The cover image is a composite of two photographs. The top photograph shows an outdoor mining site with a dirt road, a white utility vehicle, a red truck, and two workers in high-visibility gear. The bottom photograph shows the interior of a tunnel with a large mining vehicle at the end, illuminated by bright lights. The entire image is framed by green and red geometric shapes.

Financial Report

for the half year ended 31 December 2018



Heron Resources Limited

ACN 068 263 098

Heron Resources Limited

Corporate Directory

ABN 30 068 263 098

DIRECTORS

Chairman (Non-Executive)

Stephen Dennis BCom LLB GDipAppFin(Finsia)

Managing Director (Executive)

Wayne Taylor BEng (Mining), MBA, MAusIMM

Director (Non-Executive)

Borden Putnam III MSc (Geol), RPG, FAusIMM

Director (Non-Executive)

Fiona Robertson MA (Oxon) (Geology), MAusIMM, FAICD

Director (Non-Executive)

Mark Sawyer LLB

Director (Non-Executive)

Ricardo De Armas B.S. M.B.A (Harvard)

Director (Non-Executive)

Peter Rozenauers BME (Hons I), MAppFin, MAusIMM

Director (Non-Executive)

Ian Pattison B Sc (Hons), PhD, MAusIMM

COMPANY SECRETARY

Simon Smith B.Bus, CA

REGISTERED OFFICE (head office) and Address for Correspondence

Level 7, 191 Clarence Street
Sydney New South Wales 2000
Telephone: +61 2 9119 8111

Perth Office

Level 1, 12 Prowse Street
West Perth Western Australia 6005
Telephone: +61 8 6500 9200

Woodlawn Site Office

507 Collector Road, Tarago New South Wales 2580

Email: heron@heronresources.com.au

Website: www.heronresources.com.au

AUDITOR

Ernst & Young

200 George St
Sydney New South Wales 2000

BANKERS

Westpac Bank

230-236 Hannan Street
Kalgoorlie 6430 Western Australia

SHARE REGISTRY

Automic Pty Ltd

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

SOLICITORS TO THE COMPANY

Allion Legal Pty Ltd

50 Kings Park Road, West Perth Western Australia 6005

Resources Legal Pty Ltd

1A Rosemead Rd, Hornsby New South Wales 2077

Bradbury Legal

437 Kent St, Sydney New South Wales 2000

STOCK EXCHANGE

Australian Securities Exchange Limited

Exchange Centre, 20 Bridge St,
Sydney New South Wales 2000

ASX CODE HRR

INDUSTRY CLASSIFICATION

GICS classification code is 15104020
Diversified Metals and Mining

ISIN AU000 000 HRR6

Heron Resources Limited
ABN 30 068 263 098

FINANCIAL REPORT

For the half year ended 31 December 2018

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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 2018 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 2018.

BOARD

The names of the Directors of the Company during the period and at 31 December 2018 were:

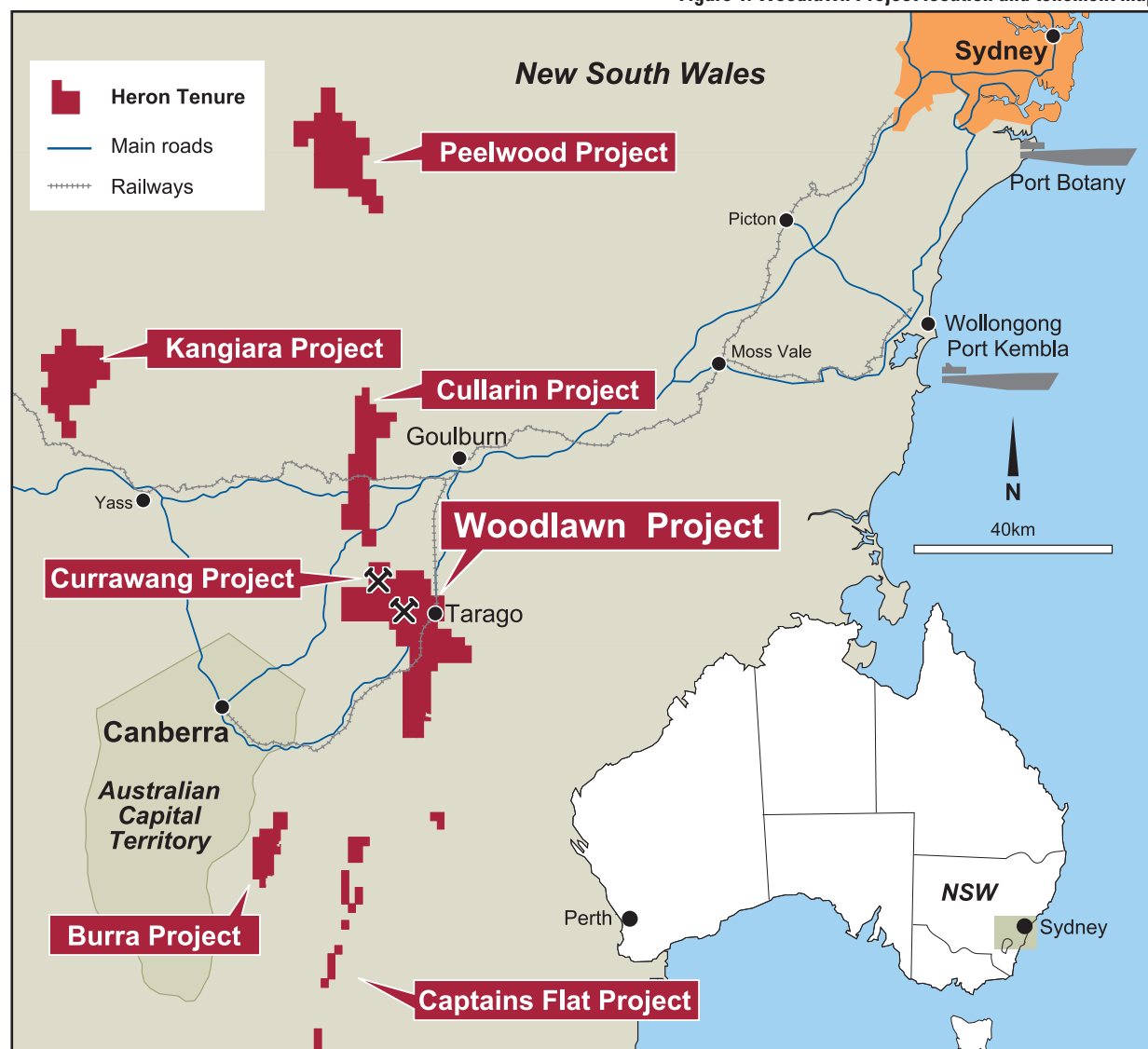
Stephen Dennis
Wayne Taylor
Borden Putnam III
Fiona Robertson
Mark Sawyer
Peter Rozenauers
Ricardo de Armas
Ian Pattison

