



Gold : Heritage Gold NZ Limited (HTM)

Market Statistics	VISIT TO KARANGAHAKE & RAHU			1 July 2004
Year Low/High:	A\$0.032 - 0.095	Shares :	Recommendation	SPEC BUY
Diluted No. Shares	104.7m	82.0m ords	Share Price	A\$0.06/NZ\$0.07
Diluted Mkt Cap :	A\$6m	7.2m options	Net Cash (31 Mar 04)	A\$0.6m
By : Eagle Research (Keith Goode) 22.7m warrants www.heritagegold.co.nz T: (+649) 303 1893				

Heritage Gold NZ Ltd (HTM) – Recently Completed Scoping Study Highlights the Viability of HTM's Karangahake region

- *Heritage have recently completed a scoping study which focused on the mining viability of the Talisman mine within the Karangahake Project, and resulted in a conceptual relatively small underground operation treating ore at an average grade of 13g/t and producing 50,000ozpa from late 2006 / early 2007.*
- *Heritage have made significant progress in the past year and recently announced initial indicated and inferred JORC gold resources of almost 110,000oz (335,400t @ 10.2g/tAu & 40.7g/tAg) in the old Talisman mine, as part of the completion of Phase 1. HTM have already started on their Phase 2 aimed at defining a 300,000oz gold equivalent resource on which to base a preliminary feasibility study.*
- *Consequently HTM are in the process of refurbishing part of the old Talisman mine and have focused on the adit accessing the 8 Level Maria Lode (and extension on strike to the BM37 cross-cut), with its link through a main cross-cut into (and on the same elevation due to a different numbering system) 5A Level Crown/Welcome Lode. The main cross-cut also passes through the Mystery Lode, which has little historical record, but also appears to contain mineable resources.*
- *The BM37 cross-cut was renowned in the early 1990s because of its intersection of 1.8m @ 682 g/t gold and 2,094 g/t silver, with grab samples reputedly up to 1.4% (13.8kg/t) gold. It had been overlooked because it lies in the Dubbo shoot or section which was historically regarded as unpayable. While the BM37 area has been partly "grab-mined" before the previous mine closed in the early 1990s, it appears to have been barely touched from a mining viewpoint.*
- *Apart from the old Talisman section, there appears to be a number of potential ore sources within Karangahake and its adjacent region, based on the examination of the mine plans, extensions on strike north-east beyond Taukani Hill to Rahu, and south-west into the Dominion Knoll region.*
- *At Rahu (north-east on strike from Karangahake) and following a conceptual downthrown model, HTM are drawing parallels between the similar geological setting, geophysical resistivity anomalies and delineated vein structures of the Favona discovery near the Martha Mine, to the geological setting and resistivity anomalies at Rahu. Some initial drilling has found encouragement.*

OTHER KEY POINTS:

- The initial focus at Karangahake is on the economically viable easily accessible areas close to the Maria Lode's 8 Level, and the various stockpiles amongst the workings.
- A diamond drillhole program at Rahu is being considered, consisting of 5 drillholes to a depth of ~300m.
- The 33% held Thackaringa Cobalt Project may be floated as an Australian IPO.
- A trial date has been set for 6 September 2004 in the High Court in Wellington to hear HTM's claim for \$8m in expenditure after their ground was sterilised by an amendment to the NZ Crown Minerals Act in 1997.

