



Heron Resources Limited

Notice of General Meeting Explanatory Statement and Proxy Form

**General Meeting
to be held at
Heron Resources Limited
Level 1, 37 Ord Street, West Perth, WA
on 1 December 2006
commencing at 11.00am WST.**

**This Notice of General Meeting and Explanatory Statement should be read in its entirety.
If Shareholders are in doubt as to how they should vote, they should seek advice from their
accountant, solicitor or other professional adviser without delay.**

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the Shareholders of Heron Resources Limited (“**Company**” or “**Heron**”) will be held at the offices of Heron Resources Limited at Level 1, 37 Ord Street, West Perth on 1 December 2006 commencing at 11.00 am WST.

1. AMENDMENT OF CONSTITUTION

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

“That, for the purposes of Section 136 of the Corporations Act and for all other purposes, the Company adopt the constitution tabled at the meeting and signed for identification purposes by the Chairman, as the new constitution of the Company in replacement of the existing constitution.”

2. REDUCTION OF CAPITAL AND DISTRIBUTION IN SPECIE

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“Subject to resolution 1 being passed, that for the purposes of section 256C(1) of the Corporations Act and for all other purposes, the issued Share capital of the Company be reduced by the Company making a pro-rata in specie distribution of all of the fully paid ordinary shares in Epsilon Energy Limited (ACN 089 531 082) to the holders of ordinary Shares in the Company on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting.”

EXPLANATORY STATEMENT

The Explanatory Statement accompanying this Notice of General Meeting is incorporated in and forms part of this Notice of General Meeting.

Shareholders are referred to in the Glossary in the Explanatory Statement which contains definitions of capitalised terms used in the Explanatory Statement.

PROXIES

Please note that:

- (a) a member of the Company entitled to attend and vote at the General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company; and
- (c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed

to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms.

“SNAP SHOT” TIME

The directors of the Company have determined that all Shares of the Company that are quoted on ASX at 5.00pm WST on 30 November 2006 shall, for the purposes of determining voting entitlements at the General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

By Order of the Board of Directors



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Ian Buchhorn
Managing Director
Heron Resources Limited

1 November 2006

Indicative Timetable for the Reduction of Capital

Event	Date
The Company advises ASX that Shareholder approval for the reduction of capital has been obtained, all conditions satisfied and completion of the Transaction with Epsilon.	1 December 2006
From the commencement of trading, Shares trade on an “ex return of capital” basis.	5 December 2006
Record Date to determine entitlement of the Company’s Shareholders to Epsilon Shares.	5.00 pm WST on 11 December 2006

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's General Meeting convened for 1 December 2006.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the resolutions in the accompanying Notice of General Meeting.

This Explanatory Statement should be read in conjunction with the Notice of General Meeting. Capitalised terms in this Explanatory Statement are defined in the Glossary.

1 RESOLUTION 1 – AMENDMENT OF CONSTITUTION

The Company wishes to ensure that its Constitution complies with the ASX Listing Rules and the Corporations Act. Accordingly, this resolution seeks to replace the existing Constitution.

The Directors have been advised that the terms of the proposed Constitution are considered to be standard for a listed Australian company.

A summary of the new Constitution is contained in Annexure A to this Explanatory Statement and a copy of the Constitution can be viewed at the Registered Office of the Company before the meeting.

2 RESOLUTION 2 –REDUCTION OF CAPITAL AND DISTRIBUTION IN SPECIE

2.1 Overview

The Company has developed a strong and diverse minerals asset base. The Company has previously announced to the ASX a total nickel focus, to deliver shareholder returns from the Kalgoorlie Nickel Project, the Jump-up Dam Nickel Heap Leach Laterite Project, and exploration of the Company's highly prospective nickel sulphide portfolio.

On 18 October 2006, the Company and its wholly owned subsidiaries Rubicon Resources Limited (formerly Regent Resources Limited) and Ochre Resources Limited (collectively the "**Vendors**") entered an agreement to dispose of various interests in the Balladonia project, the Mt Phillips project, the Ida Valley project, the Kakarook project, the Pandanus West project, the Mt Denison project and the West Frome project (collectively the "**Projects**") to the Company's wholly owned subsidiary, Epsilon, in return for the issue of 10,000,000 fully paid ordinary shares and 15,000,000 options in Epsilon ("**Agreement**").

This divestment transaction will allow the Company to more fully focus on its nickel assets, while at the same time unlocking the unrealised value in its uranium assets for the benefit of its Shareholders.

Completion of the sale and purchase of the tenement interests under the Agreement ("**Transaction**") is subject to the following conditions being satisfied by not later than 30 March 2007:-

1. Epsilon raising at least \$3,000,000 on terms reasonably acceptable to the Vendors;
2. the Vendors receiving all such approvals of the Vendors' Shareholders as may be required under the Corporations Act or the ASX listing rules;
3. Epsilon receiving all such approvals of Epsilon's Shareholders as may be required under the Corporations Act or the ASX listing rules;
4. the Vendors entering into and procuring the execution by any third party of a deed of novation or deed of assignment and assumption (or similar) to provide for the assignment, to Epsilon, of those of the Vendors' rights to the Tenements as are to be transferred to Epsilon pursuant to this Agreement;
5. the Vendors advising Epsilon of any Joint Venture Agreements and any agreements entered by the Vendors over the Tenements and Epsilon not notifying the Vendors of an intention to withdraw from the Agreement by 30 March 2007;
6. the Vendors procuring to the extent required, consent or waiver to this Agreement as may be required under any of the Joint Venture Agreements and the non-exercise or waiver of any pre-emptive rights that may apply to the Tenements;
7. the Vendors providing Epsilon with all relevant Information that is in their possession and all documents that relate to the Tenements or the Vendors' interest in the Tenements;
8. as at Completion, the Tenements being in Good Standing, full force and effect and free of Encumbrances, except the Permitted Encumbrances;
9. the Vendors providing Epsilon with satisfactory evidence that they are the beneficial owner and either the registered legal owner of the Tenements (or entitled to be the registered legal owner of the Tenements), to the extent set out in Schedule 1 and Schedule 2; and
10. the consent, if required, of the Minister for Industry and Resources to all dealings evidenced by this Agreement in so far as those dealings require consent to be given under section 64 or section 82(1)(d) of the Act.

