

**HERON RESOURCES LIMITED  
ACN 068 263 098**

**FINANCIAL REPORT**

**FOR THE HALF YEAR ENDED**

**31 DECEMBER 2003**

**HERON RESOURCES LIMITED**  
**FINANCIAL REPORT**  
**FOR THE HALF YEAR ENDED**  
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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2003 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.

**HERON RESOURCES LIMITED  
DIRECTORS' REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

Your Directors submit their report on the consolidated entity consisting of Heron Resources Limited ("Heron" or "the Company") and the entities it controlled at the end of, or during, the half year ended 31 December 2003.

## **Directors**

The names of the Directors of the Company in office during the whole of the half year and at the date of this report are:

Craig Leslie Readhead	
Ian James Buchhorn	
Allan Trench	(appointed 8 December 2003)
Ross James Arancini	(resigned 8 December 2003)

## **Review of Operations and Results**

### **Heron Resources Limited**

#### ***Nickel Laterite***

The Company controls a non-screened Nickel Laterite resource within the North Kalgoorlie and Hampton Nickel Projects of 225 million tonne at 1.03% Ni and 0.08% Co using a 0.75% Ni cut-off grade. Discussions have continued with various international parties in respect of expediting the future development of the resources.

Heron continues to investigate Ore Supply mechanisms outside of the standalone NKN Project. Programs evaluating the potential viability of processing ore through the Murrin Murrin and/or Cawse nickel treatment facilities continue.

Feasibility work continued aimed at upgrading the Hampton Nickel Project (being the Bulong South, Kalpini, Lake Rebecca and Edjudina Prospects). The Hampton Nickel Project is specifically aimed at assessing saprolitic ore feeds as a Pressure Acid Leach ("PAL") neutraliser, a process termed "Enhanced Acid Leaching".

The Company is negotiating two advanced stage nickel acquisition opportunities, having completed site visits and detailed due diligence studies.

#### ***Nickel Sulphide***

The Company has one of the largest ultramafic tenement holdings of any company in the highly prospective Kalgoorlie Goldfields. Ultramafic is the prime host rock for nickel mineralisation. A review of Heron's nickel data base, regional aeromagnetics and open file reports has generated a new suite of high priority Nickel Sulphide targets:

- Mineral Patch Hill, a regolith PGM anomaly exceeding 0.04% Cu and 200ppb Pt+Pd occurs in association with the ultramafic complex. In-fill RC drilling is planned.
- Vetersberg, discrete magnetic highs indicate komatiite volcanic channels, interpreted to correlate across the Bardoc Tectonic Zone with the Scotia Nickel Sulphide deposit.

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- Wellington North, a soil Ni-PGM anomaly displaced from an adjoining komatiite channel requires ground TEM follow up, prior to RC drill testing.
- Kalpini, a TEM anomaly has been identified in association with a basalt-ultramafic contact. RC drill testing of the target is planned during the March 2004 Quarter.

In respect of the new Nickel Sulphide targets, these became apparent with the validation and restructure of the nickel drill data base, which is now completed. The targets are spatially related to Heron's Nickel Laterite resources, so an early sale or joint venture of the targets is not prudent.

The new Nickel Sulphide targets are related to komatiite contacts at Mineral Patch Hill, Vetttersberg, Wellington North and Kalpini. Heron's exploration methodology involves detailed multi-element analysis of a specific regolith horizon if drill samples are available, or soil sampling if no drill samples are available. This process ranks targets for follow up ground EM and drilling as warranted. The Kalpini target in particular is ready for drilling.

Within the Goongarrie area, field mapping is current, concentrating on the basal western contact of the Walter Williams Formation ("WWF"), where the Missouri Basalt footwall is confirmed from mapping and/or DEMs to be present (as opposed to stoped by granite). Several discrete komatiite channel structures have been defined, and ranking using multi-element soil geochemistry is in progress. Interpretation of Heron drilling and open file data also confirms good gold prospectivity within the western WWF contact zone, being the southern extension of the Sand Queen gold-mineralised structure.

Pioneer Nickel Limited ("Pioneer") de-merged from Heron on 15 October 2003, such that Heron Shareholders as at a 28 October 2003 record date will receive an in specie Pioneer share distribution. Pioneer was listed on ASX on 4 December 2003. Drilling of Pioneer's advanced stage Nickel Sulphide assets has already commenced.

