

HERITAGE GOLD ANNUAL REPORT 2007





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THE BOARD OF DIRECTORS

GEOFFREY GUILD HILL BEcon (Syd), MBA (NSW), FFIN, FCPA, FAICD

Chairman and Non-executive Director

Geoffrey Hill is a merchant banker based in Hong Kong and is currently chairman of Pitt Capital Asia Limited. He has over 30 years experience in the Merchant Banking Industry. Career highlights include the formation of Bancorp Holdings, appointment to the board of Morgan Grenfell and Co Plc and the merger of his merchant banking business to form Pitt Capital Partners, with W H Soul Pattinson Partners in 2002.

Professional directorships include Hills Industries Limited, Brickworks Investments Limited, Huntley Investment Company Limited, Undercover Wear Limited, International Pacific Securities Limited, SoCo Limited and Metals Finance Limited

Mr. Hill has served as a director of Heritage Gold for almost 8 years being appointed on 28 July 1999.

JAMES MURRAY MCKEE BA (Hons)

Deputy Chairman and Non-executive (Independent) Director

Murray McKee practices as a public policy and risk management adviser in Wellington. He previously held operations management positions with a US offshore oil and gas exploration company (1975 –1987) and senior management positions with Coal Corporation of New Zealand Limited (1987-1995). He was chairman of the Coal Research Association of New Zealand (1995) and a councillor on the New Zealand Minerals Industry Association (1993-95).

He was a ministerial appointee to the New Zealand Conservation Authority for two terms and has served on both the West Coast and Tongariro/Taupo Conservation Boards.

Mr. McKee has served on the Heritage Gold Board for 11 years, being appointed a director on 16 March 1996.

PETER ROBERT ATKINSON BSc, FAusIMM

Managing Director

Peter Atkinson has had 40 years of broad experience in the mining industry in Australasia, mainly on the boards of listed companies. He has been involved in joint ventures with international mining groups, the listing of mining companies on the New Zealand and Australian stock exchanges, corporate planning, and the raising of risk capital in Australia, New Zealand and the United Kingdom.

Mr. Atkinson has served on government advisory committees in New Zealand and Australia, and managed the stock exchange listing of e-commerce companies in New Zealand.

A New Zealand resident, he is a director of Prophecy Mining Limited and past President of the New Zealand Minerals Industry Association.

Mr. Atkinson is also a director of Coromandel Gold Limited and Broken Hill Cobalt Limited.

Mr. Atkinson has served as a director on the Heritage Gold Board since 23 August 1985.

MATTHEW GEOFFREY HILL MBA, MAICD

Non-executive Director

Matthew Hill has extensive experience in the South Pacific region specialising in telecommunications and internet publishing. He completed an MBA at the University of the South Pacific while working as managing director of Pacsat Telecommunications Limited.

Mr. Hill has previous experience as a director of Message Media, an online customer relationship company that was a joint venture between Softbank Partners and News Limited.

Mr. Hill was most recently business development manager for Aspermont Limited a leading publisher of news related services to the mining and investment community.

Mr. Hill is currently business manager - Private Equity at Pitt Capital Partners Limited, he is responsible for the day to day evaluation of private equity investments for Souls Private Equity Limited. Pitt Capital Partners is the in-house merchant bank for W H Soul Pattinson group and managers of Souls Private Equity Limited a private equity fund with over AU\$160million in assets under management.

Mr. Hill was appointed as alternate director to Geoffrey Hill on 1 December 1999, and has since been appointed a director on 10 October 2006.

WARWICK ROBERT GRIGOR BEc, LLB, MAusIMM, FAICD

Non-executive (Independent) Director

Warwick Grigor is a graduate of the Australian National University having completed degrees in law and economics. He went straight from university to Hamersley Iron Pty Ltd in Perth before being employed as a senior mining analyst and research partner with stockbroking firms in Sydney. Warwick retired from County Natwest Securities Australia in 1991 to found Far East Capital Limited ("FEC"), a specialist research-based mining company financier and corporate adviser. More recently FEC has been concentrating on the publication of independent mining research and portfolio management activities. Warwick has two non-executive board positions; chairman of Monaro Mining NL and director of First Australian Resources Ltd, and he is an executive director of Peninsular Minerals Ltd. In 2002, Warwick was an inaugural inductee to the ANU Economics and Commerce Department Hall of Fame.

Mr. Grigor was appointed a director on 19 April 2007.



DIRECTOR'S REPORT

for the year ended 31 March 2007



The directors are pleased to present the annual report for Heritage Gold for the year ended 31 March 2007. The year has been an eventful one for the company and its shareholders.

During the year, Heritage Gold cancelled plans to spin-off its New Zealand gold assets into a separate company for listing on the stock exchange. Keeping the assets within Heritage was seen to be a better option. As part of our restructuring we were able to implement key aspects of the company's strategy and expand our interests into base metals and uranium.

The Board has had discussions with potential partners to assist it in the exploration and development of its New Zealand gold assets, as it believes this is a superior option to spinning them out or selling them. We received approaches from several interested groups, although suitable terms were not finalised.

The joint venturing of our tenements to pursue their aggressive exploration and development will be a primary focus of Heritage's management during 2007.

BOARD

There were several changes to the Board during the period. The former chairman, Mr Pat Elliott, tendered his resignation at the start of the financial year and was replaced in the short term by Mr Murray McKee, an independent director. In October 2006, Mr Matthew Hill, an Australian investment banker and alternate director since 1999, was appointed a director. He brings to the Board considerable experience in the Australian and international equities markets.

In March 2007 Heritage Gold's founder and managing director, Mr Peter Atkinson, announced his intention to resign on the appointment of a suitable replacement. Mr Atkinson will become a non-executive director and consultant to the company. An extensive search has been undertaken and the board hopes to make a formal announcement shortly.

In addition, two long standing directors, Mr David Williams and Mr Ralph Stagg, tendered their resignations on 30 March 2007. The Board acknowledges the diligent efforts of each of those directors and their level of commitment to Heritage Gold's business throughout their terms.

The Board has appointed Mr Warwick Grigor as an independent director. Mr Grigor is chairman of Sydney-based Far East Capital Limited which he founded in 1991. Mr Grigor has extensive experience as a senior mining analyst and research partner with several Sydney stockbroking firms. He holds degrees in law and economics from the Australian National University.

His specialist skills will be of considerable value to Heritage, particularly his excellent knowledge of the gold and uranium sectors, as well as other minerals.

Also at the end of the financial year Mr Murray McKee stepped down to take on the role of deputy chairman and Mr Geoffrey Hill was appointed chairman.

