

# HERALD RESOURCES

ANNUAL REPORT 2004



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## CHAIRMAN'S ADDRESS

### Dear Shareholder

I am delighted to announce that the Company returned to profitability in the 2003/2004 year, with a net profit of \$1.6m, reflecting a healthy turnaround from the previous year.

The last twelve months have been extremely active for your company, as we near completion of the Bankable Feasibility Study (BFS) on the high-grade Dairi zinc/lead project, which has progressed following the excellent results from last year's Pre Feasibility Study.

At the time of writing I am not in a position to announce the final financial results of the BFS, however the measured and indicated resources at the main Anjing Hitam deposit have increased 10% to 7.7 mt grading 16.0% zinc and 9.8% lead. Metallurgical tests indicate that concentrates grading 54.2% zinc and 71.6% lead can be produced, both with low iron content (good).

The economics of the Dairi project have increased dramatically since last year with prices of zinc, and in particular lead improving considerably, along with a reduction in smelting charges. Provided we

can lock some of these advantages into offtake agreements, I believe we can expect a very robust project.

Raising finance for the development of the Dairi Project will be the next requirement, as will gaining mining approvals and signing offtake agreements. Discussions in this regard are well underway.

At the local Indonesian level, we are delighted that Dr Kuntoro Mangkusubroto has agreed to join the Board of the Dairi project company. Dr Kuntoro has both a Master of Science in Industrial Engineering Degree and a Master of Science in Civil Engineering from Stanford University. At various times he has served as President/Director and CEO of PT Tambang Batubara Bukit Asam (a coal mining Co), PT Tambang Timah (one of the world's largest tin mining companies), and the government electricity company PLN. Between 1994 – 1997 he served as Director General of Mines, and was Minister of Mines & Energy in 1998 – 1999. Dr Kuntoro has also served on the boards of many other institutions including the National Economic Council and the Consultative People Assembly of Indonesia, but to name a few.

His vast experience and advice will be invaluable in helping to bring the Dairi project on stream.

Due to the significance of the Dairi Project as a "company maker" for Herald, we made the corporate decision to conserve our financial resources and concentrate management focus by looking to dispose of non-core assets. To this end, in the last 12 months we have:

- Successfully floated Herald subsidiary company Jaguar Minerals Ltd on the ASX. The funds raised by Jaguar will allow these excellent former Herald projects to receive serious exploration programmes. Herald retains a 59% interest in Jaguar for little cost.
- Sold our 33% interest in the Sandstone joint venture to Troy Resources NL for cash, shares and royalties over future production. With no new resources being discovered on our tenements over the last five years we felt it time to move on.
- Sought expressions of interest for the possible sale of our 50% of the MPI Mines managed Coolgardie Gold



“The economics of the Dairi Project have increased dramatically since last year.”

Project. While profitable in the last year, Coolgardie has performed below budget forecasts and we believe it makes sense to look at selling this asset on a going concern basis to generate cash for the future.

- Placed the exciting but high-risk Meluak project in a separate vehicle Corona Gold Ltd, in which Macquarie Bank has funding rights of up to \$12m, thus conserving our own cash but still retaining exposure to success.

Special praise should be directed to our International Exploration Manager, Mr Terry Middleton, who has coordinated the independent consultants in the various disciplines of the Dairi BFS.

He has worked tirelessly over the last twelve months, and his vast experience and efforts will go a long way to make this project a success. He has been ably assisted by consultant supervisor Iain MacGregor, senior geologist Bernie Kirkpatrick and project manager Ian Bruce. Ian in turn has been ably assisted by Pak Tarmizie Ibrahim (OH&S and camp administration) and Pak Tumpak

Situmorang (local government and public relations manager). We also appreciate the support given by JV partners PT Aneka Tambang and their board representatives.

I would like to thank our Directors and Staff in Perth and Jakarta offices for their support during this year.

I invite you all to attend our Annual General Meeting, which will be held at 11 am on 26 November 2004.

**TERRY ALLEN**  
Chairman/CEO

## THE YEAR IN OVERVIEW

- BANKABLE FEASIBILITY STUDY LARGELY COMPLETED ON HIGH GRADE DAIRI ZINC/LEAD PROJECT
- COOLGARDIE GOLD MINE RETURNS TO PROFITABILITY
- AUSTRALIAN EXPLORATION PROJECTS FLOATED OFF INTO JAGUAR MINERALS LTD
- SANDSTONE PROJECT SOLD FOR CASH, SHARES AND ROYALTIES
- MELUAK PROJECT SEPARATELY FUNDED THROUGH CORONA GOLD/MACQUARIE BANK DEAL

## RESOURCES AND RESERVES

as at 30 June 2004

### DAIRI ZINC/LEAD PROJECT RESOURCES (INCLUSIVE OF RESERVES)

Project/Prospect	Category	JUNE 2004			JUNE 2003		
		Tonnes (000's)	Grade (% Zn)	Grade (% Pb)	Tonnes (000's)	Grade (% Zn)	Grade (% Pb)
<b>Dairi (Herald 80%, PT Aneka Tambang 20%) Underground</b>							
Anjing Hitam	Measured	5,400	16.5	10.2	1,800	15.8	9.5
	Indicated	2,300	14.7	8.7	5,300	16.9	10.5
	Inferred	300	10.3	5.4	900	9.8	5.6
	<b>Sub-Total</b>	<b>8,000</b>	<b>15.8</b>	<b>9.6</b>	<b>8,000</b>	<b>15.8</b>	<b>9.7</b>
Basecamp	Measured						
	Indicated						
	Inferred	800	7.2	4.3	800	7.2	4.3
	<b>Sub-Total</b>	<b>800</b>	<b>7.2</b>	<b>4.3</b>	<b>800</b>	<b>7.2</b>	<b>4.3</b>
Lae Jehe	Measured						
	Indicated						
	Inferred	8,200	7.7	4.1	8,200	7.7	4.1
	<b>Sub-Total</b>	<b>8,200</b>	<b>7.7</b>	<b>4.1</b>	<b>8,200</b>	<b>7.7</b>	<b>4.1</b>
<b>Total</b>	<b>Measured</b>	<b>5,400</b>	<b>16.5</b>	<b>10.2</b>	<b>1,800</b>	<b>15.8</b>	<b>9.5</b>
	<b>Indicated</b>	<b>2,300</b>	<b>14.7</b>	<b>8.7</b>	<b>5,300</b>	<b>16.9</b>	<b>10.5</b>
	<b>Inferred</b>	<b>9,300</b>	<b>7.7</b>	<b>4.2</b>	<b>9,900</b>	<b>7.9</b>	<b>4.3</b>
<b>Total Dairi Resources</b>	<b>Sub-Total</b>	<b>17,000</b>	<b>11.5</b>	<b>6.7</b>	<b>17,000</b>	<b>11.5</b>	<b>6.7</b>
<b>Total Estimated Contained Zinc 1.96Mt Lead 1.14Mt</b>					<b>Total Estimated Contained Zinc 1.96Mt Lead 1.14Mt</b>		

### RESERVES

Project/Prospect	Category	JUNE 2004			JUNE 2003		
		Tonnes (000's)	Grade (% Zn)	Grade (% Pb)	Tonnes (000's)	Grade (% Zn)	Grade (% Pb)
<b>Dairi (Herald 80%, PT Aneka Tambang 20%) Underground</b>							
Anjing Hitam	<b>Proved</b>	<b>Currently being determined</b>					
	<b>Probable</b>				6,320	16.0	9.9
	<b>Sub-Total</b>				<b>6,320</b>	<b>16.0</b>	<b>9.9</b>
					<b>Total Estimated Contained Zinc 1.01Mt Lead 0.63Mt</b>		

### BELITUNG TIN PROJECT RESOURCES

Project/Prospect	Category	JUNE 2004		JUNE 2003	
		Tonnes (000's)	Grade (% Sn)	Tonnes (000's)	Grade (% Sn)
<b>Belitung (Herald 100%) Open Pit</b>					
Batu Besi	Inferred	3,200	0.95	3,200	0.95
<b>Total Estimated Contained Tin 30,400t</b>				<b>Total Estimated Contained Tin 30,400t</b>	

## RESOURCES AND RESERVES

as at 30 June 2004

### COOLGARDIE GOLD PROJECT

#### RESOURCES

Project / Prospect	Category	EXCLUSIVE OF RESERVES JUNE 2004			EXCLUSIVE OF RESERVES JUNE 2003		
		Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)	Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)
<b>Coolgardie (Herald 50%) Open Pit</b>							
Lindsays	Measured						
	Indicated	4,353	1.7	239	4,353	1.7	239
	Inferred	1,492	1.6	76	1,492	1.6	76
	<b>Sub-Total</b>	<b>5,800</b>	<b>1.7</b>	<b>315</b>	<b>5,800</b>	<b>1.7</b>	<b>315</b>
Greenfields	Measured						
	Indicated	1,450	1.4	63	1,537	1.4	67
	Inferred						
	<b>Sub-Total</b>	<b>1,500</b>	<b>1.4</b>	<b>60</b>	<b>1,500</b>	<b>1.4</b>	<b>70</b>
King Solomon Ext	Measured						
	Indicated	490	1.7	27	490	1.7	27
	Inferred	310	2.1	21	310	2.1	21
	<b>Sub-Total</b>	<b>800</b>	<b>1.9</b>	<b>50</b>	<b>800</b>	<b>1.9</b>	<b>50</b>
Queen of Sheba	Measured						
	Indicated	420	2.1	28	420	2.1	28
	Inferred	180	2.0	12	180	2.0	12
	<b>Sub-Total</b>	<b>600</b>	<b>2.1</b>	<b>40</b>	<b>600</b>	<b>2.1</b>	<b>40</b>
Empress / Alicia	Measured	155	1.5	7	155	1.5	7
	Indicated	270	1.5	13	270	1.5	13
	Inferred	125	1.7	7	125	1.7	7
	<b>Sub-Total</b>	<b>550</b>	<b>1.5</b>	<b>30</b>	<b>550</b>	<b>1.5</b>	<b>30</b>
Big Blow	Measured						
	Indicated	154	1.6	8			
	Inferred	25	1.6	1	169	1.6	9
	<b>Sub-Total</b>	<b>180</b>	<b>1.6</b>	<b>10</b>	<b>170</b>	<b>1.6</b>	<b>10</b>
Others (Cookes, Freindship, Happy Jack)	Measured	115	1.4	5	115	1.4	5
	Indicated	136	1.6	7	136	1.6	7
	Inferred	54	1.8	3	54	1.8	3
	<b>Sub-Total</b>	<b>300</b>	<b>1.6</b>	<b>15</b>	<b>300</b>	<b>1.6</b>	<b>15</b>
Low Grade Stockpiles	Measured	1,568	0.8	42	1,455	0.8	37
	Indicated						
	Inferred						
	<b>Sub-Total</b>	<b>1,600</b>	<b>0.8</b>	<b>40</b>	<b>1,500</b>	<b>0.8</b>	<b>40</b>

N.B. Rounding of totals may introduce some minor errors in additions.

## RESOURCES AND RESERVES

as at 30 June 2004

### COOLGARDIE GOLD PROJECT RESOURCES

Project / Prospect	Category	EXCLUSIVE OF RESERVES JUNE 2004			EXCLUSIVE OF RESERVES JUNE 2003		
		Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)	Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)
<b>Underground</b>	Brilliant						
	Measured	140	4.3	19	140	4.3	19
	Indicated	230	4.4	33	230	4.4	33
	Inferred						
	<b>Sub-Total</b>	<b>370</b>	<b>4.4</b>	<b>50</b>	<b>370</b>	<b>4.4</b>	<b>50</b>
Countess	Measured						
	Indicated	88	4.7	13			
	Inferred	24	4.7	4			
	<b>Sub-Total</b>	<b>110</b>	<b>4.7</b>	<b>15</b>			
Big Blow	Measured						
	Indicated						
	Inferred	88	5.0	14	88	5.0	14
	<b>Sub-Total</b>	<b>90</b>	<b>5.0</b>	<b>15</b>	<b>90</b>	<b>5.0</b>	<b>15</b>
Empress	Measured						
	Indicated						
	Inferred	1	15.0	0	13	8.4	4
	<b>Sub-Total</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>10</b>	<b>8.4</b>	<b>4</b>
<b>Total</b>	<b>Measured</b>	<b>2,000</b>	<b>1.1</b>	<b>70</b>	<b>1,900</b>	<b>1.2</b>	<b>70</b>
	<b>Indicated</b>	<b>7,600</b>	<b>1.8</b>	<b>430</b>	<b>7,400</b>	<b>1.7</b>	<b>410</b>
	<b>Inferred</b>	<b>2,300</b>	<b>1.9</b>	<b>140</b>	<b>2,400</b>	<b>1.9</b>	<b>150</b>
<b>Total Coolgardie Resources</b>		<b>11,900</b>	<b>1.7</b>	<b>640</b>	<b>11,700</b>	<b>1.7</b>	<b>630</b>





## RESOURCES AND RESERVES

as at 30 June 2004

### COOLGARDIE GOLD PROJECT

#### RESERVES

Project / Prospect	Category	JUNE 2004			JUNE 2003		
		Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)	Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)
<b>Coolgardie (Herald 50%) Open Pit</b> Lindsays	Proved						
	Probable	309	1.8	18	545	1.7	30
	<b>Sub-Total</b>	<b>309</b>	<b>1.8</b>	<b>18</b>	<b>545</b>	<b>1.7</b>	<b>30</b>
Greenfields	Proved						
	Probable	430	1.9	26	460	1.8	27
	<b>Sub-Total</b>	<b>430</b>	<b>1.9</b>	<b>26</b>	<b>460</b>	<b>1.8</b>	<b>27</b>
<b>Underground</b> Empress North	Proved						
	Probable	154	5.8	28	260	7.7	65
	<b>Sub-Total</b>	<b>154</b>	<b>5.8</b>	<b>28</b>	<b>260</b>	<b>7.7</b>	<b>65</b>
<b>Total Open Pit Reserves</b>	<b>Proved Probable</b>	<b>739</b>	<b>1.8</b>	<b>44</b>	<b>1,005</b>	<b>1.8</b>	<b>57</b>
<b>Total Underground Reserves</b>	<b>Proved Probable</b>	<b>154</b>	<b>5.8</b>	<b>28</b>	<b>260</b>	<b>7.7</b>	<b>65</b>
<b>Surface &amp; U/G Stocks</b>	<b>Proved Probable</b>	<b>9</b>	<b>5.6</b>	<b>2</b>	<b>145</b>	<b>1.2</b>	<b>6</b>
<b>Total Coolgardie Reserves</b>		<b>900</b>	<b>2.5</b>	<b>74</b>	<b>1,410</b>	<b>2.8</b>	<b>128</b>

N.B. Rounding of totals may introduce some minor errors in additions.

### MONTAGUE GOLD PROJECT

#### RESOURCES

Project / Prospect	Category	JUNE 2004			JUNE 2003		
		Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)	Tonnes (000's)	Grade (Au g/t)	Gold (Ounces 000's)
<b>Montague (Herald 15%) Underground</b> Whistler	Measured						
	Indicated						
	Inferred	106	5.7	20	106	5.7	20
<b>Total Montague Resource</b>		<b>106</b>	<b>5.7</b>	<b>20</b>	<b>106</b>	<b>5.7</b>	<b>20</b>

For "Notes to Reserve and Resource Calculations" see pages 23

# BASE METALS

## DAIRI LEAD/ZINC PROJECT

### PROJECT INTERESTS:

Herald 80%

PT Aneka Tambang ("Antam") 20%

### OVERVIEW

Located in the stable province of North Sumatra, the Dairi Project is held under a 7th Generation Contract of Work, a solid form of title comprising a contract between the mining company and the Republic of Indonesia. Total land area held comprises 27,420 hectares.

### BANKABLE FEASIBILITY STUDY

Following a **very positive Prefeasibility Study** Herald as operator, embarked on a **fullscale Bankable Feasibility Study (BFS)** in September 2003 and activities have continued throughout the year. It is hoped to have a final draft of the study completed by October 2004. The extended nature of the study, including a greater amount of drilling, and incorporation of additional options, has pushed the timeframe beyond original target of mid 2004.

The main thrust of the study is premised on the development of the **Anjing Hitam deposit** – the most explored and ostensibly most easily exploitable of the deposits thus far discovered in the Sopokomil Dome section of the Dairi Project.

The principal activities and results carried out during the BFS to date are as follows:

**1. Diamond Drilling** – up until June 2004 a total of 37 resource infill and extension holes had been completed for a total of 10,471m. This has resulted in the drilling out of the deposit to about 50 x 50m. Drilling continued to the end of August on the NW extension which has extended further than anticipated as a narrow lobe.

**2. Geology and Resource Estimation** – independent consultant geologists CSA Australia Pty Ltd and Resource Evaluations Pty Ltd have jointly carried out site investigations and resource estimation. This has resulted in estimation of measured and indicated resources of **7.7Mt @ 16.0% Zn, 9.8% Pb, 12g/t Ag or 23.8% Zn equivalent** – considering differential NSR returns and not accounting for silver (see table on Resources and Reserves). The vast majority of this is in the Main Mineral Horizon (MMH).

There is little change overall from last year's figures although there is continuing mineralisation in a narrow NW lobe which is partially oxidised but still continuing through 10,200N, giving a total strike length of about 850m.

Other features that have become more apparent are the tendency of the laminated massive sulphide to take on a replacive/remobilised and veiny nature at the dip extremities rather than terminating abruptly, also there is a lead rich zone sometimes with Pb > Zn, and with a marked lift in silver grades, at the NW flank of the deposit.

