



**HERON RESOURCES LIMITED**  
**ACN 068 263 098**

FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2008

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CONTENTS	PAGE No.
Directors' Report	3
Auditor's Independence Declaration	8
Consolidated Income Statement	9
Consolidated Balance Sheet	10
Consolidated Statement of Changes in Equity	11
Consolidated Cash Flow Statement	12
Notes to the Consolidated Financial Statements	13
Directors' Declaration	18
Independent Review Report	19
Top 20 Shareholders and Optionholders	21

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 2008 and any public pronouncements made by Heron Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.



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## HERON RESOURCES LIMITED December 2008 Half Yearly Report

### 1 Directors Report

#### 1.1 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 2008.

#### 1.2 Board

The names of the Directors of the Company during the period and at 31 December 2008 were:

Craig Leslie Readhead

Ian James Buchhorn

Norman Mathew Longworth

Stephen Bruce Dennis

Kenneth John Hellsten

There were seven meetings of directors held during the period with all directors attending each of the meetings.

#### 1.3 Corporate

The loss of the consolidated entity for the period ending 31 December 2008 after income tax of nil (2007: nil) was \$6,859,382 (2007: \$5,179,247).

The last quarter of 2008 saw an unprecedented collapse in the commodity markets around the globe with the rout extending from base metals through to the bulk materials of Coal and Iron Ore as the economic collapse struck China.

The nickel price fell from highs of over \$9 to lows of below \$4 during the half year under review. Analysts in December estimated approximately 300,000 tonnes of nickel production was removed from the market during the first half of FY 2009. After the end of the half year BHP Billiton announced the suspension of operations at Ravensthorpe and Norilsk Nickel announced the closure of their last two nickel sulphide mines in Australia. The current market conditions have adversely impacted all types of nickel processing with high cost Nickel Pig Iron removed from the market first and the subsequent closure of high cost nickel sulphide and laterite production.

Heron's projects have always been targeting at least the next nickel price cycle. The company is firmly of the

view that nickel from laterite sources will provide an increasing role in the supply of nickel for the future. Over the last nickel price cycle we have seen the costs of sulphide production increase significantly. High grading of sulphide deposits to meet the current market conditions puts the long term future of many sulphide mines in doubt. The company also believes the technical risks associated with the first generation of nickel laterite plants have been mitigated and that sulphide and laterite production stand on level ground in respect to cash costs.

The company views this period as one of opportunity and consolidation.

Opportunities should have a long potential life, exploration upside and be located in a jurisdiction with low sovereign and environmental risk.

#### Strategic Objectives

1. The Nickel Laterite projects are large long term projects which will be advanced in partnership to deliver returns to Heron shareholders, building from the expertise developed by Heron.
2. Looking at near term production opportunities in fields where Heron has comparative advantage.
3. Rationalising and reviewing Heron's exploration portfolio, backed up by testing the best nickel targets.

#### 2. KEY NICKEL PROJECTS

##### 2.1.1 Kalgoorlie Nickel Project (KNP) (Heron 100%, Vale Inco Earning 60%)

Heron announced summary details of the Kalgoorlie Nickel Project (KNP) PFS. Vale Inco, a wholly owned subsidiary of Companhia Vale do Rio Doce (Vale), delivered the report on 30 January 2009. Vale's study indicates a project producing up to 36,000 tonnes of mixed nickel cobalt hydroxide product via the high pressure acid leach (HPAL) process, with a capital cost of US\$1.5 billion and an operating cost of US\$4.42 per pound of production based on a 0.75 USD:AUD exchange rate. Vale's study is based on a project treating 2.5Mt of beneficiated leach feed ore per annum through a two autoclave leaching circuit over a project life of 34 years.

The PFS document does not include project financial analysis which will be undertaken by Vale and Heron independently. Vale will assess the findings of the PFS during the six month review period prior to it having to make a decision whether to commence the BFS, in July 2009.

The report identifies the following areas for review:

- Further optimisation of the mining schedule incorporating mining multiple pits concurrently;
- Smoothing the Ni production profile in order to reduce project capital cost and maximise capital utilisation;
- Consideration of a third autoclave train as a staged expansion to maintain nickel output in the projects later life, and
- Selection of the most favourable intermediate product; MHP or MSP.

