



HERON RESOURCES LIMITED

UNAUDITED INTERIM FINANCIAL REPORT

(Prepared by Management)

**For the three months ended 30 September
2016**

26 October 2016

Heron Resources Limited

ABN 30 068 263 098

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HERON RESOURCES LTD

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Management Comments on Unaudited Consolidated Financial Statements

26 October 2016

To the Shareholders of Heron Resources Limited

The accompanying unaudited interim Consolidated Financial Statements of Heron Resources Limited for the 3 month period ended 30 September 2016 have been prepared by management and have been approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these interim Consolidated Financial Statements for the 3 month period ended 30 September 2016.

For further commentary on the operations of Heron during the quarter ended 30 September 2016, please refer to the Quarterly Activities report lodged on the ASX and TSX and posted on the Heron website.

Heron Resources Limited

S Dennis
Chairman

F Robertson
Chair- Audit Committee

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**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME**

For the three months ending 30 September 2016

All amounts shown are expressed in Australian dollars		Three months ended 30 September	
	Note	2016 \$ 000's	2015 \$ 000's
Continuing operations			
Revenue from Continuing Activities	2	173	183
Accountancy & audit		(42)	(5)
Consultants		(16)	-
Depreciation expense		(14)	(14)
Directors Fees		(75)	(68)
Wages, salaries and employee benefits		(236)	(196)
Insurance expense		(23)	(17)
Legal		(33)	(91)
Rent & utilities		(82)	(83)
Stock exchange fees (ASX/TSX)		(7)	(42)
Investor Research & Relations		(66)	(33)
Computer Support & Services		(68)	(22)
Expenses from ordinary activities		(88)	(83)
Investment gain	5	87	814
Exploration expenditure expensed as incurred	4	(360)	(487)
Loss from ordinary activities before income tax expense		(851)	(170)
Income tax expense		-	-
Loss from ordinary activities after income tax expense for the period		(851)	(170)
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to members		(851)	(170)
Loss per share attributable to the ordinary equity of the company			
Basic loss per share (in cents)		(0.0020)	(0.0004)
Diluted loss per share (in cents)		(0.0020)	(0.0004)

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UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

All amounts shown are expressed in Australian dollars		Note	30 Sept 2016 \$'000	30 June 2016 \$'000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents			19,811	22,891
Receivables	3		814	522
TOTAL CURRENT ASSETS			20,625	23,413
NON-CURRENT ASSETS				
Receivables			35	35
Investments	5		1,747	1,907
Property, plant and equipment			421	436
Exploration and evaluation expenditure	4		32,897	31,068
TOTAL NON-CURRENT ASSETS			35,100	33,446
TOTAL ASSETS			55,725	56,859
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables			608	893
Provisions – employee entitlements			882	882
TOTAL CURRENT LIABILITIES			1,490	1,775
TOTAL LIABILITIES			1,490	1,775
NET ASSETS			54,235	55,084
EQUITY				
Contributed equity - ordinary shares	5		138,409	138,409
Option reserve			935	935
Accumulated losses			(85,110)	(84,260)
TOTAL EQUITY			54,235	55,084

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UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 30 September 2016

All amounts shown are expressed in Australian dollars		CONTRIBUTED EQUITY	OPTION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
	Note	\$	\$	\$	\$
Balance at 1 July 2016		138,409	935	84,260)	55,084
Total Comprehensive loss for the quarter		-	-	(851)	(851)
Balance at 30 September 2016	5	138,409	935	(85,110)	54,235

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



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UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS for the three months ended 30 September 2016

All amounts shown are expressed in Australian dollars		Three months ended 30 September	
	Notes	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		73	158
Payments to suppliers		(497)	(858)
Net cash used in operating activities		(424)	(700)
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration expenditure		(2,904)	(2,934)
Proceeds from sale of listed investments		248	63
Payments for fixed assets		-	(9)
Proceeds from disposal of fixed assets		-	12
Purchase of Investments		-	-
Net cash used in investing activities		(2,657)	(2,868)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	6,821
Payment of share issue cost		-	(91)
Net cash provided by financing activities		-	6,730
Net increase/(decrease) in cash & cash equivalents held		(3,080) ⁽¹⁾	3,162
Cash & cash equivalents at the beginning of the reporting period		22,891	24,015
Cash & cash equivalents at the end of the reporting period		19,811	27,177

(1) Rounding



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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) General

This general purpose financial report for the reporting period ended 30 September 2016 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Heron Resources Limited (ASX:HRR, TSX: HER) ("Heron" or the "Company") during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. The financial report was authorised for issue by the Directors on October 26, 2016. The accounting policies adopted in the preparation of this financial report are consistent with those of the previous financial year and corresponding reporting periods.

