



HERON RESOURCES LIMITED

ACN 068 263 098

FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2004



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FINANCIAL REPORT
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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 2004 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.



DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1. DIRECTORS' REPORT

The 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 2004.

Directors

The names of the Directors of the Company in office during the Half Year and at the date of this report are:

Craig Leslie Readhead
Ian James Buchhorn
Allan Trench
Norman Mathew Longworth

Corporate

Discussions in respect of the Kalgoorlie Nickel Project (KNP) continued with potential investors.

Heron has increased the KNP resident development team to seven geoscientists, who are managing the current resource and metallurgical feasibility testwork.

Sarah Calvert has assumed the Company Secretary position, with all financial management in Kalgoorlie.

A \$3.04 million placement was completed, with the capital raising to fund the KNP Pre-Feasibility Study.

Post reporting date, the Company sold 6 million options held in former spin-off Avoca Resources Limited, to realise A\$712,000 for KNP funding.

Feasibility Study

During the Half Year, Heron continued its 800x80m metallurgical sample drilling at proposed pit locations at Highway, Goongarrie Hill, Goongarrie South, Big Four, Scotia Dam, Highway and Siberia. A total of **14,349m in 311 RC drill holes** were completed.

Significant recent drill results include **50m at 1.5% Ni** and **50m at 1.4% Ni** Leach Feed Grade (LFG).

Pilot-scale screen upgrade results during the Half Year are encouraging, being in line with the screen upgrade achieved at the Cawse operation, and those predicted at BHP Billiton's Ravensthorpe project.

Results reported to date confirm the ability to provide a 1.5% Ni Leach Feed Grade to a proposed KNP processing plant.

Independent Mineral Resources

The JORC-compliant independent Mineral Resource estimation continues, using the methodology developed for the KNP by Snowden Mining Industry Consultants (Snowden). Resource estimate as at 31 December 2004 is:

Table 1			
Kalgoorlie Nickel Project			
Mineral Resources by Resource Classification			
JORC (1999)	Tonne Mt	% Ni	% Co
Measured	12	0.96	0.079
Indicated	154	0.83	0.055
Inferred	737	0.72	0.048
Total	903	0.74	0.050

Acquisitions

Big Four: Heron purchased the Big Four nickel laterite resource of 29.2mt grading 0.74% Ni and 0.05% Co, from Placer Dome.

Bulong East: Heron completed purchase from Danae Resources NL (Danae) of the Bulong East Prospect adjacent to Heron's Bulong Nickel Prospect. Heron has an unencumbered 100% ownership of all mineral rights at Bulong East.

Nickel laterite mineralisation is present on granted Mining Leases at Bulong East, being the eastern extension of Heron's high grade Boulder Block Pit.