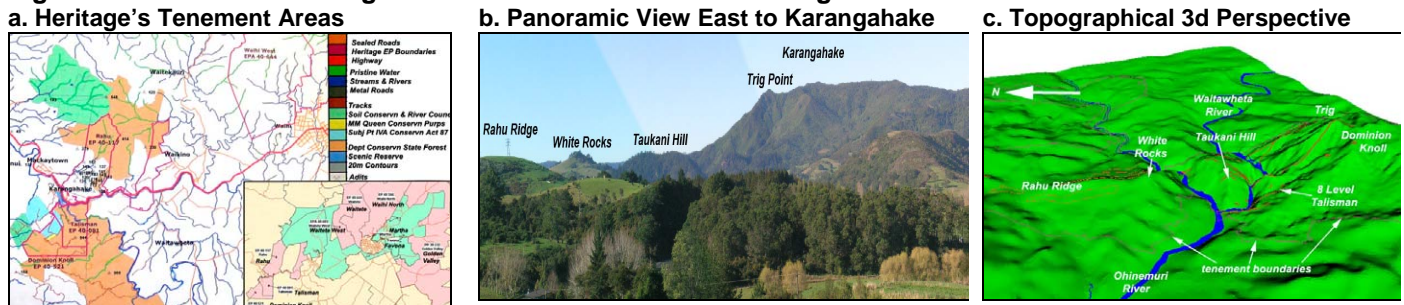
Corporate Overview

Since our last report on Heritage Gold NZ Ltd (HTM) dated 17 June 2003, HTM's share price has more than doubled to currently trade at about A\$0.06, representing a still relatively low market cap of almost A\$6m. Following a placement and exercise of some of the options, there are now **82m ordinary shares** on issue. Some **22.7m of the warrants are in-the-money** after paying the further NZ\$0.01 on 26 June 2003 to leave NZ\$0.07 outstanding to be paid by June 2007 (1A\$ ≈ 1.15NZ\$). However, the 7.2m options are currently all out-of-the-money with 3.6m due at \$0.08 by November 2007, and 3.6m due at \$0.12 by November 2008. Hence the diluted number of issued shares = 82.0+22.7=104.7m.

Heritage's main focus is on the Karangahake region containing the old Talisman mine and the adjacent prospects on strike being Rahu in the North, and Dominion Knoll in the South as shown in the tenement plan in Figure 1. The Waihi North and Golden Valley prospects in the vicinity of Waihi township would be next, with Onemana last being at 20km, the furthest of HTM's prospects away from Waihi. HTM still has its 33% ownership of the Thackaringa cobalt project at Broken Hill in NSW, which is being considered as a separate ASX listing, particularly with the currently high cobalt prices.

The withdrawal by Newmont from selling its Martha (Hill) Mine at Waihi and instead targeting gold production to double there, should still leave spare mill capacity at Martha, so HTM may be able to negotiate a toll treating arrangement. Newmont has given approval to sink the 2km long Favona decline with its targeted 300,000tpa of ore feed for its 0.9mt to 1.3mtpa rated mill, is drilling with up to 6 rigs in the vicinity of Union Hill at depths of ~650m, and is reputedly re-examining its options for mining underground beneath the base of the open-cut (which ends in about a year or so at 250m, although the old underground went to a depth of 600m before that closed in 1952).

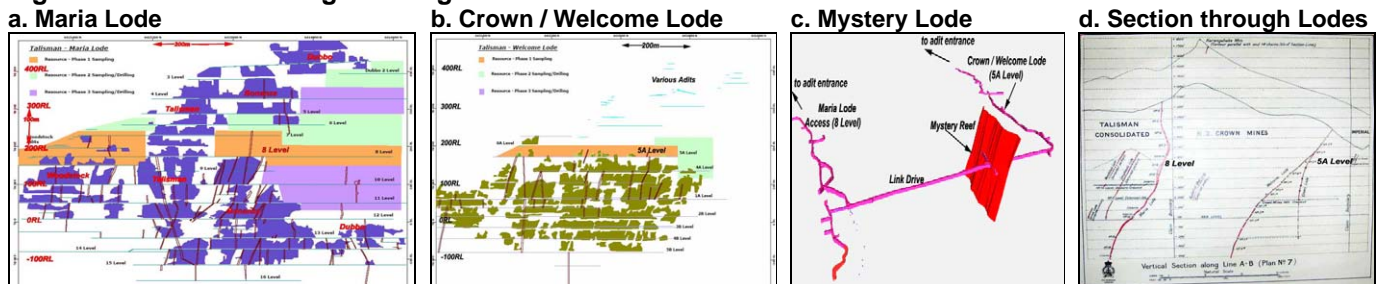
Figure 1. Location of Heritage's Tenements and Views of Karangahake



Karangahake

This report should be read in conjunction with our initial ERA report dated 17 June 2003 which contains more detail on the geology and history of the Karangahake region in which almost 4moz of gold and silver were mined between 1875 and 1919, mainly from the Maria lode at 3.5moz (~28/t Au & 129g/t Ag), the Crown lode at 350,000oz (~16g/t Au & 12.6g/t Ag) & the Woodstock lode at 140,000oz (15/t Au & 72g/t Ag).

