



Heron Resources Limited

ABN 30 068 263 098

Annual Report 30 June 2017

Statutory Information

1.1	CHAIRMAN'S LETTER (included in final printed Annual Report)	
1.2	MANAGING DIRECTOR'S REPORT (included in final printed Annual Report)	
2.0	OPERATIONS REPORT (included in final printed Annual Report)	
3.0	CORPORATE PROFILE	30
	CORPORATE GOVERNANCE STATEMENT	31
4.0	DIRECTORS' REPORT	32
	AUDIT INDEPENDENCE DECLARATION	41
5.0	CONSOLIDATED FINANCIAL STATEMENTS	42
	CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	42
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	43
	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	44
	CONSOLIDATED STATEMENT OF CASHFLOWS	45
	NOTES TO AND FORMING PART OF THE ACCOUNTS	46
	DIRECTORS' DECLARATION	65
6.0	INDEPENDENT AUDIT REPORT	66
7.0	SHAREHOLDER INFORMATION	72
8.0	Appendix 1 – UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS	74
9.0	Appendix 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS	78
10.0	STATEMENT OF MINERAL RESOURCES (included in final printed Annual Report)	
11.0	INTEREST IN MINING TENEMENTS (included in final printed Annual Report)	
12.0	GLOSSARY (included in final printed Annual Report)	

3.0 Corporate Profile

HERON RESOURCES LIMITED ("Heron" or "the Company") is engaged in the exploration and development of base and precious metal deposits in Australia. The Company is focused on the development of the high grade Woodlawn Project located 250km southwest of Sydney in New South Wales.

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 and low cost mineral processing operation at Woodlawn that produces base and precious metal concentrates. Heron also holds a portfolio of advanced stage exploration tenements adjacent to the Woodlawn site covering the prospective felsic volcanic units that host the Woodlawn Volcanogenic Massive Sulphide (VMS) deposit.

The former Woodlawn Mine operated from 1978 to 1998 and processed 13.8 million tonnes of ore from the Woodlawn open pit, underground and satellite deposits grading 9.1% zinc, 1.6% copper; 3.6% lead, 0.5g/t gold and 74g/t silver.

The mine was closed in March 1998 due to prevailing low metal prices and external corporate issues. Post mine closure the mineral rights contained within the Woodlawn Mining Licence SML20 were purchased by TriAusMin Ltd. Since that time, work has focused on evaluating the potential to re-process tailings from previous mining operations (termed the Woodlawn Retreatment Project – WRP), and to re-develop the underground mine (the Woodlawn Underground Project – WUP). Regional exploration has also been undertaken in the vicinity of Woodlawn with the objective of discovering new, high grade satellite deposits (Woodlawn Exploration Project – WEP).

The exploration diamond drilling and down-hole Electro-Magnetic (DHEM) surveys undertaken by Heron at the Woodlawn site continues to generate new and extended VMS style systems, precisely as would be expected in Australia's second largest historic VMS system (second only to Rosebery, Tasmania).

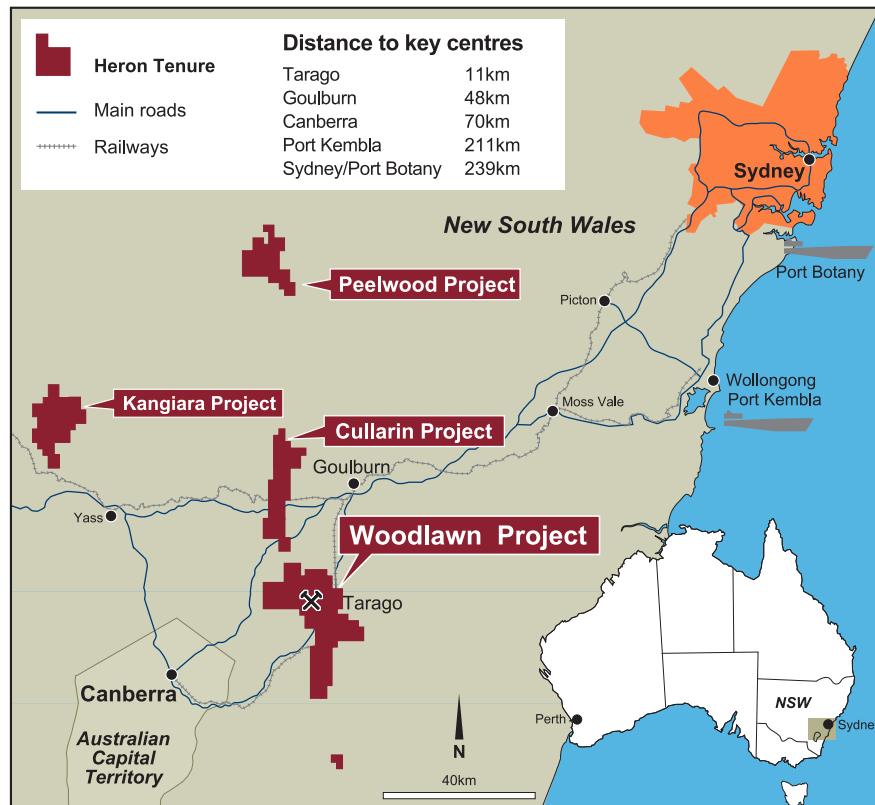
Woodlawn Funding

On 30 June 2017 the Company announced that it had secured (subject to conditions) the full A\$240 million⁽¹⁾ funding package required for the construction and ramp-up of the Woodlawn Project. The financing comprises:

- A\$129 million⁽¹⁾ funding package comprising Heron equity, Woodlawn loan facility and a silver streaming agreement from Orion Mine Finance Group ("Orion");
- A\$42 million⁽¹⁾ Heron equity subscription agreement with a subsidiary of existing shareholder Greenstone Resources L.P. ("Greenstone") and co-investment parties;
- A\$33 million⁽¹⁾ equity subscription agreement from new cornerstone equity investor, Castlake L.P. ("Castlake"); and
- The receipt of commitments to raise approximately A\$32 million from various sophisticated and professional investors that subscribed for fully paid ordinary shares in the Company ("Institutional Placement"). The issue price for all new shares under the total funding package was A\$0.07 per share, and represented a 14% discount to the volume weighted average price of Heron shares traded on the ASX during the 10 days up to and including 26 June 2017 (the last trading day before the transaction announcement).
- On 4 July, 2017 Castlake were issued with 45.85 million shares to raise \$3.21 million, being the initial subscription under the equity subscription agreement with Castlake.

⁽¹⁾ Assumes exchange rate AUD/USD 0.76

Figure 1 Woodlawn Project Location Plan



A General Meeting of shareholders was held on Thursday 17 August, 2017 at which Shareholders approved the Woodlawn financing. Funds from the financing will be received on or around September 6th with construction on site commencing shortly thereafter.

CORPORATE GOVERNANCE STATEMENT

The Board of Heron is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to its Shareholders for the performance of the Company and seeks to communicate extensively with Shareholders. The Board believes that sound Corporate Governance practices will assist in the creation of Shareholder wealth and provide accountability.

In accordance with Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly the following information about the Company's Corporate Governance practices is set out on the Company's website at **www.heronresources.com.au**:

- Board Charter;
- Audit & Governance Committee Charter;
- Remuneration & Nomination Committee Charter
- Policy on securities trading;
- Policy on continuous disclosure;
- Policy regarding communication with Shareholders;
- Policy on the Company's risk management;
- Policy on Employee Diversity;
- Policy on HSEC;
- Policy on Whistleblowers; and
- Code of Conduct.

4.0 Directors' Report

The Directors submit their Report on the Company and its controlled entities for the year ended 30 June 2017.

DIRECTORS

The names and details of the Directors of the Company in office at any time during or since the end of the year are:

Director Stephen Dennis - BCom BLLB GDipAppFin(Finsia) CFTP.
Appointed 05 December 2006
Position Chairman (Non-Executive) of the Board, Member of Audit and Corporate Governance Committee, Chairman of Remuneration and Nomination Committee.
Stephen Dennis has been actively involved in the mining industry for 30 years. He has held senior management positions at Toho Zinc, MIM Holdings Limited, Minara Resources Limited, and Brambles Australia Limited.

Other current directorships

Non-executive Chairman of EHR Resources Limited, Non-executive Chairman of Rox Resources Limited, Non-executive Chairman of Graphex Mining Limited

Former directorships in last 3 years

Managing Director of CBH Resources Limited. Non-executive Chairman of Cott Oil and Gas Limited.

Director Wayne Taylor - BEng (Mining), MBA

Appointed 11 August 2014

Position Managing Director and CEO

Mr. Taylor is a mining engineer with over 30 years' experience in the mining industry. He holds a Bachelor of Engineering (Mining) degree from the University of New South Wales and a Masters of Business Administration from the University of New England. Mr Taylor has held senior operational management roles with Western Mining Corporation and Glencore International's Australian operations. For the six years prior to joining TriAusMin he managed Glencore's base metal business development based out of Australia which involved assessing mining projects throughout the world. Mr. Taylor was the Managing Director and CEO of TriAusMin for the last 3 years prior to the merger.

Other current directorships

None.

Former directorships in last 3 years

Managing Director and CEO of TriAusMin Ltd until August 2014.

Director Ian Buchhorn - BSc (Hons), Dip Geosci (Min Econ), MAusIMM.

Appointed 17 February 1995 (resigned on 2 June 2017)

Position Executive Director

Ian Buchhorn is a Mineral Economist and Geologist with over 35 years' experience. Prior to listing Heron in 1996 as founding managing director, Mr Buchhorn worked with Anglo American Corporation in southern Africa, and Comalco, Shell/Billiton and Elders Resources in Australia, as well as setting up and managing Australia's first specialist mining grade control consultancy. Mr Buchhorn has worked on feasibility studies, bauxite and industrial mineral mining and exploration, gold and base metal project generation, and in corporate evaluations. For the last 25 years Mr Buchhorn has acquired and developed mining projects throughout the Eastern Goldfields of Western Australia and operated as a Registered Mine Manager.

Other current directorships

Non-executive Director of Rubicon Resources Limited since August 2005, Non-executive Director of Ardea Resources Ltd since February 2017

Former directorships in last 3 years

Non-executive Director of Golden Cross Resources Limited.

Director Borden Putnam III - MSc, RPG
Appointed 12 December 2014
Position Director (Non-Executive), Member of Audit & Governance Committee, Member of Remuneration and Nomination Committee

Mr. Putnam is a professional geologist with over 41 years of experience in the mineral industry, with focus on exploration and asset evaluations in the mineral investment business. From 1976-1991 he worked as a Project Geologist and a District Manager for AMAX Exploration and Newmont Exploration Limited respectively. He served as Vice-President and Chief Geologist for MRDI (now AMEC) an internationally recognized mining consultancy firm from 1991-1996. Mr. Putnam was Vice-President and Principal with Robertson Stephens Investment Management from 1996-2001, and from 2001-2009 was Managing Director of Eastbourne Capital Management; both firms which were engaged in mineral investment management principally as private hedge funds. In 2009, Mr Putnam, established his independent mining industry consultancy business providing technical evaluations, due diligence audits and investment advice to clients in the mineral resource industry.

Other current directorships

Non-executive Director of Mirasol Resources Ltd.

Former directorships in last 3 years

None.

Director Fiona Robertson - MA (Oxon) (Geology), M AusIMM, FAICD
Appointed 9 April 2015
Position Director (Non-Executive), Chairman of Audit & Governance Committee, Member of Remuneration Committee and Nomination Committee

Ms Robertson is a finance professional and practicing non-executive director and audit/risk committee chair with a background of more than 20 years as a chief financial officer in the emerging and mid-tier resources sector and 14 years as a corporate banker working in Sydney, New York and London with Chase Manhattan Bank. Ms Robertson's executive experience includes CFO roles with Petsec Energy Ltd; Climax Mining Ltd and Delta Gold Ltd; as well as various corporate banking roles with Chase Manhattan Bank.

Other current directorships

Non-executive Chairman of One Asia Resources Ltd; and member WIMnet national committee and WIMnet NSW committee (AusIMM's Women in Mining Network).

Former directorships in last 3 years

Non-executive Director and Chair of the Audit & Risk Committee of Drillsearch Energy Ltd

Director Mark Sawyer - LL.B.
Appointed 19 August 2015
Position Director (Non-Executive)

Mr Sawyer co-founded Greenstone Resources in 2013 after a 16 year career in the mining sector. Prior to establishing Greenstone, Mr Sawyer was GM and Co-Head Group Business Development at Xstrata plc where he was responsible for originating, evaluating and negotiating new business development opportunities for Xstrata. Prior to Xstrata Mr Sawyer held senior roles at Cutfield Freeman & Co (a boutique corporate advisory firm in the mining industry) and at Rio Tinto plc. Mr Sawyer is a solicitor and a resident of the United Kingdom.

Other current directorships

Non-executive Director of Metro Mining Limited.

Former directorships in last 3 years

Non-executive Director of North River Resources Plc.