At this point only limited amounts of the Upper Mineral Horizon (UMH) have been classified as Indicated Resource due to doubts about continuity between the numerous scattered intercepts.

Underground exploration during production might possibly increase mineable tonnage.

**3. Site Geotechnical Studies** – Knight Piesold Pty Ltd have conducted test pitting and core drilling at the site to study foundation conditions for access roads, concentrator site, mine portal and surface tailings dam. They are responsible for planning mine access roads and tailings dam design.

**4. Mining Studies** – Australian Mining Consultants Pty Ltd are in the course of carrying out mine design and scheduling based on the resource block model and with methodology dictated by rock geotechnical conditions. Given the 40-45° (and sometimes shallower) dip, a dual method is proposed for average to thicker sections, involving open stoping with cemented paste tailings backfill of the footwall side followed by drift and fill on the hanging wall side, also with paste backfill. Extensive cable bolting and leaving of a skin of competent ore on weaker hanging wall sections is proposed. A main decline and a shorter one to access upper parts is planned with a winze from a ridge above the centre of gravity where it is proposed that a paste backfill plant will be located.

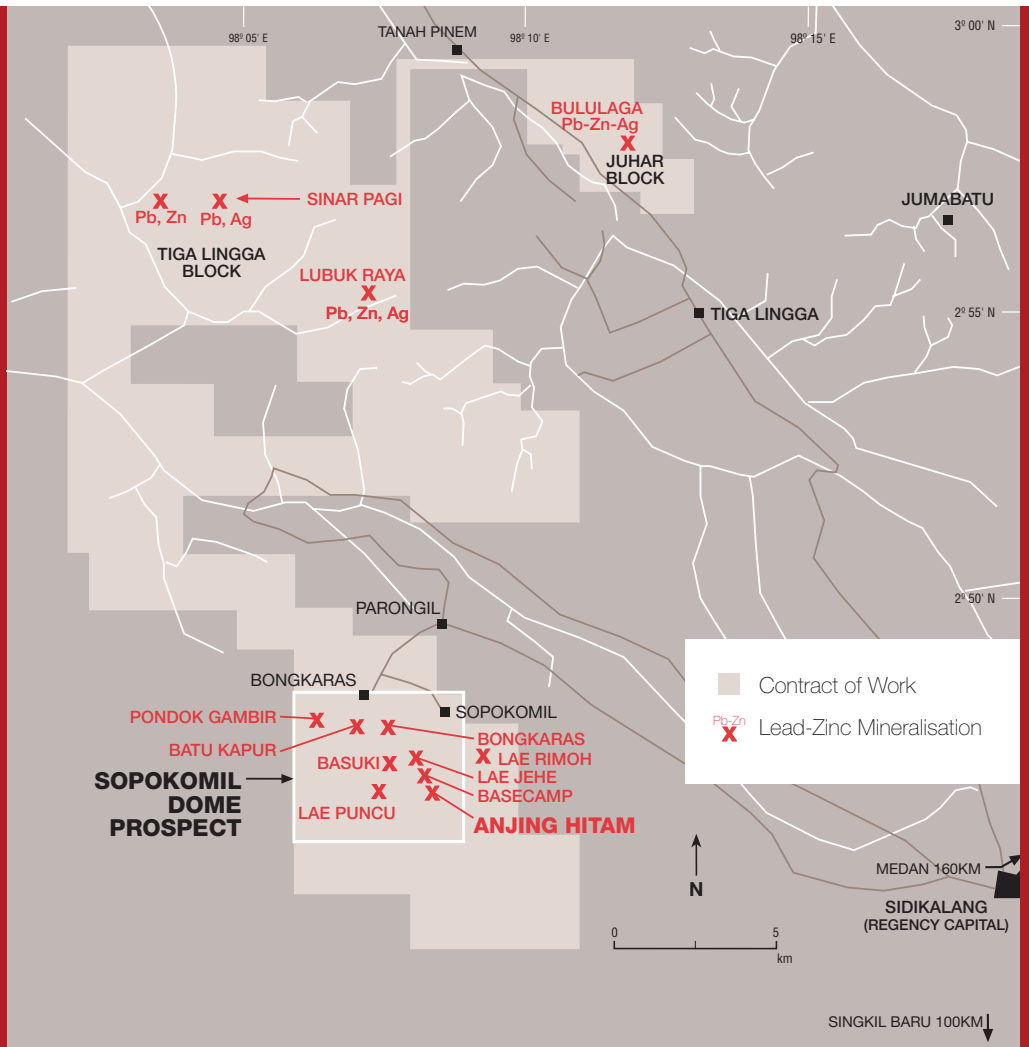
Initial testwork performed on typical tailings representative sample suggests that previously indicated cement dosage of 6% by weight can be significantly reduced by use of steelworks slag – a pozzolanic agent that can bind the fine grained, pyritic tailings.

The mining study production tonnes are in the order of 6.6Mt @ 14.6% Zn, 8.8% Pb and 11g/t Ag.



DAIRI PROJECT  
LOCATION PLAN  
SHOWING  
SOPOKOMIL  
AND OTHER LEAD-  
ZINC PROSPECTS >

DAIRI BASE CAMP v



# BASE METALS

**5. Metallurgical Studies** – the Burnie Research Lab (Tasmania), subsidiary of AMMTEC Ltd, has been carrying out metallurgical bench scale studies on a range of composite core samples including five main mineralogical variants and a main composite.

The mineralisation is quite simple – varying proportions of pyrite > sphalerite > galena, as a normally laminated, fine grained admixture in carbonaceous, dolomitic shale and siltstone country rock. Grind has been established as about p80 = 40 micron with rougher concentrate regrind to p80 = 18 micron.

Flotation testwork has centred on identifying an ideal dispersant for carbon to replace the normally used sodium cyanide. The most ideal one has been successfully applied from bench through to locked cycle tests. Finally, a bulk flotation run was conducted on 500kg material split from 1140kg of composited, wallrock diluted core. The testwork resulted in the following recoveries: **zinc concentrate – 84.5% recovery into a 54.2% Zn concentrate; lead concentrate – 74.5% recovery into a 71.6% Pb concentrate.** The slightly lesser recovery for zinc and more so for lead is possibly due to the regrind turning out a little coarser than intended.

As part of the overall metallurgical studies Orway Mineral Consultants carried out detailed analysis of the comminution aspects of the mineralisation – the massive sulphides being relatively soft but variable in properties, dependent on sulphide makeup. Bond crushing work index averages about 11kWh/t while Bond ball mill work index is in the 11kWh/t area. A single stage crushing/SAG mill/ball mill combination has been recommended with regrind of flotation rougher concentrates in Stirred Media Detritor mills.

**6. Plant & Infrastructure Design** – Ausenco Ltd is carrying out this study and a conventional zinc – lead flotation concentrator of 1Mt/year capacity is proposed. It will be sited 600m from the mine portal. Site electricity generation is proposed and a village will be established about 2km downstream.

Output is expected to be about **250,000t zinc concentrate containing 135,000t zinc metal and 100,000t lead concentrate containing 70,000t lead metal** based on the bulk flotation run results.

**7. Transportation** – there are a number of options available for concentrate transportation including trucking to east coast or west coast (the shortest route) but serious consideration is being given to a slurry pipeline of ~90km length to the west coast. Preliminary estimates confirm the initial higher capital cost, but a much lower operating cost and lesser social impact, hence the overall exercise is cost effective in the long-run and even more so as additional resources are added to the reserve base.

A bathymetric survey at Singkil on the west coast has identified a suitable deep-water location which would enable a direct ship-loading conveyor jetty of about 350m to be built and this is being considered against a shorter barge-loading jetty for transhipment to a ship moored 3km offshore.

**8. Marketing** – an experienced base metals marketing consultant, Max Brunson, has been appointed to identify and communicate with smelter companies. To date, discussions have been held with several major smelter groups who have approached Herald.

**9. Environmental** – PT URS Indonesia has been coordinating the AMDAL (Environmental Impact Assessment) process that is required by Indonesian regulation. The Terms of Reference have been established in consultation with the AMDAL Committee which includes community stakeholders and Local and Provincial Government authorities. Detailed ecological and sociological surveys have been carried out to merge with the project impact information, in order to compile a program to safeguard the local environment

## DAIRI EXPLORATION

### Sopokomil Dome

No additional work has been carried out on other known deposits in the Sopokomil Dome and the 2003 (in-house) estimated resources are presented in the Resources and Reserves table. The previous 2002 drilling of 2 deep holes at the **Lae Jehé** aimed at a downhole EM interpreted deep anomaly were successful in obtaining medium grade “sedex” intercepts at the top of the anomaly. A further program of down-hole EM is proposed with drilling to follow, possibly in 2005.

### Sinar Pagi

A program of reconnaissance and diamond drilling was carried out in the second part of the year at this lead-silver rich prospect, about 20km NNW of Sopokomil. A 300m, NW trending Pb soil anomaly was trenced with a thick quartz breccia zone carrying lenses of high grade lead mineralisation being exposed. Subsequent shallow drilling of 3 holes has indicated that a +20m thick quartz breccia lode, at a limestone/shale contact, dips at a low angle to the SW. Patchy, part oxidised galena mineralisation and some lead carbonate is present throughout. Drillhole intercepts include **9.1m @ 11% Pb, 129g/t Ag and 15.4m @ 8.5% Pb, 64g/t Ag** in part oxidised lode.



September quarter 2004 reconnaissance is following the stratigraphic limestone contact position which is yielding evidence of mineralised quartz over a widespread area but possibly complicated by fold or fault repetition. It is hoped to identify a substantial bulk-mineable resource. It was previously thought that only small, high-grade vein deposits would exist in this area but there are now indications of much more widespread medium grade mineralisation.

#### **DAIRI PROJECT FINANCIAL ANALYSIS SUMMARY**

The table below shows the key findings of the Dairi Pre-feasibility Study ("PFS" completed July 2003, comparing results obtained by using the July 2003 metal prices versus those in February 2004, which reflect prices closer to those prevailing at the time of writing.

As the table indicates, the project is very sensitive to metal prices, and the economics are dramatically improved when using today's metal prices.

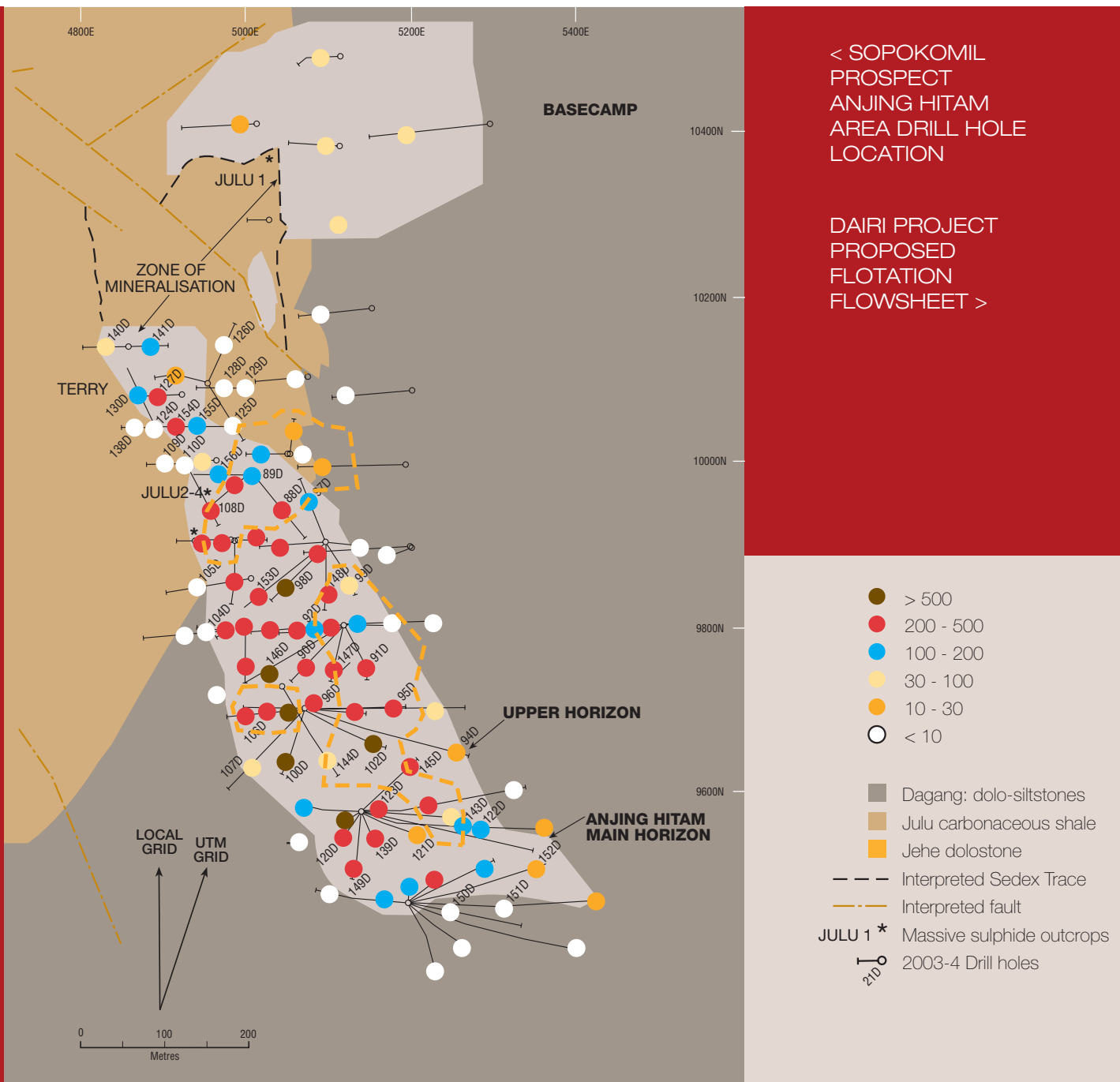
All amounts are in **US\$** and figures are project totals.

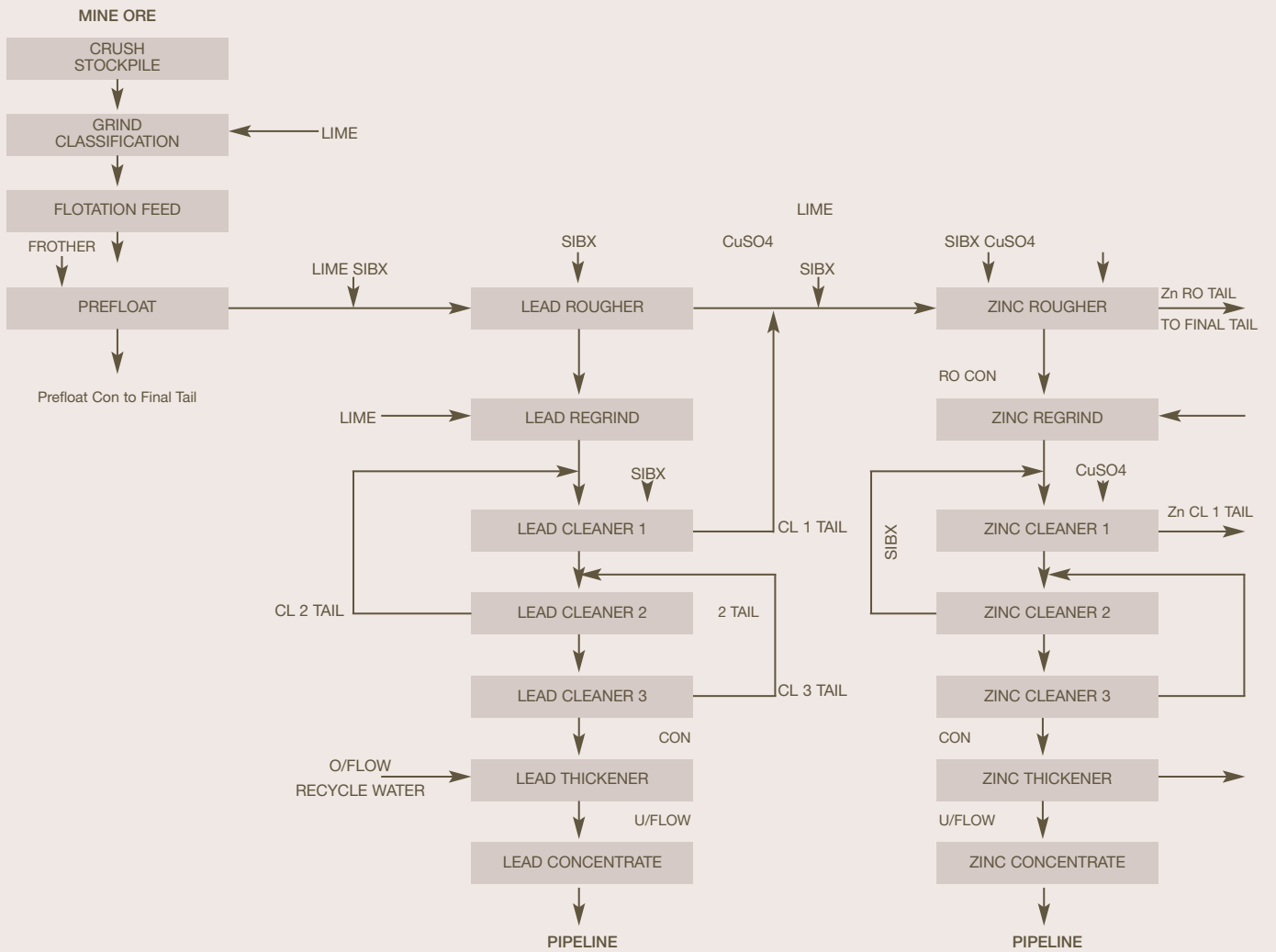
	<b>NOTE</b>	<b>ORIGINAL</b>	<b>FEBRUARY 2004</b>
Zinc Price	2	\$885/tonne	\$1,040/tonne
Lead Price	2	\$520/tonne	\$740/tonne
Gross saleable metal		\$904M	\$1,124M
Net operating cash flow (pre-tax)	4	\$228M	\$385M
Cash costs		\$83M	\$83M
DCF calculations (pre-tax)			
Ungeared			
Net present value of project @ 10%		\$61M	\$151M
Internal rate of return		31%	58%
Payback period		2.8 years	1.8 years
Geared			
Net present value @ 10%		\$59M	\$150M
Return on equity		52%	109%
Equity recovery period		2.3 years	1.0 years

#### **NOTES**

- 1) Based on original PFS reserves of 6.3Mt @ 16% Zn, 10% Pb. Ore reserves are those tonnes believed to be extractable from the Anjing Hitam deposit only. No extension of mine life has been assumed from the conversion of other existing resources to reserves, or from further exploration success.
- 2) Metals prices are flat for the life of the project.
- 3) Operating costs are flat and have not been escalated, and include an estimate for sustaining capital expenditure.
- 4) Plant capital costs include all offsite roads and port facilities, and include a contingency factor of 20%. If the slurry pipeline option is chosen capital costs increase by approximately \$15M and operating costs reduce by approximately \$25M.
- 5) A discount rate of 10% has been used, which approximates Herald's weighted average cost of capital.
- 6) A gearing ratio of 70% debt, 30% equity has been used in the geared case. Debt is assumed to be repaid in equal instalments over 3.5 years, and all borrowing costs (including political risk insurance) have been accounted for.

