



HERALD
RESOURCES

**Your Independent Directors
unanimously recommend
that you**

Reject

**the inadequate offer by
Calipso Investment Pte. Ltd
for your Herald Shares**

“The offer is neither Fair nor Reasonable”
Lonergan Edwards, Independent Expert

This is an important document that requires your immediate attention. If you are in any doubt as to how to deal with this document, you should consult your financial or other professional adviser as soon as possible.

LEGAL ADVISERS

CORPORATE ADVISERS



Beerworth & Partners
CORPORATE ADVISERS

IMPORTANT NOTICES

■ TARGET'S STATEMENT

This Target's Statement is dated 21 September 2009 and is given by Herald Resources Limited (**Herald**) under Part 6.5 of the Corporations Act. This Target's Statement is given in response to the Bidder's Statement dated 25 August 2009 which was served on Herald by Calipso Investment Pte. Ltd (**Calipso**), a wholly owned subsidiary of PT Bumi Resources Tbk (**PT Bumi**).

You should read this Target's Statement in its entirety.

DEFINED TERMS

A number of defined terms are used in this Target's Statement. Those terms are explained in the Definitions and Interpretation section of this Target's Statement.

NO ACCOUNT OF PERSONAL CIRCUMSTANCES

This Target's Statement does not take into account the individual investment objectives, financial situation and particular needs of each Herald Shareholder. You may wish to seek independent financial and tax advice before making a decision whether or not to accept Calipso's Offer for your Herald Shares.

ASIC AND ASX DISCLAIMERS

A copy of this Target's Statement has been lodged with ASIC and sent to the ASX. None of ASIC, the ASX or any of their respective officers takes any responsibility for the contents of this Target's Statement.

INDEPENDENT EXPERT'S REPORT

The Independent Directors of Herald have commissioned an Independent Expert's Report (**IER**) from Lonergan Edwards & Associates Limited (**Lonergan Edwards**) in respect of Calipso's Offer. A concise IER is included in this Statement.

The whole of the IER may be downloaded from the Herald website at www.herald.net.au or Shareholders may call Herald in Perth on 08 9322 2788 (for callers outside Australia +61 8 9322 2788).

DISCLAIMER REGARDING FORWARD LOOKING STATEMENTS

This Target's Statement contains forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which Herald operates as well as risks related to general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected.

None of Herald or any of its officers or any person named in this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement or any events or results expressed or implied in any forward looking statement. The forward looking statements in this Target's Statement should be read in conjunction with the assumptions and the risk factors set out in this Statement.

ADDITIONAL INFORMATION

Please call Herald in Perth on 08 9322 2788 (for callers outside Australia +61 8 9322 2788).

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INDEPENDENT DIRECTORS' LETTER



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21 September 2009

Dear Shareholder

CALIPSO'S INADEQUATE OFFER FOR YOUR SHARES

TARGET'S STATEMENT

You have received an Offer for your Herald Shares from Calipso Investment Pte Ltd (**Calipso**), a wholly owned subsidiary of PT Bumi Resources Tbk (**PT Bumi**).

The Independent Directors of Herald wrote to you recently recommending that you **reject the Calipso Offer**, ignore any documents you may receive from Calipso and wait until you receive this Target's Statement from us, including the report of the Independent Expert. We now attach the Target's Statement so you can evaluate the facts.

Your Independent Directors unanimously recommend that you reject the Calipso Offer.

KEY REASONS TO REJECT

Our detailed reasons are set out following this letter. Some key points are:

- put simply, the **amount offered is less than a fair price**. This is outlined and confirmed by the Independent Expert
- the Calipso Offer is unduly influenced by the recent ASX market price of Herald shares, which are very illiquid, thinly traded and **do not reflect the true underlying value of your Herald Shares**
- Calipso paid \$2.85 a Share for control just over a year ago and now **offers you less than a quarter** of that amount
- **Herald's world class zinc and lead Dairi project will proceed once Indonesian Government approvals are provided.**

INDEPENDENT EXPERT'S REPORT BY LONERGAN EDWARDS

Your Independent Directors commissioned an Independent Expert's Report (**IER**) from Lonerган Edwards. A concise form of their IER is enclosed.

Lonerган Edwards' opinion is that Calipso's Offer is **neither fair nor reasonable**.

Lonerган Edwards values your Herald Shares within a range of \$1.07 – \$1.44.

Calipso would need to increase its Offer by \$0.55 (or nearly 80%) to equal the mid-point of Lonerган Edwards' range.

If you would like a full copy of the Lonerган Edwards' IER, you may download it from the Herald website at www.herald.net.au or you may telephone our Perth Office for a copy on 08 9322 2788 (for callers outside Australia +61 8 9322 2788).

FAIR VALUE FOR YOUR HERALD SHARES

In your Independent Directors' view, Calipso should offer you at least the mid-point of Lonerган Edwards' valuation range to achieve fair value for your Herald Shares, that is, \$1.25.

REJECTION OF CALIPSO'S OFFER

Simply ignore the Offer and all communications from Calipso.

Yours sincerely

Herald Resources Independent Directors

MR ANDREW WILSON

MR BRIAN HURLEY

MR JAMES DRACOPOULOS

9 REASONS TO REJECT CALIPSO'S INADEQUATE OFFER

1

70 CENTS IS NOT FAIR OR REASONABLE

2

THE INDEPENDENT EXPERT VALUES HERALD'S SHARES BETWEEN \$1.07 AND \$1.44

3

CALIPSO OFFERS LESS THAN A QUARTER OF THE \$2.85 IT PAID ONLY 14 MONTHS AGO

4

ZINC AND LEAD PRICES HAVE RECOVERED SINCE CALIPSO PAID \$2.85

5

HERALD'S WORLD CLASS DAIRI PROJECT WILL PROCEED ONCE INDONESIAN APPROVALS ARE GIVEN *

6

CALIPSO WANTS YOUR SHARES CHEAPLY BEFORE THEN *

7

THE APPROVALS ARE 14 MONTHS CLOSER *

8

HERALD'S SHARE PRICE DOES NOT REFLECT THE REAL VALUE OF YOUR SHARES

9

REJECT CALIPSO'S OFFER SO THAT YOUR INDEPENDENT DIRECTORS CAN NEGOTIATE WITH PT BUMI AND CALIPSO AN APPROPRIATELY HIGHER OFFER

* **IMPORTANT NOTE:** PLEASE SEE RISKS OF NOT ACCEPTING ON PAGE 9 AND INFORMATION ON INDONESIAN GOVERNMENT APPROVALS ON PAGE 25

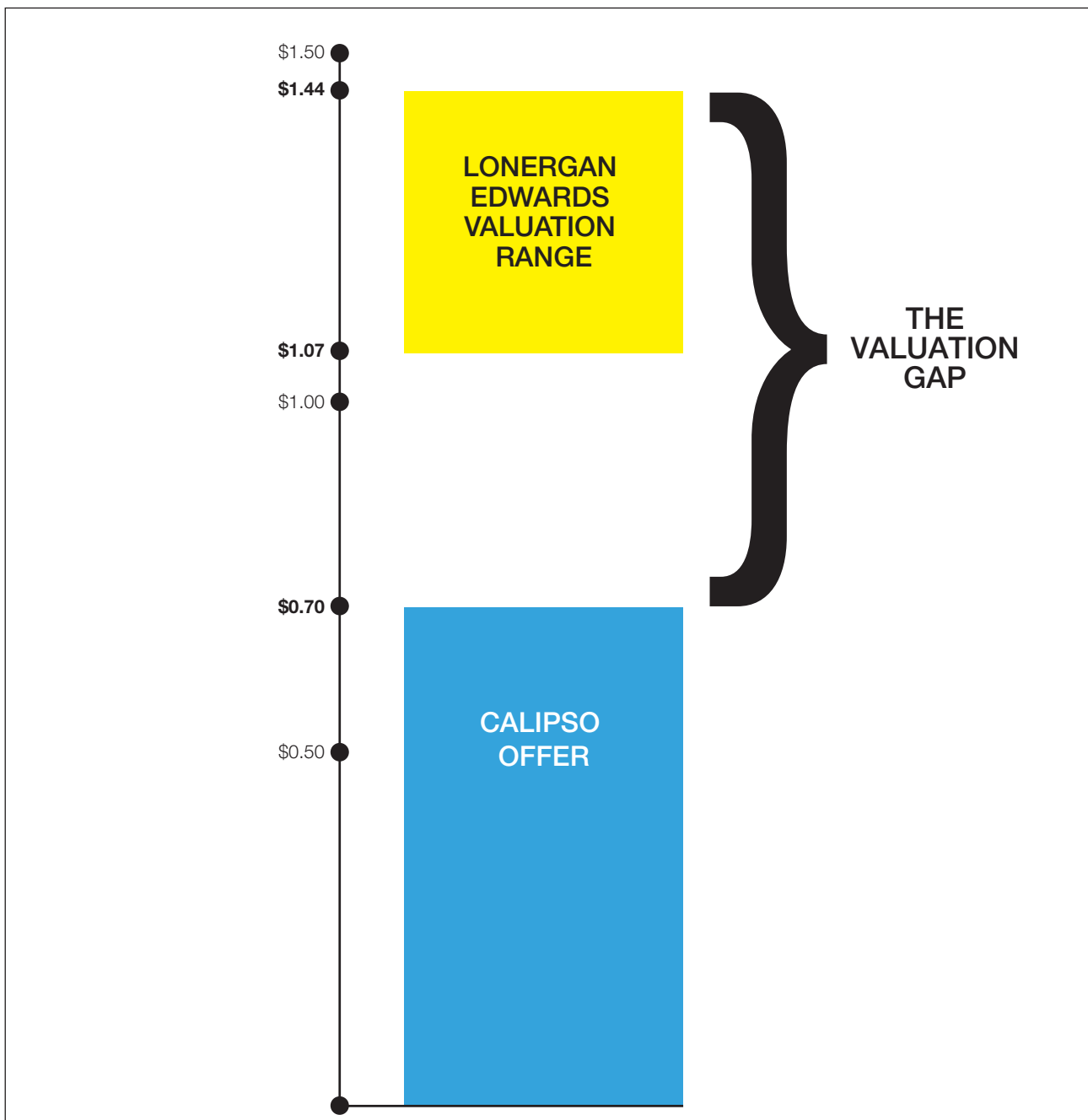
9 REASONS TO REJECT CALIPSO'S INADEQUATE OFFER