SENIOR EXECUTIVE OFFICERS

Chief Operating Officer

The Chief Operating Officer (COO) is Andrew Lawry B App Sc (Metallurgy). Mr Lawry brings more than 28 years' experience in project management, engineering, construction, commissioning and operations, both in Australia and overseas. He has worked for several leading resource companies including Polymetals, Newcrest and engineering firms Bateman, Normet and Q-Proc. Notably, Mr Lawry managed, from construction through to operation, the successful retreatment of the Hellyer base metal tailings project in 2006 in western Tasmania. With this experience he is well qualified to lead the successful development of the Woodlawn Project which comprises the retreatment of tailings in combination with the development of an underground mine.

General Manager – Finance and Administration and Company Secretary

The GM - Finance and Company Secretary is Simon Smith B.Bus CA. Mr. Smith has been a Chief Financial Officer of both private and public companies in Australia and the USA. He brings 20 years' experience in the business world as a Chartered Accountant and holds a Bachelor's Degree in Business from the University of Technology Sydney. Mr. Smith was the CFO and Company Secretary for TriAusMin prior to the merger with Heron Resources.

General Manager - Exploration and Geology

The Exploration Manager, David von Perger BSc (Hons) MAusIMM was appointed to this position in February 2006. Mr von Perger is a geologist with some 20 years' experience in mineral exploration having worked in several locations around Australia. Mr von Perger has worked on various styles of mineral deposits including Archaean gold and nickel, and Proterozoic base-metals and iron-ore. His experience includes four years as a business analyst for a major mining group involving analysis of mining operations, project development and assessment of new opportunities. Since his appointment with Heron in February 2004, Mr von Perger has been responsible for the identification and acquisition of several new nickel, gold, iron-ore and base-metal projects.

General Manager - Strategy & Business Development

Charlie Kempson MEng (Oxon), MBA, GAICD is a senior corporate finance executive who was most recently an equity partner and Director of Azure Capital Limited, a mining focused leading independent Perth-based corporate advisor, where he worked for nine years advising boards and senior executives across a range of industries including mining, oil & gas and related services on business development, corporate strategy, finance, and mergers and acquisitions. Prior to his arrival in Australia in 2002 Mr Kempson spent five years with investment banks Commerzbank AG and Barclays Capital in London and Germany, and four years working in technical roles for Logica (now part of CGI Group).

General Manager – Woodlawn

Brian Hearne is the General Manager of Woodlawn Mine. Mr. Hearne is a qualified mining professional and holds a degree in metallurgy (BAppSc). Mr. Hearne has extensive base-metals previously having had a 16-year tenure at Woodlawn, starting in 1978, with a further 2 years at the Benambra Mine in Victoria. He then joined MIM at McArthur River (MRM) as the Metallurgical Manager, and following a number of General Manager roles within MIM / Xstrata both in Australia and overseas and was appointed COO of Xstrata Zinc Australia.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year were base and precious metal mineral exploration and development through sole funded and joint venture activities. The company's principal focus during the 2016/17 financial year was seeking project finance for the Woodlawn Project.

OPERATING RESULTS

The loss of the consolidated entity for the 2017 financial year after income tax of nil (2016: nil) was \$2,856,542 (2016: \$4,246,438).

DIVIDENDS

No dividends were paid during the year and the Directors do not recommend the payment of a dividend.

OPERATIONS REVIEW

The detailed review of operations of the Consolidated Entity for the year is contained in Section 2.0 of the final printed Annual Report. Management's discussion and analysis for the three and twelve month period ending 30 June 2017 can be found in Appendix 2 of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On February 9 2017, the spin-out of the Company's non-Woodlawn assets into Ardea Resources Limited ("Ardea") resulted in the successful ASX listing of Ardea on 9 February 2017. Heron shareholders received a 1 for 10 in specie distribution of Ardea shares.

There were no significant changes in the state of affairs of the Consolidated Entity during the year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 4 July, 2017 Castlake were issued with 45.85 million shares to raise \$3.21 million, being the initial subscription under the equity subscription agreement with Castlake.

A General Meeting of shareholders was held on 17 August, 2017 at which Shareholders approved the Woodlawn financing. Funds from the financing will be received on or around 6 September 2017 with construction on site commencing shortly thereafter.

Other than noted at the date of this Report there is no matter or circumstance which has arisen since 30 June 2017 that has significantly affected or may significantly affect:

- The operations, in the financial years subsequent to 30 June 2017, of the Consolidated Entity;
- The results of those operations; or
- The state of affairs, in the financial years subsequent to 30 June 2017, of the Consolidated Entity.

OPTIONS

Options issued during the year are noted below and were issued under the Employee Share Ownership Plan (ESOP) approved by Shareholders at the 2015 AGM. There were no options exercised during the year

Number Issued	Expiry Date	Exercise Price
400,000	1-Sep-21	\$0.134
2,650,000	1-Feb-22	\$0.11

The following Options expired during the year:

Number Issued	Expiry Date	Exercise Price
5,000,000	7-Sep-16	\$0.6864
400,000	27-June-16	\$0.092
1,000,000	05-Mar-17	\$0.27
21,459	04-Feb-17	\$0.27
333,334	16-Jan-17	\$0.31
6,754,793		

As at the date of this report the Company had the following options on issue:

Date Options Granted	Expiry Date	Number Issued	Exercise Price
3 April 2013	5-Mar-18	1,000,000	\$0.29
5 August 2014	23-Oct-17	21,459	\$0.12
5 August 2014	20-Nov-18	858,369	\$0.07
5 December 2015	4-Dec-20	19,900,000	\$0.072
1 September 2016	1-Sep-21	400,000	\$0.134
1 February 2017	1-Feb-22	2,650,000	\$0.11
	TOTAL	24,829,828	

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

LIKELY DEVELOPMENTS

Further information on the likely developments in the operations of the Consolidated Entity and the expected results of those operations have not been included in this Report because the Directors believe it would be likely to result in unreasonable prejudice to the Consolidated Entity.

DIRECTORS AND KEY MANAGEMENT PERSONNEL SHAREHOLDINGS IN THE COMPANY

As at the date of this Report the interests of the Directors in the Shares of the Company were:

Directors	Ordinary Shares		Option over Ordinary Shares	
	Direct	Indirect	Direct	Indirect
I J Buchhorn	2,518,241	44,272,718	3,000,000	-
S B Dennis	-	1,350,000	1,000,000	-
W Taylor	268,618	1,595,905	4,858,369	-
B Putnam	-	-	1,000,000	-
F Robertson	-	500,000	1,000,000	-
M Sawyer	-	-	1,000,000	-
Key Management Personnel				
A Lawry	-	170,000	1,650,000	-
D von Perger	478,136	130,000	1,650,000	-
S Smith	72,961	200,000	1,650,000	-
C Kempson	-	3,208,474	2,650,000	-
Brian Hearne	-	-	1,650,000	-

DIRECTORS MEETINGS

During the year the Company held 11 meetings of Directors. The attendance of the Directors at meetings of the Board were:

Director	Meetings held while a director	Number of meetings attended	Audit Committee Meetings held & attended	Remuneration and Nomination Committee meetings held & attended
S Dennis	11	11	4	1
I Buchhorn (resigned 2 June 2017)	10	10	-	-
W Taylor	11	11	-	-
B Putnam	11	10	4	1
F Robertson	11	10	4	1
M Sawyer	11	10	-	-

REMUNERATION REPORT (AUDITED)

The Board seeks independent advice on remuneration policies and practices, involving the remuneration packages and terms of employment of Directors. Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executive Officers in the context of prevailing market conditions. There is no direct link between Director and Senior Executive remuneration and corporate performance, other than the performance conditions attaching to options.

Remuneration levels and other terms of employment for Mr Taylor, Mr Smith, Mr Buchhorn, Mr Lawry, Mr Kempson, Mr von Perger and Mr Hearne are formalised in service agreements/work contracts. The base salary amounts below reflect their current salary, not the amounts paid to them during the 16/17 financial year.

The agreement with **Mr Taylor** requires the provision of his services as Managing Director and CEO of the Company and contains the following major provisions:

- No fixed term;
- Current base salary of \$400,000 exclusive of 15% superannuation; and
- In the event that the Company terminates Mr Taylor's employment other than for matters concerning fraud and dishonesty and the like the Company will pay Mr Taylor the maximum amount payable in accordance with the formula prescribed by section 200G of the Corporations Act. The length of notice to be given by both parties on termination is six months.

The agreement with **Mr Buchhorn** requires the provision of his services as Executive Director of the Company and contains the following major provisions:

- No fixed term;
- Current base salary of \$321,000 exclusive of superannuation; and
- As announced by the Company, Mr. Buchhorn stepped down as a Heron Director on 2 June 2017. Mr. Buchhorn's employment will be terminated by the Company following the successful completion of the Woodlawn project finance on or around 6 September 2017. Under Mr. Buchhorn's Executive Service Agreement, he is entitled to a termination payment of \$2,291,105, of which \$1,384,519 was paid into an escrow account prior to 30 June 2017 and the remaining portion will be remitted to the ATO following financial close.

The agreement with **Mr Smith** requires the provision of his services as General Manager – Finance and Administration and Company Secretary of the Company and contains the following major provisions:

- No fixed term;
- Current base salary of \$292,500 exclusive of superannuation; and
- Termination can be made by either Mr Smith or the Company by giving not less than three months' notice.

The agreement with **Mr Lawry** requires the provision of his services as Chief Operating Officer of the Company and contains the following major provisions:

- No fixed term;
- Current base salary of \$340,000 exclusive of superannuation; and
- Termination can be made by either Mr Lawry or the Company by giving not less than three months' notice.

The agreement with **Mr von Perger** requires the provision of his services as Exploration Manager of the Company and contains the following major provisions:

- No fixed term;
- Current base salary of \$280,000 exclusive of superannuation plus car; and
- Termination can be made by either Mr Von Perger or the Company by giving not less than three months' notice.

The agreement with **Mr Kempson** requires the provision of his services as General Manager Strategy and Business Development of the Company and contains the following major provisions:

- No fixed term;
- Current base salary of \$292,500 exclusive of superannuation; and
- Termination can be made by either Mr Kempson or the Company by giving not less than three months' notice.

The agreement with **Mr Hearne** requires the provision of his services as General Manager - Woodlawn of the Company and contains the following major provisions:

- No fixed term;
- Current base salary of \$280,000 exclusive of superannuation; and
- Termination can be made by either Mr Hearne or the Company by giving not less than three months' notice.

Non-executive Directors, Stephen Dennis, Borden Putnam, Fiona Robertson and Mark Sawyer, received a fixed fee for their services as directors. Non-executive Directors fees not exceeding an aggregate of \$500,000 per annum have been approved by the Company in a general meeting on the 5 June 2007. There is no direct link between non-executive Directors fees and corporate performance. There are no termination or retirement benefits for non-executive Directors (other than statutory superannuation).

In August 2017 year-end bonuses were approved by the remuneration committee for W Taylor (\$60,000), D Von Perger (\$27,500), A Lawry (\$45,000), S Smith (\$40,000), C Kempson (\$50,000) and, B Hearne (\$7,500). These were granted based on an assessment of their performance in the year in achieving key milestones and deliverables as part of the Company's Short Term Incentive (STI) program. Awards made under the STI program are entirely discretionary. They are disclosed as 'Short Term Incentives' in the table below. In August 2017 Mr Dennis received a "one-off" payment of \$30,000 in recognition for his significant additional services in his role as Chairman in 2017 in connection with Woodlawn financing and related matters.

Other than outlined above, since the end of the previous financial year, no Director has received or become entitled to receive a benefit, other than benefits disclosed in the financial statements.

2017	Short-term -----benefits-----			Post-employment -----benefits-----		Termination payments	Share- based payment Total	
	Cash salary & fees	Non-cash	Short Term Incentive	Super- annuation	Retirement			
	\$	\$	\$	\$	\$	\$	\$	\$
Directors								
I J Buchhorn	321,101	-	-	30,505	-	2,291,105	74,240	2,716,951
S B Dennis	97,500	-	30,000	12,113	-	-	24,786	164,399
W Taylor	367,000	-	60,000	64,050	-	-	98,987	590,037
B Putnam	76,650	-	-	-	-	-	24,786	101,436
F Robertson	70,000	-	-	6,650	-	-	24,786	101,436
M Sawyer	76,650	-	-	-	-	-	24,786	101,436
Key Management Personnel ("KMP")								
D von Perger	261,468	6,148	27,500	27,452	-	-	40,832	363,400
A Lawry	310,000	-	45,000	33,250	-	-	40,832	429,082
C Kempson	261,468	-	50,000	29,589	-	-	40,832	381,889
S Smith	261,000	-	40,000	29,070	-	-	40,832	370,902
B Hearne	163,958	-	7,500	16,288	-	-	22,086	209,832
Total	2,266,795	6,148	260,000	248,967	-	2,291,105	457,785	5,530,800

2016	Short-term			Post-employment		Termination payments	Share- based payment Total	
	benefits			benefits				
	Cash salary & fees	Non-cash	Short Term Incentive	Super- annuation	Retirement			
	\$	\$	\$	\$	\$	\$	\$	\$
Directors								
I J Buchhorn	321,000	2,266	-	30,495	-	-	61,664	415,425
S B Dennis	90,000	-	-	8,550	-	-	20,554	119,104
W Taylor	367,000	-	55,000	63,300	-	-	104,318	589,618
B Putnam	76,650	-	-	-	-	-	20,554	97,204
F Robertson	70,000	-	-	6,650	-	-	20,554	97,204
M Sawyer	70,262	-	-	-	-	-	20,554	90,816
Key Management Personnel ("KMP")								
D von Perger	261,468	10,041	40,000	28,639	-	-	33,915	374,063
A Lawry	310,000	-	40,000	33,250	-	-	33,915	417,165
C Kempson	261,468	-	40,000	28,639	-	-	51,650	381,757
S Smith	261,000	-	40,000	28,595	-	-	33,915	363,510
Total	2,088,848	12,307	215,000	228,118	-	-	401,593	2,945,866

Fair values for the options at grant date, as included in the previous table, were determined using Black and Scholes that took into account the exercise price of the Option, the term of the Option, the vesting and performance criteria, the non-tradable nature of the Option, the Share price at grant date and the expected price volatility of the underlying Share and the risk-free interest rate for the term of the Option.

