



MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three month period ended 30 September 2017

INTRODUCTION

The following is management's discussion and analysis of the financial condition and the results of operations of Heron Resources Limited, ("Heron" or the "Company") for the three month period ended 30 September 2017, and its financial position as at 30 September, 2017 which should be read in conjunction with the Company's audited financial statements as at 30 June 2017, including the accompanying notes thereto.

The Company's audited Financial Statements and Notes to the Financial Statements have been prepared in accordance with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Additional information relating to the Company, including press releases, has been filed electronically with the Australian Securities Exchange ("ASX") and through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online at www.sedar.com.

The date of this management discussion and analysis is 27 October, 2017. Unless otherwise indicated all amounts discussed herein are denominated in Australian dollars. The relevant exchange rates applicable to the three period ended 30 September, 2017 are as follows.

**Three months
ended 30
September, 2017**

AUD/CDN \$ Closing Rate.....	.979
Average Rate978

The Company's common shares trade on the Australian Stock Exchange (the "ASX") under the trading symbol "HRR", and on the Toronto Stock Exchange (the "TSX") under the trading symbol "HER".

Cautionary Note Regarding Forward-Looking Information

Certain information included in this management's discussion and analysis may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "believe", "plan", "scheduled", "intend", "estimate", "forecast", "predict", "potential", "continue", "anticipate" or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated

events or results, and may include statements or information regarding the future plans or prospects of the Company. Without limitation, statements about the Company's planned activities related to exploration or development activities carried out in Australia, constitute forward-looking information. Actual results may vary. See "Risk Factors and Uncertainties".

Forward-looking information is based on certain factors and assumptions regarding, among other things, the estimation of mineral reserves and resources, the realization of mineral reserve and resource estimates, metal prices, the timing and amount of future exploration expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing and materials, including financing to conduct any future drilling program and the other activities necessary to continue to explore and develop the Company's properties in the short and long term, the receipt of necessary regulatory approvals, and assumptions with respect to environmental risks, title disputes or claims, weather conditions, climate change and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Without limitation, in estimating expenditures the Company has assumed, among other things, that metal prices will not change materially from the prices used in its current financial forecasts or those of its affiliate, that it will obtain in a timely fashion all of the financing, regulatory approvals and other authorizations required to enable the continued exploration and development of its properties, and that such activities will proceed in the ordinary course without undue disruption. See "Risk Factors and Uncertainties".

Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what management currently expects. These factors include risks inherent in the exploration and development of mineral deposits, risks relating to changes in metal prices and the worldwide demand for and supply of metal, uncertainties inherent in the estimation of mineral reserves and resources, risks relating to the remoteness of the Company's properties including access and supply risks, reliance on key personnel, construction and operational risks inherent in the conduct of mining activities, including the risk of increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the construction and development process, the risk of fluctuations in the Canadian/Australian and U.S./Australian dollar exchange rates, regulatory risks, including risks relating to the acquisition of the necessary licences and permits, financing, capitalization and liquidity risks, including the risk that the financing necessary to fund the exploration and development activities of the Company may not be available on satisfactory terms, or at all, environmental risks, including risks relating to climate change and the potential impact of global warming on project timelines and on construction and operating costs, and insurance risks. See "Risk Factors and Uncertainties".

You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Company may elect to, the Company is under no obligation and does not undertake to update this information at any particular time, except as required by law.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has completed an evaluation of the design effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that as at 30 September 2017, the Company's design for internal control over financial reporting was effective. Management has also evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of 30 September 2017. Based on this evaluation, management has concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports filed or submitted by the Company under Australian and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three month period ended 30 September 2017 that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

OVERVIEW

HERON RESOURCES LIMITED ("Heron" or "the Company") is engaged in the exploration and development of base and precious metal deposits in Australia. The Company is focused on the construction and development of the high grade Woodlawn Project located 250km southwest of Sydney in New South Wales.

Selected Annual Financial Information

Set forth below is certain selected financial information expressed in Australian dollars in respect of the six most recently completed financial years of the Company. This audited data is derived from the Company's full year financial statements which are prepared in accordance with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All numbers below are in '000s except for the number of shares outstanding and Net Loss per share information.