1

THE INDEPENDENT EXPERT, LONERGAN EDWARDS, REGARDS \$0.70 AS **NEITHER "FAIR" NOR "REASONABLE"**

2

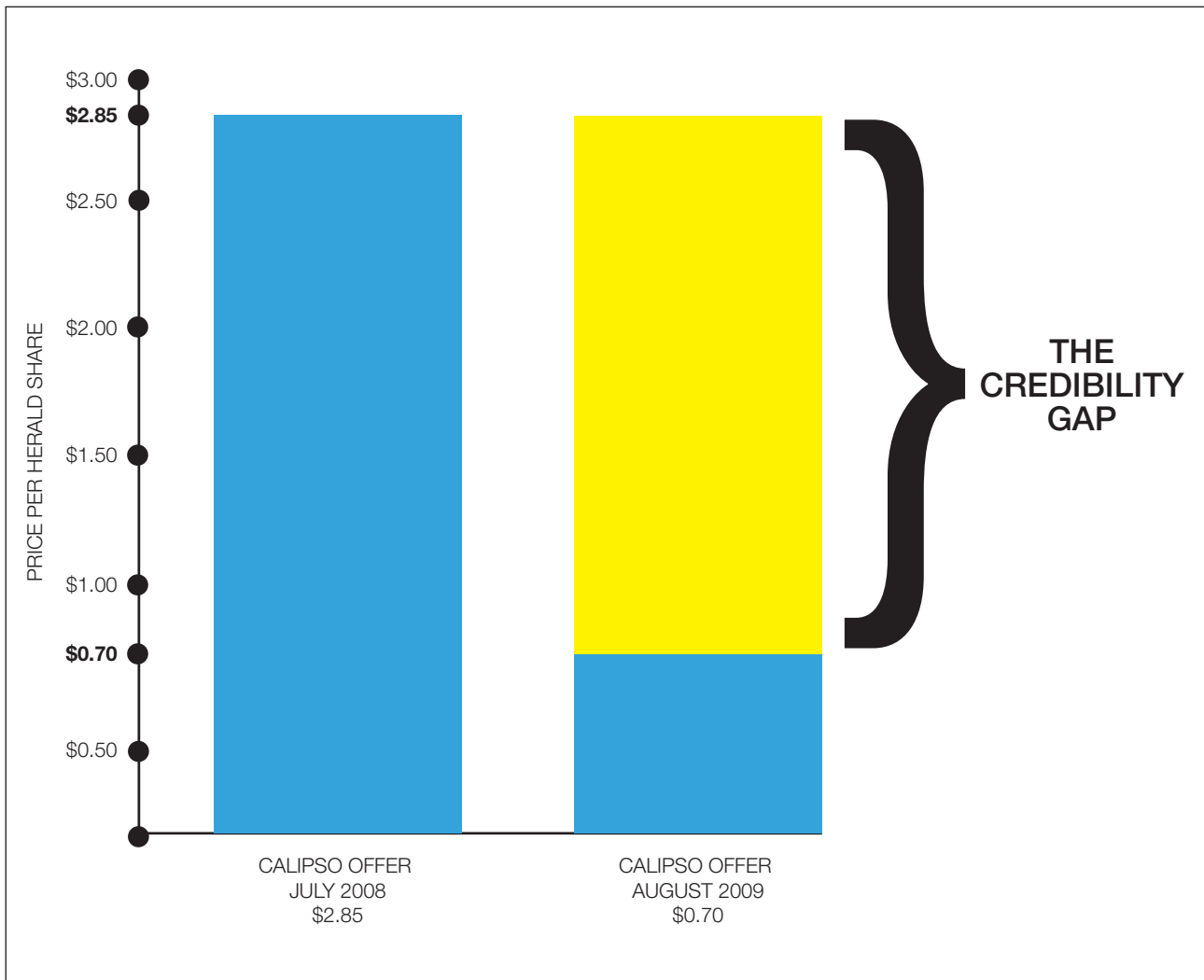
LONERGAN EDWARDS VALUES HERALD SHARES **BETWEEN \$1.07 AND \$1.44**



9 REASONS TO REJECT CALIPSO'S INADEQUATE OFFER

3

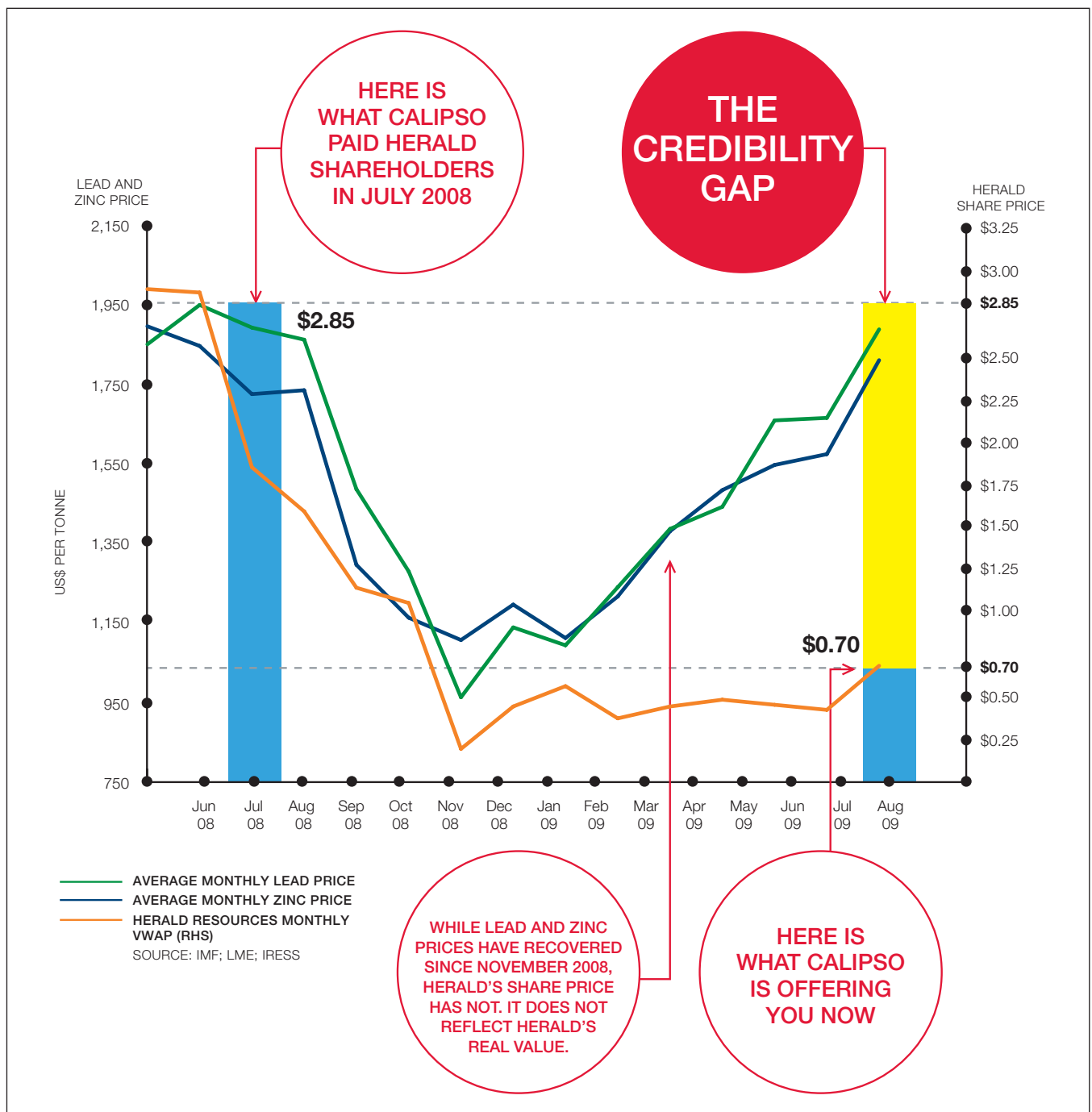
CALIPSO PAID \$2.85 PER SHARE JUST OVER A YEAR AGO AND NOW OFFERS YOU LESS THAN A QUARTER OF THAT AMOUNT



9 REASONS TO REJECT CALIPSO'S INADEQUATE OFFER

4

CALIPSO'S \$2.85 OFFER WAS MADE DURING THE GLOBAL FINANCIAL CRISIS WHEN ZINC AND LEAD PRICES WERE FALLING. **THEY ARE NOW AGAIN AT COMPARABLE LEVELS.**