Under the terms of Resolution 2, the Company intends to make a pro-rata in specie distribution of 15,000,010 Epsilon Shares to Heron Shareholders.

In the event that these conditions precedent are not satisfied or waived, the Transaction will not proceed and the distribution in specie of the 15,000,010 Epsilon Shares will not occur.

The terms of the Agreement are summarised in Annexure B to this Explanatory Statement.

Subsequent to completion, and subject to the listing of the securities of Epsilon on the ASX, the Company will undertake the in specie distribution of 15,000,010 Epsilon Shares to its Shareholders on a pro-rata basis (which is the subject of this resolution being put to Shareholders). It is anticipated that this will occur on or before 12 months from when Epsilon Shares commence trading on ASX.

The timetable for the distribution of the 15,000,010 Epsilon Shares to the Company's Shareholders is set out in section 2.18 of this notice of meeting.

The options to be issued by Epsilon to the Company under the Agreement will be retained by the Company and are not the subject of the reduction of capital under this resolution.

2.2 Effect of Equal Reduction of Capital on the Company

If Shareholder approval is obtained for the equal reduction of capital, it will have the effect of reducing the Company's Total and Net Assets and reducing the Company's Total Equity by \$835,000, which is the dollar amount of the book value of the 15,000,010 Epsilon Shares and equates to approximately \$0.005 per Heron Share.

A pro-forma balance sheet for Heron is contained in Annexure C to this Explanatory Statement which demonstrates the impact of the Transaction and equal reduction of capital on the Company.

2.3 Effect of Proposed Equal Reduction of Capital on Shareholders

The Epsilon Shares will be distributed to Heron Shareholders on a pro rata basis

The Company currently has on issue 167,534,772 Shares. The rate for distribution of the 15,000,010 Epsilon Shares in this situation will be 1 Epsilon Share for 11.16 Heron Shares held on the Record Date (with fractions to be rounded down to the nearest whole number).

Additionally and independent of the Epsilon transaction, on 23 October 2006, the Company announced its intention to issue further Shares pursuant to a share purchase plan whereby all Heron Shareholders may acquire up to \$5,000 worth of

Shares each. To the extent that Heron issues Shares under the share purchase plan, these Shares will reduce the pro rata entitlement of Heron Shareholders under the distribution in specie of Epsilon Shares. The distribution in specie is subject to completion occurring under the Agreement and is anticipated to occur on or before 12 months from when Epsilon Shares commence trading on ASX.

2.4 Advantages and Disadvantages of the Capital Reduction

The principal advantage of the equal reduction of capital to Shareholders is that Shareholders will retain an interest in the development of the assets being disposed of under the Agreement through their individual pro-rata shareholding in Epsilon Shares and also indirectly through the Company's option holding in Epsilon.

Shareholders will also have the priority opportunity to acquire Epsilon Shares through the public offer of Epsilon Shares as part of that company's capital raising and application to become listed on ASX.

Shareholders will retain their current percentage shareholding in the Company.

The Directors are not aware of any specific disadvantage to the equal reduction of capital though there is no guarantee that the Epsilon Shares will increase in value. Epsilon will be exposed to the risks set out in section 2.11(e) below.

In order for the distribution in specie of 15,000,010 Epsilon Shares to occur, Epsilon must complete the Transaction. A condition to completion is that Epsilon is admitted to the official list of ASX subject only to conditions that the Company approves, acting reasonably.

2.5 ASX Escrow

ASX has provided the Company with "in-principle" advice in relation to Listing Rule 9.1.3 with respect to the Epsilon Shares to be distributed in-specie to Shareholders. Subject to the exceptions detailed below, the Company expects that those Epsilon Shares distributed to Shareholders will not be restricted from being traded on ASX.

Epsilon Shares held by the Company upon Epsilon listing on ASX will be escrowed (and therefore restricted from trading) for 24 months. However, ASX will waive that escrow requirement to permit the Company to undertake the in specie distribution of those Epsilon Shares to Shareholders. Upon completion of that distribution, only those Epsilon Shares distributed to substantial holders (ie. persons with a holding in excess of 5% of all Epsilon Shares) and related parties or promoters of the Company or Epsilon will remain restricted for the balance of that 24 month period.

This in-principle decision is conditional upon, among other things, the Company obtaining approval of Shareholders for the in-specie distribution and the Company providing the market with at least one month's notice of the proposed despatch date for the Epsilon Shares to be distributed.

2.6 Additional Information for Shareholders

The Company provides the following further information to Shareholders:

- (a) the Company currently has on issue 167,534,772 fully paid ordinary Shares and 10,433,000 Options. As noted above, the Company is in the process of conducting a share purchase plan and this may increase the number of Shares on issue.
- (b) on completion of the Transaction the capital structure of the Company will be the same as under paragraph (a) above except that Option exercise prices will reduce (see paragraph (j) below);
- (c) Epsilon currently has 10 fully paid ordinary shares and no options on issue and it will issue further shares and options under the Agreement, and as part of its listing on the ASX (see paragraph (d) below);
- (d) on completion of the Transaction, the admission of Epsilon to the Official List of ASX (assumes maximum capital raising of \$4 million), and the distribution to Shareholders, the capital structure of Epsilon is likely to be:

No. of fully paid ordinary Epsilon Shares	No. of Epsilon Options
40,000,010	19,000,000

- (e) the timetable for the return of capital will be as set out in section 2.18. The distribution in specie is anticipated to occur within 12 months following Epsilon Shares commencing trading on ASX;
- (f) the share capital account of Heron will be reduced by approximately \$835,000 being the dollar amount of the book value of the 15,000,010 Shares being approximately \$0.005 per Heron Share (“**Reduction Amount**”);
- (g) the return of capital will be effected by a pro-rata distribution of the 15,000,010 Epsilon Shares in specie proportionately to all Shareholders registered as such as at 5.00pm WST on the Record Date as set out in the timetable for the return of capital as set out in section 2.18 below;
- (h) pursuant to the equal reduction of capital, each Shareholder will be entitled to approximately 1 Epsilon Share for every 11 Heron Shares held on the Record Date. This entitlement will reduce to the extent that the Company issues Shares pursuant to the share purchase plan referred to above; and
- (i) in accordance with Listing Rule 7.22.3, all Options in the Company will have their exercise price reduced by the same amount as the Reduction Amount per Share. As noted above, the Company is in the process of conducting a share purchase plan and this may increase the number of Shares on issue.