In addition, Heron believes that considerable scope exists for further enhancement of the project through the inclusion of resources not considered by the current study, as well as optimisation of ore beneficiation and ore transport options. The additional resources may allow increased project capacity (to approximately 50,000 tpa Ni in intermediate product) with associated improved project economics. During the next six months, Heron will complete a detailed review of the PFS and will undertake project financial analysis, using its in house project team which has recently completed the Jump-up Dam and Yerilla nickel laterite studies.

#### **A summary of Vale's PFS details follow:**

The Pre-feasibility Study is a culmination of some 170,000 hours of work and to date has consumed AU\$34.5M in approved funding, and represents the end product of Step 3 of the Kalgoorlie Nickel Project Laterite Farm-in and Joint Venture Agreement. Heron wishes to acknowledge the efforts of the Vale Team in completing this program.

The report states that Heron Resources owns one of the most prospective nickel laterite tenement packages in the world, containing a potential resource of 7Mt of nickel metal. The project has some strategic aspects that made it attractive to Vale Inco: (1) good local infrastructure; (2) low sovereign risk; (3) access to a skilled labour pool; (4) low environmental risk for tailings disposal; (5) supportive government, environment agencies and community.

More than 90,000 m of RC and 5,000 m of sonic was drilled from 2005 to 2008 to test the assumptions presented by Heron in 2004. The priority targets within the KNP tenements during the PFS were Highway,

Goon Hill, Goon South and Siberia North with additional work completed on a number of other prospects.

Mineral resources were defined for the priority targets and have been classified in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC, 2004) and are shown on the following page in Table 1, with the details of each deposit set out in Table 2. The classification of Mineral Resources for all deposits was based principally on data density and geological confidence criteria generated by Vale.

As part of the PFS, a number of sulphuric acid leaching process routes were studied to obtain the optimal flow sheet including; heap leaching, atmospheric leaching, HPAL and sulphation atmospheric leaching.

The flow sheet recommended for Highway, Goon Hill and Siberia North ore utilises a beneficiation circuit to upgrade the nickel for autoclave feed. The Goon South ore does not beneficiate as well as the other prospects however the separated minus 6.35mm fraction can be ground and fed directly to the leaching circuit. The selected leaching process is High Pressure Acid Leaching (HPAL) with neutralisation, solid-liquid separation through counter-current decantation (CCD), secondary neutralisation, and metal precipitation to produce mixed hydroxide precipitate (MHP) or mixed sulphide precipitate (MSP).

Unit operations downstream of secondary neutralisation (ie MHP and MSP circuits, product handling and tailings disposal) were designed using technical information from existing commercial plants. No test work was conducted for these unit operations, as sufficient knowledge exists to support the PFS level study. If the project moves to the bankable feasibility study, such test work should be conducted to define detailed design criteria for all downstream unit operations.

The mineable resources and beneficiated feed material at the different prospects are shown below:

Highway 22.8 Mt @ 0.87% Ni upgrades to 7.8 Mt @ 1.48% Ni;

Goon Hill 21.7 Mt @ 0.77% Ni upgrades to 9.5 Mt @ 1.14% Ni;

Siberia North 18.1 Mt @ 0.79% Ni upgrades to 10.5 Mt @ 0.99% Ni; and

Goon South 64.1 Mt @ 0.86% Ni upgrades to 53.6 Mt @ 0.92% Ni.

**Table 1 - Total Mineral Resources  
Highway, Goon Hill, Goon South and Siberia North within ore envelope at 0.5% Ni  
(dry tonnes)**

Total Resource (Highway/Goon Hill/Siberia North/Goon South)								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	292,184	0.68	0.05	22.82	0.96	18.68	3.42	2,404
Inferred	74,449	0.69	0.05	20.67	1.67	19.53	4.91	2,558
<b>Total</b>	<b>366,633</b>	<b>0.68</b>	<b>0.05</b>	<b>22.38</b>	<b>1.11</b>	<b>18.85</b>	<b>3.72</b>	<b>2,435</b>

**Notes:** Figures are for Dry tonnes, using Clay Upper and Clay Lower material only and a 0.5% Ni cutoff

**Table 2- Mineral Resources within Ore Envelope at 0.5% Ni (dry tonnes)**

Highway								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	51,296	0.63	0.04	27.93	0.66	10.22	5.77	1,616
Inferred	36,237	0.74	0.06	18.90	2.43	24.56	3.19	3,219
<b>Total</b>	<b>87,533</b>	<b>0.68</b>	<b>0.05</b>	<b>24.19</b>	<b>1.39</b>	<b>16.16</b>	<b>4.70</b>	<b>2,280</b>

