

HERITAGE GOLD NZ LIMITED
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Heritage Gold NZ Limited (“the Company”) advises that its Annual Meeting of Shareholders will be held in the Parnell Room, Ground Floor, Jubilee Building, 545 Parnell Road, Parnell, Auckland, New Zealand on Monday 4 August 2003 commencing at 11.30am.

The business of the meeting will be:

1 Presentations

- (a) The Chairman’s address to shareholders and shareholder discussion.
- (b) To receive and consider the Annual Report including the Financial Statements and the Auditor’s Report for the year ended 31 March 2003.

2 Re-election of Directors

- (a) Peter Robert Atkinson retires by rotation under clause 73.1 of the Company’s Constitution and, being eligible, offers himself for re-election.
- (b) David John Williams retires by rotation under clause 73.1 of the Company’s Constitution and, being eligible, offers himself for re-election.

3 Re-appointment of Auditors

To record the re-appointment of Carlton - DFK as the Company's auditor and to authorise the Directors to settle their remuneration.

4 Provision of Services by Director

To consider and, if thought fit, to pass the following ordinary resolution under NZX Listing Rule 9.2.1 and the Company’s constitution:

“That the services agreement between Heritage Gold NZ Limited and Ralph Nicholas Stagg, Director of the Heritage Gold NZ Limited, dated 31 January 2003, the principal terms of which are summarised in the Explanatory Notes to the notice of this meeting, be and is hereby authorised and approved.”

5 Issue of Shares to Director

Subject to Resolution 4 being passed by the shareholders, to consider and, if thought fit, to pass the following ordinary resolution under NZX Listing Rule 7.3.1 and 9.2.1 and the Company’s constitution:

“That the issue by Heritage Gold NZ Limited of 1,000,000 fully paid ordinary shares in Heritage Gold NZ Limited to Ralph Nicholas Stagg, pursuant to the Agreement referred to in resolution 4 above, on the principal terms summarised in the Explanatory Notes to the notice of this meeting, be and is hereby authorised and approved.”

Explanatory Notes

Explanatory Notes on resolutions 4 and 5 are set out on the following pages.

Appraisal Report

This notice is accompanied by an Appraisal Report from **Higbee Schaffler** in respect of Resolutions 4 and 5, as required under NZX Listing Rules 6.2.2 and 9.2.5. The Directors recommend that shareholders read this Appraisal Report in conjunction with their consideration of Resolutions 4 and 5 (and the Explanatory Notes relative to those Resolutions).

Voting restrictions

By virtue of NZX Listing Rule 9.3, Ralph Stagg and any Associated Person of Mr Stagg will not be entitled to vote in respect of Resolutions 4 and 5 and any votes cast by such persons in respect of Resolutions 4 and/or 5 will be disregarded by the Company (unless such votes are cast by such

person acting as proxy to a person entitled to vote on those Resolutions).

Directors' recommendation

The Directors recommend you vote in favour of all resolutions.

Proxies and representatives

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

A proxy form is attached to this notice. If you wish to vote by proxy you must complete the form and produce it to the Company at its registered office, Nathan House, 541 Parnell Road, Parnell, Auckland, New Zealand so as to ensure that it is received at least 48 hours before the meeting.

By order of the Board

Sue Sangster

Company Secretary

25 June 2003

EXPLANATORY NOTES

Resolution 4 (Provision of services by Director)

