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14 December 2005

Newcastle Stock Exchange  
384 Hunter Street  
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**AUSTRALIA**

**PAGES: 7**

## **FOR PUBLIC RELEASE**

### **Half Yearly Report to 30 September 2005**

#### **DIRECTORS' REPORT**

##### **HIGHLIGHTS**

- **JORC compliant 205,000 oz gold / 800,000 oz silver resource**
- **Planning next phase to expand resource base**
- **Major potential in other gold projects in Waihi district**

##### **GOLD PROJECTS (New Zealand)**

The Company's focus is the development of its advanced gold projects in the Waihi district, where previous mining has yielded a total of over 8 Moz of gold and 49 Moz of silver, and Newmont are developing their Favona underground mine adjacent to Waihi.

Heritage's focus is on the Karangahake project where historic mines within the Company's permits have produced over 1Moz of gold and 3 Moz of silver up to 1990.

##### **Karangahake (100%)**

Heritage's exploration permits lie within 15km of Newmont's treatment plant at Waihi.

The phase 2 programme completed earlier this year resulted in a new JORC-compliant resource estimate of 205,000 oz of gold and 800,000 oz of silver.

The Company is reviewing plans to improve underground access to assist evaluation by diamond drilling, expansion of the existing resource base, removal of metallurgical samples for plant scale testwork, and subsequent feasibility studies. Discussions have been held with Newmont Waihi Gold concerning processing of metallurgical samples at their Waihi plant.

The remaining consents needed to undertake the phase 3 evaluation programme are now being finalised.

Baseline environmental studies continued during the period, to assist future planning for underground mining. Results from the baseline studies will provide input to an assessment of environmental effects, in support of applications for resource consents for development purposes.

In parallel with this the ventilation system in the Talisman mine has been upgraded and improved to provide for the requirements of the phase 3 evaluations.

The old underground rail system and some mining equipment have been removed from the No. 8 level and donated to the Department of Conservation for use in restoration of local historic sites.

The Company is supporting several research projects conducted by the University of Auckland that are aiding the evaluation of mineralisation at Karangahake. Modelling of geophysical and geological data shows that coincident gravity, magnetic and radiometric anomalies pinpoint the extent of the Karangahake deposits. These features are being applied to Heritage's district-wide exploration programme.

An appraisal extension for the Rahu exploration permit was granted for a term of four years, during the period. The permit covers the northern extension of the veins mined at the Talisman and includes an area where previous drilling encountered highly encouraging results. A larger drilling programme is planned for the coming year.

The conditions for a similar appraisal extension for the Talisman exploration permit are now being finalised with the Ministry of Economic Development.

#### **Other Gold Areas (100%)**

The Waihi North project includes the Waihi North and Waitete exploration permits, adjacent to the northern boundary of Newmont's Martha open pit mine. Planning is underway for geophysics and future drilling to test the area adjacent to the open pit.

The Golden Valley project covers 50 sq km and lies immediately east of Newmont's Favona underground gold deposit.

Heritage has identified areas that are interpreted as hydrothermal alteration zones, beneath cover rocks. Ground geophysical surveys, systematic geochemical sampling and geological mapping of anomalies are planned to prioritise targets for drilling. The anomalies located to date appear similar to those at the nearby Favona and Martha gold deposits.

After the end of the period the Company carefully reviewed the Onemana project data in light of the anticipated results from investment in its exploration projects. A number of factors including funding requirements, payback, access to site, potential district plan restrictions and level of commitment required to meet permit conditions (together with the negotiability of those conditions), were also considered. The Company concluded that its resources would be better focussed on the gold projects near Waihi and advised the Ministry of Economic Development that it would be surrendering the permit.

#### **BROKEN HILL COBALT LIMITED (Heritage 33%)**

Heritage has a 33% equity in Broken Hill Cobalt Limited (BHC) which owns the Thackaringa Cobalt project near Broken Hill in New South Wales.