### **Regent Resources Limited**

Offers for several gold properties were made during the December 2004 Quarter, on behalf of Heron's wholly owned subsidiary Regent Resources Limited ("Regent"). The outcomes for the various offers are awaited. Preparation of the Regent prospectus continues.

Data review has generated several new and significant gold targets, at Cave Hill (Siberia), Elsie Tynan, Baden Powell and Grafters South (Goongarrie South) and Black Jack South (Highway).

Field exploration is current at the Yindarlgooda Project, targeting Volcanogenic Massive Sulphide ("VMS") mineralisation. As well as having base metal prospectivity, the project represents a potential sulphuric acid source for the local Nickel Laterite industry.

### **Balladonia Energy Limited**

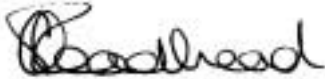
Development of the Mineral Sands properties advanced during the December 2004 Quarter, on behalf of Heron's wholly owned subsidiary Balladonia Energy Limited

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DIRECTORS' REPORT  
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("Balladonia"). Discussions have commenced with a potential CEO for Balladonia, to manage the IPO process.

A concept plan has been prepared for the raising of seed capital to allow the Balladonia Mineral Sand assets to proceed to IPO. Additionally and separately, sale of the Balladonia Oil Shale assets is under review, with Heron aiming to retain sulphur off-take.

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



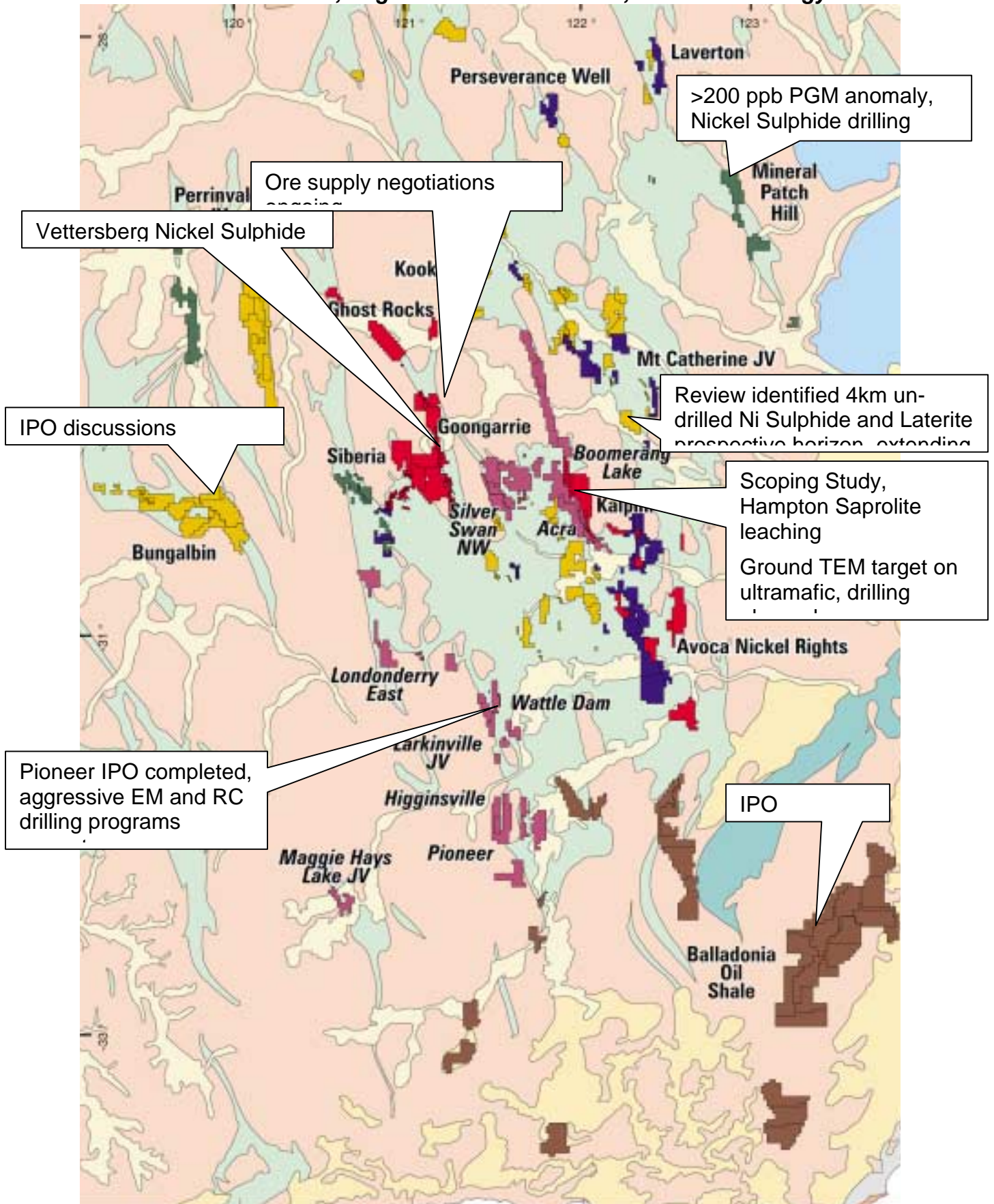
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Craig Leslie Readhead  
Director