9 REASONS TO REJECT CALIPSO'S INADEQUATE OFFER

5

HERALD'S WORLD CLASS ZINC AND LEAD DAIRI PROJECT **WILL PROCEED** ONCE INDONESIAN GOVERNMENT APPROVALS ARE PROVIDED*

6

CALIPSO'S OFFER IS OPPORTUNISTIC BECAUSE IT WANTS TO ACQUIRE YOUR SHARES CHEAPLY BEFORE DAIRI RECEIVES THESE APPROVALS*

7

YOUR INDEPENDENT DIRECTORS DO NOT KNOW WHEN THE APPROVALS WILL BE RECEIVED, BUT THEY ARE **14 MONTHS CLOSER** THAN WHEN CALIPSO PAID \$2.85*

8

THE ASX MARKET PRICE FOR YOUR SHARES **DOES NOT REFLECT THEIR REAL VALUE**

9

YOUR INDEPENDENT DIRECTORS INTEND TO USE THE SUBSTANCE OF THE INDEPENDENT EXPERT'S REPORT TO NEGOTIATE AN APPROPRIATELY HIGHER OFFER WITH PT BUMI AND CALIPSO. **THE IER PROVIDES OBJECTIVE COMPELLING EVIDENCE** THAT PT BUMI AND CALIPSO MUST TAKE INTO CONSIDERATION

* **IMPORTANT NOTE:** PLEASE SEE RISKS OF NOT ACCEPTING ON PAGE 9 AND INFORMATION ON INDONESIAN GOVERNMENT APPROVALS ON PAGE 25

**YOUR INDEPENDENT
DIRECTORS UNANIMOUSLY
RECOMMEND THAT YOU**

REJECT

CALIPSO'S OFFER.

TO REJECT THE OFFER — DO NOTHING.

FREQUENTLY ASKED QUESTIONS

1. WHAT DO THE INDEPENDENT DIRECTORS RECOMMEND?

Each Independent Director recommends that you REJECT Calipso's Offer.

The reasons for the Independent Directors' recommendation are detailed in this Statement.

2. WHAT DOES THE INDEPENDENT EXPERT SAY?

The Independent Expert has concluded that Calipso's Offer is **NEITHER FAIR NOR REASONABLE**.

Loneragan Edwards values your Herald Shares within a range of \$1.07 to \$1.44.

Calipso would need to **increase its offer by \$0.55** (or nearly 80%) to achieve the mid-point of Loneragan Edwards' valuation.

The concise Independent Expert's Report is included in this Statement and the full report is available on the Herald website: www.herald.net.au

3. WHAT CHOICES DO I HAVE AS A HERALD SHAREHOLDER?

As a Herald Shareholder, you have the following choices in respect of all your Herald Shares:

- (a) Reject Calipso's Offer and remain a Herald Shareholder in respect of all of your Herald Shares. Your Independent Directors recommend that you REJECT Calipso's Offer.
- (b) Accept Calipso's Offer — this is NOT RECOMMENDED by your Independent Directors.
- (c) Sell your Herald Shares on market.

4. WHAT IS CALIPSO OFFERING FOR MY HERALD SHARES?

Calipso is offering \$0.70 cash for each of your Herald Shares.

The conditions of Calipso's Offer are:

- Calipso obtaining, during or at the end of the Offer Period, a sufficient number of Herald Shares that may enable Calipso to compulsorily acquire all Herald Shares pursuant to the Corporations Act. This requires:
 - i. Calipso and its associates to acquire a relevant interest in at least 90% of all Herald Shares; and
 - ii. Calipso and its associates to acquire at least 75% of the Herald Shares that Calipso has offered to acquire under the Offer.
- Calipso obtaining, prior to the end of the Offer Period, the consent of the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975 (Cth) to the proposed acquisition by Calipso of all Herald Shares that are not already owned by Calipso and its associates.

5. WHY ARE THE INDEPENDENT DIRECTORS RECOMMENDING THAT I REJECT CALIPSO'S OFFER?

Your Independent Directors believe that Calipso's Offer is inadequate and does not offer you a fair price.

They recommend that you REJECT Calipso's Offer for the key reasons set out in this Statement.

6. WHAT DO THE INDEPENDENT DIRECTORS INTEND TO DO WITH THEIR HERALD SHARES?

The only Independent Director who has a relevant interest in Herald Shares is Andrew Wilson. Mr Wilson intends to REJECT Calipso's Offer in respect of all of the Herald Shares in which he has a relevant interest.

FREQUENTLY ASKED QUESTIONS

7. WHAT SHOULD I DO?

To follow the Independent Directors' recommendation to **REJECT** Calipso's Offer, **DO NOTHING**. Disregard all documents sent to you by Calipso or PT Bumi and any calls from representatives of Calipso.

You may wish to seek independent financial and taxation advice from your professional advisers in relation to any action that you should take in relation to Calipso's Offer and your shareholding.

8. HOW DO I REJECT CALIPSO'S OFFER?

To **REJECT** Calipso's Offer, you do not need to do anything. Simply ignore all documents sent to you by Calipso. Do not fill in or send any documents to Calipso.

Do not speak to any Calipso representative.

9. WHAT ARE THE RISKS OF NOT ACCEPTING CALIPSO'S OFFER?

The risk factors are detailed in the Additional Information section of this Target's Statement. The key risks include:

- If the Offer is unsuccessful, the trading price of Herald Shares may fall to their trading price immediately before the Offer was made or possibly even lower.
- You may be unable to sell your Herald Shares because of their illiquidity.
- If Herald does not obtain Forestry Approval for its Dairi Project, the value and trading price of Herald Shares are likely to be materially adversely affected. However, the Independent Directors have no reason to believe that Forestry Approval will not be granted.

10. WHEN DO I HAVE TO MAKE A DECISION?

If you wish to follow the Independent Directors' recommendation and REJECT Calipso's Offer, you do not need to do anything.

If you wish to accept Calipso's Offer, you must do so before its scheduled closing date. Calipso has stated that Calipso's Offer remains open until 7pm AEST on 12 October 2009. It is possible that Calipso might choose to extend Calipso's Offer Period in accordance with the Corporations Act. In addition, Calipso's Offer Period may be extended automatically in certain circumstances.

11. WHAT HAPPENS IF CALIPSO'S OFFER IS UNSUCCESSFUL?

Calipso will not acquire any Herald Shares under Calipso's Offer. This means that Calipso will continue to hold 84.20% of the Herald Shares.

If you did not accept Calipso's Offer, you will retain your Herald Shares.

If you accepted Calipso's Offer, Calipso will return your Herald Shares to you.

12. IF I ACCEPT, CAN I LATER WITHDRAW?

If you accept, you cannot withdraw unless Calipso varies its Offer in a way that postpones for more than one month the time by which it has to meet its obligations under the Offer.

13. WILL I BE FORCED TO SELL MY HERALD SHARES?

No, unless the conditions referred to in Question 4 are met.

14. CAN I SELL MY HERALD SHARES ON MARKET?

You can sell your Herald Shares on market at any time, unless you have accepted Calipso's Offer.

FREQUENTLY ASKED QUESTIONS

15. WHAT HAPPENS IF I ACCEPT CALIPSO'S OFFER AND THE CONDITIONS ARE NOT SATISFIED?

If Calipso's Offer conditions are not satisfied and Calipso has not waived them by the end of its Offer Period, your Herald Shares will be returned to you.

16. DOES CALIPSO ALREADY OWN HERALD SHARES?

Yes — Calipso and its associates (which includes PT Bumi) already have a relevant interest in 84.20% of the total number of Herald Shares.

17. WHERE CAN I FIND FURTHER INFORMATION?

At the Herald website at www.herald.net.au

CONCISE INDEPENDENT EXPERT'S REPORT



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The Independent Directors
Herald Resources Limited
Level 3
50 Collins Street
West Perth WA 6005

18 September 2009

Subject: Takeover Offer by PT Bumi Resources Tbk — Concise Report

Dear Sirs

INTRODUCTION

- 1 On 21 August 2009 Calipso Investment Pte. Ltd, a wholly owned subsidiary of PT Bumi Resources Tbk (PT Bumi), announced a takeover offer for all the ordinary shares in Herald Resources Limited (Herald) at an offer price of \$0.70 cash per share (the Offer). The Offer values the total equity in Herald at approximately \$148 million and is subject to a number of conditions.
- 2 As PT Bumi owns 84.2% of Herald's ordinary shares and PT Bumi and Herald have common directors there is a statutory requirement for Herald to obtain an Independent Expert's Report (IER). Accordingly, the Independent Directors of Herald have requested that LonerGAN Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is "fair and reasonable".
- 3 LEA is independent of Herald and PT Bumi and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.
- 4 Herald is a mineral exploration and development company listed on the Australian Securities Exchange (ASX). The primary asset of Herald is an 80% interest in the high-grade zinc/lead Dairi Project in Indonesia. The Dairi Project is located in the Dairi Regency in North Sumatra, Indonesia. Herald also holds minority interests in three early-stage gold exploration projects in Indonesia and Western Australia and a 27.27% shareholding interest in Jaguar Minerals Ltd (Jaguar), an ASX listed exploration company.
- 5 PT Bumi is listed on the Indonesian Stock Exchange and is a leading natural resources group with a market capitalisation of approximately US\$5.8 billion¹. The company is the largest thermal coal producer in Indonesia (producing approximately 25% of Indonesia's total coal production in 2008) and has interests in oil and gas, gold, zinc and lead (including its 84.2% interest in Herald).

