Financial Report

For the half year ending 31 December 2019

Heron Resources Limited

ACN 068 263 098

Heron Resources Limited
Corporate Directory

ABN 30 068 263 098

DIRECTORS
Chairman (Non-Executive)
Stephen Dennis BCom LLB GDipAppFin(Finsia)
Director (Non-Executive)
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
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Telephone: +61 2 9119 8111
Woodlawn Site Office
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Email: heron@heronresources.com.au
Website: www.heronresources.com.au

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

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

SHARE REGISTRY
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Sydney New South Wales 2000
All security holder correspondence to:
GPO Box 5193
Sydney New South Wales 2000
Telephone: 1300 288 664
Email: hello@automic.com.au

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

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

ASX CODE HRR

INDUSTRY CLASSIFICATION
GICS classification code is 15104020
Diversified Metals and Mining

ISIN AU000 000 HRR6

Cover photo – MV J-Harmony being loaded with Woodlawn's first Zinc shipment – October 2019

Heron Resources Limited
ABN 30 068 263 098

FINANCIAL REPORT

For the half year ended 31 December 2019

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 2019 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 2019.

BOARD

The names of the Directors of the Company during the period and at 31 December 2019 were:

Stephen Dennis (Chairman)
Wayne Taylor (resigned on 18 September 2019)
Borden Putnam III
Fiona Robertson
Mark Sawyer
Peter Rozenauers
Ricardo de Armas
Ian Pattison

There were six 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.

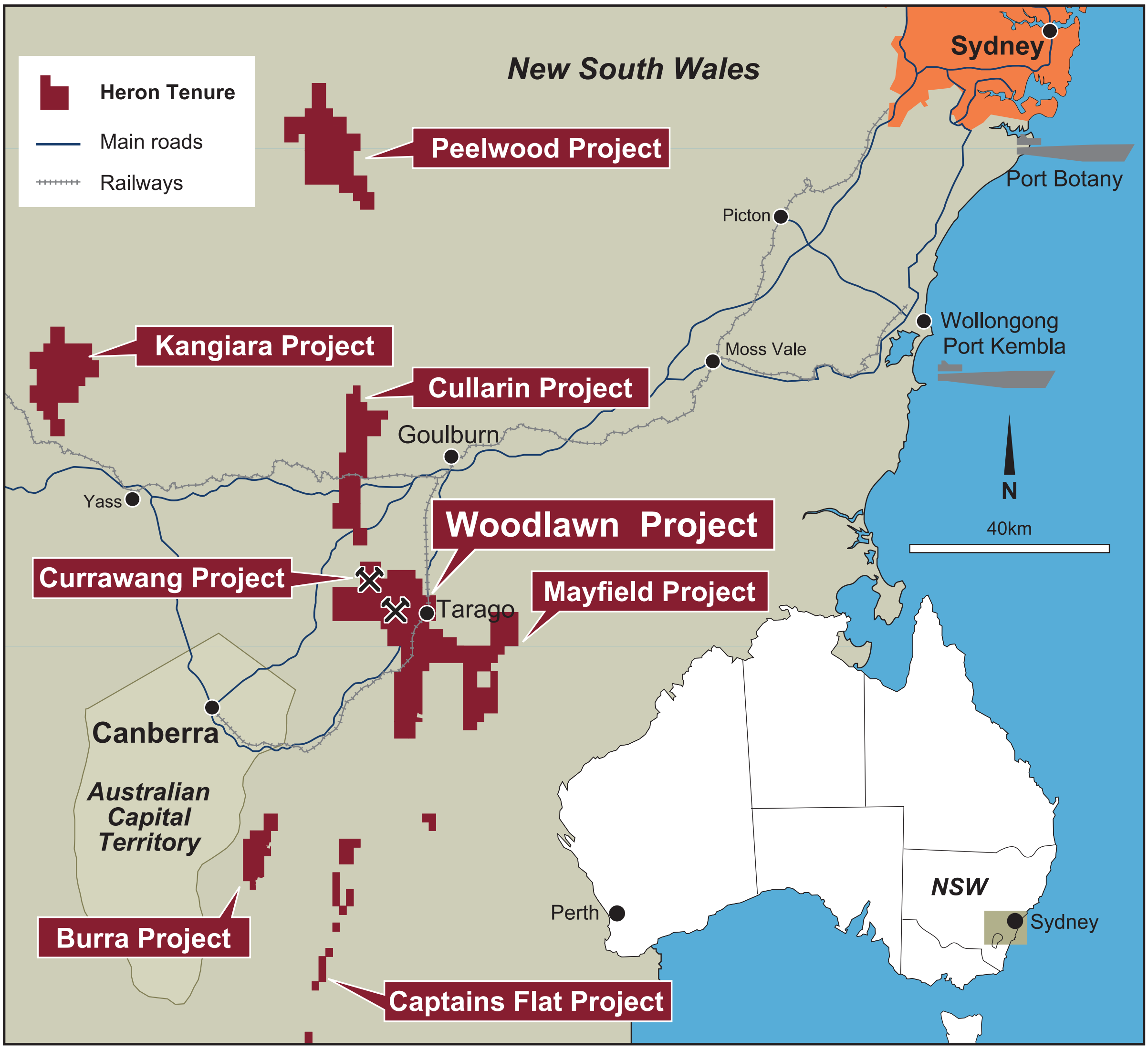

Figure 1: Woodlawn Project location and tenement map

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 five years have seen Heron develop the Woodlawn Zinc-Copper Project from planning through to construction, commissioning and ramping up to commercial production. Construction activities commenced in September 2017 and were completed in the June 2019 quarter. Commissioning activities are completed and ramp-up proceeding with the first lead and zinc concentrate produced, transported to and shipped from Port Botany and Port Kembla in September and October. The first revenue from sales of concentrate was received in October 2019.

