FINANCIAL REPORT

For the half year ending 31 December 2020

Heron Resources Limited

ACN 068 263 098

Heron Resources Limited

Corporate Directory

ABN 30 068 263 098

DIRECTORS
Chairman (Non-Executive)
Stephen Dennis BCom LLB GDipAppFin(Finsia)
Director (Non-Executive)
Mark Sawyer LLB
Director (Non-Executive)
Ricardo De Armas B.S. M.B.A (Harvard)
Director (Non-Executive)
Ian Pattison B Sc (Hons), PhD, MAusIMM

COMPANY SECRETARY
Simon Smith B.Bus, CA

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and Address for Correspondence
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Telephone: +61 2 9119 8111
Woodlawn Site Office
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Email: heron@heronresources.com.au
Website: www.heronresources.com.au

AUDITOR
Ernst & Young
200 George St
Sydney New South Wales 2000

BANKERS
Westpac Bank
230-236 Hannan Street
Kalgoorlie 6430 Western Australia

SHARE REGISTRY
Automic Pty Ltd
Level 5, 126 Phillip Street
Sydney New South Wales 2000
All security holder correspondence to:
GPO Box 5193
Sydney New South Wales 2000
Telephone: 1300 288 664
Email: hello@automic.com.au

SOLICITORS TO THE COMPANY
Allion Legal Pty Ltd
50 Kings Park Road, West Perth Western Australia 6005
Resources Legal Pty Ltd
1A Rosemead Rd, Hornsby New South Wales 2077

STOCK EXCHANGE
Australian Securities Exchange Limited
Exchange Centre, 20 Bridge St,
Sydney New South Wales 2000

ASX CODE HRR

INDUSTRY CLASSIFICATION
GICS classification code is 15104020
Diversified Metals and Mining

ISIN AU000 000 HRR6

Heron Resources Limited
ABN 30 068 263 098

FINANCIAL REPORT

For the half year ended 31 December 2020

CONTENTS

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Heron Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

DIRECTORS' REPORT

The Directors submit their report for the consolidated entity consisting of Heron Resources Limited (Heron or the Company) and the entities Heron controlled at the Half Year ended 31 December 2020.

BOARD

The names of the Directors of the Company during the period and at 31 December 2020 were:

Stephen Dennis (Chairman)
Borden Putnam III (resigned on 31 July 2020)
Fiona Robertson (resigned on 31 July 2020)
Mark Sawyer
Ricardo de Armas
Ian Pattison

There were three meetings of directors held during the period with all directors (or their alternates) appointed attending each of the meetings they were eligible to attend.

WOODLAWN ZINC-COPPER PROJECT

Heron holds a direct 100% ownership of the mineral rights at the Woodlawn Mine site situated 40km south of Goulburn and 250km south-west of Sydney, in southern NSW, Australia (Figure 1). It is Heron's aim to create a profitable, long-life, low-cost mining operation producing base metal concentrates.

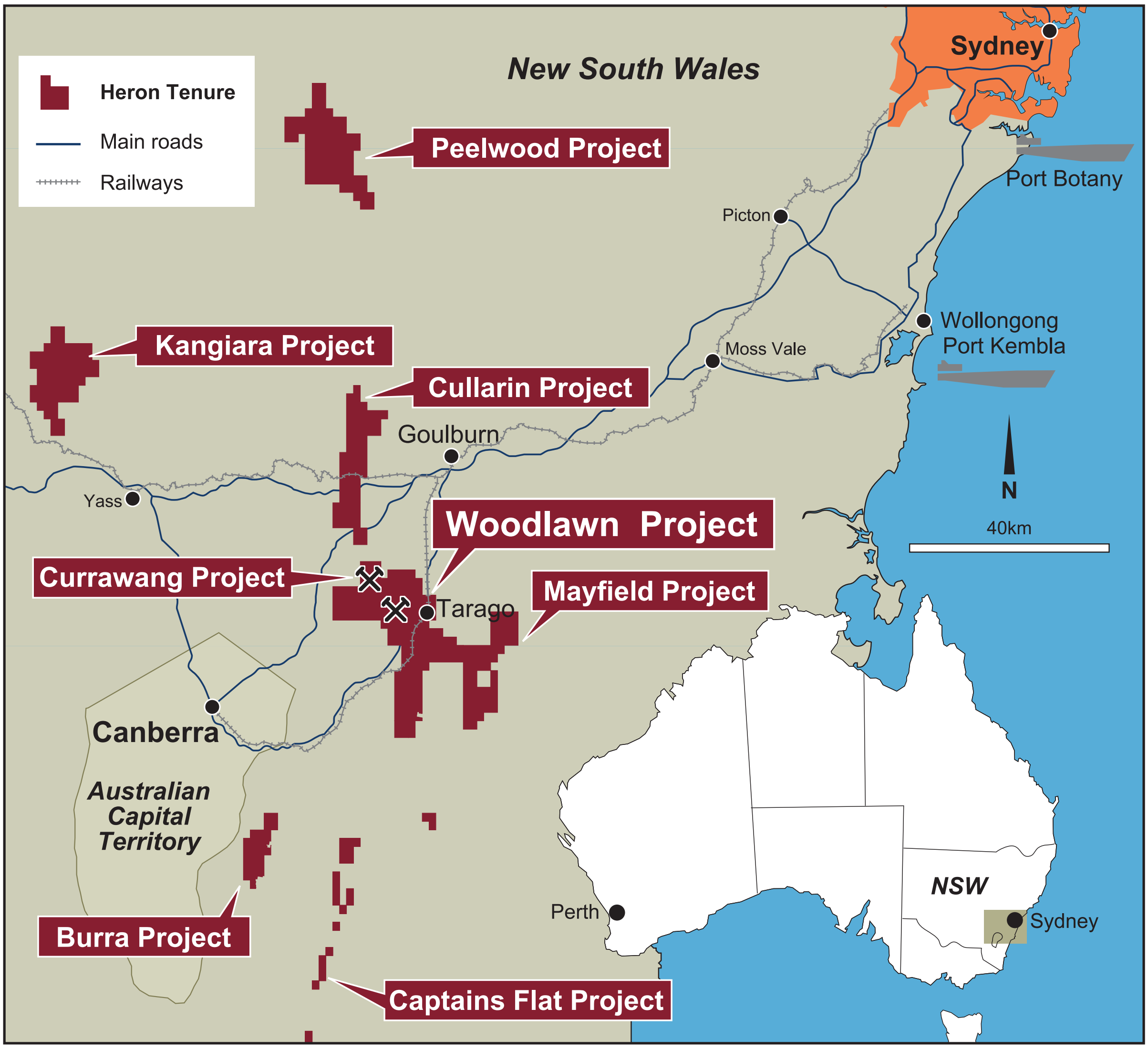

Figure 1: Woodlawn Project location and tenement map

Heron also holds a portfolio of advanced stage exploration tenements adjacent to and contiguous with the Woodlawn site covering the prospective felsic volcanic units that host the Volcanogenic Massive Sulphide (VMS) deposit at Woodlawn.

Over the past five years Heron has developed the Woodlawn Zinc-Copper Project through planning, construction, commissioning and ramp up to commercial production. Construction was completed in the June 2019 quarter and the first lead and zinc concentrates were produced and shipped in September and October 2019. The first concentrate sales revenue was received in October 2019.

