



HERON RESOURCES LIMITED

UNAUDITED INTERIM FINANCIAL REPORT

(Prepared by Management)

**For the three months ended 30 September
2017**

27 October 2017

Heron Resources Limited

ABN 30 068 263 098

Level 1/7 Havelock Street, West Perth, WA, 6005
Tel: +61 (0) 8 6500 9200

Suite 702, 191 Clarence Street, Sydney, New South Wales, 2000
Tel: +61 (0) 2 9119 8111
In Canada: telephone +1 905 727 8688



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HERON RESOURCES LTD
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Management Comments on Unaudited Consolidated Financial Statements

27 October 2017

To the Shareholders of Heron Resources Limited

The accompanying unaudited interim Consolidated Financial Statements of Heron Resources Limited for the 3 month period ended 30 September 2017 have been prepared by management and have been approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these interim Consolidated Financial Statements for the 3 month period ended 30 September 2017.

For further commentary on the operations of Heron during the quarter ended 30 September 2017, please refer to the Quarterly Activities report lodged on the ASX and TSX and posted on the Heron website.

Heron Resources Limited

S Dennis
Chairman

F Robertson
Chair - Audit Committee

HERON RESOURCES LIMITED
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**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME**

For the three months ending 30 September 2017

All amounts shown are expressed in Australian dollars		Three months ended 30 September	
		2017 \$ 000's	2016 \$ 000's
Continuing operations			
Other Income	2	77	173
Accountancy & audit		(6)	(42)
Consultants		(5)	(16)
Depreciation expense		(6)	(14)
Directors Fees		(109)	(75)
Wages, salaries and employee benefits		(534)	(236)
Insurance expense		(11)	(23)
Legal		(9)	(33)
Rent & utilities		(50)	(82)
Stock exchange fees (ASX/TSX)		(88)	(7)
Investor Relations		(94)	(66)
Computer Support & Services		(22)	(68)
Other Expenses		(136)	(88)
Unrealised Investment gain	5	2,528	87
Exploration expenditure expensed as incurred		(552)	(360)
Realised foreign exchange gain/(loss) from equity raise		(4,956)	-
Unrealised foreign exchange gain/(loss)		(308)	-
Loss from ordinary activities before income tax expense		(4,281)	(851)
Income tax expense		-	-
Loss from ordinary activities after income tax expense for the period		(4,281)	(851)
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to members		(4,281)	(851)
Loss per share attributable to the ordinary equity of the company			
Basic loss per share (in cents)		(0.0017)	(0.0022)
Diluted loss per share (in cents)		(0.0017)	(0.0022)

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UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

All amounts shown are expressed in Australian dollars		Note	30 Sept 2017 \$'000	30 June 2017 \$'000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents			128,612	11,690
Receivables and Prepayments			4,566	717
TOTAL CURRENT ASSETS			133,178	12,407
NON-CURRENT ASSETS				
Deferred Costs – Capital raising			1,992	2,481
Receivables			35	35
Investments		5	8,209	5,775
Property, plant and equipment			43	40
Woodlawn Mine – asset under construction		4	8,468	-
Exploration and evaluation expenditure		3	26,869	26,434
TOTAL NON-CURRENT ASSETS			45,616	34,765
TOTAL ASSETS			178,794	47,172
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables			2,660	2,461
Provisions – employee entitlements			580	564
TOTAL CURRENT LIABILITIES			3,240	3,025
NON-CURRENT LIABILITIES				
Provisions – employee entitlements			137	137
TOTAL LIABILITIES			3,377	3,162
NET ASSETS			175,417	44,010
EQUITY				
Contributed equity - ordinary shares		6	265,326	129,638
Option reserve			1,489	1,489
Accumulated losses			(91,398)	(87,117)
TOTAL EQUITY			175,417	44,010

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UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 30 September 2017

All amounts shown are expressed in Australian dollars		CONTRIBUTED EQUITY	OPTION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
	Note	\$	\$	\$	\$
Balance at 1 July 2017		129,638	1,489	(87,117)	44,010
Issue of Share capital		140,115	-	-	140,115
Share issue costs		(4,427)	-	-	(4,427)
Total Comprehensive loss for the quarter		-	-	(4,281)	(4,281)
Balance at 30 September 2017	6	265,326	1,489	(91,398)	175,417

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes



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UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 30 September 2017

