



HERON RESOURCES LIMITED
ACN 068 263 098

FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2007

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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	16
Top 20 Shareholders and Optionholders	17
Independent Review Report	19

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 2007 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 2007 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 2007.

1.2 Board

The names of the Directors of the Company during the period and at 31 December 2007 were:

Craig Leslie Readhead

Ian James Buchhorn

Norman Mathew Longworth

Stephen Bruce Dennis

Kenneth John Hellsten

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

1.3 Corporate

The Company raised \$34.5 million at \$1.15 through placements to major shareholders BHP Billiton and Vale Inco. The Company notes BHP Billiton announced on market purchases of just over 2.4 million shares in September 2007. BHP Billiton has also recently completed the November Placement with the purchase of a further 3 million shares taking BHP Billiton's ownership in the Company to a total of 35,427,126 shares. Subsequent to the end of the reporting period the company notes BHP purchased a further 2.15 million shares on market. BHP Billiton currently holds 37,577,126 shares and Vale Inco as at the date of this report owns a total of 32,440,651 shares.

The ongoing support of the Company's major shareholders is acknowledged. The Company is in a strong position to evaluate the application of atmospheric leaching at the Jump-up Dam Project as well as develop other project opportunities.

Directors exercised a total of 3,000,000 options during the reporting period taking directors holdings to 46,849,403 shares.

Strategic Objectives

1. KNP is the long term production asset, in partnership with Vale Inco.
2. Jump-up Dam is the medium term production asset currently undergoing a scoping study on atmospheric leaching, the Company has a technology licencing and product supply agreement with BHP Billiton covering this project and technology.
3. Looking at near term production opportunities in fields where Heron has comparative advantage.

The Company subscribed to 2,972,973 shares in a rights issue by Polaris Metals NL, taking Heron to a 25.77% holding in Polaris. Heron views this investment as maintaining our strategic exposure to iron ore developments to complement the core nickel business.

1.4 Technology Licencing and Product supply agreement

The Company announced that it has entered into a master technology licensing and product supply agreement with BHP Billiton (**Agreement**). The Agreement covers Jump-up Dam and other nickel laterite projects that Heron develops in the Eastern Goldfields, excluding the area of the Kalgoorlie Nickel Project (**KNP**).

Under the Agreement, BHP Billiton has licensed to Heron the relevant parts of its Intellectual Property relating to Nickel Laterite Technology (**Technology**). In return Heron has granted to BHP Billiton the right to purchase at market the first 50% of any nickel product generated from a Heron controlled project in the Eastern Goldfields using the Technology.

A further right is accorded to BHP Billiton to match the best offer received by Heron in the market for the second 50% of any nickel product produced from that project (including any financing terms). A license fee will apply to any product not sold to BHP Billiton.

The Agreement only extends to nickel laterite projects (excluding the KNP) that are developed in the Eastern Goldfields with the Technology. To avail itself of the licencing provisions of the Agreement, Heron must be a majority owner and manager of the project to be

licensed as at the time a decision to mine that project is taken.

The Agreement has a term of 15 years provided that Heron commences construction of a licenced project within 5 years from signing. BHP Billiton and Heron have also agreed to share their respective background Intellectual Property and knowledge relating to extraction of nickel from nickel laterite ores. A technical exchange environment will be established to help reduce the technical risks and formulate new ideas and methods in the emerging area of leaching of nickel laterite ores.

Heron believes the agreement is an extremely exciting development for the Company as BHP Billiton has developed extensive nickel laterite heap and atmospheric leach technology which is protected by Australian and international patents.

Without legal access to the Technology, stand alone heap leach projects and potentially atmospheric leach run the risk of infringing these patents. Heron is very pleased to be currently the only party in Australia with legal access to these patents.

The Agreement will also allow Heron to further optimise Jump-up Dam as it strives to complete a Pre-Feasibility Study for that project by investigating the potential for including atmospheric leach into the Jump-up Dam flow sheet. Including atmospheric leach may potentially increase resource utilisation and production efficiencies.