# BASE METALS





# BASE METALS



< DAIRI PROJECT  
PROPOSED  
PIPELINE ROUTE





## BELITUNG TIN PROJECT

### PROJECT INTERESTS:

**Herald Resources Ltd**  
Beneficial Interest 100%  
PT Timah  
NSR tin royalty 5%  
NSR other products 3%

Herald has a production sharing royalty with PT Tambang Timah, the major Indonesian tin producer, for hard rock rights covering two KP's (domestic mining leases) of about 40,000ha over the historical Manggar tinfields.

During 2000-2001 Herald had completed detailed gridding, mapping, ground magnetometer surveying etc in a large area concentrating on the Batu Besi stratabound trend. Trenching and drilling at Batu Besi demonstrated that the "Ironstone Hill" was in fact a deeply weathered classical skarn and an inferred resource of

3.2 Mt @ 0.95% Sn was demonstrated to the depth drilled at the hill. Substantial potential exists for increasing tonnage along strike and at depth and in other trends. Metallurgical testwork, however, indicated considerable difficulty in separating the fine-grained cassiterite mineralisation from the massive, enriched iron oxides in the weathering zone.

The strongly increased tin price from 2001 levels, aided by falling production from PT Timah's traditional onshore and offshore alluvials dredging, has promoted greater interest by Herald as more metallurgical options can be considered. At present, PT Timah has requested to renegotiate the previous MOU to a full agreement. This will have to be completed before the metallurgical program can be resumed.

# GOLD



## COOLGARDIE GOLD PROJECT

**Herald 50%**  
MPI Mines (Manager) 50%

### INTRODUCTION

The Coolgardie Gold Project (CGP) tenements cover an area of 105.78 km<sup>2</sup> with a total combined reserve plus resources of 0.7M ounces of gold. Gold mineralisation at Coolgardie is generally controlled by quartz vein sets in mafic and felsic intrusives and by quartz veins and lodes in shear zones.

Total gold production for the Coolgardie region since 1892 has been ~2.5 Moz, with more than 1.6Moz having been derived from mines now forming part of the CGP. Herald has been producing gold at Coolgardie since 1990 and to date has produced about 650,000oz gold.

### CORPORATE

Herald continues to receive the payment of \$20/oz from certain ore sources until payments of \$2.5M have been made. All gold production for the year was delivered into forward sales contracts at \$600. In addition the CGP received revenues from toll milling of ore for other customers.

### PRODUCTION

(All figures are 100% project totals)

#### Mined

Underground	
(Empress)	212,587 tonnes @ 5.97 g/t Au
Open Pit	
(Lindsays)	251,186 tonnes @ 1.14 g/t Au
(Greenfields)	167,851 tonnes @ 1.55 g/t Au

#### Milled

CGP Ore	891,794
Grade	2.51 g/t Au
Recovery	92.8 %
Gold produced	66,852 ounces
Toll Milling	215,157 tonnes
Cash cost/oz	\$500

## EXPLORATION

### Empress North

Underground diamond drilling continued throughout the year to assist with mine planning. Nearly all of the remaining mineralisation at Empress North is included in the Ore Reserve.

### Countess

Countess is a new lode discovered during the year and is located midway between the Empress Lodes and Tindals Main Lode. Drilling has delineated a combined resource of 112,000 tonnes at 4.7g/t Au in two converging limbs of a folded felsic intrusive (Countess West and East). The mineralisation is situated between the 140m and 160m RL, the bottom level of Empress being at 120m RL. Some of the Countess intersections included:

Hole No	m		g/t Au	Lode
ED221	7.42	@	8.99	Countess
ED222	14.84	@	3.53	Countess
ED224	13.03	@	2.94	Countess West
	12.47	@	2.91	Countess East
ED225	13.30	@	2.32	Countess West
ED227	7.57	@	9.77	Countess West
	19.70	@	3.25	Countess
ED228	12.92	@	3.39	Countess West

### Big Blow

Further drilling was completed at Big Blow, upgrading the previously inferred open pit resource to a now dominantly indicated resource. The new combined open pit resource is 179,000 tonnes at 1.6 g/t Au (9,000 oz gold). An inferred underground resource of 88,000 tonnes at 5.0g/t Au (14,000oz gold) was not added to during the year.

### Little Blow

First pass drilling at Little Blow, immediately north of Big Blow, gave best results of:

Hole No	m		g/t Au
BB068R	24.00	@	3.28
BB072R	12.00	@	2.19

### Perseverance

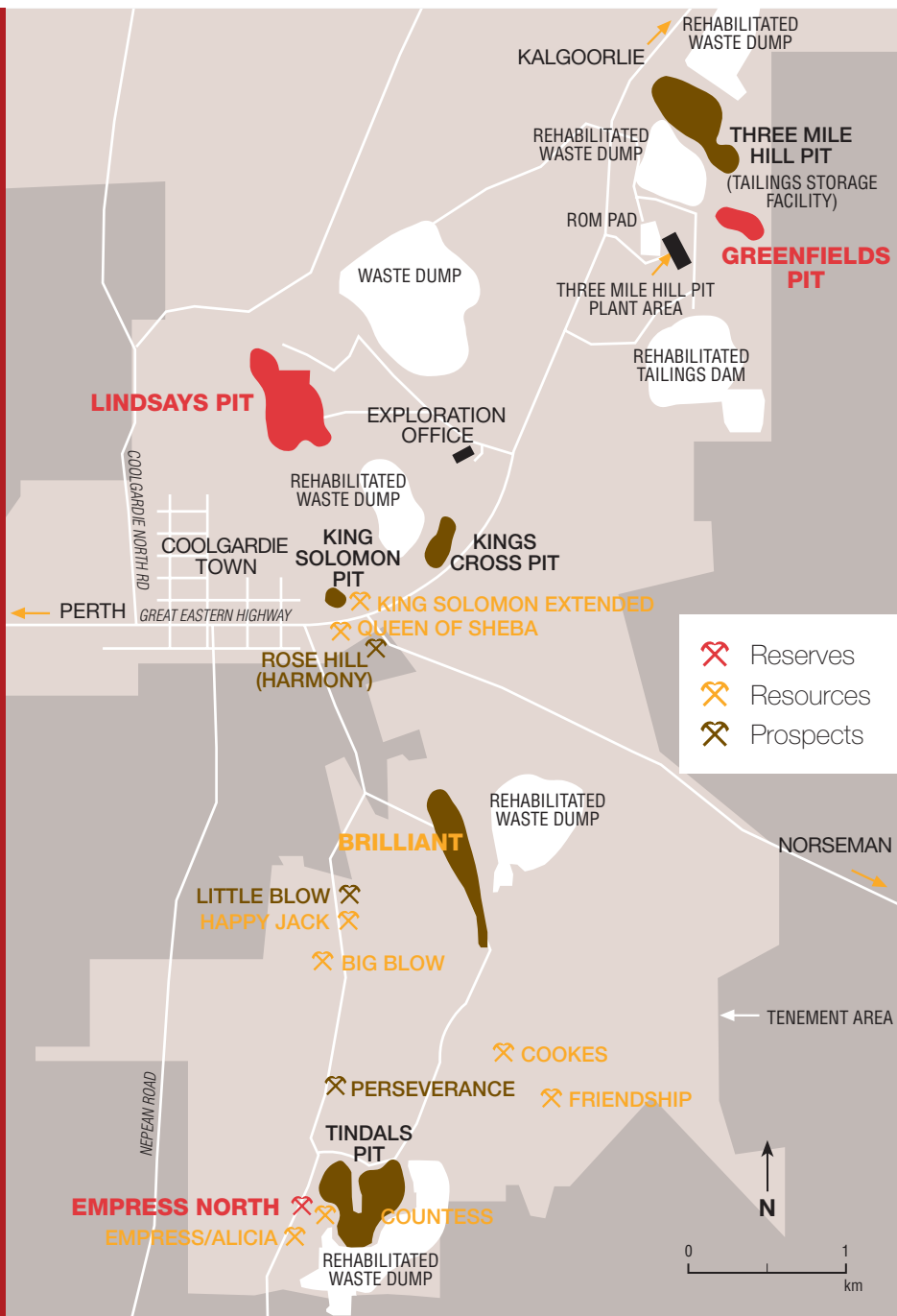
Further drilling at Perseverance, which has many geological similarities to Empress, has continued to deliver good results. These results included:

Hole No	m		g/t Au	Lode
TNG1760RD	3.83	@	10.32	Sulphide Vein
TNG1761RD	19.64	@	4.51	Diorite
	3.66	@	18.60	Sulphide Vein
	3.47	@	10.83	Sulphide Vein
	2.90	@	19.89	Sulphide Vein
TNG1766RD	3.00	@	6.40	Diorite
	12.00	@	12.15	Sulphide Vein
TNG1767RD	1.83	@	24.18	Sulphide Vein
	18.63	@	46.71	Sulphide Vein.



< COOLGARDIE TREATMENT MILL

COOLGARDIE PROJECT MINING LOCATIONS >



# GOLD

## MELUAK GOLD PROJECT

### PROJECT INTERESTS:

Herald 26% via Corona Gold Ltd

### CORPORATE

The SIPP (prospecting authority) was extended during the year by the Regency of Gayo Lues for a further 12 months to the Herald subsidiary Jag Mining Corporation (L) Ltd.

### EXPLORATION

Exploration was curtailed for a good part of 2003-2004 due to the state of military emergency in Aceh Province which has been replaced by a state of civil emergency since May. The previously proposed drilling and geophysics were therefore not carried out. The Meluak project area is well removed from the GAM separatist conflict areas in the ethnic Acehnese districts in the NE of the province, but the separatists are known to transit at times along the valley of Lawe Alas.

The activities that were carried out were mainly in the **Merpunge-Siongol Ongal district** where extensions to the gridding with geological mapping plus soil and rock chip geochemical sampling has delineated the extent of the main anomalies, **within an area of about 3.5km E-W x 1.5km N-S**. The **Gajah Mas (Golden Elephant)** has emerged as the main anomaly with an **anomalous gold in soil area in excess of 50ha**. There is virtually no outcrop here apart from limited creek bank exposure but there is very extensive bouldery float of silica-pyrite-alunite altered, mega-brecciated recent (?) volcanics that appears more or less in situ as well as boulders "as big as houses" in adjacent

creeks. **A total of 205 float rock chip samples here average 0.89g/t Au, including 51 >1g/t Au and a peak value of 18.8g/t. The Elephants "head and trunk" area of 1400m x 200m has an average of 1.52g/t Au from 52 samples.**

The altered volcanics occur within an observed vertical range of about 600m and the anomalies/float areas are within otherwise unaltered dacitic to andesitic volcanics but possibly as steep sided diatreme breccia pipes. The eastern edge of the Gajah Mas is marked by a contact with older (?) Merpunge granite and the SW edge of the anomalous area, at Siongol Ongal, is in contact with late Paleozoic limestones of the Tapanuli group. The limestone is not markedly altered where observed although is cut by silicified dykes.

Only limited reconnaissance has been carried out in the rest of the SIPP area where previous reconnaissance had resulted in discovery of similar varyingly auriferous, silica-pyrite alteration zones at Koro A, Meluak and Gumpang.

The exploration to date has demonstrated that the Meluak SIPP area has the potential to host very large auriferous deposits of a high-sulphidation style formed under acidic conditions. There is clear evidence of a multi-episodic formation with an early stage of silicification and pyritisation, possibly low in gold content and a major brecciation stage with pyritisation and arsenic, base metal and minor telluride (?) addition – possibly the main auriferous stage. While the siliceous boulders are very common there is virtually no in situ exposure and so the nature of the matrix is not clear – whether it is more or less auriferous?

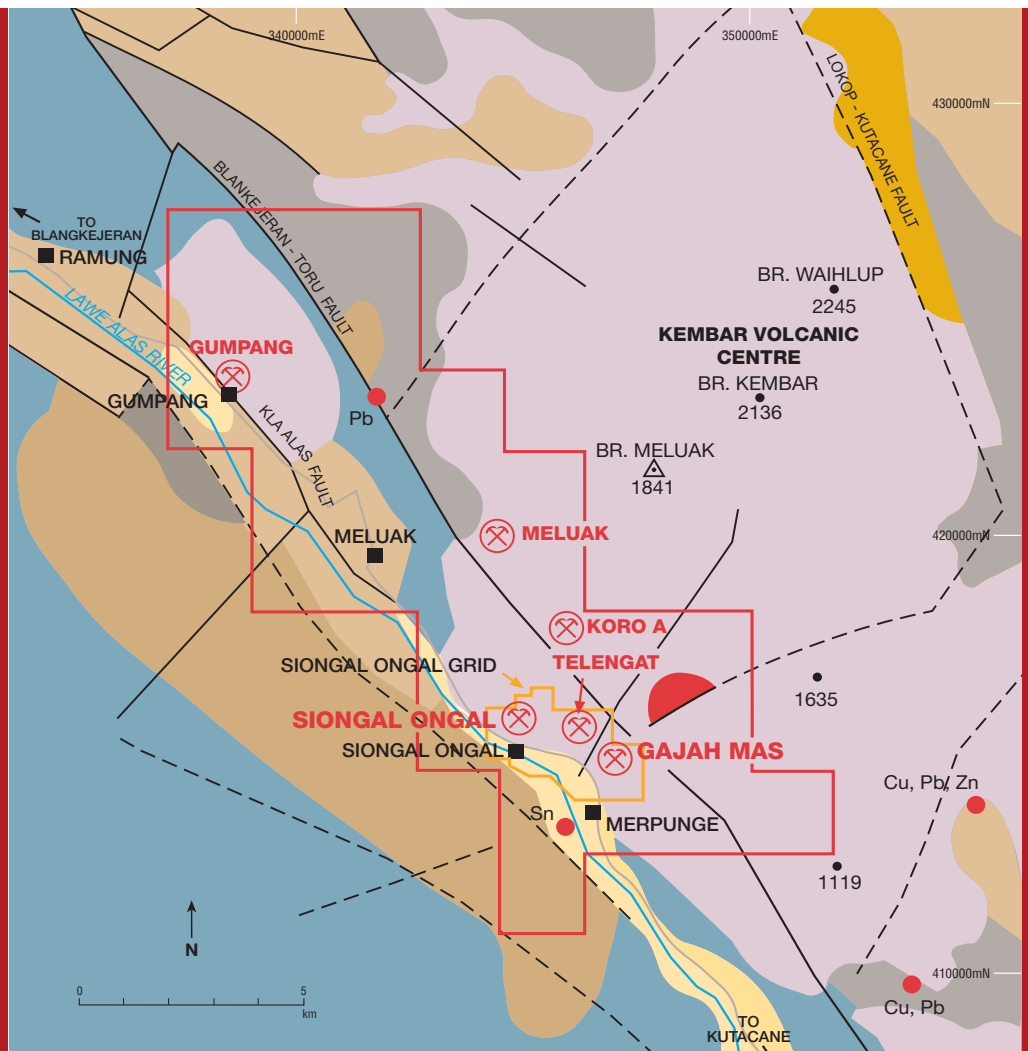
The setting - at a recent volcanic centre, near the junction of the main NW trending strands of the Sumatran Fault System with an intersecting NNW trending splay, is believed to be very favourable. There are marked similarities with Newmont's Martabe deposits, 250km to the SE, and also close to Sumatran Fault System strands. Fresh information was released on this project, where resources are believed to be in the 5M oz Au order, late in 2003.

Subject to security situation, it is hoped to carry out an initial drilling program in late 2004.