Financial Year Ended:	Working Capital ⁽¹⁾	Total Assets ⁽²⁾	Shareholders' Equity	Common shares outstanding	Net Gain (Loss)	Net Gain (Loss) per Common Share (in dollars)
June 30, 2017	11,690	47,172	44,010	415,009,381	(2,857)	(0.006)
June 30, 2016	22,891	56,859	55,084	415,009,381	(4,252)	(0.010)
June 30, 2015	24,015	54,352	52,151	360,877,723	(5,674)	(0.016)
June 30, 2014	32,915	42,603	41,762	252,985,787	(6,389)	(0.025)
June 30, 2013	39,597	48,506	47,702	252,985,787	(10,483)	(0.039)
June 30, 2012	43,171	57,910	56,863	252,985,787	(5,356)	(0.022)

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

⁽²⁾ See Critical Accounting Policies and Estimates.

Quarterly Financial Information

Set forth below is certain selected financial information expressed in Australian dollars in respect of the most recently completed quarter and previous seven quarters of the Company. This unaudited data is derived from the Company's interim financial statements which are prepared in accordance with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as

issued by the International Accounting Standards Board. All numbers below are in '000s except for the number of shares outstanding and Net Loss per share information

Quarter Ended:	Working Capital ⁽¹⁾	Total Assets ⁽²⁾	Shareholders' Equity	Common shares outstanding	Net Gain (Loss)	Net Gain (Loss) per Common Share (in dollars)
September 30,2017	128,612	178,794	175,417	2,416,661,640	(4,281)	(0.0017)
June 30, 2017	11,690	47,172	44,010	415,009,381	(2,614)	(0.0063)
March 30, 2017	16,339	48,031	46,425	415,009,381	2,156	0.0052
December 31,2016	16,552	54,788	53,042	415,009,381	(1,548)	(0.0037)
September 30, 2016	19,811	55,725	54,235	415,009,381	(851)	(0.0021)
June 30, 2016	22,891	56,859	55,084	415,009,381	(3,601)	(0.0086)
March 31, 2016	25,175	59,725	58,393	415,009,381	(37)	(0.0001)
December 31, 2015	23,634	59,385	57,882	415,009,381	(444)	(0.0011)

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

⁽²⁾ See Critical Accounting Policies and Estimates.

RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED 30 September 2017 (all financial numbers in '000s)

The Company is principally involved in the development of the Woodlawn mine and the exploration and evaluation of other mineral properties. It had no revenues from operations in the quarter to 30 September, 2017. Exploration expenditures on mineral properties are expensed as incurred in the Income Statement, unless there is a reasonable probability that the mineral property may become a productive mine, in which case the expenditure is capitalised onto the Balance Sheet. During the three month period the Company incurred \$987 in exploration expenditure of which \$435 was capitalised onto the Balance Sheet. All of the capitalised expenditure was incurred on the Woodlawn property.

Corporate and administrative expenses are charged to the Income Statement as incurred. Interest income consists only of interest on short-term invested funds. The Company reported a loss from operations in the three month period ended 30 September, 2017. Retained earnings are in a deficit position. The Company has not paid any dividends since inception.

The Company recorded a loss for the three month period ended 30 September 2017 of \$4,281 (\$0.0017 per share) compared to a net loss of \$851 (\$0.0022 per share) for the corresponding three month period ended 30 September 2016, primarily due to the foreign exchange loss (realised and unrealised) incurred in the 2017 period. The Foreign Exchange loss incurred by the Company during the quarter arose as a result of the US dollar denominated equity funds received from the major private equity investors (Greenstone, Orion and Castllake) being converted to Australian dollars at the Spot rate upon receipt in accordance with the Company's policy on risk exposure to foreign currency.

The Company's incurred general and administration expenses of \$1,069 in the three months to 30 September 2017 compared with the \$578 in the three months to 30 September 2016. The increase in the current period is due to higher remuneration costs as the Company expanded its team ready for development, ASX/TSX fees and office expenses incurred in the period.

The Company recorded an unrealised gain on its listed investments \$2,528 in the three months to 30 September 2017 (\$87 gain in the corresponding three months to 30 September 2016). This was primarily due to the increase in value of the company's investment in Ardea Resources Ltd.