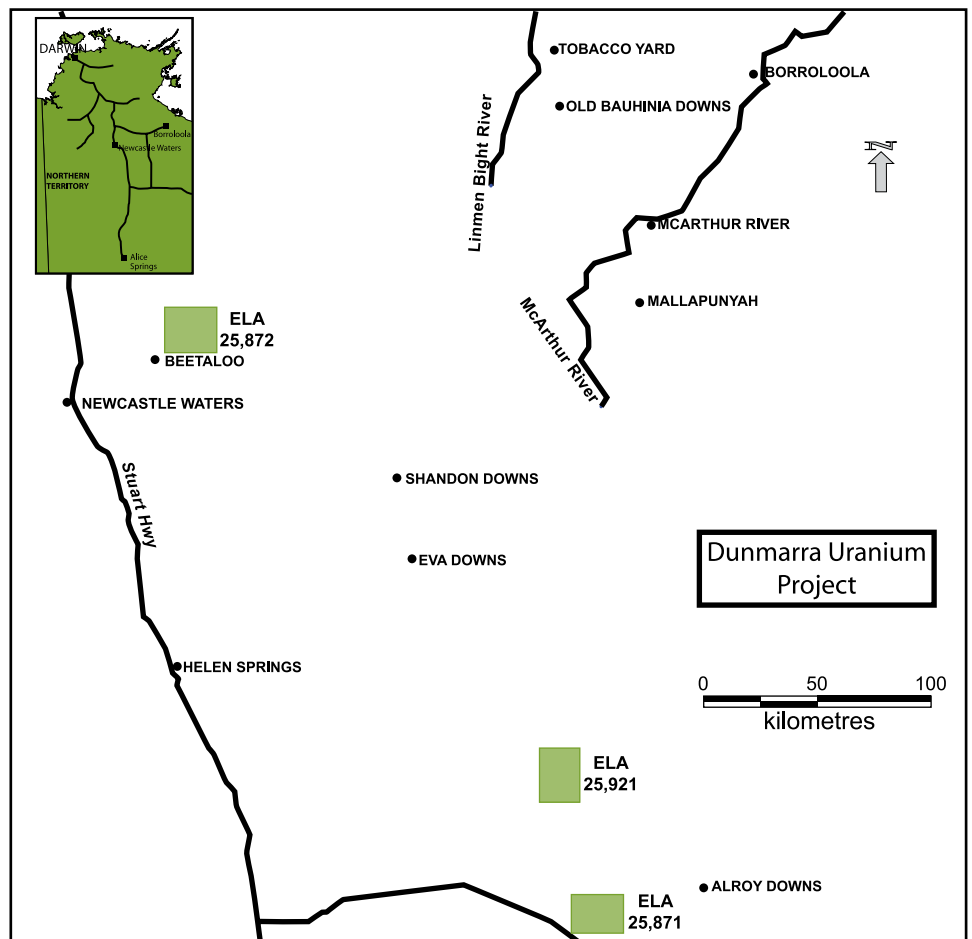
DUNMARRA BASIN, URANIUM (Northern Territory, Australia) (Heritage earning up to 75%)

This property consists of three exploration licence applications totalling approximately 1,250 sq km. Heritage has the right to earn a 50% interest by the expenditure of A\$2M over three years and may increase its equity to 75% by the expenditure of an extra \$2M within a further two years, if the vendors elect not to contribute.

The company has issued 2.5M fully paid ordinary shares to the vendors and will issue the vendors the same number in a second tranche, on granting of the licences.

Heritage Gold's consultants reviewed the available data on the properties and confirmed their prospectivity for sandstone-hosted and roll front uranium mineralisation, as follows:

- Erosion from three uraniumiferous areas (Pine Creek Inlier, Tennant Creek Block, and McArthur Basin) adjoining the Dunmarra Basin offers good source potential for uranium that may have been eroded and re-deposited in sandstone, siltstone and shale beds.
- Suitable aquifers may be present, allowing for the long term movement of possible uranium bearing groundwater to depositional sites.
- The re-activated structural environment appears conducive to the re-deposition of basement-derived uranium.
- Analysis of radiometric data may lead to the definition of targets based on the re-activation of the structural features, regolith and outcrop boundaries, as well as palaeostream channel positions in the better exposed areas.
- Anecdotal evidence exists for the presence of radioactive elements in old water bore holes and some water holes in creeks.





The consultants concluded "...considerable potential exists for the discovery of economic deposits in this part of the Northern Territory."

Heritage has been advised that the three exploration licence applications have been proposed for grant under the Mining Act and the Native Title Act. The applications have been advertised for objections, a process that will take approximately 3 months.

An exploration programme for the properties is being prepared.

GOLD PROJECTS (New Zealand) (100%)

Karangahake

Karangahake is the second largest historic gold producer in the Coromandel region after the Martha deposit at Waihi, with a recorded production of 1Moz of gold and 3Moz of silver up to the end of mining in 1992.

Heritage Gold's previously outlined resource of 205,000oz of gold and 800,000oz of silver in the Talisman mine is targeted for expansion, as a 500,000-600,000oz gold resource is likely to be needed to support a stand alone treatment plant.

Drilling commenced at Rahu Ridge, north of the Talisman mine, in January 2007 and was nearing completion at the date of this report. Testing below earlier shallow drill holes for gold mineralised zones that are likely to be of ore grade will help confirm the geological model established by Heritage, which suggests that gold values will improve at depth.

Rahu Ridge has had very little previous exploration, but Heritage has outlined several geochemical, magnetic, and resistivity anomalies interpreted as representing quartz veins and silicified zones at depth.

Drilling to date has outlined a gold/silver mineralised zone about 1300 metres (m) long. Most of the mineralisation is hosted by silicified hydrothermal breccia and quartz veins. Better intersections have included:

- 32.15m averaging 0.64 grams per tonne (g/t) gold (Au) in hole 1; and
- 24.00m averaging 0.93 g/t Au and 13.9 g/t silver (Ag) in hole 2, including 2m at 4.15 g/t Au and 33.5 g/t Ag.

The geological model indicates that the breccia zones should develop into high grade feeder veins at depth.

Environmental studies continued to provide baseline data for the Karangahake project, under the guidance of our consultants, URS New Zealand Limited.

In addition, the company supported several research projects undertaken by the University of Auckland focussing on the identification of geochemical pathfinders for gold/silver and geophysical signatures of quartz veins and silicified zones likely to host precious metals.

Joint venture discussions were initiated by several companies with Heritage Gold during the period, although no proposals were received that met Heritage Gold's requirements.

Other Gold Areas

Exploration work at the Waihi North and Golden Valley properties continued.

Both projects are adjacent to the Martha deposit at Waihi, which is New Zealand's largest and richest gold deposit. The Martha deposit has produced a total of 7.5Moz of gold and 51Moz of silver since 1878.

Golden Valley is also adjacent to the Favona underground deposit now being developed by Newmont Waihi. Favona has a resource of 800,000-1,000,000oz of gold in high grade veins.

At Waihi North the Company is focussing on testing mineralised targets immediately north of Newmont's Martha open pit mine, where there is evidence of extensions and possible parallel structures to those at Martha. In addition, a large mineralised alteration system with similar features to those hosting Martha, Favona, and the old Golden Cross deposits is being targeted.

At Golden Valley which partially surrounds Newmont's Martha and Favona mines Heritage is focussing on possible gold deposits beneath cover rocks in similar geological settings.

NORTHLAND MINERALS LIMITED

(New Zealand) (100%)

Heritage Gold's wholly owned subsidiary has applied for two prospecting permits in Northland, 150-250 km north of Auckland, over the Hikurangi and Tangihua areas which have potential for precious and base metals.

After balance date the company applied for a further prospecting permit application, known as Waikare, which adjoins the Hikurangi application and surrounds the Puhupuhi epithermal gold prospect. The Waikare application covers gold, silver and antimony occurrences in favourable geological settings.

A consortium of district councils and the regional economic development group has recently completed a study of the mineral resource potential of the Northland region, along with an economic study of the benefits of developing those resources. These positive studies further encouraged Heritage Gold to pursue its objectives in the region, where it is seeking epithermal gold/silver deposits, deeper level porphyry copper/gold, and base metals in volcanogenic massive sulphide environments.