WOODLAWN PROJECT – DEVELOPMENT PROGRESS

Recent project developments include:

- **Safety:** 4 LTI's were recorded at Woodlawn during the six months to 31 December 2019, there was improvement in January & February 2020 with no further LTI's. The Company remains committed to achieving zero harm and further initiatives are underway by Heron and its contractors on improving safety management systems and procedures.
- **Construction:** Construction activities are complete and the 12 month defects liability period is now current for all work portions. Ramp up is progressing with Crusher and Ball Mill having run at design "name-plate" throughputs of 175tph and 125tph respectively. Isa Mill and flotation circuits have also run at design "name-plate" throughputs of 190tph.
- **Tailings Reclaim Processing:** Hydraulic mining operation ramped up and running to design capacities. The reclaim circuit has demonstrated operating capability at design throughput capacity of 190tph. Various issues with the flotation pumping circuit have been encountered, however considerable progress is now being made with pump, sump and pipe modifications having been implemented in the flotation plant.
- **Underground Ore Processing:** A total of 65,000 tonnes of underground ore was processed from commissioning in August through to the end of December 2019, with a further 30,000 tonnes of underground ore processed in February. This enabled the completion of commissioning in the crusher and ball mill circuit. This circuit continues to be ramped up with lower grade development ore, mining of the first Kate Lens ore will occur in March with processing scheduled for April 2020.
- **Concentrate Production/Sales:** Planned shipments of lead totalling 2,350 dry metric tonnes and zinc of 4,390 dry metric tonnes were delivered during the December quarter. The first copper product (commissioning ore and tailings) was shipped in February 2020, and the second shipment of zinc shipment was also despatched in February 2020. Concentrate production is progressing with grade and recoveries improving, particularly zinc. Copper and lead selectivity has been sub optimal, particularly whilst processing tailings and low grade commissioning ore, however is expected to improve as the circuit continues to be optimised. With the improved consistency in production more regular shipments of all products will be scheduled.
- **Underground Mine:** The underground mine operation has continued to make progress with a total of 4.2km of development completed by the end of 31 December 2019, and a further 680M achieved in January and February 2020. Some extraordinary causes of delay included regional bushfire smoke leading to mine air quality issues, and some critical equipment failures with the mining contractor. Despite these delays, development ore from Kate lens is scheduled for late March and stope ore in April 2020. The south decline is now approximately 290M below surface and has reached the first level of the Kate orebody. Paste filling commenced with the paste plant successfully commissioned and three stopes filled. The Company initiated discussions with its mining contractor, Pybar, with the objective of delivering an improvement in mine productivity, and the first signs of this improvement were evident in February 2020.
- **Hydraulic Mining:** Hydraulic mining has continued in the main production area of Tailings Dam South (TDS). Efficient hydraulic mining practices have now been established and work has progressed on improving the reliability of monitoring and pumping infrastructure.
- **Community:** Heron have continued to develop strong links in the community involving regular meetings with local government and emergency services leaders, and meetings with local representatives to provide updates on project progress. Air quality monitoring in particular was challenged due to the significant levels of smoke in the atmosphere from regional bushfires. A number of Heron employees were impacted by these regional fires with some absences from work either through personal fire impacts or being involved with volunteer agencies.

Figure 2: Woodlawn Processing Plant, with ROM Pad, crusher and fine ore bin in the foreground

Figure 3: Ball Mill during the underground crushing and grinding circuit commissioning campaign

Figure 4: Zinc containers being loaded ready for the train to Port Kembla

Figure 5: New vent fans installed for underground operations

Figure 6: Zinc Concentrate loading at Gateway facility at Port Kembla

Figure 7: Loading facilities at Port Kembla

Figure 8: MV "J-Harmony" during loading of first Zinc concentrate shipment at Port Kembla

WOODLAWN PROJECT – EXPLORATION

Woodlawn North Targets

Heron's exploration is currently focused on the discovery and delineation of additional mineralised VMS lenses directly north of the Woodlawn mine. Prospects targeted are within a 2.5km arc to the NW and NE of Woodlawn. A down-hole electromagnetic survey is being scheduled for the next quarter on the four diamond core holes drilled earlier in 2019 which intersected a number of significant zones of indicative alteration.

Farm-out Agreement with Sky Metals Ltd

As reported to the ASX on the 9 October 2019, a farm-out agreement has been signed with Sky Metals Ltd ("Sky") relating to three tenements at Cullarin and Kangiara, targeting initially McPhillamy's style gold mineralisation. Key terms are $400k minimum expenditure in first year; a further $1.6M over next 2 years to earn 80% with Heron free carried to DFS or $10M of expenditure; 10M Sky options at a strike price of 15c.

During the period Sky completed its first exploration programme at Heron's Cullarin Project. (Refer to Sky ASX announcement 10 February 2020). Sky completed a soil geochemistry programme (360 samples) and two diamond drill holes totalling 755.3 metres at the Hume gold prospect (previously known as Wet Lagoon). Drilling was designed to validate historical results and test the geometry and depth extensions of previously identified mineralisation. This is the first drilling at this prospect since 2008.

Cooperative Drilling Applications

During the December quarter Heron made two Cooperative Drilling Fund applications to the NSW Department of Planning, Industry and Environment. The applications were for drilling programmes at the historic Currawang mine adjacent to Woodlawn and also at the Peelwood project, 100 km north of Woodlawn.