WOODLAWN MINE – ASSET UNDER CONSTRUCTION

During the quarter, the Company began construction activities at the Woodlawn Mine. During the quarter, the Company incurred \$8,468 in construction costs which have been capitalised on the Balance Sheet. The company expects to incur further costs for the construction of the Woodlawn Mine throughout 2018.

EXPLORATION EXPENDITURES (all financial numbers in '000s)

Expenditures on exploration and evaluation in the three month period ended 30 September 2017 of \$987 (of which \$435 was capitalised) were lower when compared to expenditures in the three month period ended 30 September 2016 of \$2,188. This was due to the Woodlawn drilling program which was part of the Woodlawn Definitive Feasibility Study (“DFS”) incurred during the 2016 quarter.

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

Below is a summary table of the exploration expenditures by tenement group for the three months ended 30 September 2017. (all numbers in '000s)

	Woodlawn (SML20)	Woodlawn Regional	TOTAL
Drilling	\$412	\$396	\$808
Other exploration	\$ 23	\$156	\$179
TOTAL	\$435	\$552	\$987

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

CAPITAL STOCK AND DEFICIT (all financial numbers in '000s)

The authorized capital of the Company consists of an unlimited number of common shares without par value.

At 30 September 2017 the Company had 2,416,661,640 issued and outstanding common shares, (30 June 2017: 415,009,381). The increase is due to the \$140M equity raising to fund the construction of the Woodlawn Mine, which was completed in the September quarter.

As at 30 September 2017 there were 24,829,828 stock options outstanding (30 June 2017: 24,829,828), bringing the fully diluted share position of the Company to 2,441,491,468.

The Company's accumulated deficit at 30 September 2017 is \$91,398 compared to \$87,117 at 30 June 2017. See “Results of Operations”.

FINANCIAL CONDITION (all financial numbers in '000s)

The Company's total assets at 30 September 2017 increased to \$176,694 from \$47,172 at 30 June, 2017. This increase is due to the \$140M equity raising completed in the quarter.

Assets at 30 September 2017 include cash and cash equivalents of \$128,612 (30 June 2017: \$11,690). Cash not on account at a bank has been invested in bank guaranteed, term deposits. Cash is held predominately in Australian dollars (A\$119,509) with some US Dollar (US\$7,109) holdings to cover Woodlawn US dollar denominated costs.

Cash of \$987 was spent on exploration and evaluation during the three month period ended 30 September 2017 compared to \$2,188 during the corresponding period ended 30 September 2016. This was due to the Woodlawn drilling program which was part of the Woodlawn Definitive Feasibility Study (“DFS”) during the 2016 quarter.

The Company had current liabilities including trade payables and employee provisions of \$3,240 at 30 September 2017 (\$3,162 at 30 June 2017). The Company has no off balance sheet financing arrangements or material contingent liabilities or contractual obligations other than that disclosed in the financial statements for the year ended 30 June 2017.

CAPITAL RESOURCES AND LIQUIDITY

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

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

TRENDS (all numbers in '000s)

Due to the nature of its projects, the Company has a history of incurring operating losses. These losses will continue until Woodlawn becomes a profitable project.

The net loss in the three month period ended 30 September, 2017 of \$4,281 was more than the loss incurred in the three month period ended 30 September 2016 of \$851, primarily due to the foreign exchange loss (realised and unrealised) incurred in the period.

The Company's current staff headcount is 22 compared to 21 at the beginning of the financial year.

CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of properties for minerals.

The Woodlawn property is in the construction stage. The \$240M funding package for the Woodlawn Mine is expected to provide the Company with sufficient capital to complete construction of the mine and provide sufficient working capital until the Woodlawn Mine becomes cash flow positive.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that given the relative size of the Company this approach is reasonable.

COMMITMENTS (all numbers in '000's)

The Company is required to undertake expenditures of \$528 per year to keep exploration properties in good standing in the normal course of business. These obligations are subject to renegotiation when application for a mining lease is made and at other times.

The Company is contracted to non-cancellable operating leases in relation to its office premises at Level 1, 7 Havelock St, West Perth and at Suite 702, 191 Clarence Street, Sydney. The lease in Perth is currently on a six month term lease and the lease in Sydney expires in September 2019. A performance bond of \$15,623 and \$17,187 for the Perth and Sydney offices respectively has been lodged as surety against performance of the leases

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

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

New Accounting Policies and Accounting Standards and Interpretations issued, but some not yet applicable at 30 September, 2017.