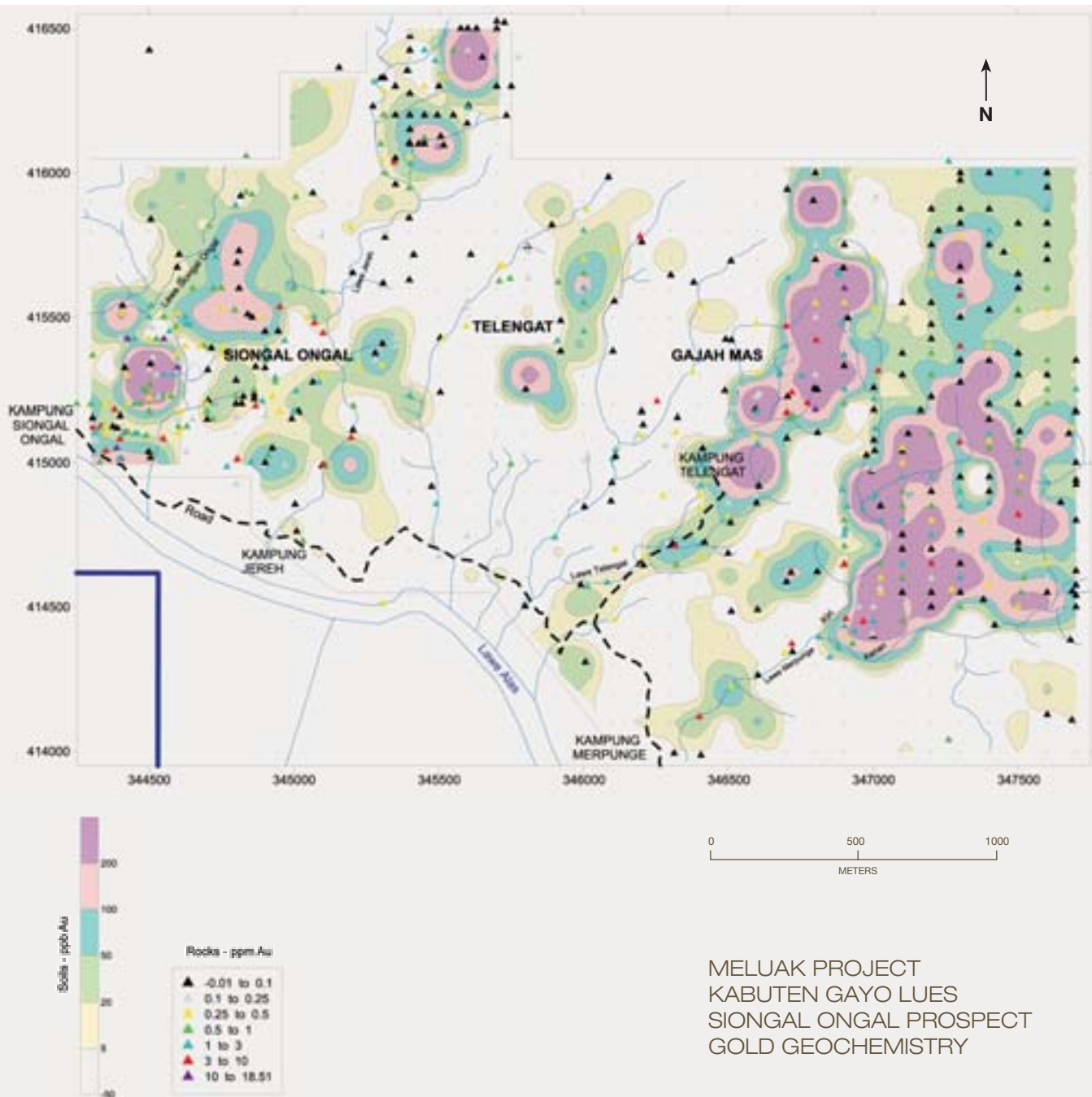


MELUAK PROJECT  
KABUPATEN GAYO  
LUES DISTRICT  
GEOLOGY >



- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>■ Village</li> <li>— Bitumen Road</li> <li>— JAG Mining SIPP Boundary</li> <li>— Fault</li> <li>⊗ Vuggy Silica Gold Prospect - Recent Discovery</li> <li>● Other Mineral occurrence</li> </ul> | <p style="text-align: center;">PALEOZOIC - MESOZOIC - TERTIARY - QUATERNARY</p> <ul style="list-style-type: none"> <li>KEMBAR VOLCANIC COMPLEX</li> <li>KUTACANE FM</li> <li>RAMPONG FM</li> <li>TAMPUR FM</li> <li>MARPUNGE GRANITE</li> <li>MESOZOIC GRANITIODS</li> <li>ALAS FM</li> <li>KLUET FM</li> </ul> | <ul style="list-style-type: none"> <li>Recent terrace-floodplain alluvials</li> <li>Intermediate volcanics, pyroclastics</li> <li>Sands, gravels</li> <li>Mixed sediments</li> <li>Limestones</li> <li>Granitoids</li> <li>Undifferentiated-granitoids</li> <li>Dominantly carbonates</li> <li>Dominantly argillites</li> </ul> |
|---|---|---|

# GOLD





## MONTAGUE GOLD PROJECT

### Herald 15%

Gateway Mining NL, managers of the JV, have 85% equity in Herald's Montague tenements which cover an area of 5.2 km<sup>2</sup>. Herald is free carried to the completion of a feasibility study.

RAB and RC drilling during the year has once again concentrated on the Airport gold trend which is a northwesterly trending shear zone which traverses the Montague granodiorite/greenstone contact. This main trend is crosscut by northeast structures. Numerous prospects have been discovered along the Airport trend by RAB and RC drilling. Some of the better intersections during the year include:

Hole No	m	g/t Au	m	Prospect
GRB1778	5 @	6.86	(18-23)	Airport
GRB1975	5 @	13.15	(30-35)	S Bend
	5 @	2.40	(35-40)	S Bend
GRC104	2 @	12.76	(82-84)	Rosie North
GRC105	5 @	3.87	(27-32)	Rosie North
GRC106	2 @	9.83	(49-51)	Rosie North
GRC107	7 @	2.68	(29-36)	Rosie North
GRC108	2 @	10.95	(45-47)	Rosie North
GRC109	3 @	4.30	(65-68)	Rosie North
GRC114	5 @	4.08	(17-22)	Rosie North
GRC116	15 @	1.72	(20-35)	Rosie North
GRC118	16 @	1.96	(42-58)	Rosie North
GRC142	7 @	2.40	(17-24)	S Bend
GRC143	8 @	3.44	(59-67)	S Bend

Exploration is continuing on the Airport trend in an attempt to define sufficient resources to justify a mining operation.

MONTAGUE GOLD PROJECT AERIAL PHOTOGRAPH >



# GOLD & OTHER PROJECTS



## CRATER GOLD PROJECT

### Herald 20%

Gateway Mining NL is the manager of this JV which covers 2 separate exploration licences with a combined area of 51km<sup>2</sup>.

No work was completed during the year. However, anomalous gold values have been previously intersected in RAB drilling at the Kingston, Transit and Crater prospects and further work is required to better test these areas.

## SANDSTONE GOLD PROJECT

### CORPORATE

In June 2004, Herald accepted an offer from joint venture partner, Troy Resources NL, to purchase Herald's 33% interest in a number of tenements at Sandstone, Western Australia.

The terms of the sale were:

- \$500,000 cash
- 100,000 Troy Resources NL shares
- A royalty of \$12.50 per ounce on Herald's deemed share of gold production (currently 33%) from the tenements after the first 50,000 oz is produced by Troy. No royalty is payable by Troy on resources less than 20,000 ozs in size. Total royalty payments to Herald are capped at \$4M.

## OTHER PROJECTS

### MOOKA

#### Herald 100%

The 2 exploration licences comprising this project with a combined area of 433km<sup>2</sup> were granted on 27 August 2004.

Herald considers the project area is prospective for mineral sands based on the interpreted presence of a J-Bay model.

### JAGUAR MINERALS LTD

#### BALFOUR, WILSON RIVER (TAS), SPRINGFIELD, MT DAVID (NSW), & KINTORE (WA) PROJECTS

These projects were sold during the year to associated company Jaguar Minerals Ltd (Jaguar). Herald owns 21,250,000 shares (representing 59.3% of the issued capital) and 10,625,000 options in Jaguar, which commenced quotation on the ASX on 15 July 2004.

Results from activities on these projects are reported on separately by Jaguar.





## NOTES TO RESERVES AND RESOURCES ESTIMATIONS

Sections of information contained in this report that relate to Mineral Resources or Ore Reserves (except for those areas described below) were compiled or supervised by Mr B Kirkpatrick BSc, MAusIMM, MAIG who is a Member of The Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Geoscientists. Mr Kirkpatrick, a full-time employee of Herald Resources Ltd, has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Kirkpatrick consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Mineral Resources at Dairi is based upon work supervised and directed by Mr G Fahey BSc(Hons)Geology, MAusIMM (CP), MAIG who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Fahey, a full-time employee of Resource Evaluations Pty Ltd, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Fahey consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Ore Reserves and Mineral Resources at Countess, Lindsays, Greenfields, Empress North and Big Blow was compiled by Mr A Pelliccia BSc Hons, MAusIMM, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Pelliccia, a full-time employee of MPI Mines Ltd, has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Pelliccia consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the Mineral Resources at Whistler is based upon work undertaken Mr G Brabham BSc, MAusIMM who is a Member of the Australasian Institute of Mining and

Metallurgy. Mr Brabham, a full-time employee of Hellman & Schofield Pty Ltd, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Brabham consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

## DAIRI PROJECT

### ANJING HITAM

Resource estimates are based on the results of 103 DD holes within the resource area. Drill hole intersection spacings were generally 50m x 30-50m. 3D wireframe geological models were used to constrain the "Surpac" block model in which blocks were assigned grade and density values utilising domain dependent, Ordinary Kriged interpolation methods. Density values were derived from numerous direct measurements on selected drill core samples. No top cuts were applied to assay values; whilst blocks with less than 5% zinc equivalent\* were excluded from resource estimates. Block dimensions in the model were 20m along strike, 10m across strike and 2m vertically with sub-cells of 5m x 2.5m x 0.5m. Resources were categorised on the basis of continuity of mineralisation and/or drill hole spacing.

\*The zinc equivalent used was: Zn assay + 0.8 x Pb assay. This is based on long term metal prices of \$US1050/t for zinc and \$US650/t for lead and differential "typical" smelter payments and charges.

### BASECAMP / LAE JEHE

Resource estimates are based on the results of 14 DD holes within the resource zones. Drill hole intersection spacings varied from 100m x 100-150m at Basecamp to 200m x 100-150m at Lae Jehe. 3D wireframe geological models were used to constrain the "Surpac" block models in which blocks were assigned grade and density values utilising domain dependent, inverse distance cubed interpolation methods. Density values were derived from numerous direct measurements on selected drill core samples. No top cuts were applied to assay values; whilst blocks with less than 5% zinc equivalent were excluded from resource estimates. Block sizes were 25m along strike, 10m across strike and 2m vertically for the Basecamp block model and 25m along strike, 2m across strike and 10m vertically for the Lae Jehe block model. Resources were categorised on the basis of continuity of mineralisation and/or drill hole spacing.

## BELITUNG TIN PROJECT

### BATU BESI

The resources are based on assay data from 12 RC/DD holes and 8 hand-dug trenches evenly spaced along the skarn related mineralised zone over a 560m strike length. Tin assays were determined by XRF analyses. Wireframe models of +0.2% Sn mineralisation were applied to a "Surpac" block model to constrain an inverse distance squared grade interpolation. Arbitrary bulk densities of 2.5t/m<sup>3</sup> and 3.0t/m<sup>3</sup> were applied to oxide and fresh material respectively within the mineralised zones. The grade interpolations were based on a search ellipsoid with the major axis being 100m along strike, a semi-major axis of 50m across strike and a minor axis of 25m vertically. Block sizes were 25m along strike, 5m across strike and 5m vertically. The lower cut off grade was 0.5% Sn.

## COOLGARDIE JV

### LINDSAYS

Evaluated by reverse circulation (RC) and diamond (DD) drilling on a 20m x 20m pattern down to 100m vertical depth with 40m x 20m being more dominant below this depth giving a global density of 30m x 20m. Resources are based on a "MineSight" block model using ordinary kriging grade interpolation with domain dependent variable ellipsoids and quadrant searches. Block dimensions are 10m x 10m x 5m. Densities applied were 2.4t/m<sup>3</sup> for the oxide zone, 2.6t/m<sup>3</sup> for the transition zone, 3.0t/m<sup>3</sup> for sulphide zones. Assay top cuts ranged from 12-45g/t Au, depending on the domain, and were applied to 2.5m down hole composites. Resources are classified by the number of informing composite samples and the slope of regression for the kriging estimate. Resource blocks have a lower cut off grade of 1.0g/t Au.

The Probable Reserve was determined through optimisations at a gold price of A\$550. Operating costs used were based on current known costs. Results are reported at a 1.0g/t Au cut off grade.

### GREENFIELDS

Evaluated by RC and DD drilling on a 20m x 20m pattern. Resources based on a "MineSight" block model using an ordinary kriging grade interpolation with domain dependent variable search ellipsoids. Block dimensions are 10m x 5m x 5m. Densities applied were 2.4t/m<sup>3</sup> for the oxide zone, 2.8t/m<sup>3</sup> for the transition zone, 2.85t/m<sup>3</sup> for sulphide zones. An assay top cut of 15g/t Au was applied to 2m down hole composites to the main mineralised zones and no top cut was applied to 2 lesser mineralised zones. Resource blocks have a lower cut off grade of 1.0g/t Au.

The Probable Reserve is based on an optimisation at a gold price of A\$550 and a cut off grade of 1.0g/t Au. Operating costs are the same as Lindsays.

#### **EMPRESS NORTH**

All surface drilling and more recent underground drilling together with geological mapping of underground development have been utilised in the resource estimate. Four separate lode structures are identified. East Lode, West Lode and Empress Lode are narrow high grade structures (0.5m to 3m wide) and the Granodiorite Stockwork is generally wider (>5m) and lower grade. For the East, West and Empress Lodes the resources are estimated utilising a manual longitudinal projection methodology with a 100g/t Au top cut. For the Granodiorite Stockwork the resources are based on a "MineSight" block model using an ordinary kriging grade interpolation with variable top cuts ranging from 20-82g/t Au in 3 domains. Densities applied varied from 2.74 to 2.81 depending on lode structure. All resources are within fresh rock.

The Probable Reserve has been determined by applying appropriate mining dilution factors and making allowance for mine design pillars.

#### **KING SOLOMON EXTENDED AND QUEEN OF SHEBA**

Evaluated by RC drilling on variable patterns ranging from 10m x 10m to 40m x 20m. Resources based on a "Surpac" block model using an inverse distance squared grade interpolation with domain dependent variable search ellipsoids. Block dimensions are 10m x 5m x 5m. Densities applied were 2.0t/m<sup>3</sup> for the oxide zone, 2.4t/m<sup>3</sup> for the transition zone, 2.7t/m<sup>3</sup> for sulphide zones. An assay top cut of 10g/t Au was applied to 1m down hole composites with Resource blocks having a lower cut off grade of 1.0g/t Au.

#### **EMPRESS/ALICIA**

Evaluated by RC drilling on variable patterns ranging from 10m x 10m to 20m x 20m. Resources based on a "Surpac" block model using an inverse distance squared grade interpolation with domain dependent variable search ellipsoids. Block dimensions are 5m x 2m x 2.5m. Densities applied were 2.0t/m<sup>3</sup> for the oxide zone, 2.4t/m<sup>3</sup> for the transition zone, 2.7t/m<sup>3</sup> for the porphyry sulphide. An assay top cut of 10g/t Au was applied to 1m down hole composites with Resource blocks having a lower cut off grade of 1.0g/t Au.

#### **BIG BLOW**

Evaluated by RC +/- DD on variable patterns ranging from 20m x 20m to 40m x 40m. Resources are based on a "MineSight" block model using an ordinary kriging grade interpolation with a uniform search ellipsoid for the 3 interpreted domains. Block dimensions were 5m x 10m x 5m. Densities applied were 2.2 t/m<sup>3</sup> for the oxide zone and 2.8 t/m<sup>3</sup> for the zones in fresh rock. Assay top cuts were either 30g/t Au for Zone 2 (alteration envelope in fresh rock) or none for the oxide zone and fresh rock lode zone. Resource blocks have a lower cut off grade of 1.0g/t Au for the open pit resources and 3.0g/t Au for the underground resources.

#### **OTHERS – COOKES, FRIENDSHIP AND HAPPY JACK**

Evaluated by RC drilling on variable patterns ranging from 10m x 10m to 20m x 20m. Resources based on a "Surpac" block model using an inverse distance squared grade interpolation with domain dependent variable search ellipsoids. Block dimensions vary from 5m x 2.5m x 2.5m to 10m x 5m x 5m to 10m x 2m x 5m. Densities applied were 2.0t/m<sup>3</sup> for the oxide zone, 2.4t/m<sup>3</sup> for the transition zone, 2.7t/m<sup>3</sup> for the porphyry sulphide. An assay top cut of 10g/t Au was applied to 1m down hole composites with Resource blocks having a lower cut off grade of 1.0g/t Au.

#### **BRILLIANT**

This is a global Underground Resource evaluated by RC and DD drilling on a minimum 20m x 20m pattern. Resources based on a "Surpac" block model using an inverse distance squared grade interpolation with domain dependent variable search ellipsoids. Block dimensions are 5m x 2m x 2.5m. Densities applied were 2.0t/m<sup>3</sup> for the oxide zone, 2.4t/m<sup>3</sup> for the transition zone, 2.7t/m<sup>3</sup> for the porphyry sulphide and 3.0t/m<sup>3</sup> for the basalt sulphide lode zones. An assay top cut of 13g/t Au was applied to 1m down hole composites with the Resource blocks having a lower cut off grade of 3.0g/t Au.