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

WOODLAWN ZINC-COPPER PROJECT

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

Figure 1: Woodlawn Project location and tenement map



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

The last four 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 the completion of project financing in September 2017. Construction activities commenced in September 2017. The Project is in the commissioning phase and will soon see the transition to first production activities. The price outlook for all metals produced at Woodlawn, while seeing some recent volatility, remains strong, particularly for zinc which continues to face a significant supply shortfall.

WOODLAWN PROJECT – DEVELOPMENT PROGRESS

Construction activities commenced in September 2017, and overall project progress was 98% complete as at the date of this report. Structural, mechanical and piping installation, and electrical and instrumentation works are nearing completion. Recent project developments include:

- **Safety:** Despite a concerted push during peak manning for construction, the project recorded a second lost time injury in November. The Company remains focused on the continuous improvement of its risk management systems and processes that target the wellbeing of our employees and contractors and remains committed to achieving zero harm.
- **Environment:** There has been a significant increase in the resources applied to environmental management on site commensurate with the ramp-up in site activity. This includes trial works that will support the longer-term site rehabilitation including the planting of in-excess of 450 trees (Figure 8) as an initial step in creating a vegetation offset to compensate for the area impacted by the project development. The native trees were sourced from a local Landcare group.
- **Project Development Schedule:** The EPC Contractor, Sedgman, is reporting the overall project schedule is running behind plan, however commissioning commenced in the December quarter as planned. As at the date of this report, the overall project progress was 98% complete.
- **Project EPC Works:** Remaining construction work is focused on piping and electrical works and handover documentation (Figures 4, 5, 6 and 7). Site activity and workforce numbers have peaked, and commissioning personnel were mobilised to site during the December quarter.
- **Water Treatment:** The supply and installation of the water treatment plant is complete and commissioning underway.
- **Underground Mine:** The underground operation has made steady progress with over 618m of development completed as at the date of this report (Figure 2). Ground conditions have passed from transitional (partially oxidised) to fresh (non-oxidised) with no significant areas of adverse conditions. The development focus has turned to improving cycle times, and the transitioning to multiple mining headings during February will see the monthly advance rates increase. The G2 lens will be the first ore to be accessed and this is scheduled to occur in March on current activity rates. Modelling refinements have also been undertaken on shallow ore zones targeting an improvement in mine design selectivity which will feed into the early mine plan. A contract was awarded in the December quarter for the establishment of a 5.0m diameter primary ventilation raise from surface and is expected to commence in February.
- **Tailings Mining:** The hydraulic mining circuit commissioning commenced during the December quarter (Figure 3) (Heron announcement 19 December 2018). Final hand-over of the plant is expected to occur in the first half of the current quarter as ramp-up continues under the guidance of Paragon Tailings who are on site for commissioning and operator training. Initial results in mining the tailings to the base of the dam floor has demonstrated an extremely good level of control and significantly better than planned assumptions for recovery and dilution that underpins the Ore Reserve calculation.
- **Community:** A new Woodlawn Community Consultation Committee was established during the December quarter with the first meeting of the new committee being held in January 2019 (Figure 9). The Company also continues to receive very supportive local feedback for the project development and the wider benefits it will provide the local community through employment opportunities, use of local suppliers and as an active participant in further community advancement initiatives.
- **Personnel:** The Company has made good progress in the recruitment of operational roles which was largely complete by the end of the quarter. Further commissioning and ramp-up resources will be sourced early 2019.
- **Supply:** The Company has commenced receiving initial reagents and consumables to site along with the first maintenance spares to support the operations.