Under the Plan, the options vest upon the successful achievement of a number of key milestones at Woodlawn, being the successful draw down of Project finance debt, completion of construction of the processing plant and 1Mt processed through the plant.

Shares	Held at 1 July 2016	Purchased on market	Sold	Held at 30 June 2017
Directors				
I Buchhorn	46,790,959	-	-	46,790,959
S Dennis	1,350,000	-	-	1,350,000
W Taylor	1,864,523	-	-	1,864,523
B Putnam	-	-	-	-
F Robertson	500,000	-	-	500,000
M Sawyer	-	-	-	-
Key Management Personnel				
A Lawry	170,000	-	-	170,000
D von Perger	608,136	-	-	608,136
C Kempson	3,508,474	-	(300,000)	3,208,474
S Smith	132,961	140,000	-	272,961
B Hearne	-	-	-	-

Options	Expiry Date	Exercise Price	Held at 1 July 2016	Issued	Expired /lapsed	Held at 30 June 2017
Directors						
I Buchhorn	7 Sept 2016	\$0.68	5,000,000	-	(5,000,000)	-
	4 December 2020	\$0.072	3,000,000	-	-	3,000,000
W Taylor	20 November 2018	\$0.07	858,369	-	-	858,369
	4 December 2020	\$0.072	4,000,000	-	-	4,000,000
S Dennis	4 December 2020	\$0.072	1,000,000	-	-	1,000,000
F Robertson	4 December 2020	\$0.072	1,000,000	-	-	1,000,000
B Putnam	4 December 2020	\$0.072	1,000,000	-	-	1,000,000
M Sawyer	4 December 2020	\$0.072	1,000,000	-	-	1,000,000
Key Management Personnel						
D von Perger	4 December 2020	\$0.072	1,650,000	-	-	1,650,000
C Kempson	5 March 2017	\$0.25	1,000,000	-	(1,000,000)	-
	5 March 2018	\$0.29	1,000,000	-	-	1,000,000
	4 December 2020	\$0.072	1,650,000	-	-	1,650,000
A Lawry	4 December 2020	\$0.072	1,650,000	-	-	1,650,000
S Smith	4 December 2020	\$0.072	1,650,000	-	-	1,650,000
B Hearne	1 February 2022	\$0.11	-	1,650,000	-	1,650,000
			25,458,369	1,650,000	(6,000,000)	21,108,369

EMPLOYEE DIVERSITY

Women currently represent 38% of employees in the Company as a whole. There is currently one woman on the Board.

INDEMNITY AND INSURANCE OF OFFICERS

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The insurance premium relates to liabilities that may arise from an officers position within the Company, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain personal advantage.

The officers covered by the insurance policies are the Directors and Officers of the Company.

The contract of insurance prohibits the disclosure of the nature of the liabilities and the amount of premium.

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

CORPORATE GOVERNANCE

The Company has undertaken a thorough review of its Corporate Governance practices and policies in accordance with both the TSX and ASX Corporate Governances Best Practices Recommendations. Following guidance from the ASX the Corporate Governance policy can be found on our website in line with Listing Rule 4.10.3.

ENVIRONMENTAL REGULATION

The Consolidated Entity is subject to and compliant with all aspects of environmental regulation in respect of its exploration and development activities. The Directors are not aware of any environmental regulation which is not being complied with.

ABORIGINAL CULTURE AND HERITAGE

The Consolidated Entity is subject to and compliant with all aspects of Aboriginal Heritage regulation in respect of its exploration and development activities. The Directors are not aware of any regulation which is not being complied with. The Directors are committed to cultural respect in undertaking business activities of the Company.

NON-AUDIT SERVICES

The Consolidated Entity has not employed the auditor on any assignments additional to their statutory audit duties.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

ROUNDING OFF

The Company is of a kind referred to in Corporations Instruments and in accordance with that Corporations Instruments, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

AUDITOR'S INDEPENDENCE 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

A handwritten signature in black ink, appearing to read 'S Dennis', with a stylized flourish at the end.

S Dennis

Chairman

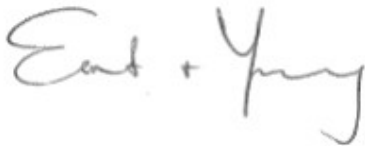
Sydney, 29 August 2017

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

As lead auditor for the audit of Heron Resources Limited for the financial year ended 30 June 2017, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Scott Jarrett
Partner
Sydney
29 August 2017

5.0 Consolidated Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated Entity	
	Notes	2017	2016
		\$'000	\$'000
OTHER INCOME	2	422	1,081
Accountancy fees		(96)	(11)
Audit fees		(87)	(18)
Depreciation expense	3(a)	(60)	(57)
Directors fees		(320)	(310)
Employee benefits expense		(998)	(1,034)
Termination – severance payment ⁽¹⁾		(2,291)	-
Insurance expense		(94)	(75)
Legal fees		(99)	(166)
Equity settled share based payments	16(b)	(554)	(457)
Rental Expenses		(137)	(340)
Other expenses from ordinary activities	3(b)	(1,213)	(892)
Exploration expenditure expensed as incurred	10	(1,341)	(1,714)
Exploration expenditure written off	10	-	(1,181)
Investment gain/(loss)	7	4,011	921
(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(2,857)	(4,253)
INCOME TAX EXPENSE	4	-	-
(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(2,857)	(4,253)
(LOSS) ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(2,857)	(4,253)
OTHER COMPREHENSIVE INCOME			
Changes in market value of financial assets		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(2,857)	(4,253)
		\$	\$
Basic earnings per Share	23	(0.006)	(0.0104)
Diluted earnings per Share	23	(0.006)	(0.0104)

(1) Please refer to Remuneration Report (page 36) for further information on the termination payment to former Heron Director, Mr Ian Buchhorn.

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Notes	Consolidated Entity	
		2017	2016
		\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	17(c)	11,690	22,891
Trade and other receivables	5	717	522
TOTAL CURRENT ASSETS		12,407	23,413
NON-CURRENT ASSETS			
Other Assets - deferred costs	6	2,481	-
Trade and other receivables	8	35	35
Investments	7	5,775	1,907
Property, plant and equipment	9	40	436
Exploration and evaluation costs carried forward	10	26,434	31,068
TOTAL NON-CURRENT ASSETS		34,765	33,446
TOTAL ASSETS		47,172	56,859
CURRENT LIABILITIES			
Trade and other payables	11	2,461	893
Provisions	12	564	840
TOTAL CURRENT LIABILITIES		3,025	1,733
NON-CURRENT LIABILITIES			
Provisions	13	137	42
TOTAL LIABILITIES		3,162	1,775
NET ASSETS		44,010	55,084
EQUITY			
Contributed equity	14	129,638	138,409
Option reserve	16(b)	1,489	935
Accumulated losses	16(a)	(87,117)	(84,260)
TOTAL EQUITY		44,010	55,084

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Issued Capital \$'000	Accumulated Losses \$'000	Option Reserve \$'000	Total \$'000
As at 30 June 2016		138,409	(84,260)	935	55,084
Total comprehensive income for the year		-	(2,857)	-	(2,857)
Return of Capital - Spin-out Ardea Resources Ltd	14	(8,771)	-	-	(8,771)
Option reserve write back	16(a) &(b)	-		(7)	(7)
Cost of share based payments	16(b)	-	-	561	561
As at 30 June 2017		129,638	(87,117)	1,489	44,010
As at 30 June 2015		131,680	(80,051)	522	52,151
Total comprehensive income for the year		-	(4,253)	-	(4,253)
Issue of share capital	14	6,729	-	-	6,729
Option reserve write back	16(a) & (b)	-	44	(44)	-
Cost of share based payments	16(b)	-	-	457	457
As at 30 June 2016		138,409	(84,260)	935	55,084

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Consolidated Entity	
		2017	2016
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received & other income		322	717
Expenses re-imbursed from Ardea Resources Ltd		226	-
Payments to suppliers and employees		(6,890)	(2,765)
NET CASH USED IN OPERATING ACTIVITIES	17(a)	(6,342)	(2,048)
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration expenditure		(6,105)	(9,758)
R&D Refund		3,171	2,302
Proceeds from Sale of Tenements		100	-
Sale of investments	7	334	1,656
Sale of options		131	-
Acquisition of plant and equipment		(9)	(18)
Proceeds from sale of plant and equipment		-	12
NET CASH USED IN INVESTING ACTIVITIES		(2,378)	(5,806)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	6,821
Cost of share issue		-	(91)
Costs incurred for the Woodlawn Project Finance		(2,481)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		(2,481)	6,730
NET INCREASE / (DECREASE) IN CASH HELD		(11,201)	(1,124)
Cash at the beginning of the reporting period		22,891	24,015
CASH AT THE END OF THE REPORTING PERIOD	17(c)	11,690	22,891

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2017**NOTE 1. STATEMENT OF ACCOUNTING POLICIES**

The Company is a public company limited by shares. The Company was incorporated in Western Australia.

The Company is a for profit entity for the purpose of preparing the financial statements.

The following is a summary of the material accounting policies adopted by Heron Resources Limited and its controlled entities (the Company) in the preparation of the financial statements.

a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB's) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

In the application of AIFRS, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment. Actual results may differ from these estimates.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit and loss, certain classes of property, plant and equipment and investment property.

The consolidated financial statements are presented in Australian Dollars which is the consolidated entity's functional and presentation currency.

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

b) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

All inter-company balances and transactions between entities in the Company, including any unrealised profits or losses, have been eliminated on consolidation.

c) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability at the same time.

The resulting deferred tax assets of the Company are currently not recognised and included as an asset because recovery is considered not probable in the next five years.

Heron Resources Limited and its wholly owned Australian controlled entities have implemented the tax consolidated legislation as of 1 July 2003.

d) Segment reporting

A segment is a distinguishable component of the Company that is engaged in the minerals industry in Australia. The Company's activities are divided into five main categories and this information is presented on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. The CODM reviews segmental information on a monthly basis vs budget. The accounting policies adopted for internal reporting are consistent with those adopted in the financial statements.

Woodlawn – Tenements related to the Woodlawn Underground Project (WUP) and Woodlawn Retreatment Project (WRP)

Exploration – Tenements not KNP, Lewis Ponds or Woodlawn related.

Corporate – Corporate activity.

On the 7th February 2017 Ardea was successfully spun out of Heron. KNP and Lewis Ponds are now owned by Ardea Resources.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, duties and taxes paid. The main revenue is interest received, which is recognised on an accrual basis using the effective interest rate method.

f) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses where applicable.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation and amortisation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Motor Vehicles	3-5 years
Fixtures and Fittings	5-15 years
Plant and Equipment	5-15 years
Land and Buildings	15-25 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

g) Exploration, evaluation, development and restoration costs

Exploration, evaluation and development expenditure incurred is expensed at the end of the reporting period unless it relates to a specific project in which case it is carried forward to the extent that it is expected to be recouped through the successful development of the area, or by its sale. During 2017 all expenses capitalised relate to the Woodlawn project.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

Accumulated costs are not carried forward in respect of any area of interest unless rights to tenure of that area are current.

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation and development phases that give rise to the need for restoration.

h) Investments

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchase or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, ie the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss. The fair value of financial assets at fair value through profit and loss is determined under level 1 of the fair value hierarchy, being quoted prices on the ASX.

i) Trade and other receivables

Trade and other receivables are stated at their cost and are due for settlement no more than 30 days from the date of invoicing.

j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with the banks, other short term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, if any, are shown within short-term borrowings on the statement of financial position.

k) Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

l) Employee benefits

(i) Wages and salaries, annual leave

Liabilities for wages and salaries and annual leave are recognised as employee benefits in respect of employee's services up to the reporting date and are measured at the amounts to be paid when the liabilities are settled. The company has a policy of employees using their Annual Leave every year and as a result Annual Leave is not discounted to a present value.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service and final average salary.

m) Share-based payment transactions

The Company provides benefits to the Directors and employees of the Company in the form of share based payment transactions, whereby services are rendered in exchange for shares or rights over shares ("Equity-settled transactions").