2.7 Overseas Shareholders

Distribution of the 15,000,010 Epsilon Shares to Shareholders under the return of capital will be subject to legal and regulatory requirements in the relevant jurisdictions. If the requirements of any jurisdiction where a Shareholder is resident restricts or prohibits the distribution of the Epsilon Shares as proposed or would impose on the Company an undue obligation or burden, the Epsilon Shares to which the relevant Shareholder is entitled will be sold by the Company on their behalf as soon as practicable after their issue and the Company will then account to the Shareholder for the net proceeds of sale after deducting costs and expenses of the sale.

As the return of capital is being represented and satisfied by the distribution to Shareholders of Epsilon Shares, and the price of Epsilon Shares may vary from time to time (assuming a liquid market is available), the net proceeds of sale may be more or less than the notional value of the return of capital identified in this Explanatory Statement.

2.8 The Resolution

The reduction of capital by way of an in specie distribution to Shareholders proposed by Resolution 2 is an equal capital reduction under the Corporations Act.

Pursuant to Section 256C of the Corporations Act, an equal reduction must be approved by an ordinary resolution passed at a general meeting of the Company.

As provided in Section 256B of the Corporations Act, the Company may only reduce its share capital if the reduction:

- (a) is fair and reasonable to the Shareholders as a whole; and
- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders under Section 256C of the Corporations Act.

The Directors are of the view that the capital reduction proposed pursuant to the Resolution is fair and reasonable to Shareholders for the reasons set out in this Explanatory Statement and that the reduction of capital will not prejudice the Company's ability to pay its creditors.

Resolution 2 is conditional upon Resolution 1 being passed by Shareholders.

2.9 Directors' Interests

The following table sets out the Directors' interests in Shares and Options in the Company as at the date of the Notice of Meeting and the number of Epsilon Shares

which they (or their associated parties) will receive pursuant to the capital reduction, in their capacity as Shareholders, if Shareholder approval of the Resolution is obtained:

Director	Shares (Direct and Indirect Interests)	Number of Options	Number of Epsilon Shares to receive
Craig Leslie Readhead	329,325	750,000	29,568
Norman Mathew Longworth	282,000	1,200,000	25,405
Allan Trench	494,500	200,000	44,549
Ian James Buchhorn	40,411,155	4,000,000	3,640,644

2.10 Directors' Recommendations

The Directors recommend that Shareholders vote in favour of the Resolution for the following reasons:

- (a) after a comprehensive assessment of all available material information, the Directors believe that the proposed Transaction is in the best interests of Shareholders; and
- (b) the Directors believe that the benefits of the proposed capital reduction outweigh the disadvantages as referred to in section 2.4 of this Explanatory Statement.

2.11 Information on Epsilon

(a) Background

Epsilon (then known as Balladonia Energy NL) was incorporated by the Company on 13 September 1999 and since that time has sought to acquire and develop energy projects either by applying for new mining tenements or acquiring the rights to mining tenements from related and third parties.

(b) Details of the Assets to be transferred by the Company to Epsilon

The Company has entered into the Agreement to transfer its interest in the following projects to Epsilon:

The **Balladonia project** in the Albany-Fraser Orogen of Western Australia represents a conceptual exploration play for sediment-hosted uranium sourced from the Yilgarn Craton and deposited within lignite-rich layers of Eocene palaeochannels. The tenements are prospective for redox deposits, especially associated with the very extensive known lignite deposits, The obvious model is the nearby Mulga Rocks deposit. Redox fronts can occur in any sandy unit in the palaeochannels and lignites need not be present.

The **Mt Phillips project** in the Gascoyne Complex of Western Australia includes exploration targets for calcrete hosted deposits such as Yeelirrie, Lake Way, Centipede, Lake Raeside and Minindi Creek. This style of mineralisation is usually restricted to valley accumulations or perched calcrete horizons. The project area covers an extensive area of the Gascoyne Complex which includes the northern extension of the Minindi Creek deposit. Calcrete terraces were highlighted with airborne radiometric data and grab samples have returned values of 200 to 6000ppm uranium in pits. The opportunity exists to locate and expand further anomalies in this environment which may relate to uranium mineralisation similar to that at nearby Minindi Creek and Jailor Bore.

The **Ida Valley project** covers a Yilgarn Craton calcreted drainage system in Western Australia with an exploration target focussed on calcrete-hosted deposits such as Yeelirrie, Lake Way, Centipede and Lake Raeside. This style of mineralisation is usually restricted to valley accumulations which have yielded large uranium deposits in similar environments. The Ida Valley project area is in the same geological environment as the world class Yeelirrie deposit. Given the large extent of the drainage system and inadequate previous exploration, there is potential to delineate economic mineralisation. A flexure and possible ponding of the drainage system around Dead Camel Hill is as a potential trap site for secondary uranium mineralisation.

The **Kakarook project** in the Gunbarrel Basin of Western Australia represents an exploration opportunity for sediment hosted uranium sourced from the Yilgarn Craton and deposited within lignite-rich layers of Eocene palaeochannels. The area is prospective for the discovery of uranium deposits of the Mulga Rock type. In essence the project area is unexplored for uranium. The area has similar characteristics to the Balladonia project areas where uranium mineralisation is hosted by peat and clayey peat and occurs immediately below the redox boundary at the base of the weathered zone.

