Heron Resources Limited

ACN 068 263 098

# FINANCIAL REPORT

## For the half year ended 31 December 2017

## Heron Resources Limited

# Corporate Directory

**ABN** 30 068 263 098

**DIRECTORS**
**Chairman (Non-Executive)**
Stephen Dennis BCom, LL.B., GDipAppFin (Finsia), CFTP
**Managing Director (Executive)**
Wayne Taylor BE (Min.), MBA, MAusIMM
**Director (Non-Executive)**
Borden Putnam III MSc, RPG
**Director (Non-Executive)**
Fiona Robertson MA (Oxon), MAusIMM, FAICD
**Director (Non-Executive)**
Mark Sawyer LL.B.
**Director (Non-Executive)**
Ricardo De Armas B.S. M.B.A (Harvard)
(appointed 22 September 2017)
**Director (Non-Executive)**
Peter Rozenauers BME (Hons I), MAppFin, MAusIMM
(appointed 22 September 2017)
**Director (Non-Executive)**
Ian Pattison BSc (Hons), PhD, M AusIMM
(appointed 29 November 2017)

**COMPANY SECRETARY**
Simon Smith B.Bus, CA

**REGISTERED OFFICE (head office)**
**and Address for Correspondence**
Level 7, 191 Clarence Street
Sydney 2000 New South Wales
Telephone: +61 2 9119 8111
**Perth Office**
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WEST PERTH 6005 Western Australia
Telephone: +61 8 6500 9200
**Woodlawn Site Office**
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**Email:** heron@heronresources.com.au
**Website:** www.heronresources.com.au

**AUDITOR**
**Ernst & Young**
200 George St
SYDNEY 2000 New South Wales

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

**SHARE REGISTRY**
**Security Transfer Australia Pty Ltd**
770 Canning Highway
Applecross 6153 Western Australia
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233
Email: registrar@securitytransfer.com.au
**TSX Trust Transfer Services Inc.**
100 Adelaide St. W, Suite 301
Toronto, Ontario M5H 4H1
Canada
Tel: (416) 361-0152
Email: info@tmx.com

**SOLICITORS TO THE COMPANY**
**Allion Legal Pty Ltd**
50 Kings Park Road, West Perth 6005 Western Australia
**Resources Legal Pty Ltd**
1A Rosemead Rd, Hornsby 2077 New South Wales
**Peterson McVicar LLP**
390 Bay Street, Suite 806, Toronto, Ontario M5H 2Y2

**STOCK EXCHANGE**
**Australian Securities Exchange Limited**
2 The Esplanade, Perth 6000 Western Australia

**ASX CODE** HRR

**Toronto Stock Exchange**
TMX Group Ltd
The Exchange Tower, 130 King Street West
Toronto, Ontario M5X 1J2

**TSX CODE** HER

**INDUSTRY CLASSIFICATION**
GICS classification code is 15104020
Diversified Metals and Mining

**ISIN** AU000 000 HRR6

**Heron Resources Limited**
**ABN 30 068 263 098**

# FINANCIAL REPORT

## For the half year ended 31 December 2017

# CONTENTS



**This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Heron Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.**

# DIRECTORS' REPORT

The Directors submit their report for the consolidated entity consisting of Heron Resources Limited (Heron or the Company) and the entities Heron controlled at the Half Year ended 31 December 2017.

## BOARD

The names of the Directors of the Company during the period and at 31 December 2017 were:

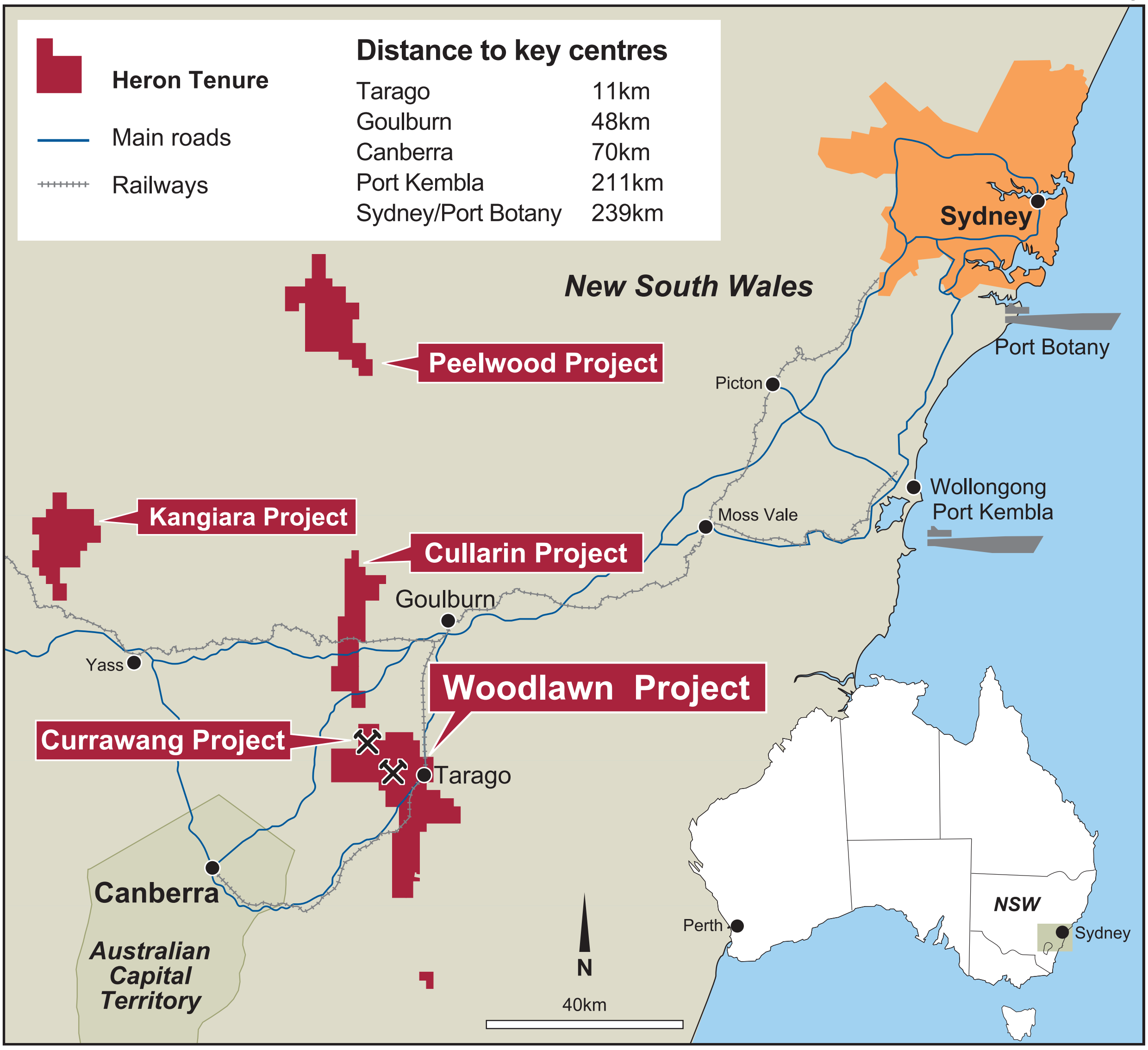
Stephen Dennis
Wayne Taylor
Borden Putnam III
Fiona Robertson
Mark Sawyer
Peter Rozenauers (appointed 22nd September 2017)
Ricardo de Armas (appointed 22nd September 2017)
Ian Pattison (appointed 29th November 2017)

There were three meetings of directors held during the period with all directors appointed attending each of the meetings they were eligible to attend except Mr Sawyer who was unable to attend two of the meetings.

## WOODLAWN ZINC-COPPER PROJECT

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

**Figure 1: Woodlawn Project location and tenement map**



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

The last 3 years have seen Heron directing its efforts to developing the Woodlawn Zinc-Copper Project with the successful completion of a Preliminary Economic Assessment (PEA) in 2015, followed by the Feasibility Study (FS) in June 2016 and then the completion of project financing in September 2017. Construction activities commenced in September 2017 and the Project is expected to start commissioning in December 2018. The price outlook for all metals to be produced at Woodlawn remains strong, particularly zinc which continues to face a significant supply shortfall.

