.

3.2 If government were to wave its "magic wand", key issues would be:

- Provide the same tax incentives to mineral exploration as provided to olives, wine and blue gums.
- Allow mineral explorers to transfer their tax losses to shareholders in the year of incurring the loss, thus delivering a market premium to those explorationists who actively explore.
- Provide incentives to superannuation funds which invest in Australian mineral exploration.
- Provide Zone Allowances of sufficient magnitude to incentivise geoscientists to work and live in regional Australia.
- Reform Fringe Benefits Tax, so that mineral industry employees are not penalized.
- Properly fund GeoScience Australia, cognizant that its projects are potential wealth and employment generators.

Yours faithfully



Ian Buchhorn
MANAGING DIRECTOR



David Crook
EXPLORATION MANAGER