All amounts shown are expressed in Australian dollars		Three months ended 30 September	
	Notes	2017 \$'000	2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		53	73
Payments to suppliers		(2,995)	(497)
Net cash used in operating activities		(2,942)	(424)
CASH FLOWS FROM INVESTING ACTIVITIES			
Woodlawn Mine – asset under construction		(10,662)	-
Purchase of plant and equipment		(10)	-
Proceeds from sale of shares		94	248
Exploration expenditure		(987)	(2,904)
Net cash used in investing activities		(11,565)	(2,656)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity raising		140,115	-
Payments for capital raising costs		(3,730)	-
Realised foreign exchange loss – equity raise		(4,956)	-
Net cash provided by financing activities		131,429	-
Net increase/(decrease) in cash & cash equivalents held		116,922	(3,080)
Cash & cash equivalents at the beginning of the reporting period		11,690	22,891
Cash & cash equivalents at the end of the reporting period		128,612	19,811



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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2017

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) General

This general purpose financial report for the reporting period ended 30 September 2017 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Heron Resources Limited (ASX:HRR, TSX: HER) ("Heron" or the "Company") during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. The financial report was authorised for issue by the Directors on October 27, 2017. The accounting policies adopted in the preparation of this financial report are consistent with those of the previous financial year and corresponding reporting periods.

New revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised, or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

The Company incurred a loss for the 3 months period after tax of \$4,281 (2016: loss of \$851) and a net cash out flow from operating activities of \$2,942 (2016: out flow \$424). The interim financial statements for the three month period ended 30 September, 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 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.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2017

NOTE 2 OTHER INCOME

	Quarter ended 30 September 2017 \$'000	Quarter ended 30 September 2016 \$'000
Revenues from continuing activities		
Interest received - other persons/corporations	77	173
Total revenues from continuing activities	<u>77</u>	<u>173</u>

NOTE 3 EXPLORATION EXPENDITURE

	Quarter ended 30 September 2017 \$'000	Year ended 30 June 2017 \$'000
Balance at beginning of period	26,434	31,068
Exploration and evaluation costs incurred – Woodlawn (i)	435	6,837
Ardea Spin Out	-	(8,300)
Exploration costs incurred during the period	552	1,341
Exploration costs expensed as incurred	(552)	(1,341)
R&D Tax incentive Received	-	(3,171)
Balance at end of period	<u>26,869</u>	<u>26,434</u>

	Woodlawn (SML20) \$'000	Exploration (Woodlawn Regional) \$'000	Total \$'000
Balance brought forward	26,434	-	26,434
Capitalised exploration expenditure (i)	435	-	435
Exploration expenditure	-	552	552
Exploration and evaluation expensed as incurred	-	(552)	(552)
Balance at end of period	<u>26,869</u>	<u>-</u>	<u>26,869</u>

(i) Exploration costs capitalised relate to the G2 lens drilling at Woodlawn (SML20) during the quarter. All other exploration costs at Woodlawn regional tenements such as drilling at Currawang are expensed as incurred per Company policy.

The Directors have determined that the carrying values of exploration and evaluation expenditure have not been impaired as of 30 September 2017 (2016: nil), based on the current values as they are expected to be recouped through successful development, or alternatively, where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, and progress in the area of interest is continuing.

The above carrying values do not purport to represent the amount receivable by the Company in the event the interests in the mining tenements were farmed out or sold or the future value in use to the Company.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2017

NOTE 4 WOODLAWN MINE – ASSET UNDER CONSTRUCTION

	Quarter ended 30 September 2017 \$'000
Balance at beginning of period	-
Sedgman EPC	4,765
Owners Costs – Earthworks and construction costs	3,703
Balance at end of period	<u>8,468</u>

	Earthworks	Sedgman EPC	Owners Costs Construction	Total
	\$'000	\$'000	\$'000	\$'000
Balance brought forward	-	-	-	-
Costs incurred during Quarter	808	4,765	2,895	8,468
Balance at end of period	<u>808</u>	<u>4,765</u>	<u>2,895</u>	<u>8,468</u>

On 11 September 2017, the Company commenced Construction activities at Woodlawn. The construction process commenced with Earthworks, Engineering and the ordering of long lead items, and will move to Plant Construction in the December quarter with the expectation of completion and commissioning in the December 2018 quarter.