An Employee Share Option Plan ("ESOP") provides benefits to Directors, employees and consultants.

The cost of these equity-settled transactions is measured by reference to fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Heron Resources Limited ("market conditions").

The cost of equity-settled securities is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant individual becomes fully entitled to the award ("vesting date").

Where the Company acquires some form of interest in an exploration tenement or an exploration area of interest and the consideration comprises share-based payment transactions, the fair value of the equity instruments granted is measured at grant date. The cost of equity securities is recognised within capitalised mineral exploration and evaluation expenditure, together with a corresponding increase in equity.

n) Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

o) Trade and other payables

Trade and other payables are stated at cost. The amounts are unsecured and are usually paid on 30 days.

p) Dividends

No dividends have been paid or proposed during or since the end of the year.

q) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO are classified as operating cash flows.

r) Contributed equity

Incremental costs directly attributed to the issue of new shares or options are shown in the equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

s) Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

t) Significant accounting judgments, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Capitalisation of exploration and evaluation expenditure

Under AASB 6 Exploration for and Evaluation of Mineral Resources the Group has the option to either expense exploration and evaluation expenditure as incurred or to capitalise such expenditure provided that certain conditions are satisfied. The Group's policy is closer to the former as outlined in note 1 (g). The Company's policy is capitalise all expenditure related to the Woodlawn project as there is sufficient evidence to conclude that Woodlawn will become an operating mine in the foreseeable future.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Black-Scholes or Binomial methodology.

Options in Ardea Resources Ltd

During the year, the Company received 10,000,000 options with an exercise price of \$0.25 cents in Ardea Resources as consideration for the costs incurred by Heron in the Ardea IPO. The fair value is determined by using either the Black-Scholes.

New, revised or amending Accounting Standards and Interpretations adopted

Heron Resources has adopted the following new and amended accounting standards from 1 July 2017:

AASB 2015-2 Disclosure Initiative Amendment to AASB 101 - This Standard amends AASB 101 Presentation of Financial Statements to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements.

AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify the principle in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset.

Adoption of these standards did not have any material effect on the Statement of Financial Performance, Statement of Comprehensive Income and Statement of Financial Position of the Group.

Accounting standards issued but not yet effective

Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the year ended 30 June 2017. At this time the following standards and interpretations may have an impact, but the extent of this is not expected to be material:

AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses - The amendments to AASB 112 Income Taxes clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Effective for annual periods beginning on or after 1 January 2017. (Company 1 July 2017).

ASB 2016-2 Disclosure Initiative - The amendments to AASB 107 Statement of Cash Flows require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

AASB 9 Financial Instruments - A new Principal standard which replaces AASB 139. This new Principal version includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. Effective for annual periods beginning on or after 1 January 2018. (Company 1 July 2018).

AASB 15 Revenue from Contracts with Customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Effective for annual periods beginning on or after 1 January 2018. (Company 1 July 2018). As the group is not generating revenue, there is no impact on current reporting.

AASB 16 Leases. AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases. Effective for annual periods beginning on or after 1 January 2019. (Company 1 July 2019).

At this time the following interpretation may have an impact, but the extent of this has not been determined:

Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. Effective for annual periods beginning on or after 1 January 2019. (Company 1 July 2019).

u) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to fund exploration activities and develop or secure access to a cash producing asset.

Consistent with others in the industry, the Group and the parent entity monitor capital on the basis of working capital requirements.

During 2017 the Group's strategy, which was unchanged from 2016, was to maintain a current account balance sufficient to meet the Company's day to day expenses with the balance held in term deposits.

v) Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

w) Fair Value

AIIFRS accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying values for short-term investment, sundry receivables and prepaid expenses, subscription receivable, and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

The Company has designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

	Consolidated Entity	
	2017	2016
	\$'000	\$'000
NOTE 2. OTHER INCOME		
Revenues from continuing activities		
Gain / (Loss) of fixed assets	-	(6)
Gain / (Loss) on sale of investments	-	35
Interest received - other persons/corporations	282	717
Proceeds from disposal of interest in Rocky Gully	-	288
Proceeds from disposal of interest in Overflow	-	26
Proceeds from disposal of interest in Siberia tenement	100	-
Sundry Income	40	21
Total revenues from continuing activities	422	1,081

NOTE 3. OPERATING EXPENSES

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

a) Depreciation expense		
Plant & equipment	(13)	(7)
Office equipment & furniture	(41)	(46)
Motor vehicles	(6)	(4)
	(60)	(57)
b) Other expenses includes the following:		
Stock exchange (ASX and TSX)	(63)	(94)
Travel & accommodation	(200)	(122)
Office expenses and supplies	(105)	(106)
Computer support services	(189)	(88)
Report expenses and printing	(55)	(67)
Conferences and seminars	(18)	(22)
Investor Relations	(328)	(284)
Miscellaneous expenses	(255)	(109)
Total other expenses	(1,213)	(892)

	Consolidated Entity	
	2017	2016
	\$'000	\$'000

NOTE 4. INCOME TAX

a) Temporary differences carried forward

Current Tax

Deferred tax

-	-
-	-
-	-

The Heron Resources Limited group of companies was tax consolidated on 1 July 2003 and during the year the Company entered into a tax sharing and/or tax funding agreements with its members.

The parent entity made a tax loss and on consolidation the group made a tax loss. The parent and the subsidiaries have substantial tax losses carried forward.

The Directors are of the view that there is insufficient probability that the parent entity and its subsidiaries will derive sufficient income in the foreseeable future to justify recognising the tax losses and temporary differences as deferred tax assets and deferred tax liabilities.

Heron Resources Limited is the head entity for the group.

b) Numerical reconciliation of income tax expense to prima facie tax payable is as follows:

Profit (loss) from operations before income tax expense

Tax at Australian tax rates of 27.5% (2016 28.5%)

Tax effect of non-temporary differences

Tax effect of equity raising costs debited to equity

Over or under provision from previous years

Tax effect of tax losses and temporary differences not recognised

Income tax expense

(2,857)	(4,253)
(787)	(1,212)
(964)	(119)
(5)	(6)
-	-
1,756	1,337
-	-

c) There is no amount of tax benefit recognised in equity as the tax effect of temporary differences has not been booked

d) Tax Losses - Revenue

Unused tax losses for which no tax loss has been booked as a

DTA adjusted for non temporary differences

Potential tax benefit at 27.5% (2016 28.5%)

95,758	90,664
26,333	25,839

e) Unrecognised temporary differences

Non deductible amounts as temporary differences

Accelerated deductions for book compared to tax

Total at 100%

Potential effect on future tax expense for temporary differences at 27.5% (2016 28.5%)

736	881
(8,633)	(1,002)
(7,897)	(121)
(2,171)	(35)

f) There are no franking credits available for future years

NOTE 5. TRADE AND OTHER RECEIVABLES – CURRENT

Prepayments

Accrued interest

Goods & services tax paid

Ardea Resources Ltd - expense reimbursement

Sundry Debtors

155	75
2	56
166	82
238	-
156	309
717	522

Consolidated Entity	
2017	2016
\$'000	\$'000

NOTE 6. OTHER ASSETS - DEFERRED COSTS - NON CURRENT

Costs for Woodlawn Project Finance

2,481

-

Costs for Woodlawn Project finance include external legal, broker, financial advisory costs and independent experts that are directly related to the Woodlawn project funding process. Once financial close occurs on or around 6 September 2017, these costs will be allocated to either cost of equity raised or cost of debt raised.

NOTE 7. INVESTMENTS IN ENTITIES - NON CURRENT

Centennial Mining Ltd (CTL, formerly A1 Consolidated) is an Australian listed public exploration company with 705,444,920 fully paid ordinary shares on issue. Heron holds 23,000,000 fully paid shares at 30 June 2017, which have been valued at the closing price of \$0.02 on that day.

Metalicity Limited (MCT) is an Australian listed public exploration company with 470,402,987 fully paid ordinary shares on issue. Heron holds 13,375,000 fully paid shares at 30 June 2017, which have been valued at the closing price of \$0.04 on that day.

During the year, the company sold 1,000,000 shares in Metalicity at an average price of \$0.086 per share

Alchemy Resources Ltd (ALY) is an Australian listed public exploration company with 342,335,585 shares on issue. In the prior year, the Company entered into a Farm out agreement with Alchemy Resources Ltd over its Overflow and Girilambone projects. In consideration, Heron received 2,000,000 shares in Alchemy which were escrowed for 1 year and 2,500,000 options with a 3 year term and an exercise price of \$0.10 (nil value ascribed). The Alchemy shares are valued at closing price of \$0.02 as at 30 June 2017.

Ardea Resources Ltd (ARL) is an Australian listed public exploration company that was successfully spun out of Heron in February 2017. To compensate Heron for the costs it incurred during the IPO, Heron was issued 10,000,000 options in Ardea with an exercise price of \$0.25 cents. The company has valued the options using the Black Scholes option pricing methodology using the following assumptions. The option are escrowed until February 2019.

Number of options	10,000,000
Method adopted	Black Scholes
Average volatility (%)	90
Average risk free interest rate (%)	1.97%
Expiry Date	9 February 2020
Exercise price	\$0.25
Ardea Share price	\$0.64
Value per option	\$0.474

	30 June 2017 \$'000	30 June 2016 \$'000
Investments in other entities at fair value		
Centennial Mining	460	673
Metalicity Limited	535	1,006
Newamu Pty Ltd	-	178
Alchemy Resources Ltd	40	50
Ardea Resources	4,740	-
	<u>5,775</u>	<u>1,907</u>

	2017 \$'000	2016 \$'000
Movement in investments		
Centennial Mining		
Opening carrying value 30 June 2016 (shares and options)	673	1,122
Sold on market - Shares	(248)	(47)
Sold on market – Options	(131)	-
Mark to market – Options	-	(98)
Mark to market - Shares	166	(304)
Closing carrying value 30 June 2017	460	673
Metalicity Limited		
Opening carrying value 30 June 2016	1,006	75
Proceeds from issue of shares for Rocky Gully	-	288
Sold on market - Shares	(86)	(38)
Mark to market - Shares	(385)	681
Closing carrying value 30 June 2017	535	1,006
Newamu Pty Ltd		
Opening carrying value 30 June 2016	178	178
Sold to Ardea	(178)	-
Closing carrying value 30 June 2017	-	178
Alchemy Resources Limited		
Opening carrying value 30 June 2016	50	-
Proceeds from issue of shares for Overflow Farm In	-	26
Mark to market - Shares	(10)	24
Closing carrying value 30 June 2017	40	50
Ardea Resources		
Ascribed value of 10m Options as at date of IPO	500	-
Mark to market – Options	4,240	-
Closing carrying value 30 June 2017	4,740	-
	2017 \$'000	2016 \$'000
Summary		
Opening carrying value 30 June 2016	1,907	2,328
Proceeds from sale of tenements/Farm-ins	-	314
Sold to Ardea - Newamu	(178)	-
Value of 10m Options Ardea	500	-
Sold on market – Shares	(334)	(1,656)
Sold on market – options	(131)	
Mark to market - Shares	(229)	921
Mark to market – options - Ardea	4,240	-
Closing carrying value 30 June 2017	5,775	1,907

	Consolidated Entity	
	2017	2016
	\$'000	\$'000
NOTE 8. TRADE AND OTHER RECEIVABLES - NON CURRENT		
Employee share option plan – non-recourse loan	35	35
	35	35
NOTE 9. PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment at cost	333	333
Accumulated depreciation	(325)	(311)
	8	22
Office equipment & furniture at cost	921	911
Accumulated depreciation	(904)	(841)
	18	70
Motor vehicles at cost	229	229
Accumulated depreciation	(216)	(210)
	13	19
Land and buildings at cost	325	325
Transferred to Ardea	(325)	-
Accumulated depreciation	-	-
	-	325
Total property, plant and equipment	40	436
Reconciliation		
Plant and equipment:		
Carrying amount at 1 July 2016	22	22
Additions	9	7
Disposals	(9)	-
Depreciation Expense	(14)	(7)
Carrying value at 30 June 2017	8	22
Office equipment and furniture:		
Carrying amount at 1 July 2016	70	106
Additions	-	9
Disposals	(12)	(2)
Depreciation Expense	(40)	(43)
Carrying value at 30 June 2017	18	70
Motor vehicles:		
Carrying amount at 1 July 2016	19	24
Additions	-	-
Disposals	-	-
Depreciation Expense	(6)	(4)
Carrying value at 30 June 2017 ⁽¹⁾	13	19
Land and buildings:		
Carrying amount at 1 July 2016	325	341
Additions	-	2
Assets transferred to Ardea	(325)	(18)
Depreciation Expense	-	-
Carrying value at 30 June 2017	-	325

(1) Minor rounding required within reconciliation

NOTE 10. EXPLORATION, EVALUATION AND DEVELOPMENT COSTS CARRIED FORWARD

	30 June 2017	30 June 2016
	\$'000	\$'000
Balance brought forward	31,068	27,119
Exploration and evaluation costs incurred - Woodlawn	6,837	7,432
Ardea Spin-out ⁽¹⁾	(8,300)	-
Exploration and evaluation costs incurred – other projects	1,341	1,714
Exploration and evaluation expensed as incurred	(1,341)	(1,714)
Exploration and evaluation impairment ⁽¹⁾	-	(1,181)
R&D Tax incentive received	(3,171)	(2,302)
Balance carried forward ⁽¹⁾	<u>26,434</u>	<u>31,068</u>

⁽¹⁾ On 10 August 2016, the Company announced the spin-out of the non Woodlawn assets into a separate company called Ardea. The capitalised exploration assets that were spun-out of the Company into the Ardea IPO were Lewis Ponds and KNP. The value of the Ardea assets immediately prior to the IPO capital raise was \$8.3M. This value was estimated with reference to the number of Ardea shares that existing Heron shareholders received under the 1 for 10 "in specie distribution" being 41.5M shares multiplied by the IPO price of \$0.20 cents per share and other market information. Accordingly the KNP asset was impaired by \$1.181M in the 2016 financial year, thereby giving a valuation of \$8.3M when combined with the carrying value of Lewis Ponds.