2. KEY NICKEL PROJECTS

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

On 5 November 2007 Vale Inco (formerly CVRD-Inco) advised Heron that it would proceed with KNP Step 3. Step 3 involves the completion of a Pre-Feasibility Study (PFS) by the end of January 2009. On 20 November 2007 the Management Committee of the KNP approved an A\$13.8 million program and budget for the first six months of the 14 month PFS for the Project.

The program will involve a significant drilling component to confirm and upgrade the confidence in the KNP resources providing the basis for estimating reserves, mine planning and metallurgical test-work. Vale Inco will investigate the application of High Pressure Acid Leach, Heap Leach and Atmospheric Leach to the extraction of nickel from the laterite ores of the KNP. Test-work for all three potential flow sheets will be undertaken simultaneously along with resource definition drilling and initial engineering and

infrastructure studies. A key component of the second six months of the PFS will be the process engineering and preliminary plant design which will lead to costing and estimation of capex and opex for the project.

Exploration

To facilitate the proposed drilling schedule, a complete review of each KNP prospect was undertaken. A compilation of the existing drilling was completed. Areas where the drill spacing was larger than 160x80 metres spacing and zones that had the potential for a grade of >1.4% Ni, either as a head grade or following beneficiation, were identified for follow-up. These areas included Highway, Siberia North, Goongarrie Hill, Goongarrie South, and Kalpini.

Work plans for each prospect have been commenced to target infill drilling to bring the drill plans to a minimum of 160x80 metre spacing. Programs of work have been completed for each prospect and filed with the DOIR for approval.

Ground geophysical Electrical Resistivity Imaging (ERI) surveys were completed to follow-up the work undertaken during Step 2 of the KNP and to expand other prospect areas. The ERI surveys have added more confidence to the geological model interpretation. Surveys are planned to coincide with drill spacing to an approximate 160 metre line spacing. In areas such as Goongarrie South where there is intensive drilling, the ERI surveys will be at 240 metre line spacing.

A total of 54.6 line kilometres across three prospect areas were completed.

Prospect	Total number of Line Kilometers (Km)
Highway	19.3
Kalpini	11.3
Goongarrie South	24.0

During Step 1 various drilling methods were evaluated for the collection of samples. From those tests, it was determined that the sonic rig provided excellent sample quality and could drill up to a six inch diameter sample. A total of 32 sonic holes were completed in the quarter totalling 1,118.7 metres.

Prospect	Number of Holes	Total Meters Drilled (m)
Highway	8	318.5
Kalpini	9	314.0
Goongarrie South	4	167.6
Goongarrie Hill	11	318.6

RC Drilling commenced in December 2007 at the southern end of the Highway prospect. A total of 22 RC holes were drilled for a total of 933 metres.

Date	Tenement	No. of drillholes	Total Metres (m)
December 07	E29/139	22	933

2.1.2 Metallurgical Test-work

The work program for the next six months includes a leaching process comparison of approximately 60 samples collected from Kalpini (20), Highway (18), Goongarrie Hill (10), Goongarrie South (5) and Bulong (7). The objective of this program is to determine the most suitable process of sulphuric acid leaching that can be applied on the KNP project. The program will evaluate the following processes:

Heap leaching on the ROM (run of mine) ore; and

HPAL or Atmospheric Leaching on the fine fraction obtained as a concentrate material from the beneficiation.

Beneficiation

A beneficiation program has been developed to determine the optimum conditions for nickel recovery having regard to:

top size;

scrubber residence time;

solids contained;

temperature;

rotating speed; and

potential benefit of using an attritioning cell.

Following the completion of this optimisation testing, a variability program for the beneficiation process will examine approximately 300 samples from the selected prospect areas. The objective of the variability program will be to generate a correlation for the upgrade behaviour of each material type. The upgrade correlations could be applied as part of the resource estimation and mining planning phases, while evaluating the opportunity for either HPAL or Atmospheric Leach processes.

