

## COMPANY DIRECTORY

### Directors

J Murray McKee (Chairman)  
Peter R Atkinson (Managing Director)  
Geoffrey G Hill  
David J Williams  
Ralph N Staggs  
Matthew G Hill

### Company Secretary

Mrs Sue Sangster

### Registered (Head) Office

541 Parnell Road, Parnell  
Auckland, New Zealand  
Telephone (+64 9) 303-1893  
Facsimile (+64 9) 303-1612  
Email: office@heritagegold.co.nz  
Website: www.heritagegold.co.nz

### Principal Office in Australia

1st Floor, 25 Richardson Street  
West Perth  
Western Australia 6005  
Telephone (+61 8) 9481-2040  
Facsimile (+61 8) 9481-2041

### Bankers

Westpac Bank, Auckland  
National Australia Bank, West Perth

### Auditors

Carlton DFK  
Carlton DFK Centre  
135 Broadway  
Newmarket  
Auckland

### Solicitors

Chapman Tripp Sheffield Young, Auckland  
Simpson Grierson Law, Auckland  
Williams & Hughes, Perth

### Share Registrars

#### New Zealand:

Link Market Services  
138 Tancred Street  
Ashburton, New Zealand  
Telephone (+64 3) 308-8887

#### Australia:

Registries Limited  
28 Margaret Street, Sydney  
NSW 2000, Australia  
Telephone (+61 2) 9290-9600

### Securities Listed

New Zealand Stock Exchange

Code: Shares HGD  
Options HGDOA  
Warrants HGDCA

Australian Stock Exchange

Code: Shares HTM  
Options HTMO

Newcastle Stock Exchange

Code: Shares HGD  
Options HGDOC  
Warrants HGDCHA

# HERITAGE

## GOLD NZ LIMITED

Incorporated in New Zealand ABN 009 474 702

## half yearly report to 30 September 2006



[www.heritagegold.co.nz](http://www.heritagegold.co.nz)

## HIGHLIGHTS

- Over NZ \$1.1M raised in placement and rights issue
- Drilling to commence Q1 2007
- Spin-off of Mid-Earth Minerals planned Q1 2007



## NOTES TO THE FINANCIAL STATEMENTS

### Reconciliation of Operating Cashflow and Consolidated Net Profit after Taxation

	30/09/06	30/09/05	31/03/06
<b>Net surplus/(deficit) after taxation and before share of associate</b>	<b>(529,372)</b>	<b>(90,541)</b>	<b>(2,621,401)</b>
Add non-cash items:			
Depreciation	2,127	2,426	4,916
Capitalised field expenditure written off	199,973		2,369,786
Exchange gain	(2)	-	(15)
	202,098	2,426	2,374,687
Add (less) movement in working capital:			
Decrease/(increase) in debtors	(6,371)	5,100	(765)
Increase/(decrease) in creditors	142,925	31,610	3,434
Decrease/(increase) in accrued income	960	1,385	-
Decrease/(increase) in GST	(2,848)	59,664	13,254
	134,666	97,759	15,923
<b>Net cash inflows (outflows) from operating activities</b>	<b>(192,608)</b>	<b>9,644</b>	<b>(230,791)</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 2006.

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.

### Adoption of International Financial Reporting Standards

The directors have commenced planning for the conversion to International Financial Reporting Standards and have made the decision to adopt NZ IFRS for the financial year ended 31 March 2008.

Accounting policies are not expected to vary significantly from those currently applied in the preparation of the financial statements. Had the financial report been prepared using IFRS, the impact on the financial report would not have been material. At the time of adopting NZIFRS the actual impact of adoption may vary.

### Events Subsequent to Balance Date

#### Renounceable Rights Issue

Heritage Gold issued a Prospectus on 25 October 2006 offering a pro-rata issue to existing shareholders on the basis of one new ordinary share for every four shares held - to a maximum of 37,062,433 new shares. The offer was underwritten to 18,531,216 shares and closed on 22 November 2006.