Figure 2. Sections through Karangahake



When the mine was last re-opened in the late 1980s, an upgraded access road to 8 Level was established, and a link driven between 8 Level (Maria Lode) and the 5A Level of the Crown/Welcome Lode (on the same elevation, with a different level numbering system). This link encountered the Mystery Lode and minimal extraction appears to have occurred on this reef (which is hidden from surface) as it may have been unpayable or viewed as a distraction from linking the two structures for ventilation and access purposes, as shown in Figure 2c. The Maria Lode drive was driven further south understandably targeting the BM37 drillhole position in the Dubbo Section (or shoot) with its **"very high grade"** intersection of 1.8m at **682g/tAu & 2,094 g/t Ag**) and mined part of it.

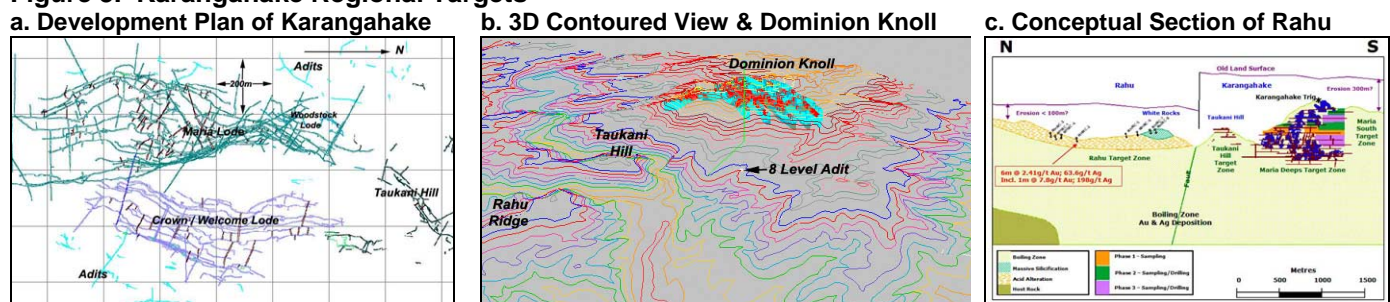
Heritage appear likely to use a similar approach, having re-established the access road to the adit entrance and refurbished the drives and cross-cuts replacing and re-installing timber as required. Mineralised ore had and has been stockpiled at various parts in the workings as part of the clean-up procedure.

We examined a number of different lode exposures, including the BM37 area. The BM37 area has been minorly grab-stopped/mined having been exposed just before the mine was due to close. The ore zone shows milky white colloform quartz and some brecciation, a main 25cm to 60cm thick vein within the 1.8m zone, overlying 3 to 5g/t stockwork mineralisation. There are also some quartz and carbonate crystals. A lump of the vein material graded 948g/t, but historically it has reputedly ranged up to 13.8kg/t. Although the grades are “high” they are not visually obvious, more finer pin-head grains associated with sulphides. Channel sampling across the vein ranged from 22g/t to almost 800g/t with apparently a few 70s, 100s & 200s g/t. However, basically the area appears to have been barely touched from a mining viewpoint.

The initial plan has been to focus on the economically viable easily accessible areas close to 8 Level Maria as shown coloured orange in Figure 2a, the Woodstock lodes and Woodstock blow in the vicinity of the adit entry point, the BM37 cross-cut, the Mystery Lode and the orange coloured zone of the Crown / Welcome lodes shown in Figure 2b.

An initial scoping study has been completed, resulting in the reported JORC resource of almost 110,000oz (335,400t @ 10.2g/tAu & 40.7g/tAg). The study examined three possible access points to mine the old workings apart from the current access to the 8 Level adit, and concluded that it was conceptually possible to have a small underground operation of 50,000ozpa equiv gold from late 2006.