¹ As at 20 August 2009.

CONCISE INDEPENDENT EXPERT'S REPORT



VALUATION OF HERALD

6 LEA has valued 100% of the ordinary shares in Herald at between A\$1.07 per share and A\$1.44 per share, as summarised below:

	Low A\$m	High A\$m
Value of Dairi Project (80% interest) ⁽¹⁾	240.0	320.0
Value of other projects	—	—
Value of shares in Jaguar	0.5	0.5
Enterprise value	240.5	320.5
Cash as at 11 September 2009	3.0	3.0
Cash from exercise of options	4.0	4.0
Debt to PT Bumi	(21.8)	(21.8)
Value of shares	225.7	305.7
Fully diluted number of shares on issue (m)	211.68	211.68
Value per share ⁽¹⁾	A\$1.07	A\$1.44

Note:

- 1 The wide range for the value of the Dairi Project (and therefore the value of Herald shares) reflects the sensitivity of these values to changes in metal prices.
- 7 The value of the Dairi Project reflects the assessed values for each of the Anjing Hitam, Lae Jehe and Basecamp resources and exploration areas.
- 8 As mining assets are finite life assets the DCF methodology has been used to value the Anjing Hitam deposit. The reserves at Anjing Hitam were the subject of a definitive feasibility study (DFS) which was completed in 2005.
- 9 As no mine planning, DFS or scoping study has been undertaken at Lae Jehe or Basecamp, in our opinion, it is inappropriate to undertake a DCF valuation on these deposits. Accordingly, we commissioned an independent valuation of these resources from N.H. Cole & Associates Pty Limited (Cole & Associates).
- 10 The Cole & Associates report is available on Herald's website at www.herald.net.au and sets out further detail on:
 - (a) Cole & Associates' opinion on the key assumptions underlying our DCF value of Anjing Hitam; and
 - (b) the valuation of the Lae Jehe and Basecamp deposits (based on a value for the resources on an in-situ basis assessed by reference to the value per tonne of resource attributed to Anjing Hitam) and the exploration potential.
- 11 The value of the equity in Herald has then been determined by taking 80% of the value of the Dairi Project (which consists of the values attributed to the 3 identified deposits plus exploration potential), plus the market value of Herald's other interests (e.g. its gold projects and shares in Jaguar) less net debt.

CONCISE INDEPENDENT EXPERT'S REPORT



ANJING HITAM

12 The value of the Anjing Hitam deposit is based on the DFS (completed in 2005), updated to reflect current capital and operating cost assumptions etc.

13 The key assumptions adopted in our DCF are set out below:

Pre-production period (once Forestry Approval received)	1.5 years
Mine life (based on reserves)	7.4 years
Reserves (tonnes of ore)	6.5 Mt
Average head grade:	
Zinc	14.4%
Lead	8.7%
Metallurgical recovery:	
Zinc	84.8%
Lead	74.8%
Concentrate grades:	
Zinc	55.0%
Lead	64.0%
Net smelter revenue ⁽¹⁾	
Zinc	40%
Lead	27%
Operating cash costs per tonne of ore	US\$96.76
Royalties: ⁽²⁾	
Zinc	US\$12 per tonne up to 4,000 tonnes per annum, then US\$12.50 per tonne ⁽³⁾
Lead	US\$17 per tonne up to 6,000 tonnes per annum, then US\$18 per tonne ⁽³⁾
Corporate tax ⁽²⁾	30%
Capital expenditure:	
Estimated remaining pre-production capex	US\$121m
Production capex (over mine life)	US\$74m

Note:

1 Being the proportion of gross revenue paid for smelting and refining.

2 We understand the royalty rates and corporate tax rates are as set out in the CoW.

3 Plus 0.15% of value of gross metal (i.e. before net smelter revenue).

14 Cole & Associates have reviewed the above assumptions and concluded that they are appropriate.

15 For valuation purposes no revenue has been assumed from silver contained within the ore. This is because the DFS concluded that there was *"insufficient data available ... to be able to assess whether (silver) levels contained in concentrate will result in any addition to Net Revenue"*. Further, we note that (based on information currently available) the potential profit contribution from silver to the project is not material in comparison to the value of the total project.

CONCISE INDEPENDENT EXPERT'S REPORT



Forestry Approval

- 16 In 2009 all construction contracts for work on the project (primarily related to the establishment of mine infrastructure and port facilities) were suspended due to the protracted delay in receiving Forestry Approval. Forestry Approval is required because part of the Anjing Hitam project area is within a Hutan Lindung (protected forest) zone.
- 17 Herald has worked with its joint venture partner, PT Antam, to obtain the Forestry Approval. PT Antam is a large, publicly listed Indonesian company with multiple mining operations and is 65% owned by the Indonesian Government. Herald also has the strong support of the Dairi Regent (Bupati) and the North Sumatra provincial government, and these governments have actively lobbied for the prompt development of the project. Herald believes it has complied with all regulatory and other requirements of the Indonesian authorities and that nothing more could have been done in relation to the approvals process. However, Forestry Approval has not yet been granted.
- 18 With respect to the Forestry Approval process we understand from the Independent Directors that:
- (a) the Forestry Approval is awaiting the sign-off by the Indonesian president
 - (b) whilst approval is expected shortly the timing thereof remains highly uncertain.
- 19 For valuation purposes we have allowed for a further 6 month period prior to Forestry Approval being given.

Metal prices

- 20 We set out below a summary of:
- (a) analyst price forecasts for zinc and lead; and
 - (b) the spot and forward prices quoted on the London Metals Exchange (LME) as at 11 September 2009:

Zinc and lead forecast prices — US\$ per tonne

	2010	2011	2012	2013	2014	Long term ⁽²⁾
Zinc prices (spot \$1,841) ⁽¹⁾						
Analysts forecasts:						
Low	1,433	1,543	1,450	n/a	n/a	1,433
High	2,215	3,000	3,500	n/a	n/a	2,200
Mean	1,753	1,952	2,130	n/a	n/a	1,686
LME forward prices	1,878	1,882	1,858	1,849	1,849	n/a
Lead prices (spot \$2,110) ⁽¹⁾						
Analysts forecasts:						
Low	1,102	1,102	1,124	n/a	n/a	882
High	2,161	2,200	2,500	n/a	n/a	1,768
Mean	1,644	1,656	1,714	n/a	n/a	1,219
LME forward prices	2,053	2,024	2,004	1,995	1,995	n/a

Note:

- 1 As at 11 September 2009.
- 2 Long-term price in real terms.
- n/a—not available.

Source: Bloomberg, Consensus Economics, analyst broker reports.

- 21 Once Forestry Approval for the Dairi Project is received, completion of capital works to bring the mine into production is estimated to take some 1.5 years. Accordingly, the metal price forecasts and forward prices for calendar 2011 and beyond are the relevant prices when valuing the Dairi Project.

CONCISE INDEPENDENT EXPERT'S REPORT



- 22 As indicated above, analysts' zinc and lead price forecasts vary widely, but consistently forecast a reduction in prices in the short and long-term. In contrast, the major mining companies generally have a more optimistic outlook for long-term commodity prices, driven by the continued industrialisation, urbanisation and GDP growth of China and other developing economies.
- 23 In our opinion, the LME forward prices are a better estimate of the likely future prices than analysts' forecasts. This is because the forward prices represent the unbiased actual prices at which the metals can be traded today for delivery at a future date. However, the forward prices also vary significantly with movements in the respective spot prices (which are also highly variable). For example, the spot and forward prices for lead on 8 September 2009 were some US\$300 per tonne higher than the spot and forward prices shown above.
- 24 It is also important to note that there is a strong correlation between US dollar commodity prices and the AUD:USD exchange rate, with higher US dollar commodity prices generally coinciding with an increase in the AUD:USD exchange rate (and vice versa).
- 25 Given the recent increase in the AUD:USD exchange rate, in our opinion, it is therefore appropriate to adopt higher US dollar metal prices if commodity price assumptions are to be maintained in Australian dollar terms.
- 26 For example, in the independent expert's report on Minmetals' acquisition of certain assets from Oz Minerals Limited (Oz Minerals) dated 5 May 2009, the zinc and lead assets sold were valued using:
 - (a) long run zinc prices in the range US\$0.70 to US\$0.80 per pound (equivalent to approximately US\$1,543 to US\$1,764 per tonne)
 - (b) long run lead prices in the range US\$0.60 to US\$0.70 per pound (equivalent to approximately US\$1,323 to US\$1,543 per tonne)
 - (c) an exchange rate of A\$1.00 = US\$0.70, declining in line with forward market estimates.
- 27 Since the date of the Oz Minerals report stock market values attributed to mining companies have generally increased despite a significant increase in the AUD:USD exchange rate. In our view this principally reflects the weaker US dollar (relative to the Australian dollar) and higher long-term US dollar commodity price expectations.