## WOODLAWN PROJECT – DEVELOPMENT PROGRESS

Construction activities commenced on 9 September 2017 and have continued with a focus on the initial plant site earthworks. The project remains on schedule to commence commissioning the processing plant in late 2018 and deliver the first shipment of concentrate to market in the first quarter of 2019. Activities undertaken during the 6 month period to 31 December 2017 include:

- **Safety & Environment:** There have been no significant safety or environmental incidents since construction commenced. From the commencement of construction the site has achieved 102 days Lost Time Injury free to the end of December.
- **Earthworks:** Since the beginning of earthworks approximately 410,000 $m^3$ of material had been moved with 400,000 $m^3$ remaining at the end of December. Heron's earthmoving contractor, Ertech, expanded their fleet to 45 units of plant and approximately 55 personnel. The main road entrance from Collector Road has been substantially completed and the main process plant site levelling and foundation preparation was completed in January 2018. Work continues on the haulage road, the box cut for the underground access and construction of Tailings Storage Facility 4 has commenced.
- **Project EPC Works:** Engineering design is ongoing and 50% complete and procurement is 30% completed. A contract was executed with Outotec for the paste plant to support underground filling operations. The building of the IsaMill (Figure 2) in Germany remains ahead of plan. Civil works have commenced on the process plant pads.
- **Schedule:** There have been 20 days lost due to wet weather to the end of December; however this has not impacted the overall project schedule which remains on track. The project overall was reported at 17% completed at the end of 2017.
- **Water Treatment:** Heron executed a $2.5M water treatment services contract with Ixom Operations Pty Ltd on 21 December 2017. This contract is for the supply, installation and commissioning of a water treatment plant under hire purchase terms. The plant is due for completion in the December 2018 quarter.
- **Underground Mine Contract:** The underground mining contract tender progressed to a shortlisting of companies. Tender clarifications are underway and the contract will be awarded in the March 2018 quarter.
- **Port Contract:** This contract was awarded to Port Kembla Gateway in January 2018.
- **Water Management:** Water management activities and mine dewatering continued. The refurbishment of the existing borefield is nearing completion.
- **Compliance Activities:** The final management plans were underway and an annual compliance meeting with government agencies took place on 24 November 2017 and no matters of significance were raised by the agencies.
- **Community:** A quarterly project community consultation committee meeting was held on 20 November 2017. The Company remains active in supporting local community initiatives.
- **Project Personnel:** Further recruitment of additional project and operational personnel continued. Further appointments in the operational superintendent roles are expected in the first half of 2018.


**Figure 2: Heron's Isa Mill**

**Figure 3: Crushing of material for final pad pavement**


**Figure 4: Final pavement being placed on process plant pad**


**Figure 5: Clearing of underground box cut area**

## WOODLAWN EXPLORATION – NEW MINERAL RESOURCE ON SHALLOW G2 LENS AND TOTAL UNDERGROUND RESOURCE UPDATE

During the December quarter a new mineral resource estimate for the G2 lens was announced (ASX release dated 13 November 2017) that followed on from the G2 drilling program completed in the previous quarter. The program focused on expanding the shallow G2 position in areas close to the proposed box-cut and decline route, and which are planned to be accessed early in the mine schedule.

**G2 Lens**

The G2 Lens is located to the south of the Kate Lens, and is adjacent to the planned route of the decline at 100-200m below surface (Figure 6). During the December quarter, a program of 22 diamond core holes for 4,246m of drilling was completed to further define the shallow resource base. Three key mineralised horizons were identified, namely G2 Main (G2); G2 Hanging-wall (GH); and the newly defined G2 Copper zone (GC).

The G2 Main was the primary target of the resource-expansion drilling campaign and comprises a zone of 5-10cm zinc sulphide-rich stringers which crosscut beds of coarse-grained volcanic breccia. The GH zone was discovered during the follow-up program and comprises very high-grade massive and stringer style polymetallic sulphides occurring approximately 30 to 40m stratigraphically above the G2 Main zone hosted in mudstone. The GC zone is typical Woodlawn copper sulphide mineralisation consisting of both sulphide stringer and some massive sulphides (pyrite±chalcopyrite) in a chlorite alteration zone. Full assay results from the recent drilling program are provided in Heron's ASX release dated 20 September 2017.

**G2 Lens Mineral Resource Estimate**

The G2 Lens Mineral Resource estimate was undertaken by Heron and verified by SRK Consulting and was estimated in accordance with the JORC Code (2012) and the NI 43-101 guidelines. Two distinct types of mineralisation have been modelled as separate domains: 1) Polymetallic; and 2) Copper dominated. The total Underground Mineral Resource for Woodlawn was recalculated using specific cut-off grades for the separate polymetallic and copper domains which resulted in a 9.1% increase in total tonnes and a slight decrease of the copper grades within the copper domains. Importantly the Total Measured and Indicated Mineral Resource for the underground has increased by 0.5Mt or 12% which has the potential to add to the total reserve base.

Details of the estimation methodology used is reported within JORC 2012 in Table 1 of Heron's ASX release dated 13 November 2017.

**G2 Mineral Resource Estimate 2017**
(Cut-off grades are 7% ZnEq for polymetallic, and 1% Cu for copper mineralisation)

*Indicated Mineral Resources*

| Lens | Domain | Resource Category | Quantity (kt) | ZnEq (%) | Zn (%) | Cu (%) | Pb (%) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|---|---|---|---|
| G2 | Polymetallic | Indicated | 100 | 11.9 | 6.3 | 0.5 | 3.1 | 0.41 | 41 |
| GC | Copper | Indicated | 39 | 5.5 | 0.1 | 1.5 | 0.0 | 0.36 | 10 |
| ***Total*** | **Combined** | **Indicated** | **139** | **10.1** | **4.5** | **0.8** | **2.3** | **0.40** | **33** |

*Inferred Mineral Resources*

| Lens | Domain | Resource Category | Quantity (kt) | ZnEq (%) | Zn (%) | Cu (%) | Pb (%) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|---|---|---|---|
| G2 | Polymetallic | Inferred | 25 | 11.9 | 6.1 | 0.4 | 3.2 | 0.76 | 46 |
| GH | Polymetallic | Inferred | 6 | 54.0 | 13.7 | 0.7 | 7.9 | 6.33 | 878 |
| GC | Copper | Inferred | 28 | 5.3 | 0.1 | 1.5 | 0.0 | 0.34 | 8 |
| ***Total*** | **Combined** | **Inferred** | **58** | **13.3** | **4.0** | **0.9** | **2.2** | **1.16** | **117** |

Notes: 1) Please refer to Heron's ASX release dated 13 November 2017 for Qualified Persons statements; 2) ZnEq refers to a calculated Zn equivalent grade the formula for which is stated at the end of this report; 3) Polymetallic refers to polymetallic massive sulphide mineralisation with high-grade Zn and Pb contents; Copper refers to Cu-dominated massive and stringer style sulphide mineralisation; 4) Some rounding-related discrepancies may occur in the totals; 5) the Mineral Resource is reported in accordance with the JORC Code (2012) and NI 43-101 43-101 guidelines; 6) further details of the Mineral Resources estimation are provided in the JORC Code (2012) Table 1 within Heron's ASX release dated 13 November 2017.

### Total Woodlawn Underground Mineral Resource 2017

The total Woodlawn underground Mineral Resource was recalculated as part of the update process, using a cut-off grade for the copper domain mineralisation of 1% Cu, which has led to a 9.1% increase in the total tonnes of the Mineral Resource with a slight decrease in the copper grades within the copper domains. The use of a separate and tailored cut-off grade for the copper mineralisation was deemed to be more reflective of the physical and commercial performance of this potential production source.

A review of the potential total mining inventory is currently underway with current work focused on the G2 Ore Reserve estimation, selected metallurgical testing and updating of early mine schedule.

**Woodlawn Total Underground Mineral Resource 2017**
(7% ZnEq cut off grade for Polymetallic and 1% Cu cut off grade for Copper)

*Indicated + Measured Mineral Resource*

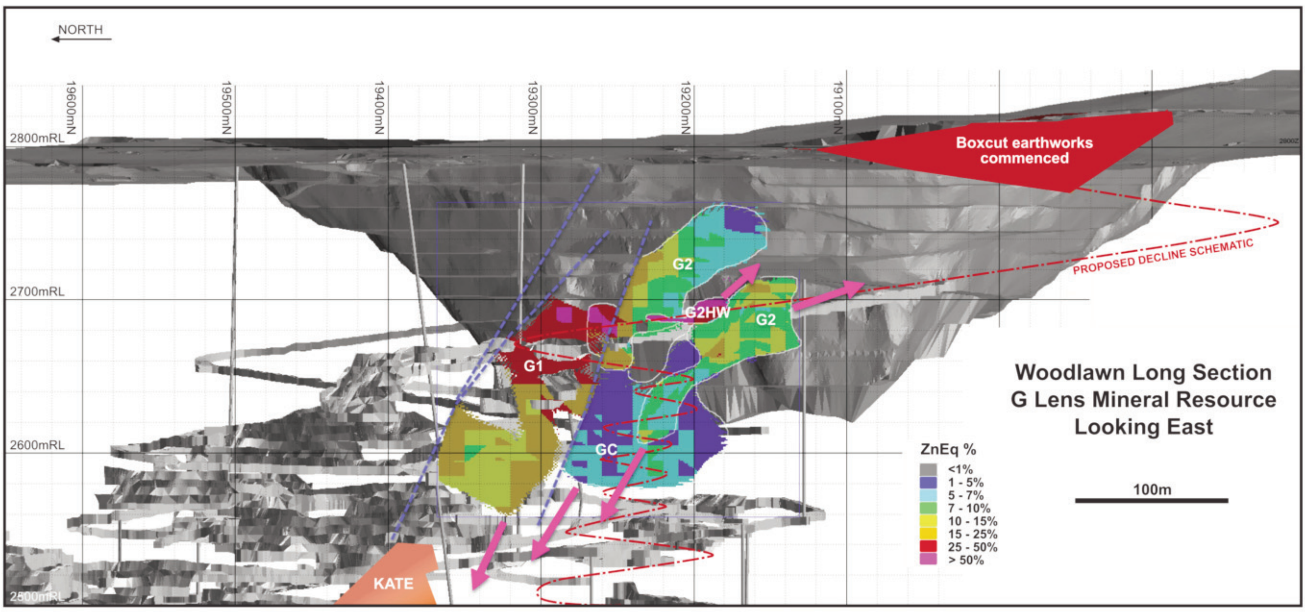
| Lens | Domain | Resource Category | Quantity (Mt) | ZnEq (%) | Zn (%) | Cu (%) | Pb (%) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|---|---|---|---|
| All Lenses | Polymetallic | Meas+Ind | 2.7 | 21.6 | 10.9 | 1.5 | 4.0 | 0.7 | 79 |
| All Lenses | Copper | Meas+Ind | 1.9 | 9.7 | 0.7 | 2.6 | 0.1 | 0.2 | 14 |
| ***Total*** | **Combined** | **Meas+Ind** | **4.6** | **16.7** | **6.7** | **1.9** | **2.4** | **0.5** | **52** |