Column Leaching

Heap leaching is an alternative method for treating nickel oxide type ores. The lower up front capital costs compared to other processing options could be beneficial to the KNP although operating costs for the heap leach operations have increased recently due to

an escalation in reagent costs and higher consumption of sulphuric acid compared to the HPAL process.

During the first phase of Step 3, a program has been planned to start testing approximately 60 mini leaching columns for the following prospects: Kalpini, Highway, Goongarrie Hill, Goongarrie South and Bulong.

At the beginning of December 2007, 16 mini leaching columns were started from material obtained from the Kalpini prospect.

HPAL, Atmospheric Leaching, Rheology and Settling Tests

The use of screen beneficiation has been an industry practice (used at Moa Bay, Cuba since 1958) to facilitate silica rejection and enrichment of Ni in the fine fraction. This process is also currently employed at other locations in Australia (Norilsk Nickel: Cawse Nickel plant and BHP: Ravensthorpe plant). The beneficiation circuit is economical and can often be crucial to making the entire operation economically feasible.

Taking these previous examples, a case can be made to continue to evaluate the use of a high pressure autoclave vessel or the use of a tank leaching in atmospheric conditions, to dissolve Ni and Co by sulphuric acid.

A test-work program has been developed in conjunction with CSIRO in Australia and the ITSL group (Vale Inco Technology Center) in Canada.

The HPAL tests will utilise elevated temperature and high pressure to produce a slurry product with sulphuric acid.

The atmospheric leaching tests will utilise a temperature under 100 degrees centigrade with sulphuric acid added to the ore.

These programs are scheduled to begin during the second half of January 2008.

2.1.3 Jump-up Dam

Pre-Feasibility Study

On 25 January 2008, Heron announced the PFS at Jump-up Dam had concluded that based on current configurations, Jump-up Dam as a stand alone heap leach project does not make an adequate return on investment.

Trial mining at Jump-up Dam will continue as originally planned for mining studies and grade reconciliations. However, the proposed demonstration heap leach operation will be placed on care and maintenance.

The PFS estimated capital expenditure at A\$681.9 million and operating costs of A\$6.39 per pound of nickel production. These costs represent escalations of approximately 50% and 56% respectively from the Scoping Study completed in April 2007. Escalations in capital expenditure are due to significant increases in the capital cost of acid plants and power plants (97% increase). Escalations in operating costs are predominantly due to sulphur price rises and the impact of higher oil prices on transport and mining costs. Ongoing increases in construction and labour costs also contributed to the escalated PFS outcome.

Heron will draw on opportunities presented by its recently announced Technology Licensing and Product Supply Agreement to fully evaluate Atmospheric Leach as a processing option for Jump-up Dam and surrounding deposits. Atmospheric leaching allows beneficiation to provide a higher leach feed grade and better utilisation of the resources within the Yerilla District. Heron has gained specific experience in laterite beneficiation during the past eight years and will be applying this knowledge to the Jump-up Dam Project.

Significantly, nickel laterite discoveries during the last year at Jump-up Dam South, Boyce Creek, Aubils and Pianto Road will now provide a major opportunity for nickel production increases in future Atmospheric Leach development scenarios.

Over the next nine months Heron will re-estimate the Yerilla District resources based on the new 40x40 metre Jump-up Dam drilling. Heron will include a new resource estimate from Boyce Creek into the Atmospheric Leach pre-feasibility model should the results of the scoping study warrant.

During the period, a further extension of the Jump-up Dam ultramafic was identified during excavation of solution ponds for the demonstration. This ultramafic is located over 300 metres south of the previous most southern drilling. A program of exploration drilling is scheduled to test this ultramafic during the March 2008 Quarter. Potential exists to extend the Jump-up Dam resource in this direction.