On 24 March 2020, operations were suspended at Woodlawn due to travel and other restrictions imposed by Australian Federal and State Governments in response to the COVID-19 pandemic, and also to safeguard the financial position of the Company. The majority of employees and all contractors were demobilised following the announcement, and the site has remained in Care and Maintenance (C&M) since that time. All mine and process plant infrastructure assets are being maintained by a small team of remaining personnel to a level that will support a rapid re-start of operations. Regulatory compliance is being maintained along with stringent security, health, safety and environmental protection protocols. Whilst the Company is undertaking the current Strategic Process, it is expected that mining operations and process plant production at Woodlawn will remain suspended.

WOODLAWN PROJECT – DEVELOPMENT PROGRESS

Recent project developments include:

- **Safety:** No significant injuries or incidents occurred. Site access and hygiene procedures aligned with the Minerals Council of Australia COVID-19 protocols and guidance from NSW Dept. of Health were maintained throughout the period.
- **Environment:** Planning works were undertaken in preparation for an alternative capping trial for long term rehabilitation of the tailings storage facilities, scheduled to commence during the March quarter.
- **Underground Mine:** There was no underground mine development or production during the period. Routine inspections, dewatering and ventilation to the base of the current mine development are being maintained.
- **Tailings Reclaim:** No tailings were reclaimed. Water levels on the historic and new tailings storage facilities are being managed in accordance with good geotechnical practice.
- **Process Plant:** There was no process plant production during the period. All plant facilities are being routinely inspected and maintained in accordance with a C&M program designed to ensure all plant is kept in a state of readiness for a re-start of operations. Sedgman carried out a number of projects during the quarter to rectify defects identified during operations as part of their ongoing warranty obligations. The process water treatment plant was decommissioned and returned to the vendor. The plant had not performed as designed during the operational phase due to feed water specification issues. An alternative water treatment concept has been identified and engineering studies were progressed during the period.
- **Concentrate Production/Sales:** There was no production or sales of concentrate during the period.
- **Optimisation studies and key work programs:** A number of studies and engineering programs continued or were completed during the period. These studies and programs were undertaken to identify value-adding opportunities in support of the current strategic process and are aimed at addressing technical issues that were identified during Woodlawn's operational phase. For the underground mine, mine design optimisation and old workings re-entry planning projects were completed. For the process plant, flotation flow sheet development is ongoing and is expected to be completed next quarter. Additionally, site water treatment and balancing investigations continued and are expected to be completed next quarter.

WOODLAWN PROJECT – EXPLORATION

Woodlawn Near-Mine Targets: Heron's exploration focus is discovery and delineation of additional mineralised Volcanogenic Massive Sulfide (VMS) lenses directly north of the Woodlawn orebody. Prospects targeted are within the NW-oriented "Woodlawn Corridor" of prospective stratigraphy and within a NW to NE trending 2.5 km arc from the mine (Figure 2). During C&M, no near-mine exploration is being undertaken.

Woodlawn Regional Prospects: Heron holds a strategic 1,372 sq-km tenement package covering the prospective Silurian volcanic rocks, similar to those which hosts the Woodlawn VMS base metal deposit. Heron's exploration focus is on historically known mineralisation zones with prospective geology, with the objective of locating comparable grade and metallurgy to that characterising Woodlawn, and within potential trucking distance of the Woodlawn mine and processing facility.

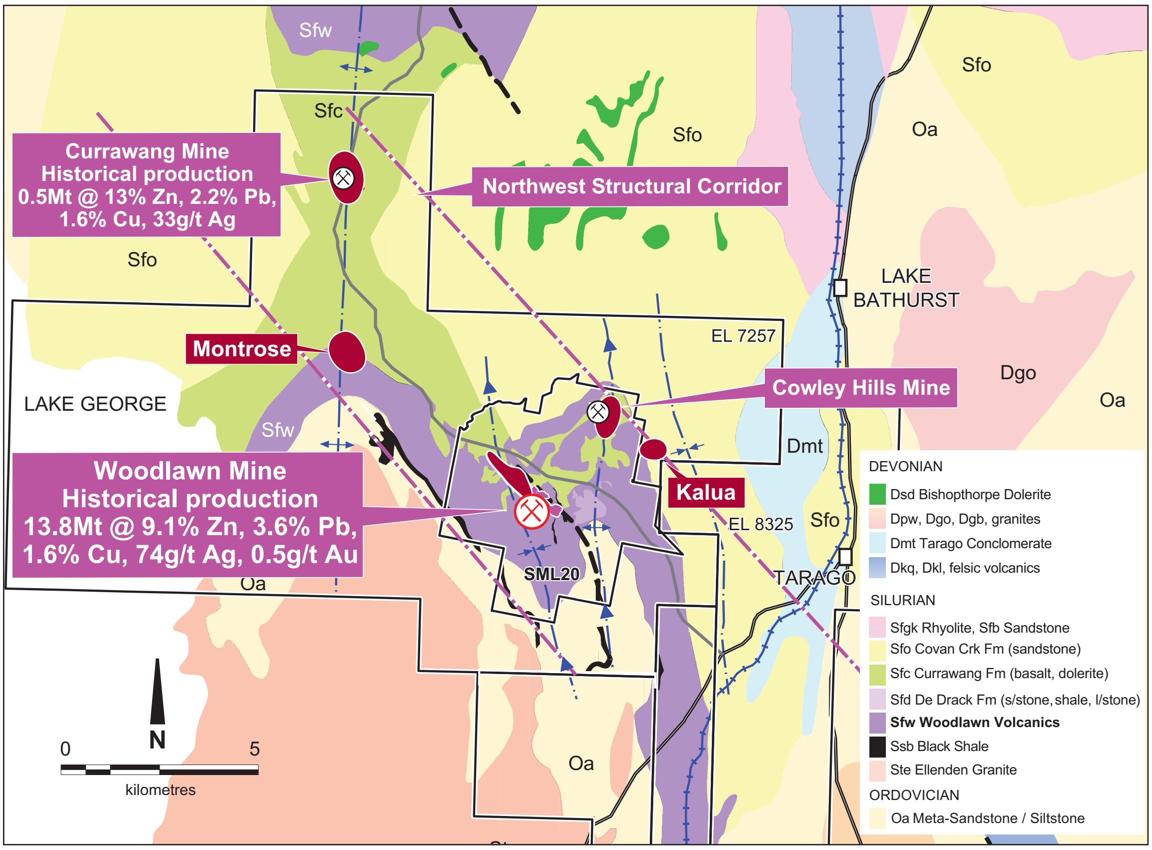

Figure 2: Woodlawn near-mine exploration prospects within NW striking corridor

EXPLORATION JOINT VENTURES

Heron retains interests in tenement holdings within the Lachlan Fold Belt of NSW and the Eastern Goldfields of Western Australia. These tenures are held through farm-in and joint venture interests, which include a number of other free-carried residual or royalty interests with minimal cost to Heron.

Sky Metals Farm-In and Joint Venture Agreement

As announced on the 9 October 2019, a farm-in agreement was signed with Sky Metals Ltd (ASX:SKY) relating to three tenements at Cullarin (EL 7954) and Kangiara (EL 8400, EL 8573), targeting McPhillamy's style gold mineralisation (Figure 3). Key terms of the agreement include: first year minimum expenditure of $400 k; $1.6 M expenditure over the next two years to earn 80%, with a Heron free-carry to DFS or $10 M of expenditure; 10 M Sky options at a strike price of 15c.

Sky announced (ASX:SKY 4 August 2020) it had reached total expenditure of $2 million thereby earning its 80% interest in the Cullarin and Kangiara projects.

Sky have continued to report strong results from drilling at its Hume target on the Cullarin project with significant results announced during the period summarised below:

- HUD013: 19 m @ 3.04 g/t gold from 161 m including, 8 m @ 4.93 g/t gold from 172 m.
- HUD014: 4.9 m @ 8.13 g/t gold from 92 m and; 5 m @ 9.72 g/t gold from 233 m.