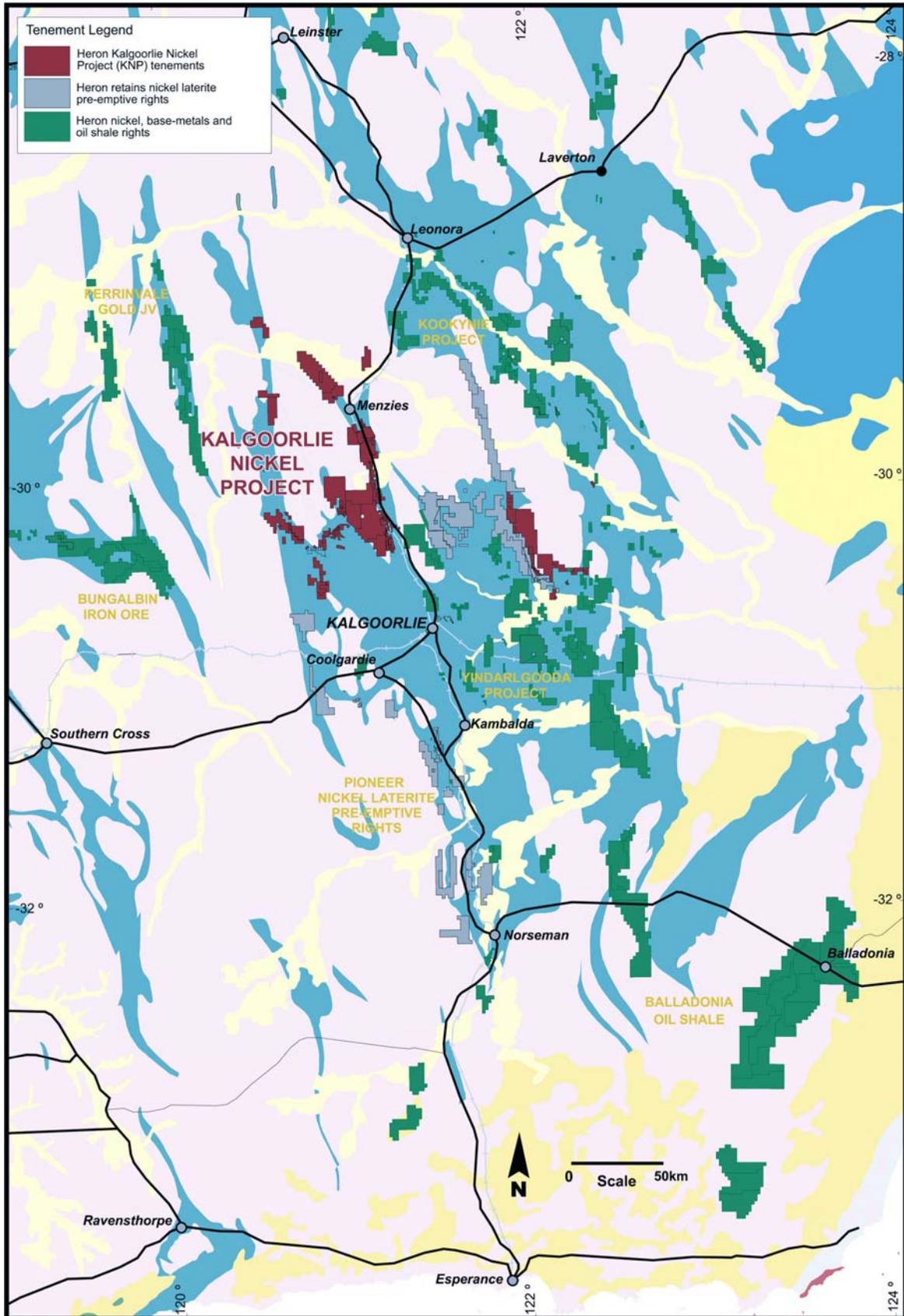
Bulong Taurus: Heron entered into a letter agreement with SuperSorb Environmental NL (SuperSorb) to purchase the Bulong Taurus Prospect adjacent to Heron's Bulong Nickel Prospect. Heron will have 100% ownership of all mineral rights at Taurus.

Nickel laterite mineralisation is present at Bulong Taurus, with previous drill intercepts including 16m at 1.22% Ni, 14m at 1.37% Ni, 27m at 1.20% Ni and 17m at 1.41% Ni.



DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

Figure 1 Kalgoorlie Nickel Project, Project Location and Tenement Holdings



DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2004

Farm-out Joint Ventures

The Company has continued to divest non-nickel laterite assets through joint venturing. With discussions current in respect of development partners for the KNP, and acknowledging that potential partners also have interests in projects that are complementary to the KNP laterite, the divestment process has needed to be selective.

Bandicoot Range Project: Heron, through its wholly owned subsidiary Regent Resources Limited (Regent) reached agreement with Mt Anketell Pty Ltd (Mt Anketell), whereby Mt Anketell can earn an initial 60% interest in the Bandicoot Range Project by paying an initial \$40,000 and meeting an expenditure of \$200,000 within two years of the grant of the tenement. Regent may then elect to contribute to expenditure on a pro-rata basis, or Mt Anketell can spend a further \$200,000 to earn a further 20% interest. Upon earning an 80% interest, Mt Anketell will pay a further \$100,000 and free-carry Regent's interest through to a Bankable Feasibility Study.