#### Mid-Earth Minerals Limited

During the period, Heritage Gold commenced the spin off of its Waihi district gold properties into a special purpose subsidiary, Mid-Earth Minerals Limited (Mid-Earth). Heritage currently holds 100% of the voting shares in Mid-Earth. The transfer of Heritage's Waihi district gold assets to Mid-Earth and distribution of Mid-Earth shares to Heritage shareholders has many steps. Whilst the Directors are proceeding with these steps this proposal may be subject to change in whole or in part.

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 30 September 2006

	30/09/06	30/09/05	31/03/06
Compensation settlement	-	220,000	220,000
Interest received	10,981	11,174	32,466
Profit on sale of shares	-	-	1,041
Foreign exchange gain/(loss)	2	-	15
Total revenue	10,983	231,174	253,522
Interest expense	-	(203)	(308)
Capitalised field expenditure written off	(199,973)	-	(2,369,786)
Other operating expenses	(340,382)	(321,512)	(504,829)
Operating surplus/(deficit)	(529,372)	(90,541)	(2,621,401)
Share of associate's surplus/(deficit)	(3,691)	(37,887)	(18,066)
Net surplus/(deficit) including associated company	(533,063)	(128,428)	(2,639,467)
Accumulated deficit brought forward	(8,735,587)	(6,096,120)	(6,096,120)
Accumulated deficit at end of period	(9,268,650)	(6,224,548)	(8,735,587)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2006

	30/09/06	30/09/05	31/03/06
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from:			
Interest income	11,942	12,498	33,332
Bad debts recovered	1,041	-	-
Compensation claim	-	220,000	220,000
	12,983	232,498	253,332
Cash was disbursed to:			
Payments to suppliers	(172,560)	(193,691)	(421,258)
Payments to employees	(33,031)	(28,959)	(62,559)
Interest expense	-	(204)	(306)
	(205,591)	(222,854)	(484,123)
Net cash inflows/(outflows) from operating activities	(192,608)	9,644	(230,791)
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>			
Cash was applied to:			
Prospecting expenditure	(200,995)	(845,305)	(1,183,871)
Equity investments	(966)	(9,432)	(22,086)
Purchase of property, plant and equipment	(369)	(527)	(1,043)
Intercompany loans	(105,870)	-	-
	(308,200)	(855,264)	(1,207,000)
Net cash inflows (outflows) from investing activities	(308,200)	(855,264)	(1,207,000)
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>			
Cash was provided from:			
Issue of shares	480,035	3,500	1,168,064
Short term loan	-	192,007	192,007
	480,035	195,507	1,360,071
Cash was applied to:			
Hire purchase	-	-	(1,098)
Repayment of short term loan	-	(732)	(192,007)
	-	(732)	(193,105)
Net cash inflows (outflows) from financing activities	480,035	194,775	1,166,966
Net increase (decrease) in cash held	(20,773)	(650,845)	(270,825)
Exchange gain (loss)	-	2	(9)
Cash at start of period	516,510	787,344	787,344
<b>Cash at end of period</b>	<b>495,737</b>	<b>136,501</b>	<b>516,510</b>

## DIRECTORS' REPORT

The Directors are pleased to present the half year report for Heritage Gold for the six months ended 30 September 2006. Heritage has had a successful half year and on behalf of the Directors I would like to thank shareholders for their continued support of the Company. Heritage is continuing with its plan to acquire further strategic projects. The Company is currently reviewing its proposal to spin-off Mid-Earth Minerals (MEM) in order to maximise potential benefits for Heritage shareholders. The proposal involves the transfer to MEM of the exploration permits held by Heritage in the Waihi district. Allowing MEM, under the direction of a separate Board of Directors, to focus on evaluation and future development of the gold projects.