A high-grade intersection of VMS base metal mineralisation was intersected by HUD005, located 250 m north of HUD002 intercepting:

- HUD005: 6 m grading 6.61% Zn, 5.83% Pb, 1.28% Cu from 273 m.

Re-sampling of historic drill core confirmed historically recorded drill intersections:

- WL28: 134.1 m @ 1.10 g/t Au from 25.9 m, including 12 m @ 3.96 g/t Au from 32 m, including 4 m @ 7.15 g/t Au from 32 m.
- WL31: 135.8 m @ 0.73 g/t Au from 23.8 m, including 7 m @ 5.14 g/t Au from 24 m.
- WL24c: 12.8 m @ 2.81 g/t Au from 70.5 m, including 5.3 m @ 4.61 g/t Au from 70.5 m.

Sky is awaiting assay results from drill holes HUD015 – 018.

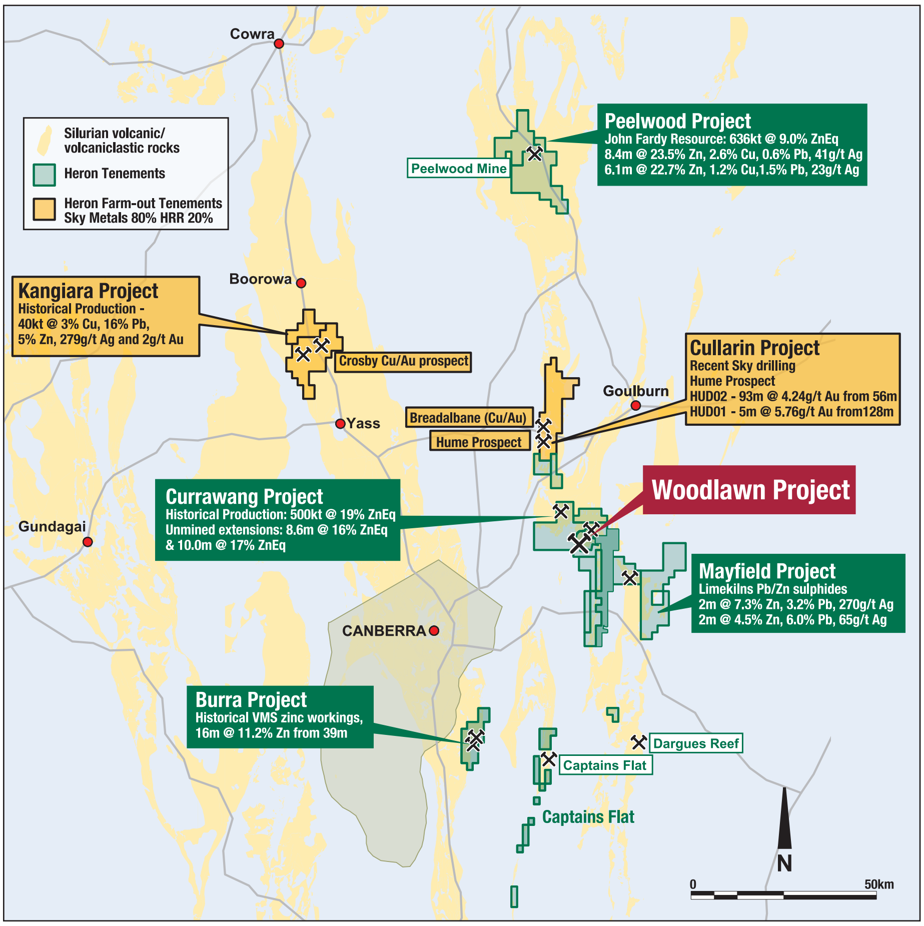

Figure 3: Heron NSW projects, including Kangiara and Cullarin farmed out to Sky Metals Ltd

Alchemy Farm-In and Joint Venture (Overflow, Girilambone, Eurow and Yellow Mountain)

Heron entered into a Farm-In Agreement with Alchemy Resources Limited (ASX:ALY) in May 2016. The Farm-In Agreement includes eight Exploration Licences comprising 674 sq-km in the central Lachlan Fold Belt in NSW (Figure 4). Alchemy has earned a 51% interest in the tenements after spending $1 M and has moved to earn 80% by spending an additional $1 M by 30 May 2021.

During the period Alchemy announced (ASX:ALY 12 October 2020) that it had completed a diamond drill hole OFDD003 to 351.5 m depth at the Overflow Mine (EL 5878), located in the Cobar Basin NSW. Drill hole OFDD003 was targeted approximately 100 m down plunge and to the south of previous drilling including:

- TBB008: 7m @ 6.7g/t Au, 19g/t Ag, 1.9% Zn, 1.4% Pb, 0.3% Cu from 236 m
- OFDD001: 18 m @ 2.1 g/t Au, 111 g/t Ag, 1.1% Zn from 245 m
- OFDD002: 3 m @ 7.3 g/t Au, 43 g/t Ag, 4.6% Zn, 4.2% Pb, 0.3% Cu from 236 m

Assays from OFDD003 returned 15.8 m @ 0.8 g/t Au, 30 g/t Ag, 1.4% Zn, 0.7% Pb from 266m (incl. 1.1 m @ 4.2 g/t Au, 23g/t Ag, 2.5% Zn, 1.5% Pb). A follow up hole at 100 m down plunge and to the south of OFDD003 was completed and returned a best intercept of 2 m @ 0.7 g/t Au, 5 g/t Ag, 0.9% Zn, 0.4% Pb from 284 m. The drilling confirmed the presence of the Overflow shear zone as well as highlighting the complexity of structural controls on high grade shoots. Down-hole EM on OFDD004 returned a weak conductor relating to the Overflow Shear zone.

Alchemy announced (ASX:ALY 9 June 2020) it had identified two significant Cu-Au porphyry exploration targets at the Melrose and Yellow Mountain mine prospects within EL 8356. The Melrose target is located within a major hydrothermal alteration system with geochemical signatures similar to large Cu-Au porphyry deposits (e.g., Newcrest's Cadia). At Yellow Mountain, Alchemy has identified a strong IP anomaly using legacy data that to-date has not been drill tested. Alchemy intends to conduct IP surveys over the targets to better prioritise drill targets.

