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Report for June 2007 Quarter

31 July 2007

ASX Code : HEG, HEGOA

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**KEY POINTS**

**Reward**

- *Underground development commenced for Reward mining.*
- *Fresh air ventilation established ahead of schedule.*
- *Redesign of process plant completed.*
- *Visible gold and 39.4 g/t Au in Phillipson's veins in Reward development.*
- *Diamond drilling program of 4000m to commence in August.*

**Laos**

- *Lak Sao Project Foreign Investment / Exploration Licence Application in Laos proceeds satisfactorily.*

**Corporate**

- *HEGOA options conversion issue raises \$15.895m.*

## **SUMMARY**

During the quarter a total of \$15.895 million was raised by the 90% conversion of listed HEGOA options and shortfall distribution through an underwriting agreement with Bell Potter Securities. On 14 June 2007 new bonus options were issued to eligible shareholders on a one for two basis.

The capital structure of the company is currently:

- 238,099,265 fully paid ordinary shares (HEG);
- 118,142,615 listed options (HEGO) exercisable at 15c by 12 September 2008.

Underground access development to Reward commenced in mid-June and has proceeded ahead of schedule with Mancala mining contractors. Bulk sampling the Paxton's Zone inferred resource of 23,000 tonnes at 47.8g/t of gold is planned for the end of the year. The Amalgamated gravity plant has been reconfigured and is being refurbished under process engineers Timora.

A 4000 metre diamond drilling program will test the Hawkins Hill – Reward – Germantown and Red Hill mineralisation during the coming quarter. The potential of the Hawkins Hill to Germantown exploration target, additional to the Reward resources, is 2 – 2.5Mt at 10 - 20g/tAu, containing a mid range of approximately one million ounces.

The application process for the Lak Sao Project in Laos, which is in joint venture with Mekong Resources Pty Ltd, is proceeding satisfactorily. The Lak Sao Project has numerous precious and base metal prospects identified by previous explorers. The project is located on the Truongson Belt, which hosts Oxiana Limited's \$17 billion Sepon deposit.

## **HILL END**

Hill End Gold has the majority of the historically rich Hill End Goldfield under tenement with approximately 50 kilometres strike length of the Hill End Anticline including EL5868, EL6558, ELA3211 and a number of granted mining leases.

Total gold output from the Hill End Goldfield of about 1.5 Moz of gold came from surface and shallow underground workings during the nineteenth century. The majority of past hard rock production came from Hawkins Hill, which yielded over 400,000 ounces of gold from a strike length of approximately 400 metres, averaging about 10 ounces per tonne.

The Reward area is interpreted to be continuously mineralised over a strike length of two kilometres from south of Hawkins Hill, through Reward to at least Germantown in the north.

Strong gold mineralisation and high grade workings outcrop for 20 kilometres along the Hill End Anticline in the Company's tenements and further significant deposits are interpreted to occur below surface.

## **HAWKINS HILL – REWARD GOLD PROJECT**

Activities this quarter include the establishment of a new exploration office at Hill End, the redesign and the commencement of process plant commissioning, the start of underground development and establishment of fresh air ventilation through the Star of Peace shaft.

A total of 46 metres of development comprising 30 metres of drive and 16 metres of cross cut were completed in the two weeks to the end of the quarter, leaving approximately 500 metres remaining to the base of the raise bore hole in the Exhibition area.

The access drive to the high grade Reward area is being excavated by mining contractor Mancala by tunnelling north on the Amalgamated level from the old Hawkins Hill workings along the Phillipson's vein set. At this point the Phillipson's vein set comprises two narrow quartz veins approximately 0.30 m apart with the Phillipson's footwall vein mineralised with values up to 39.4 g/t Au. The Phillipson's high grade target at Cornelian is approximately

250 metres in front of the current face position. The drive will also intersect the Herman's, Fisher and Beard's and Mathewson's cross courses, all of which were associated with bonanza grades in the workings above.

Three Mica West veins intersected in the Star of Peace cross cut were gold bearing with assay results up to 9.27g/t Au.