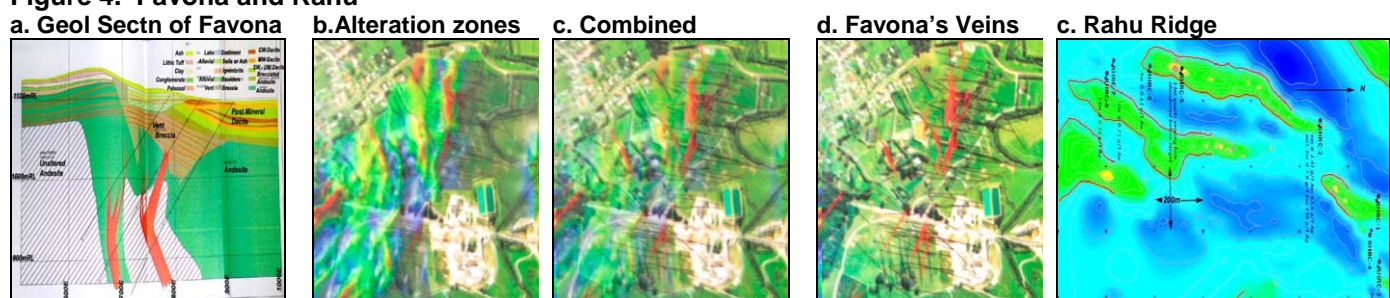
Figure 3. Karangahake Regional Targets



There are a number of potential ore sources apart from the old Karangahake mine, which was not fully developed as shown by the sections in Figures 2a and 2b, and the plan of the workings in Figure 3a. HTM have a significant tenement package in the Karangahake region covering the line of strike of the historical lodes as shown in Figure 1a, and have conducted geophysical surveys over Dominion Knoll highlighting the anomalous target areas shown in Figure 3b. However, the current focus after the old mine has been Rahu largely due to its accessibility, combined with the similarities that exist between it and Favona.

The Favona mineralisation at the Martha Mine was one of the main reasons why Newmont stopped selling the mine, probably because of its depth potential and Newmont are currently drilling to depths of ~650m with up to 6 drilling rigs in the vicinity of Union Hill.

Figure 4. Favona and Rahu



As shown in Figures 4b to 4d of resistivity defined alteration zones at Favona overlain by Favona's veins, and altering the opacity of the overlay, Favona's delineated veins do show a reasonably good correlation with the alteration zones. The question is whether Rahu's similar resistivity defined alteration zones using the same technique can translate into deeper vein style mineralisation. One of Heritage's drillholes did intersect 6m @ 2.4g/tAu & 64g/tAg (including 1m @ 7.8g/tAu & 198 g/tAg), to some degree proving the conceptual model shown in Figure 3c. Also as shown in Figure 4a, even Favona initially only showed tips of mineralisation at a depth of ~100m below surface. Consideration is being given for a 5 diamond-drillhole program to a depth of 300m, targeting various parts of Rahu Ridge.

HTM still have their sizeable tenement position north of Waihi (at Waihi North) and in the Golden Valley region within a north-south strip to the east of the Martha mine. These tenements contain a number of alteration zones, and Newmont has been increasing its activities northeast of Favona into the old Monument Mine's ground. The alteration zone at Monument can be traced south directly into HTM owned Golden Valley tenements, which probably also warrants follow-up work.

Management

Board of Directors

Pat Elliott – Chairman (appointed June 2004) and Executive Director since November 2003. Pat has over 30 years' experience mainly in corporate finance and senior executive managerial positions, and has arranged financing and/or acquisitions for a number of Australian-based companies. Pat currently also has a number of other director and Chairman positions among mainly listed Australian mining companies.

Peter Atkinson – Managing Director since 1984. Peter founded Heritage and has a strong background in geology, exploration management and corporate finance. Peter is also the President of the NZ Minerals Industry Association and a director of Prophecy Mining Ltd.

Ralph Stagg – Executive Director since 1999. Ralph has over 30 years' experience in economic geology having worked on a wide range of mineral projects in several countries. Ralph also has managerial experience in listed and unlisted exploration and mining companies.