New, revised or amending Accounting Standards and Interpretations adopted

Heron Resources has adopted the following new and amended accounting standards from 1 July 2017:

AASB 2015-2 Disclosure Initiative Amendment to AASB 101 - This Standard amends AASB 101 Presentation of Financial Statements to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements

AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify the principle in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset.

Adoption of these standards did not have any material effect on the Statement of Financial Performance, Statement of Comprehensive Income and Statement of Financial Position of the Group.

Accounting standards issued but not yet effective

Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the year ended 30 June 2017. At this time the following standards and interpretations may have an impact, but the extent of this is not expected to be material:

AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses - The amendments to AASB 12 Income Taxes clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Effective for annual periods beginning on or after 1 January 2017. (Company 1 July 2017).

AASB 2016-2 Disclosure Initiative - The amendments to AASB 107 Statement of Cash Flows require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

AASB 9 Financial Instruments - A new Principal standard which replaces AASB 139. This new Principal version includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. Effective for annual periods beginning on or after 1 January 2018. (Company 1 July 2018).

AASB 15 Revenue from Contracts with Customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Effective for annual periods beginning on or after 1 January 2018. (Company 1 July 2018).

AASB 16 Leases. AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases. Effective for annual periods beginning on or after 1 January 2019. (Company 1 July 2019).

At this time the following interpretation may have an impact, but the extent of this has not been determined:

IFRIC 23 Uncertainty over Income Tax Treatments. The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments. Effective for annual periods beginning on or after 1 January 2019. (Company 1 July 2019). New Accounting Policies and Accounting Standards and Interpretations issued, but some not yet applicable at 30 June, 2015.

Future Accounting Changes

Other than those noted above, the Company is unaware at this time of any future changes to accounting standards that are contemplated by the Australian Accounting Standards Board and are relevant to the Company and which might impact future accounting reporting periods.

Summary of Significant Accounting Policies

The following is a summary of significant accounting policies used by the Company in the preparation of its financial statements. For a complete description of the significant accounting policies used by the Company in the preparation of its financial statements, please review the notes to the 30 June 2017 audited financial statements included in the Company's Annual Report. This Management Discussion and Analysis should also be read in conjunction with the Company's quarterly financial statements and the notes thereto.

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

The interim financial statements for the three month period ended 30 September 2017 have been prepared on the basis of a Going Concern, notwithstanding the fact that the Company incurred a loss for the 3 month period. The Company incurred a loss for the 3 month period after tax of \$4,281 (2017: \$851) and a net cash out flow from operating and investing activities for the year of \$14,507 (2017: out flow \$3,080).

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

Remuneration of Directors and Key Management Personnel Including Share Based Payments

The cost to the Company of share options granted to Directors and Key Management Personnel is included at fair value as part of the Directors' and Key Management Personnel's aggregate remuneration in the financial year the options are granted.

The fair value of the share option is calculated using the Black Scholes option pricing model, which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The cost of these options is expensed in the Income Statement on a pro rata basis to the vesting dates. Unvested options are cancelled upon termination of service with the Company.

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

Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity. Deferred income tax assets are recognized to the extent that there is convincing evidence that it is probable that future tax profits will be available against which deductible temporary differences can be utilized.

The amount of benefits brought to account or which may be realized in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realized and comply with the conditions of deductibility imposed by the law.

Earnings per share

Basic earnings per share are determined by dividing the operating loss after income tax by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share adjusts the figures used in determining earnings per share by taking into account non anti-dilutive options outstanding during the quarter. The diluted earnings per share are capped at the basic earnings per share in circumstances of losses and anti-dilutive options.

Exploration expenditure and mineral leases

Exploration expenditures on mineral properties are expensed as incurred in the Income Statement, unless there is a reasonable probability that the mineral property may become a productive mine, in which case the expenditure is capitalised onto the Balance Sheet. These capitalised costs are only carried forward if the rights to the area of interest are current and to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off in full against the results in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental expenditure

Restoration, rehabilitation and environmental expenditure to be incurred during the production phase of operations is accrued when the need for such expenditure is established, and then written off as part of the costs of production of the mine property concerned. Significant restoration, rehabilitation and environmental expenditures to be incurred subsequent to the cessation of production at each mine property are accrued, in proportion to production, when its extent can be reasonably estimated.