Surface diamond drilling at Reward has confirmed the continuity of the very high grade Paxton's and Steven's vein sets. The Reward area has a partial resource of 124,000 tonnes at 19g/t Au with the high grade portion of the Paxton's zone estimated to have 23,000 tonnes at 48g/t Au. The gold mineralisation at Hill End is quite coarse with metallurgical testwork on the Amalgamated vein indicating 98% of the gold being available for gravity recovery at P<sub>80</sub> 670 microns with 60% of the gold particles coarser than 1mm in size.

Reliable gold grade estimation for coarse gold resources requires large samples to be assayed: the larger the sample then the more accurate is the grade estimate, and the smaller the sample the more conservative it is. The current Reward resource estimate is based on laboratory assays of diamond drill samples of a few kilograms compared to the bulk sampling exercise, which will use samples of 10 – 15 tonnes per sample processed through the gravity plant.

The Reward access drive is expected to be below the very high grade Paxton's zone by October. Initial bulk sampling and processing of development material will commence during the September quarter and sampling of the very high grade Paxton's zone is scheduled for the end of the year. Approximately 1300 tonnes will be extracted from Paxton's for processing through the gravity recovery plant and the Phillipson's and Steven's zones will be only check sampled at this stage.

The Reward mining layout and plant configuration will provide for gold production to continue from the Reward area upon the successful completion of the bulk sampling exercise. At an average recovered grade of two ounces per tonne, the plant will have a capacity of 50 – 100000 ounces per year.

The Paxton's vein set high grade intersections average about two ounces over a metre width over the two hundred metre strike length. Wide intersections such as in HHD30 with 12.25g/t Au over about six metres true width and HHD31 with 5.39g/t Au over about three metres true width often contain abundant visible gold in multiple quartz veins throughout. HHD31 intersected Paxton's 48 metres south of HHD30, which is located 30 metres south of previous drill hole NRI005, which intersected the Paxton's central veins with 208g/t Au over 0.9m.

In addition to the gravity sampling plant, which has a nominal capacity of 5 tonnes per hour, a mini-bulk sampling facility is being established on site for gold recovery from small development samples to provide a qualitative assessment of the vein sets as development proceeds.

## **RED HILL GOLD PROJECT**

A 12 hole diamond drill program of 1800 metres will commence during August to test for extensions of the mineral resource to the north under the old Valentine's workings, and will further test the Red Hill vein sets at depth.

Gold mineralisation at Red Hill has remarkable continuity of the vein sets over some kilometres and new *en echelon* vein sets have been discovered at depth. Wide mineralised quartz stockwork zones have been intersected in the White's, Marshal McMahon's and Kessell's vein sets. The stockwork zones appear to overprint Hawkins Hill-style bedded mineralised veins and are significant because of their increased widths.

A resource estimate for the deeper vein sets will be completed after results from the current drill program are available.

Preparation for a mining lease application for the Red Hill area has commenced. The Red Hill area is being evaluated as a combined open pit and underground project, which may be worked together with the Reward Project and processed through a combined plant located in the Red Hill area. Bulk sampling of the deeper vein sets is under consideration.

## ***GERMANTOWN***

Two diamond drill holes GTD01 and GTD02 drilled below the old Germantown workings confirmed the strike continuation of the Hawkins Hill - Reward mineralisation some 1000 metres north of previous drilling a Reward.

The geological setting at Germantown is interpreted to be a direct continuation of the Reward – Hawkins Hill vein sets, thus these drill holes indicate a total strike continuity of the Hawkins Hill - Reward – Germantown mineralisation of some two kilometres.

During August a program of 1260 metres diamond drilling in six drill holes is proposed to start at Germantown. The program is designed to intersect mineralisation below historical workings, to refine the location of the mineralised corridor and to test the mineralised corridor to a depth of 600 metres by intersecting the stacked vein sequence throughout its length and to identify the Reward/Hawkins Hill veins at depth.