#### **COUNTESS**

This is a new resource delineated by a total of 11 underground diamond core holes. Resources are based on a "MineSight" block model using ordinary kriging grade interpolation with domain dependent variable ellipsoids and quadrant searches. Block dimensions are 10m x 10m x 2.5m. Tonnages have been generated using an estimated SG of 2.80. Statistical analysis indicated that no top cuts were necessary. Resources are classified by the number of informing composite samples and the slope of regression for the kriging estimate. Resource blocks have a lower cut off grade of 3.g/t Au.

#### **STOCKPILES**

Low grade stockpiles are based on run of mine and mill reconciliations. Grades are based on mine grade control data.

### **MONTAGUE**

#### **WHISTLER**

Evaluated by RC and DD on a 25m x 20m pattern beneath the pit floor (250mRL) and above 200mRL and on an irregular pattern beneath this level. The surface is at about 310mRL. The resources were estimated using conventional polygonal methods with a minimum horizontal width of approximately 2m whilst grade interpolations were based on length weighted averages. A global bulk density of 2.7t/m was assigned to all material and is based on the known densities of the granite host rocks and quartz vein material. A 15g/t Au top cut was applied to assays.



# HERALD RESOURCES

FINANCIAL STATEMENTS 2004

## DIRECTORS' REPORT

for the year ended 30 June 2004

Your Directors present their report on the consolidated entity, consisting of Herald Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2004.

### DIRECTORS

The names and details of the Directors in office at the date of this report are:

Name	Qualifications	Special Responsibilities	Securities held in Parent Company	
			Shares	Options
(1) DIRECTORS				
<b>Terrence M Allen</b>	Mr Allen has been extensively involved in exploration and management of listed mining companies since 1980. Mr Allen was eligible to attend and attended all of the 4 meetings of Directors that were held during the financial year.	CHAIRMAN & CEO	15,086,714	-
<b>Michael P Wright</b> BBus	Mr Wright has had 20 years experience in the resource sector in a corporate and financial capacity. He is also the company secretary of Herald Resources Limited. Mr Wright was eligible to attend and attended all of the 4 meetings of Directors that were held during the financial year.	EXECUTIVE DIRECTOR	1,000,000	160,000
<b>Graeme J Hutton</b> BSc(Hons) FAusIMM	Mr Hutton has had over 25 years experience in the mining and exploration industry. Mr Hutton was eligible to attend and attended all of the 4 meetings of Directors that were held during the financial year.	NON-EXECUTIVE DIRECTOR	100,000	-

### DIRECTORS' INTEREST IN CONTRACTS

Mr Wright is a director and has financial interest in a company, which is providing consulting services to the parent entity. The parent entity has entered into an employment contracts with Mr Allen and Mr Wright. Other than the foregoing and the Directors' benefits mentioned hereunder, no Director holds an interest, whether directly or indirectly, in a contract or proposed contract with the Company or a related corporation.

### PRINCIPAL ACTIVITIES

The principal activities of the corporations in the consolidated entity during the year were mineral exploration, gold production, and investment. There were no significant changes in those activities during the year.

### RESULT OF OPERATIONS

The net profit, after tax, of the consolidated entity for the financial year was \$1,558,333.

# DIRECTORS' REPORT

for the year ended 30 June 2004

## DIVIDENDS

No dividends were paid during the 2003/2004 year. The Directors have not recommended a dividend for the 2003/2004 year.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the year other than as noted in these accounts. During the year the Company raised new equity as follows: Herald \$5,244,400, Jaguar \$2,901,883 (net).

## REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

In the opinion of the Directors, the operations of the parent entity for the financial year, likely developments in the operations of the consolidated entity and the expected results of those operations known at the date of this report have been covered generally herein and elsewhere in the Annual Report. The consolidated entity's future profitability may be affected by unforeseen factors, such as civil unrest, movements in metal prices and exchange rates, government actions and policies, native title constraints, and changes in reserves and/or grades from those forecast.

## ENVIRONMENTAL ISSUES AND REGULATIONS

The consolidated entity has interests in mining tenements (including prospecting, exploration and mining leases). The leases and licence conditions contain environmental obligations. To the best of the knowledge of the Directors, the consolidated entity has not contravened any environmental obligations and no claims have been made of any breaches.

The consolidated entity has made significant progress in addressing environmental issues, which have arisen from historical operations at our mining sites.

With mining operations completed at a number of the consolidated entity's sites, the emphasis has been on rehabilitating those sites to a level that establishes a self sustaining ecosystem, stable and safe site suitable for the next or final land use.

### Sandstone

Troy Resources NL has agreed to assume Herald's environmental liabilities at Sandstone as a condition of the purchase of Herald's interests. Troy has replaced Herald's bonds with their own performance bonds totalling \$78,000.

### Coolgardie

Environmental monitoring of vegetation and groundwater is ebbing maintained. Whilst there has been improved vegetation growth on areas rehabilitated it is generally saltbush and bluebush. Re-seeding may be required to generate species diversity.

Some capping of the decommissioned CIL tailings storage facility was done during 2003/2004, however no other major earthworks were undertaken. Herald is committed to rehabilitating the mined areas.

The consolidated entity has an obligation to complete rehabilitation of the Lindsays, CNX, King Solomon, Kings Cross, Tindals, Greenfields and Three Mile Hill mine sites. The cost of some of this rehabilitation will be shared 50/50 between Godfan and the Coolgardie Mining Company Pty Ltd. Godfan's estimated share of the cost is \$1.9 million.

Outstanding performance bonds in favour of the Minister for State Development total \$1,291,000 at balance date.

## POST BALANCE DATE EVENTS

Other than as mentioned in Note 32 to the accounts, circumstances have not arisen since the end of the financial year that have affected or may significantly affect in subsequent financial years:

- (i) the operations of the consolidated entity;
- (ii) the result of those operations; or
- (iii) the state of affairs of the consolidated entity.

The likely developments in the operations of the consolidated entity in subsequent financial years are that the consolidated entity will continue to produce gold, continue to explore and evaluate its other holdings in an attempt to bring them into production, and to utilise its cash reserves and expertise to add value to investment activities.

## DIRECTORS' REPORT

for the year ended 30 June 2004

### AUDIT COMMITTEE

The parent entity does not have an Audit Committee as the size of the Board and the scope of activities does not at this stage warrant the formation of such a committee. Regular contact is made between the Board and its external auditors, and any audit matters requiring attention are discussed by the Board at the relevant meetings.

### DIRECTORS' BENEFITS

Mr Wright has a financial interest in a company which is providing consultancy services to the parent entity. The parent entity has taken out Directors' and Officers' liability insurance. A subsidiary entity has advanced loan funds to Messrs Allen and Wright to convert options into fully paid shares pursuant to the 1996 and 2000 Herald Option Incentive Schemes. Other than the foregoing, since the end of the previous financial year no Director of the parent entity has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts or consolidated entity accounts, or the fixed salary of a full-time employee of the Company or of a related corporation) by reason of a contract made by the parent entity or a related corporation with the Directors or with a firm of which the Director is a member, or with a company in which the Director is a member, or with a company in which the Director has a substantial financial interest.

### REMUNERATION OF DIRECTORS AND EXECUTIVES

Emoluments of Directors and senior executives are set by reference to payments made by other mining and exploration companies of similar size, and by reference to the skills and experience of the Directors and executives. The emoluments are not linked to performance, although the parent entity has an Option Incentive Scheme in which the Directors and executives may participate.

Details of the nature and amount of each element of the emoluments of each Director of Herald Resources Limited and each of the 5 officers of the parent entity and the consolidated entity receiving the highest emoluments are set out in the following tables.

#### Directors of Herald Resources Limited

Name	Base Salary or M/fee \$	* Motor Vehicle \$	Directors fees \$	Super- annuation \$	Other Benefits \$	Total \$
T M Allen Chairman & CEO	193,000	52,211	15,000	33,720	-	293,931
M P Wright Executive Director	50,000	17,448	10,000	35,000	90,000	202,448
G J Hutton Non executive Director	-	-	15,000	1,350	-	16,350

\* Non cash – deemed calculation only

## DIRECTORS' REPORT

for the year ended 30 June 2004

### Specified Executives of Herald Resources Limited and the consolidated entity

Name	Base Salary \$	* Motor Vehicle \$	Directors fees \$	Super- annuation \$	Other Benefits \$	Total \$
T W Middleton Mgr Internat Expl	130,000	9,982	-	34,581	-	174,563
I N Bruce Project Geologist	133,000	-	-	-	7,200	140,200
B L Kirkpatrick Mgr Aust. Expl	77,085	-	-	39,000	-	116,085
V J Roberts Mgr Tenements & Environment	86,000	19,379	-	7,740	-	113,119
R K Brookes Mgr Accounts & Admin	86,000	7,213	-	7,740	-	100,953

\* Non cash – deemed calculation only

Information on options issued as part of the remuneration of Directors of Herald Resources Limited and each of the 5 executive officers of the Company and the consolidated entity receiving the highest emoluments are set out in the next section of this report.

### SHARE OPTIONS GRANTED TO DIRECTORS AND MOST HIGHLY REMUNERATED OFFICERS

There were no Options over unissued ordinary shares of Herald Resources Limited granted during or since the end of the financial year.

For other details of options outstanding, refer to Notes 17 and 33 attached to the Financials Statements.

### NATIVE TITLE

On 3 June 1992 the High Court of Australia held in *Mabo -v- Queensland* that the common law of Australia recognises a form of native title. In order to maintain a native title claim the persons making such claim must show that they enjoyed certain customary rights and privileges in respect of a particular area of land and that they have maintained their traditional connection with that land. Such a claim will not be recognised if the native title has been extinguished, either by voluntary surrender to the Crown, death of the last survivor of a community entitled to native title, abandonment of the land in question by that community or the granting of an "inconsistent interest" in the land by the Crown. An example of inconsistent interest would be the granting of a freehold or some types of leasehold interest in the land. The granting of a lesser form of interest will not extinguish native title unless it is wholly inconsistent with native title.

*The Racial Discrimination Act 1975 ("RDA")* enacted by the Federal Parliament, is binding on the States of Western Australia and generally makes racial discrimination unlawful. Some legal commentators have raised the question of whether, in the case of the grant of a post 1975 mining tenement, if such grant is found to be discriminatory and therefore unlawful under the RDA, the result may be either that the grant of the mining tenement is invalid, or that such grant would give rise to a claim for compensation by the affected Aborigines against the Commonwealth.

The Commonwealth Parliament responded to the Mabo decision by passing the *Commonwealth Native Title Act 1993 ("Commonwealth Act")* while the Western Australian Parliament passed its own legislation, the *Land (Titles and Traditional Usage) Act 1993 ("WA Act")* prior to the Commonwealth Act. On 16 March 1995 the High Court found that the WA Act was invalid, which means that Western Australia must now comply with the Commonwealth Act. The Western Australian State Government has since passed the *Titles Validation Act 1995*, which provides for the validation of tenements granted prior to 1 January 1994. The status of tenements granted pursuant to the now inoperative WA Act during the period 1 January 1994 to 16 March 1995 is less certain, although the State Government has stated that such titles will be deemed valid unless proven invalid and the amendments referred to below go some way towards addressing the issue of validity.

The recent *Native Title Amendment Act 1998 ("Amendment Act")* provides for certain amendments to the Commonwealth Act. These amendments include the validation of any titles, which may have been invalidly granted over pastoral leases and certain other leasehold interests during the period 1 January 1994 to 23 December 1996. Other

## DIRECTORS' REPORT

for the year ended 30 June 2004

significant amendments include a revised threshold test for the acceptance of claims, confirmation of extinguishment of native title by the grant of "exclusive possession" pastoral leases and certain other leasehold interests and provisions intended to deal with overlapping claims.

In the event that native title is established by an indigenous community over an area the subject of Herald's mining tenements, the nature of the native title may be such that consent to mining may be required by that community but is withheld. The issue of what exactly comprises "native title" is unclear, with the High Court recently finding in the Ward Case that native title comprises a "bundle of rights" which will vary from case to case. What the High Court did find in that case was that native title rights do not extend to minerals or petroleum on the basis that any native title to minerals or petroleum, which may have existed was extinguished at the time when minerals were vested in the Crown.

Native title claims (in some cases multiple) have been made over all of Herald's Australian projects. None of the claims have yet been determined by the Federal Court.

At Coolgardie, Herald's core mining tenements were granted prior to 1 January 1994. Subject to the abovementioned determination of what constitutes "native title" the re-commencement of mining activities on those mining tenements has not required the consent of the several native title claimants. Whilst exploration can still proceed on currently granted mining tenements the major impact will be on future grants of mining tenements, which will be subject to the Commonwealth Act.

At Mt David, Herald successfully negotiated with the native title claimants, which enabled Herald to undertake its exploration activities.

Herald has signed an agreement with the Yamatji Marpla Barna Maaja Aboriginal Corporation as agent for the Gnulli Claim Group which enabled the grant of Exploration Licences 08/1014 and 09/1015 (Gum Tree Bore Project) and exploration activities subject to no interference with the Gnulli Claim Group's community life and protection of areas and sites of significance to them.

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### **INSURANCE OF DIRECTORS AND OFFICERS**

During the financial year, Herald Resources Limited paid a premium of \$52,381 to insure the Directors and officers of the Company and its controlled entities.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and officers in their capacity as Directors and officers of entities in the consolidated entity.

Dated at Perth this 30th day of September 2004.

Signed in accordance with a resolution of Directors.

**M P WRIGHT**

Director



# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

Herald Resources Limited ACN 008 672 071 ("**Company**") has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised below.

The following information about the Company's corporate governance practices is set out on the Company's website at [www.herald.net.au](http://www.herald.net.au):

- Corporate governance disclosures and explanations;
- Statement of Board and Management Functions;
- Nomination Committee Charter;
- Policy and procedure for selection and appointment of new Directors;
- Summary of code of conduct for Directors and key executives;
- Summary of policy on securities trading;
- Policy and procedure for selection of external auditor and rotation of audit engagement partners;
- Summary of policy and procedure for compliance with continuous disclosure requirements;
- Summary of arrangements regarding communication with and participation of shareholders;
- Summary of Company's risk management policy and internal compliance and control systems;
- Process for performance evaluation of the Board, Board committees, individual Directors and key executives;
- Remuneration Committee Charter; and
- Corporate Code of Conduct.

## EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

During the Reporting Period the Company has complied with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Governance Council ("**ASX Principles and Recommendations**"), other than in relation to the matters specified below.

Principle Ref	Recommendation Ref	Notification of Departure	Explanation for Departure
2	2.1	The majority of Directors of the Company are not independent in accordance with the test in box 2.1 ("Independent Test") of the best practice recommendations as published by ASX Corporate Governance Council.	Only G.J. Hutton is considered independent by the Board for the reasons set out below under the heading "Identification of Independent Directors".
2	2.2	The Chairperson does not satisfy the Independence Test because he acts in an executive capacity.	The Chairperson is a founding director of the Company in its present activities in the mining industry and a substantial shareholder since 1983 responsible for the turnaround of the Company's focus from industrial to mining and investors and the market see his continuing involvement as a positive factor for the Company.
2	2.3	The role of Chairperson and Managing Director are exercised by the same person.	See explanation for 2.2 above.
2	2.4	There is no nomination committee.	The full Board considers those matters and issues that would usually fall to a nomination committee.

# CORPORATE GOVERNANCE STATEMENT

for the year ended 30 June 2004

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Principle Ref	Recommendation Ref	Notification of Departure	Explanation for Departure
3	3.1	Prior to 30 June 2004 there was no written code of conduct.	Although there was no written policy the Board considered the business practices and ethics exercised by individual Board members and key executives was of the highest standards. On 30 June 2004 the Company certified and disclosed its practices as a code of conduct.
3	3.2	Prior to 30 June 2004 there was no written securities trading policy.	All Directors and employees were aware of existing legislative restrictions regarding trading in the companies securities. The Company has now adopted and disclosed a policy and provided further educational information in this regard to employees and Directors alike.
4	4.2	There is no audit committee.	Given the present structure of the Board and that the independent Director does not have formal financial qualifications there is no audit committee. The Board relies on the capabilities of its external auditors to ensure proper audit of financial statements.
4	4.3	There is no audit committee	See explanation for 4.2 above.
4	4.4	There is no audit committee	See explanation for 4.2 above.
5	5.1	Until 30 June 2004 there were no written policies and procedures designed to ensure ASX Listing Rule disclosure requests.	Although there were no written policy or procedure such policies and procedures did in fact exist and have now been documented and were formally implemented by the Board on 30 June 2004.
6	6.1	Until 30 June 2004 there was no formal communication strategy to promote shareholder communication.	Although there were no written policies or procedures the Company had a positive strategy to communicate with and actively promote shareholder involvement in the Company. The strategy included making information about the Company available on its website. The policy has now been documented and disclosed on 30 June 2004.
10	10.1	A code of conduct was adopted 30 June 2004.	Although until 30 June 2004 there was no code of conduct documented or disclosed the Board considered its business practices as led by the example of the Board and key executives were the equivalent of a code of conduct, which has now been documented, approved and disclosed.

# CORPORATE GOVERNANCE STATEMENT

for the year ended 30 June 2004

## **SKILLS, EXPERIENCE, EXPERTISE AND TERM OF OFFICE OF EACH DIRECTOR**

A profile of each Director containing the applicable information is set out in the Directors' Report.