### GOLD PROJECTS (New Zealand)

#### Karangahake (100%)

The Karangahake gold mining centre is an historic 1 million oz gold producer with a 3:1 silver/gold ratio recorded in previous production.

Further drilling at Karangahake in the first quarter of 2007 is planned to test areas that have already been identified as favourable for mineralisation.

The objective is to expand the existing resource base at Karangahake, where the target is a resource sufficient to support a stand-alone treatment plant, estimated at 500,000 to 600,000 oz of gold.

Environmental studies continued during the period. We continue to support research at the Geology Department at the University of Auckland that focuses on identifying mineralogical, geochemical, and geophysical factors that identify areas of gold mineralisation.

Joint venture discussions with overseas companies were held during the second quarter. These discussions were entered into on the basis that any outcome would be advantageous for the proposed spin-off of Mid-Earth Minerals.

### Other Gold Areas (100%)

Exploration work at the Waihi North and Golden Valley projects included geological mapping and geochemical surveys designed to add new information to the search for potentially mineralised areas at relatively shallow depths. Both projects are within 10 kilometres of Newmont's Waihi treatment plant.

The Waihi North project extends from the Martha open pit mine, 10 kilometres north to the former Golden Cross mine and covers the northern part of the Waihi hydrothermal alteration system that hosts the giant Martha gold deposit (production 7.4 million oz gold and nearly 51 million oz silver) and the Favona underground gold deposit.

Golden Valley covers 50 square kilometres and lies along the eastern boundary of Newmont's mining tenements at Waihi. Initial results are encouraging and further surveying is scheduled, along with drilling.

### Northland Gold & Base Metals

#### Project (100%)

A subsidiary of Heritage, Northland Minerals Limited (NML), has applied for two prospecting permits in Northland where the Company has identified potential epithermal gold-silver and porphyry copper deposits, as well as gold-rich volcanogenic massive sulphide base metal deposits.

The Hikurangi area is prospective for epithermal gold-silver deposits, similar to those found in the Coromandel volcanic zone which hosts the Martha gold deposit. Hikurangi is also prospective for porphyry copper deposits.

The Tangihua area has potential for gold-rich volcanogenic massive sulphide base metal deposits and previous explorers have noted surface indications are favourable for this type of mineralisation.

Although the region shows encouraging geology and significant exploration potential, it has attracted very little attention over the past 30 years.

Heritage is planning a comprehensive prospecting programme that will include airborne geophysics, regional mapping, geochemical surveying and deposit modelling to select areas of mineralisation for detailed evaluation.

## DIRECTORS' REPORT

### BROKEN HILL COBALT LIMITED (New South Wales) (33%)

Broken Hill Cobalt (BHC) has an exploration licence and two mining leases over cobalt mineralisation outlined at Thackaringa near Broken Hill.

BHC has reviewed previous metallurgical testwork including options for processing of the mineralisation. Drilling is planned to test extensions of the mineralised zones, increase the potential resources, and identify possible high grade sections.

The cobalt-bearing zones have so far been tested to only 100 metres below surface, and are open at depth and along strike.

### FUNDING

On 29 September 2006 the Company placed 16,667,000 shares to sophisticated Australian investors at a price of AU 2.5 cents per share to raise AU \$416,675. No related party or director of Heritage participated in the placement.

On 9 October 2006 Heritage announced a 1 for 4 pro rata renounceable rights issue of 37,062,433 ordinary shares to shareholders at an issue price of AU 2.5 cents or NZ 2.9 cents per ordinary share. A combined Investment Statement, Short Form Prospectus and Transaction Specific Prospectus for the rights issue was sent to all shareholders and warrant holders after the document was registered in New Zealand and lodged with the Australian Securities and Investments Commission under Section 713 of the Australian Corporations Act 2001.

The offer closed on 22 November 2006 and 24,420,201 ordinary shares were issued to existing shareholders, with a further 5,248,436 ordinary shares allocated to shareholders and warrant holders who had applied for the shortfall in the issue. To date the number of shares allocated is approximately 80% of the total available in the rights issue.