BHC reached agreement with Western Metals Copper Limited (Receivers and Managers Appointed) (In Liquidation) to acquire Exploration Licence 5679, covering part of the Thackaringa Cobalt project, and the documentation is now being finalised.

The possibility of pyrite sales to China is being investigated by the Company, as it reviews options for further development of the project, which has considerable evidence of cobalt mineralisation within 100m of the surface outlined by previous drilling.

BHC also has interests in several exploration licences in New South Wales. It undertook a comprehensive review of the potential of the various properties and is targetting only those areas which have potential to meet the Company's development criteria.

#### **COMPENSATION CLAIM**

Heritage reached a settlement with the Crown over its claim for compensation in relation to a 1997 amendment to the NZ Crown Minerals Act. Under the settlement agreement the Crown denied any liability to Heritage and paid the Company \$220,000 in full and final settlement of all outstanding claims.

#### **FUNDING**

After the period ended the Company undertook a non-renounceable issue of one new share and one new option for every five fully paid shares held. The issue closed on 25 October and all of the shares and options were taken up by shareholders. The total of \$1,175,000 (before expenses) is to be applied to further work at the Talisman mine at Karangahake, for advancing exploration on the Company's Australian cobalt and other New Zealand gold properties, and for working capital.

#### **WEBSITE**

Heritage has launched a new website with expanded features at: [www.heritagegold.co.nz](http://www.heritagegold.co.nz).

#### **ANNUAL MEETING**

The Annual Meeting of shareholders was held on 11 August 2005 and all resolutions were passed with the requisite majority.

Peter Atkinson  
Managing Director

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 30 September 2005**

	30/09/05	30/09/04	31/03/05
<b>EQUITY</b>			
Share capital (108,059,399 ordinary shares)	14,288,420	13,136,779	14,283,920
Share purchase warrants - paid to \$0.02	577,371	578,371	578,371
Reserves	318,995	340,078	337,146
	<u>15,184,786</u>	<u>14,055,228</u>	<u>15,199,437</u>
Less accumulated deficit	(6,224,548)	(5,960,541)	(6,096,120)
<b>Total Shareholders Equity</b>	<b><u>8,960,238</u></b>	<b><u>8,094,687</u></b>	<b><u>9,103,317</u></b>

**Represented By:**

**NON CURRENT ASSETS**

Fixed assets (at cost less depreciation)	28,184	49,326	46,179
Share investments	35,537	56,621	53,688
Investments Broken Hill Cobalt Ltd	995,090	1,050,132	1,032,977
Intangibles - deferred prospecting expenditure	<u>8,017,720</u>	<u>6,171,689</u>	<u>7,397,449</u>
	9,076,531	7,327,768	8,530,293

**CURRENT ASSETS**

Cash	7,914	9,675	6,945
Short term deposits	128,587	837,801	780,399
Debtors	17,716	33,751	82,480
Accrued income	606	2,398	1,991
Intercompany loan	82,540	31,972	73,108
Prepayments	<u>300</u>	<u>-</u>	<u>-</u>
	237,663	915,597	944,923

<b>Total Assets</b>	<b>9,314,194</b>	<b>8,243,365</b>	<b>9,475,216</b>
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**LESS CURRENT LIABILITIES**

Creditors	161,583	146,843	370,798
Short term loan	192,007	-	-
Hire purchase	<u>366</u>	<u>1,835</u>	<u>1,101</u>

<b>Total Current Liabilities</b>	<b>353,956</b>	<b>148,678</b>	<b>371,899</b>
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	<b><u>8,960,238</u></b>	<b><u>8,094,687</u></b>	<b><u>9,103,317</u></b>
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**CONSOLIDATED STATEMENT OF MOVEMENT IN EQUITY**