Woodlawn Regional Prospects

Heron continues to maintain and explore a strategic 1,372km^2 tenement package which covers the prospective Silurian volcanic rocks which host the Woodlawn VMS deposit. Heron's exploration strategy is to focus on historically known mineralisation zones with prospective geology and comparable grade and metallurgy to Woodlawn, and within potential trucking distance of the Woodlawn processing facility.

Exploration Joint Venture Projects

Heron retains interests in tenement holdings within the Lachlan Fold Belt of NSW and the Eastern Goldfields of Western Australia. This tenure is held through farm-in and joint venture interests which include a number of other free-carried residual or royalty interests which results in minimal costs to Heron.

Alchemy Farm-In and JV (Overflow, Girilambone, Eurow And Yellow Mountain)

Heron entered into a Farm-In Agreement with Alchemy Resources Limited (Alchemy) (ASX: ALY) covering a portfolio of Heron's NSW exploration tenements in May 2016. The Farm-In Agreement covers 674 km^2 of the central Lachlan Orogen in NSW. During the period Alchemy had earnt a 51% interest in the JV tenements after spending $1 million and has the option to earn 80% by spending an additional $1 million by 30 May 2021. Current expenditure for this second phase is estimated by Alchemy to $0.6M.

CORPORATE ACTIVITIES

- **Capital Raise:** On 4 October 2019, Heron announced a A$91 million funding package in response to a projected cash shortfall due to delays in construction and production ramp-up prior to the quarter. On 8 October 2019, the Company announced the successful completion of the Institutional component of the entitlement offer which raised approximately A$11.5M. On 25 October 2019, the Company announced the successful completion of the Retail component of the entitlement offer raising a further A$23.9M bringing the total capital raised to that date to A$35.4M. Shareholders approved the final component of the funding package, being US$34.9M in Convertible Notes, at Heron's AGM on 5 December 2019. All funds from the funding package were received by 31 December 2019.
- **Appointment of new CEO:** On 15 January 2020, Heron announced the appointment of Mr. Tim Dobson as the new Chief Executive Officer. Mr. Dobson is currently Senior Vice President Metals for Sherritt International in Canada and former President of Ambatovy in Madagascar. He has over 30 years' technical and executive experience in organisations such as Placer Dome, Lihir Gold and Polymetals. He holds a BSc in Extractive Metallurgy from the WA School of Mines. Mr. Dobson will begin his employment at Heron effective from 23 March 2020.

EVENTS OCCURING AFTER 31 DECEMBER 2019

In February 2020, following under performance in the period against the updated Woodlawn ramp-up plan, the major shareholders of the Company and its secured lender requested that an independent review of Woodlawn operations be undertaken to facilitate possible financing discussions with these parties. The Directors of the Company subsequently resolved to appoint Entech Mining Consultants to perform an independent review of the underground mining operations at Woodlawn, and to appoint Mineralis Consultants to perform an independent review of the Woodlawn processing plant. Both these reviews will take approximately six weeks to complete at which time the Company will make an announcement to the ASX on the results of the review.

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, 5 March 2020

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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 2019, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Scott Nichols
Partner
Sydney
5 March 2020

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDING 31 DECEMBER 2019

	Notes	31 Dec 2019 $'000	31 Dec 2018 $'000
OTHER INCOME	2	683	494
Administrative expenses		(442)	(194)
Professional services and consultants		(1,022)	(264)
Depreciation and amortisation expense	3a	(1,065)	(66)
Directors fees		(336)	(295)
Employee benefits expense		(1,792)	(591)
Equity settled share based payments	15	816	(500)
Exploration expenditure expensed		(509)	(563)
General expenses from ordinary activities	3b	(350)	(409)
Finance costs	3c	(787)	(369)
Unrealised fair value loss on financial instruments	3d	(4,978)	(3,230)
Unrealised fair value gain / (loss) on equity instruments		12	(2,618)
Unrealised foreign exchange gain / (loss)	3e	26	(3,384)
Impairment of mine property	9	(29,834)	-
Write back of Sedgman provision	10	2,985	-
(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(36,593)	(11,989)
INCOME TAX EXPENSE		-	-
(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(36,593)	(11,989)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(36,593)	(11,989)
		$	**$**
Basic gain/(loss) per share	17	(0.103)	(0.050)
Diluted gain/(loss) per share	17	(0.103)	(0.050)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	31 Dec 2019 $'000	30 June 2019 $'000
CURRENT ASSETS			
Cash and cash equivalents		51,339	31,465
Trade and other receivables	4	2,477	1,043
Inventories	5	3,913	2,355
Financial assets - equity instruments	6	144	1,587
Other assets	7	1,871	499
TOTAL CURRENT ASSETS		59,744	36,949
NON-CURRENT ASSETS			
Restricted cash		7,878	7,777
Other assets	7	110	125
Financial assets - equity instruments	6	-	132
Property, plant and equipment	8	1,664	11,962
Mine property	9	259,267	242,849
Right of use assets	8	18,116	-
TOTAL NON-CURRENT ASSETS		287,035	262,845
TOTAL ASSETS		346,779	299,794
CURRENT LIABILITIES			
Trade and other payables	10	8,967	6,060
Borrowings	11	29,864	126,330
Provisions	13	1,274	15,786
TOTAL CURRENT LIABILITIES		40,105	148,176
NON-CURRENT LIABILITIES			
Trade and other payables	10	10,217	-
Borrowings	11	103,762	6,580
Convertible note	12	42,607	-
Derivative liability	12	6,596	-
Provisions	13	16,100	16,138
TOTAL NON-CURRENT LIABILITIES		179,282	22,718
TOTAL LIABILITIES		219,387	170,894
NET ASSETS		127,392	128,900
EQUITY			
Contributed equity	14	295,643	259,742
Option reserve	15	2,041	2,857
Accumulated losses	15	(170,292)	(133,699)
TOTAL EQUITY		127,392	128,900