The Bandicoot Range Project area is located in the Eastern Kimberley area, some 5 km west of Kununurra. It covers some 150 square kilometers of dominantly Proterozoic sediments and dolerites and contains a number of highly prospective iron-ore and base-metal occurrences, which will be the focus of exploration by Mt Anketell.

Kanowna South Project: Divestment of Heron's retained nickel sulphide assets commenced, with the Kanowna South Project farmed out to Yilgarn Mining Limited (YML) who may earn a 70% interest.

Under the agreement, YML will reimburse Heron expenses of \$30,000, and can earn the 70% interest by expenditure of \$700,000 within three years of the grant of the tenements. Upon earning the 70% interest, YML will free carry Heron's 30% interest through to a Decision to Mine.

The Kanowna South tenement package is prospective for nickel sulphide and gold mineralisation. The main exploration target is termed the Shamrock Ultramafic, considered prospective for Silver Swan style nickel sulphide mineralisation.

Feasibility Studies

Metallurgical Sample Drilling and Screen Upgrade

In results to date, the Company has announced encouraging screen upgrades from the KNP **Highway, Goongarrie Hill and Siberia Prospects**, demonstrating that typically a 0.8% Ni in-situ grade can be increased through screening to a Leach Feed Grade exceeding 1.5% Ni. The implication is that the KNP can be bulk mined as a low cost operation with minimal waste stripping, with screening used to convert bulk low grade siliceous mineralisation into a high grade goethite leach feed. The implication for project economics is significant, in that the siliceous ore can be mined at low-cost with minimal grade control, and a high LFG generated through low cost screening.

Nickel Sulphide Projects

The Company has one of the largest ultramafic tenement holdings of any company in the highly prospective Kalgoorlie Goldfields (refer Figure 1).

All laterite drilling includes geochemical analysis designed to identify potential nickel sulphide settings.

Trans East: Field studies were completed on nickel sulphide targets. At the komatiite basal contact, previous drill intercepts of up to 0.7% Ni, 0.01% Cu, 60ppb Pd and 30ppb Pt are associated with a distinct thickening of the komatiite flow channel from 300m to 700m.