Figure 2: Woodlawn decline - underground ground support



Figure 3: Commissioning of the hydraulic mining



Figure 4: Woodlawn process plant early January, from above the primary crusher station (view to north)



Figure 5: IsaMill™ installation - finalising piping and electrics



Figure 6: Flotation building - finalising piping and electrics



**Figure 7: Tailings Storage Facility 4 - stored water for the commencement of wet commissioning.
View to south – area of tailings mining in the background.**



Figure 8: Recent tree planting at Woodlawn to meet vegetation offset requirements



**Figure 9: Newly established Woodlawn Community Consultation Committee.
Concentrate store in the immediate background.**



EVENTS OCCURRING AFTER 31 DECEMBER 2018

On 1 February 2019, the Company received a Progress Claim from Sedgman for additional costs of \$49.9M. This claim was over and above the agreed \$109M Guaranteed Maximum Price EPC contract sum. As disclosed to the ASX on 18 February 2019, Heron advised that the Contract Superintendent had rejected Sedgman's claim for additional costs of \$49.9M (with the exception of some minor agreed contract works totalling \$223,057). Under the EPC Contract, the Contract Superintendent is appointed as an agent of the Principal, Tarago Operations Pty Ltd (a wholly owned subsidiary of Heron Resources Ltd), and must act honestly and reasonably in the performance of his contract responsibilities.

At this stage, Sedgman has not substantiated their claim, and the Contract Superintendent has determined that the majority of the variations either have no merit, or are time barred under the EPC Contract, and in some cases refer to events that predate the parties entering into the EPC Contract. The Company supports the rejection of the claim by the Contract Superintendent and intends to vigorously defend any further action.

Heron has also advised that it will claim liquidated damages from Sedgman as a result of the later than planned completion of the processing facility. With the inclusion of the delay Liquidated Damages the assessed payment schedule finds Sedgman owing amounts to Heron and the Company will seek payment in accordance with the EPC contract provisions. Heron continues to hold \$10.8M in bank guarantees from Sedgman.

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 INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of Directors

S Dennis

Chairman

Sydney, 1 March 2019



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200 George Street
Sydney NSW 2000 Australia
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Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of Heron Resources Limited

As lead auditor for the review of the half-year financial report of Heron Resources Limited for the half-year ended 31 December 2018, 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
1 March 2019

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDING 31 DECEMBER 2018

	Notes	31 Dec 2018 \$'000	31 Dec 2017 \$'000
OTHER INCOME	2	494	2,503
Consultants and other fees		(52)	(139)
Depreciation and amortisation expense	3(a)	(66)	(14)
Directors fees		(295)	(197)
Employee benefits expense		(591)	(646)
Insurance expense		(194)	(26)
Legal fees		(212)	(116)
Equity settled share based payments	13	(500)	(221)
Rental expenses		(51)	(97)
Stock exchange fees		(57)	(116)
Other expenses from ordinary activities	3(b)	(301)	(610)
Exploration expenditure expensed		(563)	(780)
Finance costs		(369)	-
Unrealised fair value gain/(loss) on financial instruments	10	(3,230)	-
Unrealised investment gain/(loss)	5, 6	(2,618)	11,879
Unrealised foreign exchange gain/(loss)	3(c)	(3,384)	(191)
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(11,989)	11,229
INCOME TAX EXPENSE		-	-
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(11,989)	11,229
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE HALF YEAR		(11,989)	11,229
		\$	\$
Basic gain/(loss) per share	16	(0.050)	0.066
Diluted gain/(loss) per share	16	(0.050)	0.065

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 2018

	Notes	31 Dec 2018 \$'000	30 June 2018 \$'000
CURRENT ASSETS			
Cash assets		69,657	65,532
Trade and other receivables	4	1,503	2,571
Derivative asset		-	1
Investments	5	3,127	-
TOTAL CURRENT ASSETS		74,287	68,104
NON-CURRENT ASSETS			
Restricted cash		8,777	8,777
Trade and other receivables		36	35
Investments	6	156	5,901
Property, plant and equipment	7	873	647
Woodlawn Mine - asset under construction	8	203,724	156,517
TOTAL NON-CURRENT ASSETS		213,566	171,877
TOTAL ASSETS		287,853	239,981
CURRENT LIABILITIES			
Trade and other payables	9	3,432	7,002
Provisions - employee entitlements		527	547
TOTAL CURRENT LIABILITIES		3,959	7,549
NON-CURRENT LIABILITIES			
Borrowings - silver stream	10(a)	26,917	22,666
Borrowings - senior debt	10(b)	83,351	24,941
Provisions - rehabilitation	11	15,781	15,781
Provisions - employee entitlements		452	162
TOTAL NON-CURRENT LIABILITIES		126,501	63,550
TOTAL LIABILITIES		130,460	71,099
NET ASSETS		157,393	168,882
EQUITY			
Contributed equity	12	259,742	259,742
Option reserve	13	2,576	2,076
Accumulated losses	13	(104,925)	(92,936)
TOTAL EQUITY		157,393	168,882

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 2018

	Note	Issued Capital \$'000	Retained Earnings \$'000	Option Reserve \$'000	Total \$'000
As at 30 June 2018		259,742	(92,936)	2,076	168,882
Total comprehensive income for the period after tax		-	(11,989)	-	(11,989)
Cost of share based payments		-	-	519	519
Option reserve write back		-	-	(19)	(19)
As at 31 December 2018		259,742	(104,925)	2,576	157,393
As at 30 June 2017		129,638	(87,117)	1,489	44,010
Total comprehensive income for the period after tax		-	11,229	-	11,229
Issue of share capital		140,115	-	-	140,115
Share issue costs		(5,055)	-	-	(5,055)
Realised foreign exchange loss		(4,956)	-	-	(4,956)
Cost of share based payments		-	-	259	259
Option reserve write back		-	-	(38)	(38)
As at 31 December 2017		259,742	(75,888)	1,710	185,564