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDING 31 DECEMBER 2019

	Note	Issued Capital $'000	Retained Earnings $'000	Option Reserve $'000	Total $'000
As at 30 June 2019		259,742	(133,699)	2,857	128,900
Total comprehensive income / (loss) for the period after tax		-	(36,593)	-	(36,593)
Issue of share capital	14	37,403	-	-	37,403
Share issue costs	14	(1,502)	-	-	(1,502)
Cost of share based payments	15	-	-	257	257
Option reserve write back	15	-	-	(1,073)	(1,073)
As at 31 December 2019		**295,643**	**(170,292)**	**2,041**	**127,392**
As at 30 June 2018		259,742	(92,936)	2,076	168,882
Total comprehensive income / (loss) 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**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDING 31 DECEMBER 2019

	Notes	31 Dec 2019 $'000	31 Dec 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		316	449
Payments to suppliers and employees		(5,895)	(4,176)
Exploration and development expenditure – expensed		(509)	(563)
NET CASH USED IN OPERATING ACTIVITIES		(6,088)	(4,290)
CASH FLOWS FROM INVESTING ACTIVITIES			
Woodlawn Mine – asset under construction		(51,432)	(44,936)
Proceeds from sale of commissioning concentrates		5,180	-
Proceeds from sale of investments		1,386	-
Payments for plant and equipment		(438)	(163)
Payment of bond and bank guarantees		(101)	-
Payments for foreign currency hedge transaction		-	(12)
NET CASH USED IN INVESTING ACTIVITIES		(45,405)	(45,111)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity raising		28,790	-
Payments for capital raising costs		(865)	-
Proceeds from borrowings		47,089	53,627
Payment of borrowings costs		(1,045)	-
Finance lease repayments		(2,564)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		71,405	53,627
NET INCREASE / (DECREASE) IN CASH HELD		19,912	4,226
Cash at the beginning of the reporting period		31,465	65,532
Foreign exchange (gain) / loss on translation - unrealised		(38)	(101)
CASH AT THE END OF THE REPORTING PERIOD		51,339	69,657

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance and Basis of Preparation

General

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements have been prepared under the historical cost convention.

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 2019 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 Group applied AASB 16 Leases for the first time from 1 July 2019. The nature and effect of these changes as a result of the adoption of the new standard 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 Group's annual report for the year ended 30 June 2019.

Going concern basis of accounting

The Group incurred a loss for the six month period after tax of $36.6 million (2018: loss of $12.0 million) and a net cash outflow from operating activities of $6.1 million (2018: outflow $4.3 million). The interim financial statements for the six month period ended 31 December 2019 have been prepared on a going concern basis, notwithstanding the fact that the Group incurred a net cash outflow from operating and investing activities for the six month period of $51.5 million (2018: outflow $49.4 million).

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

As noted in the Company's ASX release dated 4 October 2019, the Company announced a $91 million funding package in response to a funding shortfall due to delays in construction and production ramp-up of Woodlawn. On 8 October 2019, the Company announced the successful completion of an institutional component of the entitlement offer which comprised part of the overall funding package, raising approximately $11.5 million. On 25 October 2019, the Company announced the successful completion of the retail component of the entitlement offer also comprising part of the overall funding package, raising a further $23.9 million. Shareholders approved the final component of the funding package, being US$34.9 million in Convertible Notes, at the Company's Annual General Meeting on 5 December 2019. All funds from the funding package were received by 31 December 2019.

However, following underperformance in the period against the updated Woodlawn ramp up plan and in light of current uncertainty in the zinc, copper and lead concentrate markets, the Group has identified that additional sources of funding are likely to be required in the future in order to maintain compliance with the covenant described in Note 11(c) and to continue as a going concern. As a result, management has initiated discussions with its lender, key shareholders and other capital providers regarding additional potential sources of funding. With the Group's ability to successfully secure additional funding arrangements, other sources of capital and/or amendments to existing financing arrangements pending, there remains a material uncertainty related to the Group's ability to continue as a going concern.

As a result of the current expectation that the requisite additional funding is likely to be forthcoming , and the expectation that the ramp-up and commercialisation of Woodlawn can still be completed within a reasonable timeframe, the Directors are of the opinion that the Group can continue as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business . The financial report does not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Group not be able to reach a satisfactory outcome to the current discussions regarding additional funding, such that it would not be able to continue as a going concern.

Revenue recognition

The Company is principally engaged in the production and sale of base metal concentrates.

Revenue is recognised at the point when control of the goods passes to the customer, based on the contractual sales International Commercial terms (Incoterms), at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods and services to the customer.

Control of goods and services passes to the customer with respect to:

- Provisionally priced concentrate sales, in accordance with respective Free on Board (FOB) and Cost, Insurance and Freight (CIF) Incoterms for each lot;
- Cost, Insurance and Freight, transfer of control occurs over time, ending when the concentrate consignment is offloaded at the Port of Discharge.

The Company has concluded that it is the principal in its revenue contracts on the basis that it controls the goods and services being transferred to the customer.

Accounting for concentrate sale in the commercialisation phase

Sales made prior to the declaration of commercial production have been recognised as a reduction to the carrying value of the Woodlawn Mine asset.