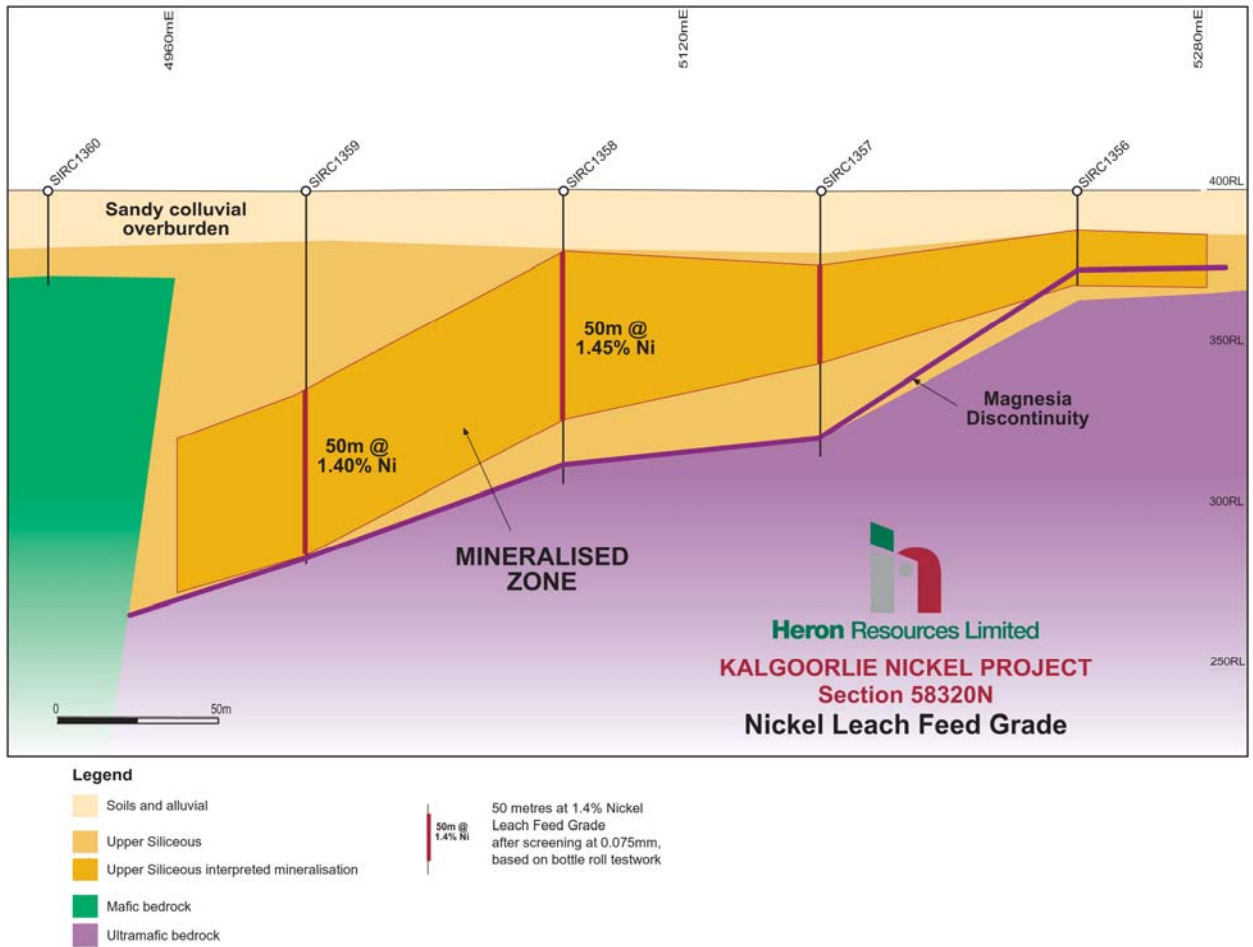
Wellington North: Heron previously completed gossan float sampling, with peak **gossan assay 0.57% Ni, 0.09% Cu, 364ppb Pt, and 674ppb Pd**. This is an unequivocal boxwork gossan derived from the weathering of nickel sulphides. Wellington North reconnaissance soil sampling was completed, with peak **soil assay 939ppm Ni, 61ppm Cu and 6ppb Pt**, supporting the gossan sampling results.

Mineral Patch Hill: PGM sampling of drill pulps has confirmed a continuous Pt-Pd anomaly extending over 3.0km within a central ultramafic unit (analogous to Mt Keith geological setting). Petrological assessment confirmed the presence of chalcopyrite and other fresh sulphides.



**DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

Figure 2 Kalgoorlie Nickel Project, Screen Upgrade Section 58320N



Explanatory Notes to Figure 2, Leach Feed Grade Intersections

- Nickel Leach Feed Grade (% Ni LFG) is an agitated “bottle roll sample” screened at a 0.075mm screen size and is an estimate of the grade following screening of nickel laterite likely to be available to the Pressure Acid Leach (PAL) autoclave. All assays are based on XRF analysis of 2m RC drill samples.
- On Section 58320N above, the entire mineralised zone is within the Upper Siliceous part of the profile.
- Final results are still awaited for SIRC 1357 (results to date are 12m at 1.64% Ni LFG).

DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1.1 OPERATIONS REVIEW

The dominant upgrade style of mineralisation is the Upper and Lower Siliceous mineralisation which is present throughout the Walter Williams Formation ultramafic unit, including the KNP Ghost Rocks, Highway, Goongarrie, Big Four and Siberia resources.

The KNP resource base contains approximately 459mt of mineralisation classed as dominantly siliceous, of which some 411mt is within 30 km of the proposed Goongarrie KNP processing plant.