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 2018

	Notes	31 Dec 2018 \$'000	31 Dec 2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		449	528
Payments to suppliers		(4,176)	(4,643)
Exploration and development expenditure – expensed		(563)	(1,080)
NET CASH USED IN OPERATING ACTIVITIES		(4,290)	(5,195)
CASH FLOWS FROM INVESTING ACTIVITIES			
Woodlawn Mine – asset under construction		(44,936)	(27,016)
Payment of bond and bank guarantees		-	(4,577)
Proceeds from sale of investments		-	2,404
Payments for plant and equipment		(163)	(61)
Payments for foreign currency hedge transaction		(12)	(713)
Proceeds from research and development refund		-	1,839
NET CASH USED IN INVESTING ACTIVITIES		(45,111)	(28,124)
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)
Proceeds from drawdown of senior debt		53,627	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		53,627	130,593
NET INCREASE / (DECREASE) IN CASH HELD		4,226	97,274
Cash at the beginning of the reporting period		65,532	11,690
Foreign exchange (gain) / loss on translation - unrealised		(101)	-
CASH AT THE END OF THE REPORTING PERIOD		69,657	108,964

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 2018

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 2018 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, except for derivative financial instruments, investments in listed companies and the silver stream debt facility that have been measured at fair value.

The consolidated interim financial report does not include all of the information required for a full annual report and accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 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 Company applied AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments for the first time from 1 July 2018. The nature and effect of these changes as a result of the adoption of these new standards are described below. Other than the changes described below, 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 annual report for the year ended 30 June 2018.

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

The Company incurred a loss for the six month period after tax of \$11,989 (2017: profit of \$2,362) and a net cash out flow from operating activities of \$4,290 (2017: out flow \$5,195). The interim financial statements for the six month period ended 31 December 2018 have been prepared on the going concern basis, notwithstanding the fact that the Company incurred a net cash outflow from operating and investing activities for the six month period of \$49,401 (2017: outflow \$33,319).

The Financial Report has been prepared on the going concern basis, 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.

New and Amended Standards and Interpretations

a) AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers (AASB 15) applies to accounting periods commencing on or after 1 January 2018. The standard modifies the determination of when to recognise revenue and how much revenue to recognise. Revenue is recognised when control of the promised goods or services pass to the customer. The amount of revenue recognised should reflect the consideration to which the Company expects to be entitled in exchange for those goods or services.

The Company adopted AASB 15 on 1 July 2018. The standard has no impact on transition and for the six months ended 31 December 2018, because the Company currently does not generate revenue from contracts with customers.

b) AASB 9 Financial Instruments

Impact of AASB 9 Financial Instruments

AASB 9 Financial Instruments (AASB 9) replaces AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) for the accounting periods commencing on or after 1 January 2018. The new standard revises the classification and measurement of financial assets and financial liabilities, introduces a forward looking 'expected credit loss' impairment model and modifies the approach to hedge accounting.

The Company has applied AASB 9 retrospectively, with the initial application date of 1 July 2018 and did not restate comparative information for the period beginning 1 July 2017.

The Company has undertaken a comprehensive analysis of the impact of the new standard based on the financial instruments it holds and the way in which they are used with no impact to the statement of financial position or in the statement of profit or loss and other comprehensive income.

(i) Changes to the classification and measurement of financial assets and financial liabilities

The new standard requires classification and measurement of financial assets based on the business model in which they are managed and their cash flow characteristics. Under the new standard, the Company's financial assets will be classified as measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income. No change in classification and measurement have been identified as a result of reclassifying financial assets into the categories required by the new standard.

For financial liabilities, the current classification and measurement requirements are retained.

(ii) Impairment

Financial assets carried at amortised cost must be tested for impairment based on expected losses, as opposed to the current policy of recognising impairments only when there is objective evidence that a credit loss is present.

(iii) Hedge accounting

The new standard amends the rules on hedge accounting to enable closer alignment between the Company's risk management strategy and the accounting outcomes. The standard broadens the scope of arrangements that may qualify for hedge accounting and allows for simplification of hedge designations.

Other changes under the standard mean that hedge effectiveness is only considered on a prospective basis with no set quantitative thresholds, certain costs of hedging, previously taken through the profit or loss, will be recognised through other comprehensive income and voluntary designation of hedges is prohibited.

The Company currently does not apply hedge accounting.

(iv) Impact of changes

The impact of the adoption of the new standard is illustrated in the below table.