Provisionally priced concentrate sales

Revenue on provisionally priced sales is accounted for by separating the embedded commodity price feature from the sales contract and accounting for it as a derivative within trade and other receivables. Fair value is determined with reference to the relevant forward commodity price and is marked to market at each reporting period up until a point in time where final pricing and settlement is confirmed. Fair value adjustments are recognised in revenue in the period identified.

Other variables in the contract price are accounted for as variable consideration. The Company has estimated the amount of variable consideration to be included in the transaction price at the 'most likely amount' to the extent that a significant reversal in the cumulative amount of revenue recognised will not occur.

The period between provisional pricing and final invoicing (quotation period) is typically between 30 and 120 days.

Cost, Insurance and Freight

Where the Company makes concentrate sales on Cost, Insurance and Freight (CIF) Incoterms, the Company is required to provide freight and shipping services after the date at which control of the goods have transferred to the customer. Revenue from freight and shipping services are recognised over time until this obligation is fulfilled.

Trade receivables

Trade receivables are non-interest bearing and generally receivable on 30-90 day terms. At balance date, no material amount of trade receivables were past due or impaired.

Trade receivables comprising base metal concentrates awaiting settlement are initially recorded at the fair value of contracted sales proceeds expecting to be received only when there has been a passing of control to the customer. Collectability of debtors is reviewed in line with a forward-looking expected credit loss (ECL) approach. The Group has adopted AASB 9's simplified approach and calculates ECL's based on lifetime expected credit losses, and takes into consideration and historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and subject to impairment. The Group's financial assets at amortised cost include trade receivables (not subject to provisional pricing) and other receivables.

Trade receivables (subject to provisional pricing) exposed to future commodity movements over the quotation period (QP) are measured at fair value up until the date of settlement. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. These trade receivables are initially measured at the amount which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP. The QP's can range between 30 – 120 days post-shipment, and final payment is due within 30 days from the end of the QP.

Inventory

Store stock and consumables

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

Refined metal

Refined metal, representing silver bullion, is physically measured and valued at the lower of cost or net realisable value. Net realisable value is the estimated future sales price of the product that the Group expects to realise when the product is sold.

Convertible Note

The convertible note consists of a debt instrument with a derivative liability conversion option. The component parts of the convertible loan notes issued by the Group are classified separately as financial liabilities and derivative liability in accordance with the substance of the contractual arrangements. At initial recognition, the Group estimated the fair value of the derivative feature. The fair value of the derivative is reassessed at each reporting date. The equity conversion feature is accounted for as a derivative liability in the Group's consolidated financial statements.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the financial liability and derivative components in proportion to the allocation of the gross proceeds. Transaction costs related to the derivative are recognised in profit and loss. Transaction costs relating to the financial liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible loan notes using the effective interest method.

New and Amended Standards and Interpretations

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year. New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 16 Leases
- Interpretation 23 *Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatment*

AASB 16 Leases

AASB 16 *Leases* supersedes AASB 117 Leases, *Interpretation 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and Interpretation 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of the adoption on AASB 16 as at 1 July 2019 is as follows:

Assets	**Finance lease $'000**	**ROU addition for the period arising from adoption (operating lease) $'000**	**Transfer to equipment finance $'000**	**Total $'000**
Right of use assets	11,264[(a)]	7,103	-	18,367
Property, plant and equipment	(11,264)[(b)]	-	-	(11,264)
Total Assets	-	7,103	-	7,103
Liabilities				
Interest bearing loans and borrowing	9,411[(a)]	7,103	(577)	15,937
Total liabilities	9,411	7,103	(577)	15,937

(a) Balance of 30 June 2019 prior to adopting AASB 16

(b) Transfer of property, plant and equipment to Right of Use Assets, on adopting AASB 16

a) Nature of the effect of adoption of AASB 16

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under AASB 117). The requirements of AASB 16 were applied to these leases from 1 July 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedient wherein it applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.

Based on the above, as at 1 July 2019:

- Right-of -use assets of $18.4 million were recognised and presented separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of $11.3 million that were reclassified from Property, plant and equipment.
- Additional lease liabilities of $7.1 million (included in Interest bearing loans and borrowings) were recognised.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	$'000
Asset	
Operating lease commitment as at 30 June 2019	1,139
Weighted Average incremental borrowing rate as at 1 July 2019	7.67%
Impact of reassessment and other	5,602
Less:	
Commitment relating to short term leases	(215)
Add:	
Commitment relating to previously classified as finance lease	9,411
Lease liability as at 1 Jul 2019	15,937

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $35,000). Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Plant & Equip $'000	Motor Vehicles $'000	Other $'000	Total $'000	Lease Liability $'000
As at 30 June 2019	10,523	741		11,264	9,411
Transfer to equipment finance	-	-	-	-	(577)
Adoption of AASB 16	6,179	-	924	7,103	7,103
As at 1 July 2019 (Revised)	16,702	741	924	18,367	15,937
Addition for the year (new leases)	700	-	-	700	700
Depreciation Expense	(857)	-	(94)	(951)	-
Interest expense	-	-	-	-	611
Payment	-	-	-	-	(2,564)
As at 31 December 2019	**16,545**	**741**	**830**	**18,116**	**14,684**

The Group recognises rent expense from short-term leases of $0.1 million, leases of low-value assets of $0.1 million and variable leases payments of $4.8 million for the six months ended 31 December 2019.

Interpretation 23 Uncertainty over Income Tax Treatments

The Group has adopted Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatment from 1 July 2019. The adoption of Interpretation 23 does not have a material impact on the financial statements of the Group.