*Inferred Mineral Resources*

| Lens | Domain | Resource Category | Quantity (Mt) | ZnEq (%) | Zn (%) | Cu (%) | Pb (%) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|---|---|---|---|
| All Lenses | Polymetallic | Inferred | 1.9 | 16.9 | 7.3 | 1.5 | 3.0 | 0.8 | 61 |
| All Lenses | Copper | Inferred | 0.7 | 9.2 | 0.7 | 2.5 | 0.1 | 0.2 | 12 |
| ***Total*** | **Combined** | **Inferred** | **2.6** | **14.9** | **5.6** | **1.8** | **2.2** | **0.6** | **48** |

Notes: 1) Please refer to Heron's ASX release dated 13 November 2017 for Qualified Persons statements; 2) ZnEq refers to a calculated Zn equivalent grade the formula for which is stated at the end of this report; 3) Polymetallic refers to polymetallic massive sulphide mineralisation with high-grade Zn and Pb contents; Copper refers to Cu-dominated massive and stringer style sulphide mineralisation; 4) Some rounding related discrepancies may occur in the totals; 5) the Mineral Resource is reported in accordance with the JORC Code (2012) and NI 43-101 43-101 guidelines; 6) further details of the Mineral Resources estimation are provided in the JORC Code (2012) Table 1 within Heron's ASX release dated 13 November 2017.

**Figure 6: Woodlawn G Lens complex long-section looking east showing key lens components in relation to the proposed box cut and decline. Kate lens is shown for reference.**



## WOODLAWN REGIONAL PROSPECTS

Heron continues to maintain and explore a strategic, 1,067km$^2$ tenement package over the prospective Silurian volcanic rocks which host Woodlawn and surround the site. Heron's exploration strategy is to focus on known mineralisation with comparable metallurgy to Woodlawn and within proximal trucking distance of the proposed Woodlawn concentrator. A number of excellent targets exist, including Currawang, which is described in more detail below. Details of Heron's other regional prospects are contained in Appendix A. Details of Heron's joint venture projects are provided in Appendix B.

## CURRAWANG PROSPECT

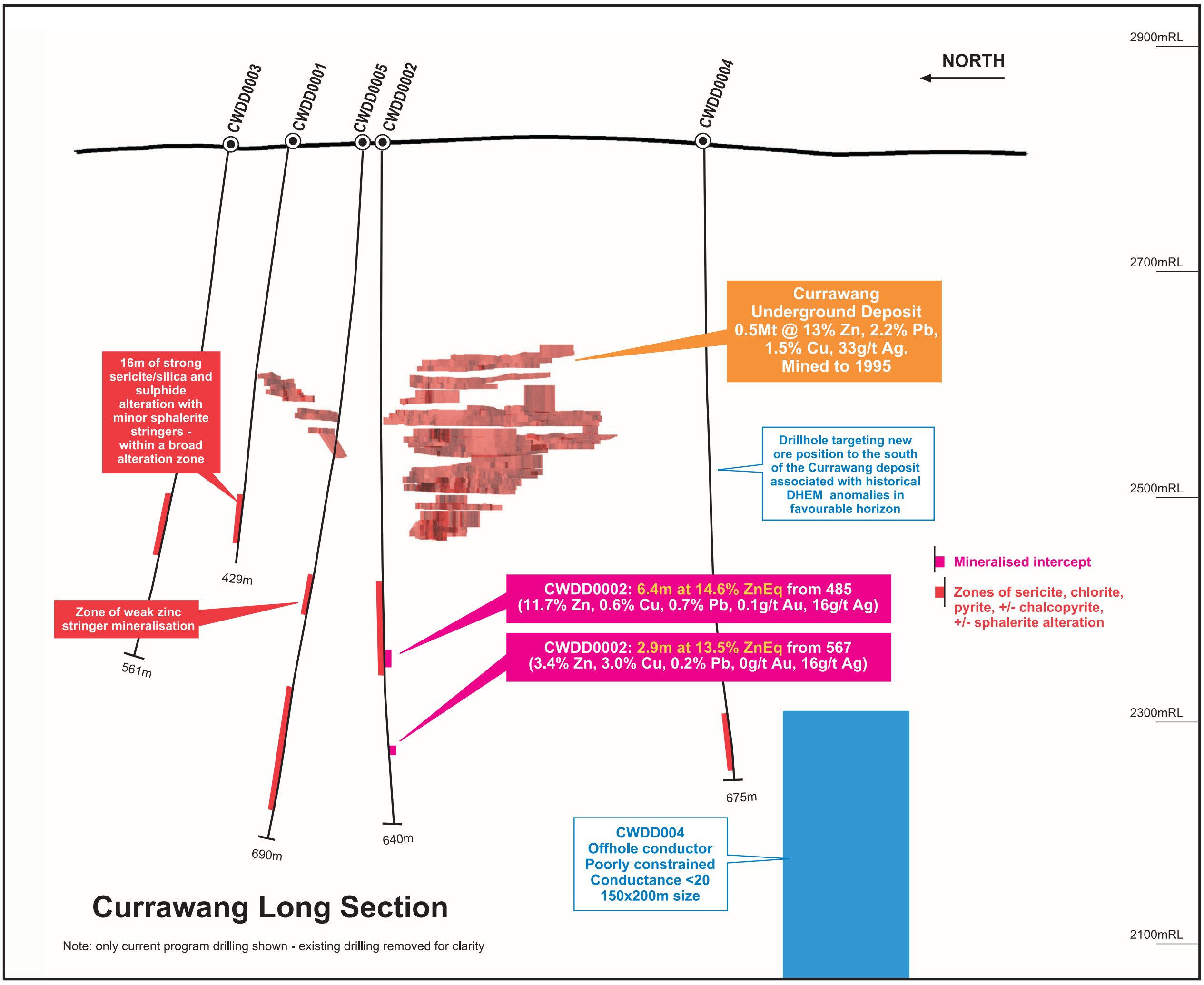
In the September 2017 quarter, five DDH holes for 2,994m were drilled at Currawang that targeted extensions to the existing lenses, as well as the broader testing of the genetic and post-mineral structural environment associated with high-grade volcanic massive sulphide (VMS) mineralisation that was previously mined in the mid-1990's (approximately 0.5Mt at similar grades to the Woodlawn polymetallic resources).

The second drill hole in Heron's program targeted the down-plunge extension to the main Currawang Lens (Figure 7; DDH CWDD0002) and intersected 6.4m of 5 to 10cm stringers, and semi-massive Zn sulphide mineralisation from 485m within a broad zone of hydrothermal alteration hosted by the basalt sequence. Copper sulphides within this zone are thought to be responsible for the DHEM anomaly previously measured in this area.

This hanging-wall position represents a potential new zone and/or lens of mineralisation . DDH CWDD0002 continued to a depth of 640m and passed through a broad (50m+) zone of intense chlorite alteration with copper-sulphide stringers. These type of chlorite zones are typically associated with the massive sulphide feeders which create the main VMS lenses. Assay results that were reported in the September 2017 quarter include two significant intercepts from these two zones:

| Thickness (m) | ZnEq[1] (%) | Downhole start (m) | Zn (%) | Cu (%) | Pb (%) | Au (g/t) | Ag (g/t) | Drill hole |
|---|---|---|---|---|---|---|---|---|
| 6.4 | 14.6 | 484.9 | 11.7 | 0.6 | 0.7 | 0.1 | 16.0 | CWDD0002 |
| 2.9 | 13.5 | 567.0 | 3.4 | 3.0 | 0.2 | 0.0 | 15.8 | CWDD0002 |

**Figure 7: Currawang long-section (looking east) showing the areas previously mined (shaded red) and the traces of the five DDH in this campaign.**



These results are highly encouraging. The last DDH of the program (CWDD0005) was drilled beneath and down-plunge from these intercepts and intersected a broad zone (17.4m) of weak and low-grade Zn sulphide stringers from 428m depth.

Other DDH in the program targeted the primary Currawang structural controls along-strike to the north of the main Currawang Lens in an area of limited historic drilling (Figure 7- CWDD0001 and 03). DDH CWDD0001 intersected a broad interval (38m from 341m down-hole) of moderate to intense alteration comprising sericite, silica, pyrite, and chlorite development within a strongly foliated, and in-part brecciated basalt (the Currawang Basalt). Within this interval is 16m of an intensely developed hydrothermal alteration assemblage, with minor stringers of Zn sulphides with lesser amounts of Pb and Cu sulphides. DDH CWDD0003 intersected a broad zone of moderate to strong silica, chlorite, biotite alteration (381 to 433m depth) with some stringers of base-metal sulphides.