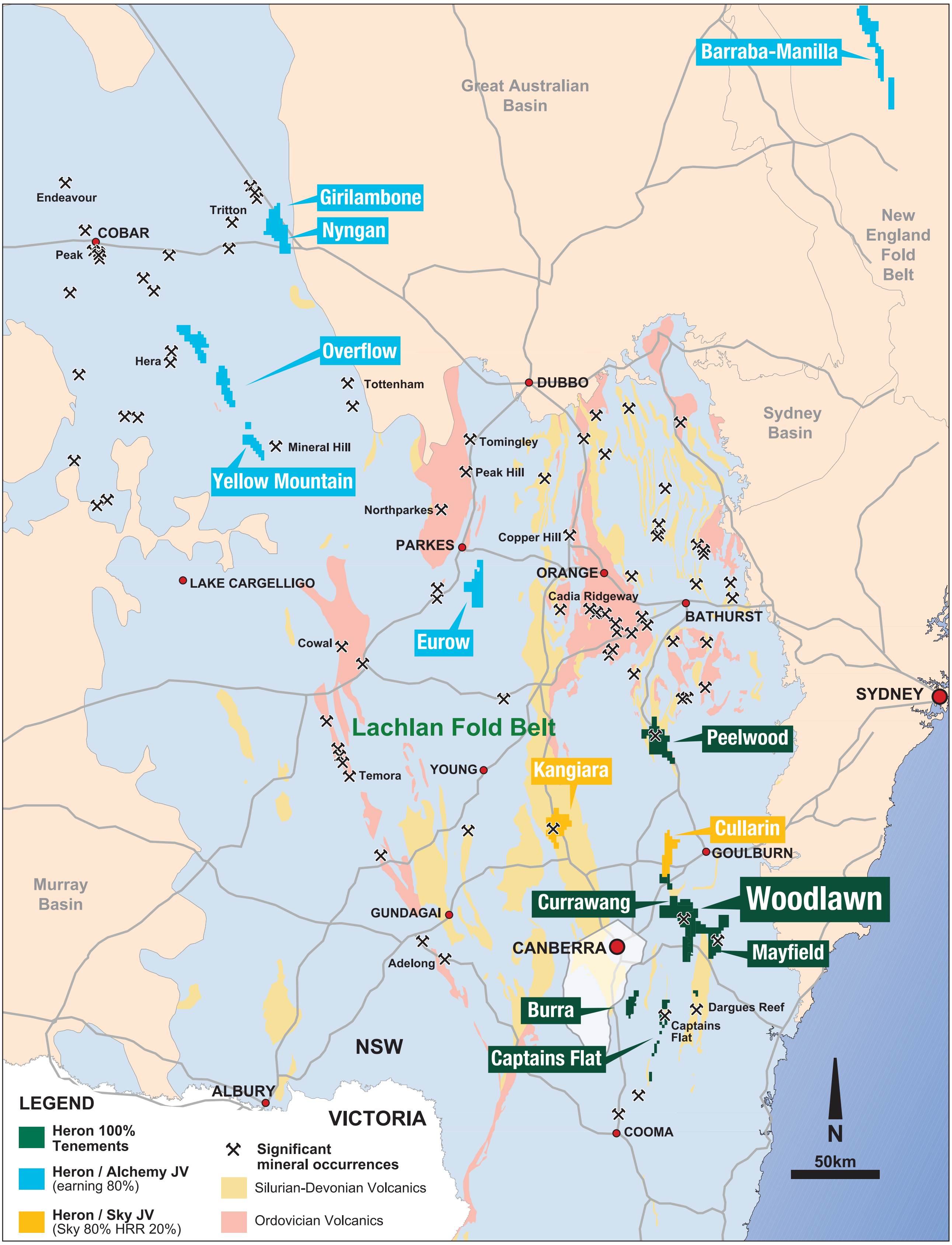

Figure 4: Heron NSW Projects (including Sky Metals & Alchemy JV projects)

CORPORATE ACTIVITIES

- **Cash:** Heron held A$10.5 million in cash (including bonds of A$3.7 million) at 31 December 2020.
- **Strategic Process:** On 14 August 2020, the Company announced the appointment of Azure Capital to explore strategic options for Woodlawn including refinancing, joint ventures, and partial or complete divestment. During the period, optimisation studies and key work programs targeting value-add opportunities at Woodlawn were progressed or completed. A fully furnished data room has been established to support interested parties currently reviewing the project under confidentiality agreement.

EVENTS OCCURING AFTER 31 DECEMBER 2020

Since 31 December 2020 the Company has continued to undertake the Strategic Process and has received significant interest from a number of parties. The Company is in discussion with these parties and will provide further updates as the Strategic process continues.

ROUNDING OFF

The Company is of a kind referred to in ASIC Corporation Instrument 2016/191 and in accordance with that Corporation Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

AUDITOR'S INDEPEDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Signed in accordance with a resolution of Directors

S Dennis
Chairman
Sydney, 16 April 2021

Ernst & Young
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Auditor's Independence Declaration to the Directors of Heron Resources Limited

As lead auditor for the review of the half-year financial report of Heron Resources Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Heron Resources Limited and the entities it controlled during the financial period.

Ernst & Young

Scott Nichols
Partner
Sydney
16 April 2021

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDING 31 DECEMBER 2020

	Notes	31 Dec 2020 $'000	31 Dec 2019 $'000
OTHER INCOME	2	373	683
Administrative expenses		(474)	(442)
Professional services and consultants		(1,330)	(1,022)
Depreciation and amortisation expense	3a	(185)	(1,065)
Directors fees		(149)	(336)
Employee benefits expense		(575)	(1,792)
Equity settled share based reversal / (expense)	15	216	816
Exploration expenditure expensed		(230)	(509)
General expenses from ordinary activities	3b	(463)	(350)
Care and maintenance costs		(3,000)	-
Finance expense	3c	(8,265)	(787)
Fair value gain / (loss) on financial instruments	3d	(133)	(4,978)
Fair value gain / (loss) on equity instruments		(704)	12
Lease termination gain / (loss)		(1,403)	-
Unrealised foreign exchange gain / (loss)	3e	15,207	26
Impairment of mine property		-	(29,834)
Sedgman provision		-	2,985
INCOME / (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,115)	(36,593)
INCOME TAX EXPENSE		-	-
INCOME / (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(1,115)	(36,593)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,115)	(36,593)

		$	$
Basic earnings / (loss) per share	17	(0.005)	(0.103)
Diluted earnings / (loss) per share	17	(0.005)	(0.103)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	31 Dec 2020 $'000	30 Jun 2020 $'000
CURRENT ASSETS			
Cash and cash equivalents		6,771	9,889
Trade and other receivables	4	120	1,529
Inventories	5	3,787	4,327
Financial assets - equity instruments	6	826	1,530
Other assets	7	706	528
TOTAL CURRENT ASSETS		12,210	17,803
NON-CURRENT ASSETS			
Restricted cash		3,701	3,701
Other assets	7	110	110
Property, plant and equipment	8	4,396	4,431
Mine property	9	170,939	171,156
Right of use assets	8	8,112	11,999
TOTAL NON-CURRENT ASSETS		187,258	191,397
TOTAL ASSETS		199,468	209,200
CURRENT LIABILITIES			
Trade and other payables	10	13,019	8,042
Borrowings	11	101,990	104,112
Provisions	13	333	9,401
Convertible note	12	54,010	56,218
Financial liability - derivative	12	1,501	1,200
TOTAL CURRENT LIABILITIES		170,853	178,973
NON-CURRENT LIABILITIES			
Trade and other payables	10	10,260	8,352
Borrowings	11	3,565	5,626
Provisions	13	15,873	16,001
TOTAL NON-CURRENT LIABILITIES		29,698	29,979
TOTAL LIABILITIES		200,551	208,952
NET ASSETS		(1,083)	248
EQUITY			
Contributed equity	14	295,601	295,601
Option reserve	15	2,085	2,301
Accumulated losses	15	(298,769)	(297,654)
TOTAL EQUITY		(1,083)	248

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDING 31 DECEMBER 2020

	Note	Issued Capital $'000	Accumlated Losses $'000	Option Reserve $'000	Total $'000
As at 30 June 2020		295,601	(297,654)	2,301	248
Total comprehensive income for the period after tax		-	(1,115)	-	(1,115)
Issue of share capital		-	-	-	-
Share issue costs		-	-	-	-
Cost of share based payments	15	-	-	8	8
Option reserve write back	15	-	-	(224)	(224)
As at 31 December 2020		**295,601**	**(298,769)**	**2,085**	**(1,083)**
As at 30 June 2019		259,742	133,699)	2,857	128,900
Total comprehensive income for the period after tax		-	(36,593)	-	(36,593)
Issue of share capital		37,403	-	-	37,403
Share issue costs		(1,502)	-	-	(1,502)
Cost of share based payments		-	-	257	257
Option reserve write back		-	-	(1,073	(1,073
As at 31 December 2019		**295,643**	**(170,292)**	**2,041**	**127,392**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDING 31 DECEMBER 2020