- 1 Ralph Nicholas Stagg (“Mr Stagg”), has agreed to provide services to the Company as an Executive Director of the Company responsible for the Company’s fundraising initiatives, liaising with potential shareholders and investors in the Company and with stock broking firms and other financiers in connection with Company fundraising (“the Services”), pursuant to the terms of an agreement between the Company and Mr Stagg dated 31 January 2003 (“the Agreement”). The terms of the Agreement are expressed to be subject to the appropriate shareholder approvals being obtained. Mr Stagg has over 30 years broad experience in economic geology in several countries. His most recent experience in Perth, Sydney, Melbourne and Brisbane has included investor relations work with stockbrokers and private investors, on behalf of listed and unlisted public companies. In the opinion of the Board, Heritage needs a person to manage its investor relations programme and to present the Company to investors in Australia, preferably from Sydney where Mr Stagg is based. After considering other suitable candidates the Board agreed that Mr Stagg was best suited for the task. The Board also determined that the actual cost to the Company in respect of Mr Stagg’s engagement under the Agreement was less than that which would have been incurred by the engagement of any of the other candidates considered by the Board.
- 2 NZX Listing Rule 9.2.1 provides that an issuer such as the Company cannot enter into a “Material Transaction” if a “Related Party” such as Mr Stagg is or is likely to become a direct or indirect party to the Material Transaction, unless the Material Transaction has first been approved by an ordinary resolution of the shareholders of the Company in consideration for the provision of the Services. The Agreement will constitute a Material Transaction with a Related Party if Mr Stagg receives an amount in excess of 0.5% of the lesser of Shareholders’ Funds or the Average Market Capitalisation of the Company. In respect of the Company, 0.5% of Shareholders’ Funds is NZ\$36,047. 0.5% of the Average Market Capitalisation of the Company is \$14,023. As a consequence of the value of the shares that are proposed to be issued to Mr Stagg (referred to in Resolution 5) and the fees referred to below, the Agreement constitutes a Material Transaction and therefore requires to be approved by ordinary resolution of the shareholders of the Company in terms of Resolution 4.
- 3 The Board believes that the Agreement is on normal commercial terms for provision of services such as the Services. The principal terms of the Agreement are:
 - 3.1 Mr Stagg will provide the Services to the Company as an independent contractor with effect from 1 January 2003 until 31 December 2003 (Mr Stagg has been providing the services since 1 January 2003, notwithstanding the fact that the Agreement was signed on 31 January 2003);
 - 3.2 Unless otherwise agreed with the Company, the Services will be provided for an average of 6 working days per calendar month during the period of Mr Stagg’s engagement, up to a maximum of 75 working days during that period;
 - 3.3 In consideration of the provision of the Services and subject to shareholder approval in terms of Resolution 5, the Company will issue 1,000,000 fully paid ordinary shares to Mr Stagg (on the terms summarised in the Explanatory Notes to Resolution 5 below);
 - 3.4 In addition to the issue of the shares referred to in Resolution 5, Mr Stagg will also be paid a fee of NZ\$2,000 per calendar month for the duration of his appointment. In the event that Resolution 5 is not passed by the shareholders, the Agreement provides that, subject to Resolution 4 itself being passed by the shareholders, the monthly fee payable to Mr Stagg will be increased by NZ\$3,250 per calendar month, backdated to 1 January 2003 (on the basis that the services referred to in the Agreement were

provided by Mr Stagg from that date, notwithstanding the date that the Agreement was signed). The issue of the Shares and the alternative fee arrangement are expressed to be subject to shareholder approval on the basis that they would, when taken in addition to the monthly \$2,000 fee referred to above, constitute a Material Transaction (as explained in paragraph 2 above). The fee, together with any issue of the shares referred to in Resolution 5, will represent the total remuneration payable to Mr Stagg by the Company (i.e. no additional director's fees will be payable to Mr Stagg during the term of the Agreement beyond those referred to in this paragraph 3.4). Any increase in the total remuneration payable to Mr Stagg during the term of the Agreement would require the approval of the shareholders of the Company, in addition to the approval of the Board. In respect of the period from 1 January 2003 to date, Mr Stagg has only been paid the monthly fees of \$2,000 referred to above (on the basis that the shares referred to in Resolution 5/the alternative additional monthly fees of \$3,250 referred to above will only be paid upon shareholder approval being obtained).

