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HERON RESOURCES LIMITED

Media Release

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HERON REACHES AGREEMENT ON JOINT VENTURE WITH INCO TO DEVELOP KALGOORLIE NICKEL PROJECT

Heron Resources Limited (**ASX: HRR**) (**Heron**) has signed a letter of intent to enter into a joint venture with Inco Limited (**NYSE: N, TSE: N**) (**Inco**) to develop its Kalgoorlie Nickel Project (**KNP**).

The terms of the letter of intent provide that, subject to the negotiation of the final documentation, Inco will fund the remainder of the cost of the KNP pre-feasibility study, 100% of the cost of any bankable feasibility study, procure all debt project financing required for the project and provide 95.5% of any equity funding required for the project.

Upon all milestones being met and the KNP being commissioned, Inco will earn a 60% interest in the project with Heron retaining a 40% interest. Inco will also be entitled to purchase 100% of the KNP off-take on commercial terms.

Heron Managing Director Ian Buchhorn said finding a suitable joint venture partner completed one of the major milestones for the project.

"We are now in the fortunate position to have teamed up with one of the world's leading nickel producers in Inco to develop one of the world's largest nickel resources," Mr Buchhorn said.

The KNP has an estimated JORC compliant resource of 903 million tonnes at an average grade of 0.74% nickel and 0.05% cobalt.

Inco is the second largest producer of primary nickel in the world, with a current market capitalisation of approximately US\$8 billion. The company has significant expertise in developing major nickel projects to production, with over 100 years of nickel development, mining and processing experience.

Nick Sheard, Inco Vice President Exploration said Inco looked forward to working with Heron on the feasibility studies to advance the Kalgoorlie Nickel Project.

"Finding a project of this scale with established infrastructure in a politically attractive location is extremely difficult," Mr Sheard said.

Mr Buchhorn said Heron has long viewed Inco as an ideal partner.

"We are delighted to welcome Inco. Their expertise, capital resources and desire to develop the Kalgoorlie Nickel Project is second to none," Mr Buchhorn said.

"Inco's involvement delivers Heron and its shareholders a clearly defined and properly funded pathway to advance the KNP towards the target of being a major global nickel producing operation."

The July 2004 order of magnitude Scoping Study prepared by independent engineers Sinclair Knight Mertz indicated the KNP has a geared, post tax NPV of approximately A\$607 million. The capital expenditure for the KNP was estimated at A\$1.4 billion (see attached Appendix C).

Inco has also agreed to negotiate with Heron a separate regional nickel sulphide joint venture. Further details on this joint venture are expected in the near term.

“Having Inco as both the nickel laterite and nickel sulphide partner means Heron’s nickel assets are now positioned to be developed to their full potential,” Mr Buchhorn said.

Argonaut Capital Limited acted as sole adviser to Heron on the transaction.

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Appendix A: Key Proposed Terms of the KNP Joint Venture

Subject to the KNP meeting all milestones and Inco electing to proceed at each step:

1. Inco will fully fund the Pre-Feasibility Study to completion.

The proposed KNP pre-feasibility study (**PFS**) builds on Heron's program to date:

- *Step 1:* A large diameter diamond drilling program to confirm Heron's assumption that the KNP contains 120 million tonnes or greater of material at a leach feed grade of at least 1.5% nickel.
- *Step 2:* In parallel with the completion of Step 1, the joint venture will consider flowsheet design based on batch and mini pilot plant testwork to further develop and refine the flowsheet development work already completed by Heron.
- *Step 3:* Confirmation of the mineral resources, chosen process and products, risk analysis, environmental studies and water quality, development of the capital and operating cost model and the recommended scope cost and schedule for the Bankable Feasibility Study (**BFS**).

Upon completion of the PFS, Inco will have spent an estimated US\$18 million and significantly advanced the KNP towards development. Heron will still retain 100% of the KNP to the completion of PFS.

2. Inco will fully fund a BFS to earn a 25% interest in the KNP tenements.

The ultimate scope of the BFS will be based on the PFS results. At this preliminary stage, Heron and Inco estimate likely costs to complete a BFS to be in the order of US\$50 million. Upon completion of the BFS, Inco will have earned a 25% interest in the KNP tenements.

If the BFS is bankable and the market conditions are favourable then Inco and Heron will proceed to final construction of the KNP within a reasonable time period.

In the event development has not occurred within five (5) years of completing the BFS then Inco's 25% interest will revert back to Heron for nil consideration and the joint venture will be at an end.

3. Upon Inco securing project financing, Inco will have earned a total 60% interest in the KNP tenements and 100% of KNP offtake.

- Heron will contribute 4.5% of the KNP's total capital expenditure (including any cost overruns) prior to the KNP entering production and becoming cashflow positive.
- Inco will procure all remaining project financing requirements.
- Inco will carry Heron's remaining proportional share of the equity financing of the total capital expenditures.
- Heron will repay Inco's loan from the first 80% of its share of available KNP cash flow.
- Inco will be entitled to purchase 100% of the KNP offtake on a commercial basis to be agreed.

4. Other

KNP Joint Venture team will include staff seconded from both Heron and Inco.

New projects identified and purchased or otherwise acquired within a Sphere of Influence by either Inco or Heron will be offered to the KNP Joint Venture. If the parties mutually agree to include such new projects in the KNP then all additional expenditures will be met by Inco during its earn-in period.

The letter of intent is subject to Heron and Inco executing a definitive agreement by 1 June 2005 together with the joint venture receiving all necessary shareholder and regulatory approvals (including the approval of the Australian Foreign Investment Review Board). In addition, Inco will also complete a mineral title review.

Appendix B: Inco Limited

Inco is one of the world's premier mining and metals companies and the world's second largest producer of nickel. Its world-class estimated ore / mineral reserves and mineral resources base is among the best in the global nickel industry.