The **Pandanus West project** is located in the Georgetown – Townsville Uranium field in Queensland. Widespread exploration by earlier workers has been successful in discovering the Ben Lomond and Maureen deposits. These deposits provide a target model for vein related mineralisation within Epsilon Energy's ground. The area has potential to host vein deposits similar in style to the Ben Lomond deposit and the similar Maureen deposit. The Pandanus West tenement has similar characteristics and host environments.

The **Mt Denison project** within the Ngalia Basin of the Northern Territory has potential for occurrences of roll front uranium mineralisation in the sedimentary units. The project area contains similar environments to known sandstone-hosted roll front uranium mineralisation hosted within buried palaeochannels. The uranium mineralization in other deposits within the province occurs in strike-orientated, strata-bound, stacked shoots. The uranium mineral is uraninite, and occurs in strongly haematitic zones.

The **West Frome project** includes the Mount Frome and Maggie Hill prospects and are located between eastern escarpment of the Flinders Ranges and the Lake Frome sedimentary uranium deposits. There is significant potential for Beverley-type mineralisation in the Tertiary Namba Formation. Heron's Exploration Licence applications cover an area of 930km².

The Agreement for the sale of the above projects is summarised in Annexure B to this Explanatory Statement.

(c) Directors of Epsilon

The Board of Epsilon comprises Bruce Larson (non-executive Chairman), Matthew Gauci (Managing Director), Mathew Longworth (Non-Executive Director) and Mike Dentith (Non-Executive Director). The Company Secretary is Kent Hunter.

(d) Effect of the Transaction on Epsilon

The transaction and ASX listing will result in an increase in Epsilon's Net Assets and Equity of between \$4,500,000 and \$5,500,000 depending on the eventual size of the capital raising associated with its application for admission to ASX.

A pro-forma balance sheet for Epsilon is contained in Annexure D to this Explanatory Statement which demonstrates the impact of the Transaction and ASX listing on Epsilon.

(e) Risk Factors associated with Epsilon

On completion of the Transaction and the equal reduction of capital, Shareholders will become shareholders in Epsilon and should be aware of the general and specific risk factors which may affect Epsilon and the value of its securities. These risk factors include:

(i) Future Capital Needs and Additional Funding

Should Epsilon require additional funding to further explore and develop the projects acquired under the Transaction there can be no assurance that additional financing will be available on acceptable terms, or at all. Any inability to obtain additional funding, if required, would have a material adverse effect on Epsilon's ability to exploit the projects acquired under the Transaction and its financial condition and performance.

(ii) Legislative Changes

Changes in government regulations and policies may adversely affect the financial performance of Epsilon. Epsilon is not aware of any current or proposed material changes in relevant regulations or policy.

(iii) General Economic Conditions

Changes in the general economic climate in which Epsilon operates may adversely affect the financial performance of Epsilon. Factors which may contribute to that economic climate include the general level of economic activity, interest rates, inflation and other economic factors. The price of commodities and level of activity within the mining industry will also be of particular relevance to Epsilon.

(iv) Unforeseen Expenses

While Epsilon is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of Epsilon may be adversely affected.

(v) Operation and Development Risks

By its nature, the business of exploration and mineral development which Epsilon may continue to participate in contains risks. Prosperity depends on the successful exploration and/or acquisition of reserves, design and construction of efficient processing facilities, competent operation and management and efficient financial management. For its part, exploration is a speculative endeavour, while mining operations can be hampered by force majeure circumstances, environmental considerations and cost overruns for unforeseen events.

(vi) Government Policy

Capacity to explore and mine, as well as industry profitability generally, can be affected by changes in government policy which are beyond the control of Epsilon.

(vii) Commodity Price Risk

Epsilon's prospects and share price will be influenced by the price obtained from time to time for the commodities targeted in its exploration programs. Commodity prices fluctuate and are affected by factors including the relationship between global supply and

demand, forward selling by producers, the cost of production and general global economic conditions.

Commodity prices are also affected by the outlook for inflation, interest rates, currency exchange rates and supply and demand issues. These factors may have an adverse affect on Epsilon's prospects, as well as its ability to fund its future activities.

(viii) Environmental Risks

Epsilon's operations and projects are subject to laws and regulations regarding environmental hazards. Epsilon intends to conduct its activities in an environmentally responsible manner, in accordance with applicable laws and regulations.

(ix) Share Market Risk

The market price of shares can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resources sector and exploration companies in particular.

(x) Government Policy on Uranium Mining

The approval processes for uranium mining are more rigorous than for the mining of other metals, as both Commonwealth and State Government legislation needs to be satisfied. There is a risk that, should economic deposits of uranium be discovered, the necessary government approvals may not be granted, or may be significantly delayed.

The Company's activities will require compliance with various Commonwealth and State laws and regulations relating to protection of workers and the public against the dangers of radiation and exportation of uranium, among others. Compliance with such laws and regulations will increase the costs of exploring, drilling, developing, constructing, operating and closing mines and other production facilities. Changes in Government, Government policies and legislation may have a material adverse effect on the Company.

The Commonwealth Government currently permits the mining and export of uranium under strict international agreements designed to prevent the proliferation of nuclear weapons. The export of uranium is tightly controlled by the Commonwealth Government through its licensing process and Australian uranium can only be exported to those countries which undertake to use it for peaceful purposes.

Whilst there is currently no legislation that expressly prohibits uranium mining in Western Australia, the current Western Australian State Government does have a policy opposing uranium mining. All mining leases granted since 22 June 2002 are subject to a condition which prohibits the mining of uranium.

The Queensland State Government also has a policy opposing the mining of uranium.

Whilst the Company is not restricted from exploration and evaluation of its uranium deposit in Western Australia or Queensland, the development of the uranium deposit is contingent upon a change of State Government Policy in relation to uranium production. There can be no assurance that the policy will change in the future and this may adversely affect the long-term prospects of the Company.

The South Australian Government allows the mining of uranium provided that strict conditions are adhered to.

In August 2005, the Commonwealth Government used its export approval powers to assume control over the mining of uranium in the Northern Territory. The Commonwealth Government has declared that proposed uranium mines which meet environmental concerns and have the approval of traditional owners will be approved.

