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13 July 2004

Australian Stock Exchange Limited  
GPO Box D187  
Perth WA 6840

Attention Mr Anthony Walsh

Facsimile 9221 2020

Dear Mr Walsh

### **Kalgoorlie Nickel Project**

In response to your letter dated 13 July 2004 and in relation to the questions you have raised, the Company confirms that it is in compliance with Listing Rule 3.1, and its resource statements are JORC compliant. The responses to your questions are as follows:

1. *"None of the mineral deposits at KNP are currently classified as "Probable Ore Reserve" or "Proven Ore Reserves"."*

The JORC Classification for the Kalgoorlie Nickel Project (KNP) is as detailed in Table 1 appended, which was also included in the ASX Announcement dated 13 July 2004, and confirms that the Mineral Resources are dominantly in the Inferred and Indicated classifications.

The Mineral Resource at Bulong was classified in part by a previous owner as Probable Ore Reserves, since it was treated through the Bulong plant from 1999 to 2003. Heron has adopted a conservative view, and has downgraded the resource classification.

The Mineral Resource at Siberia has previously been classified in part by a previous owner as Indicated Mineral Resource. Heron however concurs with its independent consultant, who has classified the Siberia Mineral Resource as Inferred.

2. *"The Company has not completed sufficient analysis to verify the technical feasibility of the KNP."*

Heron has expended some A\$12.021 million on the KNP as at 31 May 2004, and since commencement of exploration in September 1997. Development work includes 405,727m of RC, diamond, bulk sample and limited RAB/Aircore drilling by Heron and previous project owners at the KNP, 28 bulk metallurgical samples by Heron from Goongarrie, Kalpini and Lake Rebecca, environmental review by Heron of Goongarrie, and hydrological assessment by Heron of Goongarrie. In addition, Feasibility Studies have been completed by previous owners of the Bulong deposit (upon which Heron has an agreement to purchase mineral rights) and the Siberia deposit (of which Heron variously is a registered tenement holder or has nickel rights).

This Heron work was reviewed in an independent Scoping Study dated 5 July 2004, which has specifically assessed the Heron database in respect of Resources Definition (Chapter 4), Flowsheet Option Review (Chapter 5), Process Deliverables (Chapter 6), Metallurgical Testwork (Chapter 7), Ore Transport Study (Chapter 8), Environmental Concept Study (Chapter 9), Cost Estimates (Chapter 10) and Financial Model (Chapter 11). The Scoping Study is a 109 page report, with additional comprehensive appendices and financial models.

The independent Scoping Study concludes "the Kalgoorlie Nickel Project (KNP) indicates the development of a treatment plant to produce nickel precipitate for sale will be economically robust" (page 8, Heron Resources Limited, Kalgoorlie Nickel Project, Scoping Study, Report Number: SW01956-REP-001).

As stated in the ASX Announcement dated 13 July 2004, page 4 of 6, "Heron is most encouraged by the results of the Scoping Study, which provides the basis and justification to move to a Pre-Feasibility Study".

If the Pre-Feasibility Study similarly has a positive outcome as the current Scoping Study has, then Heron would be encouraged to move towards a Bankable Feasibility Study which would aim to verify the technical feasibility of the KNP.

3. *"The Company has not completed sufficient analysis to verify the economic viability of the KNP."*

As stated in the first paragraph of the first page of the ASX Announcement dated 13 July 2004, Heron has released "an order of magnitude Scoping Study" which is viewed by Heron as the basis and justification to move to a Pre-Feasibility Study.

Heron has stated in the fourth paragraph of the first page of the ASX Announcement dated 13 July 2004 that there is "an intention for project construction in 2007/08", confirming that at this point of time Heron does not have sufficient analysis to verify the economic viability of the KNP.