Goon Hill								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	40,419	0.64	0.04	29.24	1.00	12.13	3.63	1,675
Inferred	24,347	0.65	0.03	21.82	0.86	12.02	8.99	1,667
<b>Total</b>	<b>64,766</b>	<b>0.64</b>	<b>0.04</b>	<b>26.45</b>	<b>0.94</b>	<b>12.09</b>	<b>5.64</b>	<b>1,672</b>

Siberia North								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	78,806	0.64	0.04	24.56	0.72	17.5	3.03	2,175
Inferred	4,001	0.63	0.04	24.99	0.77	19.04	2.37	2,499
<b>Total</b>	<b>82,807</b>	<b>0.64</b>	<b>0.04</b>	<b>24.59</b>	<b>0.72</b>	<b>17.58</b>	<b>2.99</b>	<b>2,191</b>

Goon South								
Category	Ktonnes	Ni%	Co%	Si%	Al%	Fe%	Mg%	Mn(ppm)
Measured								
Indicated	121,663	0.74	0.06	17.4	1.24	25.19	2.61	3,126
Inferred	9,864	0.58	0.04	22.58	1.24	19.76	2.2	2,353
<b>Total</b>	<b>131,527</b>	<b>0.73</b>	<b>0.06</b>	<b>17.79</b>	<b>1.24</b>	<b>24.78</b>	<b>2.58</b>	<b>3,068</b>

**Notes** Figures are for Dry tonnes, using Clay Upper and Clay Lower material only and a 0.5% Ni cutoff

The integrated mine plan has a 34 year mine life with mining commencing at Highway and progressing to Goon Hill, Siberia North and Goon South. HPAL feed grade falls below 1.2% Ni after eight years due to the poor beneficiation performance of the material from Siberia North and Goon South.

The KNP has some potential issues with supply of sufficient water and gas and an issue with the currently proposed Goongarrie Conservation Park which covers some of the resource areas all of which are to be addressed during future feasibility studies. Based upon the information collected during Step 3 and knowledge of other similar laterite projects, the optimal material throughput has been defined as 2.5 Mt of beneficiated material for autoclave feed (based on a two autoclave scenario). The maximum nickel production from the project is anticipated to be 36ktpa of metal in intermediate product in the fourth year, reducing to 21ktpa after year thirteen. Life of mine average nickel production will be 23ktpa.

An economic evaluation was not scoped as part of this report. For the base case, the CAPEX has been estimated as AUD 1,994 million for a plant to create MHP; versus AUD 2,192 million for a plant to create MSP. The average operational cost over the life of mine has been estimated to be \$US 4.42 per pound of Ni in MHP; versus \$US 4.59 per pound of Ni in MSP.

### **Path Forward**

Heron's project team is evaluating the PFS report and base data in detail. This study is to fully understand the work completed by Vale and to contribute to the design of the full feasibility study should Vale decide to undertake this by 30 July 2009. It should be noted should Vale elect not to undertake the feasibility study the agreement may be terminated and Vale retains no right in the project.

#### **2.1.2 Yerilla Project**

Heron announced positive results from the Scoping Study for its Yerilla Project located some 150 km north-east of Kalgoorlie in Western Australia. Heron has been able to deliver on its commitment to complete this Scoping Study on time and within budget because of the quality of the project assets and Heron's in-house project team.

Using Atmospheric Leaching Technology process, the study has identified an 18 year mine life with annual production of 21,000 tonnes of nickel in mixed sulphide intermediate product and a further 1,400 tonnes of cobalt sourced from 2.5 Mt of leach feed grading 1.06% Ni and 0.07% Co.

The study was based on a combined resource of some 135.3 Mt at 0.77% Ni and 0.05% Co with a cash operating cost estimate of US\$5.70 per pound of payable nickel net of credits.

Capital cost of the project is estimated at A\$1.2 billion payback is estimated to be 6.5 years.

Financial modelling for sensitivity analyses assumed a pre-tax 8% discount rate, US\$9.00/lb average nickel price and 0.75 A\$:US\$ exchange rate. The study uses a long term sulphur price, based on expert studies by British Sulphur Consultants a division of international market forecasting consultancy CRU.