- 3.5 Mr Stagg will also be re-imbursed by the Company for all reasonable expenses incurred by Mr Stagg in the provision of the Services;
- 3.6 The Agreement may be terminated at any time by the Company after the occurrence of certain events including serious misconduct by Mr Stagg, an unremedied breach of the Agreement by Mr Stagg, or in the event that shareholder approval of the terms of the Agreement is not obtained. Mr Stagg may terminate the Agreement at any time, on 30 days prior written notice (subject always to the requirement to permit the repurchase by the Company for a nominal amount of a proportion of the shares issued to him under the Agreement (see the Explanatory Notes to Resolution 5 below for further detail in this regard)).

Resolution 5 (Issue of Shares to Director)

- 1 As indicated in the Explanatory Notes to Resolution 4 above, the consideration for the services provided by Mr Stagg pursuant to the Agreement will be, subject to shareholder approval under Resolution 5, the issue of 1,000,000 fully paid ordinary shares in the Company ("the Shares"). The current issued share capital of the Company (excluding the number of warrants in issue) is 73,809,400 ordinary shares. Upon issue, the Shares would therefore represent 1.34% (rounded) of the then issued share capital of the Company. As indicated, issue of the Shares forms part of a Material Transaction with a Related Party which requires the approval of the shareholders of the Company by ordinary resolution under NZX Listing Rule 9.2.1. Furthermore, under NZX Listing Rule 7.3, an issue of Equity Securities such as the Shares similarly requires the approval of the shareholders of the Company by ordinary resolution. Approval for the issue of the Shares is therefore sought under Resolution 5.
- 2 The terms on which the Shares will be issued are as follows:
 - 2.1 the Company will allot and issue the Shares to Mr Stagg as soon as practicable following shareholder approval (and in any event, subject to shareholder approval having been obtained, not later than 1 month after the date of the Annual Meeting);
 - 2.2 the deemed price for the Shares will be the volume weighted average market price of the ordinary shares of the Company in the 5 business days prior to the issue of the Shares;
 - 2.3 pursuant to the Agreement, Mr Stagg undertakes that prior to 31 December 2003 he will not sell, transfer, create any security interest in or otherwise deal with or dispose of any of the Shares unless permitted by the terms set out in paragraph 2.4 below;
 - 2.4 (subject to paragraph 2.5 below) Mr Stagg will accrue an entitlement to deal with or dispose of successive tranches of 250,000 of the Shares quarterly in arrears during the period of his engagement under the Agreement, with the first such entitlement arising

on 31 March 2003 and the final such entitlement arising on 31 December 2003. In the event that Resolution 5 is passed by the shareholders and the Shares are issued as a result, Mr Stagg will therefore be deemed to have accrued an entitlement to dispose of 500,000 of the Shares (in respect of the quarters ending 31 March 2003 and 30 June 2003). This reflects the fact that Mr Stagg has provided the services since 1 January 2003 (notwithstanding the date that the Agreement was signed); and

- 2.5 In the event of the termination of Mr Stagg's engagement under the terms of the Agreement prior to 31 December 2003, the number of Shares that Mr Stagg will be entitled to retain will be calculated in accordance with the following formula:

$$(250,000 \times \frac{A}{B}) + C$$

Where:

A is the number of number of days in the preceding quarter in which Mr Stagg provided services to the Company in accordance with the terms of the Agreement; **B** is the total number of days in the preceding quarter during which Mr Stagg would have required to provide his services under the terms of the Agreement, notwithstanding the earlier termination of his engagement under the Agreement; and **C** is the number of Shares in respect of which Mr Stagg has accrued an entitlement under paragraph 2.4 above (to the extent that such shares have not already been disposed of by Mr Stagg).

With regard to the balance of the Shares after application of the foregoing formula, the Company will be entitled to redeem all of these shares for an total payment of 1 cent (NZ). In the Agreement, Mr Stagg agrees to execute all documentation necessary to effect such a redemption immediately upon request by the Company. In the event that Mr Stagg defaults in doing so, he agrees that the Company may execute such documentation on his behalf and that the Company may receive the redemption money in respect thereof and hold same in trust for him.