CONCISE INDEPENDENT EXPERT'S REPORT



- 28 Adjusting the long-term US dollar commodity prices adopted in the Oz Minerals report for the movement in the AUD:USD exchange rate results in the following long-term US dollar commodity price assumptions:

	Zinc	Lead
Long-term price assumption in Oz Minerals report ⁽¹⁾ (US\$/tonne)	1,543 – 1,764	1,323 – 1,543
Exchange rate assumption – Oz Minerals report	0.70	0.70
Long-term price assumption (A\$/tonne)	2,204 – 2,520	1,890 – 2,204
Current AUD:USD exchange rate assumption ⁽²⁾	0.80	0.80
Equivalent long-term price assumption ⁽³⁾ (US\$/tonne)	1,763 – 2,016	1,512 – 1,763

Note:

- 1 Minmetals paid a price for the assets acquired consistent with the lower end of the independent expert's valuation range (reflecting that Oz Minerals was a forced seller).
- 2 Refer paragraphs 30 and 31 below.
- 3 Necessary to maintain commodity price assumptions in Australian dollar terms.

- 29 After considering the above (and in particular, the current forward prices), in our opinion, it is appropriate to adopt the following zinc and lead metal prices (in 2009 constant dollar terms) and AUD:USD exchange rate in our valuation:

	Low	High
Long-term zinc price (US\$/tonne)	1,800	2,000
Long-term lead price (US\$/tonne)	1,800	2,000
AUD:USD exchange rate ⁽¹⁾	0.80	0.80

Note:

- 1 Refer below

CONCISE INDEPENDENT EXPERT'S REPORT



Foreign exchange rate

- 30 In assessing the appropriate AUD:USD exchange rate for valuation purposes we have had regard to:
- (a) the significant volatility in the spot AUD:USD exchange rate, particularly since September 2008
 - (b) the average AUD:USD exchange rate over the last 5 years (which was approximately A\$1.00 = US\$0.79)
 - (c) actual AUD:USD forward rates, which reflect the actual unbiased rates at which foreign currency transactions can be locked in. For example, on 14 September 2009 when the spot AUD:USD exchange rate was approximately A\$1.00 = US\$0.86 the forward rate for settlement in 2 years was around A\$1.00 = US\$0.80
 - (d) AUD:USD exchange rate forecasts (quoted on Bloomberg on 14 September 2009). Consistent with the forward rates the average analyst forecasts are for declines in the AUD:USD exchange rate, with the average 2013 forecast AUD:USD exchange rate being A\$1.00 = US\$0.80.
- 31 Given the above we have adopted an exchange rate of A\$1.00 = US\$0.80. In our opinion, this is an appropriate long-term exchange rate for valuation purposes.

Project funding

- 32 We note that the funding requirements to meet remaining pre-production capital and mine establishment costs to bring the Anjing Hitam deposit into production (and to meet related working capital requirements) approximates US\$150 million.
- 33 In considering the likely source of this funding we have had regard to:
- (a) following completion of the takeover offer in July 2008 Herald is 84.2% owned by PT Bumi
 - (b) as at 20 August 2009, PT Bumi had a market capitalisation of approximately US\$5.8 billion.
- 34 In the circumstances, we have assumed for valuation purposes that Herald will be able to raise the required level of project funding on prevailing market terms and conditions, either directly from PT Bumi or with the corporate support thereof.
- 35 Specifically we have assumed:
- (a) drawdowns under the facility will be the subject of standard conditions precedent, including those related to Forestry Approval and off-take agreements
 - (b) interest on the facility at market rates, which we have estimated at 8% to 10% per annum in real terms²
 - (c) repayment of principal evenly over 6 years.

Discount rate

- 36 Given the above debt assumptions the gearing ratio varies significantly over the life of the project, which makes it difficult to assess the project's weighted average cost of capital (WACC).
- 37 Accordingly, we have valued the Dairi Project based on the projected cash flows likely to be available to equity holders.³ To ensure consistency between the cash flows and discount rate we have discounted these equity cash flows at the project's cost of equity.

2 We note that the value of the equity in the project is not significantly sensitive to changes in the interest rate assumed within this range.

3 The equity cash flows to Herald include the entitlement to the repayment of funds advanced (and accrued interest thereon) for the project to date.

CONCISE INDEPENDENT EXPERT'S REPORT



- 38 We have applied a discount rate (cost of equity) to the cash flows relating to Anjing Hitam of 15.0% per annum (in real terms). This reflects:
- (a) a risk-free rate of 3.4% per annum, equivalent to the average yield to maturity currently prevailing on 10 year US Treasury Bonds⁴
 - (b) a market risk premium (MRP) of 5.5% per annum, reflecting our view on the additional return above the risk-free rate sought by equity investors in the US market in the current market conditions
 - (c) a beta of 1.6 reflecting our view on the relative risks associated with the Dairi Project at this time
 - (d) a country risk premium (CRP) of 5.0% per annum due to the additional political, legal and economic risks associated with the Indonesian project
 - (e) an inflation adjustment to the nominal discount rate derived from (a) to (d) of 2.2% per annum, to reflect the fact that the cash flows adopted are in real terms.

LAE JEHE

- 39 The Lae Jehe mineralisation is the same as at Anjing Hitam. Mineral resources at Lae Jehe are estimated at 11.3 million tonnes, grading 10.5% zinc and 5.7% lead. 65% of the resources are classified as indicated resources, with the balance as inferred resources.
- 40 As stated above, as no mine planning, DFS or scoping study has been undertaken on the Lae Jehe deposit we have obtained expert advice from Cole & Associates as to the value of this deposit.
- 41 In order to assess the value of Lae Jehe, Cole & Associates had regard to:
- (a) the value attributed to the reserves at Anjing Hitam per tonne of ore
 - (b) the size and quality of the resources assessed at Lae Jehe
 - (c) the significantly lower (but still reasonable) grades at Lae Jehe relative to Anjing Hitam
 - (d) potential mining process and recovery rates
 - (e) the level of mining project definition, as Lae Jehe is not yet at a pre-feasibility study level
 - (f) the likelihood of Lae Jehe being advanced to the mine stage
 - (g) the likely timing of any underground mine development and production at Lae Jehe (most likely at the completion of treating the Anjing Hitam ore) and the resulting present value effect on the project's value
 - (h) the significant net capital expenditure savings through use of the mining infrastructure to be developed for Anjing Hitam
 - (i) potential long-term zinc and lead prices.
- 42 Based on the above Cole & Associates has assessed the value of the Lae Jehe deposit at approximately 30% of the values attributed to Anjing Hitam on a value per tonne of resource basis.

OTHER EXPLORATION AREAS WITHIN THE DAIRI PROJECT

- 43 Cole & Associates has also attributed a value to the Basecamp deposit and the other exploration areas within the Dairi Project, having regard to exploration expenditure incurred to date and the likely prospectivity of the areas.

⁴ We have used yields derived from the US market as this is consistent with the currency in which the price of the metals to be produced at the Dairi Project are denominated, together with observed likely sources of equity funding.

CONCISE INDEPENDENT EXPERT'S REPORT



OTHER PROJECTS

- 44 Herald also has interests in four early stage exploration projects in Western Australia and Indonesia, being the Sarkea Base Metals Project, the Meluak Gold Project, the Montague Gold Project and the Crater Gold Project.
- 45 To date minimal exploration has been undertaken on these projects:
- (a) on the Indonesian projects no field work has been carried out since 2007, pending the issue of permits (IUP) required under the new mining laws
 - (b) to date no drilling has been conducted on the Montague gold project and only one RC hole has been drilled at the Crater Gold Project.
- 46 Given the above we have not placed any significant value on these projects.

OPINION ON THE OFFER

- 47 Pursuant to Australian Securities and Investments Commission (ASIC) Regulatory Guideline 111, an offer is "fair" if:
- "The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."*
- 48 This comparison is shown below:

	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	0.70	0.70	0.70
Value of 100% of ordinary shares in Herald	1.07	1.44	1.25
Extent to which the Offer consideration is less than the value of the ordinary shares in Herald	0.37	0.74	0.55

- 49 As the consideration offered by PT Bumi is less than our assessed value of 100% of the ordinary shares in Herald, in our opinion, the Offer is not fair.
- 50 Pursuant to ASIC Regulatory Guide 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, shareholders should accept the offer in the absence of a higher bid before the close of the offer.
- 51 The Offer consideration represents a significant premium to the market price of Herald shares prior to the announcement of the Offer. However, since the completion of PT Bumi's 2008 takeover offer in July 2008 trading volumes in Herald shares have been very low. This principally reflects the fact that 92.4% of Herald shares are owned by 2 parties. As a result of this low level of liquidity, in our opinion, the Herald share price prior to the announcement of the Offer was not a reliable indicator of Herald's true market value or an appropriate reference point from which to assess the Offer.
- 52 In assessing the reasonableness of the Offer we note that the Offer price is:
- (a) 44.0% below the mid-point of our assessed valuation range; and
 - (b) 34.6% below the low end of our assessed valuation range.
- 53 We also note that in 2008 PT Bumi paid A\$2.85 per Herald share in a contested takeover with PT Antam / Zhongjin.
- 54 Further, in our opinion there is a reasonable prospect of a higher offer (although this ultimately depends on PT Bumi).
- 55 We have therefore concluded that the Offer is neither fair nor reasonable.

CONCISE INDEPENDENT EXPERT'S REPORT



GENERAL

- 56 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.
- 57 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. Shareholders considering their response to the Offer should be aware that our assessed value of Herald shares has been determined having regard to their longer term prospects associated with the anticipated commencement of mining operations. Given the current market conditions individual shareholders may have a different time horizon.
- 58 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice appropriate to their individual circumstances.
- 59 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Herald shareholders read our full report which is available on Herald's website at www.herald.net.au.