Inco is also an important producer of copper, cobalt and precious and platinum-group metals and a major producer of specialty nickel-based products.

Inco is Canadian-based with global operations and an extensive marketing and sales network in over 40 countries. The Company has been in business for over 100 years and currently employs over 10,000 people.

Inco currently operates its 61% owned PT Inco nickel project in Indonesia and has two of the world's premier nickel orebodies under development:

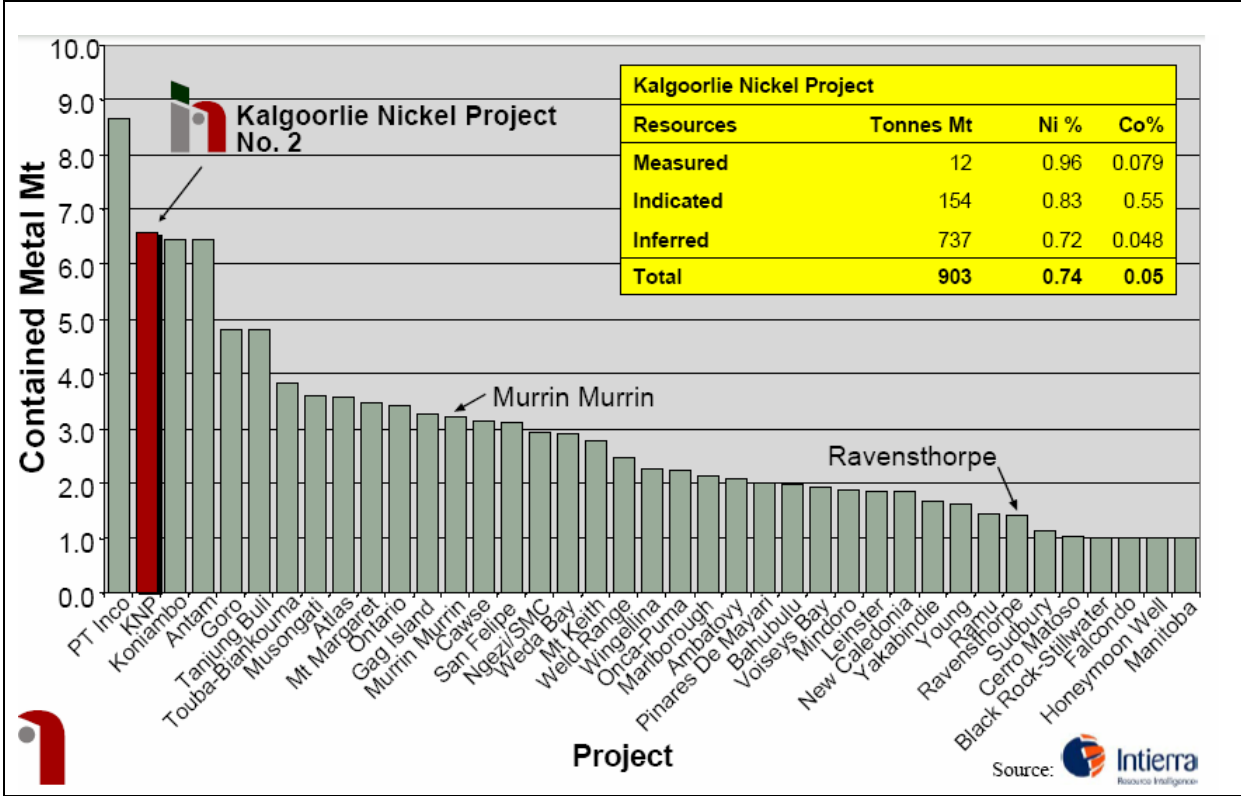
- Voisey's Bay, Newfoundland and Labrador (100% Inco)
 - ⇒ US\$0.92 billion capital expenditure
 - ⇒ 50,000 tonnes per annum nickel (as well as copper and cobalt)
- Goro, New Caledonia (Inco currently has a 90% interest with the New Caledonia Government holding a 10% interest)
 - ⇒ US\$1.878 billion current estimated capital cost
 - ⇒ 60,000 tonnes per annum nickel (as well as cobalt)

The Company is a recognised leader in developing major nickel laterite projects.

Appendix C: Heron Resources Limited and the Kalgoorlie Nickel Project

Heron owns the largest nickel tenement holding in the Kalgoorlie region of the Eastern Goldfields mining province. These tenements are predominantly within a 100km radius of Kalgoorlie.

Heron believes the Company’s core asset is the world class, 100% owned KNP. The KNP is the world’s 2nd largest contained nickel resource (6.6 million tonnes). The KNP currently has an estimated 903 million tonnes at an average grade of 0.74% nickel and 0.05% cobalt.



Based on testing to date, Heron believe a process of fine screening will enable the KNP to achieve 120 million tonnes of nickel at a leach feed grade of at least 1.5% nickel. As part of the letter of intent, Inco intends to test this statement. On this basis, Heron believes the KNP is anticipated to be able to support production of 50,000 tonne of nickel-in-intermediate product and 3,000 tonnes cobalt-in-intermediate product per annum for at least 25 years.

In July 2004, independent engineers Sinclair Knight Mertz (SKM) completed an order of magnitude Scoping Study for the KNP that indicated the KNP has the potential to deliver:

- A geared, post tax net present value (NPV) of approximately A\$607 million at a 10% discount rate using a conservative nickel price of US\$3.50 per pound. Nickel prices are currently around US\$7.30 per pound.
- A 25% internal rate of return (IRR) on a geared and unhedged basis.

The order of magnitude capital expenditure estimated by SKM for the KNP is A\$1.4 billion.

Heron is listed on the ASX under the code HRR.