The level of detail contained in the scoping study was similar to the requirements of a pre-feasibility study, with some of the test-work conducted at BHP Billiton's testing facilities. Heron is fortunate to have had the support of BHP Billiton in undertaking this study through the use of its Technology Centre and contributions from BHP Billiton's technical experts through our technology sharing agreement.

Further studies will be undertaken to investigate opportunities for further improvements in important aspects of the project, including resource beneficiation, leaching performance, and water quality.

The expanded 135.3 Mt resource base incorporating the Jump-up Dam, Boyce Creek and Aubils projects, has significantly improved the project's financial integrity in comparison to the stand – alone Jump-up Dam Heap Leach Project pre-feasibility study which Heron completed in January 2008. Heron has access to the atmospheric leach technology through the Technology Sharing and Product supply agreement executed with BHP Billiton in January 2008.

This expanded resource base and change to atmospheric leaching technology has allowed an increase in the production rate and the application of beneficiation to increase leach feed grade. It has also significantly reduced the production ramp-up period and the amount of nickel inventory in circuit. The atmospheric leach technology also eliminates the project risks associated with laterite heap leaching, while facilitating treatment of a larger range of ore types.

The Yerilla Project involves mining 3.2 Mt of ore per annum from shallow open pits located at Jump-up Dam, Boyce Creek and Aubils. A proportion of the ore is beneficiated through simple scrubbing, attritioning and size separation to produce 2.5 Mt per annum of upgraded leach feed material. The ore is classified into high and low iron streams which feed the primary and

secondary leach circuits respectively. Leaching takes place in conventional agitated leach tanks with sulphuric acid at normal atmospheric pressure. The sulphuric acid is produced on site in a sulphur burning acid plant, which also provides all the project's power requirements via steam turbine generators. The nickel intermediate product is recovered from the leach solution after neutralisation and precipitation.



**MATHEW LONGWORTH**  
**MANAGING DIRECTOR**

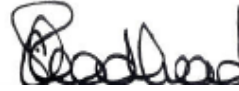
The information in this report that relates to Highway and Goon Hill Mineral Resources is based on information compiled by Dr Sia Khosrowshahi who is a Member of the Australian Institute of Mining and Metallurgy. Dr Sia Khosrowshahi is an employee of Golder Associates and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the resource estimation activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Sia Khosrowshahi consents to the inclusion in this report of the matters based on his information in the form and context that it appears. Note that Mineral Resources that are not Ore Reserves do not have demonstrated viability.

The information in this report that relates to Siberia North and Goon South Mineral Resources is based on information compiled by Ian Hart who is a Member of the Australian Institute of Geoscientists. Ian Hart is an employee of Vale Exploration and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the resource estimation activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ian Hart consents to the inclusion in this report of the matters based on his information in the form and context that it appears. Note that Mineral Resources that are not Ore Reserves do not have demonstrated viability.

The information in this report that related to Exploration is based on information compiled by David von Perger who is a member of Australian Institute of Mining and Metallurgy. David von Perger is a full time employee of Heron Resources Limited. David von Perger has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the exploration activity that he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. David von Perger consents to the inclusion in this report of the matters based on his information in the form and context that it appears.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Signed in accordance with a resolution of the Board of Directors:



Craig Leslie Readhead  
Director

Date: 12th March 2009



## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Heron Resources Limited for the half year ended 31 December 2008, I declare that, 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.

BUTLER SETTINERI (AUDIT) PTY LTD

COLIN BUTLER  
Director

Perth

Date: 13 March 2009

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**Lucy Gardner**  
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Registered Company Auditor Number 289109

*Liability limited by a scheme approved under Professional Standards Legislation*

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**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDING 31 DECEMBER 2008**

	Notes	31 Dec 2008 \$'000	31 Dec 2007 \$'000
REVENUES FROM CONTINUING ACTIVITIES		1,228	1,412
Accounting Fees		(7)	(11)
Audit		(28)	(20)
Consultants		(82)	(168)
Depreciation expense		(170)	(154)
Directors Fees		(125)	(111)
Employee benefits expense		(631)	(631)
Insurance		(42)	(45)
Legal		(233)	(374)
Share Based Payments	3	(2,032)	(3,511)
Other expenses from ordinary activities	4	(615)	(716)
Exploration expenditure written off	9	(1,392)	(308)
Impairment of investment	6	(960)	-
Share of loss of associate	7	(1,770)	(542)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(6,859)	(5,179)
INCOME TAX EXPENSE		-	-
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(6,859)	(5,179)
NET PROFIT (LOSS) ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(6,859)	(5,179)
Basic earnings per share	5	\$ (0.02847)	\$ (0.02500)
Diluted earnings per share	5	(0.02847)	(0.02500)

The Consolidated Income Statement should be read in conjunction with the accompanying notes.

## CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Notes	31 Dec 2008 \$'000	30 Jun 2008 \$'000
<b>CURRENT ASSETS</b>			
Cash assets		32,158	36,910
Trade and other receivables		370	393
<b>TOTAL CURRENT ASSETS</b>		<b>32,528</b>	<b>37,303</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables		35	35
Investments	6	397	2,390
Investments accounted for using the equity method	7	6,463	8,233
Property, plant and equipment	8	2,231	2,503
Exploration and evaluation costs carried forward	9	50,041	47,427
<b>TOTAL NON-CURRENT ASSETS</b>		<b>59,167</b>	<b>60,588</b>
<b>TOTAL ASSETS</b>		<b>91,695</b>	<b>97,891</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	368	738
Provisions – employee entitlements		535	501
<b>TOTAL CURRENT LIABILITIES</b>		<b>903</b>	<b>1,239</b>
<b>TOTAL LIABILITIES</b>		<b>903</b>	<b>1,239</b>
<b>NET ASSETS</b>		<b>90,792</b>	<b>96,652</b>
<b>EQUITY</b>			
Contributed equity	13	113,325	113,325
Revaluation reserve	11	(1,066)	(33)
Option reserve		9,692	7,675
Accumulated losses		(31,159)	(24,315)
<b>TOTAL EQUITY</b>		<b>90,792</b>	<b>96,652</b>

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDING 31 DECEMBER 2008

	Notes	Issued Capital	Retained Earnings	Revaluation Reserve	Option Reserve	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2008</b>		113,325	(24,315)	(33)	7,675	96,652
Loss for the half year		-	(6,859)	-	-	(6,859)
Issue of share capital		-	-	-	-	-
Revaluation of investments	11	-	-	(1,033)	-	(1,033)
Option reserve transfer on exercise		-	-	-	-	-
Option reserve write back		-	15	-	(15)	-
Cost of share based payments	3	-	-	-	2,032	2,032
<b>As at 31 December 2008</b>		<u>113,325</u>	<u>(31,159)</u>	<u>(1,066)</u>	<u>9,692</u>	<u>90,792</u>
<b>As at 30 June 2007</b>		77,324	(12,182)	667	2,406	68,215
Loss for the half year		-	(5,179)	-	-	(5,179)
Issue of Share Capital		32,350	-	-	-	32,350
Revaluation of Investments		-	-	(520)	-	(520)
Cost of Share Based Payments		-	-	-	3,511	3,511
Option Reserve transfer on exercise		201	-	-	(201)	-
<b>As at 31 December 2007</b>		<u>109,875</u>	<u>(17,361)</u>	<u>147</u>	<u>5,716</u>	<u>98,377</u>

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

**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE HALF YEAR ENDING 31 DECEMBER 2008**

	Notes	31 Dec 2008 \$'000	31 Dec 2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		1,336	880
Payments to suppliers		<u>(1,976)</u>	<u>(2,201)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<u>(640)</u>	<u>(1,321)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Exploration expenditure		(4,252)	(10,662)
Purchase and sale of shares		-	(1,086)
Purchase of plant and equipment		(6)	(794)
Proceeds from sale of plant and equipment		<u>146</u>	<u>-</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(4,112)</u>	<u>(12,542)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans to controlled entities		-	-
Proceeds from issue of shares		<u>-</u>	<u>32,185</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<u>-</u>	<u>32,185</u>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		(4,752)	18,322
Cash at the beginning of the reporting period		36,910	29,590
<b>CASH AT THE END OF THE REPORTING PERIOD</b>	12	<u>32,158</u>	<u>47,912</u>

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

**NOTE 1 SUMMARY OF ACCOUNTING POLICIES****Statement of Compliance and Basis of Preparation**

This general purpose financial report for the interim half year reporting period ended 31 December 2008 has been prepared in accordance with AASB134 Interim Financial Reporting and the Corporations Act 2001.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit and loss, certain classes of property, plant and equipment and investment property.