**For the six months ended 30 September 2005**

	30/09/05	30/09/04	31/03/05
Equity at the start of the period	<u>9,103,317</u>	<u>7,343,692</u>	<u>7,343,692</u>
Total recognised revenues and expenses	(128,428)	(229,610)	(365,189)
Shares/warrants issued/paid	3,500	959,429	2,106,570
Increase (decrease) in revaluation reserve	<u>(18,151)</u>	<u>21,176</u>	<u>18,244</u>
	(143,079)	750,995	1,759,625
<b>Equity at the end of the period</b>	<b><u>8,960,238</u></b>	<b><u>8,094,687</u></b>	<b><u>9,103,317</u></b>

For and on behalf of the Board



PR Atkinson (Managing Director)  
25 November 2005



J M McKee (Independent Director)  
25 November 2005

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE***For the six months ended 30 September 2005*

	30/09/05	30/09/04	31/03/05
Gain on sale share investments	-	-	2,745
Compensation settlement	220,000	-	-
Interest revenue	11,174	12,275	38,268
Total revenue	231,174	12,275	41,013
Interest expense	(203)	(201)	(403)
Other expenses	(321,512)	(225,214)	(372,173)
Surplus (deficit) before tax	(90,541)	(213,140)	(331,563)
Income tax	-	-	-
Surplus (deficit) after tax	(90,541)	(213,140)	(331,563)
Share of associate's surplus (deficit)	(37,887)	(16,470)	(33,626)
Operating surplus (deficit)	(128,428)	(229,610)	(365,189)
Accumulated deficit brought forward	(6,096,120)	(5,730,931)	(5,730,931)
Accumulated deficit carried forward	(6,224,548)	(5,960,541)	(6,096,120)

**CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 30 September 2005*

	30/09/05	30/09/04	31/03/05
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from:			
Interest received	12,498	10,617	37,016
Compensation settlement	220,000	-	-
	232,498	10,617	37,016
Cash was disbursed to:			
Payments to suppliers	(193,691)	(203,317)	(327,941)
Payments to employees	(28,959)	(29,671)	(60,964)
Interest paid	(204)	(204)	(408)
	(222,854)	(233,192)	(389,313)
Net cash inflows (outflows) from operating activities	9,644	(222,575)	(352,297)
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>			
Cash was provided from:			
Proceed from sale of shares	-	-	2,745
Proceed from sale of equity investments	-	-	10,625
	-	-	13,370
Cash was applied to:			
Prospecting expenditure	(845,305)	(523,962)	(1,556,920)
Equity investments	-	(18,995)	(69,285)
Loans	(9,432)	-	-
Purchase of fixed assets	(527)	(693)	(7,635)
	(855,264)	(543,650)	(1,633,840)
Net cash inflows (outflows) from investing activities	(855,264)	(543,650)	(1,620,470)
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>			
Cash was provided from:			
Issue of shares	-	1,021,009	2,106,570
Warrant payments	3,500	-	-
Short term loan	192,007	-	-
	195,507	1,021,009	2,106,570
Cash was applied to:			
Issue of shares	-	(61,580)	-
Repayment of short term loan	(732)	(732)	(1,464)
	(732)	(62,312)	(1,464)
Net cash inflows (outflows) from financing activities	194,775	958,697	2,105,106
Net increase (decrease) in cash held	(650,845)	192,472	132,339
Exchange gain (loss)	2	(1)	(1)
Cash at start of period	787,344	655,006	655,006
<b>Cash at end of period</b>	<b>136,501</b>	<b>847,477</b>	<b>787,344</b>