## **IDENTIFICATION OF INDEPENDENT DIRECTORS**

The independent Director of the Company is G.J. Hutton.

Terrence Allen and Michael Wright are both executive directors and therefore not independent.

Graeme J Hutton has served on the Board for 21 years, with fellow board member Terrence Allen. Given his long service on the Board Mr Hutton does not fit within paragraph 6 of the Independence Test. Mr Hutton passes all other aspects of the Independence Test.

The Board (in absence of Mr Hutton) considers he is capable of and demonstrates he consistently makes decisions and takes actions which are designed to be for the best interest of the Company and further believe he has demonstrated he is not influenced by either Mr Allen or Mr Wright in his decision making process and is accustomed to challenging their perspectives and putting forward alternative views as and when he deems appropriate in carrying out his duties as a Director. The Board therefore consider him to be independent.

## **STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE**

If a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a Director then, provided the Director first obtains approval for incurring such expense from the Chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

## **CONFIRMATION WHETHER PERFORMANCE EVALUATION OF THE BOARD AND ITS MEMBERS HAVE TAKEN PLACE AND HOW CONDUCTED**

During the Reporting Period an evaluation of the Board and its members was carried out. The evaluation process comprised an informal review of the Board's performance over the last 12 months by the Chairman.

## **COMPANY'S REMUNERATION POLICIES**

### **Remuneration of Directors and Executives**

Emoluments of Directors and senior executives are set by reference to payments made by other mining and exploration companies of similar size, and by reference to the skills and experience of the Directors and executives. The emoluments are not linked to performance, although the parent entity has an Option Incentive and Loan Scheme in which the Directors and executives may participate.

## **EXISTENCE AND TERMS OF ANY SCHEMES FOR RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS**

There are no termination or retirement benefits for non-executive directors.

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2004

	NOTE	CONSOLIDATED ENTITY		PARENT ENTITY	
		2004	2003	2004	2003
REVENUES FROM ORDINARY ACTIVITIES	2	24,607,668	14,465,283	1,632,444	371,296
Cost of goods sold		(15,477,536)	(9,930,628)	-	-
Employee benefits expense		(2,065,041)	(936,758)	(903,026)	(936,758)
Interest and other costs of finance		(322,739)	(346,352)	-	-
Rehabilitation cost		(320,215)	(113,823)	-	-
Exchange gains (losses)		627,410	(363,774)	-	(262)
Depreciation and amortisation expense		(3,655,470)	(1,131,617)	(73,134)	(62,445)
Exploration expenditure written off		(1,095,178)	(806,370)	(147,966)	(487,026)
Administration and other expenses from ordinary activities		(877,055)	(890,484)	(824,770)	(693,911)
Cost of investments sold		(35,076)	(111,971)	-	(60,153)
Cost of property, plant & equipment sold		(61,858)	(1,538,649)	(217)	(23,390)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		1,324,910	(1,705,143)	(316,669)	(1,892,649)
Income tax expense relating to ordinary activities	3	-	-	-	-
PROFIT (LOSS)		1,324,910	(1,705,143)	(316,669)	(1,892,649)
Profit (loss) attributable to outside equity interests		(233,423)	-	-	-
PROFIT (LOSS) ATTRIBUTABLE TO MEMBERS OF HERALD RESOURCES LIMITED		1,558,333	(1,705,143)	(316,669)	(1,892,649)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		\$1,558,333	(\$1,705,143)	(\$316,669)	(\$1,892,649)
Basic earnings per share (cents per share)	30	2.6	(3.4)		
Diluted earnings per share (cents per share)	30	2.6	(3.3)		

Notes to and forming part of the Statement of Financial Performance are attached.

## STATEMENT OF FINANCIAL POSITION

as at 30 June 2004

	NOTE	CONSOLIDATED ENTITY		PARENT ENTITY	
		2004	2003	2004	2003
<b>CURRENT ASSETS</b>					
Cash		<b>5,341,597</b>	3,452,221	<b>40,877</b>	38,172
Receivables	4	<b>1,232,926</b>	658,332	<b>1,355,956</b>	31,546
Prepayments	4	<b>53,185</b>	101,426	<b>42,049</b>	51,660
Inventories	5	<b>1,812,447</b>	1,780,601	-	-
Investments	6	<b>289,106</b>	62,182	<b>262,000</b>	-
<b>TOTAL CURRENT ASSETS</b>		<b>8,729,261</b>	6,054,762	<b>1,700,882</b>	121,378
<b>NON CURRENT ASSETS</b>					
Receivables	7	<b>2,020,087</b>	1,484,057	<b>11,349,085</b>	8,899,464
Investments	8	<b>125</b>	25	<b>8,524,536</b>	8,274,336
Plant, equipment, and vehicles	9	<b>555,324</b>	1,018,252	<b>230,199</b>	285,594
Other	10	<b>15,220,244</b>	14,235,260	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>17,795,780</b>	16,737,594	<b>20,103,820</b>	17,459,394
<b>TOTAL ASSETS</b>		<b>26,525,041</b>	22,792,356	<b>21,804,702</b>	17,580,772
<b>CURRENT LIABILITIES</b>					
Payables	11	<b>2,688,353</b>	3,623,975	<b>213,294</b>	150,530
Interest bearing liabilities	12	<b>2,000,000</b>	4,793,581	-	-
Provisions	13	<b>621,431</b>	525,481	<b>553,140</b>	427,475
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,309,784</b>	8,943,037	<b>766,434</b>	578,005
<b>NON-CURRENT LIABILITIES</b>					
Payables	14	-	-	<b>8,628,399</b>	9,700,630
Interest bearing liabilities	15	-	1,100,000	-	-
Provisions	16	<b>3,462,368</b>	2,931,338	<b>80,000</b>	80,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>3,462,368</b>	4,031,338	<b>8,708,399</b>	9,780,630
<b>TOTAL LIABILITIES</b>		<b>8,772,152</b>	12,974,375	<b>9,474,833</b>	10,358,635
<b>NET ASSETS</b>		<b>\$17,752,889</b>	\$9,817,981	<b>\$12,329,869</b>	\$7,222,137
<b>EQUITY</b>					
Parent entity interest					
Contributed equity	17	<b>24,288,307</b>	18,863,907	<b>24,288,307</b>	18,863,907
Reserves	18	<b>1,600,000</b>	1,600,000	-	-
Retained profits (accumulated losses)	19	<b>(9,087,590)</b>	(10,645,926)	<b>(11,958,438)</b>	(11,641,770)
Equity attributable to members of Herald Resources Limited		<b>16,800,717</b>	9,817,981	<b>12,329,869</b>	7,222,137
Outside equity interest	27	<b>952,172</b>	-	-	-
<b>TOTAL EQUITY</b>		<b>\$17,752,889</b>	\$9,817,981	<b>\$12,329,869</b>	\$7,222,137

Notes to and forming part of the Statement of Financial Position are attached.

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2004

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Gold and other income	21,426,774	10,270,343	367,955	245,743
Payment to suppliers and employees	(19,903,649)	(10,028,090)	(1,547,243)	(1,477,079)
Interest received	212,867	253,101	2,489	1,286
Interest paid	(322,739)	(346,352)	-	-
Net cash outflow from operating activities	1,413,253	149,002	(1,176,799)	(1,230,050)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Advances to entities	(1,756)	(28,164)	-	-
Advances repaid by entities	22,950	126,700	-	10,000
Payments for investments	(200)	-	(250,200)	(100)
Proceeds from sale of investments	327,185	234,948	-	84,948
Payments for property, plant and equipment	(53,182)	(569,527)	(17,955)	(260,653)
Proceeds from sale of property, plant and equipment	157,904	3,682,293	-	39,319
Mine development, exploration and evaluation expenditure	(3,959,615)	(7,867,296)	(147,966)	(487,026)
Net cash outflow from investment activities	(3,506,714)	(4,421,046)	(416,121)	(613,512)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends paid	-	(1,645)	-	(1,645)
Proceeds from issue of shares	8,076,284	29,000	5,424,400	1,293,500
Proceeds from borrowings	-	5,893,581	-	-
Repayments of borrowings	(3,893,581)	-	-	-
Advances from related entities	-	-	496,441	4,172,584
Advances to related entities	-	-	(4,325,216)	(3,573,353)
Net cash inflow from financing activities	4,182,703	5,920,936	1,595,625	1,892,086
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>				
Cash at the beginning of the financial year	3,452,221	2,274,792	38,172	(10,090)
Effect of exchange rate differences on cash held in foreign currencies	(199,866)	(471,462)	-	(262)
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>\$5,341,597</b>	<b>\$3,452,221</b>	<b>\$40,877</b>	<b>\$38,172</b>

Notes to and forming part of the Statement of Cash Flows are attached.

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2004 (Cont'd)

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING PROFIT (LOSS) AFTER INCOME TAX				
Operating profit (loss) after income tax	1,558,333	(1,705,143)	(316,669)	(1,892,649)
Non cash flows in profit (loss)		-		-
Capitalised exploration expenditure written-off or provided for	1,095,178	806,370	147,966	487,026
Rehabilitation provision	320,215	2,551	-	-
Depreciation, amortisation, & waste removal adjustments	3,655,470	1,131,617	73,134	62,445
Provision for employee entitlements	95,950	171,166	125,665	164,437
Provision for close out of call options	250,000	-	-	-
Loss (profit) on sale of investments	(292,394)	(2,143,644)	-	(24,795)
Loss (profit) on sale of property, plant & equipment	(1,358,046)	(122,977)	(1,261,783)	(15,929)
Provision for doubtful debt	-	-	-	1,160
(Gain) on deconsolidation of former subsidiary	(7,635)	-	-	-
(Gain) on deconsolidation of new subsidiary	(1,471,277)	-	-	-
Minority interests	(233,423)	-	-	-
Change in assets and liabilities				
Inventories decrease (increase)	(31,846)	(1,431,352)	-	-
Payables and accruals increase (decrease)	(1,606,919)	5,023,364	50,844	(36,716)
Receivables (increase) decrease	67,057	(1,946,724)	4,044	24,709
Exchange (gains) losses	(627,410)	363,774	-	262
Net cash outflow from operating activities	\$1,413,253	\$149,002	(\$1,176,799)	(\$1,230,050)
Cash represents:				
Bank overdraft	-	-	-	-
Cash on hand	500	300	500	300
Cash at bank	251,294	106,142	40,377	37,872
Cash on deposit	5,089,803	3,345,779	-	-
	\$5,341,597	\$3,452,221	\$40,877	\$38,172

Notes to and forming part of the Statement of Cash Flows are attached.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

## 1. SUMMARY OF ACCOUNTING POLICIES

### Basis of accounting

The general purpose financial report has been prepared in accordance with the historical cost convention except to the extent that certain assets have been revalued as described in the financial statements. The financial report has been prepared on an accrual basis and has also been prepared in accordance with the provisions of the Corporations Act, applicable accounting standards and other mandatory professional reporting requirements in Australia.

### Principles of consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Herald Resources Limited ("parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. Herald Resources Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Where applicable, outside equity interests in the results and equity of controlled entities are shown separately in the consolidated Statement of Financial Performance and Statement of Financial Position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated Statement of Financial Performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

### Income tax

The consolidated entity follows the policy of tax effect accounting. Under this method the income tax expense for the year is related to operating profit before tax after allowing for permanently non-allowable and non-assessable items. The adoption of this policy may result in the existence of a deferred income tax liability and a future income tax benefit.

The eventual payment of the liability and recoverability of the asset are contingent upon the future profitability of the particular company's operations, continued compliance with the conditions for deductibility imposed by the law and the taxation law itself not changing in a manner which would adversely affect asset recoverability or which would extinguish the liability.

### Mine buildings, machinery and equipment

The cost of each item of buildings, machinery and equipment is written off over its expected economic life. Each item's economic life has due regard both to its own physical life limitations and to present assessments of economically recoverable resources of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The total net carrying values of mine buildings, machinery and equipment at each mine property are reviewed regularly and, to the extent to which these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

The expected useful lives are as follows:

Plant	5 to 10 years
Office equipment	2 to 5 years
Furniture and fittings	5 to 10 years

### Mine properties

Mine properties represent the accumulation of all exploration, evaluation, and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation of costs are provided on the unit-of-production method, separate calculations being made where appropriate for each mineral resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising both measured and indicated mineral resources).

The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which this is determined.

Pre-stripping costs (included under mine properties) are amortised over the estimated ore tonnages from the date of commencement of commercial production.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

## Royalties and other mining imposts

Ad valorem royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises. Profit-based royalties are accrued on a basis which matches the annual royalty expense with the profits on which the royalties are assessed (after allowing for permanent differences).

## Valuation of inventories

Raw materials, stores and gold stocks are valued at the lower of cost and net realisable value. Cost is determined on an average basis and comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure.

## Employee entitlements

Employee entitlements for annual and long service leave have been accrued or provided for in accordance with the provisions of the particular legislation and accounting standards. That part of the entitlement, which is expected to be utilised within the next twelve months is included in current liabilities.

Exploration, development and joint venture expenditure

Exploration, development and joint venture expenditure carried forward represents an accumulation of net costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

- (i) such costs are expected to be recouped through successful development and exploitation of the area, or alternatively by its sale, or
- (ii) exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to the areas are continuing.

Accumulated costs in respect of areas of interest, which are abandoned are written off in the Statement of Financial Performance in the year in which the area is abandoned.

The net carrying value of each property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which this is determined.

## Comparative figures

Where appropriate, prior year figures have been re-classified to correspond with current year figures.

## Foreign currency transactions and balances

Foreign currency transactions during the period are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at year end.

The gains and losses from these conversions of short and long term balances, whether realised or unrealised, are included in operating results. The assets and liabilities of any overseas controlled entity are translated at year-end rates, and operating results are translated at the rates of exchange applicable at the dates of the transaction. Profits and losses arising on translation are written off to the Statement of Financial Performance.

## Revenue recognition, gold hedging and trading

### (a) Gold forward sales and option contracts

Gold forward sales relating to the consolidated entity's expected future production are treated as a hedge of its future sales revenues. Accordingly, unrealised gains arising on these contracts are not brought to account until physical delivery of gold against the contracts takes place or the contracts are retired or restructured. Realised gains on gold forward sales and option contracts are brought to account as they occur.

On early termination of a gold hedge, any gain or loss is deferred if the anticipated purchase or sale of gold is still expected to occur. The gain or loss will be included in the measurement of the purchase or sale at the time the transaction takes place. If a gold hedge is terminated because the anticipated transaction is no longer expected to occur, the deferred gain or loss is recognised in the Statement of Financial Performance at the date of the termination.

Revenue from sold gold call option contracts is brought to account in the period in which it is received, less the marked to market cost to close out those contracts at balance date, which is recorded as a liability.

### (b) Spot sales of gold

Revenue from spot sales of gold are recognised upon delivery of gold to the purchaser and risk of loss passes to the buyer.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

## **Cash**

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

## **Joint Ventures**

Unincorporated

The consolidated entity's interest in joint ventures is brought to account by including in their respective categories the amount of:

- i) the share of the individual assets employed in the joint ventures;
- ii) liabilities incurred in relation to the joint ventures including the share of liabilities for which the consolidated entity is jointly and/or severally liable; and
- iii) the share of expenses incurred in relation to the joint ventures.

Incorporated

- i) the investment in the share capital of the joint venture company; and
- ii) the amount of the carrying value of receivables and/or amounts owing from/to the joint venture company.

## **Restoration, rehabilitation and environmental expenditure**

Restoration, rehabilitation and environmental expenditure to be incurred during the production phase of operations is accrued when the need for such expenditure is established, and then written off as part of the cost of production of the mine property concerned. Significant restoration, rehabilitation and environmental expenditure to be incurred subsequent to the cessation of production at each mine property is accrued, in proportion to production, when its extent can be reasonably estimated.

The consolidated entity has certain obligations for restoration and rehabilitation of mining areas following the completion of production. Such obligations are being accrued in proportion to production and the accrual will be adequate to meet those obligations once production from the mineral resource is completed.

Restoration, rehabilitation, and environmental obligations recognised include the costs of reclamation, plant and waste site closure and subsequent monitoring of the environment. Costs are estimated on the basis of current undiscounted costs, current legal requirements and current technology. Estimated costs are reassessed annually. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining mine life.

## **Investments**

Investments in listed and unlisted securities, other than controlled entities in the consolidated accounts, are brought to account at cost, and dividend income is recognised in the Statement of Financial Performance when received.