The consolidated interim financial report does not include all of the information required for a full annual report and accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Heron Resources Limited during the half year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 2008 annual financial report for the financial year ended 30 June 2008.

**NOTE 2 REVENUE – INCOME STATEMENT**

Revenue includes interest received of \$1,218,880.

**NOTE 3 SHARE BASED PAYMENTS**

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

**NOTE 4 OTHER EXPENSES – INCOME STATEMENT**

Other Expenses include the following items:

	31 Dec 2008	31 Dec 2007
	\$'000	\$'000
Computer software and services	(49)	(83)
Conferences and seminars	(27)	(23)
Media and public relations	(23)	(50)
Recruitment	(10)	(39)
Rental expense	(135)	(127)
Report/printing expenses	(39)	(58)
Stock exchange	(52)	(99)
Travel and accommodation	(132)	(70)
Office expenses and supplies	(73)	(83)
Miscellaneous expenses	(75)	(84)
	<u>(615)</u>	<u>(716)</u>

**NOTE 5 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the half yearly loss of \$6,859,382 by the weighted average number of ordinary shares outstanding during the half-year of 240,938,847.

**NOTE 6 INVESTMENTS IN OTHER ENTITIES**

At 31 December 2008 Heron holds 15,000,000 unlisted options in Epsilon Energy Limited, exercisable at \$0.25, expiring 30 June 2009. These options were issued pursuant to the Sale and Purchase Agreement between Heron and Epsilon. The \$960k cost of the options was transferred to profit and loss as impairment at 31 December 2008.

Heron also holds 6,194,030 fully paid shares in Southern Cross Goldfields Limited, an Australian listed public exploration company with 64,830,000 fully paid ordinary shares on issue.

NON CURRENT	31 Dec 2008 \$'000	30 Jun 2008 \$'000
Epsilon Energy Limited	-	996
Southern Cross Goldfields Limited	397	1,394
	<u>397</u>	<u>2,390</u>

**NOTE 7 INVESTMENTS – EQUITY ACCOUNTED INVESTMENTS**

Polaris Metals NL is an Australian listed public exploration company with 155,970,859 fully paid shares on issue at 31 December 2008. Heron held 39,243,244 issued fully paid shares at 31 December 2008, this represents a 25.2% ownership interest at 31 December 2008. Heron also holds 14,000,000 unlisted options exercisable at \$0.281 expiring on 14 July 2011 with vesting conditions to be met.

The fair value of this share investment at market value is \$3,728,108 and options as valued using the Black-Scholes method is \$274,400.

Carrying value brought forward	8,233	5,792
Investment at cost – exercise of rights issue	-	4,727
Share of profit / (loss) from Polaris	(1,770)	(943)
Southern Cross Goldfields Ltd in specie distribution	-	(1,343)
Carrying value	<u>6,463</u>	<u>8,233</u>

**NOTE 8 PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment at cost	773	896
Accumulated depreciation	(208)	(149)
	<u>565</u>	<u>747</u>
Office equipment & furniture at cost	583	581
Accumulated depreciation	(350)	(297)
	<u>233</u>	<u>284</u>
Motor vehicles at cost	398	436
Accumulated depreciation	(108)	(118)
	<u>290</u>	<u>318</u>
Land & buildings at cost	1,173	1,173
Accumulated depreciation	(30)	(19)
	<u>1,143</u>	<u>1,154</u>
Total property, plant and equipment	<u>2,231</u>	<u>2,503</u>

**NOTE 8 PROPERTY, PLANT AND EQUIPMENT (cont)**

## Reconciliation

Plant and equipment:	<b>\$'000</b>
Carrying value at 1 July 2008	747
Additions	1
Disposals	(106)
Depreciation expense	(77)
Carrying value at 31 December 2008	<u>565</u>
Office equipment and furniture:	
Carrying value at 1 July 2008	284
Additions	3
Disposals	-
Depreciation expense	(54)
Carrying value at 31 December 2008	<u>233</u>
Motor vehicles:	
Carrying value at 1 July 2008	318
Additions	-
Disposals	-
Depreciation expense	(28)
Carrying value at 31 December 2008	<u>290</u>
Land and buildings:	
Carrying value at 1 July 2008	1,154
Additions	-
Disposals	-
Depreciation expense	(11)
Carrying value at 31 December 2008	<u>1,143</u>

**NOTE 9 EXPLORATION AND EVALUATION COSTS CARRIED FORWARD**

	31 Dec 2008	30 Jun 2008
	\$'000	\$'000
Balance brought forward	47,427	31,064
Acquisition costs	90	143
Exploration and evaluation costs incurred during the year	3,916	17,508
Exploration and evaluation costs of tenements/data disposed of	-	(11)
Exploration and evaluation costs written off	(1,392)	(1,277)
Balance carried forward	<u>50,041</u>	<u>47,427</u>

The ultimate recoupment of costs carried forward is dependent upon the successful development and/or commercial exploitation or alternatively, sale of respective areas of interest.