The outcropping gold mineralisation at Germantown was mined to a maximum depth of 90 metres below surface during the nineteenth century, however high grade vein sets such as Paxton's have not yet been mined nor explored.

## ***SCANDINAVIAN GOLD PROJECT***

A program of 1300 metres diamond drilling in four drill holes is proposed for the Scandinavian area. The program is designed to traverse the northern extensions of the Reward/Hawkins Hill mineralised sequence from immediately north of Reward for a further 500 metres. The drill holes are to test below historical mining activity, which was stopped by water inflow, and will verify the location of the mineralised corridor. A deeper hole is designed to finish at 400 metres depth to test the stacked vein sequence at greater depth.

## ***HILL END AREA EXPLORATION***

A review of regional data from previous exploration activity identified 13 prospects in the northern part of EL5868, nine of which have been field inspected and re-sampled.

Each of the prospective areas were traversed, during which time stream sediment and/or soil samples and grab rock chip samples were collected. These field inspections and consequent sampling identified two prospects of ongoing interest.

1. Dun Dun - a worked quartz trend can be extrapolated along strike to a lesser developed worked area not included in previous exploration surveys, which suggests exploration prospectivity of some 1000 metres yet to be fully explored.
2. Waurdong - brecciation within or close to a lithological contact zone returned a low to moderate gold value requiring further field evaluation to determine significance.

During the quarter fieldwork was also carried out on the Gowan EL6558 area. Five previously identified regional aeromagnetic and radiometric data targets and several geologically based targets were field checked and a total of 44 rock chip samples were taken from five of these targets giving only background values for gold and base metals. The highest gold value was 3.16ppb from a milky white quartz vein located within the Chesleigh Formation.

The model of Hill End style gold mineralisation in the southern end of the Chesleigh Formation is still considered an excellent target. Especially since the district has received only minor evaluation by modern exploration methods. Due to the poor outcrop in this hilly area a detailed stream sediment sampling program is under consideration to cover the area of the Chesleigh Formation and also the full length of the Hill End Fault. This survey would provide good coverage to check for near surface gold mineralisation within this prospective district.

## LAOS

During the quarter the Foreign Investment / Exploration Licence application for the Lak Sao Project made satisfactory progress in Laos. Current project activities are focussed on obtaining the approval for the Exploration Licence and preparation for field work, which is proposed to commence in the dry season.

Hill End Gold have a 51% interest in the Lak Sao Project with Mekong Resources Pty Ltd and will sole fund the first US\$500,000 expenditure, with straight line dilution applying to further expenditure if Mekong Resources do not wish to contribute. Acquisition costs, based on approval milestones, amount to US\$220,000 of which US\$150,000 will be paid in HEG scrip.

### ***Attribution***

The information in this report that relates to Exploration Results or Mineral Resources is based on information compiled by Mike Quayle and Philip Bruce. Mr Quayle is a Member of The Australian Institute of Geoscientists and is a full-time geological contractor for the company. Mr Bruce is Fellow of the Australasian Institute of Mining and Metallurgy. Both Mr Quayle and Mr Bruce have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code). Mr Quayle and Mr Bruce consent to the inclusion in the announcement of the matters based on his information in the form and context in which it appears.

Yours faithfully



Philip Bruce  
Managing Director

Attached:

- Proposed Development Reward Long Section
- Fosters – Germantown Long Section
- Red Hill Long Section
- Hill End Project Regional Overview