1.1.1 Highway

Pilot-scale screen upgrade studies were completed by independent consulting metallurgist Orestest on nine 90kg bulk samples from the Highway Prospect.

Following screening, the PAL circuit average LFG for the Highway Upper Siliceous mineralisation was **1.6% Ni and 0.1% Co**, with average nickel upgrades of 116%. Results for Lower Siliceous mineralisation were similarly encouraging, returning an average LFG of 1.4% Ni, with average nickel upgrades of 66%.

All samples performed as well or better than expected in their screen upgrade responses.

1.1.2 Goongarrie Hill

A program comprising 3,159m of RC drilling covering 67 drill holes was completed at the Goongarrie Hill.

Significant nickel upgrade results were returned. Following screening, the weighted average LFG for the Upper Siliceous mineralisation at a 1.0% Ni LFG cut-off was **1.4% Ni and 0.06% Co**. Results for Lower Siliceous mineralisation were similarly encouraging, returning an average LFG of 1.4% Ni.

The siliceous mineralisation, being Upper Siliceous and Lower Siliceous, achieved nickel upgrades of 98% and 70% respectively.

Preliminary estimates indicate that approximately 84% of the laterite at Goongarrie Hill comprises siliceous mineralization, and is therefore capable of significant nickel and cobalt upgrade.

The Goongarrie Hill screen upgrade study confirms a 4km strike length of continuous siliceous upgrade mineralisation. Leach feed grades exceeding 1.5% Ni typically occur in a central 240m wide zone. This occurs within an overall 600m wide envelope characterised by leach feed grades exceeding 1.0% Ni (corresponding to approximately 0.5% Ni head grade).

The most important aspect of the Goongarrie Hill drilling is the continuity of mineralisation on section at the 1.0% Ni LFG cut-off. There is a distinct clustering of high grades exceeding a 1.5% Ni LFG. As an example, on Section 6678320N, results include **18m at 1.68% Ni, 8m at 1.65% Ni, 29m at 1.72% Ni and 4m at 2.09% Ni** in adjoining 80m spaced holes, confirming discrete high grade zones are present.

Most significantly, the Goongarrie Hill screen upgrade results are entirely comparable to those at Highway located 20km north, suggesting a consistent nickel screen upgrade of 90-100% may be achieved for KNP Upper Siliceous mineralisation.

1.1.3 Goongarrie South

A program comprising 2,147m of RC drilling covering 42 drill holes was completed at the Goongarrie South goethitic and siliceous resource.

Drill results confirm a more extensive distribution of siliceous upgrade mineralisation than previously interpreted, with good upgrade characteristics. Best result is 54m at 1.5% Ni LFG (1% Ni LFG cut-off, screening at 75µm).

1.1.4 Big Four

A program comprising 2,349m of RC drilling covering 49 drill holes was completed at the Big Four resource. A broad zone of nickel laterite mineralization has been confirmed by the drilling with better LFG results including 12m at 1.5% Ni, 8m at 1.9% Ni, 10m at 1.4% Ni and 10m at 1.3% Ni (1% LFG cut-off, screening at 75 µm).

A 6,000m RC drilling program has been approved for the area of Big Four purchased from Placer Dome, being a more siliceous mineralisation style.



DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1.1.5 Scotia Dam

A program comprising 724m of RC drilling covering 19 drill holes was completed at the Scotia Dam siliceous resource. Results confirm the known mineralised zone, which is a less siliceous ore type. Accordingly, the upgrade potential is lower. Better results include 6m at 1.5% Ni and 14m at 1.3% Ni (1% Ni LFG cut-off, screening at 75µm).

1.1.6 Siberia

A program comprising 2,196m of RC drilling covering 50 drill holes was completed at the Siberia North siliceous resource as part of the 800mx80m metallurgical sample drilling.

Significant recent drill results include 50m at 1.5% Ni and 50m at 1.4% Ni LFG (1% Ni LFG cut-off, screening at 75µm).