Resource

A total of 236 reverse circulation holes for 10,890 metres were drilled in the period at Jump-up Dam. The drilling was focused on infilling the 80x40 metre spaced indicated resource to 40x40m and the drilling identified the presence of a number of continuous high grade shoots (not previously delineated) within the resource envelope. Two small grade control patterns of 10x10m drilling were also completed in the areas assigned for

trial mining. A small sonic drilling program of nine holes and 348 metres was also completed to provide additional material for ongoing metallurgical trials.

Metallurgical Test-work

Final MSP (Mixed Sulphide Product) precipitation tests were completed successfully for the PFS and may be applicable for the Atmospheric Leach PFS. Sonic core sample was received in Perth for the next round of beneficiation and atmospheric leach test-work.

Water Exploration

Water exploration continued during the quarter with the identification of potential sources for the required process water for the project. The sources for approximately two thirds of the required water were identified. Water exploration will recommence upon positive completion of the Atmospheric Leach scoping study during the first half of 2008.

Boyce Creek Project

The Boyce Creek project (100% Heron) is located some 25km north-west of the Jump-up Dam site and will provide additional resources for the Jump-up Dam project. Current Inferred Resources stand at 12.8Mt grading 0.91% Ni at a 0.70% Ni cut-off. Drilling in the last quarter has focussed on closing in the drill spacing to 80x40m for estimation of an Indicated Resource. Some 163 RC holes for 7,843m were completed. A further 9,000m of RC drilling is being completed by the end of February 2008 with a revised resource to be estimated. Many results are still pending, however, significant results to date include:

Boyce Creek Significant Drill Results at 0.7% Ni Cut-off (>1% Ni).

Boyce Creek Resource

Hole	From	Width	Ni%	Co%
YERC0263	12	6	1.22	0.02
YERC0270	8	10	1.11	0.05
YERC0273	6	20	1.05	0.08
YERC0274	10	12	1.16	0.03
YERC0275	4	12	1.23	0.03
YERC0283	10	20	1.09	0.17
YERC0286	28	16	0.99	0.04
YERC0287	20	4	1.00	0.01

Eight sonic core (six inch diameter) holes for 329m were also drilled to provide check assays for the RC drilling and material for density measurements and metallurgical test-work. Test-work to date has

concentrated on beneficiation characteristics with results showing typical nickel upgrade factors for the mineralisation styles.

Encouraging upgrade results (50-150%) were obtained for composites 1 – 4 which consisted of siliceous limonitic material, while the nontronite dominated composites, 5 – 8, returned lower upgrades as expected. The test-work continues to evaluate crushing and scrubbing to optimise grade and maximise nickel recoveries. The initial test-work involved low energy screening which delivered encouraging improvements on grade. Further test-work is underway to increase overall nickel recoveries, particularly from nontronite type ore.




**MATHEW LONGWORTH
MANAGING DIRECTOR**

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.

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 8.

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



Craig Leslie Readhead
Director

Date: 12th March 2008



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Heron Resources Limited for the half year ended 31 December 2007, 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
BUTLER SETTINERI (AUDIT) PTY LTD

Colin P Butler
COLIN P BUTLER
Director

Perth
Date: 12 March 2008

BUTLER
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Registered Company Auditor Number 289109

Liability limited by a scheme approved under Professional Standards Legislation

www.butlersettineri.com.au

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDING 31 DECEMBER 2007

	Notes	31 Dec 2007 \$'000	31 Dec 2006 \$'000
Revenue	2	1,412	6,581
Revenues from continuing activities		1,412	6,581
Accounting Fees		(11)	(75)
Audit		(20)	(3)
Corporate Consultants		(168)	(1,033)
Depreciation expense		(154)	(17)
Directors Fees		(111)	(39)
Employee benefits expense		(631)	(496)
Insurance		(45)	(45)
Legal		(374)	(320)
Share Based Payments	3	(3,511)	(1,398)
Other expenses from ordinary activities	4	(716)	(985)
Exploration expenditure written off		(308)	(139)
Share of loss of associate	7	(542)	-
(Loss)/Profit before Income Tax		(5,179)	2,031
Income tax expense		-	-
(Loss)/Profit for the Half Year		(5,179)	2,031
Loss attributable to minority interest		-	17
(Loss)/Profit attributable to Members		(5,179)	2,048
		\$	\$
Basic earnings per share	5	\$(0.025)	\$0.012
Diluted earnings per share	5	\$(0.025)	\$0.011