Standards and Interpretations in issue not yet effective

At the date of authorisation of the consolidated financial statements, other Standards and Interpretations in issue but not yet effective were listed below.

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

Standard and Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [AASB10 & AASB128], AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10* and AASB 128 and AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*	1 January 2022	30 June 2023
AASB 2018-6 *Amendments to Australian Accounting Standards - Definition of a Business*	1 January 2020	30 June 2021
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020	30 June 2021
AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020	30 June 2021
AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	1 January 2020	30 June 2021
AASB 2019-5 *Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	1 January 2020	30 June 2021

		31 Dec 2019 $'000	31 Dec 2018 $'000
NOTE 2	**OTHER INCOME**		
	Interest received	121	445
	Loss on sale of listed investments	(443)	-
	Realised foreign exchange gain	1,002	-
	Sundry income and other	3	49
		683	494

NOTE 3 OPERATING EXPENSES

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

		31 Dec 2019 $'000	31 Dec 2018 $'000
3a	Depreciation of:		
	Plant and equipment	(12)	(17)
	Motor vehicles	(102)	(49)
	Right of Use Assets	(951)	-
		(1,065)	(66)
3b	General expenses from ordinary activities include the following:		
	Rental expense	(33)	(51)
	ASX Listing expense	(87)	(57)
	Investor relations	(49)	(80)
	Information technology	(28)	(26)
	Other expense	(153)	(195)
		(350)	(409)
3c	Finance costs include the following:		
	Sedgman provision	(202)	-
	Lease liability	(22)	-
	Expensed capital raising costs and other	(563)	(369)
		(787)	(369)
3d	Unrealised fair value loss on financial instruments includes:		
	Silver stream	(4,128)	(3,230)
	Zinc stream	(819)	-
	Other	(31)	-
		(4,978)	(3,230)
3e	Unrealised foreign exchange gain/(loss) includes:		
	Senior debt	(387)	(2,256)
	Convertible notes and other	413	(1,128)
		26	(3,384)

NOTE 4 TRADE AND OTHER RECEIVABLES

	31 Dec 2019 $'000	30 Jun 2019 $'000
Accrued interest receivable	-	192
Goods & services tax receivable	1,644	777
Sundry debtors	28	74
Other	37	-
Trade debtors	768	-
	2,477	1,043

NOTE 5 INVENTORIES

	31 Dec 2019 $'000	30 Jun 2019 $'000
Store stock and consumables	3,687	2,355
Refined metal - silver bullion	226	-
	3,913	2,355

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

Silver bullion represents silver held on account to satisfy future obligations under the Silver Stream.

NOTE 6 FINANCIAL ASSETS – EQUITY INSTRUMENTS

CURRENT

	31 Dec 2019 $'000	30 Jun 2019 $'000
Ardea Resources Limited	-	1,587
Alchemy Resources Limited	144	-
	144	1,587

NON CURRENT

	31 Dec 2019 $'000	30 Jun 2019 $'000
Alchemy Resources Limited	-	132
	-	132

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

Ardea Resources Limited (ARL) is an Australian listed public exploration company with a focus on the Goongarrie Nickel Cobalt Project. As at 30 June 2019, the Group held 10,000,000 options in Ardea with an exercise price of $0.25 cents. During the half year ended 31 December 2019 the Group sold the 10,000,000 options in Ardea, for gross proceeds of $1.4M, and recognised a loss of $0.4M.

Alchemy Resources Limited (ALY) is an Australian listed public exploration company with a focus on gold, base metal, and nickel-cobalt projects. The Group held 12,000,000 shares and 12,500,000 options with an exercise price of $0.10 at reporting date. The underlying Alchemy share price as at 31 December 2019 was $0.012 cents. The options have been valued at nil as at reporting date.

NOTE 7 OTHER ASSETS

CURRENT

	31 Dec 2019 $'000	30 Jun 2019 $'000
Prepayments and other	1,331	499
Energy certificates	540	-
	1,871	499

NON CURRENT

	31 Dec 2019 $'000	30 Jun 2019 $'000
Tenement and other bonds	110	125
	110	125

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

	Plant & Equip $'000	Motor Vehicles $'000	Right-of-use Assets $'000	Total $'000
31 December 2019				
Cost	13,371	1,339	7,803	22,513
Accumulated depreciation	(1,299)	(483)	(951)	(2,783)
Transfers	(10,523)	(741)	11,264	-
	1,549	115	18,116	19,780
Reconciliation				
Opening carrying value	11,688	948	-	12,636
Additions	397	40	7,803	8,240
Disposals	(1)	(30)	-	(31)
Depreciation expense	(12)	(102)	(951)	(1,065)
Transfers	(10,523)	(741)	11,264	-
Closing carrying value	1,549	115	18,116	19,780
30 June 2019				
Cost	12,975	1,329	-	14,304
Accumulated depreciation	(1,287)	(381)	-	(1,668)
	11,688	948	-	12,636
Reconciliation				
Opening carrying value	229	418	-	647
Additions	11,492	667	-	12,159
Disposals	-	-	-	-
Depreciation expense	(33)	(137)	-	(170)
Closing carrying value	11,688	948	-	12,636

NOTE 9 WOODLAWN MINE – ASSET UNDER CONSTRUCTION

	Mine Under construction $'000	Rehabilitation asset $'000	Total $'000
31 December 2019			
Cost	273,350	15,751	289,101
Impairment charge	(29,834)	-	(29,834)
	243,516	15,751	259,267
Reconciliation			
Opening carrying value	227,098	15,751	242,849
Additions	51,432	-	51,432
Net proceeds from commissioning concentrate sales	(5,180)	-	(5,180)
Impairment	(29,834)	-	(29,834)
Amortisation	-	-	-
Closing carrying value	243,516	15,751	259,267