Five low grade composite samples from the Siberia Bag Farm had pilot-scale metallurgical test work completed.

Upper Siliceous mineralisation with 0.61% Ni head grade screens to 1.2% Ni, a 94% upgrade.

Lower Siliceous mineralization with 0.79% Ni head grade screens to 1.3% Ni, a 59% upgrade.

Additional pilot-scale testing is planned, using higher head grade material from the current RC drill program.

1.1.7 Bulong

The date for completion was extended to 30 June 2005. Formal sale agreements have been executed by Heron, and completion is expected in March 2005 for the first tranche of tenements.

Bulong is dominantly a saprolite ore style, in contrast to the Goongarie-Siberia siliceous ore.

1.1.8 Kalpini

Kalpini is being assessed as a source of low grade on-site heap leach nickel laterite ore. Additionally, several nickel sulphide targets have been generated.

1.2 REGENT RESOURCES LIMITED

The proposed Regent IPO is likely to feature Heron's iron ore assets, complemented with oil shale and mineral sands.

1.2.1 Onslow Iron Sands

The project area is located 10km along the coast south-west of Onslow. An iron-sand deposit was delineated in the early 1970s.

As well as iron sands, a heavy mineral sands and alluvial-marine diamond conceptual model was generated for Onslow.

Joint venture discussions for Iron Sands are current.

1.2.2 Bungalbin Iron Ore

Option holder Portman Mining has pegged Mining Lease applications over the Portman Bungalbin Iron Ore resource areas.

Joint venture negotiations continue in respect of the adjoining Bungalbin Aurora Iron Ore rights.

1.2.3 Poondano Iron Ore

The project covers an iron occurrence located 30km SE of the iron ore shipping centre of Port Hedland. Previous work indicates iron-rich outcrops over a 6km strike length with grades up to 59% Fe.

1.2.4 Yindarlgooda VMS

Field sampling of gossan horizons located at Bulong East, Queen Lapage and elsewhere in the Yindarlgooda region was completed. Results are awaited. The massive pyrite and supergene gold in the project area confirms the potential for VMS style Cu-Zn-Au deposits. The Queen Lapage sulphides represent strategic sulphuric acid resources for the KNP nickel laterite projects.

1.2.5 Kimberley Bauxite

Bauxite targets have been identified on tenements originally pegged by Regent for mafic complex Ni-Cu. Development options are being reviewed.



DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1.3 BALLADONIA ENERGY LIMITED

The tenements are continuing to progress to grant. Oil shale/lignite and heavy mineral sand targets are available for immediate magnetic/gravity survey followed by drill testing.

Resource estimates are qualitative at best, but from reviewing previous exploration data, there are significant defined targets.

In 1980s drilling, all of the Heron lignite resources have a high oil yield, being up to 190 litre per tonne. The oil yields are comparable to oil shale deposits in Queensland, which underwent trial production.

Critically, the Balladonia oil shales do not have the environmental issues related to the Queensland projects operating in proximity to the Great Barrier Reef (and ultimately brought pressure to bear to close the projects).

The Balladonia lignite has a higher ash content and lower specific energy values than Victorian Tertiary brown coals, but is comparable to the Leigh Creek deposits being actively mined in South Australia.

The Balladonia lignite is pyritic. Following flotation, this pyrite would be suitable for sulphuric acid manufacture. Sulphuric acid is a major feedstock in nickel laterite processing. This sulphur requirement was the prime original reason for Heron acquiring the Balladonia resource tenements.

Heron's earlier Balladonia lignite-sulphur Scoping Study is being reviewed, with oil prices now more than double those prevailing at the time of the original Scoping Study.

Development of the Balladonia mineral sands properties advanced during the December 2004 Half Year. A recent discovery within the northern Eucla Basin has confirmed that the province is highly prospective for zirconium heavy mineral sands. Previous drilling within the Balladonia project area has intersected zircon rich sands.