## NOTES TO THE FINANCIAL STATEMENTS

<b>Reconciliation of Operating Cashflow and Consolidated Net Profit after Taxation</b>			
	<b>30/09/05</b>	<b>30/09/04</b>	<b>31/03/05</b>
<b>Net surplus (deficit) after taxation and extraordinary items</b>	<b>(90,541)</b>	<b>(213,140)</b>	<b>(331,563)</b>
<i>Add non-cash items:</i>			
Depreciation	2,426	2,454	4,827
Decrease (increase) in share valuation	-	(21,177)	-
Exchange Loss	-	1	37
	<u>2,426</u>	<u>(18,722)</u>	<u>4,864</u>
<i>Add (less) movement in working capital:</i>			
Decrease (increase) in debtors	5,100	32	(3,966)
Increase (decrease) in creditors	31,610	15,386	26,013
Decrease (increase) in prepayments	-	838	838
Decrease (increase) in accrued income	1,385	(1,658)	-
Decrease (increase) in GST	59,664	(5,311)	(48,483)
	<u>97,759</u>	<u>9,287</u>	<u>(25,598)</u>
<b>Net cash inflows (outflows) from operating activities</b>	<b>9,644</b>	<b>(222,575)</b>	<b>(352,297)</b>

These interim financial statements have been prepared in accordance with Financial Reporting Standard 24, Interim Financial Statements, and should be read in conjunction with the annual financial statements for the year ended 31 March 2005.

The consolidated half year accounts have been audited and the audit report is not qualified. A copy of the audit report can be read or obtained from the registered office of the Company.

The policies adopted by the Company for its annual financial statements have been consistently applied in the preparation of these interim financial statements

### Events Subsequent to Balance Date

#### Rights Issue

Heritage Gold issued a Prospectus on 19 September 2005 offering a pro-rata issue to existing shareholders on the basis of one new share and one option for every five shares held - up to a maximum of 23,500,000 new shares and options. The offer closed on 25 October 2005 and was fully subscribed. Shares and options were issued on 31 October 2005 and are listed on the NZX, ASX and NSX.

NZ\$1,175,000 was raised before expenses.

#### Onemana

On 31 October 2005 the Directors carefully reviewed the anticipated results from investment in its exploration projects. A number of factors including funding requirements, payback, access to site, current and potential district plan restrictions and level of commitment required to meet permit conditions (together with the negotiability of those conditions) were also considered. The directors concluded the Company's resources would be better focussed on the gold projects near Waihi. The Onemana permit expires on 27 June 2007. The Company advised the Ministry on 1 November 2005 that it would be surrendering the permit on completion of the final report now being prepared for lodgement. Consistent with the Company's accounting policy, the capitalised exploration expenditure of \$2,357,510 plus relinquishment expenses will be written off at 31 October 2005. No provision has been made in these financial statements.

## **Heritage Gold NZ Limited**

### **Directors' Statement**

The directors of the company declare that:

1. The financial statement and notes, as set out on pages 3 to 5:
  - a. Comply with NZ Accounting Standards FRS24: Interim Financial Statements and NZ Accounting Standards, and
  - b. give a true and fair view of the economic entity's financial position as at 30 September 2005 and of its performance for the half-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 declaration is made in accordance with a resolution of the Board of Directors.



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PETER R ATKINSON  
Director

25 November 2005

## AUDIT REPORT

### TO THE SHAREHOLDERS OF HERITAGE GOLD NZ LIMITED

We have audited the financial statements. The financial statements provide information about the past financial performance of the Company and Group and their financial position as at 30 September 2005. This information is stated in accordance with the accounting policies set out in the report.

#### BOARD OF DIRECTORS' RESPONSIBILITIES

The Board is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 30 September 2005 and of the results of operations and cash flows for the period ended 30 September 2005.

#### AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial statements presented by the Board and report our opinion to you.

#### BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgments made by the Board in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we provide tax advice to the Group.

#### UNQUALIFIED OPINION

We have obtained all the information and explanations that we have required.

In our opinion :

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements:
  - comply with generally accepted accounting practice;
  - give a true and fair view of the financial position of the Company and Group as at 30 September 2005 and the results of their operations and cash flows for the period ended on that date.

Our audit was completed on 25 November 2005 and our unqualified opinion is expressed as at that date.

  
CARLTON - DFK  
AUCKLAND

25 November 2005