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2017

NOTE 5 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 September 2017, which have been valued at the closing price on that day of \$0.02.

Metalicity Limited (MCT) is an Australian listed public exploration company with 450,044,654 fully paid ordinary shares on issue. Heron holds 11,375,000 fully paid shares at 30 September 2017, which have been valued at the closing price of \$0.05 on the 30th September 2017. During the quarter the company sold 2,000,000 shares in Metalicity at a price of \$0.047 per share.

Alchemy Resources Ltd (ALY) is an Australian listed public exploration company with 342,335,585 shares on issue. In 2015, 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 are 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 September 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 options are escrowed until February 2019.

The company valued the options using the Black Scholes option pricing methodology (refer page 53 of 2017 Annual Report) at 30th June 2017 at \$0.474 cents per option.

Since 30 June 2017, the Ardea share price has increased from \$0.64 to \$0.89 as at 30th Sept 2017. Using the same Black Scholes assumptions the option value at 30 September 2017 is \$0.674 cents per option. The 10,000,000 options have been re-valued on this basis as at 30 September 2017.

During the quarter Ardea issued 3,333,333 Loyalty options to Heron. These loyalty options have an exercise price of \$0.77 cents and expire in May 2018. These are valued using Black Scholes at \$0.12 cents per option as at 30 September 2017.

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2017

	Qtr ended 30 Sept 2017 \$'000	Yr ended 30 June 2017 \$'000
Investments in other entities at fair value		
Centennial Mining:		
Opening carrying value	460	673
Sold on market - Shares	-	(248)
Sold on market – Options	-	(131)
Gain/(Impairment)	-	166
Carrying value	460	460
Metalicity Limited:		
Opening carrying value	535	1006
Sold – on market shares	(94)	(86)
Gain/(Impairment)	128	(385)
Carrying value	568	535
Alchemy Resources Ltd:		
Opening Carrying value	40	50
Gain/(Impairment)	-	(10)
Carrying Value	40	40
Ardea – \$0.25 cent Options:		
Opening carrying value	4,740	-
Ascribed Value of 10m Options as at date of IPO	-	500
Gain/(Impairment)	2,000	4,240
Carrying value	6,740	4,740
Ardea – \$0.77 cent Loyalty Options:		
Opening carrying value	-	-
Gain/(Impairment)	400	-
Carrying Value	400	-
Summary		
Opening Carrying value 30 th June 2017	5,775	1,907
Sold to Ardea - Newamu	-	(178)
Value of 10m Options Ardea	-	500
Sold on market - Shares	(94)	(334)
Sold on market - Options		(131)
Unrealised Gain/(Impairment)	2,528	4,011
Total carrying value	8,209	5,775

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2017

NOTE 5: CONTRIBUTED EQUITY – ORDINARY SHARES

	Quarter ended 30 Sept 2017 \$'000	Year ended 30 June 2017 \$'000	Quarter ended 30 Sept 2017 Number	Year ended 30 June 2017 Number
<i>Reconciliation of issued capital</i>				
<i>a) Ordinary shares</i>				
Opening balance	129,638	138,409	415,009,381	415,009,381
Heron shares issued	140,115	-	2,001,562,259	-
Return of Capital – Ardea spin out	-	(8,771)	-	-
Share issue costs	(4,427)	-	-	-
Closing balance	265,326	129,638	2,416,661,640	415,009,381

b) Unquoted options:

Date	Details	Exercise price	Expiry date	Number
1 July 2017	Opening balance	Various	Various	24,829,828
	Options issued	-	-	-
	Options cancelled	\$0.072	4/12/20	3,000,000
30 September 2017	Closing balance	-	-	21,829,828

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2017

NOTE 6: 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: \$120,000) 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 has 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 was lodged with the DRE in 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 September 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 has lodged with 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.

HERON RESOURCES LIMITED

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NOTE 7: EVENTS SUBSEQUENT TO 30 SEPTEMBER, 2017

There has been no matter or circumstance which has arisen since 30 September 2017 that has significantly affected or may significantly affect:

- a) The operations, in the financial year subsequent to 30 September 2017, of the Company: or
- b) The results of those operations.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - b. give a true and fair view of the consolidated entity's financial position as at 30 September 2017 and of the performance for the three month period ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



S Dennis
Chairman



F Robertson
Chair- Audit Committee

Sydney
27 October 2017