	Notes	31 Dec 2020 $'000	31 Dec 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(8,918)	(5,895)
Interest received		1	316
Interest paid and other finance costs		(409)	-
Exploration and development expenditure – expensed		-	(509)
Receipt of government grants		337	-
NET CASH USED IN OPERATING ACTIVITIES		(8,989)	(6,088)
CASH FLOWS FROM INVESTING ACTIVITIES			
Woodlawn Mine – asset under construction		1,590	(51,432)
Proceeds from sale of commissioning concentrates		418	5,180
Refund / (payment) of bond and bank guarantees		(25)	-
Proceeds from sale of financial assets - equity instruments		-	1,386
Proceeds from sale of excess inventory and silver bullion		300	-
Receipt / (payment) for plant and equipment		615	(438)
Payments for foreign currency hedge transaction		-	(101)
NET CASH USED IN INVESTING ACTIVITIES		2,898	(45,405)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity raising		-	28,790
Payment of principal portion of lease liabilities		(221)	(2,564)
Proceeds from borrowings		3,500	47,089
Payment of borrowing costs		-	(1,045)
Payments for capital raising costs		(212)	(865)
NET CASH PROVIDED BY FINANCING ACTIVITIES		3,067	71,405
NET INCREASE / (DECREASE) IN CASH HELD		(3,025)	19,912
Cash at the beginning of the reporting period		9,889	31,465
Foreign exchange (gain) / loss on translation - unrealised		(93)	(38)
CASH AT THE END OF THE REPORTING PERIOD		6,771	51,339

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance and Basis of Preparation

General

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements have been prepared under the historical cost convention, except for the Group's financial instruments that have all been measured at fair value.

The consolidated interim financial report does not include all of the information required for a full annual report and accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Heron Resources Limited during the half year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Group's annual report for the year ended 30 June 2020.

Going concern basis of accounting

The Group announced on 25 March 2020 that it had suspended operations at the Woodlawn project and placed the mine on care and maintenance due to the prevailing market conditions and the impact of the outbreak of the Covid-19 pandemic in March 2020 on its ability to operate the mine.

Under the senior secured debt facility and silver and zinc stream facility (Senior Facilities) with Orion Mine Finance (Orion), the suspension of operations at the Woodlawn project is an event of default as defined within the Senior Facilities agreements.

In May 2020, the Nomad Royalty Company Limited (Nomad) acquired the silver and zinc stream facility from Orion.

As noted in the Group's ASX release dated 14 August 2020, the Group announced a Strategic Process to explore various options for Woodlawn including refinancing, joint ventures, and partial or complete divestment.

The Group has received a default event waiver with respect to the Senior Facilities until 13 August 2021, subject to certain conditions including the Group continuing the Strategic Process and implementing the recommendations of the Strategic Process committee. The Group has also agreed parallel forbearance with its major unsecured creditors.

As a result, all amounts owing under the Senior Facilities and Convertible Note have been classified as current liabilities as at 31 December 2020.

The Group generated a loss for the six month period after tax of $1,115 (2019: loss of $36,593) and a net cash out flow from operating activities of $8,989 (2019: out flow $6,088). The interim financial statements for the six month period ended 31 December 2020 have been prepared on the going concern basis, notwithstanding the fact that the Group incurred a net cash outflow from operating and investing activities for the six month period of $6,091 (2019: outflow $51,493).

The Financial Report has been prepared on a going concern basis, as the Directors have reasonable grounds to believe that the Group will be able to obtain adequate funding to enable it to pay its debts as and when they become due for a period of twelve months from the date of approving this Report.

The Financial Report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

The Group continues to undertake the Strategic Process announced in August 2020 and expects it to complete according to the timetable previously described, however, there exists a material uncertainty on the Company's ability to complete the Strategic Process in a manner that successfully allows the Company to settle its debts as and when they become due once the existing waivers expire in August 2021.

Accounting Standards and Interpretations issued but not yet effective

Initial application of the following Standards is not expected to materially affect any of the amounts recognized in the financial statements, but may change the disclosures made in relation to the Group's financial statements:

Standard and Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
Amendments to IFRS 3 - Definition of a Business	1 January 2021	30 June 2022
Amendments to IFRS 9, IAS 39 - Interest Rate Benchmark	1 January 2021	30 June 2022
Amendments to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) – Definition of Material	1 January 2021	30 June 2022

The Directors of the Group do not anticipate that the adoption of above amendments will have a material impact in future periods on the financial statements of the Group.

	31 Dec 2020 $'000	31 Dec 2019 $'000
NOTE 2 OTHER INCOME		
Interest received	2	121
Realised foreign exchange gain / (loss)	(1)	1,002
Loss from sale of listed investments	-	(443)
Sundry income	10	3
Government grants	362	-
	373	683

NOTE 3. OPERATING EXPENSES

The profit / (loss) before income tax expense has been determined after charging a number of items including the following:

3a Depreciation of:		
Plant and equipment	16	12
Motor vehicles	75	102
Right of Use Assets	94	951
	185	1,065
3b Other expenses include the following:		
Rental expense	11	33
Listing expense	36	87
Investor relations	12	49
Information technology	3	28
Other expense	401	153
	463	350
3c Finance costs include the following:		
Sedgman provision discount write back	(593)	202
Senior debt interest	4,112	-
Convertible note interest	4,053	-
Finance lease liability interest	49	22
Expensed capital raising costs and other	644	563
	8,265	787
3d Unrealised fair value adjustment on financial instruments includes:		
Silver stream	-	4,128
Zinc stream	-	819
Financial liability - derivative	301	-
Convertible notes	-	-
Other	(168)	31
	133	4,978

	31 Dec 2020 $'000	31 Dec 2019 $'000
3e Unrealised foreign exchange gain / (loss) includes:		
Senior debt	9,057	(387)
Convertible notes	6,261	-
Other	(111)	413
	15,207	26

	31 Dec 2020 $'000	30 Jun 2020 $'000
NOTE 4. TRADE AND OTHER RECEIVABLES		
Goods & services tax receivable	26	103
Sundry debtors	59	50
Trade debtors	-	1,341
Other debtors	35	35
	120	1,529

NOTE 5. INVENTORIES

Refined metal - silver bullion	-	270
Store stock and consumables	3,787	4,057
	3,787	4,327

Store stock and consumables represents commissioning spares, chemical reagents, and other spare parts required at the Woodlawn mine. Store stock and consumables are valued at cost.

NOTE 6. FINANCIAL ASSETS – EQUITY INSTRUMENTS

Sky Metals Limited	610	1,290
Alchemy Resources Limited	216	240
	826	1,530

The Group holds the following investment in Australian Stock Exchange listed companies:

Alchemy Resources Limited (ALY) is an Australian listed public exploration company with a focus on gold, base metal, and nickel-cobalt projects. The Group held 12,000,000 shares and 12,500,000 options with an exercise price of $0.10 at reporting date. The underlying Alchemy share price as at 31 December 2020 was $0.02 cents. The options have been valued at nil as at reporting date.

