

Form 603

Corporations Act 2001
Section 671B

Notice of initial substantial holder

To Company Name/Scheme Heron Resources Limited

ACN/ARSN 068 263 098

1. Details of substantial holder (1)

Name Heron Resources Limited

ACN/ARSN (if applicable) 068 263 098

The holder became a substantial holder on 12 December 2014

2. Details of voting power

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in on the date the substantial holder became a substantial holder are as follows:

Class of securities (4)	Number of securities	Persons' votes (5)	Voting power (6)
Fully Paid Ordinary Shares	35,252,126	35,252,126	9.77%

3. Details of relevant interests

The nature of the relevant interest the substantial holder or an associate had in the following voting securities on the date the substantial holder became a substantial holder are as follows:

Holder of relevant interest	Nature of relevant interest (7)	Class and number of securities
Heron Resources Limited	Heron Resources Limited (Heron) has a relevant interest in the Shares held by Sprott Inc, and Exploration Capital Partners 2008 Limited Partnership (together, Sprott) pursuant to section 608 of the Corporations Act 2001 (Cth) as a result of obligations concerning the voting of certain shares in Heron set out in sub-clauses 2(c)(i) and (ii) of a letter agreement between Heron and Sprott dated 10 December 2014, attached as Annexure 1.	35,252,126 Fully Paid Ordinary Shares

4. Details of present registered holders

The persons registered as holders of the securities referred to in paragraph 3 above are as follows:

Holder of relevant interest	Registered holder of securities	Person entitled to be registered as holder (8)	Class and number of securities
Heron Resources Limited	Sprott Inc and Exploration Capital Partners 2008 Limited Partnership	Sprott Inc and Exploration Capital Partners 2008 Limited Partnership	35,252,126 Fully Paid Ordinary Shares

5. Consideration

The consideration paid for each relevant interest referred to in paragraph 3 above, and acquired in the four months prior to the day that the substantial holder became a substantial holder is as follows:

Holder of relevant interest	Date of acquisition	Consideration (9)		Class and number of securities
		Cash	Non-cash	
Heron Resources Limited	12 December 2014	Nil	Nil	35,252,126 Fully Paid Ordinary Shares

6. Associates

The reasons the persons named in paragraph 3 above are associates of the substantial holder are as follows:

Name and ACN/ARSN (if applicable)	Nature of association

7. Addresses

The addresses of persons named in this form are as follows:

Name	Address
Heron Resources Limited	Level 1, 37 Ord Street West Perth WA 6005
Sprott Inc	Royal Bank Plaza, South Tower 200 Bay Street, Suite 2700 Toronto, Ontario M5J2J1 Canada
Exploration Capital Partners 2008 Limited Partnership	1910 Palomar Point Way Suite 200 Carlsbad, California 92008 United States of America

Signature

print name Simon Smith capacity Company Secretary

sign here



Date 15 December 2014

DIRECTIONS

- (1) If there are a number of substantial holders with similar or related relevant interests (eg. a corporation and its related corporations, or the manager and trustee of an equity trust), the names could be included in an annexure to the form. If the relevant interests of a group of persons are essentially similar, they may be referred to throughout the form as a specifically named group if the membership of each group, with the names and addresses of members is clearly set out in paragraph 7 of the form.
- (2) See the definition of "associate" in section 9 of the Corporations Act 2001.
- (3) See the definition of "relevant interest" in sections 608 and 671B(7) of the Corporations Act 2001.
- (4) The voting shares of a company constitute one class unless divided into separate classes.
- (5) The total number of votes attached to all the voting shares in the company or voting interests in the scheme (if any) that the person or an associate has a relevant interest in.
- (6) The person's votes divided by the total votes in the body corporate or scheme multiplied by 100.
- (7) Include details of:
 - (a) any relevant agreement or other circumstances by which the relevant interest was acquired. If subsection 671B(4) applies, a copy of any document setting out the terms of any relevant agreement, and a statement by the person giving full and accurate details of any contract, scheme or arrangement, must accompany this form, together with a written statement certifying this contract, scheme or arrangement; and
 - (b) any qualification of the power of a person to exercise, control the exercise of, or influence the exercise of, the voting powers or disposal of the securities to which the relevant interest relates (indicating clearly the particular securities to which the qualification applies).

See the definition of "relevant agreement" in section 9 of the Corporations Act 2001.
- (8) If the substantial holder is unable to determine the identity of the person (eg. If the relevant interest arises because of an option) write "unknown".
- (9) Details of the consideration must include any and all benefits, money and other, that any person from whom a relevant interest was acquired has, or may, become entitled to receive in relation to that acquisition. Details must be included even if the benefit is conditional on the happening or not of a contingency. Details must be included of any benefit paid on behalf of the substantial holder or its associate in relation to the acquisitions, even if they are not paid directly to the person from whom the relevant interest was acquired.



Heron Resources Limited

ABN: 30 088 263 098

REGISTERED OFFICE

Level 1, 37 Ord Street, West Perth WA 6005

P O Box 1380, West Perth WA 6872

heron@heronresources.com.au

+61 8 9215 4444

11 December 2014

Sprott Inc.
South Tower
200 Bay Street, Suite 2750
Toronto, Ontario M5J 2J1
CANADA

Exploration Capital Partners 2008 Limited Partnership
1910 Palomar Point Way
Suite 200
Carlsbad, California 92008
United States
Attention: Peter Grosskopf

Heron Resources Limited – Composition of Board

1. Background

On 21 November 2014, at the annual general meeting (AGM) of Heron Resources Limited (Heron), Heron received a second strike vote against its remuneration report for the financial year ended 30 June 2014 and the shareholders approved the convening of a spill meeting (Spill Meeting).

