



Incorporated in New Zealand / ABN 009 474 702

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30 August 2005

Dear shareholder/warrantholder

PROPOSED NON-RENOUNCEABLE RIGHTS ISSUE

Please find **enclosed** a notice of special meeting of shareholders of Heritage Gold NZ Limited seeking shareholder approval for a proposed non-renounceable issue of rights to acquire further shares and options in the Company. The proceeds of the issue are intended to be used for the next phase of work at the Talisman Mine at Karangahake, for advancing exploration of the Company's gold and cobalt properties, and for working capital.

Further details are set out in the explanatory notes which accompany the notice of meeting. Please note that only those shareholders with a registered address in New Zealand or Australia on the record date (currently intended to be Friday 23 September 2005) will be eligible to apply for shares and options under the issue.

Warrant holders may attend the meeting, but cannot vote. Existing warrant holders will be entitled to participate in the offer only if they elect to convert their warrants to fully paid ordinary shares before the record date.

If you are unable to attend the meeting, a proxy form is included with the notice of meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read "Sue Sangster", written over a light blue rectangular background.

Sue Sangster
Company Secretary

HERITAGE GOLD NZ LIMITED
NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Notice is hereby given that a Special Meeting of shareholders of Heritage Gold NZ Limited ("the Company") will be held in the Pukekawa Room, Jubilee Building, 545 Parnell Road, Parnell, Auckland, New Zealand on 14 September 2005 commencing at 10.30 am.

The business of the meeting will be:

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company pursuant to NZSX Listing Rule 7.3.1 and the Company's constitution:

Issue of Equity Securities

"That the Company be authorised to undertake a pro rata non-renounceable rights issue, pursuant to which the shareholders of the Company with a registered address in New Zealand or Australia will be offered the right to subscribe for up to 28 million ordinary shares and 28 million options, on the terms set out in the Explanatory Notes."

Directors' recommendation

The Directors recommend you vote in favour of the resolution.

Further information

The Explanatory Notes which accompany this Notice of Meeting set out the details of the terms of the proposed non-renounceable rights issue transaction which is the subject of the resolution, and the approval required for the resolution by the shareholders of the Company pursuant to the NZSX Listing Rules, the Companies Act 1993 (the "Companies Act") and the constitution of the Company. The NZSX Listing Rules can be viewed online at www.nzx.com.

Resolution

The resolution which is to be considered at the meeting is an ordinary resolution. An ordinary resolution is a resolution passed by a simple majority of votes of shareholders of the Company, entitled to vote and voting.

Proxies and representatives

You may exercise your right to vote at the meeting either by being present in person or by appointing a proxy to attend and vote in your place. A proxy need not be a shareholder of the Company. A body corporate shareholder may appoint a representative to attend the meeting on its behalf.

A proxy form is attached to this notice. If you wish to vote by proxy you must complete the form and produce it to the Company at its registered office, Nathan House, 541 Parnell Road, Parnell, Auckland, New Zealand by 10.30 am on 12 September 2005.

By order of the Board

Sue Sangster
Company Secretary

30 August 2005

EXPLANATORY NOTES

Resolution – Issue of Equity Securities

Introduction

The Company intends to undertake a non-renounceable rights issue to its existing shareholders and to the holder of certain options in the Company (the *Offer*). The proceeds of the capital raising are intended to be used for the next phase of work at the Talisman Mine at Karangahake, for advancing exploration on the Company's gold and cobalt properties, and for working capital.

The Company proposes to offer all the holders of ordinary shares in the Company with a registered address in New Zealand or Australia and to Patrick Elliott the holder of certain options in the Company (*Executive Options*) as at 5pm (New Zealand time) on the record date for the offer (which will be advised to NZX and ASX in accordance with listing rule requirements), which is currently intended to be Friday 23 September 2005, in the ratio of one (1) ordinary share (*New Share*) Share and one (1) option (*New Option*) for every five (5) ordinary shares held or Executive Options held, the right (*Right*), on a non-renounceable basis, to acquire New Shares and New Options in the Company, provided that those shareholders with a registered address in New Zealand or Australia holding less than 5,000 Existing Shares will be entitled to apply for a minimum holding of 2,000 New Shares and New Options. Fractional entitlements will be disregarded. The minimum application amount will be 400 New Shares and 400 New Options.