Date: 15<sup>th</sup> March 2004

**HERON RESOURCES LIMITED  
DIRECTORS' REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**Figure 1  
Heron Resources Limited, Regent Resources Limited, Balladonia Energy Limited**



**HERON RESOURCES LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	Note	31 Dec 2003	31 Dec 2002
Revenue from operating activities	2	502,664	34,363
<b>Revenue from ordinary activities</b>		502,664	34,363
Depreciation		(16,299)	(18,226)
Cost of mining tenements and data sold	2	(351,252)	-
Other expenses from ordinary activities		(338,308)	(309,742)
De-merger of controlled entity	2	61,236	-
<b>Loss from ordinary activities before income tax expense</b>		(141,959)	(293,605)
Income tax expense		-	-
<b>Net Loss</b>		(141,959)	(293,605)
Basic earnings per share		\$(0.0012)	\$(0.0028)
Diluted earnings per share		\$(0.0012)	\$(0.0028)

The Consolidated Statement of Financial Performance should be read in conjunction with the accompanying notes.

**HERON RESOURCES LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2003**

	<b>31 Dec 2003</b>	<b>30 June 2003</b>
<b>Current Assets</b>		
Cash assets	2,590,294	699,100
Receivables	94,421	77,202
<b>Total Current Assets</b>	<u>2,684,715</u>	<u>776,302</u>
<b>Non-Current Assets</b>		
Property, plant and equipment	54,710	49,407
Exploration and evaluation costs carried forward	15,026,934	14,791,984
<b>Total Non-Current Assets</b>	<u>15,081,644</u>	<u>14,841,391</u>
<b>TOTAL ASSETS</b>	<u>17,766,359</u>	<u>15,617,693</u>
<b>Current Liabilities</b>		
Payables	113,285	311,090
Provisions	42,847	43,742
<b>Total Current Liabilities</b>	<u>156,132</u>	<u>354,832</u>
<b>Non-Current Liabilities</b>		
Provisions	69,580	46,275
<b>Total Non-Current Liabilities</b>	<u>69,580</u>	<u>46,275</u>
<b>TOTAL LIABILITIES</b>	<u>225,712</u>	<u>401,107</u>
<b>NET ASSETS</b>	<u>17,540,647</u>	<u>15,304,145</u>
<b>EQUITY</b>		
Contributed capital	27,229,189	24,770,876
Retained earnings	(9,688,542)	(9,554,290)
<b>TOTAL EQUITY</b>	<u>17,540,647</u>	<u>15,216,586</u>

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.



**HERON RESOURCES LIMITED**  
**CONSOLIDATED STATEMENT OF CASHFLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	<b>31 Dec 2003</b>	<b>31 Dec 2002</b>
<b>Cash flows from operating activities</b>		
Payments for administration expenses	(299,422)	(253,887)
Goods and services tax (net movement)	14,670	(13,671)
Interest received	20,280	34,942
Administration fee	100,000	-
Proceeds from sale of data	15,000	-
<b>Net cash used in operating activities</b>	<u>(149,472)</u>	<u>(232,616)</u>
<b>Cash flows from investing activities</b>		
Exploration expenditure	(689,130)	(750,287)
Payments for plant and equipment	(5,321)	(395)
Cash outflow on de-merger	(15,027)	-
<b>Net cash used in investing activities</b>	<u>(709,478)</u>	<u>(750,682)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	2,646,323	-
Refundable Bonds	20,000	-
Unsecured loans	(24,566)	-
Unsecured loan repayments	108,387	3,531
<b>Net cash provided by financing activities</b>	<u>2,750,144</u>	<u>3,531</u>
<b>Net increase / (decrease) in cash held</b>	1,891,194	(979,767)
Cash at the beginning of the reporting period	699,100	2,126,519
<b>Cash at the end of the reporting period</b>	<u><u>2,590,294</u></u>	<u><u>1,146,752</u></u>

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

**HERON RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of accounting**

This general purpose financial report for the interim half year reporting period ended 31 December 2003 has been prepared in accordance with Accounting Standard AASB 1029: Interim Financial Reporting, other professional reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The 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 2003 and any public announcements made by Heron Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period unless stated otherwise.