**NOTE 10 TRADE AND OTHER PAYABLES CURRENT**

Trade creditors and accruals - Exploration activities	208	378
Trade creditors and accruals - Other	160	360
	<u>368</u>	<u>738</u>

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

**NOTE 11 REVALUATION RESERVE**

	31 Dec 2008	30 Jun 2008
	\$'000	\$'000
Balance brought forward	(33)	667
Revaluations	(1,033)	(393)
Sale of investments	-	(307)
Balance carried forward	<u>(1,066)</u>	<u>(33)</u>

The revaluation reserve is used to recognise the fair value of financial assets classified as available-for-sale assets.

Amounts are recognised in the income statements when the associated assets are sold.

**NOTE 12 CASH FLOW STATEMENTS**

Prescribed funds of \$2,832,400 (June 2008: \$3,033,100) are included in cash on hand at bank. These funds are designated for use in the KNP expenditure programme.

Cash security for environmental bonds of \$530,729 (June 2008: \$408,785) is included in Cash on hand and at bank. This is not available to the Company for ordinary activities.

Escrow accounts of \$69,742 (June 2008: \$67,361) are included in Cash on hand and at bank. These amounts are held in trust accounts pending the completion of purchase agreements that the Company has entered into and are not available for ordinary activities.

Property Bonds of \$47,945 (June 2008: \$47,945) are included in Cash on hand and at bank. This amount is held as a security term deposit and is not available to the Company for ordinary activities.

**NOTE 13 CAPITAL**

	31 December 2008	30 June 2008	31 December 2008	30 June 2008
	Shares	Shares	\$'000	\$'000
Issue of ordinary shares				
Opening balance	240,938,847	205,438,847	113,325	77,324
Exercise of options under employee option plan	-	5,400,000	-	1,276
Exercise of other options	-	100,000	-	24
Issue of re-valued options	-	-	-	201
Issue of other shares	-	30,000,000	-	34,500
Closing balance	<u>240,938,847</u>	<u>240,938,847</u>	<u>113,325</u>	<u>113,325</u>

**NOTE 14 SUBSEQUENT EVENTS**

Vale Inco has completed and delivered the Kalgoorlie Nickel Project (KNP) prefeasibility study report on time as required by the KNP farm in and Joint Venture Agreement.

Vale Inco has now commenced a 6 month review period prior to deciding whether it will commence the full feasibility study which it is required to do by 30th of July 2009.



**NOTE 15      CONTINGENT LIABILITIES**

Native title claims have been made with respect to areas which include tenements in which the consolidated entity has interests. The consolidated entity 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. Agreement is being reached with native title claimants regarding certain areas in which the consolidated entity has interests.

The Bulong proceedings against Norilsk Nickel Avalon Pty Ltd and the Receivers of the Bulong Group of Companies, as announced to the ASX on 14 December 2007, may incur liabilities of damages and costs if unsuccessful.

**NOTE 16    SEGMENT REPORTING**

The Company is engaged in only one business and geological segment, being the mineral industry in Australia.

**NOTE 17    COMPARITIVES**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosure.

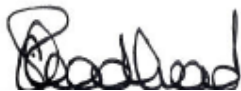
## DIRECTOR'S DECLARATION

The Directors declare that:

In the opinion of the Directors:

1. the financial statements and associated notes comply with Accounting Standards, the Corporations Act 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 2008 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.

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



Craig Leslie Readhead  
Director

Date: 12th March 2009

## INDEPENDENT REVIEW REPORT TO THE MEMBERS OF HERON RESOURCES LIMITED

Chartered  
Accountants



### Scope

We have reviewed the accompanying financial report of the Heron Resources Limited Group (the consolidated entity) which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration. The consolidated entity comprises both Heron Resources Limited (the company) and the entities it controlled during the half year.

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

The directors are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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 the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the 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 2008 and its 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 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 the 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.