David Williams – Non-Executive Director since 1984. David is a commercial lawyer with over 30 years' experience advising on business, resources and corporate matters. He is also a director of Teck and Sipa.

James (Murray) McKee – Non-Executive Director since 1995. Murray is a management consultant who held senior managerial positions in the Coal Corporation of NZ Ltd for 18 years to 1995. Murray was also a former Chairman of the West Coast Conservation Board.

Geoffrey Hill – Non-Executive Director since 1998. Geoff has participated at the executive level of funds management since 1973 and has specialised in corporate mergers and acquisitions. Geoff has been Chairman of Auspine and Pacific Strategic Investments, and a director of Hills Industries Ltd.

Sue Sangster – Company Secretary

Technical Team

Graeme Fulton – Consulting Mining Engineer. Graeme has more than 19 years' practical experience in coal, diamond and gold mines (mainly in South Africa) including geological and mining consultancy over a wide range of mineral deposits throughout Australasia, PNG, Malaysia, Canada and Southern Africa. He also has mining information system expertise and developed HTM's Karangahake 3-D Datamine model.

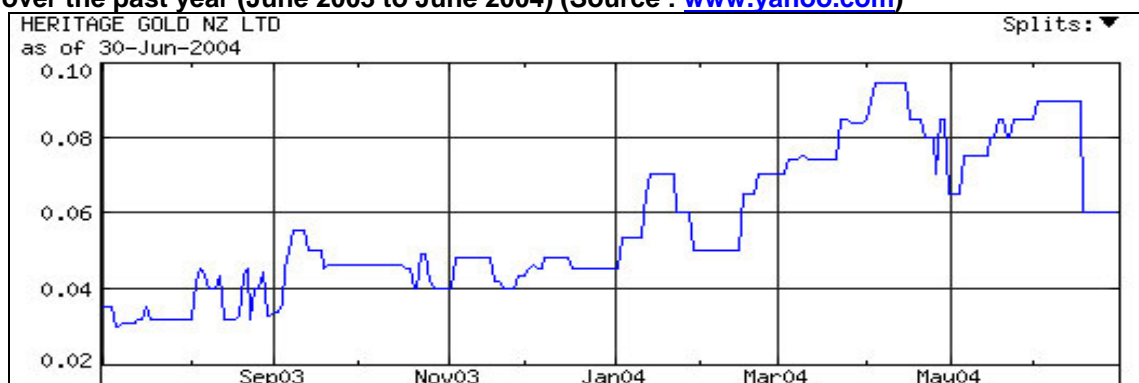
Murray Stevens – Consulting Geologist. Murray was Heritage's exploration manager for 10 years. He has over 26 years' experience at senior management level in mineral exploration in Australasia and the Asia-Pacific region with expertise in epithermal gold and porphyry gold-copper deposits. Murray has taken a number of projects from grass roots through to advanced feasibility including financial analysis.

Paul Vidanovich – Consulting Geophysicist. Paul has over 18 years' experience in epithermal exploration in NZ, the South Pacific and South America. Paul has expertise in image processing techniques using geophysical data sets and was involved in Heritage's Onemana discovery and in the high grade epithermal Favona gold discovery by Newmont's Martha Mine.

Chart of Heritage over the past year (June 2003 to June 2004) (Source : www.yahoo.com)

Having risen steadily to 9.5c, HTM appears to be temporarily settling into a trading range...

...between about 5.5Ac, and 9.5Ac



Disclosure

Heritage Gold NZ Limited commissioned Keith Goode (who is an Authorised Representative with Taylor Collison Ltd ACN 008 172 450, and is a consultant with Eagle Research Advisory Pty Ltd ACN 098 051 677) to compile this report, for which Eagle Research Advisory Pty Ltd has received a consultancy fee. At the date of this report Keith Goode and his associates do not hold interests in shares issued by Heritage Gold NZ Limited. At the date of this report, Taylor Collison Limited or their associates within the meaning of the Corporations Law, may hold interests in shares issued by Heritage Gold NZ Limited.

Disclaimer

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