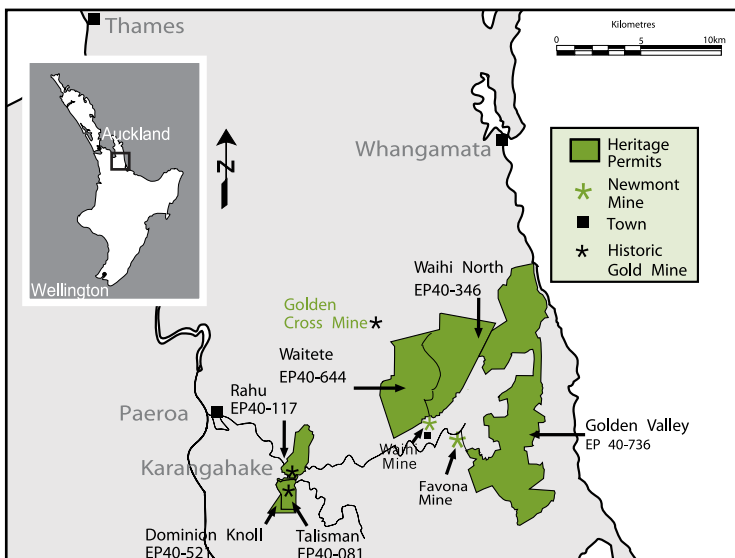
BROKEN HILL COBALT LIMITED (New South Wales, Australia) (33%)

Broken Hill Cobalt Limited (BHCL) is owned 33% by Heritage Gold and 67% by So Co Limited (an unlisted Australian public company). BHCL holds an exploration licence and two mining leases over the Thackaringa Cobalt project.

The property has previously been drilled to a vertical depth of 100m to test key areas of cobalt mineralisation and further drilling is scheduled to test extensions of the known mineralisation.

The company's consultants have also reviewed earlier testwork in the light of recent advances in metallurgy, and are examining processing options that warrant further investigation, leading to potential economic viability of the project.

GOLD PROJECTS - COROMANDEL NEW ZEALAND



DIRECTOR'S REPORT

for the year ended 31 March 2007



Work is currently underway to establish parameters for the stock exchange listing of BHCL.

FUNDING

The company raised A\$416,675 (excluding expenses) in September 2006 by a placement of shares to Australian investors. No related party or director of Heritage participated in the placement.

In October Heritage issued a prospectus in Australia and New Zealand for a pro-rata renounceable rights issue of ordinary shares to existing shareholders. Following completion of the rights issue and placement of the shortfall the Company raised approximately NZ\$1.1M (excluding expenses).

A further A\$700,000 (excluding expenses) was raised in March-April 2007 to fund the investigation of the uranium proposal, advance further exploration on Heritage Gold's current projects, and for working capital.

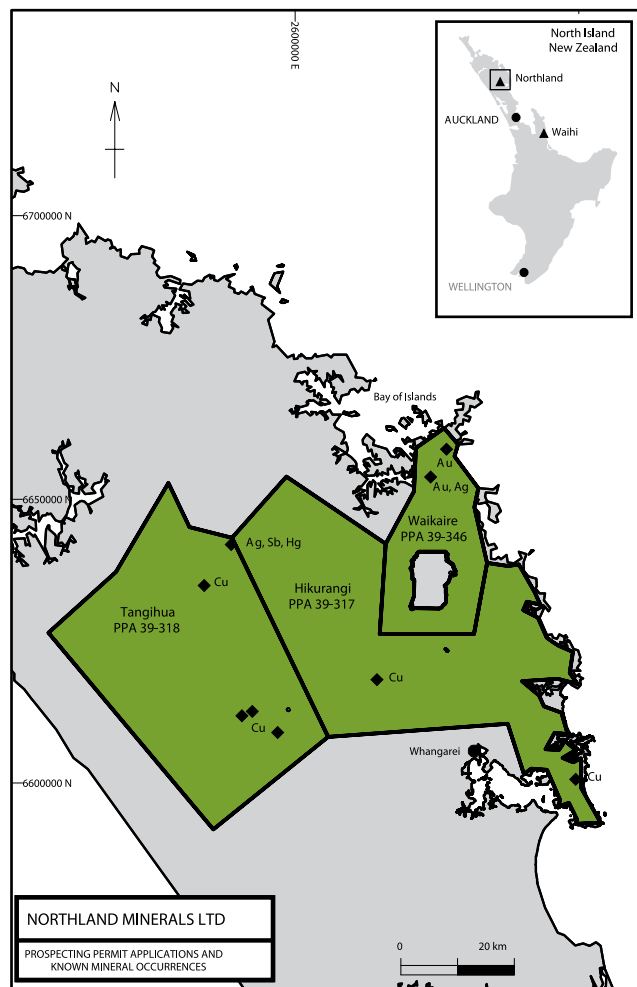
OUTLOOK

Heritage Gold will continue with its strategy to diversify and expand its minerals portfolio to provide a solid platform for growth. The steps taken in the past year have provided a valuable starting point and we are confident our significant exploration portfolio and recent financing activities will underpin expansion of Heritage Gold's potential.

The support of our shareholders is recognised and appreciated. We look forward to providing you with updates on the company's activities throughout the year.

On behalf of the Board:

Peter Atkinson
Managing Director
14 June 2007



THACKARINGA COBALT PROJECT - AUSTRALIA



SCHEDULE OF HERITAGE TENEMENTS

GOLD AND BASE METAL TENEMENTS - NEW ZEALAND

Granted Exploration Permits

40 081	Talisman	40 521	Dominion Knoll
40 117	Rahu	40 644	Waitete
40 346	Waihi North	40 736	Golden Valley

COBALT AND URANIUM TENEMENTS - AUSTRALIA

Granted Exploration Licences (NSW)

Held by Broken Hill Cobalt Ltd in which Heritage has 33% interest.

EL6622	Pine Ridge Extended
ML 86	Pyrite Hill
ML 87	Big Hill

Prospecting Permit Applications

(by Northland Minerals Ltd)

39 317	Hikurangi
39 318	Tangihua
39 346	Waikare

Exploration Licence Applications (NT)

In joint venture - Heritage earning up to 75%.

25 871	Frewena
25 872	Beetaloo
25 921	Lake de Burgh

AUDIT REPORT

TO THE SHAREHOLDERS OF HERITAGE GOLD NZ LIMITED

We have audited the financial statements on pages 8 to 15. The financial statements provide information about the past financial performance of the Company and Group and their financial position as at 31 March 2007. This information is stated in accordance with the accounting policies set out on page 11.

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 31 March 2007 and of the results of operations and cash flows for the year ended 31 March 2007.

AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial statements presented to 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 the financial statements.

Other than in our capacity as auditors we have no relationship with or interest in the Company or any of its subsidiaries.

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 on pages 8 to 15:
 - comply with generally accepted accounting practice;
 - give a true and fair view of the financial position of the Company and Group as at 31 March 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 14 June 2007 and our unqualified opinion is expressed as at that date.

Carlton D.F.K.