Each Right will confer an entitlement to accept one fully paid New Share upon payment in full of the New Share issue price of NZ\$0.05 each (the *Share Price*) with a New Option which will in turn be converted into a fully paid New Share upon payment in full of the New Option Price of NZ\$0.10 at any time after the date of issue of the New Options and on or before 5 pm (New Zealand time) on 30 September 2008 (*the New Option Expiry Date*). The Company proposes to accept payment of the Share Price and the New Option Price in New Zealand dollars and the Australian equivalent dollars (as determined by the directors). The Rights must be exercised before 5pm (New Zealand time) on the Closing Date or they will lapse. There is no minimum number of Existing Shares required for the entitlement to Rights.

For the avoidance of doubt, Warrant holders will be entitled to participate in the Offer on the same basis as holders of existing ordinary shares, to the extent that their Warrants had been converted to fully paid ordinary shares before the record date in respect of the Offer.

Under the Offer the Company will issue up to 28 million Rights to acquire up to 28 million New Shares with 28 million New Options. This calculation assumes all the 22,662,680 warrants are exercised before the record date. Should that not occur, the maximum number which would be issued would be up to 23,500,000 Rights to acquire up to 23,500,000 New Shares with 23,500,000 New Options.

The Company does not intend to make the Offer to shareholders resident outside of Australia and New Zealand having regard to:

- the small number of shareholders (currently 26 shareholders holding 8.98% of the Company's shares) resident outside Australia or New Zealand; and
- the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

Terms & conditions of the New Shares

The terms and conditions of the New Shares subject to Offer will be as follows:

The New Shares offered will be ordinary shares in the Company. Upon allotment and issue, all the New Shares will rank equally with the existing fully paid ordinary shares in the capital of the Company in all respects.

The following description provides shareholders with a summary of the material rights, privileges, restrictions and conditions attaching to the existing ordinary shares and which (in the absence of any amendment of applicable law or the constitution) to the Company (*the Constitution*) will attach to the New Shares to be issued upon exercise of Rights and payment of the Share Price, and the New Shares issued upon conversion of the New Options (following payment of the New Option Price). The rights, privileges, restrictions and conditions attaching to ordinary shares in the Company (*Shares*) are set out in full in the Constitution.

Dividends

Holders of Shares are entitled to dividends as and when declared subject only to rights of holders of other shares from time to time entitled to special or prior rights to dividends. The Directors may declare dividends out of profits available to be distributed as dividends. Investors should note, however, that the Company's present policy is not to pay dividends.

Meetings and Voting rights

Each shareholder is entitled to notice of, and to attend and vote at, general meetings of the Company.

At a general meeting, every shareholder present in person or by proxy or in the case of a corporation by its duly authorised representative has (subject to the applicable listing rules of New Zealand Stock Exchange Limited, Australian Stock Exchange Limited or Stock Exchange of Newcastle Limited Listing Rules (*relevant Listing Rules*)) one vote on a show of hands and, on a poll, one vote for each Share held.

Issue of further Shares

Except where required by law or the Constitution and subject to relevant Listing Rules, the Directors may allot or otherwise dispose of further shares on such terms and conditions as they see fit.

Transfer of Shares

Except where required by law or the Constitution and subject to relevant Listing Rules, there are no restrictions on the transfer of Shares. Shares may be transferred separately from New Options.

Winding up

In the event of the winding up of the Company, after payment of outstanding debts and subject to the prior rights attaching to any shares from time to time ranking senior to the Shares, the remaining assets of the Company will be applied in paying all surpluses to holders of Shares in proportion to the amount paid up on such Shares held by them. All New Shares allotted on the conversion of the New Options (subject to payment of the New Option Price) will be credited as fully paid.

Appointment and retirement of Directors

The Constitution permits there to be not fewer than three or more than eight Directors or such other number as is fixed by ordinary resolution of The Company. The Constitution requires that at the annual meeting of Shareholders in every year at least one third of the Directors for the time being (if one third is not a whole number then the nearest whole number) shall retire from office. The Directors to retire at an annual meeting shall be those Directors who have been longest in office since their last election. The retiring Directors are eligible for re-election.

Alteration of Constitution

The Constitution can only be amended by a special resolution passed by at least 75% of the votes cast by shareholders present and voting at the general meeting. At least 10 business days' written notice specifying the intention to propose the resolution as a special resolution must be given.

Rights attaching to Shares

The rights attached to the Shares may be varied with the approval of shareholders in general meeting by special resolution. It is not a variation of the rights of the ordinary shares to issue securities of another class. Such issues may occur subject to the requirements of the Constitution and relevant Listing Rules.