- 3 In the event that Resolution 5 is not passed by the shareholders entitled to vote and Resolution 4 is passed by the shareholders entitled to vote, Mr Stagg will, for the period to 31 December 2003 and in addition to the monthly fee of \$2,000 referred to in paragraph 3.4 of the Explanatory Notes to Resolution 4 above, receive an additional monthly fee of \$3,250 (backdated to 1 January 2003)(again, as referred to in paragraph 3.4 of the Explanatory Notes to Resolution 4 above).
- 4 In the event that neither Resolution 4 nor Resolution 5 are passed by the shareholders entitled to vote, Mr Stagg will continue to receive the monthly fee of \$2,000 referred to above in respect of the period until 31 December 2003 (or until the Material Transaction threshold mentioned above in paragraph 2 of the Explanatory Notes relative to Resolution 4 is reached). He will not, however, be entitled either to the issue of the Shares or to the additional monthly fee of \$3,250 referred to above.
- 5 In the Board's opinion, the consideration for the which the Shares will be issued and the terms on which they will be issued are fair and reasonable to the Company and to all existing shareholders.
- 6 The Shares will rank pari passu in all respects with the existing issued ordinary shares of the Company.

PROXY FORM

SECTION 1: SHAREHOLDER DETAILS (PLEASE PRINT CLEARLY)

Full name:.....

Full address:.....

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

Full name:.....

Full address:.....

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

I appoint: Full name:.....

Full address:

as my proxy to exercise my vote at the Annual Meeting of the shareholders of the Company to be held on Monday 4 August 2003 in the Parnell Room, Ground Floor, Jubilee Building, 545 Parnell Road, Parnell, Auckland, New Zealand, and at any adjournment of that meeting. If the person I have appointed is unable to be my proxy then I appoint

Full name:.....

Full address:.....

I acknowledge that the Company may rely on the vote or action of my proxy as being my vote or action, whether or not the proxy is acting in accordance with the instructions in Section 3 of this form.

SECTION 3: VOTING INSTRUCTIONS

I direct my proxy to vote in the following manner:

(Tick the box that applies)

	For	Against
(2a) Re-election of Peter Robert Atkinson	<input type="checkbox"/>	<input type="checkbox"/>
(2b) Re-election of David John Williams	<input type="checkbox"/>	<input type="checkbox"/>
(3) Re-appointment of Auditors	<input type="checkbox"/>	<input type="checkbox"/>
(4) Approval of provision of services by Ralph Nicholas Stagg, Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(5) Approval of issue of shares to Ralph Nicholas Stagg	<input type="checkbox"/>	<input type="checkbox"/>

SIGNED BY EACH SHAREHOLDER NAMED IN SECTION 1

Date:

Notes

- 1 As a shareholder you may attend the meeting and vote, or you may appoint a proxy to attend the meeting. A proxy need not be a shareholder of the Company.
***The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose, if so indicated in section 2 above.**
- 2 If you are joint holders of shares each of you must sign this proxy form. If you are a company this proxy form must be signed on behalf of the company by a person acting under the company's express or implied authority.
- 3 For this proxy form to be valid, you must complete it and produce it to the Company at the Company's Registered Office, Nathan House, 541 Parnell Road, Parnell, Auckland, New Zealand so as to ensure that it is received at least 48 hours before the meeting. If it has been signed under a power of attorney please send a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney with this proxy form.
- 4 If you return this form without directing the proxy how to vote on any particular matter, the proxy will vote as he or she thinks fit.



25 June 2003

The Directors other than Mr Ralph Stagg
Heritage Gold NZ Limited
Nathan House
541 Parnell Road
Parnell

**RE: Appraisal Report
Heritage Gold NZ Limited
Proposed Fee Agreement for Mr Ralph Stagg**

Heritage Gold NZ Limited ("Heritage Gold" or "the Company") has requested an independent appraisal report by Higbee-Schäffler on the proposed fees for services to Mr Ralph Stagg, as an Executive Director, by Heritage Gold. Heritage Gold seeks an opinion in respect of the impact and fairness of the proposal on the shareholders of the Equity Securities of Heritage Gold not associated with Mr Ralph Stagg.