CARLTON - DFK
Chartered Accountants
AUCKLAND

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 March 2007

	Note	Consolidated 31-Mar-07 \$	Parent 31-Mar-07 \$	Consolidated 31-Mar-06 \$	Parent 31-Mar-06 \$
REVENUE					
Other income		-	-	220,000	220,000
Interest received		35,140	35,140	32,466	32,466
Profit on sale of shares		-	-	1,041	-
Bad debts recovered		-	-	-	1,041
Foreign exchange gain		-	-	15	15
Operating Revenue		35,140	35,140	253,522	253,522
EXPENDITURE					
Depreciation - office equipment and fittings		3,528	3,528	4,916	4,916
Donations		-	-	578	578
Remuneration of directors	2	-	-	15,000	15,000
Rent and leasing		19,981	19,981	17,068	17,068
Interest expense		-	-	308	308
Audit fees - auditing financial statements		10,739	10,739	11,080	11,080
Operating expenses	7	608,325	608,325	456,187	456,187
Write off field expenditure		200,418	200,418	2,369,786	2,369,786
Operating expenses		842,991	842,991	2,874,923	2,874,923
Operating surplus/(deficit)		(807,851)	(807,851)	(2,621,401)	(2,621,401)
Share of retained surplus/(deficit) of associated company		622	-	(18,066)	-
Net surplus/(deficit) after share of retained surplus of associated company		(807,229)	(807,851)	(2,639,467)	(2,621,401)
Add accumulated deficit brought forward		(8,735,587)	(8,570,497)	(6,096,120)	(5,949,096)
Accumulated deficit at end of year		(9,542,816)	(9,378,348)	(8,735,587)	(8,570,497)

STATEMENT OF MOVEMENT IN EQUITY

For the year ended 31 March 2007

	Note	Consolidated 31-Mar-07 \$	Parent 31-Mar-07 \$	Consolidated 31-Mar-06 \$	Parent 31-Mar-06 \$
Equity at beginning of year		7,630,109	7,757,499	9,103,317	9,210,340
Net surplus/(deficit) after share of retained surplus of associated company		(807,229)	(807,851)	(2,639,467)	(2,621,401)
Increase/(decrease) in revaluation reserve	13	92,040	(2,210)	(1,805)	496
Total recognised revenue and expenses		(715,189)	(810,061)	(2,641,272)	(2,620,905)
Contributions from owners:					
Shares/warrants issued/paid		1,823,569	1,823,569	1,168,064	1,168,064
		1,823,569	1,823,569	1,168,064	1,168,064
Equity at end of year		8,738,489	8,771,007	7,630,109	7,757,499

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 March 2007

	Note	Consolidated 31-Mar-07 \$	Parent 31-Mar-07 \$	Consolidated 31-Mar-06 \$	Parent 31-Mar-06 \$
EQUITY					
Total shareholder equity	13	8,738,489	8,771,007	7,630,109	7,757,499
Represented by: NON CURRENT ASSETS					
Property, plant & equipment	6	10,164	10,164	16,206	16,206
Share investments	3	143,793	11,842	51,884	14,184
Investment in Broken Hill Cobalt Ltd	12	1,015,532	1,180,000	1,014,910	1,180,000
Total non current assets		1,169,489	1,202,006	1,083,000	1,210,390
Intangible assets					
Deferred expenditure:					
Capitalised prospecting expenditure	8	6,585,547	6,574,770	6,024,369	6,024,369
Total non current assets		7,755,036	7,776,776	7,107,369	7,234,759
CURRENT ASSETS					
Cash		31,225	31,225	1,013	1,013
Short term deposits		756,089	756,089	515,497	515,497
Intercompany loans		88,774	99,552	93,107	93,107
Debtors	7	358,292	358,292	17,758	17,758
Accrued income		2,009	2,009	1,063	1,063
Total current assets		1,236,389	1,247,167	628,438	628,438
Total assets		8,991,425	9,023,943	7,735,807	7,863,197
LESS CURRENT LIABILITIES					
Creditors	7	252,936	252,936	105,698	105,698
Total current liabilities		252,936	252,936	105,698	105,698
		8,738,489	8,771,007	7,630,109	7,757,499

For and on behalf of the Board:
DIRECTOR



P R Atkinson
Dated: 14 June 2007

DIRECTOR



J M McKee
Dated: 14 June 2007

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 March 2007

	Note	Parent and Consolidated 31-Mar-07 \$	Parent and Consolidated 31-Mar-06 \$
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest received		34,195	33,332
Bad debts recovered		1,041	-
Compensation claim		-	220,000
		35,236	253,332
Cash was disbursed to:			
Payments to suppliers		(540,631)	(421,258)
Payments to employees		(69,547)	(62,559)
Interest paid		-	(306)
		(610,178)	(484,123)
Net cash outflows from operating activities	14	(574,942)	(230,791)
CASHFLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Prospecting expenditure		(667,798)	(1,183,871)
Purchase of fixed assets		(6,403)	(1,043)
Equity investments		(965)	(22,086)
		(675,166)	(1,207,000)
Net cash outflows from investing activities		(675,166)	(1,207,000)
CASHFLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Issues of shares		1,525,495	1,168,064
Short term loan		-	192,007
		1,525,495	1,360,071
Cash was applied to:			
Hire purchase		-	(1,098)
Short term loan repayment		-	(192,007)
		-	(193,105)
Net cash inflows from financing activities		1,525,495	1,166,966
Net increase /(decrease) in cash held		275,387	(270,825)
Exchange gain/(loss)		(4,583)	(9)
Cash at start of year		516,510	787,344
Cash at end of year		787,314	516,510
CASH COMPRISES:			
Cash		31,225	1,013
Short term deposits		756,089	515,497
		787,314	516,510

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Heritage Gold NZ Limited is registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX), the Australian Stock Exchange (ASX) and the National Stock Exchange of Australia (NSX). The Company is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of Heritage Gold NZ Limited have been prepared in accordance with the Financial Reporting Act 1993. The group consists of Heritage Gold NZ Limited and its subsidiaries and associate.

Measurement Base

The measurement base adopted is that recognised as appropriate for the measurement and reporting of earnings and financial position under the historical cost method modified by the revaluation of certain assets.

Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of financial performance and financial position, have been applied.

Prospecting Costs

Acquisition, exploration and development costs of prospects held by the company at balance date are capitalised as deferred expenditure.

Mining Tenements

Prospecting expenditure and mining tenements are initially recorded at cost. When a tenement is capable of sustaining commercial mining operations, the value or cost will be amortised over the expected productive life of the mine. In the event where exploration demonstrates a permit area is no longer prospective for economically recoverable reserves, the value or cost of the tenement is written off immediately.

Property, Plant and Equipment

Property, plant and equipment is initially recorded at cost.

Depreciation

Depreciation is provided at rates calculated to reduce the cost of fixed assets to their respective residual values during their estimated useful lives. For this purpose, the company has adopted the depreciation rates set by the Inland Revenue Department.

Rates used during the year were:

Computer software and hardware	Straight line	30-36%
Field equipment	Straight line	10-50%
Fixtures and fittings	Straight line	10-67%
Office equipment	Straight line	18-24%

Impairment

If the recoverable amount of an item of property, plant and equipment is less than its carrying amount, the item is written down to its recoverable amount and the write down recognised as an expense in the statement of financial performance.

Taxation

Heritage Gold NZ Limited is a mining company for New Zealand tax purposes. All exploration and development expenditure, including the cost of mining assets, is tax deductible in the year the expenditure is incurred. Any mining losses can be set off against non-mining income in the ratio 3:2. Deferred taxation is not adopted whilst there are significant tax loss benefits not recognised in the accounts. Tax benefits arising from income tax losses are recognised only if there is virtual certainty of realisation.

Share Investments

Share investments in listed companies are revalued annually to market value. Any revaluation surplus above cost is transferred directly to the revaluation reserve. A revaluation deficit in excess of

the revaluation reserve balance is recognised as an expense in the period in which it arises. Subsequent revaluation surpluses, to the extent that they reverse revaluation deficits which were expensed, are recognised as revenue.

Other non-current investments are stated at cost.

Receivables

Receivables are stated at their estimated realisable value.