<i>As at 1 July 2018</i>				
Presentation on Statement of Financial Position	Original measurement category under AASB 139	New measurement category under AASB 9	Original carry value under AASB 139 '000s	New carry value under AASB 9 '000s
<i>Current assets</i>				
Cash assets	Amortised cost	Amortised cost	65,532	65,532
Trade and other receivables	Loans and receivable	Amortised cost	2,571	2,571
Other receivable				
Derivative asset	Fair value through profit or loss	Fair value through profit or loss	1	1
<i>Non current assets</i>				
Restricted cash	Amortised cost	Amortised cost	8,777	8,777
Trade and other receivables	Loans and receivable	Amortised cost	35	35
Investments	Fair value through profit or loss	Fair value through profit or loss	5,901	5,901
ASX listed shares				
ASX listed shares, unlisted options				
<i>Current liabilities</i>				
Trade and other payables	Amortised cost	Amortised cost	7,002	7,002
<i>Non current liabilities</i>				
Borrowings - silver stream	Fair value through profit or loss	Fair value through profit or loss	22,666	22,666
Borrowings - senior debt	Amortised cost	Amortised cost	24,941	24,941

No measurement impacts have been identified as a result of reclassifying financial assets into the categories required by the new standard. Financial assets measured at amortised costs have been assessed for impairment using an ECL model and did not result in a material impact either at transition or as at 31 December 2018.

Accounting policy applied from 1 July 2018:*Financial assets:*

The Company classifies its financial assets as measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income. The classification of financial assets is based on the business model in which they are managed and their cash flow characteristics.

At initial recognition, the Company measures a financial asset at its fair value. Carrying values approximate fair value for financial assets measured at amortised cost.

Financial liabilities:

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or amortised cost.

All financial liabilities are recognised initially at fair value. Carrying values approximate fair value for financial liabilities measured at amortised cost.

The Company's financial liabilities include trade and other payables, loans and borrowings.

31 Dec 2018
\$'000

31 Dec 2017
\$'000

NOTE 2 OTHER INCOME

Interest received	445	568
Gain from sale of listed investments	-	1,912
Sundry income	49	23
Total revenues from continuing activities	494	2,503

NOTE 3. OPERATING AND OTHER EXPENSES

(a) Depreciation and amortisation expense:

Plant & equipment	(9)	(11)
Office equipment & furniture	(8)	(2)
Motor vehicles	(49)	(1)
	(66)	(14)

(b) Other expenses include the following:

Travel & accommodation	(49)	(83)
Office expenses and supplies	(40)	(118)
Information technology	(26)	(127)
Report expenses and printing	(22)	(35)
Conferences and seminars	(9)	(7)
Investor relations	(80)	(190)
Media and public relations	(37)	(10)
Miscellaneous expenses	(38)	(40)
Total other expenses	(301)	(610)

(c) Unrealised foreign exchange gain/(loss) include the following:

Silver stream	10(a)	(1,021)	-
Senior debt	10(b)	(2,256)	-
Other		(107)	(191)
		(3,384)	(191)

31 Dec 2018
\$'000

30 Jun 2018
\$'000

NOTE 4. TRADE AND OTHER RECEIVABLES – CURRENT

Accrued interest receivable	231	236
Prepayments	546	666
Goods & services tax receivable	491	1,488
Property bonds	49	38
Tenement securities	110	90
Sundry debtors	76	53
	1,503	2,571

NOTE 5. INVESTMENTS – CURRENT

Ardea Resources Limited	3,127	-
	3,127	-

Ardea Resources Limited (ARL) is an Australian listed public exploration company with 104,990,413 shares on issue that was 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 were released from escrow on 9 February 2019.

Since 30 June 2018, the Ardea share price has decreased from \$0.78 to \$0.52 as at 31 December 2018. Using the Black Scholes valuation methodology, the option value as at 31 December 2018 is \$0.3127 per option. The 10,000,000 options have been revalued on this basis as at 31 December 2018.

The investment in Ardea was reclassified to current assets from non current assets. The Company will look at opportunities to sell the Ardea options within the next 12 months.

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Movement in investments		
Ardea Resources Limited		
Opening carrying value	5,721	-
Unrealised gain/(loss)	(2,594)	-
Closing carrying value	3,127	-

NOTE 6. INVESTMENTS - NON CURRENT

Alchemy Resources Limited	156	180
Ardea Resources Limited	-	5,721
Centennial Mining Limited	-	-
	156	5,901

Centennial Mining Limited (CTL) is an Australian listed public exploration company with 1,044,434,244 fully paid ordinary shares on issue. Heron holds 23,000,000 fully paid shares as at 31 December 2018.

On 21 June 2018, Centennial entered into a trading halt and shares have been suspended due to the company's inability to pay off its convertible notes by their due date. The company is seeking to raise funds via a rights issue in order to provide funds to pay its convertible notes and working capital for the company, therefore the shares have been valued at nil as at 31 December 2018.

Alchemy Resources Limited (ALY) is an Australian listed public exploration company with 440,419,481 shares on issue. On 16 April 2018, Heron was issued 10,000,000 new shares in Alchemy under a binding option agreement to include tenement licences into existing Alchemy/Heron NSW Farm In and JV agreement, which have been valued at a closing price of \$0.017 on that day.

As at 31 December 2018, Heron owns 12,000,000 shares in Alchemy and 12,500,000 options with a 3-year term and an exercise price of \$0.10 (nil value ascribed) as at 31 December 2018. The Alchemy share price as at 31 December 2018 was \$0.013.

Ardea Resources Limited (ARL) Refer to: Note 5 Investments - Current for additional details.