This report is provided as required under Listing Rules 6.2.2 and 9.2.5 of the New Zealand Exchange Limited (NZX) Listing Rules. Listing Rule 1.2.2(c) requires this report to state whether or not the terms and conditions of the proposed fee agreement - a grant of fully paid shares or a similarly valued cash component - are fair to shareholders.

The proposal must be approved by ordinary resolution of the Heritage Gold shareholders under NZX Listing Rule 9.2.1, as the Company can not enter into a "Material Transaction" of the intended amount to a "Related Party" such as Mr Stagg without shareholder approval. To assist shareholders in their consideration of the resolution in that regard, Listing Rule 9.2.5 requires the preparation and circulation of this appraisal report.

Further, the proposed issue of fully paid shares to Mr Stagg as part of the fee agreement also requires to be approved by ordinary resolution of the Heritage Gold shareholders pursuant to Listing Rule 7.3.1. Because the share issue will result in more than 50% of the shares being issued to a director of the Company (Mr Stagg is the proposed recipient of 100% of the shares in question), Listing Rule 6.2.2 also requires this appraisal report to be prepared and circulated, again to assist the shareholders in considering the resolution in that regard.

My appointment as being appropriately qualified and independent was approved by NZX on 17 June 2003.

This report will accompany the notice of the Annual Meeting of Shareholders of Heritage Gold to be held on 4 August 2003.

Information Relied Upon

In forming our opinion, we have been provided with and relied upon the following information:

- The Notice of Annual Meeting of Shareholders dated 25 June 2003, including the Explanatory Notes
- A copy of the contract for services to Mr Ralph Stagg from Heritage Gold dated 31 January 2003
- Heritage Gold's 2002 Annual Report
- Recent NZX traded share price data.

All information required for preparation of this report was provided by the Company. Higbee-Schäffler has not undertaken a due diligence investigation of Heritage Gold and has not audited in any way the financial information provided. We express no opinion as to the accuracy, completeness or reliability of the information provided to us and upon which we have relied.

With reference to the above information, we are of the view that we have obtained all information which we believe is desirable for the assessing the fairness of the proposed fee arrangement.

Summary of the Agreement

Heritage Gold has engaged Mr Stagg as an Executive Director and an independent contractor to provide fundraising and investor relations services on a part-time basis for a period of one calendar year – effective 1 January 2003 to 31 December 2003. The agreement entitles Mr Stagg to a fee for services of NZ\$2,000 per month (plus GST, if any). Upon shareholder approval, the agreement stipulates an additional amount be paid to Mr Stagg via an issue of 1,000,000 fully paid ordinary shares OR an additional cash component of NZ\$3,250 per month (plus GST, if any, and backdated to 1 January 2003).

The proposed shareholders resolution to approve the grant of fully paid shares or additional cash component is set out in the notice of annual meeting as items 4 and 5, with further details summarised in the Explanatory Notes. Heritage Gold seeks shareholder approval to issue 1,000,000 fully paid shares in lieu of cash to Mr Ralph Stagg as the preferred option.

Alternatively, if the shareholders do not approve the shares, then approval will be sought for the additional cash component of \$3,250 per month (plus GST, if any) referred to above. Should the shareholders not approve the issue of shares but approve the additional cash component, then the fee will be increased to \$5,250 per month (exclusive of GST) for the term of the agreement.

The fee, together with any issue of shares, will represent the total remuneration payable to Mr Stagg by the Company. The fully paid shares will be issued as soon as practicable following shareholder approval. The deemed price of the shares will be based on the average market price of ordinary shares of the Company in the 5 business days prior to the issue of the shares.

In addition, the shares can not be sold, transferred or dealt with until the accrual of 250,000 shares per quarter (in arrears) during the period of engagement. Once shares have been accrued, Mr Stagg would then be entitled to deal with or dispose of them as desired.

In the event of termination, Mr Staff will be entitled to retain a pro-rated number of shares as per an agreed formula based on the number of days services were provided. Any remaining shares will be redeemed by the Company for a total payment of 1 cent (NZ).