Cashflows

For the purpose of the statement of cashflows, cash includes cash on hand and deposits held at call.

Employee Entitlements

The liability for annual leave is accrued and recognised in the statement of financial position.

Foreign Currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these translations are included in the statement of financial performance.

Leases

Heritage group leases certain equipment, land and buildings. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased item, are included in the determination of the operating profit in equal instalments over the lease term.

Finance leases, which effectively transfer the risks and benefits of ownership, are capitalised at the present value of the minimum lease payments. Leased assets are recognised at cost and depreciated over their respective estimated useful lives.

Basis of Consolidation

The consolidated accounts include the company and its subsidiaries accounted for using the purchase method. All significant intercompany transactions are eliminated on consolidation. In the parent company's financial statements, the investment in subsidiaries is recognised at the lower of cost or written down value.

Financial Instruments

Financial instruments recognised in the statement of financial position include cash balances, receivable, payables, investments in and loans to others and borrowing.

Financial instruments are stated at market value. Any gain or loss is recognised in the statement of financial performance.

Associated Companies

Associated companies are companies in which Heritage holds a substantial shareholding and in whose commercial and financial policy decisions it participates. Associated companies have been reflected in the consolidated financial statements on an equity accounting basis, which shows Heritage's share of the retained surpluses in the consolidated statement of financial performance and its share of post acquisition increases or decreases in net assets in the consolidated statement of financial position.

Changes in Accounting Policies

There were no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

2. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2007 \$	2006 \$	
PR Atkinson	90,000*	90,000*	*of which \$11,400, (2006:\$11,400) is expensed and the remainder is capitalised in the Statement of Financial Position as part of field expenditure. No employee received remuneration and other benefits exceeding \$100,000.
DJ Williams	-	-	
JM McKee	7,500	7,500	
GG Hill	-	-	
RN Stagg	-	-	
MG Hill	-	-	

3. SHARE INVESTMENTS

	Consolidated 2007	Parent 2007	Consolidated 2006	Parent 2006
Investment in listed companies	134,694	2,744	42,785	5,085
Investment in other companies	9,099	9,099	9,099	9,099
Total share investments	\$143,793	\$11,843	\$51,884	\$14,184

Listed shares have been valued at market value.

4. SEGMENT INFORMATION

During the current year the company had only one business segment: mineral exploration within New Zealand.

5. TAXATION

The company has estimated mining taxation losses available to carry forward to offset against future mining income of \$9,960,426 (2006:\$8,910,026). There are non-mining taxation losses of \$8,897,041 (2006: \$8,329,879) to carry forward. Such losses will only be available to be offset if:

(a)The company derives future assessable income of a nature and an amount sufficient to enable the benefit from the deduction for the losses to be realised;

(b)The company continues to comply with the conditions for deductibility imposed by the law;

(c)There are no changes in tax legislation which adversely affect the company in realising the benefit from the deduction for the losses.

In accordance with the company's policy, timing differences in relation to taxation are not recognised.

There have been no movements through the imputation credit account, the balance of which is Nil (2006:Nil).

6. PROPERTY, PLANT & EQUIPMENT

Property, Plant and Equipment	Consolidated & Parent 2007			Consolidated & Parent 2006		
	At Cost	Accumulated Depreciation	Book Value	At Cost	Accumulated Depreciation	Book Value
Fixtures & fittings	1,928	1,507	421	2,127	1,485	642
Office equipment	8,210	6,457	1,753	8,210	4,817	3,393
Computer hardware	6,294	4,312	1,982	8,306	7,209	1,097
Computer software	1,238	636	602	1,843	1,409	434
Field equipment	30,916	25,510	5,406	70,691	60,051	10,640
Total	\$48,586	\$38,422	\$10,164	\$91,177	\$74,971	\$16,206

2007 depreciation of \$12,558: fixtures & fittings \$284, office equipment \$1,640, computer hardware \$1,313, computer software \$292 and field equipment \$9,029.

7. RELATED PARTY TRANSACTIONS

Payments for consulting services to companies in which directors have a substantial interest amounted to \$18,130 (2006:\$32,119) (refer also to note 2). Project Geoscience provided technical services totalling \$15,822 and Williams & Hughes provided legal services totalling \$2,308, both at normal commercial rates.

At balance date, debtors included \$5,938 (2006:\$6,296) owing by companies in which directors had an interest. At balance date, creditors included \$2,045 (2006:\$27,952) owing to companies in which directors had an interest.

No related party debts have been written off during the year.

8. DEFERRED EXPENDITURE

The net value of prospecting costs is supported by an independent valuation of the company's tenements, prepared by Mr Richard Barker, dated 12 June 2007. The ultimate value of this asset is dependent on further development and successful commercial extraction and realisation of the respective areas.

	Consolidated 2007	Parent 2007	Parent 2006
Total prospecting cost and mining tenements	6,785,965	6,775,188	8,394,155
Less prospects written-off	200,418	200,418	2,369,786
Total at cost	\$6,585,547	\$6,574,770	\$6,024,369

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

9. FINANCIAL INSTRUMENTS

Credit Risk

Financial instruments which potentially subject the company to credit risk principally consist of bank balances and accounts receivable. The company places its surplus funds on short term deposit with trading banks and other financial institutions and does not anticipate non-performance by those parties. Maximum exposure to credit risk at balance date is represented by the carrying value of the financial instruments. The company is not exposed to any concentration of credit risk. The company's use of overdraft facilities has been negligible.

Currency and Interest Rate Risk

The company is not exposed to any concentration of currency or interest rate risk. The effective interest rate for short term deposits is 7.21% as at 31 March 2007, calculated using the weighted average method.

Fair Value

There is no material difference between the carrying amounts and estimated fair values of the company's financial assets and liabilities.

10. LEASE AND CAPITAL COMMITMENTS

Operating lease commitments

Lease commitments under non-cancellable operating leases	Consolidated & Parent	
	2007	2006
Not later than one year	\$29,650	\$7,907
Later than one year but not later than two years	\$9,883	\$Nil

Capital commitment

The company has a commitment of \$340,000 to complete the drilling programme at Rahu.

11. SUBSIDIARY COMPANIES

Coromandel Gold Limited is a 100% owned subsidiary of Heritage Gold. Its balance date is 31 March. The company holds a share investment.

Northland Minerals Limited is a 100% owned subsidiary of Heritage Gold. Its balance date is 31 March. The company has applied for prospecting permits in the Northland region.

During the year, Mid-Earth Minerals Limited (previously Strength Investments Ltd) a wholly-owned subsidiary was amalgamated with Heritage Gold.

12. ASSOCIATE COMPANY

The group owns a 33% interest in Broken Hill Cobalt Limited. Broken Hill Cobalt owns the exploration rights to cobalt deposits in Australia. Its balance date is 30 June. The Group's share of Broken Hill Cobalt's deficit is based on audited financial statements to 31 March 2007.