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Movement in investments		
Centennial Mining Limited		
Opening carrying value	-	460
Unrealised gain/(loss)	-	(460)
Closing carrying value	-	-
Alchemy Resources Limited		
Opening carrying value	180	40
Proceeds from issue of shares for exercise option agreement	-	170
Unrealised gain/(loss)	(24)	(30)
Closing carrying value	156	180
Ardea Resources Limited		
Opening carrying value	-	4,740
Unrealised gain/(loss)	-	981
Closing carrying value	-	5,721
Summary		
Opening carrying value	180	5,775
Proceeds from issue of shares for Alchemy option agreement	-	170
Sold on market – Metalicity Shares/Options	-	(605)
Unrealised gain/(loss)	(24)	561
Closing carrying value	156	5,901

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
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NOTE 7. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment at cost ⁽¹⁾	480	480
Accumulated depreciation	(341)	(332)
	139	148
Office equipment & furniture at cost	1,009	1,003
Accumulated depreciation	(930)	(922)
	79	81
Motor vehicles at cost	948	662
Accumulated depreciation	(293)	(244)
	655	418
Total property, plant and equipment	873	647

1) Plant and equipment relates to non Woodlawn mine plant and equipment.

Reconciliation**Plant and equipment:**

Opening carrying value	148	8
Additions	-	148
Depreciation expense	(9)	(8)
Closing carrying value	139	148

Office equipment and furniture:

Opening carrying value	81	18
Additions	6	82
Depreciation expense	(8)	(19)
Closing carrying value	79	81

Motor vehicles:

Opening carrying value	418	13
Additions	286	433
Depreciation expense	(49)	(28)
Closing carrying value	655	418

31 Dec 2018
\$'000

30 Jun 2018
\$'000

NOTE 8. WOODLAWN MINE – ASSET UNDER CONSTRUCTION

Opening balance	156,517	-
Rehabilitation asset (refer Note 10)	-	15,751
Woodlawn mine property ⁽⁴⁾	110	24,912
Development underground ⁽⁵⁾	6,300	-
Sedgman EPC ⁽¹⁾	25,097	83,482
Earthworks ⁽²⁾	129	12,887
Owners Costs ⁽³⁾	15,571	19,485
Closing balance	203,724	156,517

- 1) Sedgman EPC represents the “Engineer, Procurement and Construction” costs related to the construction of the Woodlawn processing plant under a guaranteed maximum price (GMP) contract.
- 2) Earthworks include the ROM pad, TSF4 Tailings dam, the Box Cut and other earthworks infrastructure at Woodlawn.
- 3) Owner’s costs represents the non Sedgman Woodlawn mine construction costs.
- 4) Woodlawn mine property represents historical capitalised exploration costs at Woodlawn.
- 5) Development underground represents the underground mine development (Decline) at Woodlawn conducted by Pybar and Heron mining staff.

	Rehabilitation	Woodlawn mine property	Development mining	Sedgman EPC	Earthworks	Owners Costs Construction	Total
31 December 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	15,751	24,912	-	83,482	12,887	19,485	156,517
Costs incurred / transferred during period	-	110	6,300	25,097	129	15,571	47,207
Closing balance	15,751	25,022	6,300	108,579	13,016	35,056	203,724

	Rehabilitation	Woodlawn mine property	Development mining	Sedgman EPC	Earthworks	Owners Costs Construction	Total
30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	-	26,434	-	-	-	-	26,434
Costs incurred / transferred during period	15,751	(1,522)	-	83,482	12,887	19,485	130,083
Closing balance	15,751	24,912	-	83,482	12,887	19,485	156,517

31 Dec 2018
\$'000

30 Jun 2018
\$'000

NOTE 9. TRADE AND OTHER PAYABLES – CURRENT

Trade creditors and accruals - Woodlawn	3,312	6,737
Trade creditors and accruals – Corporate	120	265
	3,432	7,002

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

NOTE 10. BORROWINGS – NON CURRENT

(a) Silver stream	26,917	22,666
(b) Senior debt	83,351	24,941
	<u>110,268</u>	<u>47,607</u>

(a) Silver stream

The Company through its wholly owned subsidiary, Tarago Operations Pty Ltd, entered into a financing agreement with OMF Fund II (H) Ltd. This agreement included a Silver Streaming arrangement of US\$16 million, which the Company received on the 8 March 2018. The sum received has been accounted for as a financial liability at fair value through the Statement of Profit or Loss. Under this agreement, the Company will deliver 80% of the silver extracted from the Woodlawn Mine (SML20) until it has delivered 2,150,000 ounces of Refined Silver, followed by 40% of the silver extracted from the mine until it has delivered 3,400,000 of Refined Silver, and thereafter 25% of the Refined Silver extracted from the mine.

Heron has elected to fair value the entire instrument. The silver stream was classified as Level 3 as its valuation. The fair value of the silver stream obligation is calculated using a monte carlo simulation that uses a combination of: the silver price; the AUD to USD foreign exchange rate; the risk free interest rate derived from the RBA; and the expected silver ounces to be delivered from the Woodlawn life of mine model. The obligation represents a derivative liability for the silver price option feature included in the agreement and will therefore be remeasured at each balance sheet date at fair value through profit or loss. The obligation resulted in an unrealised fair value (loss) of (\$3,230) for the half year ended 31 December 2018 which has been included in profit or loss.