Assessment of Fairness

We have assessed the fairness of the agreement on behalf of the shareholders by comparing its terms with the requirements of the NZX Listing Rules as well as with the terms and conditions of other share plans of New Zealand companies. In addition, we have considered the total level of remuneration paid in the form of either total cash or a combination of cash and shares.

(It should be noted that, Mr Stagg, as a non-executive director of Heritage Gold, also received director's fees of \$7,500 for 2002 and has an interest in 20,000,000 ordinary shares and 600,000 share options as at 31 March 2002. Source: 2002 Annual Report. The agreement provides that unless the Board (and where applicable, the shareholders) agrees otherwise Mr Stagg will not be entitled to any further fees in respect of his position as a director beyond those outlined in the summary of the agreement. Any increase in the total remuneration payable to Mr Stagg during the term of the Agreement would therefore require the approval of the shareholders of the Company, in addition to the approval of the Board. It is assumed that his current interest in shares and options will remain, but these are outside of the context of this appraisal report.)

Firstly, the process for approval of this agreement is being conducted in line with the appropriate NZX Listing Rules and on my understanding of those requirements is fully compliant.

Secondly, based on our experience, the payment of shares in lieu of cash is a common method of remunerating for services in other New Zealand organisations, especially as a means of increasing concepts of ownership and long-term commitment/loyalty. However, this typically applies to employees of a company (rather than short-term, independent contractors) or owner-operator directors, particularly in start-up companies where cashflow levels may be insufficient to pay competitive levels of remuneration to attract and retain key talent over time.

The fact that shares are being used in the context of a short term services agreement seems to go against the general nature of the use of shares as a long-term incentive or retention device. However, in this case, the use of shares is justified as a viable option given Mr Stagg's longer-term commitment to the Company as a director, the inherent cashflow advantages to Heritage Gold and the fact that the shares are being issued at market price rather than at a discount (which would be the Company's cost). In addition, the Company is advantaged as Mr Stagg takes on additional risk with shares to maintain or increase their value.

Thirdly, in our opinion, the proposed agreement provides a very conservative level of compensation to Mr Stagg for his specialist advice and expertise. In calculating the amount of the proposed fees plus shares, the total value equates to \$62,000 per annum (\$2,000 per month plus 1,000,000 shares at today's price of \$0.038), or \$107.64 per hour (6 days consulting per month at 8 hours per day equals 576 hours per annum, divided by the total annual value of \$62,000).

In comparison, the total value of the fees in the cash-only scenario equates to \$63,000 per annum or \$109.45 per hour (assuming shareholders approve this option over shares).

As specialist remuneration professionals, we can assure shareholders that an hourly rate in the range of \$107 to \$109 is very conservative in comparison to other specialists within the professional services industry (including legal, human resources, IT and business advisory/management consultants).

Overall, the agreement stipulates a fee for services which we believe is fair to shareholders, from a competitive remuneration perspective as well as a means of preserving Company funds for operational requirements (on the basis that the Board agrees with the need for Mr Stagg's specialist fundraising and investor relations services).

In addition, several provisions of the agreement provide the necessary protection to the Company in the form of termination clauses, share restrictions, and buy-back conditions.

Conclusion

We have concluded that the terms of the agreement:

- Offer a justifiable compensation package design of shares in lieu of cash for a short-term contractor role (notwithstanding the more common rationale for using shares as a remuneration component for long-term commitment, ownership or retention),
- Provide a fair and reasonable payment for services to Mr Stagg, assuming a mix of cash and shares, while providing some benefit to Heritage Gold from a cashflow perspective,
- Is a very conservative cost to the Company for Mr Stagg's specialist fundraising and investor relations services when compared to the typical cost of other specialist consultants or independent contractors in the New Zealand market.

Based on the information provided, and in our opinion, the terms and conditions of the Plan are fair to those shareholders of Heritage Gold NZ Limited who are not associated with Mr Stagg.

Yours sincerely



Helene M. Higbee
Director