DDH CWDD0004 was drilled to a depth of 675m testing the southern extent of the mineralisation, and intersected a zone of weakly developed silica, chlorite, pyrite alteration towards the bottom of the hole, although this was less well-developed than the other intercepts to the north.

Overall, the 5 DDH drill campaign was very successful, intercepting high-grade intercepts in new stratigraphic and structural positions, which both extend and further delineate the known extents of mineralisation and alteration.

Down-hole electromagnetic (DHEM) surveys were completed at Currawang with a number of significant off-hole conductors identified. However, further surveying is recommended using different instrumentation by our consultant geophysicist to better locate and delineate the anomalies. Heron's exploration program is part of the NSW Government's Cooperative Drilling Program, with 50% of the direct drilling costs being reimbursable to Heron for the first 4 holes.

For further commentary on the review of operations for the six months to 31 December 2017, please refer to Management's Discussion and Analysis (MD&A) contained in Appendix 2 of this report.

## ROUNDING OFF

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

## AUDITOR'S INDEPEDENCE DECLARATION

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

Signed in accordance with a resolution of Directors.

**S Dennis**
Chairman
Sydney, 14 February 2018

Woodlawn Construction activities commenced on 9 September 2017

Ernst & Young
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Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the review of Heron Resources Limited for the half-year ended 31 December 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 review; and

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

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

Ernst & Young

Scott Jarrett
Partner
Sydney
14 February 2018

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDING 31 DECEMBER 2017

| | Notes | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|---|
| **OTHER INCOME** | 2 | 2,503 | 290 |
| Accountancy/Professional fees | | (20) | (130) |
| Consultants expense | | (119) | (17) |
| Depreciation expense | 4(b) | (14) | (40) |
| Directors fees | | (197) | (155) |
| Employee benefits expense | | (646) | (495) |
| Insurance expense | | (26) | (90) |
| Legal fees [(1)] | | (116) | (66) |
| Equity Settled Share based payments | 3, 13(a) | (221) | (355) |
| Rental expense | | (97) | (131) |
| Stock exchange fees (ASX/TSX) | | (116) | (137) |
| Computer Support & Services | | (80) | (175) |
| Other Expenses from Ordinary Activities | 4(a) | (530) | (340) |
| Unrealised Investment gain | 8 | 11,879 | 222 |
| Exploration expenditure | 11 | (780) | (743) |
| Unrealised foreign exchange gain/(loss) | | (191) | - |
| **PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE** | | 11,229 | (2,362) |
| **INCOME TAX EXPENSE** | | - | - |
| **PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE** | | 11,229 | (2,362) |
| **OTHER COMPREHENSIVE INCOME** | | - | - |
| **TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE HALF YEAR** | | 11,229 | (2,362) |
| | | **$** | **$** |
| Basic gain/(loss) per share | 5 | 0.066 | (0.05) |
| Diluted gain/(loss) per share | 5 | 0.065 | (0.05) |

(1) Legal Fees not related to the Woodlawn capital raise (refer Note 7)

The Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

| | Notes | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash assets | 14 | 108,964 | 11,690 |
| Trade and other receivables | 6(a) | 2,484 | 717 |
| Derivative Asset | 18 | 838 | - |
| Other assets – deferred cost | 7 | 1,992 | 2,481 |
| **TOTAL CURRENT ASSETS** | | 114,278 | 14,888 |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Restricted Cash | 14 | 4,577 | - |
| Trade and other receivables | 6(b) | 35 | 35 |
| Investments | 8 | 17,157 | 5,775 |
| Property, plant and equipment | 9 | 87 | 40 |
| Woodlawn Mine property | 10 | 66,941 | - |
| Exploration and evaluation costs carried forward | 11 | - | 26,434 |
| **TOTAL NON-CURRENT ASSETS** | | 88,797 | 32,284 |
| | | | |
| **TOTAL ASSETS** | | 203,075 | 47,172 |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 12 | 13,243 | 2,461 |
| Provisions – employee entitlements | | 515 | 564 |
| **TOTAL CURRENT LIABILITIES** | | 13,758 | 3,025 |
| | | | |
| **NON- CURRENT LIABILITIES** | | | |
| Provisions – rehabilitation | | 3,577 | - |
| Provisions – employee entitlements | | 176 | 137 |
| **TOTAL NON-CURRENT LIABILITIES** | | 3,753 | 137 |
| **TOTAL LIABILITIES** | | 17,511 | 3,162 |
| | | | |
| **TOTAL NET ASSETS** | | 185,564 | 44,010 |
| | | | |
| **EQUITY** | | | |
| Contributed Equity | | 259,742 | 129,638 |
| Option Reserve | 13(a) | 1,710 | 1,489 |
| Accumulated losses | 13(b) | (75,888) | (87,117) |
| **TOTAL EQUITY** | | 185,564 | 44,010 |

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDING 31 DECEMBER 2017

| | Note | Issued Capital $'000 | Retained Earnings $'000 | Option Reserve $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 30 June 2017** | | 129,638 | (87,117) | 1,489 | 44,010 |
| Total comprehensive income | 13(b) | - | 11,229 | - | 11,229 |
| Issue of share capital | 15 | 140,115 | - | - | 140,115 |
| Share issue costs | | (5,055) | - | - | (5,055) |
| Realised FX Loss [(1)] | | (4,956) | | | (4,956) |
| Cost of share based payments | 13(a) | - | - | 259 | 259 |
| Option reserve write back | | - | - | (38) | (38) |
| **As at 31 December 2017** | | **259,742** | **(75,888)** | **1,710** | **185,564** |
| | | | | | |
| **As at 30 June 2016** | | 138,409 | (84,260) | 935 | 55,084 |
| Total comprehensive income | | - | (2,362) | - | (2,362) |
| Cost of share based payments | | - | - | 355 | 355 |
| Option reserve write back | | - | - | - | - |
| **As at 31 December 2016** | | **138,409** | **(86,622)** | **1,290** | **53,077** |

(1) For the Woodlawn capital raising 2.002 billion shares were issued at A$0.07 cents per share. The three cornerstone investors subscribed for their shares in US$ which was converted to AU$ upon receipt of funds in September 2017 thereby creating an FX loss.

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDING 31 DECEMBER 2017

| | Notes | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest received | | 528 | 250 |
| Payments to suppliers | | (4,643) | (2,451) |
| Exploration and development expenditure – expensed | | (1,080) | (784) |
| **NET CASH USED IN OPERATING ACTIVITIES** | | (5,195) | (2,985) |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Exploration and development expenditure - capitalised | | (270) | (3,772) |
| Woodlawn Mine – asset under construction | | (26,746) | - |
| Payment of Bonds/Bank Guarantees | | (4,577) | - |
| Proceeds from sale of investments | | 2,404 | 379 |
| Purchase of plant and equipment | | (61) | - |
| Payment – USD hedge | | (713) | - |
| Proceeds from R&D refund | 11 | 1,839 | - |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (28,124) | (3,393) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from equity raising | | 140,172 | - |
| Payments for capital raising costs | | (4,623) | - |
| Realised foreign exchange loss – Woodlawn equity raising | | (4,956) | - |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | | 130,593 | - |
| | | | |
| **NET INCREASE/(DECREASE) IN CASH HELD** | | 97,274 | (6,378) |
| Cash at the beginning of the reporting period | | 11,690 | 22,891 |
| | | | |
| **CASH AT THE END OF THE REPORTING PERIOD** | 14 | 108,964 | 16,513 |

The Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES

### Statement of Compliance and Basis of Preparation

### a) General

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements have been prepared under the historical cost convention, 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 interim financial report does not include all of the information required for a full annual report and accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Heron Resources Limited during the half year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company's 2017 annual financial report for the financial year ended 30 June 2017.

Exploration expenditure is transferred from 'Exploration and evaluation assets' to 'Mines under construction' which is a sub-category of 'Mine properties' once the work completed to date supports the future development of the property and such development receives appropriate approvals.

After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised in 'Mines under construction'. Development expenditure is net of proceeds from the sale of ore extracted during the development phase to the extent that it is considered integral to the development of the mine. Any costs incurred in testing the assets to determine if they are functioning as intended, are capitalised, net of any proceeds received from selling any product produced while testing. Where these proceeds exceed the cost of testing, any excess is recognised in the statement of profit or loss and other comprehensive income. After production starts, all assets included in 'Mines under construction' are then transferred to 'Producing mines' which is also a sub-category of 'Mine properties'.

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

The Company incurred a profit for the 6 months period after tax of $11,229 (2016: loss of $2,362) and a net cash out flow from operating activities of $5,195 (2016: out flow $2,985). The interim financial statements for the six-month period ended 31 December, 2017 have been prepared on the basis of a Going Concern, notwithstanding the fact that the Company incurred a net cash outflow from operating and investing activities for the 6 month period of $33,319 (2016: outflow $6,378).