Additionally, in the ASX Announcement dated 13 July 2004, page 1 of 6, Table 1, sensitivity analyses are presented which confirm a wide range of financial outcomes as would be expected in an order of magnitude study. Quite clearly, a Pre-Feasibility Study is required to quantify parameter precision better than the grade of 1.25% to 1.75% Ni (10% NPV A\$321-869m), capex of A\$1,761-1,127m (10% NPV A\$363-783m), and opex of A\$391- 249mpa (10% NPV A\$180-918m). Table 1 does in fact record one negative NPV scenario.

Far more detailed analysis to verify the economic viability of the KNP is required, which Heron proposes to expedite through a Pre-Feasibility Study due for completion in 2005, and Bankable Feasibility Study due for completion in 2007.

4. *"The Company has not considered all relevant technical, economic, marketing, legal, environmental, social and governmental factors to make an estimate on the technical feasibility and economic viability of the KNP."*

The Company has however considered each and every one of the above project variables with the exception of "legal" at the order of magnitude Scoping Study level of assessment.

At the Scoping Study level, no project stopping issues were identified which could negate the technical feasibility and economic viability of the KNP.

5. *"The Company refers in reports and statements that the KNP's mineral deposits are Mineral Resources because the technical feasibility and economic viability of the KNP has yet to be established."*

The Company has stated that its mineral deposits are classified as Mineral Resources.

In order to upgrade the classification, the Company has completed a detailed evaluation which indicates 150,000m of RC drilling, 10,000m of diamond drilling, 2,500m of wide diameter Calweld drilling, 100 bulk metallurgical samples, engineering design studies, and baseline environmental surveys are required to convert the current Mineral Resources to Ore Reserves. Current Pre-feasibility Study budget costings are A\$16m, to be funded through capital raisings.

6. *"The Company has not completed a bankable feasibility study on the KNP."*

The Company has however completed an independent Scoping Study, and as stated in the ASX Announcement dated 13 July 2004, first page, fourth paragraph, Heron has "commenced planning for a Pre-feasibility Study".

The projections concerning the proposed KNP production of 50,000tpa nickel indicates the project as envisaged is of such a scale as to attain the critical mass required for viable laterite operation (economic threshold generally considered to be 40,000tpa nickel with leach feed grades exceeding 1.3% Ni).

The critical issue with nickel laterite projects is the capital expenditure requirements. The KNP Scoping Study estimate is in line with comparable nickel laterite projects in WA.

The Scoping Study discussion of internal rates of return and net present value suggest the KNP estimates are in a range that supports the continued development of the project, through moving to commence a Pre-Feasibility Study.

The Company is cognisant of the on-going technical and economic requirements necessary to prove the project's viability. The Scoping Study released to ASX today is viewed as a first step in Heron's strategic plan to commission a 50,000tpa nickel project.

The Scoping Study independently prepared by the Company's engineering consultant indicates the KNP has significant economic potential, and in particular, a discussion is presented in the ASX Announcement dated 13 July 2004 (page 3 of 6) which addresses the lessons learned from experience at operating laterite plants.

Yours faithfully



Managing Director

<b>Table 1</b>			
<b>Kalgoorlie Nickel Project total in situ Mineral Resources by Resource Classification</b>			
<b>JORC (1999)</b> <b>Resource Class</b>	<b>Tonnage</b> <b>Mt</b>	<b>% Ni</b>	<b>% Co</b>
<b>Measured</b>	12	0.96	0.079
<b>Indicated</b>	154	0.83	0.055
<b>Inferred</b>	696	0.72	0.048
<b>Total</b>	<b>862</b>	<b>0.74</b>	<b>0.050</b>

*"The information in this report that relates to Mineral Resources or Ore Reserves is based on information compiled by Norman Mathew Longworth, who is a Member of the Australasian Institute of Mining and Metallurgy.*

*Norman Mathew Longworth 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 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Norman Mathew Longworth consents to the inclusion in the report of the matters based on their information in the form and context in which it appears".*

*Norman Mathew Longworth is a fulltime employee of Heron Resources Limited, employed as Exploration Director.*