The Chief Minister of the Northern Territory has stated that the preferred approach of the Northern Territory branch of the Labour Party is to follow the policy of the federal branch of the Labour Party and to resist the development of new uranium mines in the Northern Territory. However, notwithstanding this position, the Northern Territory government has and continues to grant licences to explore for uranium.

Future changes in governments, regulations and policies may have an adverse effect on the Company. The Federal Labour Party (which is currently in opposition) went to the 2004 election with a policy of preventing the development of any new uranium mines.

(xi) Competition with Other Sources of Energy

Nuclear energy is in direct competition with other more conventional sources of energy which include gas, coal and hydro-electricity.

Furthermore, any potential growth of the nuclear power industry (with any potential attendant increase in the demand for uranium) beyond its current level will depend upon continued and increased acceptance of nuclear technology as a means of generating electricity.

The nuclear industry is currently subject to some negative public opinion due to political, technological and environmental factors. This may have an adverse impact on the demand for uranium and increase the regulation of uranium mining.

One of the arguments in favour of nuclear energy is its lower emissions of carbon dioxide per unit of power generated compared to coal and gas. Alternative energy systems such as wind or solar also have very low levels, if any, of carbon emissions, however to date these have not been efficient enough to be relied upon for large scale based load power. Technology changes may occur that make alternative energy systems more efficient and reliable.

(f) Rights attaching to Epsilon Shares

Set out below is a summary of the rights attaching to ordinary fully paid shares in Epsilon.

(i) Voting Rights

Subject to the Epsilon constitution and to any rights or restrictions attaching to any class of shares at a general meeting, every shareholder or class of shareholder present in person or by proxy, attorney or representative has:

(A) one vote on a show of hands; and

(B) on a poll:

(1) one vote for each fully paid share; and

(2) voting rights pro rata to the amount paid upon each partly paid share held by the shareholder.

(ii) General Meetings

Subject to the Epsilon constitution, the ASX Listing Rules and to the terms of issue of shares, each shareholder will be entitled to receive notice to, and to attend and vote at, a General Meeting of Epsilon and to receive all notices, accounts and other documents required to be furnished to shareholders under the Epsilon constitution or the Corporations Act.

(iii) Dividend Rights

Subject to the rights of holders of shares issued with any special or preferential rights (at present there are none), the profits of Epsilon,

which the directors may from time to time determine to distribute by way of dividend, are divisible among the shareholders in proportion to the shares held by them respectively, irrespective of the amount paid up or credited as paid up on the shares. An amount paid or credited as paid on a share in advance of a call is not to be taken as paid or credited for the purpose of determining the entitlement of a shareholder to dividends. Dividends may be paid in cash, by granting options or issuing shares or transferring property.

(iv) Rights on Winding Up

Subject to the rights of holders of shares issued with any special or preferential rights (at present there are none), all shares entitle the holders thereof in a winding up to participate equally in the distribution of the assets of Epsilon, subject only to any amounts unpaid on the share.

(v) Transfer of Shares

Subject to the Epsilon constitution, the Corporations Act and the ASX Listing Rules, the shares in Epsilon are freely transferable.

(vi) Future Increases in Capital

The allotment and issue of any share is under the control of the directors of Epsilon. Subject to restrictions on the allotment of shares to Directors or their associates, the ASX Listing Rules, the constitution of Epsilon and the Corporations Act, the Epsilon board may allot or otherwise dispose of shares on such terms and conditions as it considers appropriate.

(vii) Variation of Rights

At present Epsilon only has fully paid shares on issue. If shares of another class were issued, the rights and privileges attaching to ordinary shares could only be altered with the consent in writing of the holders of three quarters of the votes that may be cast in respect of the issued ordinary shares or with the sanction of a special resolution passed at a separate General Meeting of the holders of ordinary shares (ie: by a three quarters majority of such holders being entitled to vote at that meeting).

2.12 Intentions of the Company following completion of the capital reduction

Following the successful listing of Epsilon and the completion of the capital reduction, the Company will adopt a total nickel focus, to deliver Shareholder returns from the Kalgoorlie Nickel Project, the Jump-up Dam Nickel Heap Leach Laterite Project

and exploration of the Company's highly prospective nickel sulphide and ultramafic portfolios.

2.13 Information concerning the Company's ordinary Shares

The rights attaching to the ordinary Shares in the Company will not be altered by the capital reduction. However, the capital reduction will have the effect of reducing the Company's Total and Net Assets, and reducing the Company's Total Equity by \$835,000 which is the dollar amount of the book value of the Epsilon Shares. This is set out in Annexure C of this Explanatory Statement.

The highest and lowest recorded sale prices of Shares as traded on ASX during the 3 months prior to the date of the Notice of General Meeting, and the respective dates of those sales were:

Date	Highest Price	Date	Lowest Price
19 October 2006	\$0.77	10 October 2006	\$0.59

The latest available closing price of the Shares on ASX prior to the date of the Notice of General Meeting was \$0.67.

The Transaction and capital reduction the subject of this Explanatory Statement were the subject of announcements by the Company to ASX on 14 June 2006, 1 August 2006 and 29 September 2006. On that dates, the last recorded sale price of Shares as traded on ASX were \$0.56, \$0.68 and \$0.665 respectively.

2.14 Disclosure to ASX

The Company's Shares are quoted on ASX and, as such, is subject to regular reporting and disclosure obligations. Copies of documents lodged in relation to the Company may be obtained for a fee from, or inspected at, an office of the ASIC or on the Company's website at www.heronresources.com.au.

2.15 Taxation

The following is a general summary of the potential tax consequences of the capital reduction to Shareholders and apply only to Shareholders who are residents of Australia for tax purposes. Non resident Shareholders should obtain tax advice on the implications of the capital reduction to their Australian tax position and the tax rules in their country of residence. The comments also only apply to Shareholders who hold their Shares on capital account and for whom gains or losses are treated as capital gains or losses under tax legislation and not on revenue account (such as share traders).