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.

| | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|
| **NOTE 2 OTHER INCOME** | | |
| Profit on Interest received | 568 | 250 |
| Tenement rates refund | 23 | - |
| Profit on sale of listed investments - Ardea | 1,912 | 40 |
| Total other income | 2,503 | 290 |

## NOTE 3 SHARE BASED PAYMENTS

Share based payments is the fair value of options issued and expensed over the vesting period.

| | | |
|---|---|---|
| Cost of share based payments | (259) | (355) |
| Option reserve write back | 38 | - |
| | (221) | (355) |

## NOTE 4 OTHER EXPENSES – INCOME STATEMENT

| | 31 Dec 2017<br>$'000 | 31 Dec 2016<br>$'000 |
|---|---|---|
| **(a) Other Expenses comprise the following items:** | | |
| Office expenses and supplies | (118) | (96) |
| Payroll Tax | (95) | (24) |
| Travel and Accommodation | (83) | (96) |
| Miscellaneous expenses | (27) | (25) |
| Media and public relations | (10) | - |
| Conference and seminars | (7) | - |
| Investor relations | (190) | (99) |
| | (530) | (340) |
| **(b) Depreciation expense** | | |
| Office furniture & equipment | (11) | (29) |
| Plant & equipment | (2) | (8) |
| Motor vehicles | (1) | (3) |
| | (14) | (40) |

## NOTE 5 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the half yearly gain of $11,229,354 by the weighted average number of ordinary shares outstanding during the half-year of 170,299,171 giving basic and diluted earnings per share of $0.066 and $0.065 respectively [2016: (0.05)].

The Basic and diluted earnings/(loss) per share for the half year 31 December 2016 comparative period has been restated to reflect the 1 for 10 share consolidation of the Company's shares which was completed in December 2017.

## NOTE 6 TRADE AND OTHER RECEIVABLES

**(a) Current:**

| | 31 Dec 2017<br>$'000 | 30 Jun 2017<br>$'000 |
|---|---|---|
| Accrued Interest Receivable | 55 | 2 |
| Prepayments 630 | 155 | |
| GST receivable | 1,643 | 166 |
| Property bonds | 36 | - |
| Tenement securities | 70 | - |
| Ardea Resources Ltd – expense reimbursement | - | 238 |
| Sundry Debtors | 50 | 156 |
| | 2,484 | 717 |

**(b) Non Current:**

| | | |
|---|---|---|
| Employee share option plan – non-recourse loan | 35 | 35 |
| | 35 | 35 |

**NOTE 7 OTHER ASSETS – DEFERRED COSTS**

| | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|
| Costs for Woodlawn Project Finance | 1,992 | 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 equity and debt funding process. As the equity raising was completed on 6 September 2017, the costs associated with this raising ($5,055 – see Note 15) were offset against the gross proceeds raised within the statement of changes in equity. The costs of raising debt will be allocated to debt once drawdown occurs in 2018 and amortised over the life of debt. The comparative balance at 30 June 2017 includes both debt and equity related costs.

**NOTE 8 INVESTMENTS IN OTHER ENTITIES – NON CURRENT**

**INVESTMENTS IN OTHER ENTITIES AT FAIR VALUES**

| | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Centennial Mining Limited | 253 | 460 |
| Metalicity Limited | 108 | 535 |
| Alchemy Resources Ltd | 36 | 40 |
| Ardea Resources Limited- $0.25 cent Options | 16,760 | 4,740 |
| | 17,157 | 5,775 |

| **Movement in investments** | **$'000** |
|---|---|
| **Centennial Mining Limited** | |
| Carrying value 30 Jun 2017 | 460 |
| Gain/(Impairment) | (207) |
| Carrying value 31 Dec 2017 | 253 |
| | |
| **Metalicity Limited** | |
| Carrying value 30 Jun 2017 | 535 |
| Sold – on market shares | (497) |
| Gain/(Impairment) | 70 |
| Carrying value 31 Dec 2017 | 108 |
| | |
| **Alchemy Resources Ltd** | |
| Carrying value 30 Jun 2017 | 40 |
| Gain/(Impairment) | (4) |
| Carrying value 31 Dec 2017 | 36 |
| | |
| **Ardea Resources Limited – $0.25 cent Options:** | |
| Carrying value 30 Jun 2017 | 4,740 |
| Gain/(Impairment) | 12,020 |
| Carrying value 31 Dec 2017 | 16,760 |
| | |
| **Summary** | |
| Carrying value 30 Jun 2017 | 5,775 |
| Sale of shares on market | (497) |
| Unrealised gain/(loss) on mark to market | 11,879 |
| Carrying value 31 Dec 2017 | 17,157 |

**Centennial Mining Ltd (CTL)** is an Australian listed public exploration company with 976,564,904 fully paid ordinary shares on issue. Heron holds 23,000,000 fully paid shares at 31 December 2017, which have been valued at the closing price on that day of $0.011 cents per share.

**Metalicity Limited (MCT)** is an Australian listed public exploration company with 507,439,136 fully paid ordinary shares on issue. During the 6 months to 31 December 2017, the Company sold 10,594,997 shares on market for cash proceeds of $497,000. Heron holds 2,850,003 fully paid shares at 31 December 2017, which have been valued at the closing price of $0.038 on that day.

Subsequent to 31 December 2017, Heron sold its remaining Metalicity shares on market for cash proceeds of $110,000.

**Alchemy Resources Ltd (ALY)** is an Australian listed public exploration company with 342,335,585 shares on issue. Heron owns 2,000,000 shares in Alchemy at 31 December 2017, which have been valued at the closing price of $0.018 on that day and 2,500,000 options with a 3 year term and an exercise price of $0.10 which have no ascribed value as at 31 December 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.

Since 30 June 2017, the Ardea share price has increased from $0.64 to $1.90 as at 31 December 2017. Using the same Black Scholes assumptions as at 30 June 2017, the option value at 31 December 2017 is $1.67 per option. The 10,000,000 options have been re-valued on this basis as at 31 December 2017.

## NOTE 9 PROPERTY, PLANT AND EQUIPMENT – NON WOODLAWN

| | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Plant and equipment at cost | 376 | 333 |
| Accumulated depreciation | (326) | (324) |
| | 50 | 9 |
| Office equipment & furniture at cost | 940 | 921 |
| Accumulated depreciation | (915) | (903) |
| | 25 | 18 |
| Motor vehicles at cost | 229 | 229 |
| Accumulated depreciation | (217) | (216) |
| | 12 | 13 |
| Land | 325 | 325 |
| Transferred to Ardea | (325) | (325) |
| Accumulated depreciation | - | - |
| Asset held for distribution to owners | - | - |
| | - | - |
| Total property, plant and equipment | 87 | 40 |

**Reconciliation**

| | $'000 |
|---|---|
| Plant and equipment: | |
| Carrying value at 1 July 2017 | 9 |
| Additions | 43 |
| Depreciation expense | (2) |
| Carrying value at 31 December 2017 | 50 |
| Office equipment and furniture: | |
| Carrying value at 1 July 2017 | 18 |
| Additions | 18 |
| Depreciation expense | (11) |
| Carrying value at 31 December 2017 | 25 |
| Motor vehicles: | |
| Carrying value at 1 July 2017 | 13 |
| Additions | - |
| Depreciation expense | (1) |
| Carrying value at 31 December 2017 | 12 |

## NOTE 10 WOODLAWN MINE – ASSET UNDER CONSTRUCTION

| | Year ended 31 Dec 2017 $'000 |
|---|---|
| Balance at beginning of period | - |
| Rehabilitation Asset | 3,577 |
| Woodlawn - capitalised exploration transferred | 24,865 |
| Sedgman EPC | 26,482 |
| Owners Costs – Earthworks and construction costs | 12,017 |
| Balance at end of period | 66,941 |

| | Rehabilitation Asset $'000 | Capitalised Exploration $'000 | Earthworks $'000 | Sedgman EPC $'000 | Owners Costs Construction $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance brought forward | - | - | - | - | - | - |
| Costs incurred/transferred during period | 3,577 | 24,865 | 4,642 | 26,482 | 7,375 | 66,941 |
| **Other Income** | **3,577** | **24,865** | **4,642** | **26,482** | **7,375** | **66,941** |

In 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 civil works in the March 2018 quarter with the expectation of completion of construction and commencement of commissioning in the December 2018 quarter.

## NOTE 11 EXPLORATION AND EVALUATION COSTS CARRIED FORWARD

| | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Balance brought forward | 26,434 | 31,068 |
| Exploration and evaluation costs incurred – Woodlawn | 270 | 6,837 |
| Ardea Spinout | - | (8,300) |
| Exploration and evaluation costs incurred – other projects | 780 | 1,341 |
| Exploration and evaluation expensed as incurred | (780) | (1,341) |
| R&D Tax Incentive | (1,839) | (3,171) |
| Woodlawn Exploration Costs transferred to Woodlawn Mine Property | (24,865) | - |
| Balance carried forward | - | 26,434 |

The Directors of the Company made an affirmative decision to develop the Woodlawn project on 6 September 2017. According to the requirements of AASB 6, the Company completed an impairment test at that date. The recoverable value was determined based on a value in use model, using discounted cash flows. The impairment test calculations use cash flow projections based on financial forecasts of how the mine is expected to perform, consistent with external data. The estimation of future cash flows requires assumptions to be made regarding uncertain future events.

The estimated recoverable value at the impairment testing date was in excess of the carrying value. There are no reasonably possible changes in any of the key assumptions that would have resulted in an impairment. Accordingly, the Company has reclassified the exploration and evaluation asset to Woodlawn Mine Property at its carrying value of $24,865, 000 – refer Note 10.