A sale or IPO for the oil shale/lignite/mineral sand Balladonia assets is under review, with Heron aiming to retain sulphur off-take.

Discussion is current with a suitably qualified person to assume the CEO role in Balladonia.

HERON SPONSORED INITIAL PUBLIC OFFERS

4.1 Pioneer Nickel Limited

Heron Shareholders received their free Pioneer Nickel Limited in specie share distribution during the Half Year. Pioneer has performed well since its IPO and listing in December 2003, at recent prices representing an approximate \$0.03 per share return to Heron shareholders.

The directors of Heron are pleased to note that Pioneer has established professional exploration team, and have attracted a cornerstone investor in their Acra joint venture partner.

With the clear success of Pioneer, partly in response to the key Acra nickel sulphide project vended in by Heron, Heron believes the timing is now right to end its board association with Pioneer. To this end, the common Heron-Pioneer directors have foreshadowed an intention to step down from the Pioneer board.

Heron wishes Pioneer well, and concludes the association on a harmonious note.

4.2 Avoca Resources Limited

Avoca has performed particularly well following its IPO and listing in April 2002, at recent prices representing an approximate \$0.08 per share return to Heron shareholders.

With this success, common Avoca-Heron director Ian Buchhorn viewed the time was suitable to step down from Avoca, and resigned on 18 February 2005.

Again, Heron wishes Avoca well, and concludes the association on a harmonious note.

4.3 Additional Potential Heron Spin-offs

As the focus for Heron is exclusively on the KNP Feasibility Study, divesting non-laterite assets through IPO spin-offs becomes a higher priority.

The current model is a spin-off involving the Balladonia energy and mineral sand assets, combined with the Regent iron ore assets.



**DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

Auditor's Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

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



Craig Leslie Readhead
Director

Date: 9 March 2005





AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Heron Resources Limited for the half year ended 31 December 2004, 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
Chartered Accountants

PAUL J CHABREL
Partner

Perth
Date: 9 March 2005

BUTLER SETTINERI

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CA CD
Ron Louis
JP FCA
Pasquale Settineri
CA

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	Note	31 Dec 2004	31 Dec 2003
Revenue from operating activities		96,825	502,664
Revenue from ordinary activities		96,825	502,664
Accountancy		(24,324)	(18,000)
Advertising		(25,759)	(3,431)
Computer Software		(78,532)	(3,939)
Conferences & Seminars		(19,486)	(207)
Cost of tenements and data sold		-	(351,252)
Consultants		(119,245)	(5,250)
De-merger of controlled entity		-	61,236
Depreciation		(18,801)	(16,299)
Directors Fees		(25,000)	(8,337)
Employee benefit expense		(14,732)	(19,727)
Exploration expenditure written off		2,423	-
Insurance		(46,494)	(58,649)
Legal		(17,193)	3,832
Media & PR		(28,290)	-
Rental expense		(15,540)	(30,313)
Report/Printing Expenses		(35,934)	(7,092)
Salaries		(14,732)	(6,956)
Stock Exchange		(29,675)	(25,070)
Other expenses from ordinary activities		(58,992)	(155,169)
Loss from ordinary activities before income tax expense		(473,481)	(141,959)
Income tax expense		-	-
Net Loss		(473,481)	(141,959)
Basic earnings per share	3	\$(0.0035)	\$(0.0012)
Diluted earnings per share	3	\$(0.0035)	\$(0.0012)

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



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004**

	31 Dec 2004	30 June 2004
Current Assets		
Cash assets	1,787,310	1,378,243
Receivables	102,277	72,397
Total Current Assets	<u>1,889,587</u>	<u>1,450,640</u>
Non-Current Assets		
Property, plant and equipment	53,279	54,608
Exploration and evaluation costs carried forward	18,456,463	16,449,009
Total Non-Current Assets	<u>18,509,742</u>	<u>16,503,617</u>
TOTAL ASSETS	<u>20,399,329</u>	<u>17,954,257</u>
Current Liabilities		
Payables	389,218	482,500
Provisions	132,709	116,284
Total Current Liabilities	<u>521,927</u>	<u>598,784</u>
TOTAL LIABILITIES	<u>521,927</u>	<u>598,784</u>
NET ASSETS	<u>19,877,402</u>	<u>17,355,473</u>
EQUITY		
Contributed capital	30,262,599	27,267,189
Retained earnings	(10,385,197)	(9,911,716)
TOTAL EQUITY	<u>19,877,402</u>	<u>17,355,473</u>