It should be emphasised that these comments are general in nature and you should seek and rely on your own taxation advice in relation to the taxation consequences of the capital reduction. Neither the Company nor any officers accept any liability or responsibility with respect to such consequences.

- (a) Although the in specie distribution of Epsilon Shares is a reduction of capital, for tax purposes it is expected to be treated as a dividend as a result of rules governing share capital tainting. The amount of the dividend will be the market value of the Epsilon Shares received by Shareholders.
- (b) The tax consequences to Shareholders will depend upon the availability of demerger relief provided for in tax legislation. Based on independent advice the Company has received it anticipates that demerger relief will be available. However, due to the complexity of the relief and its reliance on certain subjective conditions in the legislation, there is no guarantee that demerger relief will apply.
- (c) If the demerger relief applies, the dividend arising from the reduction of capital will not be assessable to Shareholders.
- (d) The application of the demerger relief will also result in Shareholders having to apportion the original cost base of their Shares between the Shares and the Epsilon Shares they receive. Shareholders should note that apportionment of the cost is automatic and not subject to any election on their part. Any capital gain or loss on a subsequent disposal of either Shares or Epsilon Shares will be determined by reference to the apportioned cost bases.
- (e) The apportionment of cost base is calculated according to the market values of Shares and Epsilon Shares immediately after the distribution in specie has been made. The Company will provide guidance to Shareholders about that calculation at the time the distribution occurs.

2.16 Stamp Duty

There will be no stamp duty payable by Shareholders as a result of the receipt of Epsilon Shares.

2.17 Lodgement with the ASIC

The Company has lodged a copy of the Notice of General Meeting and Explanatory Statement with the ASIC in accordance with Section 256C(5) of the Corporations Act.

2.18 Indicative Timetable for the Reduction of Capital

If the conditions to the Transaction as set out in paragraph 1.1 above is satisfied, the reduction of capital will be effected in accordance with the timetable set out in Appendix 7A of the Listing Rules as follows. This is an indicative timetable and may be changed at the discretion of the Directors or as required by ASX.

Event	Date
The Company advises ASX that Shareholder approval for the reduction of capital has been obtained, all conditions satisfied and completion of the Transaction with Epsilon.	1 December 2006
From the commencement of trading, Shares trade on an "ex return of capital" basis.	5 December 2006
Record Date to determine entitlement of the Company's Shareholders to Epsilon Shares.	5.00 pm WST on 11 December 2006

The Company intends to distribute the shares to its Shareholders as at the Record Date on or before 12 months from when Epsilon Shares commence trading on ASX. Application for quotation of the Epsilon Shares will be made to ASX.

2.19 Other Material Information

There is no information known to the Company that is material to the decision by a Shareholder on how to vote on the Resolution other than as disclosed in this Explanatory Statement and information that the Company has previously disclosed to Shareholders.

GLOSSARY

In this Explanatory Statement, the following terms have the following meanings unless the context otherwise requires:

Agreement	Tenement Sale Agreement between Heron and Epsilon dated 16 October 2006.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Stock Exchange Limited.
ASX Listing Rules or Listing Rules	official listing rules of ASX.
Board	board of Directors.
Business Day	has the meaning given in the Listing Rules.
Company	Heron Resources Limited (ABN 30 068 263 098).
Constitution	constitution of the Company.
Corporations Act	Corporations Act 2001 (Cth).
Director	current director of the Company.
Epsilon	Epsilon Energy Limited (ACN 089 531 082).
Epsilon Option	option to acquire an Epsilon Share.
Epsilon Share	fully paid ordinary share in the capital of Epsilon.
Option	option to acquire a fully paid ordinary share in the capital of the Heron.
Projects	the Balladonia project, the Mt Phillips project, the Ida Valley project, the Kakarook project, the Pandanus West project, the Mt Denison project and the West Frome project.
Record Date	record date for determining entitlements to the Epsilon Shares as set out in section 2.18 of this Explanatory Statement.
Reduction Amount	amount of approximately \$0.005 per Share.
Share	fully paid ordinary share in the capital of Heron.
Shareholder	shareholder of Heron.
Transaction	Sale and Purchase under the Agreement.
Vendors	the Company and its wholly owned subsidiaries Ochre Resources Limited (ACN 112 833 351) and Rubicon Resources Limited (formerly Regent Resources Limited) (ACN 115 857 988).
WST	Australian Western Standard Time.

ANNEXURE A
SUMMARY OF PROPOSED CONSTITUTION

The rights attaching to Shares in the Company arise from a combination of the Constitution, statute (including the Corporations Act and ASX Listing and Business Rules) and general law. A copy of the proposed Constitution is available for inspection during business hours at the Company's registered office.

A summary of the more significant rights conferred on Shareholders under the proposed Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of the Shareholders.

(a) Reports and notices

Shareholders are entitled to receive all notices, reports, accounts and other documents required to be furnished to Shareholders under the Constitution and the Corporations Act.

(b) General meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to speak and to vote at general meetings of the Company.

(c) Voting

Subject to any rights or restrictions at the time being attached to any class or classes of Shares, at a general meeting of the Company on a show of hands, every Shareholder present in person, or by proxy, attorney or representative has one vote and upon a poll, every Shareholder present in person, or by proxy, attorney or representative has one vote for any fully paid Share and for any contributing Share held, a fraction of a vote equal to the proportion which the amount paid up bears to the total issue price of the contributing Share.

(d) Dividends

The Directors may declare and authorise the distribution of dividends from the profits of the Company, whether by the payment of money or the distribution of specific assets, to be distributed to Shareholders according to their rights and interests. The Directors may determine the property to constitute the dividend and fix the time for distribution.

(e) Winding up

Subject to the terms of issue of Shares, if the Company is wound up and, after distribution of assets to repay paid up capital there remains assets available for distribution to members (in that capacity), those assets will be distributed to Shareholders in accordance with the Constitution.

(f) Transfer of Shares

Generally, Shares are freely transferable, subject to satisfying the requirements of ASX Listing Rules and the Corporations Act regarding trading of securities. The Directors may decline to register any transfer of Shares or impose a holding back but only where permitted to do so by ASX Listing Rules or under the Constitution.