Sky Metals Limited (SKY) is an Australian listed public exploration company with a focus on gold and tin resource projects. The Group held 10,000,000 unlisted options with an exercise price of $0.15 at reporting date. The underlying Sky share price as at 31 December 2020 was $0.19 cents

	31 Dec 2020 $'000	30 Jun 2020 $'000
NOTE 7. OTHER ASSETS		
CURRENT		
Prepayments and other	647	468
Energy certificates	59	60
	706	528
NON CURRENT		
Tenement bonds and other	110	110

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment $'000	Motor vehicles $'000	Total $'000
31 December 2020			
Cost	5,789	599	6,388
Accumulated depreciation	(1,417)	(575)	(1,992)
	4,372	24	4,396
Reconciliation			
Opening carrying value	4,388	43	4,431
Additions	-	-	-
Disposals	-	-	-
Depreciation expense	(16)	(19)	(35)
	4,372	24	4,396
30 June 2020			
Cost	16,312	1,340	17,652
Transfers from adoption of AASB 16	(10,523)	(741)	(11,264)
Accumulated depreciation	(1,401)	(556)	(1,957)
	4,388	43	4,431
Reconciliation			
Opening carrying value	11,688	948	12,636
Adoption of AASB 16	(10,523)	(741)	(11,264)
Additions	3,360	40	3,400
Disposals	(1)	(30)	(31)
Depreciation expense	(136)	(174)	(310)
	4,388	43	4,431

Rights of Use Assets	**Plant and equipment $'000**	**Motor vehicles $'000**	**Other $'000**	**Total $'000**
31 December 2020				
Cost	8,432	459	924	9,815
Accumulated depreciation	(1,218)	(203)	(282)	(1,703)
	7,214	256	642	8,112
Reconciliation				
Opening carrying value	10,669	594	736	11,999
Additions	-	-	-	-
Disposals[(i)]	(700)	(282)	-	(982)
Lease modifications / terminations	(2,755)	-	-	(2,755)
Depreciation expense	-	(56)	(94)	(150)
Closing carrying value	7,214	256	642	8,112
30 June 2020				
Cost	700	-	-	700
Adoption of AASB 16	16,702	741	924	18,367
Accumulated depreciation	(1,218)	(147)	(188)	(1,553)
Lease modification / Termination	(5,515)	-	-	(5,515)
	10,669	594	736	11,999
Reconciliation				
Opening carrying value	-	-	-	-
Transfers from adoption of AASB 16	10,523	741	-	11,264
ROUA from adoption of AASB 16	6,179	-	924	7,103
Additions	700	-	-	700
Lease modifications / terminations	-	-	-	-
Depreciation expense	(1,218)	(147)	(188)	(1,553)
Lease modification / Termination	(5,515)	-	-	(5,515)
Closing carrying value	10,669	594	736	11,999

(i) The Group terminated the contracts with mining equipment hiring companies and finance lease companies by purchasing the assets outright which were then sold during the period ending 31 December 2020.

NOTE 9 WOODLAWN MINE – ASSET UNDER CONSTRUCTION

	Mine Under construction $'000	Rehabilitation asset $'000	Total $'000
31 December 2020			
Cost	306,055	15,751	321,806
Accumulated amortisation	-	-	-
Impairment charge	(150,867)	-	(150,867)
	155,188	15,751	170,939
Reconciliation			
Opening carrying value	155,405	15,751	171,156
Additions	-	-	-
Net proceeds from commissioning concentrate sales	874	-	874
Net proceeds from R&D Tax Incentive	(1,091)	-	(1,091)
Impairment	-	-	-
Amortisation	-	-	-
Closing carrying value	155,188	15,751	170,939

	Mine Under construction $'000	Rehabilitation asset $'000	Total $'000
30 June 2020			
Cost	306,272	15,751	322,023
Accumulated amortisation	-	-	-
Impairment charge	(150,867)	-	(150,867)
	155,405	15,751	171,156
Reconciliation			
Opening carrying value	227,098	15,751	242,849
Additions	93,011	-	93,011
Net proceeds from commissioning concentrate sales	(13,837)	-	(13,837)
Impairment	(150,867)	-	(150,867)
Amortisation	-	-	-
Closing carrying value	155,405	15,751	171,156

Impairment - Determination of recoverable amount

As at 31 December 2020 a review was performed for indicators of impairment in order to determine whether a formal impairment assessment was required. The Woodlawn project remaining in care and maintenance was identified as an indicator of impairment. Where indicators of impairment exist, a formal estimate of the recoverable amount of the cash generating unit (CGU) is made. The recoverable amount is the higher of the CGU's value in use (being the net present value of expected future cash flows of the relevant cash generating unit) and fair value less costs to sell.

A value in use methodology is considered appropriate, even though the Woodlawn project is currently in care and maintenance, given the advanced nature of the project's development and positive short term re-start prospects.

The Woodlawn project is considered the Group's sole CGU. Impairment testing on the Woodlawn project determined that the carrying value of the CGU was recoverable as at 31 December 2020.

The recoverable amount of the CGU is determined based on value in use calculations using discounted cash flow projections based on a number of factors, variables and assumptions. These include the level of proved, probable and inferred mineral resources, mine restart date, future technological changes, commodity prices, costs and foreign exchange rates covering a period of the life of the Woodlawn project asset and the discount rate applied to the cash flows.

The cash flow projections which are used in determining any impairment require management to make significant estimates and judgements. Key assumptions in preparing the cash flow projections are set out below.

Key assumptions

The key assumptions on which management based its cash flow projections when determining value in use calculations for the Woodlawn project as at 31 December 2020 are as follows:

- *Commodity Prices:* commodity pricing assumptions are based on management's estimates and were derived from forecast pricing estimates published by brokers and other reputable sources, denominated in US Dollars (USD) and presented in real terms, as of 31 December 2020

USD, in real terms	2022	2023	2024	2025	Long term
Zinc ($/t)	2,998	2,796	2,722	2,670	2,930
Lead ($/t)	2,003	1,970	1,929	1,938	1,984
Copper ($/t)	7,384	6,963	6,714	6,687	6,648
Silver ($/oz)	24	22	21	20	21
Gold ($/oz)	1,851	1,700	1,580	1,478	1,600

- •*Exchange Rate:* AUD/USD exchange rate assumptions, presented in real terms, are based on forward pricing as at 31 December 2020:

	2022	2023	2024	2025	Long term
AUD:USD	0.75	0.74	0.75	0.75	0.75

- *Discount Rate:* a real post-tax discount rate of 8.5% was applied to the post-tax cash flows expressed in real terms. This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service.
- *Production Volumes:* production volumes of 9.0 million tons of tailings dam ore and 3.4 million tons of underground polymetallic ore, at varying ultimate recoveries of commodities depending on the concentrate produced, were incorporated into the cash flow model. These assumptions are based on a detailed life of mine plan and take into account ramp up and development plans approved by the directors. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; processing plant throughput levels; and the selling price of the commodities extracted. The production profile used was consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves and resource estimates. These are then assessed to ensure they are consistent with what a market participant would estimate.
- *Timing of Restart:* mining activities will recommence at Woodlawn in October 2021

Sensitivity

Reasonably possible changes in certain of the key assumptions adopted in estimating the recoverable amount of the CGU could result in impairment being necessary. The table below demonstrates the sensitivity of the Woodlawn project to such movements:

Sensitivity	Additional Impairment $A M
10% decrease in zinc price assumptions	35.1
5% decrease in all commodity price assumptions	58.4
6-month delay in restart of the mine	6.8
2% appreciation in AUD/USD exchange rate	4.7
1.5% added to discount rate	3.4

NOTE 10 TRADE AND OTHER PAYABLES

	31 Dec 2020 $'000	30 Jun 2020 $'000
CURRENT		
Trade and other creditors under normal trading conditions	1,700	6,014
Trade and other creditors subject to forbearance	11,319	-
Sedgman settlement	-	2,028
	13,019	8,042

Trade creditors are non-interest bearing and are normally settled on 30 day terms. Due to the short term nature of these payables, the carrying value is assumed to be the same as their fair value.