Investment in associate company

	Consolidated	
	31 March 2007	31 March 2006
Share of associates' surplus/(deficit)	622	(18,066)
Income tax	NIL	NIL
Share of recognised revenue and expenses	622	(18,066)
Shares at cost	1,180,000	1,180,000
Share of surplus/(deficit)	(165,090)	(147,024)
Opening balance	1,014,910	1,032,976
Share of recognised revenue and expenses	622	(18,066)
Balance at end of year	\$ 1,015,532	\$ 1,014,910

13. EQUITY & RESERVES

Equity	Consolidated 2007	Parent 2007	Consolidated 2006	Parent 2006
Share capital (193,817,721 shares)	17,277,131	17,277,131	15,452,984	15,452,984
Warrants	576,793	576,793	577,371	577,371
Capital reserve	123,750	123,750	123,750	123,750
Share premium reserve	70,235	70,235	70,235	70,235
Asset revaluation reserve	100,900	100,900	100,900	100,900
Revaluation reserve share investments	132,496	546	40,456	2,756
Total capital and reserves	18,281,305	18,149,355	16,365,696	16,327,996
Accumulated deficit	(9,542,816)	(9,378,348)	(8,735,587)	(8,570,497)
Total shareholder equity	\$8,738,489	\$8,771,007	\$7,630,109	\$7,757,499

Revaluation reserve	Consolidated 2007	Parent 2007	Consolidated 2006	Parent 2006
Opening balance	40,456	2,756	42,261	2,260
Revaluation of listed share investments	92,040	(2,210)	(1,805)	496
Closing balance	\$132,496	\$546	\$40,456	\$2,756

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

Warrants

On 26 June 2002 Heritage issued 36,726,287 warrants for an initial payment of 1 cent each, the net proceeds being \$351,929. An additional payment of 1 cent per warrant was paid by 26 June 2003 being \$226,442 net of expenses, 14,097,606 warrants lapsed. 28,889 warrants were converted to fully paid ordinary shares during the financial year ending 31 March 2007 (49,999 in year ending 31 March 2006).

At 31 March there were 22,583,792 warrants remaining and as at 25 May 2007 there were 22,488,460 warrants on issue. If not converted to fully paid shares before 5pm on 27 June 2007 they will expire.

Following the pro-rata rights issues in October 2005 and November 2006 the warrant conversion price became 6.3 cents to convert each warrant to a fully paid ordinary share.

Share capital	Consolidated & Parent			
	2007 Number	2007 \$	2006 Number	2006 \$
Opening Balance	131,559,399	15,452,984	108,009,400	14,283,920
Shares Issued	62,258,422	1,824,147	23,549,999	1,169,064
Closing Balance	193,817,821	\$17,277,131	131,559,399	\$15,452,984

A placement of 16,667,000 ordinary shares at AU2.5 cents each on 29 September 2006 raised AU\$416,675 (before expenses) and pro-rata rights issues of 37,062,433 ordinary shares at 2.9 cents each on 24 November and 14 and 21 December 2006 raised \$1,033,732 (before expenses). The funds raised were to be used for further exploration of the company's exploration targets, to advance the spin off of its New Zealand gold properties, progress the Thackaringa cobalt project and for working capital.

Options – Listed

Pro-rata rights issue per Prospectus dated 19 September 2005:

Number of options issued	Exercise price	Issue Date	Expiry Date
23,500,000	10c	31 Oct 2005	30 Sep 2008

On 5 April 2007 10,000 options were converted to fully paid shares leaving 23,490,000 listed options on issue at this date.

Options - Unlisted

On 20 November 2003 7,200,000 options were issued to PJD Elliott after shareholder approval on 3rd November 2003:

	Number of options issued	Exercise price	Issue Date	Exercise date	Expiry date
1st Tranche	3,600,000	8c	20 Nov 2003	20 Nov 2004	20 Nov 2007
2nd Tranche	3,600,000	12c	20 Nov 2003	20 Nov 2005	20 Nov 2008
Total	7,200,000				

14. RECONCILIATION OF OPERATING CASHFLOW AND CONSOLIDATED NET PROFIT AFTER TAXATION

	Consolidated & Parent	
	2007 \$	2006 \$
Net deficit after taxation and before including share of retained deficit of associates	(807,851)	(2,621,401)
Add non-cash items:		
Depreciation	3,528	4,916
Write off field expenditure	200,418	2,369,786
Exchange gain/(loss)	(4,090)	(15)
	199,856	2,374,687
Add/(less) movement in working capital:		
Decrease/(increase) in debtors	255	(765)
Increase/(decrease) in creditors	55,100	3,434
Decrease/(increase) in GST	(22,302)	13,254
	33,053	15,923
Net cashflows from operating activities	\$(574,942)	\$(230,791)

15. CONTINGENT LIABILITIES

	Consolidated & Parent	
	2007 \$	2006 \$
Contingent Liabilities	2,000	Nil

There is a contingent liability for rates in respect of the company's leased premises. The liability is currently the subject of a legal challenge.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

16. EARNINGS PER SHARE

	2007	2006
Earnings/(deficit) per share	(0.51 cents)	(2.24 cents)

Earnings per share is based on the weighted average number of ordinary shares on issue during the year and on operating deficit after tax attributable to shareholders.

17. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The directors have commenced planning for the transition to NZ IFRS and the company will adopt NZ IFRS for the year ending 31 March 2008.

Key differences expected to arise from adopting NZ IFRS will include, but not be limited to, the presentation of the financial statements.

The impact of the changes on the financial report has not been quantified but is not expected to be significant.

Cautionary note:

The actual impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

18. SIGNIFICANT EVENTS SINCE BALANCE DATE

Significant events occurring after balance date include: positive results from the drilling project near Waihi in April and May; completion of a placement of AU\$402,500 to raise funds to investigate the uranium proposal, advance further exploration on Heritage Gold's current projects and provide working capital; and conversion of 357,196 warrants to ordinary fully paid shares.

ADDITIONAL INFORMATION

DIRECTORS' INFORMATION

Name of Director	Securities in which Director has a relevant interest at 31 March 2007		
	Ordinary Shares	Warrants	Options
G G Hill	25,590,100	Nil	4,078,680
P R Atkinson	16,201,950	Nil	660,000
J M McKee	Nil	Nil	Nil
M G Hill	Nil	Nil	Nil

The management services contract dated 27 May 1999 between the company and Up Minister Limited was extended for a further period of one year, ending 31 March 2008.

DIRECTORS DISCLOSURE OF INTERESTS

The following general disclosures of interest were received in relation to the year ended 31 March 2007.

Name of Director	Entity	Status
P R Atkinson	Broken Hill Cobalt Limited	Director
	Coromandel Gold Limited	Director
	Prophecy Mining Limited	Director and Shareholder
	Up Minister Limited	Director and Shareholder
G G Hill	Brickworks Investment Company Limited	Director
	Broken Hill Cobalt Limited	Director
	Hills Industries Limited	Director
	Huntly Investment Company Limited	Director
	Intl Pacific Strategic Investments Limited	Director
	So Co Limited	Director
	Metals Finance Limited	Director
	Pitt Capital Group	Director
	PCP Securities Limited	Director
	Pitt Capital Partners Limited	Director
	PSI Securities Limited	Director
	Rundle Capital Partners Limited	Director
	Souls Asian Investments Limited	Director
	Souls Funds Management Limited	Director
	Souls Private Equity Limited	Alternate Director for D Fairfull
Undercover Wear Limited	Director	
J M McKee	Broad Horizons Limited	Director
M G Hill	Waterfront Group Limited	Director

ADDITIONAL INFORMATION

CHANGES IN DIRECTORS

Mr P J Elliott resigned as director on 3 May 2006 and Mr D J Williams and Mr R N Stagg resigned as directors on 30 March 2007. Mr W R Grigor was appointed director on 19 April 2007.