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

CONSOLIDATED BALANCE SHEET
FOR THE HALF YEAR ENDING 31 DECEMBER 2007

	Notes	31 Dec 2007 \$'000	30 June 2007 \$'000
Current Assets			
Cash assets		47,912	29,590
Investments		-	461
Receivables		936	918
Total Current Assets		<u>48,848</u>	<u>30,969</u>
Non-Current Assets			
Investments	6	1,107	1,320
Investments accounted for using the equity method	7	7,033	5,792
Receivables		165	-
Property, plant and equipment		4,859	1,712
Exploration and evaluation costs carried forward		42,566	31,064
Total Non-Current Assets		<u>55,730</u>	<u>39,888</u>
TOTAL ASSETS		<u>104,578</u>	<u>70,857</u>
Current Liabilities			
Payables		5,707	2,114
Provisions		494	528
Total Current Liabilities		<u>6,201</u>	<u>2,642</u>
TOTAL LIABILITIES		<u>6,201</u>	<u>2,642</u>
NET ASSETS		<u>98,377</u>	<u>68,215</u>
EQUITY			
Contributed Equity	9	109,875	77,324
Revaluation Reserve		147	667
Option Reserve		5,716	2,406
Accumulated losses		(17,361)	(12,182)
TOTAL EQUITY		<u>98,377</u>	<u>68,215</u>

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 2007

	Issued Capital	Retained earnings	Asset Revaluation reserve	Employee Equity Benefits Reserve	Minority Interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2006	45,180	(12,299)	46	500	-	33,427
Profit for the half year	-	2,048	-	-	(17)	2,031
Issue of Share Capital	7,269	-	-	-	75	7,344
Revaluation of Investments	-	-	5,450	-	-	5,450
Cost of Share Based Payments	-	-	-	1,398	-	1,398
Demerger of Subsidiary	(835)	90	-	-	-	(745)
Option Reserve transfer on exercise	3	-	-	(3)	-	-
As at 31 December 2006	<u>51,617</u>	<u>(10,161)</u>	<u>5,496</u>	<u>1,895</u>	<u>58</u>	<u>48,905</u>
As at 30 June 2007	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)	-	-
As at 31 December 2007	<u>109,875</u>	<u>(17,361)</u>	<u>147</u>	<u>5,716</u>	<u>-</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 ENDED 31 DECEMBER 2007

	Notes	31 Dec 2007 \$'000	31 Dec 2006 \$'000
Cash flows from operating activities			
Payments to suppliers		(1,937)	(2,626)
Goods and services tax (net movement)		(264)	(31)
Interest received		880	306
Option fee received		-	2
Net cash used in operating activities		<u>(1,321)</u>	<u>(2,349)</u>
Cash flows from investing activities			
Exploration expenditure		(10,662)	(2,546)
Acquisition of plant and equipment		(794)	(135)
Purchase of Investments		(1,784)	(560)
Proceeds on Sale of Investments		698	167
Cash outflow on demerger		-	(31)
Net cash used in investing activities		<u>(12,542)</u>	<u>(3,105)</u>
Cash flows from financing activities			
Proceeds from issue of shares		32,185	7,345
Loans to controlled entities		-	7
Net cash provided by financing activities		<u>32,185</u>	<u>7,352</u>
Net increase in cash held		18,322	1,898
Cash at the beginning of the reporting period		29,590	9,178
Cash at the end of the reporting period	8	<u>47,912</u>	<u>11,076</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 2007 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 2007 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 2007 annual financial report for the financial year ended 30 June 2007.

NOTE 2 REVENUE – INCOME STATEMENT

Revenue includes interest received of \$1,083,289 and profit on sale of GME and Pioneer shares of \$297,868.