During the period, a number of significant trade creditors, including Pybar, provided forbearance until August 2021 under a deed of settlement arrangement.

NON CURRENT

Sedgman settlement	10,260	8,824
	10,260	8,824

		31 Dec 2020 $'000	30 Jun 2020 $'000
NOTE 11 BORROWINGS			
CURRENT			
Senior debt		76,728	81,951
Borrowings - equipment finance		-	191
C&M Loan	-	3,779	-
Silver stream		17,578	17,438
Zinc stream		2,033	2,357
Lease liability		1,872	2,175
		101,990	104,112
NON CURRENT			
Borrowings - equipment finance		-	273
Lease liability		3,565	5,353
		3,565	5,626

(a) Silver stream

The Group through its wholly owned subsidiary, Tarago Operations Pty Ltd, entered into a financing agreement with OMF Fund II (H) Ltd. This agreement included a Silver Streaming arrangement of US$16 million, which the Group received on the 8 March 2018. The sum received has been accounted for as a financial liability at fair value through Statement of Profit or Loss.

In May 2020, the Nomad Royalty Company Limited acquired the Silver stream from OMF Fund II (H) Ltd.

Under this agreement, the Group will deliver 80% of the silver extracted from the Woodlawn project (SML20) until it has delivered 2,150,000 ounces of Refined Silver, followed by 40% of the silver extracted from the mine until it has delivered 3,400,000 of Refined Silver, and thereafter 25% of the Refined Silver extracted from the mine.

The Group has elected to fair value the entire instrument. The obligation represents a derivative liability for the silver price option feature included in the agreement and will therefore be re-measured at each balance sheet date at fair value through profit or loss.

(b) Zinc stream

The Group through its wholly owned subsidiary, Tarago Operations Pty Ltd, entered into a financing agreement with OMF Fund II (H) Ltd. The agreement included a Zinc Streaming arrangement of US$3 million. The Zinc Streaming arrangement was approved by Heron shareholders on the 5 December 2019. The sum received has been accounted for as a financial liability at fair value through Statement of Profit or Loss.

In May 2020, the Nomad Royalty Company Limited acquired the Zinc stream from OMF Fund II (H) Ltd.

Under this agreement, the streaming rights under the existing stream arrangements will be extended to include additional ounces of refined silver via a payable zinc to silver conversion calculation. The zinc to silver conversion ratio is 170.2 silver ounces per metric tonne of zinc.

The Group will deliver 0.30% of zinc extracted from the Woodlawn project (SML20) until it has delivered 140 tonnes, followed by 1.15% of the zinc extracted from the mine until it has delivered 910 tonnes, followed by 2.25% of the zinc extracted from the mine until it has delivered 4,200 tonnes, and thereafter 0.75% of zinc extracted from the mine.

The Group has elected to fair value the entire instrument.

The discount rates used in the modelling of the Silver and Zinc stream were determined by probability weighting the likelihood that the Woodlawn project will restart and the likelihood that the holders of the stream would demand early repayment of the stream should the waiver expire prior to the successful completion of the Strategic Process, which is their right under the stream arrangements.

The stream arrangements contain a clause permitting the holder to demand immediate repayment upon an event of default occurring and not having otherwise been waived. In such an instance, the quantum of the repayment would be determined with reference to the net present value of each stream at that point in time, as calculated using spot commodity prices and a discount rate of 5%. This basis of determining the value of the streams is substantially different to how the streams are valued in a business as usual scenario, whereby management estimates the fair value of the streams with reference to forecast commodity prices and an estimated discount rate (30% as at 31 December 2020). Should the Group not successfully complete the Strategic Process and the waiver presently in place expire in August 2021 the stream holders may be in a position to demand immediate repayment of the streams at amounts materially greater than those recorded as at 31 December 2021.

(c) Senior debt

A loan facility for USD $60 million (funds were drawn down in three equal tranches) was provided as part of the financing agreement with OMF Fund II (H) Ltd. The respective draw down dates were the 29 May 2018, 26 September 2018, and 21 December 2018.

The funding rate is the aggregate of a margin of 7.25% and the applicable Libor rate, being a minimum of 2.5%, for each interest period. The loan was initially recorded at fair value less associated transaction costs. The proceeds from draw down was considered to represent the fair value of the facility at that time. The loan is subsequently measured at amortised cost.

As announced on the 4 October 2019, the Group entered into a Debt Restructure agreement with OMF Fund II (H) Ltd whereby US$10M of the existing US$60M was repaid and the maturity date of the existing loan facility was extended by 12 months from 31 December 2022 to 31 December 2023 (and the repayment profile adjusted to match the revised cashflow profile and extended tenor).

On the 14 August 2020, the Group announced the commencement of the Strategic Process in relation to the Woodlawn project. This included long-term standstills from secured lenders and major unsecured creditors. During the long term standstill the Senior debt funding rate will increase from September 2020 to 15%.

During August 2020, the Company obtained a loan from Castlelake for $3.5M (C&M Loan) to be used as working capital whilst Woodlawn is in care and maintenance.

31 December 2020	Opening carrying value $'000	Drawdown $'000	Loan Repayment $'000	Foreign exchange loss/(gain) $'000	Accrued Interest $'000	Debt finance costs $'000	Fair value loss/(gain) $'000	Closing carrying value $'000
Senior debt	81,951	-	-	(9,057)	3,834	-	-	76,728
C&M Loan	-	3,500	-	-	209	70	-	3,779
Silver stream	17,438	-	(184)	-	-	-	-	17,254
Zinc stream	2,357	-	-	-	-	-	-	2,357
	101,746	3,500	(184)	(9,057)	4,043	70	-	100,118

30 June 2020	Opening carrying value $'000	Drawdown[(i)] $'000	Loan repayment[(ii)] $'000	Foreign exchange loss/(gain) $'000	Accrued Interest $'000	Debt finance costs $'000	Fair value loss/(gain) $000	Closing carrying value $'000
Senior debt	92,556	1,968	(23,523)	2,023	8,927	-	-	81,951
Silver stream	30,943	-	(1,096)	-	-	-	(12,409)	17,438
Zinc stream	-	4,420	(214)	-	-	-	(1,849)	2,357
	123,499	6,388	(24,833)	2,023	8,927	-	(14,258)	101,746

(i) Represents a debt restructuring fee capitalised into the loan balance.

(ii) Loan repayments comprise of interest payments and principal repayments. Principal repayments have been made in accordance with 4 October 2019 Debt Restructure agreement.