The ultimate recoupment of costs carried forward is dependent upon the successful development and/or commercial exploitation or alternatively, sale of respective areas of interest.

	Woodlawn	Lewis Ponds	KNP	Exploration	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance brought forward	22,768	4,903	3,397	-	31,068
Exploration expenditure	-	-	371	970	1,341
Ardea – Value of Asset spin-out to Ardea	-	(4,903)	(3,397)	-	(8,300)
Capitalised exploration expenditure	6,837	-	-	-	6,837
Exploration and evaluation expensed as incurred	-	-	(371)	(970)	(1,341)
Exploration and evaluation impairment	-	-	-	-	-
R&D refund received	(3,171)	-	-	-	(3,171)
Balance carried forward	<u>26,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,434</u>

Consolidated Entity
2017
\$'000

NOTE 11. TRADE AND OTHER PAYABLES – CURRENT

Trade creditors and accruals - Woodlawn	733	329
Trade creditors and accruals – Other	1,728	564
	<u>2,461</u>	<u>893</u>

Trade creditors are non-interest bearing and are normally settled on 30 day terms.

NOTE 12. PROVISIONS – CURRENT

Employee entitlements		
Annual Leave	421	426
LSL Leave	143	384
	<u>564</u>	<u>840</u>

NOTE 13. PROVISIONS – NON CURRENT

Employee entitlements		
LSL Leave	107	42
Provision for rehabilitation	30	30
	<u>137</u>	<u>42</u>

NOTE 14. CONTRIBUTED EQUITY

Ordinary shares are fully paid and have no par value. They entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares. On a show of hands every holder of ordinary 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.

	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Issue of ordinary shares	Shares	Shares	\$'000	\$'000
Opening balance	415,009,381	360,877,723	138,409	131,680
Issue of shares	-	54,131,658	-	6,729
Return of capital – Ardea Spin-out	-	-	(8,771)	-
Closing balance	415,009,381	415,009,381	129,638	138,409

NOTE 15. SEGMENT REPORTING

Geographic location of Segments are as follows - Corporate - Sydney and Perth office. Woodlawn - Tarago, NSW. Exploration - Lachlan Fold Belt in NSW. Segmental information for consolidated statement of comprehensive income:

Year ended June 2017	Corporate	Woodlawn	Lewis Ponds	KNP	Exploration	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sale of fixed assets (loss)	-	-	-	-	-	-
Sale of investments	100	-	-	-	-	100
Interest received - other persons/corporations	282	-	-	-	-	282
Sundry Income	40	-	-	-	-	40
Total revenues	422	-	-	-	-	422
Depreciation	(33)	(27)	-	-	-	(60)
Exploration expenditure expensed as incurred	-	-	-	(372)	(970)	(1,341)
Termination – severance	(2,291)	-	-	-	-	(2,291)
Other expenses	413	-	-	-	-	413
Profit / (loss)	(1,489)	(27)	-	(372)	(970)	(2,857)

Year ended June 2016	Corporate	Woodlawn	Lewis Ponds	KNP	Exploration	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sale of fixed assets (loss)	-	(6)	-	-	-	(6)
Sale of investments	35	-	-	-	-	35
Interest received - other persons/corporations	717	-	-	-	-	717
Proceeds from Rocky Gully	288	-	-	-	-	288
Proceeds from disposal	26	-	-	-	-	26
Sundry Income	21	-	-	-	-	21
Total revenues	1,087	(6)	-	-	-	1,081
Depreciation	(40)	(17)	-	-	-	(57)
Exploration expenditure expensed as incurred	-	-	(169)	(927)	(618)	(1,714)
Impairment of exploration expenditure	-	-	-	(1,181)	-	(1,181)
Other expenses	(2,382)	-	-	-	-	(2,382)
Profit / (loss)	(1,335)	(23)	(169)	(2,108)	(618)	(4,253)

Segmental information for consolidated statement of comprehensive income:

Balance at June 2017	Corporate \$'000	Woodlawn \$'000	Lewis Ponds \$'000	KNP \$'000	Exploration \$'000	Total \$'000
Total current assets	12,407	-	-	-	-	12,407
Property, plant and equipment	40	-	-	-	-	40
Exploration and evaluation costs carried forward	-	26,434	-	-	-	26,434
Investment	5,775	-	-	-	-	5,775
Other non-current assets	2,516	-	-	-	-	2,516
Total non-current assets	8,331	26,434	-	-	-	34,765
Total assets	20,738	26,434	-	-	-	47,172
Total liabilities	1,783	1,349	-	-	30	3,162
Balance at June 2016	Corporate \$'000	Woodlawn \$'000	Lewis Ponds \$'000	KNP \$'000	Exploration \$'000	Total \$'000
Total current assets	23,413	-	-	-	-	23,413
Property, plant and equipment	26	56	325	-	29	436
Exploration and evaluation costs carried forward	-	22,768	4,903	3,397	-	31,068
Investments	1,907	-	-	-	-	1,907
Other non-current assets	35	-	-	-	-	35
Total non-current assets	1,968	22,824	5,228	3,397	29	33,446
Total assets	25,381	22,824	5,228	3,397	29	56,859
Total liabilities	1,248	246	-	-	281	1,775

Consolidated Entity
2017
\$'000

NOTE 16. ACCUMULATED LOSSES AND RESERVES

a) Accumulated Losses		
Balance at the beginning of the year	(84,259)	(80,051)
Write back of expense for expired/lapsed options	(7)	44
Net profit/(loss)	(2,857)	(4,252)
Balance at end of the year	(87,117)	(84,260)
The Company has retained a loss as at 30 June 2017.		
b) Option Reserve		
Balance at the beginning of the year	935	522
Cost of share based payments	561	457
Write back lapsed options expense	(7)	(44)
Balance at end of the year	1,489	935

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 the share capital when the underlying options are exercised.

	Consolidated Entity	
	2017	2016
	\$'000	\$'000

NOTE 17. CASH FLOW STATEMENTS

a)	Reconciliation of operating loss after income tax to the net cash flows from operations:		
	Operating loss after income tax	(2,857)	(4,252)
	Add/(less)		
	Exploration and evaluation costs written off	1,341	1,714
	Depreciation	60	57
	Impairment of exploration expenses	-	1,181
	Share based payments	554	457
	Non-cash proceeds from disposal of Rocky Gully & Overflow	-	(314)
	(Profit)/loss on sale of shares	-	(35)
	(Profit)/loss on sale of fixed assets	-	6
	Investment (gain)	(4,011)	(921)
	Increase in prepayments and debtors	(229)	204
	(Increase)/decrease in accrued interest and GST receivable	187	(43)
	(Increases) in creditors, accruals and provisions	(1,387)	(101)
		<u>(6,342)</u>	<u>(2,048)</u>
b)	During the year there were no non cash transactions other than other than the 1 for 10 In Specie distribution that Heron shareholders received in the form of new Ardea Resources shares.		
c)	Reconciliation of Cash		
	Cash on hand and at bank	11,690	22,891
	Closing cash balance	<u>11,690</u>	<u>22,891</u>

Cash security for tenement & environmental bonds of \$155,000 (2016 : \$114,000) is included in Trade and Other Receivables on the Balance Sheet. This is not available to the Company for ordinary activities.

Property bonds of \$35,711 (2016: \$48,865) are included in cash on hand and at bank. This amount is held as a security term deposit and is not available to the Company for ordinary activities.

NOTE 18. RELATED PARTY TRANSACTIONS

The Directors of the Company during the financial year were:

Non-Executive Directors

Stephen Dennis
Fiona Robertson
Borden Putnam III
Mark Sawyer

Executive Directors

Wayne Taylor
Ian Buchhorn (resigned on 2 June 2017)

The Key Management Personnel other than Executive Directors for the financial year were (for full year unless stated):

Chief Operating Officer

Andrew Lawry

General Manager - Finance and Company Secretary

Simon Smith

General Manager - Exploration Manager

David von Perger

General Manager - Strategy and Business Development

Charlie Kempson

General Manager - Woodlawn

Brian Hearne

Detailed remuneration disclosures are provided in the remuneration report on pages 36-39 of the Directors report.

NOTE 19. FINANCIAL INSTRUMENTS

- a) The carrying value of financial assets and liabilities approximates fair value.
- b) Financial risk management

The Company's activities expose it to a variety of financial risks; market risk (fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

*(i) Market risk**Price risk*

The Company is exposed to equity securities price risk. This arises from investments held by the Group and classified on the statement of financial position at fair value through profit or loss. The Company is not directly exposed to commodity price risk although the potential economics of projects it is exploring and evaluating are affected by commodity prices.

(ii) Foreign exchange risk

The Company has a limited number of suppliers that invoice in foreign currencies and therefore foreign exchange risk is minimal.

(iii) Credit risk

The maximum credit risk is total current assets of which the vast majority is cash which is all A1+ rated. The largest part of trade and other receivables is interest.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

(v) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Company has no interest-bearing liabilities and therefore the Group's cash out flows are not exposed to changes in market interest rates. The Group maintains a current account balance sufficient to meet day to day expenses with the balance held in A1+ rated commercial paper investments or term deposits.

Consolidated Entity	
2017	2016
\$'000	\$'000

NOTE 20. AUDITORS' REMUNERATION

Amounts received or due and receivable for:

Ernst & Young – Audit services	56	49
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NOTE 21. COMMITMENTS FOR EXPENDITURE

a) Exploration Commitments

In order to maintain current rights of tenure to exploration and mining tenements, the Company estimates the following annual discretionary exploration expenditure requirements up until expiry or relinquishment of the mining tenure. Due to the Company's operation in exploring and evaluating areas of interest, exploration expenditure beyond twelve months cannot be reliably determined. These obligations are not provided for in the financial statements and are payable based on granted tenements:

Not later than 1 year	527	2,435
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If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations. Those amounts detailed above include expenditure commitments which are the responsibility of earn-in / joint venture partners. If those joint venture partners continue to meet the expenditure commitments under respective joint venture / earn-in agreements, the estimates detailed above will reduce.

The JV's the Company currently has with Alchemy Resources, Southern Gold and Metalicity do not require it to contribute to expenditure to keep the tenements in good standing.

b) Operating Lease Commitments

The Company has leased two office premises under non-cancellable operating leases for periods of five years and one year. Lease amounts include a base amount, plus variable outgoings and car parking and are subject to an annual rent review by way of the consumer price index at the time of review.

Not later than 1 year	67	13
Later than 1 year but not later than 5 years	84	0
Later than 5 years	-	-

c) Capital Commitments

The Company has no capital commitments at 30 June 2017.

NOTE 22. INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Registration	Class of Shares	Consolidated Entity's Investment		Cost of Parent Entity's Investment	
			2017	2016	2017 \$	2016 \$
Tarago Operations Pty Ltd	Australia	Ordinary	100%	100%	100	100
Tri Origin Mining Pty Ltd	Australia	Ordinary	100%	100%	100	100
Woodlawn Mine Holdings Pty Ltd	Australia	Ordinary	100%	100%	10	10
Hampton Nickel Pty Limited	Australia	Ordinary	100%	100%	10	10
Ochre Resources Pty Limited	Australia	Ordinary	100%	100%	100	100

Entities sold to Ardea during the year

Atriplex Pty Limited	Australia	Ordinary	0%	100%	-	10
Yerilla Nickel Pty Limited	Australia	Ordinary	0%	100%	-	100
Ardea Resources Pty Limited	Australia	Ordinary	0%	100%	-	100
Woods Point Gold Mines Pty Limited	Australia	Ordinary	0%	100%	-	100
TriAusMin Pty Ltd	Australia	Ordinary	0%	100%	-	15,644,000

Regent Resources Pty Limited ("Regent") was registered on 10 April 2002. Regent Resources Limited name was changed on the 19 August 2005 to Hampton Nickel Limited and is being used by the Company to hold the Bulong nickel properties and to acquire further nickel properties in the Bulong district.

Ochre Resources Pty Limited ("Ochre") was registered on 7 February 2005 to seek and acquire iron ore properties in the course of the Company's base metal exploration activities.

Atriplex Pty Limited ("Atriplex") was registered on 7 April 2005 to seek and acquire nickel-copper sulphide properties (outside the Eastern Goldfields) in the course of the Company's exploration activities. Atriplex was sold to Ardea on 8 February 2017.

