



Heron's deal secure

By Ron Berryman

THE proposed Phelps Dodge \$40 billion buyout of Inco and Falconbridge is another example of how the international nickel industry keeps getting smaller and smaller, according to Heron Resources managing director Ian Buchhorn.

Inco, a 10 per cent shareholder in Heron Resources, is a world leader in nickel laterite projects and has committed to undertake full feasibility studies and secure project funding for the Kalgoorlie Nickel Project.

Mr Buchhorn said major corporations were trying to position themselves with long life resource sources.

"They are looking for mines that have a 25-year life, \$25 billion of a commodity that can sustain the high capital costs necessary to develop it, and a turnover of \$250 million a year," he said.

"We would like to think the Kalgoorlie Nickel Project falls into this category."

Mr Buchhorn said Heron had a legal binding contract with Inco

and that the outcome of the Phelps Dodge takeover would not have an effect upon Heron.

A London mining analyst said the takeover inferred that Phelps Dodge believed metals prices would stay strong.

"It's the only way they can justify these sorts of numbers," he said.

UBS analyst Robin Bhar said the new company would have greater control of copper, nickel and molybdenum production. He believed this could mean they may be able to smooth out cyclical price variations.

"Both companies were swift to cut back production when prices were at their lows in 2001 ... they may also be able to fast track projects when prices rise," he said.

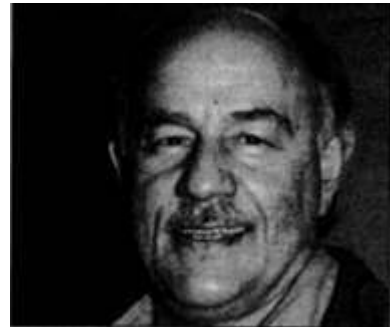
Metals prices rocketed to record highs in May, in part due to strong buying from investment funds, but also because of the laggardly response by producers to increase output. ABN AMRO analyst Tim Huff said of the Phelps deal: "This is a very smart move. By setting the bid price for Inco, they don't complicate Inco's bid for Falconbridge. That pins down

Inco's share price and revalues Inco's bid for Falconbridge."

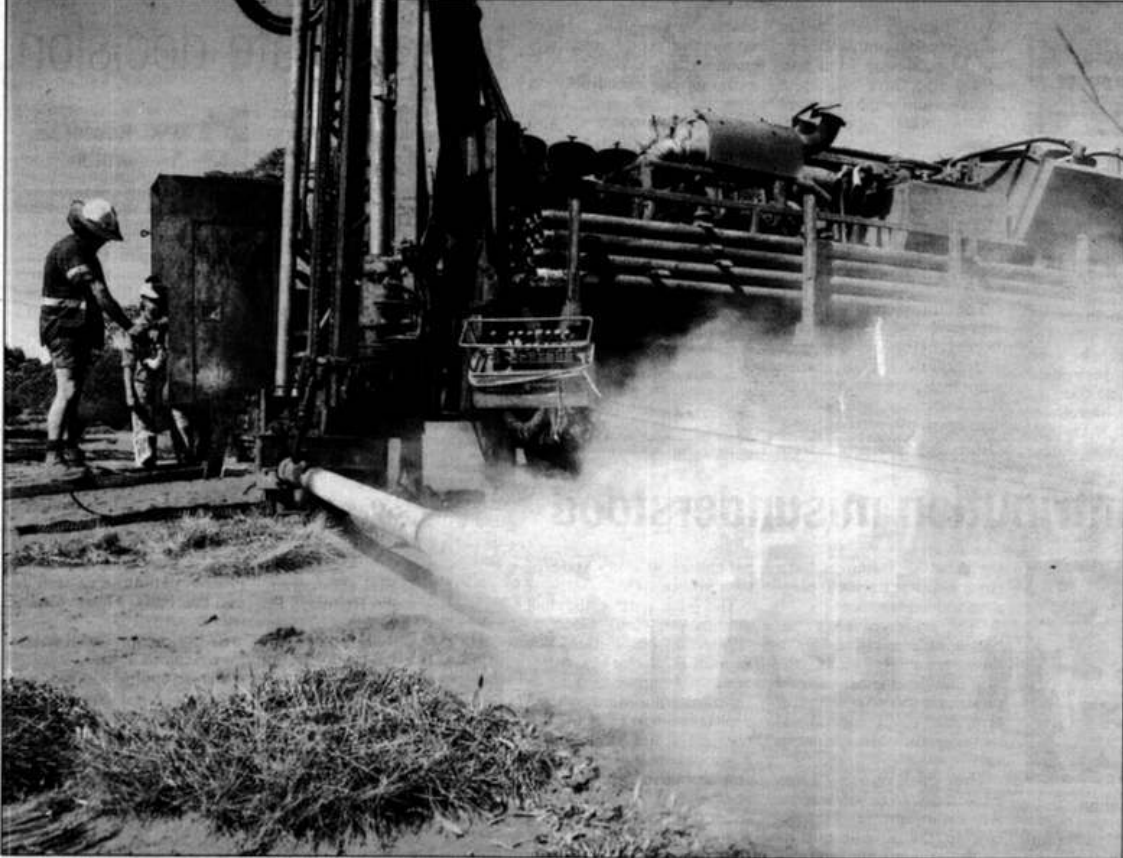
Inco and Swiss-based Xstrata have been engaged in a bidding war for Falconbridge, and the Phelps Dodge move gives the Inco bid a significant edge.

Huff added that Phelps Dodge may have been more interested in securing Falconbridge's copper assets than Inco's nickel production.

"There are a lot of companies around the world ... that want to increase exposure in dollar-denominated production," he said, adding: "They are strengthening their copper stable and are getting into diversification at the same time."



Ian Buchhorn



Major investment: Drilling at Heron Resources' Kalgoorlie Nickel Project in which Inco Limited has a significant interest.