**NOTE 2      DE-MERGER OF CONTROLLED ENTITY**

Included in revenue are amounts relating to the de-merger of Pioneer Nickel Limited.

On the 15 October 2003 the Company's shareholders approved the de-merger of wholly owned subsidiary Pioneer Nickel Limited.

The de-merger was by way of a pro-rata in-specie distribution of 15,000,010 Pioneer Nickel Limited shares to Company's shareholders on the basis of approximately one Pioneer Nickel Limited share for every 8 .6 ordinary shares held in the Company.

Pioneer Nickel Limited shares are held in trust for the Company's shareholders to be distributed at the discretion of the Company's Directors such discretion to be made between 6 and 24 months following the listing of Pioneer Nickel Limited on the Australian Stock Exchange Limited.

The following is a financial summary for Pioneer Nickel Limited:

**Carrying amount of assets and liabilities as at 28 October 2003**

	\$
Cash at bank	15,027
Receivables	1,709
Office furniture & equipment	590
Exploration expenditure	441,198
Total assets	<u>458,524</u>
Loan from parent entity	<u>139,457</u>
Total liabilities	<u>139,457</u>
Net assets	<u>319,067</u>

**HERON RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**Financial performance information from 1 July 2003 to 28 October 2003**

	\$
Revenue from ordinary activities	58
Expenses from ordinary activities	<u>(61,294)</u>
Profit from ordinary activities before income tax	<u>(61,236)</u>
Income tax expense	<u>-</u>
Net loss	<u>(61,236)</u>

**Cash flow information from 1 July 2003 to 28 October 2003**

Net cash outflow from ordinary activities	(62,934)
Net cash outflow from investing activities	(14,304)
Net cash inflow from financing activities	<u>59,512</u>
Net decrease in cash generated	<u>(17,726)</u>

**NOTE 3 DIVIDENDS**

No dividends have been paid or proposed during or since the end of the half year.

**NOTE 4 EARNINGS PER SHARE**

The number of shares on issue at the end of the half year, and used in the calculation of basic earnings per share, was 128,539,600. The 11,163,172 options on issue as at the end of the half year have no dilutive effect.

**NOTE 5 SEGMENT INFORMATION**

The consolidated entity operates within the mineral exploration industry in Western Australia.

**NOTE 6 SUBSEQUENT EVENTS**

There are no matters or circumstances that have arisen since the end of the half year which significantly affect, or may significantly affect, the state of affairs or operations of the consolidated entity subsequent to the half year ended 31 December 2003.

**HERON RESOURCES LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**NOTE 7      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.

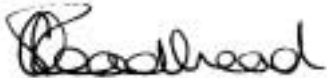
**HERON RESOURCES LIMITED  
DIRECTORS' DECLARATION  
FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

The Directors declare that:

In the opinion of the Directors:

1. the financial statements and associated notes comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. the financial statements and associated notes give a true and fair view of the consolidated entity's financial position as at 31 December 2003 and of its performance, as represented by the results of its operations 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.



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Craig Leslie Readhead  
Director

Date: 15<sup>th</sup> March 2004

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

Chartered  
Accountants



**Scope**

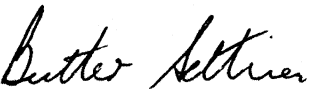
We have reviewed the financial report of Heron Resources Limited ("the disclosing entity") for the half-year ended 31 December 2003 as set out on pages 5 to 11. The disclosing entity's directors are responsible for the financial report which includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of, or during, the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and cash flows, and in order for the disclosing entity to meet its obligations to lodge the financial report with the Australian Securities and Investments Commission.


Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Review Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the disclosing entity is not in accordance with:

- a) the Corporations Act 2001 including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
  - ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

  
BUTLER SETTINERI  
Chartered Accountants

  
PAUL J CHABREL  
Partner

Perth  
15 March 2004

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