Terms & conditions of the New Options

The terms and conditions of the New Options will be as follows:

Conversion of New Options

Each New Option will convert to one fully paid New Share upon the New Optionholder paying the New Option Price of NZ\$0.10 in full at any time after the date of issue of the New Options and on or before 5pm (New Zealand time) on the New Option Expiry Date. If the holder of a New Option fails to pay the New Option Price on or before 5pm on the New Option Expiry Date, the relevant New Option will lapse immediately after 5 p.m. on the New Option Expiry Date and in that event, the New Option holder will not be entitled to a refund of any sums paid to the Company in respect of the Option Price or have any claims of any kind against the Company. The Company shall have no entitlement to make any call or otherwise demand payment in respect of the New Option Price. Holders of New Options will be reminded of their right to exercise the New Options at least 20 Business Days prior to the New Option Expiry Date.

Payment may be made in respect of some, and not all, of the New Options which holders are entitled to convert into New Shares, provided a minimum holding (as defined in the NZSX Listing Rules) of Shares will be held as a result.

Rights and conditions of New Options

New Shares allotted upon conversion of the New Options will rank from the date of their issue *pari passu* in all respects with the existing issued ordinary shares in the Company at the time of exercise of the New Options. The Company will apply for official quotation of the Shares allotted upon conversion of the New Options on each exchange on which its ordinary shares are then quoted within 3 business days of allotment.

On exercise, New Options will rank for any bonus issue made since the date of allotment of such New Options, but will not be entitled to any bonus securities before conversion.

If before the conversion or lapse of the New Options, the Company makes a pro rata rights issue to holders of shares in the Company, the relevant conversion price shall be reduced by the Board according to the formula set out below and there shall be no change in the number of Shares to which an New Option holder is entitled upon the conversion of his or her New Options:

$$\text{Adjusted Conversion Price} = O - \frac{E[P-(S+D)]}{N+1}$$

where:

O = the previous conversion price of the New Option

- E = the number of Shares of which one New Option was allocated
- P = the average market price per share (weighted by reference to volume) of the Shares sold in the ordinary course of trading on the New Zealand Stock Exchange during the 5 business days ending on the day before the ex rights date
- S = the subscription price for a security under the rights issue
- D = any dividend per share due but not yet paid on existing Shares (except those issued under the rights issue)
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new security.

Subject to the laws of New Zealand and Australia as applicable, relevant Listing Rules, the Constitution and the other terms and conditions of this offer, the New Options may be transferred at any time prior to the Expiry Date and transfers will be recorded in a New Options Register maintained for that purpose. For the avoidance of doubt, New Options will be capable of transfer separately from Shares (including New Shares).

New Option holders appearing on the register of the Company at the relevant date will be entitled to receive all reports and financial statements required to be laid before the shareholders in general meetings and all other notices and reports sent to shareholders. New Option holders will have the right to attend but shall not have the right to vote at general meetings of shareholders in respect of the New Options held by them. New Options will not carry any right to dividends nor any right to participate with other securities in the Company in the residual assets of the Company upon liquidation of the Company (and in the event of the liquidation of the Company, the New Options will automatically lapse).

On any consolidation, subdivision or other reconstruction of ordinary shares in the Company, the Price will be adjusted in proportion to the reconstruction.

In any compulsory acquisition of the Company's Shares under a takeover code approved under the New Zealand Takeovers Act 1993, the New Options shall become capable of immediate conversion (subject to payment in full of the Price) notwithstanding any other term. If the New Options are not exercised within 10 working days of notice to the holders of the compulsory acquisition, they will lapse.

These terms and conditions may only be altered by the Company with the approval of 75% or more of the votes of the New Option holders exercised at a duly convened meeting of the New Option holders, with each New Option holder present at such meeting, whether in person or by proxy or by representative, being entitled to exercise one vote per New Option held, and only to the extent permitted by the listing rules applying to the Company at the time of any change.

Notwithstanding any other provision of these terms, but subject to any requirements of all listing rules applying to the Company:

- (a) the issue of further New Options, notes, shares or other securities which rank equally with existing New Options, whether as to voting rights, distributions or otherwise; and
- (b) the amendment of these terms by the Board in order to comply with the requirements of NZX, ASX, NSX, or any legislation; and
- (c) the exercise of any power, right or discretion given to the Board or the Company pursuant to these terms,

are, for the purposes of the Constitution and relevant Listing Rules, deemed not to be actions affecting the rights attached to New Options, and may be undertaken without the approval of the holders of the New Options.