Yerilla Nickel Pty Limited ("Yerilla") was registered on 22 December 2006 as a potential holding company for the Jump-up Dam heap leach Project north east of Kalgoorlie. Yerilla has been sold to Ardea Resources on 8th February 2017.

Kalgoorlie Nickel Project Pty Limited ("KNP") was registered on 24 June 2009 as a holding company for the KNP properties. – KNP was sold to Ardea on 8 February 2017.

Woods Point Gold Mines Pty Limited ("WPG") was registered on 24 June 2009 as a holding company for the Woods Point Gold Mine. WPG was sold to Ardea on 8 February 2017.

TriAusMin Pty Ltd was acquired on 5 August 2014 as part of the merger with TriAusMin Ltd. TriAusMin Pty Ltd was sold to Ardea on 8 February 2017.

Woodlawn Mine Holdings Pty Ltd was incorporated on 27 May 2016 to act as a holding company for Tarago Operations Pty Ltd, the principal owner of the Woodlawn mine assets.

	Consolidated Entity	
	2017 \$	2016 \$
NOTE 23. EARNINGS PER SHARE		
Basic earnings per Share	(0.006)	(0.0104)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	415,009,381	407,890,207
Diluted earnings per Share	(0.006)	(0.0104)
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share.	415,009,381	407,890,207
Earnings profit/(loss) used in calculating basic and diluted earnings profit/(loss) per share	(2,856,542)	(4,252,525)

The 24,829,828 (2016: 28,534,621) options outstanding as at 30 June 2017 are not considered to be dilutive when calculating earning per share as the Company is in a loss per share position.

Consolidated Entity	
2017	2016
\$	\$

NOTE 24. EMPLOYEE ENTITLEMENTS

a) Employee Entitlements

The aggregate employee entitlement is comprised of:

Provisions Annual Leave	421	426
Provisions		
Long Service Leave - Current	143	384
Long Service Leave – Non Current	107	42

b) Employee Share Scheme

An Employee Share Option Plan (ESOP) has been established for Heron Resources Limited, where employees, Directors and Officers of the Company are issued with options over ordinary shares of Heron Resources Limited. At the General Meeting on 17 November 2015, shareholders approved a new ESOP. Under the Plan, the options vest upon the successful achievement of a number of key milestones at Woodlawn, being the successful draw down of Project finance debt, completion of construction of the processing plant and 1Mt processed through the plant.

The Options cannot be transferred and will not be quoted on the ASX.

During the year 1,754,793 options expired under the Employee Options Plan.

Details of options as at the beginning and end of the reporting date and movements during the year are set out in the table below:

Grant date	Expiry date	Exercise price	Number of Options at the beginning of the year	Options expired / lapsed this year	Options issued in the year	Number of Options at the end of the year	Options exercisable at the end of the year
2017 Consolidated and parent entity							
05-Oct-12	16-Jan-17	\$0.29	333,334	(333,334)	-	-	-
03-Apr-13	05-Mar-17	\$0.25	1,000,000	(1,000,000)	-	-	-
03-Apr-13	05-Mar-18	\$0.29	1,000,000	-	-	1,000,000	1,000,000
5-Aug-14	04-Feb-17	\$0.25	21,459	(21,459)	-	-	-
5-Aug-14	23-Oct-17	\$0.12	21,459	-	-	21,459	21,459
5-Aug-14	20-Nov-18	\$0.07	858,369	-	-	858,369	858,369
5-Dec-15	4-Dec-15	\$0.072	20,300,000	(400,000)	-	19,900,000	-
1-Sep-16	1-Sep-21	\$0.134	-	-	400,000	400,000	-
1-Feb-17	1-Feb-22	\$0.11	-	-	2,650,000	2,650,000	-
			23,534,621	1,754,793	3,050,000	24,829,828	1,879,828
Weighted average exercise price			0.112	0.285	0.12	0.075	0.238

The Black Scholes valuation methodology has been used to value the options issued during the reporting period. The following table lists the inputs used to value the options issued for the period ended 30 June 2017.

Number of options	3,050,000
Method adopted	Black Scholes
Average volatility (%)	61
Average risk free interest rate (%)	1.87
Average expected life of option (years)	5
Average exercise price	\$0.113
Average deemed share price at grant date	\$0.113
Average value per option	\$0.059

NOTE 25. SUBSEQUENT EVENTS

Other than those noted below there is no matter or circumstance which has arisen since 30 June 2017 that has significantly affected or may significantly affect:

- The operations, in the financial years subsequent to 30 June 2017, of the Company;
- The results of those operations; or

On 17 August 2017, the Heron shareholders voted in favour of all resolutions at the General Meeting for the \$240M Woodlawn Project Financing. The Woodlawn project finance is expected to close on or around 6 September 2017 with construction at Woodlawn to begin shortly thereafter.

NOTE 26. CONTINGENT LIABILITIES

a) Performance bonds and rental bond commitment

The Company has provided cash backed performance bonds with the NSW Dept of Resources and Energy of \$120,000 (30 June 2016: \$153,000) and a rental bond commitment (\$17,187) over its office in Sydney. The Company also has a rental bond commitment (\$15,623) over its Perth office.

b) Agreement with Veolia Environmental Services (Australia) Pty Ltd ("Veolia")

In 2011, the Company and Tarago Operations Pty Ltd ("TOP"), a wholly owned subsidiary of the Company, entered into an agreement with Veolia. This agreement was further updated during 2017, under which the Company agreed:

- (i) To assume the environmental liabilities associated with the Woodlawn site, excluding Veolia's area of operation. The Company will be required to provide a performance bond with the NSW Division of Resources and Energy (DRE) as surety against completion of environmental rehabilitation once mining on the site is complete. The amount of the bond is \$3,577,000 and will be lodged with the DRE immediately prior to commencement of operations on or around 7th September 2017.
- (ii) Subject to certain approvals being received by Veolia and the Company, the Company will receive "free-on-board" compost from Veolia to be utilised in the rehabilitation of the 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 of the Company, or TOP, connected with its operations at the Woodlawn site.
- (iv) To provide staged bank guarantees in favour of Veolia up to \$10M of which \$1M has been provided as at 30 June 2017.

c) Other contingent liabilities

Native title claims have been made with respect to areas which include tenements in which the Company has interests. No native title claims are over areas within the Woodlawn Project. The Company 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.

The environmental bond that the Company is required to lodge with the DRE is subject to ongoing review by the DRE and may change over the life of the Woodlawn Project.

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

NOTE 27. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Heron Resources Limited, at 30 June 2017. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	2017 \$'000	2016 \$'000
a) Financial Position		
Current assets	12,417	24,411
Non-current assets	17,927	16,047
Total assets	<u>30,344</u>	<u>40,458</u>
Current liabilities	1,933	1,243
Non-current liabilities	107	42
Total liabilities	<u>2,040</u>	<u>1,285</u>
Contributed equity	113,993	122,765
Option reserve	1,489	935
Accumulated losses	(84,528)	(84,527)
Total equity	<u>30,954</u>	<u>39,173</u>
Loss for the year	(2,652)	(3,490)
Total comprehensive loss for the year	<u>(2,652)</u>	<u>(3,490)</u>
b) Guarantees entered into by the Parent		
Heron Resources Limited has not entered into a deed of cross guarantee with its wholly owned subsidiaries.		
c) Contingent liabilities of the Parent		
Heron Resources Limited's contingent liabilities are disclosed in note 26.		
d) Capital commitments of the Parent		
Heron Resources Limited's capital commitments are nil as disclosed in note 21c.		

Directors' Declaration

In accordance with a resolution of the Directors of Heron Resources Limited it is declared that:

- a) The financial statements and notes comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- b) Give a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2017 and of their performance, as represented by the results of their operations, for the financial year ended on that date.

In the Directors' opinion:

- a) The financial statements and notes are in accordance with the Corporations Act 2001; and
- b) At the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts when they become due and payable; and
- c) The Directors have been given the declarations by the Chief Financial Officer and Chief Executive Officer required by section 295A of the Corporations Act 2001.

On behalf of the Board



S Dennis
Chairman

Sydney, 29 August 2017

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Heron Resources Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

Capitalisation of exploration and evaluation expenditure

Why significant

Capitalised exploration and evaluation assets represent 56% of the Group's total assets. The carrying value of exploration and evaluation assets is impacted by the Group's ability, and intention, to continue to explore and evaluate these assets. The results of exploration and evaluation work also determines to what extent the mineral reserves and resources may or may not be commercially viable for extraction. Due to the significance of this asset and the subjectivity involved in determining its carrying value, this is a key audit matter.

Refer to Note 10 - *Exploration and evaluation assets* to the financial report for the amounts held on the consolidated statement of financial position as at 30 June 2017 and related disclosure.

How our audit addressed the key audit matter

Our procedures to address the Group's assessment of the carrying value of exploration and evaluation assets included:

- ▶ considered the Group's right to the relevant exploration areas which included obtaining and assessing relevant documentation such as license agreements;
- ▶ considered the Group's intention to continue activities to achieve and the funding necessary to support a decision to develop the asset, which included assessment of the Group's financing activities, cash-flow forecast models and discussions with senior management and Directors as to the intentions and strategy of the Group;
- ▶ assessed the Group's consideration of the existence of any indicators of impairment; and
- ▶ considered the adequacy of disclosures included within Note 10 of the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report, the Corporate Profile, the Corporate Governance Statement, the Shareholder Information, the Unaudited Quarterly Consolidated Financial Statements and the Management's Discussion and Analysis that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

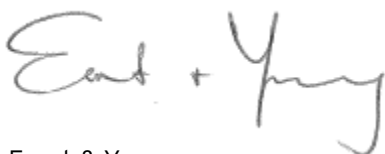
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 36 to 39 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Heron Resources Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Scott Jarrett
Partner
Sydney
29 August 2017

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7.0 Shareholder Information

AT 22 AUGUST 2017

1. Issued Shares and Options

a) Distribution of Shareholders:

Size of Holding	Number of Holders	Shares Held
1 - 1,000	308	166,453
1,001 - 5,000	764	2,386,055
5,001 - 10,000	529	4,225,190
10,001 - 100,000	1,130	41,478,630
100,001 -	305	412,609,169
	3,036	460,865,497

b) The twenty largest shareholders hold 64.01% of the issued fully paid capital of the Company.

c) Substantial Shareholders including related parties who have notified the Company:

Holder	Number of Shares	%
Greenstone Management (Delaware) LLC	54,131,658	11.75%
I Buchhorn & related parties	46,790,959	10.15%
Castlake (III & IV) LP	45,856,116	9.95%

d) There were 1,185 shareholders who held less than a marketable parcel.

e) No securities have been classified by ASX as restricted.

VOTING RIGHTS

In accordance with the Company's constitution, voting rights are on the basis of a show of hands, one vote for every registered holder and on a poll, one vote for each share held by registered holders.

Twenty largest shareholders as at 22 August 2017

	Number of Shares	%
1 GREENSTONE MGNT DELAWARE	54,131,658	11.75%
2 CANADIAN REGISTER	50,043,375	10.86%
3 CITICORP NOM PL	30,775,321	6.68%
4 CASTLELAKE IV LP	22,928,058	4.97%
5 CASTLELAKE III LP	22,928,058	4.97%
6 HAZURN PL	21,296,200	4.62%
7 KURANA PL	16,576,556	3.60%
8 COPPER INV PL	13,363,195	2.90%
9 MBM CORP PL	12,500,000	2.71%
10 HSBC CUSTODY NOM AUST LTD	8,514,437	1.85%
11 ZERO NOM PL	6,567,737	1.43%
12 CHAOS INV PL	5,357,692	1.16%
13 FREMONT CAT PL	5,205,476	1.13%
14 BUCHHORN IAN JAMES	4,860,916	1.05%
15 DUPUY OLIVIER + JULIE	4,750,000	1.03%
16 KEMPSON TRUDI ANN	3,208,474	0.70%
17 B & J O'SHANNASSY MGNT PL	3,158,051	0.69%
18 DPS CAP PL	3,137,344	0.68%
19 WARDLE DAVID JAMES + J L	3,070,000	0.67%
20 HSBC CUSTODY NOM AUST LTD	2,562,098	0.56%
TOTAL	294,934,646	64.01%

f) Distribution of Option holders

1	20,300,000	exercisable on or before 4 December 2020 for a payment of \$0.022 per option
2	1,000,000	exercisable on or before 5 March 2018 for a payment of \$0.29 per option
3	21,459	exercisable on or before 23 October 2017 for a payment of \$0.12 per option
4	858,369	exercisable on or before 20 November 2018 for a payment of \$0.07 per option
5	400,000	Exercisable on or before 1 September 2021 for a payment of \$0.134 per option
6	2,650,000	Exercisable on or before 1 February 2022 for a payment of \$0.11 per option

Size of Holding		Number of Holders	Options Held
1	- 1,000	-	-
1,001	- 5,000	-	-
5,001	- 10,000	-	-
10,001	- 100,000	1	21,459
100,001	-	5	25,208,369
		6	25,229,828

Summary of option holders as at 22 August 2017

	Number of Options	% of Issued Options
1 Employees & directors	24,829,828	100%
TOTAL	24,829,828	100%

8.0 Appendix 1

UNAUDITED QUARTERLY FINANCIAL STATEMENTS FOR THE 3 MONTH PERIOD ENDED 30 JUNE 2017

Management Comments on Unaudited Consolidated Financial Statements

29 August 2017

To the Shareholders of Heron Resources Limited,

The accompanying unaudited Financial Statements of Heron Resources Limited for the 3 month period ended 30 June 2017 have been prepared by management and have been approved by the Board of Directors of the Company as an appendix to the Financial Report for the year ended 30 June 2017.