## NOTE 12 TRADE AND OTHER PAYABLES CURRENT

| | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Trade creditors and accruals – Woodlawn | 12,977 | 733 |
| Trade creditors and accruals – Corporate | 266 | 1,728 |
| | 13,243 | 2,461 |

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

## NOTE 13 RESERVES AND ACCUMULATED LOSSES

| (a) Option reserve | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Balance brought forward | 1,489 | 935 |
| Cost of share based payments | 259 | 561 |
| Write back of lapsed options expense | (38) | (7) |
| Balance carried forward | 1,710 | 1,489 |

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 or lapse.

| (b) Accumulated losses | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Balance brought forward | (87,117) | (84,258) |
| Net profit / (loss) for the period | 11,229 | (2,857) |
| Balance carried forward | (75,888) | (87,117) |

## NOTE 14 CASH AND RESTRICTED CASH

| | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Cash on hand | 28,964 | 1,690 |
| Deposits at Call | 80,000 | 10,000 |
| Balance carried forward | 108,964 | 11,690 |

| Restricted Cash – Non Current | 31 Dec 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| Environmental Bond | 3,577 | - |
| Bank Guarantee | 1,000 | - |
| Balance carried forward | 4,577 | - |

During the 6 months to 31 December 2017, the Company posted a rehabilitation Bond of $3,577,000 with the Department of Resources and Energy (DRE) to cover the environmental liabilities at the Woodlawn Mine (excluding Veolia's area of operations). The Company also provided a $1,000,000 Bank Guarantee to Veolia in compliance with its obligations under the Veolia Cooperation Deed.

Cash security for tenement and environmental bonds of $70,000 (June 2017: $155,000) is included in Trade and Other Receivables (refer Note 6) on the consolidated statement of financial position. This cash is not available to the Company for ordinary activities. Property Bonds of $35,711 (June 2017: $35,711) are also not included in Cash.This amount is held as a security term deposit and is not available to the Company for ordinary activities and is also included in Trade and Other Receivables (refer Note 6).

## NOTE 15 CONTRIBUTED EQUITY

| | Year ended 31 Dec 2017 $'000 | Year ended 30 Jun 2017 $'000 | Year ended 31 Dec 2017 Units | Year ended 30 Jun 2017 Units |
|---|---|---|---|---|
| *Reconciliation of issued capital* | | | | |
| *a) Ordinary shares* | | | | |
| Opening balance | 129,638 | 138,409 | 415,009,381 | 415,009,381 |
| Heron shares issued - Sept 2017 | 140,115 | - | 2,001,562,259 | - |
| 1 for 10 Share Consolidation – Nov 2017 * | | | (2,174,904,728) | |
| Return of Capital – Ardea spin out | - | (8,771) | - | - |
| Share issue costs | (5,055) | - | - | - |
| Realised FX Loss | (4,956) | - | - | - |
| Closing balance | **259,742** | **129,638** | **241,666,912** | **415,009,381** |

* During the 6 month period to 31 December 2017, the company undertook a 1 for 10 Share Consolidation.

*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) |
| | 1 for 10 Consolidation | | | (19,688,992) |
| 31 December 2017 | Closing balance | Various | Various | 2,140,836 |

*c) Performance Rights:*

| Date | Details | Exercise price | Expiry date | Number |
|---|---|---|---|---|
| 1 July 2017 | Opening balance | Nil | N/A | Nil |
| | Rights issued | $Nil | 30 June 2020 | 2,895,000 |
| | Rights cancelled | Nil | N/A | Nil |
| 31 December 2017 | Closing balance | - | - | 2,895,000 |

The value of the Performance Rights at the date of grant was undertaken by an independent valuer using a Monte Carlo simulation methodology. The value of the Performance rights was deemed to be $0.59 per right (on a post consolidation basis) and were granted after the 1 for 10 share consolidation.

## NOTE 16 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 $70,000 (30 June 2017: $155,000) 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 31 December 2017. A further $4M Bank Guarantee will be provided in favour of Veolia during the March 2018 Quarter.

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.

## NOTE 17 SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged in the minerals industry in Australia. The Company's activities are divided into three categories, Corporate, Exploration and Woodlawn.

**Segmental Information for Consolidated Statement of Comprehensive Income**

| **Half year ended 31 December 2017 ($'000)** | **Corporate** | **Woodlawn** | **Exploration** | **Total** |
|---|---|---|---|---|
| Profit on sale of investments | 1,912 | - | - | 1,912 |
| Interest received | 568 | - | - | 568 |
| Tenements refunds | 23 | - | - | 23 |
| **Other Income** | **2,503** | **-** | **-** | **2,503** |
| | | | | |
| Depreciation | (13) | (1) | - | (14) |
| Exploration expenditure expensed as incurred | - | - | - | - |
| Exploration expenditure incurred | - | 270 | 780 | 1,050 |
| Exploration expenditure capitalised | - | (270) | - | (270) |
| Investment Gain | 11,879 | - | - | 11,879 |
| Other expenses | (2,358) | (1) | - | (3,139) |
| **Profit / (loss)** | **12,011** | **(2)** | **(780)** | **11,229** |

| **Half year ended 31 December 2016 ($'000)** | **Corporate** | **Woodlawn** | **Lewis Ponds*** | **KNP*** | **Exploration** | **Total** |
|---|---|---|---|---|---|---|
| Profit on sale of investments | - | - | - | - | | |
| Interest received | 250 | - | - | - | - | 250 |
| Sundry Income | 40 | - | - | - | - | 40 |
| **Other Income** | **290** | **-** | **-** | **-** | **-** | **290** |
| | | | | | | |
| Depreciation | (20) | (6) | - | - | (14) | (40) |
| Exploration expenditure expensed as incurred | - | - | (31) | (324) | (387) | (742) |
| Exploration expenditure incurred | - | 3,772 | - | - | - | 3,772 |
| Exploration expenditure capitalised | - | (3,772) | - | - | - | (3,772) |
| Investment Impairment | 222 | - | - | - | - | 222 |
| Other expenses | (2,092) | - | - | - | - | (2,092) |
| **Profit / (loss)** | **(1,600)** | **(6)** | **(31)** | **(324)** | **(401)** | **(2,362)** |

* The Lewis Ponds and KNP Project were spun out into Ardea Resources Ltd in February 2017.

**Segmental Information for Consolidated Statement of Financial Position**

| **Balance at 31 December 2017 ($'000)** | **Corporate** | **Woodlawn** | **Exploration** | **Total** |
|---|---|---|---|---|
| Other current assets | 29,329 | 84,834 | 115 | 114,278 |
| Total current assets | 29,329 | 84,834 | 115 | 114,278 |
| | | | | |
| Property, plant and equipment | 42 | 45 | - | 87 |
| Exploration expenditure carried forward | - | - | - | - |
| Woodlawn Mine – asset under construction | - | 66,941 | - | 66,941 |
| Investments | 17,157 | - | - | 17,157 |
| Other | 4,612 | - | | 4,612 |
| Non-current assets | 21,811 | 66,941 | - | 88,797 |
| Total assets | 51,140 | 151,820 | 115 | 203,075 |
| Total liabilities | 448 | 17,033 | 30 | 17,511 |

| **Movement for the half year to 31 December 2017 ($'000)** | **Corporate** | **Woodlawn** | **Exploration** | **Total** |
|---|---|---|---|---|
| Other current assets | 14,441 | 84,834 | 115 | 99,390 |
| Total current assets | 14,441 | 84,834 | 115 | 99,390 |
| | | | | |
| Property, plant and equipment | 2 | 45 | - | 47 |
| Exploration expenditure carried forward | - | (26,434) | - | (26,434) |
| Woodlawn Mine – asset under construction | - | 63,364 | - | 63,364 |
| Investments | 11,382 | - | - | 11,382 |
| Other | 4,577 | - | - | 4,577 |
| Non-current assets | 15,961 | 36,975 | - | 52,936 |
| Total assets | 30,402 | 121,809 | 115 | 152,326 |
| Total liabilities | (1,335) | 12,107 | - | 10,771 |

**Segmental Information for Consolidated Statement of Financial Position**

| **Balance at 30 June 2017** | **Corporate** | **Woodlawn** | **Exploration** | **Total** |
|---|---|---|---|---|
| Other current assets | 14,888 | - | - | 14,888 |
| Total current assets | 14,888 | - | - | 14,888 |
| | | | | |
| Property, plant and equipment | 40 | - | - | 40 |
| Exploration expenditure carried forward | - | 26,434 | - | 26,434 |
| Woodlawn Mine – asset under construction | - | - | - | - |
| Investments | 5,775 | - | - | 5,775 |
| Other | 35 | - | - | 35 |
| Non-current assets | 5,850 | 26,434 | - | 32,284 |
| Total assets | 20,738 | 26,434 | - | 47,172 |
| Total liabilities | 1,783 | 1,349 | 30 | 3,162 |

Because the segmental information in the previous tables agrees to the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position there is no need for a reconciliation of segmental information to those statements.

## NOTE 18 DERIVATIVE ASSET

| | **31 Dec 2017 $'000** | **30 June 2017 $'000** |
|---|---|---|
| Foreign Exchange Forward Contract | 838 | - |
| | 838 | - |

During the 6 months to 31 December 2017, the Company entered into three Foreign Currency hedges to mitigate the risk of adverse movements in the USD: AUD exchange rate. The three hedges cover the foreign exchange risk on drawdown of the US dollar denominated Silver Stream of US$16M and two of the three US$20M Debt tranches. The hedges are AUD call options with a strike price of AUD0.79 cents and they have been independently marked to market as at 31 December 2017.