(g) Directors

The number of Directors must be at the minimum of that number of Directors as prescribed by the Corporations Act and up to a maximum of 7 Directors. The Constitution contains provisions relating to the rotation, election, removal and action of the office of Directors.

(h) Shareholder Liability

To the extent that the Company has any partly paid Shares on issue and the Company requires payment of any unpaid amount, the holder of the party paid Shares must pay that amount in accordance with the call by the Company. In the event the holder fails to pay the call, the Shares will become liable for forfeiture and the holder must pay the amount of the call to the Company. The Company may charge interest on the amount of any unpaid call.

ANNEXURE B SUMMARY OF THE AGREEMENT

On 16 October 2006, the Company and its wholly owned subsidiaries Rubicon Resources Limited (formerly Regent Resources Limited) and Ochre Resources Limited (collectively the “**Vendors**”) entered into a Tenement Purchase Agreement with Epsilon Energy Limited (“Epsilon”) to transfer various tenement interests to Epsilon (“**Agreement**”). The consideration is to be the issue to the Company of 10,000,000 Epsilon Shares at a deemed issue price of \$0.0046 each and 15,000,000 Epsilon Options. Each of these options will be an unlisted option to subscribe for a fully paid ordinary share in Epsilon at an exercise price of \$0.25. These options are exercisable at any time up to 36 months after completion occurring under the Agreement.

Epsilon has agreed to reimburse the Vendors for reasonable costs that have been incurred since 31 July 2006 and that will continue to be incurred by the Vendor up to 1 month after Epsilon lists on the official list of the ASX.

Completion requires the satisfaction of certain usual and appropriate conditions, including Epsilon raising at least \$3 million, by not later than 30 March 2007, on terms reasonably acceptable to the Vendors.

The Vendors have agreed to transfer all of their right title and interest over the Tenements listed in Schedule 1, and to transfer all uranium interests in the tenements listed in Schedule 2. The Schedule 2 tenements will be transferred to Epsilon with the Vendors retaining an interest over all non-uranium minerals.

The Applications cannot be transferred to Epsilon until such time as they are granted. Following completion, the Vendors will hold any mining tenement applications that have yet to be granted on trust for Epsilon until they have been granted.

The Agreement will continue to be of full force and effect even if one or more of the mining tenement applications are not granted or are not capable of being transferred to Epsilon for any reason following grant.

Under the Agreement, the Vendors will retain various rights over to explore for and mine non-uranium minerals on the Schedule 2 tenements. Epsilon will be responsible for all managerial aspects of the Schedule 2 tenements (including maintaining them in good standing). The Vendors are required to lodge a bank guarantee with Epsilon where a bond is required to be lodged due to the Vendors activities.

The Vendors and Epsilon have provided each other with standard warranties (effective as at the execution date and the completion date).

The Vendors and Epsilon are entitled to assign their rights in the Schedule 2 Tenements provided that they have first entered into a deed of assignment and assumption with the proposed assignee. However, where a Schedule 2 tenement has had a JORC compliant resource defined on it and an announcement has been made to ASX, the assigning party must have provided the non-assigning party with a 30 day right of first refusal to acquire the tenements proposed to be transferred.

Epsilon has granted the Vendors a non-exclusive and non-assignable licence to use the information provided to Epsilon pursuant to the Agreement.

The Vendors are entitled to lodge caveats to protect their rights under the Agreement.

Epsilon is liable to pay all stamp duty assessed on the Agreement.

Schedule 1 – Tenements where Epsilon Purchases all Rights

Tenement number	Date granted	Percentage Interest
E29/00582	9 March 2006	100%
E29/00618	Pending	100%
E09/01195	28 March 2006	100%
E09/01196	28 March 2006	100%
E383/006	Pending	100%
E384/006	Pending	100%
EPM15041	Pending	100%
24622	Pending	100%

Schedule 2 – Tenements where the Vendors retain Non-Uranium Rights

Tenement number	Date granted	Percentage Interest
E15/00656	16 October 2003	100%
E39/01178	Pending	100%
E63/00707	Pending	100%
E63/00708	Pending	100%
E63/00711	7 April 2005	100%
E63/00720	16 November 2004	100%
E63/00736	9 November 2004	100%
E63/00944	Pending	100%
E63/00968	Pending (subject ballot)	100%
E63/01016	Pending	100%
E69/01473	Pending	100%
E69/01474	Pending	100%
E69/01475	Pending	100%
E69/01476	Pending	100%
E69/01477	Pending	100%
E69/01478	Pending	100%
E69/01479	Pending	100%
E69/01480	Pending	100%
E69/01481	Pending	100%
E69/01482	Pending	100%
E69/01492	Pending	100%
E69/01493	Pending	100%
E69/01495	Pending	100%
E69/01499	Pending	100%
E69/01500	Pending	100%
E69/01717	Pending	100%
E69/01742	Pending	100%
E69/01743	Pending	100%

Tenement number	Date granted	Percentage Interest
E69/02075	26 April 2006	100%
E69/02076	5 October 2006	100%
E69/02077	6 June 2006	100%
E69/02078	13 March 2006	100%
E69/02079	3 August 2006	100%
E69/02080	Pending	100%
E74/00278	25 August 2006	100%
E28/01674	Pending	100%
E69/02291	Pending	100%
E69/02292	Pending	100%
E28/01673	Pending	100%
E28/01678	Pending	100%

ANNEXURE C
HERON RESOURCES LIMITED UNAUDITED PRO-FORMA BALANCE SHEET
POST REDUCTION

The following unaudited pro forma consolidated Balance Sheet has been prepared by the Company on the basis of the Company's audited consolidated Balance Sheet as at 30 June 2006 and unaudited consolidated Balance Sheet as at 30 September 2006, adjusted for the following:

- 1 the acquisition of Heron's rights, titles and interests with reference to the Sale and Purchase Agreement between Heron Resources Limited and Epsilon Energy Limited for \$460,000-10,000,000 ordinary shares at \$0.0046.
2. the de-merge of Epsilon from the Company's consolidated balance sheet.