New revised or amending Accounting Standards and Interpretations adopted

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

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

The Company incurred a loss for the 3 months period after tax of \$851 (2015: \$170) and a net cash out flow from operating activities of \$424 (2015: out flow \$700). The interim financial statements for the three month period ended 30 September, 2016 have been prepared on the basis of a Going Concern, notwithstanding the fact that the Company incurred a loss for the 3 month period.

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

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2016

NOTE 2 REVENUE FROM ORDINARY ACTIVITIES

	Quarter ended 30 September 2016 \$'000	Quarter ended 30 September 2015 \$'000
Interest received - other persons/corporations	173	183
Total revenues from continuing activities	173	183

NOTE 3 RECEIVABLES

	Quarter ended 30 September 2016 \$'000	Quarter ended 30 September 2015 \$'000
Loan to Ardea Resources Ltd ⁽¹⁾	360	-
GST Receivable	454	522
Total Receivables	814	522

(1) The loan to Ardea Resources Ltd is for IPO preparation costs such as independent geologist reports and legal and taxation advice and will be repaid via the issue of 10M options in Ardea to Heron upon the successful completion of Ardea's Initial Public Offering (IPO). The IPO is expected to complete in late November or early December 2016.

NOTE 4 EXPLORATION EXPENDITURE

	Quarter ended 30 September 2016 \$'000	Quarter ended 30 September 2015 \$'000
Balance at beginning of period	31,068	27,119
Exploration costs incurred during the period	2,188	2,761
Exploration costs expensed as incurred	(360)	(487)
Balance at end of period	32,897 ⁽¹⁾	29,393

	Woodlawn \$'000	Lewis Ponds ² \$'000	KNP ² \$'000	Exploration \$'000	Total \$'000
Balance brought forward	22,767	4,903	3,397	-	31,068
Exploration expenditure	1,828	129	153	78	2,188
Exploration expensed as incurred	-	(129)	(153)	(78)	(360)
Balance carried forward	24,596	4,903	3,397	-	32,897 ⁽¹⁾

(1) - ROUNDING

(2) - BOTH LEWIS PONDS AND KNP WILL BE TRANSFERRED TO ARDEA RESOURCES

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2016

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

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

NOTE 5 INVESTMENTS IN ENTITIES - NON CURRENT

A1 Consolidated Gold Limited (AYC) is an Australian listed public exploration company with 446,356,265 fully paid ordinary shares on issue. Heron holds 23,161,012 fully paid shares at 30 September 2016 (representing 3.3% of total issued capital), which have been valued at the closing price on that day of \$0.03. Heron also holds 10,955,556 options exercisable for \$0.006 expiring 30 November 2019 which have been valued the market closing price of \$0.006 per option as at 30 September 2016.

During the quarter the Company sold 5,881,666 shares on market for proceeds of \$248k. During October 2016, the Company sold 10,955,556 options for proceeds of \$132k.

Metalicity Limited (MCT) is an Australian listed public exploration company with 430,669,654 fully paid ordinary shares on issue. Heron holds 14,375,000 fully paid shares at 30 September 2016 (representing 3.2% of total issued capital), which have been valued at the closing price of \$0.05 on the 30th September 2016.

Newamu Pty Ltd is an Australian private company that holds the Intellectual Property for the Stimulus technology that is being used in the Heron KNP project. Heron invested \$178,000 into Newamu Pty Ltd. The investment is carried at cost and will be transferred to Ardea Resources.