For further information contact Philip Bruce :-

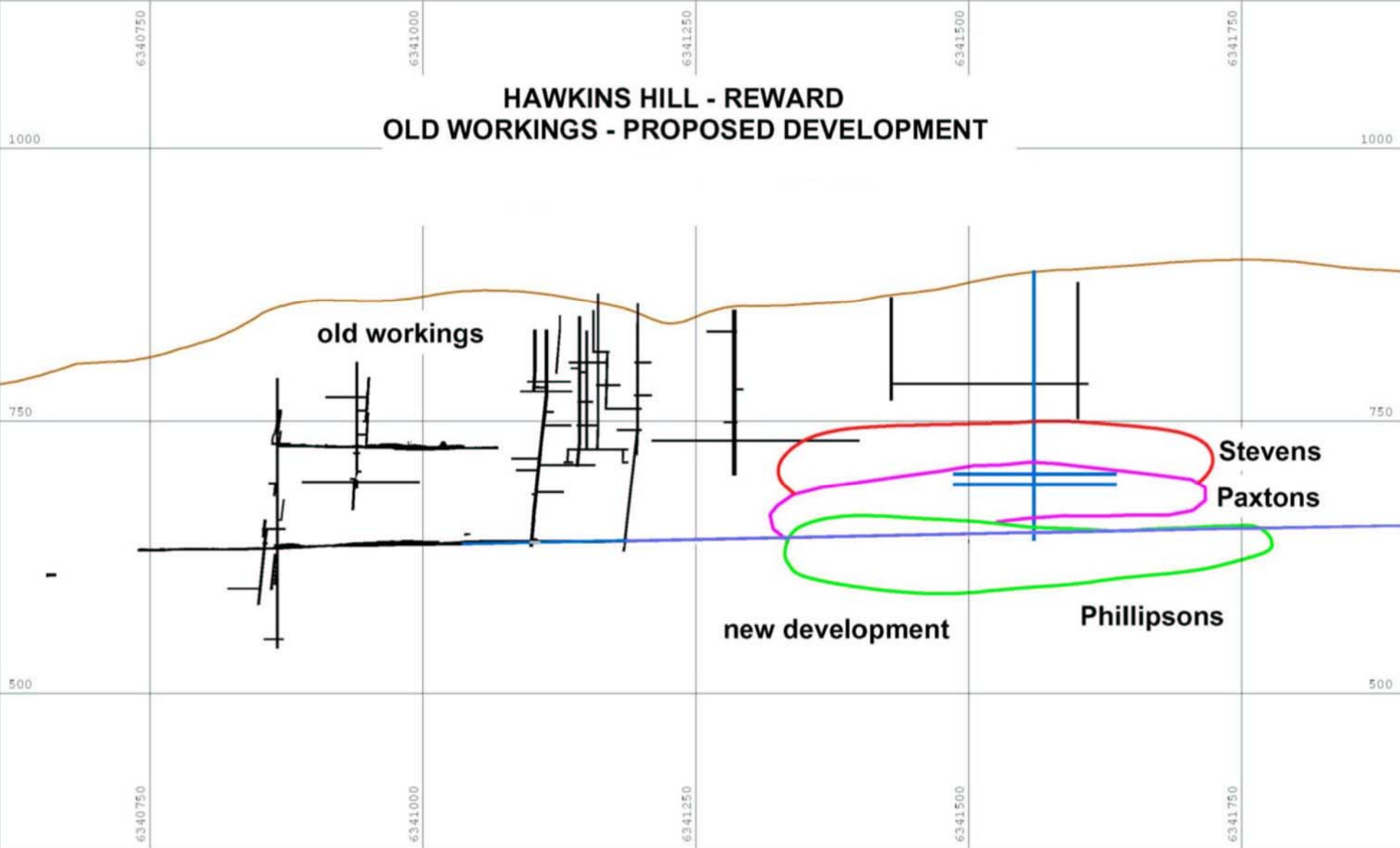
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# HAWKINS HILL - REWARD OLD WORKINGS - PROPOSED DEVELOPMENT



Scale 1:5000	DATE 01/04/97 REF No. 1	SHEET 1 of 1 FILE QTR	Reward Project Cross Section +/-12.5m
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# HILL END PROJECT REWARD EXPLORATION POTENTIAL

Foster's

Hawkins Hill

Reward

Scandinavian

Germantown

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*Approximate Depth  
of Water Table*

Previously Stopped Areas

Previously Stopped Areas

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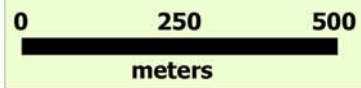
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# Red Hill Vein Sets