	31 Dec 2018	30 Jun 2018
	\$'000	\$'000
Opening balance	22,666	-
Draw down of silver stream	-	20,516
Foreign exchange adjustment	1,021	1,132
	<u>23,687</u>	<u>21,648</u>
Fair value loss/(gain)	3,230	1,018
Closing balance	<u>26,917</u>	<u>22,666</u>

(b) Senior debt

Opening carrying value	24,941	-
Drawn down of senior debt	55,722	26,664
Foreign exchange adjustment	2,256	396
	<u>82,919</u>	<u>27,060</u>
Interest accrued	2,271	227
Debt financing costs	(1,839)	(2,346)
Closing carrying value	<u>83,351</u>	<u>24,941</u>

A Loan Facility for US\$60 million with funds to be drawn in 3 tranches, was provided as part of the financing agreement with OMF Fund II (H) Ltd. The first tranche of US\$20 million was drawn on the 29 May 2018. The second and third US\$20 million tranches were drawn down on the 26 September 2018 and 21 December 2018 respectively. The funding rate is the aggregate of a margin of 7.25% and the applicable Libor rate, being a minimum of 2.5%, for each interest period. The loan was initially recorded at fair value less associated transaction costs. The proceeds from draw down was considered to represent the fair value of the facility at that time. The loan is subsequently measured at amortised cost. Under the agreement, Heron has to maintain a cash balance of not less than A\$15 million in its Tarago Operations Pty Ltd subsidiary operating accounts.

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
NOTE 11. PROVISION FOR REHABILITATION		
Provision for Rehabilitation – Woodlawn	15,751	15,751
Provision for Rehabilitation – Other tenements	30	30
	<u>15,781</u>	<u>15,781</u>

With respect to Woodlawn, the rehabilitation provision both on the date that construction activities began and as at 31 December 2018, is based on the assessment of an independent environmental consultant using the NSW Department of Resources and Energy (DRE) rehabilitation cost estimation tool. The rehabilitation costs are the estimated costs to rehabilitate the mine site areas that the Company is responsible for as at 31 December 2018. Given that tailing re-processing is a rehabilitation activity the Company will assess the adequacy of the rehabilitation provision at each balance sheet date.

During the 6 months to 31 December 2018, Veolia Environmental Services (Australia) Pty Ltd ("Veolia") was instructed by the Environmental Protection Agency (EPA) to halt production of the organic mulch material it produces at their Woodlawn Bio-Reactor site for a period of 12 months whilst further studies are undertaken. This organic mulch material was to be used by Heron free of charge to rehabilitate the Woodlawn mine site. The use of this mulch was included in the Provision for rehabilitation calculation. If Heron is unable to use the organic mulch then the provision for rehabilitation may increase.

NOTE 12. CONTRIBUTED EQUITY

Ordinary shares are fully paid and have no par value. They entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

	31 Dec 2018 Shares	30 Jun 2018 Shares	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Issue of ordinary shares				
Opening balance	241,666,912	415,009,381	259,742	129,638
Issue of shares	-	2,001,562,259	-	140,115
1 for 10 Share Consolidation	-	(2,174,904,728)	-	-
Share issue costs	-	-	-	(5,055)
Realised foreign exchange loss	-	-	-	(4,956)
Closing balance	<u>241,666,912</u>	<u>241,666,912</u>	<u>259,742</u>	<u>259,742</u>

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
NOTE 13. ACCUMULATED LOSSES AND RESERVES		
Opening balance	2,076	1,489
Cost of share based payments	519	646
Write back lapsed options expense	(19)	(59)
Equity settled share based payments	<u>500</u>	<u>587</u>
Closing balance	<u>2,576</u>	<u>2,076</u>

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.

Opening balance	(92,936)	(87,117)
Net profit/(loss) for the period	(11,989)	(5,819)
Closing balance	<u>(104,925)</u>	<u>(92,936)</u>

NOTE 14. SEGMENT REPORTING**Segmental Information for Consolidated Statement of Comprehensive Income**

31 December 2018	Corporate	Woodlawn Project	Exploration	Total
	\$'000	\$'000	\$'000	\$'000
Interest received	298	147	-	445
Sundry income	20	29	-	49
Total revenues	318	176	-	494
Depreciation	(6)	(60)	-	(66)
Exploration expenditure expensed as incurred	-	-	(563)	(563)
Insurance expense	(31)	(163)	-	(194)
Fair value gain/(loss)	(2,618)	(3,230)	-	(5,848)
Unrealised foreign exchange gain/(loss)	15	(3,399)	-	(3,384)
Other expenses	(2,052)	(376)	-	(2,428)
Profit / (loss)	(4,374)	(7,052)	(563)	(11,989)

31 December 2017	Corporate	Woodlawn Project	Exploration	Total
	\$'000	\$'000	\$'000	\$'000
Profit on sale of investments	1,912	-	-	1,912
Interest received	568	-	-	568
Tenements refunds	23	-	-	23
Total revenues	2,503	-	-	2,503
Depreciation	(13)	(1)	-	(14)
Exploration expenditure incurred	-	270	(780)	(510)
Exploration expenditure capitalised	-	(270)	-	(270)
Investment Gain	11,879	-	-	11,879
Other expenses	(2,358)	(1)	-	(2,359)
Profit / (loss)	12,011	(2)	(780)	11,229