Alchemy Resources Ltd (ALY) is an Australian listed public exploration company with 230,788,035 shares on issue. During the 15/16 year, the Company entered into a Farm-in agreement with Alchemy Resources Ltd over its Overflow, Eurow and Girilambone projects. In consideration, Heron received 2,000,000 shares (representing 0.9% of total issued capital) in Alchemy which are escrowed for 1 year and 2,500,000 options with a 3 year term and an exercise price of \$0.10 (nil value ascribed). The Alchemy shares that the Company owns has been initially recognised at the price of \$0.013 on the date of issued (30 May 2016) and then re-valued at closing price of \$0.025 as at 30 September 2016.

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NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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	Quarter ended 30 September 2016 \$'000	Year ended 30 June 2016 \$'000
Investments in other entities at fair value		
A1 Consolidated Gold:		
Opening carrying value	673	1,122
Investment – Shares	-	-
Gain/(impairment) – mark to market	375	(304)
Sold on market - Shares	(248)	(47)
Carrying value	800	673
Metalicity Limited		
Opening carrying value	1,006	75
Proceeds from issue of shares for Rocky Gully	-	288
Sold – Shares	-	(38)
Gain/(impairment) – mark to market	(288)	681
Carrying value	719	1,006
Newamu		
Opening carrying value	178	178
Investment	-	-
Revaluation	-	-
Carrying value	178	178
Alchemy Resources Ltd		
Opening Carrying value	50	-
Proceeds from issue of shares for Overflow Farm In	-	26
Gain/(Impairment) – mark to market	-	24
Carrying Value	50	50
Summary:		
Opening carrying value	1,907	2,328
Proceeds from sale of tenements/Farm-ins	-	314
Sold on market - Shares	(248)	(1,656)
Net gain/(impairment) – mark to market	87	921
Total carrying value	1,747	1,907

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2016

NOTE 6: CONTRIBUTED EQUITY – ORDINARY SHARES

	Quarter ended 30 Sept 2016 \$'000	Year ended 30 June 2016 \$'000	Quarter ended 30 Sept 2016 Number	Year ended 30 June 2016 Number
<i>Reconciliation of issued capital</i>				
<i>a) Ordinary shares</i>				
Opening balance	138,409	138,409	415,009,381	415,009,381
Shares issued during quarter	-	-	-	-
Closing balance	138,409	138,409	415,009,381	415,009,381

b) Unquoted options:

Date	Details	Exercise price	Expiry date	Number
1 July 2016	Opening balance	-	Various	28,934,621
	Options cancelled	Various	Various	(5,400,000)
	Options issues	\$0.154	1/9/2021	400,000
30 September 2016	Closing balance	-	-	23,934,621

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the three months ended 30 September 2016

NOTE 7: CONTINGENT LIABILITIES

a) Performance bonds and rental bond commitment

The Company has entered into performance bonds with the National Australia Bank Limited in relation to environmental rehabilitation of NSW tenements (30 September 2016: \$153,000) and a rental bond commitment (\$17,187) over its office in Sydney.

The performance bonds and rental bond commitment are secured by a way of mortgage against the Company's Lewis Ponds freehold land. The Company also has performance bonds with Westpac Banking Corporation in relation to environmental rehabilitation of the WA tenements (30 September 2016: \$94,000) and a rental bond commitment (\$15,623) over its Perth office. The Westpac bonds are secured by term deposits.

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, under which the Company agreed:

- I. To assume the environmental liabilities associated with the Woodlawn site, excluding Veolia's area of operation. The Company will be required to provide a performance bond with the NSW Division of Resources and Energy (DRE) as surety against completion of environmental rehabilitation once mining on the site is complete. The amount of the bond is \$3,577,000.
- 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.

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.

Rehabilitation of the Jump Up Dam tenements would cost up to \$400,000 if the Company were to surrender the tenements.

Exploration expenditure requirements to maintain all the exploration licences in good standing total \$2,442,000 per annum however this amount will decrease to \$655,000 following the successful spin-out of Ardea.

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

NOTE 8: EVENTS SUBSEQUENT TO 30 SEPTEMBER, 2016

The Record date for shareholders to receive shares in Ardea Resources (**Ardea**) was established on 6 October 2016. Shareholders of Heron on this date are eligible to receive shares in Ardea as part of the in-specie distribution of shares and subsequent IPO of Ardea.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - b. give a true and fair view of the consolidated entity's financial position as at 30 September 2016 and of the performance for the three month period ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

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



S Dennis
Chairman



F Robertson
Chair- Audit Committee

Sydney
26 October 2016