	Mine Under construction $'000	Rehabilitation asset $'000	Total $'000
30 June 2019			
Cost	227,098	15,751	242,849
Accumulated amortisation	-	-	-
	227,098	15,751	242,849
Reconciliation			
Opening carrying value	140,766	15,751	156,517
Additions	86,332	-	86,332
Transfers	-	-	-
Amortisation	-	-	-
Closing carrying value	227,098	15,751	242,849

Determination of recoverable amount

As at 31 December 2019 a review was performed for indicators of impairment in order to determine whether a formal impairment assessment was required. Indicators were identified, including that the market capitalisation of the Group was below the book value of its equity and the significant delays in the Woodlawn project reaching steady state production.

The Woodlawn Project is considered the Group's sole cash generating unit ('CGU'). Impairment testing on the Woodlawn Project determined an impairment loss of $29.8 million was required to be recognised in the period.

The recoverable amount of the CGU of $243.5 million, which is classified as Level 3 of the fair value hierarchy, is determined based on value in use calculations using discounted cash flow projections using financial forecasts covering a period of the life of the Woodlawn mine asset.

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

Key assumptions

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

- Commodity prices are based on market-based consensus pricing;
- AUD/USD exchange rates have been based on market-based consensus pricing – with the exchange rates used in the model ranging between $0.69 and $0.71;
- Expenditure is forecast to increase at a rate of 2% over the life of the mine, reflecting known increases in committed expenditure offset by cost savings initiatives and operational efficiencies;
- The post-tax nominal discount rate applied to the cash flow projections was 15% which reflects management's best estimate of the time value of money and the risks specific to the project not already reflected in the cash flows.

Sensitivity

After recognition of the impairment loss, the estimated recoverable amount of the CGU is in line with the sum of the carrying amounts of the assets of the CGU. An adverse movement in discount rate of 1%, or a decrease in the zinc price of 1% will, if occurring in isolation, result in further impairment of non-current assets of $10.0 million and $3.4 million respectively.

	31 Dec 2019 $'000	30 Jun 2019 $'000
NOTE 10 TRADE AND OTHER PAYABLES		
CURRENT		
Trade and other creditors	8,967	6,060
	8,967	6,060
NON CURRENT		
Sedgman settlement	10,217	-
	10,217	-

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

A deferred consideration payable has arisen as a result of the settlement of the legal claim with Sedgman. Under the terms of the settlement agreement, the Group will pay Sedgman up to $13 million in cash in quarterly instalments, with the first payment scheduled for June 2021. The deferred consideration payable has been recognised at the present value of future payments using a discount rate of 12.7%, which is the rate the Group considers to be the market rate which would apply to a loan with similar characteristics. As a result of the settlement of the claim, the group has recognised a $3.0 million gain in the period, representing a write back on the measurement of the deferred consideration from the $15 million provision recognised at 30 June 2019. Refer to Note 13.

	31 Dec 2019 $'000	30 Jun 2019 $'000
NOTE 11 BORROWINGS		
CURRENT		
Senior debt	25,629	92,556
Borrowings - equipment finance	185	-
Silver stream	-	30,943
Lease liability	4,050	2,831
	29,864	126,330
NON CURRENT		
Senior debt	52,632	-
Borrowings - equipment finance	317	-
Silver stream	34,940	-
Zinc stream	5,239	-
Lease liability	10,634	6,580
	103,762	6,580

(a) Silver stream

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

The Group has elected to fair value the entire instrument. The obligation represents a derivative liability for the silver price option feature included in the agreement and will therefore be re-measured at each balance sheet date at fair value through profit or loss. The obligation resulted in an unrealised fair value loss of $4,128 for the half year ended 31 December 2019, due mostly to a change in the discount rate used in the modelling, and which has been included in profit or loss (refer Note 3(d)).

(b) Zinc stream

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

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

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

The Group has elected to fair value the entire instrument. The obligation represents a derivative liability for the silver price option feature included in the agreement and will therefore be re-measured at each balance sheet date at fair value through profit or loss. The obligation resulted in an unrealised fair value loss of $819 for the half year ended 31 December 2019 which has been included in profit or loss (refer Note 3(d)).

(c) Senior debt

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

The funding rate is the aggregate of a margin of 7.25% and the applicable Libor rate, being a minimum of 2.5%, for each interest period. The loan was initially recorded at fair value less associated transaction costs. The proceeds from draw down was considered to represent the fair value of the facility at that time. The loan is subsequently measured at amortised cost. Under the amended agreement discussed below, the Group has to maintain a cash balance of not less than AUD $10 million in its Tarago Operations Pty Ltd subsidiary operating accounts.

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

31 December 2019	Opening carrying value $'000	Drawdown $'000	Loan Repayment $'000	Foreign exchange loss/(gain) $'000	Interest $'000	Debt finance costs $'000	Fair value loss/(gain) $'000	Closing carrying value $'000
Senior debt	92,556	1,968[a]	(14,629)	387	(3)	(2,018)	-	78,261
Silver stream	30,943	-	(131)	-	-	-	4,128[b]	34,940
Zinc stream	-	4,420	-	-	-	-	819[c]	5,239
	123,499	6,388	(14,760)	387	(3)	(2,018)	4,947	118,440

30 June 2019	Opening carrying value $'000	Drawdown $'000	Loan Repayment $'000	Foreign exchange loss/(gain) $'000	Interest $'000	Debt finance costs $'000	Fair value loss/(gain) $'000	Closing carrying value $'000
Senior debt	24,941	55,717	-	2,894	6,707	(2,130)	4,427	92,556
Silver stream	22,666	-	-	-	-	-	8,277	30,943
	47,607	55,717	-	2,894	6,707	(2,130)	12,704	123,499

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

(b) Fair Value is determined using a valuation model. The key change is due to Discount Rate (Dec19: 25% Jun19: 28%).