Segmental information for statement of financial position

31 December 2018

	Corporate	Woodlawn Project	Exploration	Total
	\$'000	\$'000	\$'000	\$'000
Total current assets	53,024	21,186	77	74,287
Property, plant and equipment	46	827	-	873
Investment	156	-	-	156
Restricted Cash	5,200	3,577	-	8,777
Woodlawn Mine – under construction	-	203,724	-	203,724
Other non-current assets	36	-	-	36
Total non-current assets	5,438	208,128	-	213,566
Total assets	58,462	229,314	77	287,853
Total liabilities	104	130,326	30	130,460

30 June 2018

	Corporate	Woodlawn Project	Exploration	Total
	\$'000	\$'000	\$'000	\$'000
Total current assets	27,217	40,810	77	68,104
Property, plant and equipment	51	596	-	647
Investment	5,901	-	-	5,901
Restricted Cash	8,777	-	-	8,777
Woodlawn Mine – under construction	-	156,517	-	156,517
Other non-current assets	35	-	-	35
Total non-current assets	14,764	157,113	-	171,877
Total assets	41,981	197,923	77	239,981
Total liabilities	525	70,544	30	71,099

NOTE 15. COMMITMENTS FOR EXPENDITURE**a) Exploration Commitments**

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

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Within one year	246	491
	<u>246</u>	<u>491</u>

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

b) Capital commitments

The Company has entered into long term contracts with major suppliers. Mining contractor, Pybar, began underground development in September 2018. Monthly progress claims received from Pybar are based on a schedule of rates and actual development.

NOTE 16. EARNINGS PER SHARE

	31 Dec 2018 \$	31 Dec 2017 \$
Basic earnings per Share	(0.050)	0.066
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	241,666,912	170,299,171
Diluted earnings per Share	(0.050)	0.065
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share.	241,666,912	170,299,171
Earnings profit/(loss) used in calculating basic and diluted earnings profit/(loss) per share	(11,989,335)	11,229,354

NOTE 17. SUBSEQUENT EVENTS

Other than those noted below there is no matter or circumstance which has arisen since 31 December 2018 that has significantly affected or may significantly affect:

The operations, in the financial years subsequent to 31 December 2018, of the Company; or

The results of those operations.

a) Sedgman claim

On 1 February 2019, the Company received a Progress Claim from Sedgman for additional costs of \$49.9M. This claim was over and above the agreed \$109M Guaranteed Maximum Price EPC contract sum. As disclosed to the ASX on 18 February 2019, Heron advised that the Contract Superintendent had rejected Sedgman's claim for additional costs of \$49.9M (with the exception of some minor agreed contract works totalling \$223,057). Under the EPC Contract, the Contract Superintendent is appointed as an agent of the Principal, Tarago Operations Pty Ltd (a wholly owned subsidiary of Heron Resources Ltd), and must act honestly and reasonably in the performance of his contract responsibilities.

At this stage, Sedgman has not substantiated their claim, and the Contract Superintendent has determined that the majority of the variations either have no merit, or are time barred under the EPC Contract, and in some cases refer to events that predate the parties entering into the EPC Contract. The Company supports the rejection of the claim by the Contract Superintendent and intends to vigorously defend any further action.

Heron has also advised that it will claim liquidated damages from Sedgman as a result of the later than planned completion of the processing facility. With the inclusion of the delay Liquidated Damages the assessed payment schedule finds Sedgman owing amounts to Heron and the Company will seek payment in accordance with the EPC contract provisions. Heron continues to hold \$10.8M in bank guarantees from Sedgman.

b) Bank guarantee with Veolia

The Company negotiated the release of \$1 million bank guarantee with Veolia in February 2019. Refer to: Note 18 Contingent liability for additional details.

NOTE 18. CONTINGENT LIABILITIES

a) Performance bonds and rental bond commitment

The Company has provided cash backed performance bonds with the NSW Department of Resources and Energy of \$110,000 (30 June 2018: \$90,000) and a rental bond commitment (\$17,187) over its office in Sydney. The performance bonds and rental bond commitment are cash backed. The Company also has and 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 in 2017, under which the Company agreed:

- (i) To assume the environmental liabilities associated with the Woodlawn site, excluding Veolia's area of operation. The Company will be required to provide a performance bond with the NSW Department 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 prior to commencement of construction.
- (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 \$10 million of which \$5 million has been provided at 31 December 2018. A further \$5 million bank guarantee will be provided in favour of Veolia approximately 30 months after commencement of the box cut. The Company negotiated the release of \$1 million bank guarantee with Veolia in February 2019. The Company will provide a total of \$9 million in bank guarantees in favour of Veolia. Refer to: Note 17 Subsequent events for additional details.

c) Other contingent liabilities

Native title claims have been made with respect to areas which include tenements in which the Company has interests. 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.

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

Directors' Declaration

The Directors declare that:

In the opinion of the Directors:

1. the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. the financial statements and associated notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 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: 1 March 2019

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 2018, 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 2018 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*.

Emphasis of Matter – Sedgman Claim

We draw attention to Note 17(a) of the financial report, which describes the significant uncertainty relating to the \$49.9M claim received from Sedgman for additional costs on 1 February 2019. Our opinion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 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*.

A handwritten signature in black ink that reads 'Ernst + Young' in a cursive, stylized font.

Ernst & Young

A handwritten signature in black ink that appears to be 'S Jarrett' in a cursive, stylized font.

Scott Jarrett
Partner
Sydney
1 March 2019



Heron Resources Limited

ASX:HRR

www.heronresources.com.au