## **Maintenance and repairs**

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>2. REVENUES FROM ORDINARY ACTIVITIES</b>				
Operating activities				
Sales and hedging revenues	20,803,912	9,482,568	-	-
Proceeds on sale of investments	327,045	234,948	-	84,948
Interest received	209,194	259,875	2,489	1,286
Other revenues	368,701	805,599	367,955	245,743
	<b>21,708,852</b>	<b>10,782,990</b>	<b>370,444</b>	<b>331,977</b>
Non-operating activities				
Proceeds on disposal of property, plant & equipment	1,419,904	3,682,293	1,262,000	39,319
Gain on deconsolidation of former subsidiary	7,635	-	-	-
Gain on consolidation of new subsidiary	1,471,277	-	-	-
	<b>2,898,816</b>	<b>3,682,293</b>	<b>1,262,000</b>	<b>39,319</b>
Total revenues from ordinary activities	<b>\$24,607,668</b>	<b>\$14,465,283</b>	<b>\$1,632,444</b>	<b>\$371,296</b>
<b>3. PROFIT (LOSS) FROM ORDINARY ACTIVITIES IS AFTER THE FOLLOWING:</b>				
Gains				
Net gain on disposal of non-current assets				
Listed investments	291,969	122,977	-	24,795
Property, plant & equipment	1,358,046	2,143,644	1,261,783	15,929
Expenses				
Amortisation of mine development expenditure	3,212,354	893,733	-	-
Depreciation of fixed assets	443,116	248,059	73,134	62,445
Exploration expenditure written-off or provided for	1,095,178	806,370	147,966	487,026
Amounts set aside to provisions				
Close out of call options	250,000	950,000	-	-
Doubtful debts	-	-	-	1,160
Employee entitlements	95,950	171,166	-	104,437
Rehabilitation of mine sites	320,215	113,823	-	-
Interest & finance charges paid/payable to other persons	322,739	346,352	-	-
Exchange (gains) losses	(627,410)	363,774	-	262
Government royalties	264,425	-	-	-

No tax is payable as the Company and the consolidated entity incurred tax losses for the year. Non assessable income included gain on de-consolidation of former subsidiary of \$7,635 and gain on consolidation of new subsidiary (premium on consolidation) of \$1,471,277.

The future tax benefit not booked is contingent upon the future profitability of the consolidated entity's operations, continued compliance with the conditions for deductibility imposed by the law, and the taxation law not changing in a manner which would adversely affect asset recoverability.

Due to the nature of the income tax legislation in relation to gold mining entities and the uncertainty of income tax rulings pertaining to the industry, there always exists the possibility that income tax provided in the accounts may differ to the tax payable upon preparation of the income tax return and any review by the Australian Taxation Office. Every effort has been made to ensure that the parent and consolidated provision for income tax and income tax expense is materially correct.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>4. RECEIVABLES (CURRENT)</b>				
Loan to controlled entity	-	-	799,287	-
Other amounts receivable	1,222,926	648,332	556,669	31,546
Security deposits/bonds	10,000	10,000	-	-
Prepayments	53,185	101,426	42,049	51,660
	<b>\$1,286,111</b>	<b>\$759,758</b>	<b>\$1,398,005</b>	<b>\$83,206</b>
<b>5. INVENTORIES (CURRENT)</b>				
Raw materials and stores, at cost	627,850	394,850	-	-
Work in progress	516,770	564,841	-	-
Finished goods	667,827	820,910	-	-
	<b>\$1,812,447</b>	<b>\$1,780,601</b>	<b>\$ -</b>	<b>\$ -</b>
<b>6. INVESTMENTS (CURRENT)</b>				
Tradeable Securities – listed	\$289,106	\$62,182	\$262,200	\$ -
All tradeable securities have been valued at the lower of cost and net realisable value. See also Note 8.				
<b>7. RECEIVABLES (NON-CURRENT)</b>				
Loans to controlled entities	-	-	12,139,224	10,189,787
Provision for loan write down	-	-	(1,290,139)	(1,290,323)
Loans to other entities	1,972,850	1,437,300	500,000	-
Deposits and bonds	47,237	46,757	-	-
	<b>\$2,020,087</b>	<b>\$1,484,057</b>	<b>\$11,349,085</b>	

The majority of the amounts recoverable from controlled entities are subject to the successful development and exploitation of the projects owned by the controlled entities or alternatively the sale or repayment of the parent entity's interest therein at amounts at least equal to book values. At 30 June 2004 the debts due by the controlled entities were amounts due by Persian Resources NL (fully provided for) Goldfan Ltd, Hereos Pty Ltd, Jaguar Minerals Ltd (current), International Annax Ventures Inc and Lexus Mining Corp Ltd.

The bonds are security deposits with the Indonesian Director General of General Mining and are refundable upon the relevant company expending a mutually agreed amount on the exploration work program on the relevant property in Indonesia.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>8. INVESTMENTS (NON-CURRENT)</b>				
The following investments are valued at cost less write down to fair market values				
Shares in controlled entities - listed	-	-	250,200	-
Shares in controlled entities - unlisted	-	-	8,274,211	8,274,311
Shares and options in other corporations - listed				
Provision for diminution in value	-	-	-	-
	-	-	8,524,411	8,274,311
Non-traded shares in other corporations (not listed)	125	25	125	25
Provision for diminution in value	-	-	-	-
	125	25	125	25
	\$125	\$25	\$8,524,536	\$8,274,336

### Non-traded shares in other corporations

Non-traded shares in other corporations have been valued by the Directors at their assessed recoverable amount, being the present value of net cash inflows from expected future dividends and subsequent disposal of the shares. The revaluation was not made in accordance with a policy of regular revaluation. No capital gains tax would be payable if the shares were sold at the reporting date at the recognised amount.

### Traded investments – net fair values

(See also Note 6 above)

Some of the above investments and tradeable securities, as indicated, are listed on a stock exchange. The market values of the quoted shares and options, calculated on the official quotation on the stock market of that exchange, as at 30 June 2004, are as follows:

	\$416,928	\$270,000	\$262,000	\$ -
The sale of the above securities at balance date for the net fair values shown would have given rise to a capital gains tax liability of:	\$38,947	\$62,345	\$ -	\$ -

### 9. PLANT, EQUIPMENT, AND VEHICLES

Property, plant, equipment, and vehicles, at cost	1,622,586	1,644,882	688,515	675,330
Less accumulated depreciation	(1,067,262)	(626,630)	(458,316)	(389,736)
	\$555,324	\$1,018,252	\$230,199	\$285,594
Movements in carrying amounts:				
Written down value at beginning of year	1,018,252	2,225,258	285,594	110,777
Purchases	53,182	544,741	17,955	260,652
Sales	(61,858)	(3,998,960)	(216)	(251,096)
Depreciation written back	(11,136)	2,495,272	-	227,706
Depreciation for year	(443,116)	(248,059)	(73,134)	(62,445)
Written down value at end of year	\$555,324	\$1,018,252	\$230,199	\$285,594

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>10. OTHER (NON-CURRENT)</b>				
Exploration and evaluation expenditure in respect of areas of interest still in the exploration and/or evaluation phase (see also Note 29)	13,991,671	10,171,771	-	-
Less provision for write-down	(863,036)	(466,344)	-	-
	<b>13,128,635</b>	<b>9,705,427</b>	<b>-</b>	<b>-</b>
Costs in respect of an area of interest in which production has commenced (mine properties)	6,173,915	5,399,784	-	-
Less accumulated amortisation	(4,082,306)	(869,951)	-	-
	<b>2,091,609</b>	<b>4,529,833</b>	<b>-</b>	<b>-</b>
	<b>\$15,220,244</b>	<b>\$14,235,260</b>	<b>\$ -</b>	<b>\$ -</b>

Recoverability of the parent entity's and consolidated entity's interests in property, plant, equipment, and vehicles and capitalised exploration and development expenditure is subject to the successful development and exploitation of the projects owned by the consolidated entity and/or sale of the parent entity's and consolidated entity's interests therein at amounts at least equal to book values.

<b>11. PAYABLES (CURRENT)</b>				
Trade creditors	2,502,126	3,410,730	41,914	10,031
Other creditors and accruals	186,223	213,245	171,380	140,499
	<b>\$2,688,349</b>	<b>\$3,623,975</b>	<b>\$213,294</b>	<b>\$150,530</b>

### 12. INTEREST BEARING LIABILITIES

Bank loan (secured)	2,000,000	4,793,581	-	-
	<b>\$2,000,000</b>	<b>\$4,793,581</b>	<b>\$ -</b>	<b>\$ -</b>

The bank loan above and in Note 15 below is secured over the assets and undertaking of wholly controlled entity Goldfan Ltd. Parent entity Herald Resources has also provided a guarantee of up to \$3.1M in favour of the lending bank.

### 13. PROVISIONS (CURRENT)

Employee entitlements	\$621,431	\$525,481	\$553,140	\$427,475
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Number of employees at 30 June 2004 (excluding those of the Coolgardie Joint Venture) was 14.

### 14. PAYABLES (NON-CURRENT)

Loan from related company	\$ -	\$ -	\$8,628,399	\$9,700,630
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### 15. INTEREST BEARING LIABILITIES (NON-CURRENT)

Bank loan (secured) (see also Note 12 above)	\$ -	\$1,100,000	\$ -	\$ -
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### 16. PROVISIONS (NON-CURRENT)

Rehabilitation of mine sites (see also Note 20)	2,262,368	1,981,338	80,000	80,000
Close out of sold call options	1,200,000	950,000	-	-
	<b>\$3,462,368</b>	<b>\$2,931,338</b>	<b>\$80,000</b>	<b>\$80,000</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>17. CONTRIBUTED EQUITY</b>				
Issued and paid up capital				
62,603,497 ordinary fully paid shares (2003: 52,263,497)	<b>\$24,288,307</b>	\$18,863,907	<b>\$24,288,307</b>	\$18,863,907

### Movement in issued capital

Number of Shares	Description
52,263,497	Opening Balance
7,000,000	Placement at \$0.44
2,500,000	Placement at \$0.80
840,000	Option exercises
<b>62,603,497</b>	

### Options

The parent entity had share options outstanding at 30 June 2004 as follows:

205,000 options to subscribe for ordinary fully-paid shares at \$0.35 on or before 7 April 2005. (See also Note 33)

230,000 options to subscribe for ordinary fully-paid shares at \$0.29 on or before 23 January 2007. (See also Note 33)

### 18. RESERVES

Asset revaluation	<b>\$1,600,000</b>	\$1,600,000	<b>\$ -</b>	\$ -
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### 19. RETAINED PROFITS (ACCUMULATED LOSSES)

Retained profits (accumulated losses) at the beginning of the year	<b>(10,645,926)</b>	(8,940,783)	<b>(11,641,769)</b>	(9,749,121)
Net profit (loss) attributable to members of the parent entity	<b>1,558,336</b>	(1,705,143)	<b>(316,669)</b>	(1,892,649)
Retained profits (accumulated losses) at the end of the year	<b>(\$9,087,590)</b>	(\$10,645,926)	<b>(\$11,958,438)</b>	(\$11,641,770)

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

## 20. CONTINGENT LIABILITIES

### Secured

- (i) The parent entity and its controlled entities have entered into guarantees, contracts, maintenance bonds, and warranties in the normal course of business (see also Note 32).
- (ii) The parent entity's controlled entity, Goldfan Limited (Goldfan) had gold forward sales, and sold call option contracts at 30 June 2004, detailed in Note 31.

Where such contracts are entered into, they are subject to change from time to time, or through delivery, however to the extent that Goldfan is unable to meet or defer those deliveries, then there exists an unlimited contingent liability where adverse price changes occur prior to delivery.

### Unsecured

- (i) The parent entity is a party to one consultancy agreement and two employment contracts. The maximum contingent liability of the parent entity that may arise from the termination of these agreements is:

Consolidated and parent	- within 1 year	\$488,597
	- within 1-2 years	\$488,597
	- within 2-5 years	\$488,597

- (ii) The parent entity's and controlled entity Goldfan Ltd's liabilities in respect of rehabilitation of mine sites (see also Note 16 and Directors' Report) are partially reflected by performance bonds provided by a financier to the relevant authorities. Goldfan must reimburse the financier to the extent that those bonds are called in by the relevant authorities.
- (iii) Exploration and Capital Commitments.

The parent entity and its controlled entities have entered into certain obligations to perform minimum exploration work on leases held. These obligations may vary from time to time in accordance with contracts signed. Statutory Tenement rentals and statutory minimum expenditure obligations (which may be varied or deferred on application) for 2004/2005 total \$894,520. The consolidated entity has guaranteed performance bonds totalling \$1,483,500 of which MPI Mines Ltd is responsible for \$769,090.

### Exploration

At 30 June 2004, planned exploration and development commitments were as follows:

	Consolidated Entity	Parent Entity
	\$	\$
Within 1 year	1,500,000	100,000
Within 1-2 years	1,500,000	100,000
Within 2-5 years	3,000,000	100,000

These amounts are subject to alteration depending on results obtained.

The above commitments also include minimum obligations, which as noted, can be varied or deferred.

### Capital

Capital commitments at 30 June 2004 were Nil. (2003: Nil)

- (iv) Native Title

At the date of this report, claims had been lodged in relation to tenements held by the consolidated entity. The effect (if any) that these claims will have, or which future claims will have on the consolidated entity's tenements is not yet known (refer also to Directors' Report).



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

### 21. DETAILS OF CONTROLLED ENTITIES

Name	Country of Incorporation	Book value of investment		Percentage of shares held	
		2004	2003	2004	2003
		\$	\$	%	%
Goldfan Limited	Australia	100	100	100	100
Herald Operations Pty Ltd	Australia	200	200	100	100
Herald Finance Pty Ltd	Australia	2	2	100	100
Persian Resources NL	Australia	20,120	20,120	100	100
Hereos Pty Ltd	Australia	-	-	100	100
Jaguar Minerals Ltd	Australia	250,200	-	59.6	-
Corona Gold Ltd	Australia	-	100	-	100
International Annax Ventures Inc (IAX) and its subsidiaries	Canada	8,253,988	8,253,988	100	100
Lexus Mining Corp	British Virgin Islands (BVI)	-	-	100	100
Gain & Win Ltd	BVI	-	-	100	100
PT Dairi Prima Mineral	Indonesia	-	-	80	80
PT Herald Mining Services	Indonesia	-	-	100	100

### 22. REMUNERATION DISCLOSURES

(a) Specified Directors of Herald Resources Limited

Name	Base Salary or M/fee	Motor Vehicle	Directors Fees	Super-annuation	Other Benefits	Total
	\$	\$	\$	\$	\$	\$
T M Allen Chairman & CEO	193,000	52,211	15,000	33,720		293,931
M P Wright Executive Director	50,000	17,448	10,000	35,000	90,000	202,448
G J Hutton Non-executive Director	-	-	15,000	1,350	-	16,350
	243,000	69,659	40,000	70,070	90,000	512,729

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

(b) Specified Executives of Herald Resources Limited and the consolidated entity

Name	Base Salary or M/fee \$	Motor Vehicle \$	Directors fees \$	Super- annuation \$	Other Benefits \$	Total \$
Terry Middleton Mgr International Expl	130,000	9,982	-	34,581	-	174,563
I N Bruce Project Geologist	133,000	-	-	-	7,200	140,200
B L Kirkpatrick Mgr Aust. Expl	77,085	-	-	39,000	-	116,085
V J Roberts Property Manager	86,000	19,379	-	7,740	-	113,119
R K Brookes Mgr Accounts & Admin	86,000	7,213	-	7,740	-	100,953
	512,085	36,574	-	89,061	7,200	644,920

### 23. SEGMENT INFORMATION

The consolidated entity's operations comprised the production and sale of gold, exploration, and evaluation, of gold and base metals prospects and associated investments predominantly within Australia and South East Asia.

2004 Geographic Segments	Australia	South East Asia	Intersegment Eliminations	Consolidated
Sales to customers outside the consolidated entity	21,708,852	-	-	21,708,852
Other revenue	2,898,816	-	-	2,898,816
Unallocated other revenue	-	-	-	-
	24,607,668	-	-	24,607,668
Segment results	1,989,393	(431,060)	-	1,558,333
Unallocated expenses				-
Consolidated operating (profit) before income tax				
Segment assets	13,245,421	13,279,620	-	26,525,041
Unallocated assets				-
Total assets				\$26,525,041

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

Other Segment Information (2004)	Australia	South East Asia	Intersegment Eliminations	Consolidated
Acquisition of property, plant and equipment	46,747	6,435	-	53,182
Capitalised exploration and development expenditure	1,870,657	3,348,865	-	5,219,522
Depreciation	(443,116)	-	-	(443,116)
Amortisation	(3,212,354)	-	-	(3,212,354)
Exploration written off	(1,095,178)	-	-	(1,095,178)
	(\$2,833,244)	\$3,355,300	\$ -	\$522,056
<b>2003 Geographic Segments</b>				
Sales to customers outside the consolidated entity	10,782,990	-	-	10,782,990
Other revenue	3,682,293	-	-	3,682,293
Unallocated other revenue	-	-	-	-
	14,465,283	-	-	14,465,283
Segment results	(1,805,843)	100,700	-	(1,705,143)
Unallocated expenses				
Consolidated operating (loss) before income tax				
Segment assets	14,935,115	7,857,241	-	22,792,356
Unallocated assets				
Total assets				
				\$22,792,356

The South East Asian operations are carried out predominantly in Indonesia.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>24. REMUNERATION OF AUDITORS</b>				
The following total remuneration was received by				
• The auditors of the parent entity in respect of:				
Auditing or reviewing the Financial Report	31,750	20,110	20,000	20,110
Other services	7,800	17,050	4,400	17,050
• Other auditors of overseas subsidiaries				
Auditing or reviewing the Financial Report	\$16,900	\$7,304	\$ -	\$ -

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

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## 25. RELATED PARTY TRANSACTIONS

- (a) Fees of \$78,000 were paid to a company controlled by Mr MP Wright for the provision of consultancy services pursuant to an ongoing consultancy agreement.
- (b) The amount owing by Goldfan Ltd to Herald Resources Ltd at 30 June 2004 was \$3,200,672 (non current).  
The amount owing by Persian Resources NL to Herald Resources Ltd at 30 June 2004 was \$1,290,139 (non current) (fully provided for).  
The amount owing by Herald Resources Ltd to Herald Finance Pty Ltd at 30 June 2004 was \$8,628,398 (non current).  
The amount owing by Herald Operations Pty Ltd to Goldfan Ltd at 30 June 2004 was \$5,403,362 (non current).  
The amount owing by Herald Operations Pty Ltd to Herald Finance Pty Ltd at 30 June 2004 was \$2,936,751 (non current).  
The amount owing by Herald Finance Pty Ltd to Goldfan Ltd at 30 June 2004 was \$6,544,191 (non current).  
The amount owing by Hereos Pty Ltd to Herald Resources Ltd at 30 June 2004 was \$1,474,427 (non current).  
The amount owing by Goldfan Ltd to Herald Operations Pty Ltd at 30 June 2004 was \$5,402,326 (non current).  
The amount owing by International Annax Ventures Inc to Herald Resources Ltd at 30 June 2004 was \$1,503,966 (non current).  
The amount owing by Jaguar Minerals Ltd to Herald Resources Ltd at 30 June 2004 was \$799,287 (non current).
- (c) The parent entity has entered into employment contracts with Mr TM Allen and Mr MP Wright providing annual remuneration to a value of \$284,599 and \$199,338 respectively.
- (d) The parent entity has taken out Directors and Officers liability insurance at a cost of \$52,381.
- (e) Directors and Director-related entities held, directly, indirectly or beneficially as at the reporting date, the following equity interests in members of the consolidated entity

	2004	2003
Herald Resources Limited	<b>No.</b>	No.
Ordinary shares	<b>16,436,714</b>	16,436,714
Options over ordinary shares	<b>160,000</b>	160,000
Jaguar Minerals Ltd		
Ordinary shares	<b>2,400,000</b>	-
Options over ordinary shares	<b>1,200,000</b>	-

## 26. SUPERANNUATION

The parent entity sponsors, on behalf of award employees, an occupational superannuation plan. The contributions are based on 9% of the employees' award rate and originally stemmed from the National Wage Decision on 10 March 1987.