At the conclusion of the AGM, Sprott Inc. and Exploration Capital Partners 2008 Limited Partnership (together, Sprott) presented Heron with a "Notice of Proposal to move Resolutions at next General Meeting pursuant to Sections 248N and 249P of the Corporations Act (Cth)" (Notices) being a move to appoint three nominees to the board of directors of Heron (Board).

2. Proposal

Heron and Sprott wish to resolve the matter with respect to the composition of the Board. Heron hereby sets out the terms of the proposed resolution.

Upon acceptance by Sprott, this letter will constitute a binding agreement between the parties in relation to the proposed resolution.

a) Spill Meeting

Heron will convene the Spill Meeting on or before 12 February 2015 or as soon as practicable thereafter.

Heron must make available in advance to Sprott a draft of the notice of meeting for the Spill Meeting and (acting reasonably and in good faith) take into account, for the purpose of amending the draft, any comments from Sprott on the draft.

b) Appointment of Sprott Nominee

Immediately on execution of this letter, Heron will appoint:

- i. Mr Borden Putnam III; or
- ii. any other alternative nominee who is independent for the purposes of applicable TSX requirements for "independence", as agreed between Heron and Sprott (both acting reasonably and expeditiously),

SYDNEY OFFICE:

Level 7, 191 Clarence St, Sydney NSW 2000

CANADIAN CONTACT:

1 905 727 8688

(Sprott Nominee) to the Board of Directors of Heron as an independent non-executive director.

c) Sprott Undertakings

Sprott undertakes to:

- i. immediately withdraw the Notices by written notification to that effect to Heron;
- ii. vote in favour of those resolutions to be considered at the Spill Meeting relating to the re-election of the Sprott Nominee and Messrs Ian Buchhom, Stephen Dennis and Craig Readhead; and
- iii. vote against any other resolution to be considered at the Spill Meeting relating to the election of any person other than those specified in paragraph (c)(ii) above.

d) Heron Undertaking

Heron undertakes to include in the notice of meeting for the Spill Meeting statements that the directors of Heron recommend that shareholders vote in favour of all of the persons specified in paragraph (c)(ii) above at the Spill Meeting and vote against any other resolution to be considered at the Spill Meeting relating to the election of any person.

e) Board Structure

Subject to the terms of this letter and in particular, the re-election of the parties referred to in paragraph (c)(ii) above, as soon as practicable after the Spill Meeting, representatives of Heron and Sprott will meet in good faith and acting reasonably to discuss the overall structure of the Board (Review).

It is intended the Review shall have regarding to the following requirements:

- i. the Board is to be comprised of a majority of independent directors (as determined in accordance with applicable TSX requirements for "independence") who have a complimentary mix of skills and expertise which are best suited to meeting the strategic objectives of Heron;
- ii. a decision as to the appointment of Chairman of the Board will be made during the Review, it being understood that the current Chairman of the Board will not offer himself for consideration to be appointed to this position; and
- iii. any chairman appointed must be independent for the purposes of applicable Australian and Canadian securities legislation.

All changes resulting from the Review shall be implemented at soon as practicable, but no later than a period of 3 months following the Spill Meeting.

f) Other resolutions

Heron and Sprott also commit to revisiting the resolutions considered at the AGM relating to the issue of shares and options to the Directors with a view to these resolutions being considered at a meeting of members in 2015.

g) Press Release

Immediately on execution by Sprott of this letter, the parties will jointly issue a press release in a form agreed by the parties, acting reasonably.

3. Miscellaneous

- a) This letter constitutes the entire agreement of the parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter.
- b) Each party must use its best endeavours (including executing agreements and documents) to give full effect to this letter and the matters contemplated by it.
- c) This letter will be governed by and construed in accordance with the law of Western Australia and the Parties agree to submit to the exclusive jurisdiction of the courts of Western Australia.
- d) No modification, amendment or other variation of this letter will be valid or binding on a party unless made in writing and duly executed or signed by both parties.

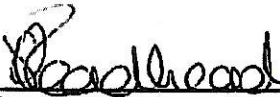
e) This letter may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

4. Acceptance


Please confirm your acceptance of the matters set out above by signing in the place indicated below and then return the original of this letter to Heron before 8am WST on 12 December 2014.

Signed as a deed.

EXECUTED by HERON RESOURCES LIMITED
(ABN 30 068 263 098) in accordance with
section 127 of the Corporations Act by:



Director



Director/Secretary

CRAIG READHEAD

Name of Director (print)

STEPHEN DENNIS

Name of Director/Secretary (print)

We the undersigned hereby accept the matters set out in this letter.

EXECUTED by SPROTT INC. in accordance
with its constituent documents:



Authorised signatory

Peter Grosvoff

Name of authorised signatory (print)

**EXECUTED by EXPLORATION CAPITAL
PARTNERS 2008 LIMITED PARTNERSHIP**
in accordance with its constituent
documents:



Authorized signatory

Gretchen Carter, CFO
Resource Capital Investment Corp.
General Partner

Name of authorised signatory (print)