BUTLER  
SETTINERI

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Directors:

**Colin Butler**  
FCA

**Paul Chabrel**  
FCA

**Lucy Gardner**  
CA

**Butler Settineri (Audit) Pty Ltd**

A.C.N. 112 942 373

Registered Company Auditor Number 289109

*Liability limited by a scheme approved under Professional Standards Legislation*

[www.butlersettineri.com.au](http://www.butlersettineri.com.au)

## Independence

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

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of the Heron Resources Limited Group 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 2008 and of its 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*.

BUTLER SETTINERI (AUDIT) PTY LTD



COLIN P BUTLER  
Director

Perth  
Date: 13 March 2009

## SHAREHOLDER INFORMATION

Twenty Largest Shareholders as at 31 December 2008

		Number of Shares	Percentage
1	Kurana Pty Ltd <sup>1</sup>	34,082,692	14.15
2	BHP Minerals Holdings Pty Ltd <sup>4</sup>	32,937,960	13.67
3	Inco Australia Holdings Pty Ltd <sup>3</sup>	32,440,651	13.46
4	MBM Corporation Pty Ltd <sup>2</sup>	10,347,692	4.29
5	Chaos Investments Pty Ltd <sup>2</sup>	5,842,308	2.42
6	Hazurn Pty Ltd <sup>1</sup>	4,591,554	1.91
7	Koltai Holdings Pty Ltd	4,515,679	1.87
8	JP Morgan Nominees Australia Ltd	4,189,212	1.74
9	National Nominees Ltd	3,319,490	1.38
10	Central Courthouse Pty Ltd	3,193,476	1.33
11	Owvimar Investments Pty Ltd	3,035,000	1.26
12	HSBC Custody Nom Aust Ltd	2,799,679	1.16
13	Wardle David James <sup>2</sup>	2,570,000	1.07
14	Merrill Lynch Australia Nominees Pty Ltd	2,521,368	1.05
15	Buchhorn Ian James <sup>1</sup>	2,455,549	1.02
16	Citicorp Nominees Ltd	2,203,030	0.91
17	BHP Minerals Holdings PL Equ <sup>4</sup>	2,150,000	0.89
18	Kimlex Investments Pty Ltd <sup>2</sup>	1,957,692	0.81
19	Manorina Mining Pty Ltd <sup>1</sup>	1,825,992	0.76
20	Sheerwater PL	1,650,000	0.68
	<b>TOTAL</b>	<b>158,629,024</b>	<b>65.84</b>

Substantial Shareholders including related parties who have notified the Company

	Shares	Percentage
<sup>1</sup> I Buchhorn and related parties	42,955,787	17.83
<sup>3</sup> Inco Australia Holdings Pty Ltd	32,440,651	13.46
<sup>4</sup> BHP Minerals Holdings Pty Ltd	35,087,960	14.56
<sup>2</sup> MBM Corporation Pty Ltd and Chaos Investments Pty Ltd and related parties	21,783,652	9.04

**SHAREHOLDER INFORMATION**

Summary of Option holders as at 31 December 2008

		Number of Options	% of Issued Options
1	Buchhorn P	16,000,000	30.33
2	Longworth NM	12,000,000	22.75
3	Reynolds M	4,000,000	7.58
4	Argonaut Investments	2,750,000	5.21
5	von Perger D	2,500,000	4.74
6	Klug RG	2,500,000	4.74
7	Hellsten K	2,250,000	4.27
8	Hengolo Pty Ltd ATF C.L. Readhead Family Trust	2,250,000	4.27
9	Dennis S	2,250,000	4.27
10	Firth G	2,000,000	3.79
11	Klug FA	1,500,000	2.84
12	von Perger J	500,000	0.95
13	Millard A	500,000	0.95
14	Mat Mining Pty Ltd	500,000	0.95
15	Hengolo Pty Ltd	250,000	0.47
16	Andinach A	250,000	0.47
17	Browning T	100,000	0.19
18	Briant J	100,000	0.19
19	Horan B	100,000	0.19
20	Haslam M	100,000	0.19
21	Robertson B	100,000	0.19
22	Qazi N	100,000	0.19
23	Rossetti J	100,000	0.19
24	Purcell V	25,000	0.05
25	Purcell P	25,000	0.05
	<b>TOTAL</b>	<b>52,750,000</b>	<b>100.00</b>