The attached appendix relates to the 3 months ended 30 June 2017 and the corresponding comparative period ended 30 June 2016.

The financial statements relating to the year ended 30 June 2017 and the comparative period have been subject to Audit by Ernst & Young. The financial statements for the 3 month period ended 30 June 2017 and the comparative period have been approved by the Board of Directors of the Company and have not been subject to Audit or Audit Review and no opinion has been provided on those statements.

For further commentary on the operations of Heron during the quarter ended 30 June 2017, please refer to the Management Discussion and Analysis report and to the Quarterly Activities report lodged on the ASX and TSX on 29 July 2017 and posted on the Heron website at www.heronresources.com.au.



S Dennis
Chairman



F Robertson
Chairman - Audit Committee

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 30 JUNE 2017

All amounts shown are expressed in Australian dollars

	Three Months ended 30 June	
	2017	2016
	\$'000	\$'000
Continuing operations		
Revenue from Continuing Activities	140	164
Accounting & Audit Fees	(35)	(1)
Depreciation expense	(8)	(15)
Directors Fees	(85)	(85)
Employee benefits expense	(163)	(467)
Termination – severance	(2,291)	-
Insurance expense	24	(13)
Legal fees	(24)	(34)
Equity share based payments	(199)	(294)
Rental Expenses	(33)	(85)
Other expenses from ordinary activities	(542)	(242)
Exploration expenditure expensed as incurred	(423)	(1,016)
Exploration expenditure written off	-	(1,181)
(Impairment)/gain of investment	1,026	(332)
Loss from ordinary activities before income tax expense	(2,614)	(3,601)
Income tax expense	-	-
Loss from ordinary activities after income tax expense for the period	(2,614)	(3,601)
Other comprehensive income		
Changes in market value of financial assets	-	-
Total comprehensive loss for the period attributable to members	(2,614)	(3,601)
Loss per share attributable to the ordinary equity of the company (on a weighted average equity basis)	\$	\$
Basic loss per share (in dollars)	(0.0063)	(0.0086)
Diluted loss per share (in dollars)	(0.0063)	(0.0086)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 30 JUNE 2017

All amounts shown are expressed in Australian dollars

	Contributed Equity \$'000	Option Reserve \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance at 1 April 2017	129,638	1,290	(84,503)	46,425
Option reserve write back	-	-	-	199
Cost of share based payments	-	199	-	-
Total comprehensive loss for the quarter	-	-	(2,614)	(2,614)
Balance at 30 June 2017	129,638	1,489	(87,117)	44,010

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED 30 JUNE 2017

All amounts shown are expressed in Australian dollars

	Three Months ended 30 June	
	2017	2016
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,803)	(471)
Expenses re-imbursed by Ardea	80	-
Interest received	60	143
Net cash used in operating activities	(1,663)	(328)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and development expenditure	(1,690)	(2,112)
Sale of Siberia tenements	100	-
Purchase of plant and equipment	(9)	-
Net cash used in investing activities	(1,599)	(2,112)
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing costs related to Woodlawn project finance	(1,387)	-
Net cash provided by financing activities	(1,387)	-
Net increase/(decrease) in cash & cash equivalents held	(4,649)	(2,440)
Cash & cash equivalents at the beginning of the reporting period	16,339	25,331
Cash & cash equivalents at the end of the reporting period	11,690	22,891

9.0 Appendix 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTH PERIOD AND YEAR ENDED 30 JUNE 2017

INTRODUCTION

The following is management's discussion and analysis of the financial condition and the results of operations of Heron Resources Limited, ("Heron" or the "Company") for the three month period and year ended 30 June, 2017, and its financial position as at 30 June, 2017 and should be read in conjunction with the Company's audited financial statements as at 30 June, 2017 and half yearly financial statements as at 31 December, 2016 which have been subject to audit review, including the accompanying notes thereto.

The Company's audited Financial Statements and Notes to the Financial Statements have been prepared in accordance with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Additional information relating to the Company, including press releases, has been filed electronically with the Australian Securities Exchange ("ASX") and through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online at www.sedar.com.

The date of this management's discussion and analysis is 29 August, 2017. Unless otherwise indicated all amounts discussed herein are denominated in Australian dollars. The relevant exchange rates applicable to the three and twelve month periods ended 30 June, 2017 are as follows.

	Three Months ended 30 June 2017	Year ended 30 June 2017
AUD/CDN \$ Closing Rate	.9996	.9970
Average Rate	.9902	.9902

The Company's common shares trade on the Australian Stock Exchange (the "ASX") under the trading symbol "HRR", and on the Toronto Stock Exchange (the "TSX") under the trading symbol "HER".

Cautionary Note Regarding Forward-Looking Information

Certain information included in this management's discussion and analysis may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "believe", "plan", "scheduled", "intend", "estimate", "forecast", "predict", "potential", "continue", "anticipate" or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future plans or prospects of the Company. Without limitation, statements about the Company's planned activities related to exploration or development activities carried out in Australia, constitute forward-looking information. Actual results may vary. See "Risk Factors and Uncertainties".

Forward-looking information is based on certain factors and assumptions regarding, among other things, the estimation of mineral reserves and resources, the realization of mineral reserve and resource estimates, metal prices, the timing and amount of future exploration expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing and materials, including financing to conduct any future drilling program and the other activities necessary to continue to explore and develop the Company's properties in the short and long term, the receipt of necessary regulatory approvals, and assumptions with respect to environmental risks, title disputes or claims, weather conditions, climate change and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Without limitation, in estimating expenditures the Company has assumed, among other things, that metal prices will not change materially from the prices used in its current financial forecasts or those of its affiliate, that it will obtain in a timely fashion all of the financing, regulatory approvals and other authorizations required to enable the continued exploration and development of its properties, and that such activities will proceed in the ordinary course without undue disruption. See "Risk Factors and Uncertainties".

Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what management currently expects. These factors include risks inherent in the exploration and development of mineral deposits, risks relating to changes in metal prices and the worldwide demand for and supply of metal, uncertainties inherent in the estimation of mineral reserves and resources, risks relating to the remoteness of the Company's properties including access and supply risks, reliance on key

personnel, construction and operational risks inherent in the conduct of mining activities, including the risk of increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the construction and development process, the risk of fluctuations in the Canadian/Australian and U.S./Australian dollar exchange rates, regulatory risks, including risks relating to the acquisition of the necessary licences and permits, financing, capitalization and liquidity risks, including the risk that the financing necessary to fund the exploration and development activities of the Company may not be available on satisfactory terms, or at all, environmental risks, including risks relating to climate change and the potential impact of global warming on project timelines and on construction and operating costs, and insurance risks. See "Risk Factors and Uncertainties".

You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Company may elect to, the Company is under no obligation and does not undertake to update this information at any particular time, except as required by law.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has completed an evaluation of the design effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that as at 30 June 2017, the Company's design for internal control over financial reporting was effective. Management has also evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of 30 June 2017. Based on this evaluation, management has concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports filed or submitted by the Company under Australian and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three month period ended 30 June 2017 that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

OVERVIEW

HERON RESOURCES LIMITED ("Heron" or "the Company") is engaged in the exploration and development of base and precious metal deposits in Australia. The Company is focused on the development of the high grade Woodlawn Project located 250km southwest of Sydney in New South Wales.

Selected Annual Financial Information

Set forth below is certain selected financial information expressed in Australian dollars in respect of the eight most recently completed financial years of the Company. This audited data is derived from the Company's full year financial statements which are prepared in accordance with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All numbers below are in '000s except for the number of shares outstanding and Net Loss per share information.

Financial Year Ended:	Working Capital ⁽¹⁾	Total Assets ⁽²⁾	Shareholders Equity	Common Shares Outstanding	Net Gain (Loss)	Net Gain (Loss) per Common Share (in dollars)
June 30, 2017	11,690	47,172	44,010	415,009,831	(2,857)	(0.006)
June 30, 2016	22,891	56,859	55,084	415,009,381	(4,252)	(0.010)
June 30, 2015	24,015	54,352	52,151	360,877,723	(5,674)	(0.016)
June 30, 2014	32,915	42,603	41,762	252,985,787	(6,389)	(0.025)
June 30, 2013	39,597	48,506	47,702	252,985,787	(10,483)	(0.039)
June 30, 2012	43,171	57,910	56,863	252,985,787	(5,356)	(0.022)
June 30, 2011	46,973	61,292	60,162	252,985,787	(14,056)	(0.055)
June 30, 2010	56,663	75,123	72,730	252,985,787	(7,442)	(0.029)

(1) See Capital Resources and Liquidity for a further discussion of working capital equals cash on hand.

(2) See Critical Accounting Policies and Estimates.

Quarterly Financial Information

Set forth below is certain selected financial information expressed in Australian dollars in respect of the most recently completed quarter and previous seven quarters of the Company. This unaudited data is derived from the Company's interim financial statements which are prepared in accordance with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All numbers below are in '000s except for the number of shares outstanding and Net Loss per share information.

Quarter Ended:	Working Capital ⁽¹⁾	Total Assets ⁽²⁾	Shareholders Equity	Common Shares Outstanding	Net Gain (Loss)	Net Gain (Loss) per Common Share (in dollars)
June 30, 2017	11,690	47,172	44,010	415,009,381	(2,614)	(0.0063)
March 31, 2017	16,339	48,031	46,425	415,009,381	2,156	0.0052
December 31, 2016	16,552	54,788	53,042	415,009,381	(1,548)	(0.0037)
September 30, 2016	19,811	55,725	54,235	415,009,381	(851)	(0.0021)
June 30, 2016	22,891	56,859	55,084	415,009,381	(3,601)	(0.0086)
March 31, 2016	25,175	59,725	58,393	415,009,381	(37)	(0.0001)
December 31, 2015	23,634	59,385	57,882	415,009,381	(444)	(0.0011)
September 30, 2015	27,177	60,713	58,711	415,009,381	(170)	(0.0004)

(1) See Capital Resources and Liquidity for a further discussion of working capital.

(2) See Critical Accounting Policies and Estimates.

RESULTS OF OPERATIONS FOR THE THREE AND TWELVE MONTH PERIODS ENDED 30 JUNE 2017 (all financial numbers in '000s)

The Company is principally involved in the exploration and evaluation of mineral properties. It had no revenues from operations in either the last quarter or twelve month period to 30 June, 2017. Exploration expenditures on mineral properties are expensed as incurred in the Income Statement, unless there is a reasonable probability that the mineral property may become a productive mine, in which case the expenditure is capitalised onto the Balance Sheet, for example Woodlawn. During the three month period the Company incurred \$2,119 in exploration expenditure of which \$1,696 was capitalised onto the Balance Sheet. All of the capitalised expenditure was incurred on the Woodlawn property.

Corporate and administrative expenses are charged to the Income Statement as incurred. Interest income consists of interest on short-term invested funds. The Company reported a loss from operations in the three month period and year ended 30 June, 2017. Retained earnings are in a deficit position. The Company has not paid any dividends since inception.

The Company recorded a loss for the year ended 30 June 2017 of \$2,857 (\$0.0069 per share) compared to a net loss of \$4,253 (\$0.0104 per share) for the corresponding year ended 30 June 2016. The Company recorded a loss for the three months ended 30 June 2017 of \$2,614 (\$0.0063 per share) compared to a net loss of \$3,601 (\$0.0086 per share) for the corresponding period ended 30 June, 2016. During the year ended 30 June 2017, the Company's focus was on completing the Woodlawn project financing and it incurred \$2,481 in financing costs such as legal and external professional advisors during the year. The Woodlawn project financing will be completed on or around 6 September 2017. Additional costs were incurred at Woodlawn during the year end 30 June 2017 in project optimisation such as water treatment and further drilling on the G2 lens. During year the Company was also successful at spinning out Ardea Resources Ltd. Cash at the beginning of the year was \$22,891 and at the end of the year was \$11,690.

The Company's general and administration expenses (including share based payments, but excluding exploration expenditure and investment gain/impairment) of \$5,949 in the year to 30 June 2017 compared with the \$3,360 in the year to 30 June 2016.

The Company recorded an unrealised gain on its listed investments of \$1,026 in the three months to 30 June 2017 (impairment loss \$332 in the corresponding three months to 30 June 2016) and a gain of \$4,011 for the year ended 30 June 2017 (\$921 for the corresponding year to 30 June 2016). These gains and impairments are due to fluctuations of the underlying share price of the listed investments.