(c) The initial recognition of the zinc stream liability of USD$3 million was determined based on the contracted price in the facility agreement. Subsequent measurement at fair value at reporting date is determined using a valuation model. The key input assumptions are commodity prices, foreign exchange rates and the Woodlawn project life of mine.

NOTE 12 CONVERTIBLE NOTE

	Convertible Note $'000	Convertible Option $'000
As at 31 December 2019		
Balance at the beginning of period	-	-
Issue of convertible notes	50,949	-
Fair value of derivatives within convertible notes	(6,596)	6,596
Transaction costs	(1,916)	
Capitalised interest	170	-
Balance at the end of the period	42,607	6,596

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

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

Derivative

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

	31 Dec 2019
Exercise price (A$)	0.25
Spot Price ($)	0.10
Valuation date	31-Dec-19
Expiration date	31-Dec-24
Term (years)	5
Risk free rate	0.88%
Price volatility	65%
Value of call option (A$)	0.033
Weighted average number of options	199,940,333
Fair value of options recognised	**$ 6,596,032**

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

NOTE 13 PROVISIONS

	31 Dec 2019 $'000	30 Jun 2019 $'000
CURRENT		
Employee entitlements	1,274	786
Sedgman settlement	-	15,000
	1,274	15,786
NON CURRENT		
Employee entitlements	319	357
Rehabilitation provision	15,781	15,781
	16,100	16,138

In October 2019, the Group announced its settlement of the Sedgman legal claim. The settlement included the issue of 10 million shares (issued on 15 October 2019) at $0.20 per share and $13 million deferred cash consideration. The deferred cash consideration payable has been reclassified as a non-current financial liability as at 31 December 2019. Refer to Note 10 for details.

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

NOTE 14 CONTRIBUTED EQUITY

	31 Dec 2019 Shares	30 Jun 2019 Shares	31 Dec 2019 $'000	30 Jun 2019 $'000
Issue of ordinary shares				
Opening balance	241,666,912	241,666,912	259,742	259,742
Issue of share capital	186,997,693	-	37,403	-
Share issue costs	-	-	(1,502)	-
Closing balance	428,664,605	241,666,912	295,643	259,742

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

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

NOTE 15 ACCUMULATED LOSSES AND RESERVES

Option Reserve

	31 Dec 2019 $'000	30 Jun 2019 $'000
Opening balance	2,857	2,076
Cost of share based payments	257	965
Write back lapsed options expense	(1,073)	(184)
Equity settled share based payments [(a)]	(816)	781
Closing balance	2,041	2,857

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

(a) This represents the write back of options as a result of the departure of key management personnel during the period.

Accumulated Losses

	31 Dec 2019 $'000	30 Jun 2019 $'000
Opening balance	(133,699)	(92,936)
Net (loss) for the period	(36,593)	(40,763)
Closing balance	(170,292)	(133,699)

NOTE 16 SEGMENT REPORTING

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

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

NOTE 17 EARNINGS PER SHARE

	31 Dec 2019	31 Dec 2018
Basic earnings per Share	$(0.103)	$(0.050)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	355,229,896	241,666,912
Diluted earnings per Share	$(0.103)	$(0.050)
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share.	355,229,896	241,666,912
Earnings profit/(loss) used in calculating basic and diluted earnings profit/(loss) per share	$(36,593,303)	$(11,989,335)

The outstanding options and performance rights as at reporting date are not considered dilutive given the Group has incurred a loss.

NOTE 18 SUBSEQUENT EVENTS

Other than those noted below there is no matter or circumstance which has arisen since 31 December 2019 that has significantly affected or may significantly affect the operations, in the financial years ending subsequent to 31 December 2019, of the Group; or the results of those operations.

In February 2020, following under performance in the period against the updated Woodlawn ramp-up plan, the major shareholders of the Company and its secured lender requested that an independent review of Woodlawn operations be undertaken to facilitate possible financing discussions with these parties. The Directors of the Company subsequently resolved to appoint Entech Mining Consultants to perform an independent review of the underground mining operations at Woodlawn, and to appoint Mineralis Consultants to perform an independent review of the Woodlawn processing plant. Both these reviews will take approximately six weeks to complete at which time the Company will make an announcement to the ASX on the results of the review.

NOTE 19 CONTINGENCIES

Performance bonds and rental bond commitment

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

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

Agreement with Veolia Environmental Services (Australia) Pty Ltd

The Group has agreed with Veolia:

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

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

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

(iv) To provide staged bank guarantees in favour of Veolia up to $9 million of which $4 million has been provided as at reporting date. A further $5 million bank guarantee will be provided in favour of Veolia approximately 36 months after commencement of the box cut.

Other contingent liabilities

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

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

Directors' Declaration

The Directors declare that:

In the opinion of the Directors:

1. the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. the financial statements and associated notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 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: 5 March 2020

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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 2019, 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 2019 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 – Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our report is not 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 2019 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 Nichols
Partner
Sydney
5 March 2020

Heron Resources Limited

ASX:HRR

www.heronresources.com.au