## NOTE 19 SUBSEQUENT EVENTS

In the opinion of the Directors there is no matter or circumstance which has arisen since 31 December 2017 that has significantly affected or may significantly affect:

a) The operations, in the financial year subsequent to 31 December 2017, of the Company; or

b) The results of those operations.

# Directors' Declaration

The Directors declare that:

In the opinion of the Directors:

1. the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. the financial statements and associated notes give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance, as represented by the results of its operations, changes in equity and its cash flows for the half year ended on that date; and
3. there are reasonable grounds to believe that Heron Resources Limited will be able to pay its debts as and when they become due and payable.

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

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

**Stephen Dennis**
Chairman

**Fiona Robertson**
Chairman - Audit Committee

Date: 14 February 2018.

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

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Heron Resources Limited, which comprises the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Heron Resources Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

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

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Heron Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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

Ernst & Young

Scott Jarrett
Partner
Sydney
14 February 2018

# APPENDIX 1 – UNAUDITED FINANCIAL STATEMENTS FOR THE 3 AND 6 MONTH PERIOD ENDED 31 DECEMBER 2017

## UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED 31 DECEMBER 2017

All amounts shown are expressed in Australian dollars

| | Three Months ended 31 December | | Six Months ended 31 December | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| **Continuing operations** | | | | |
| Other Income | 2,426 | 117 | 2,503 | 290 |
| Accountancy fees | (14) | (54) | (14) | (96) |
| Audit Fees | - | (34) | (6) | (34) |
| Consultants expense | (114) | (1) | (119) | (17) |
| Depreciation expense | (8) | (26) | (14) | (40) |
| Directors Fees | (88) | (80) | (197) | (155) |
| Employee benefits expense | (112) | (259) | (646) | (495) |
| Insurance expense | (15) | (67) | (26) | (90) |
| Legal fees | (107) | (33) | (116) | (66) |
| Rental expense | (47) | (49) | (97) | (131) |
| Stock exchange fees (ASX/TSX) | (28) | (130) | (116) | (137) |
| Equity settled share based payments | (221) | (355) | (221) | (355) |
| Investor Relations | (96) | (33) | (190) | (99) |
| Computer Support & Services | (58) | (107) | (80) | (175) |
| Other expenses from ordinary activities | (204) | (153) | (340) | (241) |
| Unrealised Investment gain/(loss) | 9,351 | - | 11,879 | 222 |
| Exploration expenditure expensed as incurred | (228) | (383) | (780) | (743) |
| Unrealised foreign exchange gain/(loss) | 117 | - | (191) | - |
| **Profit/(loss) from ordinary activities before income tax expense** | **10,554** | **(1,647)** | **11,229** | **(2,362)** |
| **Profit/(loss) from ordinary activities after income tax expense for the period** | | | | |
| **Other comprehensive income** | | | | |
| **Total comprehensive profit/(loss) for the period attributable to members** | **10,554** | **(1,512)** | **11,229** | **(2,362)** |

Gain/(Loss) per share attributable to the ordinary equity of the company (on a weighted average equity basis)

| | | | | |
|---|---|---|---|---|
| Basic gain/(loss) per share (in dollars) | 0.044 | (0.003) | 0.066 | (0.050) |
| Diluted gain/(loss) per share (in dollars) | 0.043 | (0.003) | 0.065 | (0.050) |

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2017

All amounts shown are expressed in Australian dollars

| | 31 Dec 2017 $'000 | 30 Sept 2017 $'000 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 108,964 | 128,612 |
| Receivables and Prepayments | 2,484 | 4,566 |
| Forex hedge (USD) | 838 | - |
| Other assets – deferred cost | 1,992 | 1,992 |
| TOTAL CURRENT ASSETS | **114,278** | **135,170** |
| | | |
| NON-CURRENT ASSETS | | |
| Restricted Cash | 4,577 | - |
| Receivables | 35 | 35 |
| Investments | 17,157 | 8,209 |
| Property, plant and equipment | 87 | 43 |
| Woodlawn Mine – asset under construction | 66,941 | 8,468 |
| Exploration and evaluation expenditure | - | 26,869 |
| TOTAL NON-CURRENT ASSETS | **88,797** | **43,624** |
| | | |
| TOTAL ASSETS | **203,075** | **178,794** |
| | | |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | 13,243 | 2,660 |
| Provisions – employee entitlements | 515 | 580 |
| TOTAL CURRENT LIABILITIES | **13,758** | **3,240** |
| NON-CURRENT LIABILITIES | | |
| Provisions – rehabilitation | 3,577 | 137 |
| Provisions – employee entitlements | 176 | 137 |
| TOTAL LIABILITIES | **17,511** | **3,377** |
| | | |
| **NET ASSETS** | **185,564** | **175,417** |
| | | |
| **EQUITY** | | |
| Contributed equity - ordinary shares | 259,742 | 265,326 |
| Option reserve | 1,710 | 1,489 |
| Accumulated losses | (75,888) | (91,398) |
| **TOTAL EQUITY** | **185,564** | **175,417** |

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE THREE MONTHS ENDED 31 DECEMBER 2017

All amounts shown are expressed in Australian dollars

| | Contributed Equity $'000 | Option Reserve $'000 | Accumulated Losses $'000 | Total Equity $'000 |
|---|---|---|---|---|
| **Balance at 1 October 2017** | 260,370 | 1,489 | (86,442) | 175,417 |
| Cost of share based payments | - | 259 | - | 259 |
| Option reserve write back | - | (38) | - | (38) |
| Share issue costs | (628) | - | - | (628) |
| Total Comprehensive gain for the quarter | - | - | 10,554 | 10,554 |
| **Balance at 31 December 2017** | **259,742** | **1,710** | **(75,888)** | **185,564** |

**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE THREE MONTHS ENDED 31 DECEMBER 2017

All amounts shown are expressed in Australian dollars

| | Three Months ended 31 December | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest received | 475 | 176 |
| Payments to suppliers | (1,391) | (1,354) |
| Exploration write off | (293) | - |
| Net cash used in operating activities | **(1,209)** | **(1,178)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Exploration expenditure – capitalised | (185) | (2,251) |
| Proceeds from sale of listed investments | 2,310 | 131 |
| Woodlawn Mine – asset under construction | (20,746) | - |
| Purchase of plant and equipment | (51) | - |
| Payment – USD hedge | (713) | - |
| Proceeds from R&D refund | 1,839 | - |
| Net cash used in investing activities | **(17,546)** | **(2,120)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from equity raising | - | - |
| Payments for capital raising costs | (893) | - |
| Net cash provided by financing activities | (893) | - |
| Net increase/(decrease) in cash & cash equivalents held | (19,648) | (3,298) |
| Cash & cash equivalents at the beginning of the reporting period | 128,612 | 19,811 |
| Cash & cash equivalents at the end of the reporting period | **108,964** | **16,513** |

# APPENDIX 2 – MANAGEMENT DISCUSSION AND ANALYSIS FOR THE 3 AND 6 MONTH PERIOD ENDED 31 DECEMBER 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 and six month period ended 31 December 2017, and its financial position as at 31 December, 2017 which should be read in conjunction with the Company's audited financial statements as at 30 June 2017, 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 discussion and analysis is 14 February 2018. Unless otherwise indicated all amounts discussed herein are denominated in Australian dollars. The relevant exchange rates applicable to the three period ended 31 December, 2017 are as follows.

| | **Six Months ended 31 December 2017** |
|---|---|
| AUD/CDN $ Closing Rate | .986 |
| Average Rate | .997 |

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. During the December quarter, following a minor breach of the Company's policy on corporate credit cards, Management decided to strengthen the internal controls by incorporating more detailed review procedures over employee use of corporate credit cards.

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 31 December 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 31 December 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 and six month period ended 31 December 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 construction and 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 six 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 | 415,009,381 | (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) |

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

(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 eight 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) |
|---|---|---|---|---|---|---|
| December 31, 2017 | 108,964 | 205,075 | 185,564 | 241,666,912 | 10,554 | 0.044 |
| September 30,2017 | 128,612 | 178,794 | 175,417 | 2,416,661,640 | 675 | 0.022 (4) |
| June 30, 2017 | 11,690 | 47,172 | 44,010 | 415,009,381 | (2,614) | (0.0063) |
| March 30, 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) |

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

(2) See Critical Accounting Policies and Estimates.

(3) 1 for 10 Share Consolidation in the December 2017 quarter.

(4) Re-stated to reflect 1 for 10 Share Consolidation

## RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED 31 DECEMBER 2017 (ALL FINANCIAL NUMBERS IN '000S)

The Company is principally involved in the development of the Woodlawn mine and the exploration and evaluation of other mineral properties. It had no revenues from operations in the 3 and 6 months period to 31 December, 2017. Retained earnings are in a deficit position. The Company has not paid any dividends since inception.

### WOODLAWN MINE – ASSET UNDER CONSTRUCTION

In September 2017, the Company began construction activities at the Woodlawn Mine. During the quarter ended 31 December 2017, the Company incurred $30,266 in construction costs which have been capitalised on the Balance Sheet.