A meeting of the holders of the New Options may be called by the Board at any time, and shall be called on the written request of persons holding New Options carrying together not less than 5% of the voting rights entitled to be exercised on any of the questions to be considered at the meeting in question. All the provisions of the Constitution relating to meetings of holders of Shares apply, with all necessary modifications, to such a meeting, except that:

- (a) the necessary quorum is two or more holders of New Options eligible to vote at the meeting present in person or by proxy or representative, or, if there is only one eligible holder of New Options, that holder present in person or by proxy or representative;
- (b) any holder of New Options, present in person or by proxy or representative, may demand a poll; and
- (c) if the Board so elects, one meeting may be held of holders of New Options constituting more than one group, so long as voting at that meeting is by way of a poll, and proper arrangements are made to distinguish between the votes of members of each group.

The Company will have no entitlement to make any call or otherwise demand payment in respect of any outstanding instalment of the Price or to require the conversion of any New Option.

The Company may acquire New Options (which, on acquisition, may be cancelled) in accordance with the constitution of the Company and relevant Listing Rules.

Clause 16 of the Constitution (in respect of compulsory sale of less than minimum holdings) shall be deemed to be applicable to the New Options and to the holders of New Options, and is incorporated into these terms, as if the references in clause 16 to "securities" were to "New Options".

Shortfall

Under the Offer, the Directors will reserve the right to put in place underwriting arrangements in respect of, or place, any New Shares and New Options are not taken up by holders of Existing Shares under the Offer, or which because of fractional entitlements are not otherwise offered, to such persons and in such manner as the Directors consider equitable and in the interests of the Company, provided that the price and the terms and conditions of the issue of such New Shares and New Options are not materially more favourable to the persons to whom they are issued than the terms of the original offer.

Requirement for resolution

Shareholder approval is required for the Offer under NZSX Listing Rule 7.3.1(a) because the transaction is an issue of equity securities to which none of the exceptions set out in NZSX Listing Rules 7.3.4 to 7.3.8 apply. In particular, shareholder approval is required, because the Offer is for non-renounceable rights (as opposed to a renounceable rights issue which would be an exception not requiring shareholder approval under NZSX Listing Rule 7.3.4). The effect of the Offer being for non-renounceable rights is that shareholders cannot sell or otherwise transfer their Rights to a third party. The resolution which is to be considered at the meeting is an ordinary resolution. An ordinary resolution is a resolution passed by a simple majority of votes of shareholders of the Company, entitled to vote and voting. If the resolution is not approved by shareholders, the Offer will not proceed. The NZSX Listing Rules can be viewed online at www.nzx.com.

Under the proposed non-renounceable rights issue, all shareholders will be treated equally, i.e. the offer will be made pro rata to all shareholders, and if the offer were accepted by all shareholders, it will maintain the existing proportionate rights of each shareholder relative to the other shareholders as to voting and distribution rights.

PROXY FORM

Special meeting of shareholders – 14 September 2005 at the Pukekawa Room, Jubilee Building, 545 Parnell Road, Parnell, Auckland, New Zealand and commencing at 10.30 am

SECTION 1: SHAREHOLDER DETAILS (PLEASE PRINT CLEARLY)

Full
name:

Full
address:

If shares are held jointly, enter details of other joint holders:

Full
name:

Full
address:

SECTION 2: APPOINTMENT OF PROXY (This section must be completed)*

I appoint: Full name:

Full address:

as my proxy to exercise my vote at the Special Meeting of the shareholders of the Company to be held on 14 September 2005 in the Pukekawa Room, Jubilee Building, 545 Parnell Road, Parnell, Auckland, New Zealand, and at any adjournment of that meeting. If the person I have appointed is unable to be my proxy then I appoint

Full
name:

Full
address:

SECTION 3: VOTING INSTRUCTIONS

I direct my proxy to vote in the following manner:

(Tick the box that applies)

For
☐

Against
☐

To undertake a pro rata non-renounceable rights issue to Australian and New Zealand resident shareholders.

SIGNED BY EACH SHAREHOLDER NAMED IN SECTION 1

Date:

Notes

- 1 As a shareholder you may attend the meeting and vote, or you may appoint a proxy to attend the meeting. A proxy need not be a shareholder of the Company.
*** The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose, if so please indicate that in section 2 above.**
- 2 If you are joint holders of shares each of you must sign this proxy form. If you are a company this proxy form must be signed on behalf of the company by a person acting under the company's express or implied authority.
- 3 For this proxy form to be valid, you must complete it and produce it to the Company at the Company's Registered Office, Nathan House, 541 Parnell Road, Parnell, Auckland, New Zealand by 10.30 am on 12 September 2005. If it has been signed under a power of attorney please send a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney with this proxy form.
- 4 If you return this form without directing the proxy how to vote on any particular matter, the proxy will vote as he or she thinks fit.