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 2007	31 Dec 2006
	\$'000	\$'000
Computer Software and Services	(83)	(50)
Conferences and Seminars	(23)	(35)
Media & Public Relations	(50)	(62)
Recruitment	(39)	(94)
Rental Expense	(127)	(151)
Report/Printing Expenses	(58)	(56)
Stock Exchange	(99)	(134)
Travel and Accommodation	(70)	(62)
Miscellaneous Expenses	(167)	(341)
	<u>(716)</u>	<u>(985)</u>

NOTE 5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the half yearly loss of \$5,179,247 by the weighted average number of ordinary shares outstanding during the half-year of 211,684,499.

NOTE 6 INVESTMENTS IN OTHER ENTITIES

Heron holds 15,000,000 unlisted options in Epsilon Energy Limited, exercisable at \$0.25, expiring 30 June 2009 as at 31 December 2007. These have been valued using the Black Scholes method. These options were issued pursuant to the Sale and Purchase Agreement between Heron and Epsilon.

NOTE 7 INVESTMENTS – EQUITY ACCOUNTED INVESTMENTS

Polaris Metals NL is an Australian listed public exploration company with 126,993,020 fully paid shares on issue at 31 December 2007. Heron held 32,702,703 issued fully paid shares at 31 December 2007, representing a 25.75% ownership. Heron also hold 14,000,000 unlisted options exercisable at \$0.30 expiring on 14 July 2011.

The Polaris Metal NL loss for the half year was \$2,104,630, therefore Herons share of the loss is \$541,942.

	31 Dec 2007	31 Dec 2006
	\$'000	\$'000
Investment at cost	7,836	-
Share of loss from Polaris	(803)	-
Carrying value	<u>7,033</u>	<u>-</u>

NOTE 8 CASH FLOW STATEMENTS

Environmental Bonds of \$381,645 (June 2007: \$262,607) 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.

Escrow Accounts of \$65,059 (June 2007: \$63,250) 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 2007: \$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 9 CAPITAL

	31 December 2007	31 December 2006	31 December 2007	31 December 2006
	Shares	Shares	\$'000	\$'000
Issue of ordinary shares				
Opening Balance 1 July	205,438,847	167,315,600	77,324	45,180
Exercise of options under Employee Option Plan	5,400,000	110,000	1,276	28
Exercise of Other Options	100,000	1,519,172	24	396
Issue of re-valued options	-	-	201	3
Issue of other shares	27,000,000	10,532,575	31,050	6,846
Capital Reduction	-	-	-	(835)
Closing Balance	<u>237,938,847</u>	<u>179,477,347</u>	<u>109,875</u>	<u>51,618</u>

NOTE 10 SUBSEQUENT EVENTS

The Heap Leach Demonstration at Jump-up Dam ceased on 25 January 2008 as the process did not provide an adequate return on investment, following completion of the Prefeasibility Study (PFS). The trial mining at Jump-up Dam will continue as planned for mining studies and grade reconciliation. The Company will be shifting its focus to assessing Atmospheric Leach technology, as an alternative to Heap Leach.

NOTE 11 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 12 SEGMENT REPORTING

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

NOTE 13 COMPARITIVES

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

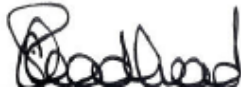
DIRECTOR'S DECLARATION

The Directors declare that:

In the opinion of the Directors:

1. the financial statements and associated notes comply with Accounting Standards, the Corporations 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 2007 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 2008