The total amount raised by the placement and rights issue exceeds NZ \$1.1M (excluding expenses).

The Board has discretion to place the remaining 7,393,796 ordinary shares with sophisticated or professional investors, no later than 21 December 2006.

### ANNUAL MEETING

At the Company's Annual Meeting on 29 September 2006 all resolutions were passed with the requisite majorities.

### NEW DIRECTOR

On 10 October 2006 the Company appointed Matthew Geoffrey Hill to the Board. Matthew has an extensive background in the Australian and international equities markets and specialises in corporate financial advice, mergers, acquisitions and restructuring.

### OUTLOOK

Heritage is seeking further strategic projects to enhance its long term asset flow and broaden its exposure to base metals.



Peter Atkinson  
Managing Director  
24 November 2006



## HERITAGE GOLD NZ LTD FINANCIAL STATEMENTS CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2006

	30/09/06	30/09/05	31/03/06
<b>EQUITY</b>			
Share capital (148,249,732 ordinary shares)	15,924,451	14,288,420	15,452,984
Share purchase warrants (22,589,348 paid to 2c)	576,904	577,371	577,371
Reserves	334,863	318,995	335,341
Accumulated deficit	(9,268,650)	(6,224,548)	(8,735,587)
Group equity	7,567,568	8,960,238	7,630,109
Minority interest	4,300	-	-
<b>Total equity</b>	<b>7,571,868</b>	<b>8,960,238</b>	<b>7,630,109</b>
<b>Represented By:</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant & equipment	9,256	28,184	16,206
Share investments	51,406	35,537	51,884
Investments Broken Hill Cobalt Limited	1,011,219	995,090	1,014,910
Intangibles - capitalised prospecting expenditure	6,068,747	8,017,720	6,024,369
	7,140,628	9,076,531	7,107,369
<b>CURRENT ASSETS</b>			
Cash	382,877	7,914	1,013
Short term deposits	112,860	128,587	515,497
Debtors	14,235	17,716	17,758
Prepayments	-	300	-
Accrued income	103	606	1,063
Intercompany loan	88,773	82,540	93,107
	598,848	237,663	628,438
<b>Total Assets</b>	<b>7,739,476</b>	<b>9,314,194</b>	<b>7,735,807</b>
<b>LESS CURRENT LIABILITIES</b>			
Creditors	167,608	161,583	105,698
Short term loan	-	192,007	-
Hire purchase	-	366	-
<b>Total Current Liabilities</b>	<b>167,608</b>	<b>353,956</b>	<b>105,698</b>
	<b>7,571,868</b>	<b>8,960,238</b>	<b>7,630,109</b>

### CONSOLIDATED STATEMENT OF MOVEMENT IN EQUITY

For the six months ended 30 September 2006

	30/09/06	30/09/05	31/03/06
Equity at beginning of period	7,630,109	9,103,317	9,103,317
Net surplus/(deficit) after share of retained surplus of associated company	(533,063)	(128,428)	(2,639,467)
Increase (decrease) in revaluation reserve	(478)	(18,151)	(1,805)
Total recognised revenue and expenses	(533,541)	(146,579)	(2,641,272)
Contributions from:			
Owners - shares/warrants issued	471,000	3,500	1,168,064
Minority interest - shares issued	4,300	-	-
	475,300	3,500	1,168,064
<b>Equity at the end of the period comprising:</b>			
Parent shareholders' interest	7,567,568	8,960,238	7,630,109
Minority interest	4,300	-	-
<b>Equity at the end of the period</b>	<b>7,571,868</b>	<b>8,960,238</b>	<b>7,630,109</b>

For and on behalf of the Board



PR Atkinson (Managing Director)  
24 November 2006



J M McKee (Independent Director)  
24 November 2006