During the 6 months to 31 December 2017, the Company incurred $38,499 in construction costs which have been capitalised on the Balance Sheet. The Company expects to incur further costs for the construction of the Woodlawn Mine throughout 2018.

| | 3 months to 30 Sep 2017 | 3 months to 31 Dec 2017 | Total |
|---|---|---|---|
| Earthworks | $808 | $3,834 | $4,642 |
| EPC Engineering | $4,765 | $21,717 | $26,482 |
| Owners Team costs | $2,895 | $4,715 | $7,375 |
| **TOTAL** | **$8,468** | **$30,266** | **$38,499** |

**EXPLORATION AND OTHER EXPENSES (all financial numbers in '000's)**

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. During the three month period to 31 December 2017 the Company incurred $413 in exploration expenditure of which $185 was capitalised onto the Balance Sheet. All of the capitalised expenditure was incurred on the Woodlawn property.

Expenditures on exploration and evaluation in the six month period ended 31 December 2017 of $1,050 (of which $270 was capitalised) were lower when compared to expenditures in the six month period ended 31 December 2016 of $4,515. This was due to the shift to construction activities at Woodlawn following the successful completion of the Project financing in September 2017.

Exploration expenditure requirements to maintain all the exploration licences in good standing total $528 per annum.

Below is a summary table of the exploration expenditures by tenement group for the six months ended 31 December 2017. (all numbers in '000s)

| | Woodlawn (SML20) | Woodlawn Regional | Total |
|---|---|---|---|
| Drilling | $235 | $551 | $786 |
| Other exploration | $35 | $229 | $264 |
| **TOTAL** | **$270** | **$780** | **$1,050** |

The Company's main exploration properties are located around the Woodlawn mine area. The projects on these land holdings are more fully described in the Company's 2017 Annual Report which is available from the Company on request or which may be accessed from the Company's website, www.heronresources.com.au

Corporate and administrative expenses are charged to the Income Statement as incurred. Interest income consists only of interest on short-term invested funds. Listed Investments are marked to market at the Balance Sheet date and revalued accordingly. The Company reported a profit from operations in the three month period ended 31 December, 2017 of $10,554 compared to a loss of $1,647 for the corresponding 31 December 2016) due in large part to the revaluation of its investment in Ardea Resources Ltd.

The Company recorded a profit for the six month period ended 31 December 2017 of $11,229 ($0.066 per share) compared to a net loss of $2,362($0.05 per share) for the corresponding three month period ended 31 December 2016, due to the revaluation of its investment in Ardea Resources Ltd.

The Company incurred general and administration expenses of $1,112 in the three months to 31 December 2017 compared with the $1,381 in the three months to 31 December 2016. The small decrease is due to larger exploration expenditures and ASX/TSX fees in the corresponding 2016 quarter.

**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 31 December 2017 the Company had 241,666,912 issued and outstanding common shares, (30 June 2017: 415,009,381). During the quarter the Company undertook a 1 for 10 share consolidation. The total Contributed Equity as at 31 December 2017 is $259,742 (30 June 2017 $129,638) The increase is due to the $140M equity raising to fund the construction of the Woodlawn Mine, which was completed in the September 2017 quarter.

As at 31 December 2017 there were 2,140,836 stock options outstanding (30 June 2017: 24,829,828). As at 31 December 2017 there were 2,895,000 Performance Rights outstanding bringing the fully diluted share position of the Company to 246,702,748.

The Company's accumulated deficit at 31 December 2017 is $75,888 compared to $87,117 at 30 June 2017. See "Results of Operations".

**FINANCIAL CONDITION (all financial numbers in '000s)**

The Company's total assets at 31 December 2017 increased to $203,075 from $47,172 at 30 June, 2017. This increase is due to the $140M equity raising completed in the September quarter and the corresponding Woodlawn construction activities.

Assets at 31 December 2017 include cash and cash equivalents of $108,964 (30 June 2017: $11,690). Cash not on account at a bank has been invested in bank guaranteed, term deposits. Cash is held predominately in Australian dollars (A$102,056) with some US Dollar (US$5,388) holdings to cover Woodlawn US dollar denominated costs.

Cash of $478 was spent on exploration and evaluation during the three month period ended 31 December 2017 compared to $2,251 during the corresponding period ended 31 December 2016. This was due to the Company's focus switching from exploration to construction activities at Woodlawn.

The Company had current liabilities including trade payables and employee provisions of $13,758 at 31 December 2017 ($3,025 at 30 June 2017). 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 half year ended 31 December 2017.

**CAPITAL RESOURCES AND LIQUIDITY**

During the September quarter the Company began construction of the new processing plant at Woodlawn. The $240M funding package for the Woodlawn Mine should provide the Company with sufficient capital to complete construction of the processing plant and associated infrastructure and provide sufficient working capital until Woodlawn becomes cash flow positive.

At this time the Company has no operating revenue and does not anticipate earning any operating profits until the Company is able to commission and begin production at the Woodlawn Mine in early 2019.

**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 Woodlawn becomes a profitable project.

The net profit in the three month period ended 31 December, 2017 of $10,554 is influenced by the revaluation of the Company's listed investment portfolio and therefore does not provide an accurate trend when compared to the loss incurred in the three month period ended 31 December 2016 of $1,647.

The Company's current staff headcount is 29 (including staff employed as independent Contractors) compared to 21 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 Woodlawn property is in the construction stage.  The $240M funding package for the Woodlawn Mine is expected to provide the Company with sufficient capital to complete construction of the mine and provide sufficient working capital until the Woodlawn Mine becomes cash flow positive.

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 (all numbers in '000's)**

The Company is required to undertake expenditures of $528 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 six month term lease and the lease in Sydney expires in September 2019. A performance bond of $15 and $17 for the Perth and Sydney offices respectively has been lodged as surety against performance of the leases.

**RELATED PARTY TRANSACTIONS (all numbers in '000's)**

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.  There have been no related party transactions during the six months to 31 December 2017.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### New Accounting Policies and Accounting Standards and Interpretations issued, but some not yet applicable at 31 December, 2017.

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 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, 2017.

### 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**

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 30 June 2017 audited financial statements included in the Company's Annual Report. This Management 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 and six month period ended 31 December 2017 have been prepared on the basis of a Going Concern, notwithstanding the fact that the Company incurred a net cash out flow from operating and investing activities for the 6 month period of $33,319 (2016: out flow $6,378).

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 and performance rights 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 and performance rights 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.

The fair value of the performance rights are independently valued using Monte Carlo analysis.

At the 2017 AGM in November, shareholders approved a new Long Term Incentive program which provides for the granting of Performance Rights to Directors and employees.

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 profit or 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.

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 mine in NSW (the "Property"). 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 Property 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 GST 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 31 December 2017, the Company had cash of $108,964 (30 June 2017: $11,690) to settle current liabilities of $13,758 (30 June 2017: $3,025).

A significant portion of the current cash on the Balance Sheet will be utilised for the construction of the Woodlawn mine via the EPC contract with Sedgman.

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 and to a lesser extent, US dollars.

The Company funds the development of Woodlawn and administrative expenses using a combination of Australian dollars and US dollars. The company holds sufficient currency in native denominations to fund its ongoing currency obligations.

During the 3 month period to 31 December 2017, the Company entered into Foreign Currency Hedges to hedge the conversion of the majority of the US denominated debt into Australian dollars upon its intended draw down during 2018.

**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.

As the Company moves closer to commercial production in early 2019, the Company will investigate appropriate commodity hedging strategies.

**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 and US dollar term deposits at Australian banks. Movements in the Australian and US Dollars may have a detrimental impact on the Company and as a result the Company is implementing appropriate foreign currency hedges.

(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 31 December 2017, the Company is not yet a producer of valuable minerals, however it has signed an Offtake agreement covering zinc, copper and lead production at Woodlawn.

## RISK FACTORS AND UNCERTAINTIES

The Company is in the business of developing the Woodlawn Mine and is exposed to a number of risks and uncertainties that are common to other development 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 mine 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.

## 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 14 February, 2018.

## CORPORATE DIRECTORY

**Directors**

Stephen Dennis (Chair)
Wayne Taylor
Borden Putnam III
Fiona Robertson
Mark Sawyer
Peter Rozenauers
Ricardo De Armas
Ian Pattison

**Company Secretary**

Simon Smith

**Registered Office (head office) and Address for Correspondence**

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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

**Auditors**

Ernst & Young
200 George St
Sydney, NSW, 2000
Australia

**Zinc equivalent calculation – Woodlawn**

The zinc equivalent ZnEq calculation takes into account, mining costs, milling costs, recoveries, payability (including transport and refining charges) and metal prices in generating a Zinc equivalent value for Au, Ag, Cu, Pb and Zn. ZnEq = Zn%+Cu%*3.12+Pb%*0.81+*Au g/t*0.86+Ag g/t*0.03. Metal prices used in the calculation are: Zn US$2,300/t, Pb US$ 2,050/t, Cu US$6,600/t, Au US$1,250/oz and Ag US$18/oz. These metal prices are based on Heron's long-term view on average metal prices. It is Heron's view that all the metals within this formula are expected to be recovered and sold. Metallurgical metal recoveries used for the formula are: 88% Zn, 70% Pb, 70% Cu, 33% Au and 82% Ag; these are based on historical recoveries at Woodlawn and supported by metallurgical testwork undertaken during the 2015-16 feasibility study. Commodity prices and metallurgical recoveries are factored into the zinc equivalent calculation using a standard metal equivalent formula.

Heron Resources Limited

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