Yours faithfully

A handwritten signature in black ink, appearing to read 'C Edwards'.

CRAIG EDWARDS
AUTHORISED REPRESENTATIVE

A handwritten signature in black ink, appearing to read 'M Holt'.

MARTIN HOLT
AUTHORISED REPRESENTATIVE

CONCISE INDEPENDENT EXPERT'S REPORT



APPENDIX A

FINANCIAL SERVICES GUIDE

Lonerган Edwards & Associates Limited

- 1 Lonerган Edwards & Associates Limited (LEA) (ABN53 095 445 560) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to Herald shareholders in connection with the Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER our fees are based on a time cost basis using agreed hourly rates.
- 9 Neither LEA nor its Independent Directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our Directors reflects their individual contribution to the company and covers all aspects of performance. Our Directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

CONCISE INDEPENDENT EXPERT'S REPORT



Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOSL), an external complaints resolution service. You will not be charged for using the FOSL service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:
Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

CONCISE INDEPENDENT EXPERT'S REPORT



APPENDIX B

QUALIFICATIONS, DECLARATIONS AND CONSENTS

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 Independent Expert's Reports.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 15 years and 20 years experience respectively in the provision of valuation advice.

Declarations

- 3 This report has been prepared at the request of the Independent Directors of Herald to accompany the Target Statement to be sent to Herald shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of Herald.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. LEA is entitled to receive a fixed fee of \$130,000 plus GST for the preparation of this report. With the exception of this fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

Indemnification

- 5 As a condition of LEA's agreement to prepare this report, Herald agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Herald which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 6 LEA consents to the inclusion of this report in the form and context in which it is included in Herald's Target Statement.

PROFILE OF HERALD RESOURCES LIMITED

Your Independent Directors believe that Herald has a world class high grade zinc/lead project. Your Independent Directors also believe that if Forestry Approval is received on acceptable terms (and they currently have no basis to believe this will not occur at some time in the future), significant additional value can be realised for all Shareholders.

Below is an outline of your Company, its assets and its strategies to realise future value, which combined, form the basis for your Independent Directors' beliefs stated above.

OVERVIEW OF HERALD

Herald is an explorer and developer of mining projects, with a current focus on the Dairi Project in Sumatra, Indonesia. Herald's most important task is to bring its core high grade zinc/lead Dairi Project into production as soon as possible.

Herald is a long established mining company, having been listed on the ASX since 1981. Initially mining and processing industrial clays, under its previous management the Company diversified in the mid-1980s into gold exploration. Herald has a core team of experienced geologists in Indonesia.

In 2008, two competing off-market takeover bids were made for all of the Herald Shares – one by Calipso, a wholly owned subsidiary of PT Bumi, and the other by Tango Mining Pte Ltd (a company jointly owned by PT Antam Tbk and Shenzhen Zhongjin Lingnan Nonfermet Co. Ltd). Ultimately, Calipso's bid was successful which resulted in Calipso and its associates acquiring a voting power in Herald of 84.20%. The consideration offered under Calipso's bid in 2008 was \$2.85 cash per Herald Share.

Herald has been active in Indonesia for more than 13 years (with eight years on the Dairi Project), developing strong working relationships at commercial and government levels. The Dairi Project, the Company's key asset, is a Joint Venture between Herald and its Indonesian partner, PT Antam. Herald has an 80% interest in the Joint Venture company PT Dairi Prima Minerals (**PT Dairi**) while PT Antam, a company 65% owned by the Indonesian Government, holds the remaining 20%.

In developing the Dairi Project, PT Dairi has made significant progress by completing a positive DFS, securing social and environmental and construction approvals and is now awaiting the Forestry Approval before proceeding with the full development of the Anjing Hitam deposit.

With an experienced core team in place, design work completed, a solid reputation within the local communities, and substantial other deposits within the Dairi Contract of Work area, the Independent Directors believe the Company is well-positioned to exploit the potential of the Dairi Project.

OVERVIEW OF THE DAIRI PROJECT

The Dairi Project is located in the Dairi Regency, Province of North Sumatra, Indonesia and contains a high grade sulphide zinc/lead deposit of Sedex style mineralisation. Sedex style zinc/lead deposits produce much of the world's supply of these commodities, including some extremely large deposits which form the basis for mines, many of which have operated for decades. Some examples of well known Sedex deposits include:

- Red Dog in Alaska;
- Broken Hill, Mount Isa, Macarthur River and Century in Australia;
- Meggen and Rammelsburg in Germany;
- Navan, Tynagh and Silvermines in Ireland; and
- Sullivan in Canada

Known Sedex style deposits are either of Middle Proterozoic age (1700 to 1400 million years, for example, Mount Isa) or of Cambrian to Carboniferous age (580 to 295 million years, for example, both Red Dog and Anjing Hitam). A significant characteristic with many of these deposits is the scope that has been shown to exist for very important follow-on discoveries in the same regions.

PT Dairi has to date concentrated its efforts on proving the underground mining potential at Anjing Hitam and Lae Jehe. Limited work has been undertaken to test the at-depth and along strike potential for Sedex style base metal mineralisation. The Independent Directors believe, based on the nature of the deposit at the Dairi Project and the exploration results to date, that there is a strong likelihood for further exploration success.

The Dairi Project is held by PT Dairi under a 7th generation Contract of Work No KW99PK0071 between PT Dairi and the Government of Indonesia (**Contract of Work**).

Following completion of the general survey and exploration periods, the Contract of Work moved to the feasibility study stage on 20 February 2004, and subsequently to the construction stage. Once the project is in production, the terms of the Contract of Work provide PT Dairi with a right to operate the mine for 30 years.

PROFILE OF HERALD RESOURCES LIMITED

The Contract of Work covers an area approximately 30 kilometres north-south by 16 kilometres east-west. The Company's major focus is on the Sopokomil Dome area in the south of the Contract of Work area. Other prospects are located in the Tiga Lingga and Juhar Blocks in the north of the Contract of Work area. The Contract of Work specifies, amongst other things, royalty rates which will be payable on zinc and lead production and taxation rates which will be applied to PT Dairi.

In developing the high grade zinc/lead Dairi Project, Herald has made a major commitment to ensuring the regulatory process for the project has been managed to the highest standard. Three major approvals are required for the development and exploitation of the Anjing Hitam deposit:

- (a) environmental-social approval (known as an Amdal);
- (b) approval for the Contract of Work entering the construction phase; and
- (c) a forestry use permit (Pinjam Pakai) (**Forestry Approval**).

Herald secured (a) and (b) above, namely the Amdal and approval for the Contract of Work entering the construction phase, in 2005.

INDONESIAN GOVERNMENT APPROVALS

The Herald Independent Directors understand that the Minister of Forestry already has the authority to grant the Forestry Approval. However the Ministry of Forestry has requested a Presidential Decree before Forestry Approval will be granted. Due to the protracted delay in obtaining Forestry Approval, the Company decided to cease port and road construction activities associated with the project.

If this Presidential Decree is signed, the Independent Directors of Herald have no reason to believe the Forestry Approval will not be awarded.

Upon receipt of Forestry Approval, subject to any further conditions that may be required to be met, Herald can proceed to make final land acquisitions and progress the construction of mining and other facilities.

HERALD'S KEY PARTNERS AND RELATIONSHIPS

Herald has been active in Indonesia for more than 13 years, developing strong working relationships at commercial and government levels as well as establishing a positive reputation within the local communities in which it operates. Herald's Joint Venture partner, PT Antam, is an Indonesian mining company, listed on both the ASX and the Indonesia Stock Exchange, with extensive experience in exploration, production and downstream minerals processing in Indonesia. PT Antam has large scale interests in ferro-nickel, gold and bauxite in Indonesia and has the largest nickel and bauxite reserves in Indonesia.

PT Dairi has community development programs already in place and planned in the Dairi Project region, including pre-employment training programs, school renovations/equipment supply, renovation of village clinics and roads, water supply and purification, agricultural training, small business training, livestock management, infrastructure, environmental management and education scholarships.

Currently, there are approximately 100 Indonesian nationals employed or engaged by the Joint Venture making a strong contribution to the local community. This will rise substantially during the construction and production phases of the Dairi Project.

Herald believes that these strong relationships, fostered through a policy of collaboration and consultation with the local community and Dairi Project stakeholders, would form part of the foundation for the successful operation of the Dairi Project into the future.

HERALD'S STRATEGY FOR THE CREATION OF WEALTH FOR ITS SHAREHOLDERS

Herald has three key areas of focus for the future being to:

- develop and exploit the Anjing Hitam deposit upon receipt of Forestry Approval;
- complete detailed exploration and pre-feasibility studies at Lae Jehe; and
- continue exploration over the remainder of the Dairi Project area.

PT Dairi has undertaken extensive exploration of the southern section of the Dairi Project area which has resulted in the delineation of substantial reserves and resources. Exploration has yielded positive results for the prospectivity of the high grade zinc/lead Dairi Project in the future.

In 2005, the Joint Venture completed a DFS incorporating only those reserves situated within the Anjing Hitam deposit located within the Dairi Project area. The DFS (as updated) applied reserves of 6.5 million tonnes at 14.4% zinc and 8.7% lead with a planned throughput rate at full production of 1mtpa for an initial mine life of 7 years.