SHAREHOLDER INFORMATION

Twenty Largest Shareholder as at 31 December 2007

		Number of Shares	Percentage
1	Kurana Pty Ltd ¹	34,082,692	14.32
2	Inco Australia Holdings Pty Ltd ³	32,440,651	13.63
3	BHP Minerals Holdings Pty Ltd ⁴	29,937,960	12.58
4	HSBC Custody Nominees Australia Ltd	11,327,752	4.77
5	MBM Corporation Pty Ltd ²	9,767,692	4.11
6	Chaos Investments Pty Ltd ²	4,746,924	2.00
7	Hazurn Pty Ltd ¹	4,565,384	1.92
8	Koltai Holdings Pty Ltd	4,515,679	1.90
9	JP Morgan Nominees Australia Ltd	4,475,949	1.88
10	National Nominees Ltd	3,674,608	1.54
11	Central Courthouse Pty Ltd	3,193,476	1.34
12	Citicorp Nominees Ltd	2,831,201	1.19
13	Merrill Lynch Australia Nominees Pty Ltd	2,539,166	1.07
14	Buchhorn Ian James ¹	2,455,549	1.03
15	Owvimar Investments Pty Ltd	2,400,000	1.01
16	Wardle David James ²	2,240,000	0.94
17	RBC Security Nominees Pty Ltd	2,150,000	0.90
18	Cogent Nominees Ltd	2,069,363	0.87
19	Kimlex Investments Pty Ltd ²	1,907,692	0.80
20	Manorina Mining Pty Ltd ¹	1,825,992	0.77
	TOTAL	163,147,730	68.57

Substantial Shareholders including related parties who have notified the Company

	Shares	Percentage
¹ I Buchhorn and related parties	44,457,307	18.68
³ Inco Australia Holdings Pty Ltd	32,440,651	13.63
⁴ BHP Minerals Holdings Pty Ltd	29,937,960	12.58
² MBM Corporation Pty Ltd and Chaos Investments Pty Ltd and related parties	20,523,652	8.62

SHAREHOLDER INFORMATION

Summary of Option holders as at 31 December 2007

		Number of Options	% of Issued Options
1	Buchhorn P	16,000,000	30.17
2	Longworth NM	12,000,000	22.63
3	Klug FA	4,000,000	7.54
4	Reynolds M	4,000,000	7.54
5	Argonaut Investments	2,750,000	5.19
6	Hengolo Pty Ltd	2,500,000	4.71
7	von Perger D	2,500,000	4.71
8	Hellsten K	2,250,000	4.24
9	Dennis S	2,250,000	4.24
10	Calvert S	2,200,000	4.15
11	von Perger J	500,000	0.94
12	Millard A	500,000	0.94
13	Mat Mining Pty Ltd	500,000	0.94
14	Andinach A	250,000	0.47
15	Browning T	100,000	0.19
16	Briant J	100,000	0.19
17	Jones S	100,000	0.19
18	Horan B	100,000	0.19
19	Haslam M	100,000	0.19
20	Robertson B	100,000	0.19
21	Le Shay Chong	50,000	0.09
22	Hui Kei Man	50,000	0.09
23	Priestley J	50,000	0.09
24	Maithilee Shirgaonkar	25,000	0.06
25	Purcell V	25,000	0.06
26	Purcell P	25,000	0.06
	TOTAL	53,025,000	100.00

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 2007, 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 2007 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

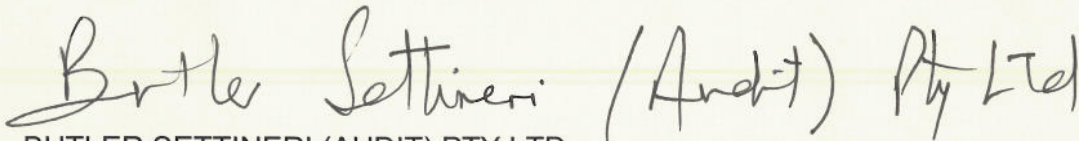
Independence

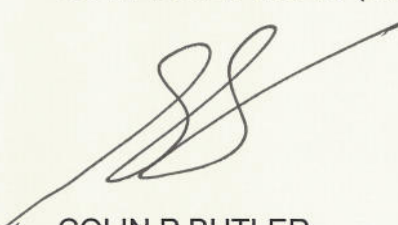
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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 2007 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: 12 March 2008