EXPLORATION EXPENDITURES (all financial numbers in '000s)

Expenditures on exploration and evaluation in the three month period ended 30 June 2017 of \$2,119 (of which \$1,696 was capitalised) was higher when compared to expenditures in the three month period ended 30 June 2016 of \$1,836. This increase was due G2 Lens drilling at Woodlawn in the quarter ended 30 June 2017.

Exploration expenditure requirements to maintain all the Companies exploration licences in good standing total \$536 per annum.

Below is a summary table of the exploration expenditures by tenement group for the three months ended 30 June 2017 (all numbers in '000s).

Quarter ended 30 June 2017	Woodlawn (SML20)	KNP Project ⁽²⁾	Lewis Ponds ⁽²⁾	Other WA ⁽¹⁾	Other NSW ⁽¹⁾	Total
Drilling	\$472	-	-	-	-	\$472
Other exploration	\$1,224	-	-	-	\$423	\$1,647
TOTAL	\$1,696	-	-	-	\$423	\$2,119

(1) Expenditure expensed as incurred

(2) Sold to Ardea in Feb 2017

Exploration Properties in Australia

The Company's main exploration properties are located in the Lachlan Fold belt of NSW and are considered possible Woodlawn satellite projects. The projects on these land holdings are more fully described in the Company's Annual Report which is available from the Company on request or which may be accessed from the Company's website, www.heronresources.com.au.

CAPITAL STOCK AND DEFICIT (all financial numbers in '000s)

The authorised capital of the Company consists of an unlimited number of common shares without par value.

At 30 June 2017 the Company had 415,009,381 issued and outstanding common shares (30 June 2016: 415,009,381).

As at 30 June 2017 there were 24,829,828 stock options outstanding (30 June 2016: 28,534,621), bringing the fully diluted share position of the Company to 439,839,209.

The Company's accumulated deficit at 30 June 2017 is \$87,117 compared to \$84,260 at 30 June 2016. See "Results of Operations".

FINANCIAL CONDITION (all financial numbers in '000s)

The Company's total assets at 30 June 2017 decreased to \$47,172 from \$56,859 at 30 June 2016.

Assets at 30 June 2017 include cash and cash equivalents of \$11,690 (30 June 2016: \$22,891). Cash not on account at a bank has been invested in bank guaranteed, term deposits.

Cash of \$1,690 was spent on exploration and evaluation during the three month period ended 30 June 2017 compared to \$2,112 during the corresponding period ended 30 June 2016. This decreased outflow was due to the Woodlawn Feasibility Study which was completed in the June 2016 quarter.

The Company had current liabilities including trade payables and employee provisions of \$3,025 at 30 June 2017 (\$1,733 at 30 June 2016). The Company has no off balance sheet financing arrangements or material contingent liabilities or contractual obligations other than that disclosed in the financial statements for the year ended 30 June 2017.

CAPITAL RESOURCES AND LIQUIDITY

The Company's mineral properties are at the exploration and pre-development stage. At this time the Company has no operating revenue and does not anticipate earning any operating profits until the Company is able to place a project into production, or acquire a mining asset with operating cash flow. Until such time, the Company will be required to raise funds through equity financing, possibly supplemented by the exercise of options and warrants, or by other means in order to continue its exploration and development activities.

In the past, the Company has successfully raised capital through issuance of equity or sale of assets. There can be no assurance that the Company will be able to raise more capital or obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to raise capital or obtain financing could result in the postponement of further exploration or project development activities. Any additional financing or capital raised by the Company could result in substantial dilution to the shareholders of the Company. See "Risk Factors and Uncertainties".

TRENDS (all numbers in '000s)

Due to the nature of its projects, the Company has a history of incurring operating losses. These losses will continue until a profitable project is developed and operating or a cash generating operating asset is acquired.

The net loss in the three month period ended 30 June, 2017, of \$2,614 was lower than the loss incurred in the three month period ended 30 June, 2016 of \$3,601, primarily due to a significant investment unrealised gain of \$1,026 in 2017.

The Company's current staff headcount is 21 compared to 23 at the beginning of the financial year.

CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of properties for minerals.

The properties in which the Company currently has an interest are at the exploration stage and as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. In some circumstances, the Company may enter into farm in /joint venture agreements whereby a third party earns an interest in a specific property by incurring an agreed amount of exploration expenditures. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that given the relative size of the Company this approach is reasonable.

COMMITMENTS

The Company is required to undertake expenditures of \$536,000 per year to keep exploration properties in good standing in the normal course of business. These obligations are subject to renegotiation when application for a mining lease is made and at other times.

The Company is contracted to non-cancellable operating leases in relation to its office premises at Level 1, 7 Havelock St, West Perth and at Suite 702, 191 Clarence Street, Sydney. The lease in Perth is currently on a month-to-month basis and the lease in Sydney expires in September 2019. A performance bond of \$15,623 and \$17,187 for the Perth and Sydney offices respectively has been lodged as surety against performance of the leases, as at 30 June 2017.

RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

New, revised or amending Accounting Standards and Interpretations adopted

Heron Resources has adopted the following new and amended accounting standards from 1 July 2017:

AASB 2015-2 Disclosure Initiative Amendment to AASB 101 - This Standard amends AASB 101 Presentation of Financial Statements to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements

AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify the principle in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset.

Adoption of these standards did not have any material effect on the Statement of Financial Performance, Statement of Comprehensive Income and Statement of Financial Position of the Group.

Accounting standards issued but not yet effective

Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the year ended 30 June 2017. At this time the following standards and interpretations may have an impact, but the extent of this is not expected to be material:

AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses - The amendments to AASB 12 Income Taxes clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Effective for annual periods beginning on or after 1 January 2017. (Company 1 July 2017).

ASB 2016-2 Disclosure Initiative - The amendments to AASB 107 Statement of Cash Flows require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

AASB 9 Financial Instruments - A new Principal standard which replaces AASB 139. This new Principal version includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. Effective for annual periods beginning on or after 1 January 2018. (Company 1 July 2018).

AASB 15 Revenue from Contracts with Customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Effective for annual periods beginning on or after 1 January 2018. (Company 1 July 2018).

AASB 16 Leases. AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases. Effective for annual periods beginning on or after 1 January 2019. (Company 1 July 2019).

At this time the following interpretation may have an impact, but the extent of this has not been determined:

IFRIC 23 Uncertainty over Income Tax Treatments. The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments. Effective for annual periods beginning on or after 1 January 2019. (Company 1 July 2019). New Accounting Policies and Accounting Standards and Interpretations issued, but some not yet applicable at 30 June, 2015.

Future Accounting Changes

Other than those noted above, the Company is unaware at this time of any future changes to accounting standards that are contemplated by the Australian Accounting Standards Board and are relevant to the Company and which might impact future accounting reporting periods.

Summary of Significant Accounting Policies

The following is a summary of significant accounting policies used by the Company in the preparation of its financial statements. For a complete description of the significant accounting policies used by the Company in the preparation of its financial statements, please review the notes to the June 30, 2017 audited financial statements included in the Company's Annual Report. This Management's Discussion and Analysis should also be read in conjunction with the Company's quarterly financial statements and the notes thereto.

Going concern basis of accounting (all numbers in '000s)

The interim financial statements for the three month period ended 30 June 2017 have been prepared on the basis of a Going Concern, notwithstanding the fact that the Company incurred a loss for the 3 month period. The Company incurred a loss for the 3 month period after tax of \$2,614 (2016: \$3,601) and a net cash out flow from operating and investing activities for the year of \$3,262 (2016: out flow \$2,440).

The Financial Report has been prepared on the basis of a going concern, as the Directors believe that the Company has adequate funding to pay its debts as and when they become due for a period of twelve months from the date of approving this report.

Remuneration of Directors and Key Management Personnel Including Share Based Payments

The cost to the Company of share options granted to Directors and Key Management Personnel is included at fair value as part of the Directors' and Key Management Personnel's aggregate remuneration in the financial year the options are granted.

The fair value of the share option is calculated using the Black Scholes option pricing model, which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The cost of these options is expensed in the Income Statement on a pro rata basis to the vesting dates. Unvested options are cancelled upon termination of service with the Company.

Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity. Deferred income tax assets are recognized to the extent that there is convincing evidence that it is probable that future tax profits will be available against which deductible temporary differences can be utilized.

The amount of benefits brought to account or which may be realized in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realized and comply with the conditions of deductibility imposed by the law.

Earnings per share

Basic earnings per share are determined by dividing the operating loss after income tax by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share adjusts the figures used in determining earnings per share by taking into account non anti-dilutive options outstanding during the quarter. The diluted earnings per share are capped at the basic earnings per share in circumstances of losses and anti-dilutive options.

Exploration expenditure and mineral leases

Exploration expenditures on mineral properties are expensed as incurred in the Income Statement, unless there is a reasonable probability that the mineral property may become a productive mine, in which case the expenditure is capitalised onto the Balance Sheet. These capitalised costs are only carried forward if the rights to the area of interest are current and to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off in full against the results in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental expenditure

Restoration, rehabilitation and environmental expenditure to be incurred during the production phase of operations is accrued when the need for such expenditure is established, and then written off as part of the costs of production of the mine property concerned. Significant restoration, rehabilitation and environmental expenditures to be incurred subsequent to the cessation of production at each mine property are accrued, in proportion to production, when its extent can be reasonably estimated.

Business undertakings – joint ventures

The Company has certain exploration activities conducted through joint ventures with other parties. Where relevant, the Company's interest in these joint ventures is shown in the notes to the financial statements under the appropriate heading.

RISK FACTORS AFFECTING FINANCIAL INSTRUMENTS

The Company's major mineral property is the Woodlawn Project in NSW (the "Properties"). Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon its existing Property. If no additional major mineral properties are acquired by the Company, any adverse development affecting the Company's Properties would have a material adverse effect on the Company's financial condition and results of operations.

Other risk factors and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand with reputable financial institutions. Financial instruments included in accounts receivable consist of sales tax receivable from government authorities in Australia and deposits held with vendors. Management believes that credit risk with respect to financial instruments included in cash and accounts receivable is low.

Liquidity risk (all financial numbers in '000s)

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 30 June 2017, the Company had cash of \$11,690 (30 June 2016: \$22,891) to settle current liabilities of \$3,025 (30 June 2016: \$1,733). Apart from provision for employee entitlements (e.g. Annual Leave), most of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices. The Company continues to monitor the long term assets and assesses the value of the asset on a regular basis.

Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in term deposits with banks.

Foreign currency risk

The Company's functional reporting currency is the Australian dollar and major purchases are transacted in Australian dollars. The Company funds its exploration and administrative expenses using Australian dollars.

In addition, management believes the foreign currency risk derived from currency conversions related to its operations is negligible and therefore does not hedge its foreign exchange risk.

Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to valuable minerals to determine the appropriate course of action to be taken by the Company. The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of nickel, zinc, lead and copper and certain other metals.

Fair value

AIFRS accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying values for short-term investment, sundry receivables and prepaid expenses, subscription receivable, and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

The Company has designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the next year:

- (i) Interest rate risk is immaterial.
- (ii) The Company holds all of its cash in low risk, secure Australian dollar term deposits at Australian banks. Foreign exchange risk related to required payments is perceived as negligible.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them.

As of 30 June 2017, the Company is not a producer of valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

RISK FACTORS AND UNCERTAINTIES

The Company is in the business of acquiring, exploring and developing mineral properties and is exposed to a number of risks and uncertainties that are common to other exploration companies in the same business. The industry is capital intensive at all stages and must rely on equity financing to fund exploration and development activities.

The ability of the Company to realize and profit from a property development is dependent upon its ability to define and delineate an ore body, to finance development costs, adhere to government and environmental regulations, and/or be able to realize the costs incurred on disposition of a property.

The future prospects of the Company are subject to a variety of risks that may cause actual results to differ materially from projected outcomes. Factors that could cause such differences include: world commodities markets, foreign exchange markets, equity markets, access to sufficient working capital, the ability to attract mining partners, the loss of or inability to hire key personnel, as well as government and environmental restrictions. Most of these factors are beyond the control of the Company which consequently cannot guarantee future results, levels of activity or ensure that a mineral discovery can be developed into a profitable mining operation. In addition, prices for the commodities contained in the Company's mineral resources at its exploration properties have fluctuated significantly over the last few years and may continue to do so. Such volatility may affect the timing and magnitude of funds which the Company may seek to raise to support further exploration and development.

The Company has taken steps to verify the title to its mineral properties, in accordance with industry standards for the current stage of exploration of such properties but these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found at www.heronresources.com.au or on the SEDAR website at www.sedar.com, or on the website of the ASX, www.asx.com.au.

APPROVAL

The Board of Directors of Heron Resources Limited has approved the disclosure contained in this Management Discussion and Analysis dated 29 August 2017.

CORPORATE DIRECTORY

DIRECTORS

Stephen Dennis (Chair)
Wayne Taylor
Borden Putnam III
Fiona Robertson
Mark Sawyer
Ian Buchhorn (resigned 2 June 2017)

COMPANY SECRETARY

Simon Smith

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The company is listed on both the Australian Stock Exchange (ASX) under the symbol HRR and the Toronto Stock Exchange (TSX) under the symbol HER

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