SHAREHOLDING STATISTICS AS AT 12 JUNE 2007

Name	Shares	%
So Co Ltd	20,000,000	9.61%
Peter Robert Atkinson	10,901,950	5.24%
Fortis Clearing Nominees P/L	10,298,750	4.95%
Bestfield Company	9,700,000	4.66%
HFT Nominees Ltd	6,326,325	3.04%
PCP Securities Ltd	5,590,100	2.69%
Prophecy Mining Ltd	5,300,000	2.55%
Pacific Gold Resources Ltd	2,790,000	1.34%
Brett Anthony Phillips	2,503,750	1.20%
Eastern Porphy Pty Ltd	2,500,000	1.20%
Basil Courtney McGirr	2,337,437	1.12%
FNZ Custodians Ltd	2,087,083	1.00%
Eastern Porphy Pty Ltd	2,035,000	0.98%
Gregorach Pty Ltd	2,000,000	0.96%
Troyward Pty Ltd	2,000,000	0.96%
Yatesbury Pty Ltd	2,000,000	0.96%
ANZ Nominees Ltd	1,773,000	0.85%
Stuart Maxwell Mowbray	1,632,000	0.78%
Nikam Investments Pty Ltd	1,600,000	0.77%
Gurravembi Investments Pty Ltd	1,540,000	0.74%
TOTAL FOR TOP 20	94,915,395	45.59%
TOTAL SHARES	208,184,917	100.00%

DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Holders	Shares	%
1 – 1,000	34	23,297	0.01%
1,001 – 5,000	220	788,306	0.38%
5,001 – 10,000	254	2,217,619	1.07%
10,001 – 100,000	705	29,770,206	14.30%
100,000+	267	175,385,489	84.25%
Totals	1,480	208,184,917	100.00%

WARRANT HOLDING STATISTICS AS AT 12 JUNE 2007

Name	Warrants	%
John Reader Mowbray	4,869,332	21.91%
Stuart Maxwell Mowbray & Richard Francis Oldham	3,627,600	16.32%
Michael John Smit	1,308,000	5.88%
I E Properties Pty Ltd	1,248,000	5.61%
Basil Courtney McGirr	1,176,082	5.29%
Keith Richard Frankum	756,000	3.40%
Peter William Hall	640,000	2.88%
Relativity Pty Ltd	632,666	2.85%
Ralph Stagg	500,255	2.25%
Warwick Allan Walbran	499,999	2.25%
Graeme Humphrey Gowland	450,000	2.02%
David Brent Sutton	399,231	1.80%
John Mowbray	337,333	1.52%
FNZ Custodians Ltd	296,437	1.33%
James Lee McGirr	289,439	1.30%
Custodial Services Ltd	260,000	1.17%
Ross Asset Management Ltd	250,000	1.12%
Ianaki Semerdziew	248,750	1.12%
Susan Joy Fox	246,666	1.11%
ASB Nominees Ltd	200,000	0.90%
TOTAL FOR TOP 20	18,235,790	82.04%
TOTAL WARRANTS	22,226,596	100.00%

ADDITIONAL INFORMATION

DISTRIBUTION OF WARRANT HOLDERS

Size of Holding	Holders	Warrants	%
2,000 – 5,000	48	123,348	0.55%
5,001 – 10,000	19	138,057	0.62%
10,001 – 100,000	63	2,464,908	11.09%
100,000+	29	19,500,283	87.73%
Totals	159	22,226,596	100.00%

OPTION HOLDING STATISTICS AS AT 12 JUNE 2007

Name	Options	%
PCP Securities Ltd	4,078,680	17.36%
Bestfield Company	1,440,000	6.13%
Patrick Elliott	1,440,000	6.13%
Bradley Wayne Jones & Karen Angela Jones	761,148	3.24%
Peter James Kittler	750,000	3.19%
Goffacan Pty Ltd	745,000	3.17%
Gurravembi Investments Pty Ltd	642,000	2.73%
William Geoffrey Kroon	600,000	2.55%
Brookview Investments Pty Ltd	500,000	2.13%
Quevy Holdings Pty Ltd	500,000	2.13%
Baron Nominees Pty Ltd	465,000	1.98%
Peter Robert Atkinson	420,000	1.79%
Merrill Lynch (Australia) Nominees Pty Ltd	418,000	1.78%
David Brent Sutton	415,000	1.77%
Clodene Pty Ltd	395,000	1.68%
Basil Courtney McGirr	337,016	1.43%
Basil Courtney McGirr	320,000	1.36%
Peter William Hall	320,000	1.36%
Stuart Maxwell Mowbray & Richard Francis Oldham	271,000	1.15%
Som Investments Pty Ltd	253,800	1.08%
TOTAL FOR TOP 20	15,071,644	64.16%
TOTAL OPTIONS	23,490,000	100.00%

DISTRIBUTION OF OPTION HOLDINGS

Size of Holding	Holders	Options	%
500 – 5,000	119	348,170	1.48%
5,001 – 10,000	56	474,581	2.02%
10,001 – 100,000	111	4,617,392	19.66%
100,000+	37	18,049,857	76.84%
Totals	323	23,490,000	100.00%

CORPORATE GOVERNANCE

In accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* ("**ASX Principles and Recommendations**") and the NZX Corporate Governance Best Practice Code (the "**NZX Code**"), Heritage Gold NZ Ltd ("**Company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Principles and Recommendations and the NZX Code, the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Principles and Recommendations or the NZX Code, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice, as set out below.

Further information about the Company's corporate governance practices and policies is set out on the Company's website at www.heritagegold.co.nz. In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the board and its committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

EXPLANATIONS FOR DEPARTURES FROM ASX BEST PRACTICE RECOMMENDATIONS

During the Company's 2006/2007 financial year ("**Reporting Period**") the Company has complied with each of the ASX Principles and Recommendations, other than in relation to the matters specified below.

Principle 2

Recommendation 2.1: A majority of the Board should be independent directors

Notification of Departure

The board does not have a majority of independent directors. During the Reporting Period, two directors were considered independent.

Explanation for Departure

The Board considers that it continues to be of a suitable structure to govern the Company's affairs in a manner that is in the best interests of shareholders. The Board has put in place appropriate safeguards, in particular, where the financial affairs of the Company are concerned. The Audit Committee included both of the independent directors, who had the opportunity to meet separately with the external auditor in respect of the financial reports. One of the independent directors, Mr McKee, was actively involved in monitoring, and making recommendations for improvement of, the Company's internal controls. The Board also relied on the sign-off of senior management with respect to the financial reports, which sign-off has been provided in respect of the Company's 2006/2007 accounts.

Subsequent to the Reporting Period Mr Warwick Grigor was appointed (19 April 2007) as an independent director adding to the strength of independents on the Board.

Principle 2 Recommendation 2.2: The chairperson should be an independent director

Notification of Departure

For a portion of the Reporting Period, the appointed chair was not an independent director.

Explanation for Departure

For the majority of the Reporting Period (from 3 May 2006 until 9 March 2007), Mr J (Murray) McKee was chairman of the Board. Mr McKee is an independent director. Prior to his appointment, the chairman was Mr Patrick Elliott until his resignation on 3 May 2006. Mr Elliott was not independent. Further, from 9 March 2007 the Company has been chaired by Mr Geoffrey Hill who is not independent. The Board believes that Mr Hill is the most appropriate person for the position as chair at this time because of the extent of his experience.

Principle 4 Recommendation 4.3: Structure the Audit Committee so that it consists of only non-executive directors

Notification of Departure

During the Reporting Period the Audit Committee included an executive director, Mr Ralph Stagg.

Explanation for Departure

The board considered that the Audit Committee had the best and most suitable composition to efficiently carry out its functions and ensure integrity in the financial reports. Mr Stagg was a valuable member of the Audit Committee in view of his extensive experience in the financial matters of listed and unlisted mining and exploration companies. Furthermore, the independent directors had the opportunity to meet separately with the external auditor to the extent this was considered necessary. In all other respects the Audit Committee was structured in accordance with Recommendation 4.3.