The Lae Jehe deposit, which currently has Indicated and Inferred Resources of 6.5 million tonnes at 11.3% zinc and 6.1% lead, remains open along strike and depth and further exploration is ongoing. These resources are not part of the DFS for Anjing Hitam. Lae Jehe is located only 800 metres from the proposed treatment plant site for the Dairi Project and offers significant potential for additional production feed. The Independent Directors of Herald believe other resources will be found along strike at Lae Jehe where outcropping mineralisation has been observed and drill intercepts made.

PROFILE OF HERALD RESOURCES LIMITED

In February 2008, the estimated capital costs for the Dairi Project were US\$227 million. There have been subsequent increases in capital costs due to the ongoing delays in the grant of the Forestry Approval.

The Dairi Project is located in relatively close proximity to a number of zinc and/or lead smelters in the region and shipping lanes.

It is on these foundations that the Independent Directors believe that Herald can develop into the future and continue to create value for all Shareholders if the Calipso attempt to acquire all of the shares in Herald is unsuccessful.

ADDITIONAL INFORMATION

DETAILS OF DIRECTORS

The Directors as at the date of this Target's Statement are:

- Ken Farrell — Chairman, Director
- Andrew Beckham — Director
- Evan Ball — Director, Acting Chief Executive Officer
- Andrew Wilson — Independent Non-Executive Director
- Brian J Hurley — Independent Non-Executive Director
- James Dracopoulos — Independent Non-Executive Director

Each of Ken Farrell, Andrew Beckham and Evan Ball were nominated by PT Bumi to be on the Board of Herald and are executive employees of PT Bumi or its subsidiaries.

Ken Farrell, Andrew Beckham and Evan Ball decline to make a recommendation in respect of Calipso's Offer.

This is because each of Ken Farrell, Andrew Beckham and Evan Ball is an executive employee of PT Bumi or its subsidiaries. In addition, Ken Farrell is a director of PT Bumi.

Therefore, each of them is associated with the Bidder and has a material conflict of interest in relation to making a recommendation in respect of Calipso's Offer.

DIRECTORS' INTENTIONS WITH RESPECT TO THEIR OWN HERALD SHARES

The only Independent Directors who have a relevant interest in Herald Shares is Andrew Wilson. Andrew Wilson currently intends to reject the Calipso Offer for all Herald Shares in which he has a relevant interest.

INTERESTS OF DIRECTORS

(a) Interests in securities in Herald

The only marketable securities that Herald has on issue are Herald Shares and unlisted Herald Options. As at the date of this Target's Statement, Herald had the following securities on issue:

- 201,896,803 Herald Shares;
- 5,700,000 Herald Options exercisable at \$0.44 and expiring on 1 December 2011;
- 3,180,000 Herald Options exercisable at \$0.32 and expiring on 1 December 2011; and
- 900,000 Herald Options exercisable at \$0.49 and expiring on 1 December 2011.

Each Herald Option is exercisable into one Herald Share.

Details of Herald Shares and Herald Options in which each Director has a relevant interest are as follows:

DIRECTOR	HERALD SHARES	HERALD OPTIONS
Ken Farrell	5,000	1,500,000 (Note 1)
Andrew Beckham	Nil	900,000 (Note 1)
Evan Ball	Nil	1,500,000 (Note 1)
Andrew Wilson	10,000	900,000 (Note 2)
Brian J Hurley	Nil	900,000 (Note 1)
Mr James Dracopoulos	Nil	900,000 (Note 1)

Note 1: Expiring 1 December 2011 and exercisable at \$0.44

Note 2: Expiring 1 December 2011 and exercisable at \$0.49

(b) Dealings in securities in Herald

On 23 June 2009, Andrew Wilson acquired a relevant interest in 900,000 Herald Options which were issued in accordance with the approval of Herald Shareholders at Herald's Annual General Meeting on 29 May 2009.

Other than the above, no Independent Director acquired or disposed of a relevant interest in any Herald Shares or Herald Options during the four month period ending on the date immediately before the date of this Target's Statement.

(c) Interests in securities of Calipso or PT Bumi

As at the date of this Target's Statement, none of the Independent Directors had a relevant interest in any securities in either Calipso or PT Bumi.

(d) Dealings in securities of Calipso or PT Bumi

Neither Herald nor any Independent Director acquired or disposed of a relevant interest in any securities in Calipso or PT Bumi during the four month period ending on the date immediately before the date of this Target's Statement.

ADDITIONAL INFORMATION

(e) Agreements and benefits conditional on or connected with the Offer

The Herald Options held by each of the Directors are subject to vesting arrangements under which only one third of the Herald Options may be exercised in each 12 month period starting on 1 December 2009. However, in the event of a takeover bid becoming or being declared unconditional, all of the Herald Options held by the Directors will become exercisable immediately. Accordingly, if Calipso's Offer is declared unconditional, each Director will be able to exercise all of his Herald Options.

No Independent Director is a party to any agreement or arrangement with any other person in connection with or conditional on the outcome of the Calipso Offer and no Independent Director is entitled to receive any benefit from Calipso or PT Bumi which is conditional on or connected with the Offer (other than in their capacity as a Herald Shareholder).

(f) Contracts with Calipso or PT Bumi

Each of Ken Farrell, Andrew Beckham and Evan Ball is an executive employee of PT Bumi or its subsidiaries.

No Independent Director has any interest in any contract entered into by Calipso or PT Bumi.

(g) Payments and benefits

Other than a benefit permitted under section 200F of the Corporations Act, no benefit is proposed to be given to an Independent Director:

- (a) in connection with their retirement from office in Herald or a related body corporate of Herald; or
- (b) in connection with the transfer of the whole or any part of the undertaking or property of Herald.

POTENTIAL IMPACT OF OFFER ON HERALD'S MATERIAL CONTRACTS

Herald has not identified any material contracts to which it is a party that contain change of control provisions that may be triggered as a result of the Offer or acceptances of the Offer.

IMPACT OF OFFER ON HERALD OPTIONS

The Herald Options are subject to vesting arrangements under which only one third of the Herald Options may be exercised in each 12 month period starting on 1 December 2009. However, in the event of a takeover bid becoming or being declared unconditional, all of the Herald Options held by the Directors will become exercisable immediately. Accordingly, if Calipso's Offer is declared unconditional, each Optionholder will be able to exercise all of its Herald Options.

CHANGES IN THE FINANCIAL POSITION OF HERALD

The most recent published financial information in relation to Herald is contained in the Company's audited financial report for the year ended 31 December 2008 and in its half yearly report as at 30 June 2009. Both reports were lodged with the ASX and are on the Herald website.

ANNOUNCEMENT BY NEW AGE WORLD LIMITED

On 31 August 2009, New Age World Limited (**NAW**) informed Herald that it intended to accept the takeover offer by Calipso in respect of all its Herald Shares subject to no superior offer emerging. On 2 September 2009, Herald released an ASX announcement concerning NAW's stated intention.

NAW's substantial shareholder notices lodged in 2008 appear to contain inaccuracies. Herald has asked NAW for an updated substantial shareholder notice but none has been supplied. According to a fax of 31 August 2009, NAW held a relevant interest in 16,538,289 Herald Shares representing a voting power of 8.2%. Herald cannot verify these figures because NAW holds its shares through nominees and because NAW has not complied with Herald's request for an updated substantial shareholder notice.

RISK FACTORS

There are a number of risks which may have a material and adverse impact on the future operating and financial performance of Herald and the value of Herald Shares.

These may be risks associated with any form of business, specific risks associated with Herald's business and its involvement in the exploration and mining industry or risks associated a minority shareholding.

While most risk factors are largely beyond the control of Herald and its Directors, the Company seeks to mitigate risks where possible, for example, by obtaining appropriate insurances and maintaining its key relationships.

The following summary represents some of the major risk factors which affect Herald and Herald Shareholders. These risk factors should not to be taken as exhaustive of such risks. These risks, and others not specifically referred to, may in the future materially affect the financial performance of Herald and the value or trading price of Herald Shares.

(a) Share Price Risk

There is a risk that the Herald Share price may fall if the Offer is unsuccessful.

ADDITIONAL INFORMATION

(b) Liquidity Risk

Herald Shareholders may be unable to sell their Herald Shares due to their illiquidity. The illiquidity of Herald Shares is principally due to Calipso and its associates currently holding 84.20% of the total number of Herald Shares.

(c) Exploration and Production Risks

The future viability and profitability of Herald as an exploration and production company is dependent on a number of factors, including, but not limited to, the following:

- commodity prices and exchange rates and, in particular, the price of lead and zinc;
- Herald may not be granted the Forestry Approval for the presently proposed Dairi Project development or may be granted the Forestry Approval with conditions which may adversely affect the viability of the Dairi Project or there may be further delays in the grant of the Forestry Approval;
- risks inherent in exploration and mining including, among other things, successful exploration and exploitation of ore reserves, satisfactory performance of mining operations and competent management;
- a number of assumptions have been made and used by Herald and its advisers and consultants in the calculations and studies they have conducted. Any inappropriate assumptions, whether positive or negative, will affect the extent to which conclusions based on those calculations and studies approximate future actual outcomes;
- risks associated with the current global economic and financial environment;
- increases in capital costs as a consequence of global economic and financial conditions, delays, demand for resources and other factors;
- increases in the price of inputs to the production process; in particular, the price of fuel, consumables, freight, shipping and concentrate treatment charges;
- the Dairi Project being constructed on the basis and in the time period assumed and achieving mining results on the basis assumed in the DFS;
- retention of key employees. Herald's performance is substantially dependent on its senior management, Directors and key technical personnel to continue to develop and manage Herald's projects. The loss of senior management, Directors and key technical personnel could have a material adverse effect on the business of Herald;

- there is a global shortage of skilled mining labour due to the number of new resource, industrial and infrastructure projects currently being developed around the world. This shortage has led to upward pressure on costs. If the trend in the short term labour market continues, Herald may be required to offer higher wages to attract employees to the Dairi Project;
- the risk of material adverse changes in the government policies or legislation of Indonesia affecting the level of mining and exploration activities undertaken or otherwise affecting the profitability of the Dairi Project and other future mining operations of Herald and the consequent effect on the financing costs of mining projects;
- environmental management issues with which the Company may be required to comply from time to time and the potential risk that regulatory environmental requirements or circumstances could impact on the economic performance of the Company's operations;
- unforeseen major failures, breakdowns or repairs required to key items of mining plant and equipment or mine structure resulting in significant delays, notwithstanding regular programs of repair, maintenance and upkeep undertaken by the Company; and
- successful acquisition of remaining land purchases.