	Proforma Unaudited 30 Sept 06	Unaudited 30 Sept 06	Audited 30 June 06
CURRENT ASSETS			
Cash assets	7,433,624	7,458,741	9,177,924
Receivables	212,084	214,515	529,092
TOTAL CURRENT ASSETS	7,645,708	7,673,256	9,707,016
NON-CURRENT ASSETS			
Receivables	7483	0	0
Investments	460,230	230	137,436
Plant and Equipment	104,702	107,837	43,905
Exploration and evaluation expenditure	25,048,542	26,114,159	24,665,732
TOTAL NON CURRENT ASSETS	25,605,991	26,222,226	24,847,073
TOTAL ASSETS	33,251,699	33,895,482	34,554,089
CURRENT LIABILITIES			
Trade Creditors and other payables	439,916	1,225,939	850,966
Provisions	275,704	275,704	275,704
TOTAL CURRENT LIABILITIES	715,620	1,501,644	1,126,670
TOTAL LIABILITIES	715,620	1,501,644	1,126,670
NET ASSETS	32,536,079	32,393,838	33,427,419
EQUITY			
Share capital	45,250,847	45,250,847	45,179,824
Revaluation Reserve		0	45,812
Option Reserve	500,409	500,409	500,409
Accumulated losses	(13,215,178)	(13,357,418)	(12,298,626)
TOTAL EQUITY	32,536,079	32,393,838	33,427,419

ANNEXURE D
EPSILON ENERGY LIMITED UNAUDITED PRO FORMA BALANCE SHEET
POST REDUCTION

The following unaudited pro forma Balance Sheet has been prepared by the Company on the basis of the Company's audited Balance Sheet as at 30 June 2006 and unaudited Balance Sheet as at 30 September 2006, adjusted for the following:

1. the proposed issue of Promoter Capital – 5,000,000 ordinary shares at \$0.01 per share to raise \$5,000
2. the proposed issue of Seed Capital – 5,000,000 ordinary shares at \$0.075 each to raise \$375,000
3. the proposed issue and allotment by Epsilon Energy Limited of 20,000,000 shares at an issue price of \$0.20 each to raise a total of \$4,000,000.
4. estimated costs of IPO – Underwriting fee and other direct costs including legal, accounting and issues relating to the prospectus of \$462,705 have been offset against the share capital raised.
5. estimated stamp duty on Heron transfer of tenements at acquisition \$200,000
6. the acquisition of Heron's rights, titles and interests with reference to the Sale and Purchase Agreement between Heron resources Ltd and Epsilon Energy Limited – 10,000,000 ordinary shares at \$0.0046 and 15,000,000 options at \$0.25 valued by Black and Scholes model for the option reserve.

	Proforma Unaudited 30 Sept 06	Unaudited 30 Sept 06	Audited 30 June 06
CURRENT ASSETS			
Cash assets	3,742,412	25,117	42,512
Receivables	2,431	2,431	1,046
TOTAL CURRENT ASSETS	<u>3,744,843</u>	<u>27,548</u>	<u>43,558</u>
NON-CURRENT ASSETS			
Receivables	7,483	7,483	7,483
Plant and Equipment	2,428,297	3,135	3,135
Exploration and evaluation expenditure	3,135	605,617	549,820
TOTAL NON CURRENT ASSETS	<u>2,438,915</u>	<u>616,235</u>	<u>560,438</u>
TOTAL ASSETS	<u>6,183,758</u>	<u>643,783</u>	<u>603,996</u>
CURRENT LIABILITIES			
Trade Creditors and other payables	786,023	786,023	693,662
TOTAL CURRENT LIABILITIES	<u>786,023</u>	<u>786,023</u>	<u>693,662</u>
TOTAL LIABILITIES	<u>786,023</u>	<u>786,023</u>	<u>693,662</u>
NET ASSETS	<u>5,397,735</u>	<u>(142,240)</u>	<u>(89,666)</u>
EQUITY			
Share capital	4,377,305	10	10
Option Reserve	1,162,680	0	0
Accumulated losses	(142,250)	(142,250)	(89,676)
TOTAL EQUITY	<u>5,397,735</u>	<u>(142,240)</u>	<u>(89,666)</u>

On the basis of the assumptions above, the Company will have 40,000,010 shares on issue after the issue of shares to acquire Heron's rights, titles and interest in tenements noted in schedule 1 and schedule 2 attached.

**HERON RESOURCES LIMITED
ABN 30 068 263 098**

PROXY FORM

I/We, _____ being a Shareholder of Heron Resources Limited,
hereby appoint _____
of _____

or, in his/her absence the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the General Meeting of the Company to be held at 11.00am WST on Friday, 1 December 2006 at Level 1/37 Ord Street, West Perth, Western Australia and at any adjournment of that meeting in respect of:

- The whole of my voting rights
 % of my voting rights

(Please complete as appropriate. If no details are inserted and only one proxy is appointed, it will be assumed that the proxy is for all of the voting rights of the Shareholder.)

If you do not wish to direct your proxy how to vote, please insert "X" in this box.

By marking this box you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as a proxy holder will be disregarded because of that interest.

If you desire to direct your proxy how to vote in relation to the each proposed resolution to be considered at the Meeting, please indicate the manner in which your proxy is to vote by inserting "X" in the appropriate boxes below. If you do not direct your own proxy on any resolution, he/she will vote on it as he/she thinks fit or may abstain from voting.

I instruct my proxy to vote as indicated in respect of:

	For	Against	Abstain
1. Amendment of Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Reduction of Capital and Distribution <i>in specie</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

It is the Chairman's intention to vote in favour of each of the resolutions in relation to any undirected proxies.

Signed this _____ day of _____ 2006

INDIVIDUALS

CORPORATIONS

Director / Sole Director and Sole Secretary

Director / Secretary

Please return this Proxy Form by 11.00am WST on 29 November 2006 to:

Mailing Address: Heron Resources Limited, PO Box 1280, Kalgoorlie WA 6430
Facsimile Address: Heron Resources Limited, (08) 9091 9256