NOTE 12 CONVERTIBLE NOTE AND OPTION

	31 Dec 2020 $'000	30 Jun 2020 $'000
Convertible Note		
Opening balance	56,218	-
Issue of convertible notes	-	50,949
Transaction costs	-	(1,989)
Write off of transaction costs	-	1,989
Capitalised interest	4,053	4,419
Unrealised foreign exchange loss / (gain)	(6,261)	712
Fair value of derivatives within convertible notes at recognition	-	(6,596)
Fair value adjustment to recognise at face value	-	6,734
Closing balance	54,010	56,218

	31 Dec 2020 $'000	30 Jun 2020 $'000
Convertible Option		
Opening balance	1,200	-
Fair value of derivatives within convertible option at recognition	-	6,596
Fair value adjustment of derivatives within convertible option	301	(5,396)
Closing balance	1,501	1,200

The Group has entered into Convertible Note Agreements of $50.9 million with each of the Castlelake Parties, the Greenstone Parties and Orion ('Noteholders') with the following terms:

Face value	Each Convertible Note will be issued at face value, being US$1.00
Maturity	31 December 2024
Interest	3-month USD LIBOR (subject to a minimum 2.5%) plus 12.5%
Conversion	Noteholders may elect to convert some or all of the Convertible Notes at any time after the date of issue of the relevant Convertible Note and prior to the Maturity Date
Conversion Shares	The Conversion Shares will be calculated based on (a) the total amount outstanding in respect of each Convertible Note (included all accrued interest and fees); (b) divided by the USD:AUD exchange rate as at the date of the conversion notice; and (c) divided by the conversion price of $0.25
Security	The Convertible Notes are unsecured

Derivative

A conversion option derivative liability exists in respect to the option of the Noteholders to convert the convertible notes into ordinary shares of the company. The fair value of the conversion option was calculated using the Black-Scholes option pricing model with the following options:

	31 Dec 2020	30 Jun 2020
Opening value	1,199,642	-
Exercise Price ($)	0.25	0.25
Spot Price ($)	0.05	0.04
Valuation date	31-Dec-20	30-Jun-20
Expiration date	31-Dec-24	31-Dec-24
Term (years)	4.0	4.5
Risk free rate	0.3%	0.4%
Price Volatility	67%	65%
Value of call option ($)	0.007	0.006
No. of options	214,370,925	199,940,333
Closing value ($)	1,500,596	1,199,642
Fair value adjustment ($)	**(300,954)**	**-**

The equity conversion feature is accounted for as a derivative liability in the consolidated statement of financial position.

NOTE 13 PROVISIONS

	31 Dec 2020 $'000	30 Jun 2020 $'000
CURRENT		
Employee entitlements	333	401
Pybar settlement[i]	-	9,000
	333	9,401

(i) As at 31 December 2020 the Pybar settlement has been reclassified as Trade and other payables. Refer to Note 10.

	31 Dec 2020 $'000	30 Jun 2020 $'000
NON CURRENT		
Employee entitlements	92	220
Rehabilitation provision[ii]	15,781	15,781
	15,873	16,001

(ii) The rehabilitation provision for the Woodlawn mine is based on the assessment of an independent environmental consultant using the NSW Department of Resources and Energy ('DRE') rehabilitation cost estimation tool. Veolia Environmental Services (Australia) Pty Limited ('Veolia') has been instructed by the Environmental Protection Agency ('EPA') to halt production of the mulch material it produces at their Woodlawn bio-reactor site whilst further studies are undertaken. The mulch material is to be used by the Group free of charge to rehabilitate the mine site. If the Group is unable to use Velolia's mulch then the rehabilitation provision may be increased.

NOTE 14 CONTRIBUTED EQUITY

	31 Dec 2020 Shares	30 Jun 2020 Shares	31 Dec 2020 $'000	30 Jun 2020 $'000
Issue of ordinary shares				
Opening balance	428,664,605	241,666,912	295,601	259,742
Issue of share capital	-	186,997,693	-	37,403
Share issue costs	-	-	-	(1,544)
Closing balance	428,664,605	428,664,605	295,601	295,601

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held. On a show of hands every holder of shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

The Group does not have authorised capital or par value in respect of its issued shares.

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	31 Dec 2020 $'000	30 Jun 2020 $'000
NOTE 15 ACCUMULATED LOSSES AND RESERVES		
Option Reserve		
Opening balance	2,301	2,857
Cost of share based payments	8	227
Write back lapsed options expense	(224)	(783)
Closing balance	2,085	2,301
Accumulated Losses		
Opening balance	(297,654)	(133,699)
Net profit/(loss) for the period	(1,115)	(163,955)
Closing balance	(298,769)	(297,654)

The option reserve is used to recognise the fair value of options issued and expensed over the vesting period and credited to this reserve. The shares will reverse against ordinary share capital when the underlying options are exercised or lapse.

NOTE 16 SEGMENT REPORTING

The nature of operations and principal activities of Group are exploration, mine development, mine operations and the sale of Zinc, Copper and Lead concentrate in Australia. Given the nature of the Group, its size and current operations, management does not treat any part of the Group as a separate operating segment. Internal financial information used by the Group's chief operating decision maker is presented as a Group without dissemination to any separately identifiable segments.

Accordingly the financial information reported elsewhere in this financial report is representative of the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

NOTE 17 EARNINGS PER SHARE

	31 Dec 2020	31 Dec 2019
Basic earnings per Share	(0.005)	(0.103)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	242,049,426	355,229,896
Diluted earnings per Share	(0.005)	(0.103)
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share.	242,049,426	355,229,896
Earnings profit/(loss) used in calculating basic and diluted earnings profit/(loss) per share	(1,115,253)	(36,593,303)

The outstanding options and performance rights as at reporting date are not considered dilutive.

NOTE 18 SUBSEQUENT EVENTS

Other than those noted below there is no matter or circumstance which has arisen since 31 December 2020 that has significantly affected or may significantly affect:

The operations, in the financial years subsequent to 31 December 2020, of the Group; or the results of those operations.

NOTE 19 CONTINGENCIES

Performance bonds and rental bond commitment

The Group has provided cash backed performance bonds with the NSW Department of Resources and Energy with respect to its environmental obligations.

The Group has rental bond commitments over its leased office and residential premises.

Agreement with Veolia Environmental Services (Australia) Pty Ltd

The Group has agreed with Veolia:

(i) To assume the environmental liabilities associated with the Woodlawn site, excluding Veolia's area of operation.

(ii) Subject to certain approvals being received by Veolia and the Group, the Group will receive "free-on-board" compost from Veolia to be utilised in the rehabilitation of the Woodlawn project site.

(iii) To fully indemnify Veolia for all direct and or consequential loss and damage suffered by Veolia as a result of or caused by or contributed to by any act or omission or default by the Group, connected with its operations at the Woodlawn project site.

Other contingent liabilities

Native title claims have been made with respect to areas which include tenements in which the Group has interests. The Group is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the consolidated entity or its projects.

None of these contingent liabilities has been provided for in the financial report.

Directors' Declaration

The Directors declare that:

In the opinion of the Directors:

1. the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. the financial statements and associated notes give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance, as represented by the results of its operations, changes in equity and its cash flows for the half year ended on that date; and
3. there are reasonable grounds to believe that Heron Resources Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.

Stephen Dennis
Chairman
Date: 16 April 2021

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Independent Auditor's Review Report to the Members of Heron Resources Limited

Report on the Half-Year Financial Report

Qualified Conclusion

We have reviewed the accompanying half-year financial report of Heron Resources Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Qualified Conclusion

Note 11 of the financial report refers to the Group's silver stream and zinc stream borrowings carried at $17.3 million and $2.4 million respectively as at 31 December 2020. Each of these borrowings are accounted for as financial liabilities at fair value through profit or loss and accordingly each carrying amount represents the directors' estimate of fair value as at 31 December 2020. The directors have estimated the fair values based on discounted cash flow models. We were unable to obtain sufficient evidence to support the discount rates used and probability weighting applied to those discount rates by the directors in their estimations of fair value as at 31 December 2020 because we have not been able to obtain reliable external evidence that would enable us to form a view regarding their appropriateness. Consequently, we were unable to determine whether any adjustments to the amounts recorded in relation to the silver stream and zinc stream borrowings are necessary.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our report is not further modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated Group's financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Scott Nichols
Partner
Sydney
16 April 2021

Heron Resources Limited

ASX:HRR

www.heronresources.com.au