(d) Other Risks

The future viability and profitability of Herald are also dependent on a number of other factors affecting performance of all industries and not just the exploration and mining industries including, but not limited to, the following:

- the strength of the equity and debt markets in Australia, Indonesia and throughout the world;
- the willingness or aversion of financiers to lend to Indonesian mining projects;
- general economic conditions in Australia, Indonesia and their major trading partners and, in particular, inflation rates, interest rates, commodity supply and demand factors and industrial disruptions;
- financial failure or default by a participant in any of the joint ventures or other contractual relationships to which Herald is or may become, a party;
- insolvency or other managerial failure by any of the contractors used by Herald in its activities;
- industrial or other disputes in Australia or Indonesia; and
- an outbreak of hostilities or a material escalation of hostilities in Australia, Indonesia or elsewhere in the world.

ADDITIONAL INFORMATION

CONSENT TO INCLUSION OF STATEMENTS

Beerworth + Partners Limited has given, and has not before the lodgement of this Target's Statement with ASIC withdrawn, its consent to being named in this Target's Statement as the corporate adviser to Herald.

Addisons have given, and have not before the lodgement of this Target's Statement with ASIC withdrawn, the consent to being named in this Target's Statement as legal advisers to Herald.

Lonergan Edwards has given, and has not before the lodgement of this Target's Statement with ASIC withdrawn, its consent to being named in this Target's Statement as the independent expert and has given its consent to the inclusion in this Target's Statement of all statements made by Lonergan Edwards or attributed to or derived from those statements in the form and context in which they are included in this Target's Statement.

Each person who is named in this Target's Statement as acting in a professional capacity for Herald in relation to the Offer (including, without limitation, Addisons and Beerworth + Partners Limited):

- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than a statement included in this Target's Statement with the consent of that person; and
- to the extent permitted by law, expressly disclaims and takes no responsibility for any part of the Target's Statement, other than any statement which has been included in this Target's Statement with the consent of that person.

PUBLICLY AVAILABLE INFORMATION

This Target's Statement contains statements which are made in or based on statements made in the Bidder's Statement or in documents lodged by various parties (including PT Bumi and Calipso) with ASIC or given to ASX as permitted by ASIC class order 01/1543.

As required by ASIC Class Order CO 01/1543, Herald will make available a copy of these documents (or of relevant extracts from these documents), free of charge, to Herald Shareholders who request it during the Offer Period. To obtain a copy of these documents (or the relevant extracts), Herald Shareholders may telephone Herald Perth office on 08 9322 2788 (+61 8 9322 2788 outside Australia).

This Target's Statement contains share price trading data from IRESS. In accordance with ASIC Class order 07/429 such data has been quoted in this statement without its consent.

NO OTHER MATERIAL INFORMATION

This Target's Statement is required to include all the information that Herald Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Calipso Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director.

The Independent Directors are of the opinion that the information that Herald Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Calipso Offer is the information:

- contained in the Bidder's Statement;
- which has been previously disclosed by Herald as a disclosing entity in accordance with its continuous disclosure and reporting obligations to the ASX and ASIC;
- contained in releases to the ASX prior to the date of this Target's Statement: and
- contained in this Target's Statement.

The Independent Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

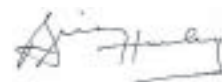
APPROVAL OF TARGET STATEMENT

This Target's Statement has been approved by a resolution of the Independent Directors.

Signed for and on behalf of Herald Resources Limited:



MR ANDREW WILSON



MR BRIAN HURLEY



MR JAMES DRACOPOULOS

DATED 21 SEPTEMBER 2009

DEFINITIONS AND INTERPRETATION

DEFINITIONS

In this Target's Statement, unless the context otherwise requires:

"A\$", "\$", or "AUD" means the currency of Australia;

"ASIC" means the Australian Securities and Investments Commission;

"ASX" means ASX Limited (ABN 98 008 624 691), and, where the context requires the Australian Securities Exchange;

"ASX Listing Rules" means the official listing rules of ASX as amended, varied, modified or waived from time to time;

"Bidder's Statement" means the bidder's statement issued by Calipso dated 25 August 2009;

"Calipso" or "Bidder" means Calipso Investment Pte Ltd, a company incorporated in the Republic of Singapore;

"Calipso Offer", "Calipso's Offer" or "Offer" means the offer by Calipso for the Herald Shares on the terms contained in Appendix 1 of the Bidder's Statement;

"Contract of Work" means the 7th generation Contract of Work No KW99PK0071 dated 19 February 1998 between PT Dairi Prima Mineral and the Government of Indonesia with respect to the Dairi Project as extended by Decree of the Director General of Geology and Mineral Resources dated 23 April 2002;

"Corporations Act" means the Corporations Act 2001 (Cth);

"DFS" means the definitive feasibility study conducted in respect of the Anjing Hitam deposit by the Company;

"Director" means a member of the Herald Board;

"Forestry Approval" means the issue of a permit by the Indonesian Minister for Forestry to allow forestry use (Pinjam Pakai) with respect to the Anjing Hitam deposit and associated processing facilities;

"Herald" or "Company" or "Target" means Herald Resources Limited ACN 008 672 071;

"Herald Board" or "Board" means the board of directors of Herald;

"Herald Options" or "Options" means options to subscribe for Herald Shares which are on issue at the Register Date;

"Herald Optionholder" or "Optionholder" means a person registered in the register of optionholders of Herald as a holder of one or more Herald Options;

"Herald Shares" or "Shares" means fully paid ordinary shares in the capital of Herald;

"Herald Shareholder" or "Shareholder" means a person registered in the register of members of Herald as a holder of one or more Herald Shares;

"Independent Director" means a Non-Executive Independent Director of Herald which, at the date of this Target's Statement, refers to any of Andrew Wilson, Brian Hurley and James Dracopoulos.

"Independent Expert" means Lonergan Edwards & Associates Limited.

"Joint Venture" means the joint venture between PT Antam and Herald for the exploration and development of the Dairi Project which is conducted through the incorporated joint venture company, PT Dairi Prima Mineral;

"Notice of Status of Conditions" means Calipso's notice disclosing the status of the conditions of the Offer which is required to be given by subsection 630(3) of the Corporations Act;

"Offer Period" means the period during which the Offer remains open for acceptance in accordance with Appendix I of the Bidder's Statement;

"Offer Price" means the consideration offered under the Calipso Offer for each Herald Share. As at the date of this Target's Statement, that consideration is AUD\$0.70 cash for each Herald Share;

"PT Antam" means PT Antam Tbk (previously known as PT Aneka Tambang (Persero) Tbk);

"PT Bumi" means PT Bumi Resources Tbk, a company incorporated in Indonesia;

"PT Dairi" means PT Dairi Prima Minerals, the joint venture company owned 80% by Herald and 20% by PT Antam, which holds the Contract of Work;

"Register Date" means the date set by the Bidder under section 633(2) of the Corporations Act, being 3 September 2009;

"Sedex" means a sedimentary exhalative geological style;

"Target's Statement" or "this Statement" means this document being the statement of Herald under Part 6.5 Division 3 of the Corporations Act relating to the Offer; and

"US\$" means the currency of the United States of America.

DEFINITIONS AND INTERPRETATION

INTERPRETATION

In this Target's Statement, unless the context otherwise requires:

- (a) the singular includes the plural and vice versa;
- (b) a reference to an individual or person includes a corporation, firm, partnership, joint venture, association, authority, trust, state or government and vice versa;
- (c) a reference to any gender includes all genders;
- (d) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (e) a term not specifically defined in this Target's Statement has the meaning given to it (if any) in the Corporations Act or the ASTC Settlement Rules, as the case may be;
- (f) unless otherwise specified a reference to a section, clause, annexure or schedule is to a section, clause, annexure or schedule of or to this Target's Statement;
- (g) a reference to any agreement or document is to that agreement or document (and, where applicable, any of its provisions) as amended, novated, supplemented or replaced from time to time;
- (h) a reference to any legislation or legislative provision includes any statutory modification or re-enactment of, or legislative provision substituted for, and any subordinate legislation under, that legislation, or legislative provision;
- (i) Rp is a reference to the lawful currency of Indonesia;
- (j) the words "including", "such as", "particularly" and similar expressions do not imply limitation; and
- (k) headings are for convenience of reference only and do not affect interpretation.



HERALD
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