### CONSOLIDATED ENTITY

	2004	2003
<b>27. OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES</b>		
Contributed equity	<b>1,185,595</b>	-
Reserves	-	-
Accumulated losses	<b>(233,423)</b>	-
	<b>\$952,172</b>	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
<b>28. RENTAL COMMITMENTS</b>				
Outstanding rental commitments for premises at 30 June 2004 were as follows:				
Due within 12 months	140,495	139,245	140,495	139,245
Due 1-2 years	23,416	139,245	23,416	139,245
Due after 2 years	-	23,208	-	23,208
	<b>\$163,911</b>	<b>\$301,698</b>	<b>\$163,911</b>	<b>\$301,698</b>

### 29. INTEREST IN JOINT VENTURES (SEE ALSO NOTE 10)

The consolidated entity has interests in joint ventures as follows:

Joint Venture	Principal Activities	Percentage Interest		Consolidated Expenditure capitalised at 30/6/04
		2004	2003	
<b>Unincorporated</b>				
Mystery Mint Joint Venture	Gold	25.5%	25.5%	-
Magnet Road/ Lightning Well Joint Venture	Gold	0%	31%	-
Crater Joint Venture	Gold	20% free-carried	20% free-carried	-
Rainbow Joint Venture	Gold	40%	40%	-
Coolgardie Joint Venture	Gold	50%	50%	2,250,428
Montague Joint Venture	Gold	15% free carried	15% free carried	-
Sandstone Joint Venture	Gold	-	37%	-
Dairi Joint Venture	Zinc/Lead/Silver	80% - 70%	80% - 70%	12,969,816
				<b>\$15,220,244</b>

Coolgardie Joint Venture  
Controlled entity Goldfan Ltd's 50% share of the assets and liabilities of this Joint Venture were:

	2004	2003
Mine development & exploration expenditure	2,250,428	4,614,309
Plant refurbishment costs	258,461	599,650
Stores	627,850	394,850
Circuit Gold and ore stocks	516,769	564,841
Cash at bank	180,658	1,278,216
Debtors	266,838	302,693
Prepayments	11,137	14,973
Provisions	(496,130)	(234,380)
Creditors	(1,763,174)	(3,425,993)
	<b>\$1,852,837</b>	<b>\$4,109,159</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

## CONSOLIDATED ENTITY & PARENT ENTITY 2004 2003

### 30. EARNINGS PER SHARE

Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	59,597,333	50,329,404
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### 31. FINANCIAL INSTRUMENTS

#### (a) Gold price protection

The wholly owned entity Goldfan Ltd had the following positions at the end of the financial year (2000: Nil gold call options sold).

Type	No. of ozs	Maturity	Delivery/Strike Price
Gold forward sales	16,405	Aug 04 – Feb 05	\$601
Sold gold call options	25,000	Mar 05 – Mar 06	\$600
Sold gold call options	10,000	June 06	\$650

Gold lease fees apply to the forward sales, floating on the outstanding balance, and settling around an allowance of 150bps. The net mark-to-market value of the above positions at 30 June 2004 was negative \$0.7M. (2003: \$2.4M).

#### (b) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The average interest rate received by the Herald group on funds on deposit for the year was 5.3%.

#### (c) Interest rate risk exposures

The consolidated entity had no exposure to interest rate risk, other than:

- to the extent of the rate of interest received on cash deposits;
- to the extent of floating gold lease rates on the gold forwards above;
- to the extent of floating bank bill interest rates paid on bank borrowings.

### 32. POST BALANCE DATE EVENTS

Since the end of the financial year:

- (1) Controlled entity Jaguar Minerals Ltd listed on the Australian Stock Exchange on 15 July 2004;
- (2) The parent entity has drawdown on a finance facility from Macquarie Bank Ltd to provide funds for the completion of the Bankable Feasibility Study on the Dairi zinc-lead project.

The finance facility is for a total of \$3M, and is repayable (to the extent that it has not been repaid or converted into ordinary fully paid shares as detailed below) by the end of 2006.

Under the facility, Macquarie will have the right for 3 years from the drawdown date to apply for up to 3M of ordinary Herald shares at a price of \$0.93 per share. In that event, any proceeds received by Herald will be applied first against any outstanding facility amount.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

### 33. OPTIONS ISSUED TO DIRECTORS, EMPLOYEES AND CONSULTANTS (SEE ALSO NOTE 17)

At the date of this report there were 435,000 options outstanding that had been issued to Directors, employees and consultants of the Company.

(1) The principal terms and conditions of these options are as follows:

- expiry 7 April 2005 (205,000 options) 23 January 2007 (230,000 options);
- exercisable into 1 ordinary share per option;
- exercise price \$0.35 (205,000 options), \$0.29 (230,000 options);
- options not listed, but transferable;

### 34. DIRECTORS & SPECIFIED EXECUTIVES HOLDINGS

#### (a) Number of Shares held by Specified Directors & Specified Executives

Directors	Balance 30 June 03	Received as Remuneration	Options Exercised	Net Change Other	Balance 30 June 04
T M Allen	15,086,714	-	-	-	15,086,714
G J Hutton	350,000	-	-	(250,000)	100,000
M P Wright	1,000,000	-	-	-	1,000,000
	16,436,714	-	-	(250,000)	16,186,714

#### Specified Executives

T W Middleton	346,250	-	-	(25,000)	321,250
I N Bruce	150,000	-	-	-	150,000
B L Kirkpatrick	70,000	-	-	-	70,000
V J Roberts	75,000	-	-	-	75,000
R K Brookes	70,000	-	-	-	70,000
	711,250	-	-	(25,000)	686,250

#### (b) Number of Options held by Specified Directors & Specified Executives

Directors					
T M Allen	-	-	-	-	-
G J Hutton	-	-	-	-	-
M P Wright	160,000	-	-	-	160,000
	160,000	-	-	-	160,000

#### Specified Executives

T W Middleton	115,000	-	-	-	115,000
I N Bruce	-	-	-	-	-
B L Kirkpatrick	-	-	-	-	-
V J Roberts	-	-	-	-	-
R K Brookes	-	-	-	-	-
	115,000	-	-	-	115,000

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

## 35. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005. Pending Accounting standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' prescribes transitional provision for first-time adopters.

AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impacts of any changes in accounting policies in the transition period leading up to the adoption date and will apply for June 2004 reporting.

The company has allocated internal resources and in conjunction with its auditors is assessing those accounting policies and key areas that are likely to be impacted by the transition to International Financial Reporting Standards (IFRS). As the company has a 30 June year end, priority has been given to the consideration of the impact of the Australian equivalents to the IFRS and the preparation of a balance sheet in accordance with those Australian equivalent standards as at 30 June 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the company prepares its first fully IFRS compliant report for the year ended 30 June 2006. As required by AASB 1047, the key accounting policies which will change and may have an impact on the financial report of the company are set out below.

### Exploration and evaluation expenditure

In terms of the exposure drafts issued by the International Accounting Standards Board (IASB) and the Australian Accounting Standards Board (AASB) on exploration and evaluation expenditure, entities are permitted to continue their previous accounting policies but all exploration and evaluation expenditure would be subject to an annual impairment test. Under the impairment test, exploration and evaluation expenditure would be carried at recoverable value which will be determined at the higher of fair value less costs to sell, and value in use. The likely impact is that exploration and evaluation expenditure will not meet the recoverable value test and will need to be written off in the year incurred.

### Goodwill

Under the Australian equivalents to IFRS 3 "Business Combinations" and IFRS 28 "Accounting for Investments in Associates", goodwill acquired on a business combination or in acquiring an investment in an associate company will no longer be able to be amortised, but instead will be subject to annual impairment testing. Under the new policy, amortisation will no longer be charged and if there is any impairment, it will be recognized immediately through the statement of financial performance.

### Taxation

Under the Australian equivalent to IAS 12 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognizes deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

### Financial Instruments

Under AASB 139 "Financial Instruments: Recognition and Measurement" financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- Financial asset or financial liability measured at fair value through the statement of financial performance
- Held to maturity investments measured at amortised cost, subject to impairment
- Loans and receivables measured at amortised cost, subject to impairment
- Available for sale assets measured at fair value with changes in fair value measured directly in equity
- Financial liability measured at amortised cost

This will result in a change in the current accounting policy that does not classify financial instruments.

### Share based payments

The group currently does not recognize an expense for options issued to directors and staff. Under AASB 2 "Share Based Payments", the company will be required to recognize an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

### Intangible assets

Under the Australian equivalent to IAS 38 "Intangible Assets", intangibles acquired in a business combination and which have finite useful lives must be amortised over their useful lives. Internally generated goodwill, brands, costs related to research activities and items similar in substance may not be recognized as assets. All expenditure on research must be expensed when it is incurred. This will result in a change in the company's current accounting policy which allows for the capitalisation of costs incurred in the research phase of an internally generated intangible asset where future benefits are expected beyond a reasonable doubt. The derecognition of intangibles that do not qualify for recognition could impact significantly on the company's equity.

### Impairment of Assets

Under the Australian equivalent to IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in the company's current accounting policy which determines recoverable amount of an asset on the basis of discounted (undiscounted) cashflows. Under the new policy it is likely that the impairment of assets will be recognized sooner and the amount of write downs will be greater.



## DIRECTORS' DECLARATION

for the year ended 30 June 2004

The Directors of the Company declare that:

- (1) the financial statements and notes, as set out on pages 10 to 30.
  - a) comply with Australian Accounting Standards and the Corporations Act 2001; and
  - b) give a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2004 and of the performance of the Company and consolidated entity for the year ended on that date;
- (2) in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

**M P WRIGHT**

**Director**

30th September 2004



### INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HERALD RESOURCES LIMITED

#### SCOPE

##### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash-flows, accompanying notes to the financial statements, and the Directors' declaration for Herald Resources Limited (the Company) and the consolidated entity for the year ended 30 June 2004. The consolidated entity comprises both the Company and the entities it controlled during the year.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

##### Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

#### INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

#### AUDIT OPINION

In our opinion, the financial report of Herald Resources Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

#### STANTON PARTNERS

J P Van Dieren  
Partner

Perth, Western Australia  
30 September 2004

## INFORMATION RELATING TO HERALD RESOURCES LTD SHAREHOLDERS

as at 30 September 2004

1. <b>Number of shareholders</b>		1,721	
2. <b>Percentage of total holdings held by or on behalf of twenty largest shareholders</b>		%	
3. <b>Distribution of shareholders:</b>			
	1 - 1,000 shares	224	
	1,001 - 5,000 shares	776	
	5,001 - 10,000 shares	294	
	10,001 - 100,000 shares	386	
	100,001 shares and over	41	
		<hr/>	
		1,721	
		<hr/>	
	Holding less than a marketable parcel	172	
4. <b>Substantial shareholder:</b>			
	TM & EA Allen & Associates (ordinary fully paid shares)	15,086,714	
5. <b>Voting rights</b>			
	On a show of hands, one vote for every registered shareholder.		
	On a poll, one vote for each share held by the registered shareholder.		
6. <b>Directors' interests in equity securities</b>			
		<b>Shares</b>	
		<b>Options</b>	
	TM Allen	15,086,714	-
	MP Wright	1,000,000	160,000
	GJ Hutton	100,000	-
7. <b>Other</b>			
	The Company does not have an audit committee in existence.		
	The tax franking account of the consolidated entity stood at \$636,609		
	The Company is not taxed as a private company.		
8. <b>20 largest shareholders</b>			
	ANZ Nominees Limited	12,602,483	
	National Nominees Limited	6,860,275	
	Lental Pty Ltd	5,125,000	
	Allen, TM & EA	4,622,750	
	Hereos Pty Ltd	3,495,000	
	Macquarie Bank Limited	2,500,000	
	Weybridge Pty Ltd	1,921,301	
	Elise Nominees Pty Ltd	1,180,753	
	Maji Investments Pty Ltd	864,500	
	Allen, TM & EA (TM Allen Family Account)	645,163	
	Nefco Nominees Pty Ltd	583,658	
	Allen, Terrence Michael	512,500	
	Hernstadt, William Henry	500,000	
	Merrill Lynch (Australia)	475,158	
	Citicorp Nominees Pty Ltd	322,710	
	Vector Nominees Pty Ltd	319,966	
	Drysdale, Robina	304,625	
	Warramboe Holdings Pty Ltd	300,000	
	Pilalitou, Angeliki	293,892	
	Yu, King Tong	288,100	
		<hr/>	
		43,717,834	
		<hr/>	

9. The name of the company secretary is Michael P Wright.
10. Registers of securities are held at 1/770 Canning Hwy, Applecross WA 6153 and Level 3/50 Colin Street, West Perth WA 6005.
11. Stock Exchange Listing has been granted for all of the ordinary shares of the Company on all member exchanges of the Australian Stock Exchange Limited.
12. The registered office is maintained at Level 3/50 Colin Street, West Perth WA 6005.



# SCHEDULE OF MINING TENEMENTS

as at 30 September 2004

Project and Tenement	Current Interest (or Right to Acquire)
<b>REGIONAL EXPLORATION</b>	
<b>Crater</b>	
E57/334 {=M57/447, M57/488-489 (appn)}	20%
E57/335 {=M57/448- M57/449, M57/490-491 (appn)}	20%
<b>Mooka</b>	
E09/1014	100%
E09/1015	100%
<b>Kintore</b>	
P16/1544 {=M16/314(appn)}	100%
P16/1545 {=M16/315(appn)}	100%
P16/1546 {=M16/315(appn)}	100%
P16/1866 {=M16/445(appn)}	0%, right to earn 100%
M16/16	0%, right to earn 100%
M16/215	0%, right to earn 100%
M16/444	0%, right to earn 100%
<b>Montague</b>	
M57/48	15%
M57/98	15%
M57/99	15%
M57/217	15%
G57/2	15%
<b>Mt David (NSW)</b>	
E5242	100%
<b>Springfield (NSW)</b>	
E5991	100%
<b>Balfour (Tas)</b>	
EL4/2002	0%, right to earn 95%
<b>Wilson River (Tas)</b>	
EL23/2003	100%
<b>LEGEND</b>	
M = Mining Lease	
P = Prospecting Licence	
E = Exploration Licence	
L = Miscellaneous Licence	
G = General Purpose Lease	
GML = Gold Mining Lease	
appn = Application	

## CORPORATE DIRECTORY

### **DIRECTORS**

T M Allen, (Chairman)  
M P Wright, BBus  
G J Hutton, BSc (Hons), FAusIMM

### **COMPANY SECRETARY**

M P Wright

### **EXECUTIVES**

Exploration Manager (International)  
T W Middleton MSMM&E, MAusIMM  
Acting Exploration Manager (Australia)  
B L Kirkpatrick, BSc, MAusIMM, MAIG

### **SHARE REGISTRY**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
APPLECROSS WA 6153  
Telephone: 08 9315 0933  
Facsimile: 08 9315 2233

### **AUSTRALIAN BUSINESS NUMBER**

15 008 672 071

### **BANKERS**

Macquarie Bank Limited  
77 St Georges Tce  
PERTH WA 6000

Challenge/Westpac  
Banking Corporation  
109 St Georges Tce  
PERTH WA 6000

### **AUDITORS**

Stanton Partners  
1 Havelock Street  
WEST PERTH WA 6005

### **SOLICITORS**

Blakiston & Crabb  
1202 Hay Street  
WEST PERTH WA 6005

### **REGISTERED OFFICE**

Level 3/50 Colin Street  
WEST PERTH WA 6005  
Telephone: 08 9322 2788  
Facsimile: 08 9481 1669  
Email: [hrl@herald.net.au](mailto:hrl@herald.net.au)

[www.herald.net.au](http://www.herald.net.au)

[www.coronagold.net](http://www.coronagold.net)

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



HERALD  
RESOURCES