Business undertakings – joint ventures

The Company has certain exploration activities conducted through joint ventures with other parties. Where relevant, the Company's interest in these joint ventures is shown in the notes to the financial statements under the appropriate heading.

RISK FACTORS AFFECTING FINANCIAL INSTRUMENTS

The Company's major mineral property is the Woodlawn mine in NSW (the "Property"). Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon its existing Property. If no additional major mineral properties are acquired by the Company, any adverse development affecting the Company's Property would have a material adverse effect on the Company's financial condition and results of operations.

Other risk factors and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand with reputable financial institutions. Financial instruments included in accounts receivable consist of GST receivable from government authorities in Australia and deposits held with vendors. Management believes that credit risk with respect to financial instruments included in cash and accounts receivable is low.

Liquidity risk (all financial numbers in '000s)

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 30 September 2017, the Company had cash of \$128,612 (30 June 2017: \$11,690) to settle current liabilities of \$3,240 (30 June 2017: \$3,025).

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

Apart from provision for employee entitlements (e.g. Annual Leave), most of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices. The Company continues to monitor the long term assets and assesses the value of the asset on a regular basis.

Interest rate risk

The Company has cash balances. The Company's current policy is to invest excess cash in term deposits with banks.

Foreign currency risk

The Company's functional reporting currency is the Australian dollar and major purchases are transacted in Australian dollars and to a lesser extent, US dollars.

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

Management are currently implementing a Board approved hedging policy to minimise adverse fluctuations of movements between the Australian and US dollars.

Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to valuable minerals to determine the appropriate course of action to be taken by the Company. The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of nickel, zinc, lead and copper and certain other metals.

Fair value

AIFRS accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying values for short-term investment, sundry receivables and prepaid expenses, subscription receivable, and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

The Company has designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the next year:

- (i) Interest rate risk is immaterial.
- (ii) The Company holds all of its cash in low risk, secure Australian dollar and US dollar term deposits at Australian banks. Movements in the Australian and US Dollars may have a detrimental impact on the Company and as a result the Company is implementing appropriate foreign currency hedges.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them.

As of 30 September 2017, the Company is not a producer of valuable minerals, however it has signed an Offtake agreement covering Zinc, Copper and Lead production at Woodlawn.

RISK FACTORS AND UNCERTAINTIES

The Company is in the business of developing the Woodlawn Mine and is exposed to a number of risks and uncertainties that are common to other development companies in the same business. The industry is capital intensive at all stages and must rely on equity financing to fund exploration and development activities.

The ability of the Company to realize and profit from a mine development is dependent upon its ability to define and delineate an ore body, to finance development costs, adhere to government and environmental regulations, and/or be able to realize the costs incurred on disposition of a property.

The future prospects of the Company are subject to a variety of risks that may cause actual results to differ materially from projected outcomes. Factors that could cause such differences include: world commodities markets, foreign exchange markets, equity markets, access to sufficient working capital, the ability to attract mining partners, the loss of or inability to hire key personnel, as well as government and environmental restrictions. Most of these factors are beyond the control of the Company which consequently cannot guarantee future results, levels of activity or ensure that a mineral discovery can be developed into a profitable mining

operation. In addition, prices for the commodities contained in the Company's mineral resources at its exploration properties have fluctuated significantly over the last few years and may continue to do so. Such volatility may affect the timing and magnitude of funds which the Company may seek to raise to support further exploration and development.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found at www.heronresources.com.au or on the SEDAR website at www.sedar.com, or on the website of the ASX, www.asx.com.au.

APPROVAL

The Board of Directors of Heron Resources Limited has approved the disclosure contained in this Management Discussion and Analysis dated 27 October, 2017.

CORPORATE DIRECTORY

Directors

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

Company Secretary

Simon Smith

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The company is listed on both the Australian Stock Exchange (ASX) under the symbol HRR and the Toronto Stock Exchange (TSX) under the symbol HER

Auditors

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