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7 March 2002

Dear Heron Shareholder

**RE: Update on Heron Resources Limited**

Heron Resources Limited ("Heron" or the "Company") wishes to update Shareholders on the Company's current corporate and exploration activities.

**1. Avoca Resources Limited ("Avoca")**

The Avoca Prospectus was lodged on 20 February 2002, with listing planned for around 11 April 2002.

You should be receiving your Avoca prospectus today or tomorrow. As previously advised, Heron Shareholders registered as at 1 March 2002 will be given special rights to participate in the Avoca Initial Public Offer ("IPO"), including a guaranteed minimum subscription. **As with any IPO, you may apply for as many Avoca shares as your financial resources permit.** If you do elect to apply, please ensure that you use the personalised application form for Heron Shareholders, and return it to the underwriter as soon as possible, and in any event by **Friday 22 March 2002** (or such earlier date as the Avoca directors may advise).

**2. Nickel Laterite Strategy**

The Avoca demerger and IPO was driven by the desire for Heron to be a specialist nickel company and a suitable vehicle for future rationalisation of the Eastern Goldfields nickel laterite industry, particularly in the Cawse region.

**Production Opportunities**

There are three operating nickel laterite plants in the Eastern Goldfields nickel province, representing a capital investment exceeding A\$2 billion. All three plants are technically sound, and have overcome the inevitable problems of plant commissioning, with the Cawse plant in particular operating at close to design capacity. The owner of Cawse is OMG, an international nickel-cobalt refiner, who is Heron's second largest Shareholder.

All three plants have previously experienced financing problems, and are currently processing ore grades that significantly exceed their life-of-mine ore reserve grades, to maximise early cashflow. Anaconda Nickel Limited at Murrin Murrin has recently noted debt service issues, which have impacted on their share price (and one suspects an impact on Heron also, as an active participant in the nickel laterite sector).

Heron's **Goongarrie Nickel Project**, having the **highest documented nickel-cobalt grades** and **premium metallurgical characteristics** in the Eastern Goldfields, is a strategic asset of great value in the local nickel laterite industry. Heron, as would be expected, is in discussion with all three nickel laterite operators, with the view to high grade ore supply.

The Company has recently finalised several Native Title agreements, securing the grant of key nickel laterite mining leases at Goongarrie, Scotia Dam and Kalpini. As granted mining leases, these are now available to mine.

**Exploration Opportunities**

Heron's view and strategic plan is that the **Eastern Goldfields nickel laterite industry has an immensely attractive long-term future** and Heron, as one of the industry's few significant Australian-listed participants, has positioned itself as a long-term supplier of high grade ore. To this end, Heron has viewed the recent market sentiment in nickel laterite as an opportunity to increase its tenement pegging activity, rather than reduce its exposure. Heron is a firm advocate of lower cost counter-cyclical investment strategies.

### 3. Nickel Sulphide Strategy

**Heron has now commenced a systematic appraisal of its substantial nickel sulphide target portfolio.**

Both nickel laterite and nickel sulphide mineralisation occur within distinctive ultramafic volcanic rocks termed *komatiites*. All Heron tenement pegging is directed towards these rock types, with the Company holding **some 8,000km<sup>2</sup> of tenements containing ultramafic belts**. In addition, Heron has **free-carried nickel rights over some 2,000km<sup>2</sup> of tenements transferred to Avoca**. This 10,000km<sup>2</sup> combined holding is a dominant ultramafic land position in a region which includes the world-class Kambalda and Silver Swan nickel sulphide mines.

Heron's exploration programs since September 1997 have been directed solely towards drilling out high grade nickel laterite resources at Goongarrie and Kalpini. To this end, Heron has been spectacularly successful. Although operating in areas of known nickel sulphide (including 24m of disseminated nickel sulphide on one Heron lease), such targets have not been followed up, due to their nickel laterite association generally being low grade. On practical considerations, laterites require shallow vertical drill hole exploration, and sulphides deep inclined.

Heron has in the past received numerous expressions of interest from major nickel sulphide companies to farm in on its ultramafic tenement holding to earn equity in the nickel sulphide only. A view had been taken that this could complicate Heron's future nickel laterite developments, so it would be preferable that Heron maintain 100% ownership of the nickel sulphide rights, as has been its policy with nickel laterite. It has been Heron's intention to commence the systematic nickel sulphide evaluation once the Goongarrie ore reserve drill-out had been completed.

Heron has retained the services of Western Australia's premier nickel sulphide consultancy group to conduct an integrated review of the Company's nickel sulphide targets. Heron's ultramafic data base is exceptional, being in excess of 100,000 metres of systematic grid drilling of many of the major ultramafic belts of the Eastern Goldfields, generating in excess of one million multi-element assay data points.

From Heron's initial in-house data review, **nickel sulphide targets have been generated at the Goongarrie, Scotia Dam, Kalpini, Acra, Lake Rebecca, Spargoville and Pioneer Prospects**. These are now being systematically ranked by our consultant for Electro-Magnetic survey, prior to drill testing and down-hole geophysics.

The aggressive Heron drilling strategy which led to the nickel laterite exploration success will be similarly applied to the nickel sulphide search.

### 4. In-Specie Share Distribution Strategy for New Listed Public Companies (IPOs)

Heron's stated aim since 1997 has been to develop as a specialist nickel company, with initial ore production from Goongarrie. The strategy has always been to farm-out its non-nickel assets. This strategy culminated with Heron assigning non-nickel assets to Avoca in January 2002, distributing In-Specie Avoca shares to Heron Shareholders at no cost, and finally supporting and securing underwriting for the Avoca IPO planned for April 2002.

Despite transferring many of its non-nickel assets to Avoca, **Heron remains a multi-commodity company**, with substantial **iron ore** and **oil shale** exploration assets. These represent future IPO opportunities of the style provided to Heron Shareholders with the Avoca In-Specie distribution. Heron is currently reviewing new IPO strategies, each with Heron planning to retain ownership of nickel rights and associated processing commodities.

### 5. Gold Farm-out Strategy

Heron will continue its long-established strategy of dealing in its gold rights in order to secure nickel assets. The Company is finalising two new gold joint ventures, involving \$1 million in joint venture expenditure, with Heron retaining all nickel rights and having its gold (and tantalite) interests free-carried through to Decision to Mine.

The objective is for Heron to maintain its 100% nickel ownership, whilst retaining a free-carried benefit from any successful joint venture exploration on the non-nickel commodities.

If you require further information on any matter at all, please do not hesitate to telephone me on 08 9091 9253.

Yours sincerely

Ian Buchhorn  
Managing Director