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



**CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	31 Dec 2004	31 Dec 2003
Cash flows from operating activities		
Payments for administration expenses	(561,299)	(299,422)
Goods and services tax (net movement)	(39,802)	14,670
Interest received	31,352	20,280
Administration fee	-	100,000
Option fee received	23,250	-
Proceeds from sale of data	8,500	15,000
Proceeds from the sale of rights	30,000	-
Net cash used in operating activities	<u>(507,999)</u>	<u>(149,472)</u>
Cash flows from investing activities		
Exploration expenditure	(2,029,902)	(689,130)
Payments for plant and equipment	(18,442)	(5,321)
Cash outflow on de-merger	-	(15,027)
Net cash used in investing activities	<u>(2,048,344)</u>	<u>(709,478)</u>
Cash flows from financing activities		
Proceeds from issue of shares	3,092,000	2,646,323
Capital raising costs	(106,590)	-
Refundable Bonds	(20,000)	20,000
Unsecured loans	-	(24,566)
Unsecured loan repayments	-	108,387
Net cash provided by financing activities	<u>2,965,410</u>	<u>2,750,144</u>
Net increase in cash held	409,067	1,891,194
Cash at the beginning of the reporting period	1,378,243	699,100
Cash at the end of the reporting period	<u>1,787,310</u>	<u>2,590,294</u>

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

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 2004 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 2004 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.

(b) International Financial Reporting Standards ("IFRS")

As previously reported Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The Company's management is assessing the significance of these changes and preparing for their implementation but has not yet quantified their effects. The directors are of the opinion that the key differences in the Company's accounting policies which will arise from the adoption of IFRS are:

Taxation

Under the new AASB - 112 Income Taxes, a balance sheet approach will be adopted for calculating taxation. This method recognises deferred tax balances for all temporary differences arising between the carrying value of an asset or liability within the financial statements and its tax base under the current legislation.

Equity Based Compensation Benefits

Under the new AASB 2 - Share Based Payments, the company will be required to recognise an expense for all share based remuneration, including options, such that the cost to the relevant company is expensed over the relevant vesting period.

Exploration and evaluation costs

Under the new AASB 6 - Exploration for and Evaluation of Mineral Resources, the company will continue to either expense exploration and evaluation costs as incurred or to capitalise costs on an area of interest basis.

Impairment of assets

Under the new AASB 136 - Impairment of Assets, the recoverable amount of an asset, including capitalised exploration and evaluation expenditure, is determined as the higher of net selling price and value in use. This may result in changes to the company's current accounting policy for the determination of an asset's recoverable amount.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

NOTE 2 DIVIDENDS

No dividends have been paid or proposed during or since the end of the Half Year.

NOTE 3 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 136,479,165. The 9,493,172 options on issue as at the end of the Half Year have no dilutive effect.

NOTE 4 SEGMENT INFORMATION

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

NOTE 5 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 2004.

NOTE 6 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.



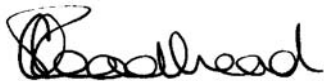
DIRECTOR'S DECLARATION

The Directors declare that:

In the opinion of the Directors:

1. the financial statements and associated notes comply with Accounting Standards, the Corporations 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 2004 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.



Craig Leslie Readhead
Director

Date: 9 March 2005



**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 2004 as set out on pages 12 to 17. The disclosing entity's directors are responsible for the financial report. 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 disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity 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 disclosing entity's financial position as at 31 December 2004 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
Date: 9 March 2005

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