EXPLANATIONS FOR DEPARTURES FROM NZX CODE

During the Reporting Period the corporate governance principles adopted or followed by the Company materially differed from the NZX Code only in the following respects:

NZX Code Requirement 2.6 Director remuneration packages should be recommended to shareholders

Notification of Departure:

The Remuneration Committee is governed by a charter in respect of the method by which director remuneration packages are to be determined however the Remuneration Committee does not comply

with principle 2.6 of the NZX Code in that the Remuneration Committee does not recommend the remuneration packages to shareholders.

Explanation for Departure:

See comment under the explanation for the departure from NZX Code Requirement 2.7 below.

NZX Code Requirement 2.7 Directors should be encouraged to take a portion of remuneration under a performance based equity security compensation plan

Notification of Departure:

The remuneration policies of the Company did not comply with principle 2.7 of the NZX Code in that the directors were not encouraged to take a portion of their remuneration under either a performance based equity plan or to invest a portion of their remuneration in equity securities of the Company.

Explanation for Departure:

Under the Charter adopted by the Board the Remuneration Committee meets once a year to review the Company's executive compensation programme. Subject to NZX Listing Rule Requirements, the Board presently considers that such matters are more efficiently determined by the Remuneration Committee itself rather than by way of recommendation to shareholders.

NZX Code Requirement 3.1 Membership on the Audit Committee should comprise solely of non-executive directors

Notification of Departure:

Prior to 31 March 2007, the Audit Committee comprised the two independent directors (Messrs McKee and Williams) and Mr Stagg. The composition of the committee did not comply with principle 3.1 of the NZX Code in that not all of the members were non-executive (Mr Stagg was an executive). As of 30 March 2007 Messrs Williams and Stagg resigned as directors, having completed a full year as Audit Committee members. The Audit Committee now comprises Mr McKee and Mr Grigor, the two independent directors.

Explanation for Departure:

Although there was not strict compliance with principle 3.1 of the NZX Code, the board considers that the previous Audit Committee during the Reporting Period had the best and most suitable composition to effectively carry out its functions and ensure integrity in the financial reports. Mr Stagg was a valuable member of the Audit Committee in view of his extensive experience in the financial matters of listed and unlisted mining and exploration companies. Furthermore, the independent directors had the opportunity to meet separately with the external auditor to the extent that this is considered necessary.

NZX Code Requirement 3.10 A nomination committee should recommend director appointments to the Board and a majority of the nomination committee should be independent directors

Notification of Departure:

The composition of the nomination committee did not comply with principle 3.10 of the NZX Code in that it did not comprise a majority of Independent Directors (i.e. technically only one out of the two directors was an Independent Director, which does not constitute a majority).

Explanation for Departure:

Although there was not strict compliance with principle 3.10 of the NZX Code, the board considers that the existing nomination committee had the best and most suitable composition to effectively carry out its functions. The board considers that no efficiencies would be achieved by having an additional Independent Director on the nomination committee.

Except as disclosed the Company adheres to the NZX Code.

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

A profile of each director containing the skills, experience, expertise and term of office of each director is set out in the director profiles.

IDENTIFICATION OF INDEPENDENT DIRECTORS

ASX requirements

In considering independence of directors, the Board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("Independence Criteria"). To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter, which is disclosed in full on the Company's website.

Applying the Independence Criteria, during the reporting period, the independent directors of the Company were J (Murray) McKee and David Williams.

In the interests of disclosure, Mr Williams is a commercial lawyer and partner of West Australian law firm Williams & Hughes, which provides some legal services to the Company. Mr Williams had no other relationships that could be considered to affect his ability to exercise independent judgment. Having regard to materiality thresholds, the legal services provided by Mr Williams' law firm were not considered to be material either from Mr Williams's or the Company's perspective. The Board (in the absence of Mr Williams) therefore considered Mr Williams to be an independent director, notwithstanding his provision of some professional services to the Company.

Mr Warwick Grigor was appointed to the Board as of 19 April 2007 and the Board considers him an independent director.

NZX requirements

Mr David Williams and Mr J (Murray) McKee were determined Independent Directors pursuant to NZX Listing Rule 3.3.1A. Peter Atkinson, Geoffrey Hill, Matthew Hill and Ralph Stagg were determined as not being Independent Directors for the purposes of NZX Listing Rule 3.3.1A.

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 Chairman, 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 was carried out. The evaluation process occurred during the annual Board Strategy meeting on 23 February 2007. The evaluation was conducted by the chairman and was comprised of an informal round table discussion between the board members.

RISK MANAGEMENT

The company has continued to develop its strategies for risk management during the Reporting Period, particularly where internal controls are concerned. The Company's internal controls are reviewed by the external auditor twice a year, and are monitored regularly by the independent directors.

REMUNERATION

Details of remuneration are contained in the Notes to the Financial Statements forming part of this report.

Of the non-executive directors:

- J (Murray) McKee received a fixed fee for his services as director;
- David Williams received fees (at normal commercial rates) for providing some legal services to the Company, but he did not receive a separate fee for his services as director, and;
- Geoffrey Hill held shares and options in the Company, but does not receive any director's fees or payments for any other services provided.

Of the executive directors:

- Peter Atkinson received a fixed monthly fee for providing consultancy services in respect of his role as a managing director;
- Ralph Stagg was compensated for his services in an executive capacity and did not receive a separate fee for his services as a director.

There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievement of key performance indicators.

There are no termination or retirement benefits for directors.

REMUNERATION COMMITTEE

During the Reporting Period the Remuneration Committee met once as a Committee comprised of Mr Williams and Mr McKee who both attended the meeting.

NOMINATION COMMITTEE

The Nomination Committee comprised of Mr McKee and Mr Hill met once during the year. Both members attended the meeting.

AUDIT COMMITTEE

Names and Qualifications of Audit Committee Members

The following directors were members of the Audit Committee:

David Williams (Chair, Independent) to 30 March 2007;
J (Murray) McKee (Independent, Chair);
Ralph Stagg (Executive) to 30 March 2007;
Warwick Grigor (Independent) from 19 April 2007.

Mr Williams' financial literacy was acquired through extensive industry exposure, directorships of other companies and involvement in the financial affairs of his own legal practice over the past 20 years.

Mr McKee has gained significant financial expertise from his careers in management consulting and senior management over the past 30 years.

Mr Stagg had extensive experience in the financial matters of listed and unlisted mining and exploration companies.

Mr Grigor has extensive experience as a senior mining analyst and research partner with stock broking firms specialising in mining.

Number of Audit Committee Meetings and Names of Attendees

During the Reporting Period the Audit Committee held two meetings. Mr Williams and Mr McKee attended both meetings and Mr Stagg attended one meeting.



COMPANY DIRECTORY

Directors

Geoffrey G Hill (Chairman)
J Murray McKee (Deputy Chairman)
Peter R Atkinson (Managing Director)
Matthew G Hill
Warwick R Grigor

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
WA 6005, Australia
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, Auckland
Simpson Grierson Law, Auckland
Williams & Hughes, Perth

Share Registrars

New Zealand:

Link Market Services Limited
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

National Stock Exchange of Australia

Code: Shares HGD
Options HGDOC
Warrants HGDXHA

HERITAGE

GOLD NZ LIMITED

Incorporated in New Zealand / ABN 009 474 702

