

## ANNUAL REPORT 2005





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# THE BOARD OF DIRECTORS



## Patrick James Dymock Elliott BCom, MBA

### Chairman and Director

Pat Elliott has over 30 years experience in resource financing, investment banking and industrial management. His experience includes equity and debt financing of resource projects, project evaluation, corporate planning and strategy, minerals marketing and operating management.

Mr. Elliott holds Bachelor of Commerce and Master of Business Administration (specialising in Mineral Economics) degrees. He is an Associate of Australian Society of Accountants.

He has previously been employed by Consolidated Goldfields Australia Limited, Morgan Grenfell Australia Limited and Natcorp Investments Limited.

Mr. Elliott is also a director of Magnesium International Limited (Deputy Chairman), Australia Oriental Minerals NL (Chairman), Argonaut Resources NL (Chairman), and Sundance Resources Limited.

Mr. Elliott has served as a Director on the Heritage Gold Board for 18 months being appointed Director on 20 November 2003 and Chairman from 1 June 2004.

## Peter Robert Atkinson BSc, FAusIMM

### Managing Director

Peter Atkinson has over 30 years of broad experience in the mining industry in Australasia, mainly on the boards of listed companies. He has been involved in negotiating and managing 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 agency 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 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 for 20 years, being appointed on 23 August 1985.

## David John Williams LLB, FAICD

### Non-executive (Independent) Director

David Williams is a commercial lawyer and partner of West Australian law firm Williams & Hughes. He has over 30 years experience advising on business, resources and corporate matters and is a past State Councillor of the Australian Institute of Company Directors.

Mr. Williams is also a director of Teck Cominco Australia Pty Ltd, Teck Cominco WA Pty Ltd and of public listed Sipa Resources Limited.

Mr. Williams has served as Director on the Heritage Gold Board for 20 years, being appointed on 23 August 1985.

## Geoffrey Guild Hill BEcon (Syd); MBA (NSW); ASIA; FCPA; FAICD

### Non-executive Director

Geoffrey Hill is a merchant banker and is currently the joint managing director of Pitt Capital Partners Limited. Career highlights include appointment to the board of Morgan Grenfell and Co Plc, the restructuring of Bell Resources, the facilitation of a merger between

GJ Coles Limited and Myers Limited, the sale of National Brewing Holdings to Lion Nathan and the sale of the Reg Grundy group to Pearson Television.

Professional directorships include Chairmanship of Pacific Strategic Investments Limited and Directorships of Huntley Investment Company Limited, Enterprise Energy NL and Hills Industries Limited.

Mr. Hill has served as a Director of Heritage Gold for nearly 6 years being appointed on 28 July 1999.

## James Murray McKee BA (Hons)

### Non-executive (Independent) Director

Murray McKee practices as a public policy advocate and risk management consultant in Wellington. He previously held operations management positions with a US-based 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 9 years, being appointed a Director on 16 March 1996.

## Ralph Nicholas Stagg

### Executive Director

Ralph Stagg has over 30 years experience in economic geology including project generation, exploration planning, managerial experience in listed and unlisted exploration and mining companies, preparation of ore reserve estimates and technical studies.

Mr. Stagg has worked on a wide range of mineral projects in several countries. He is currently also a director of So Co Limited an unlisted public company with investments in Heritage Gold NZ Ltd and Broken Hill Cobalt Ltd, an exploration company with interests in cobalt, base metals and gold.

Mr. Stagg was appointed as a Director of Heritage Gold on 30 November 1999 and has served on the Board for over 5 years.

## Matthew Geoffrey Hill MBA

### Alternate Director for Geoffrey Hill

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 consulting for companies seeking to raise capital including Medical Monitors and Aspermont Limited based in Sydney.

Mr. Hill was appointed as Alternate Director for Geoffrey Hill on 1 December 1999 and has served for over 5 years.

# DIRECTORS' REPORT

For the year ended 31 March 2005

Over the past year Heritage has accelerated progress toward the development of its gold projects in the Waihi gold district. The Talisman mine within the Karangahake epithermal system, has been the focus of two successful gold discovery programmes that have delineated a resource of over 200,000 ounces of gold within 15km of Newmont's Waihi mine.

The Waihi gold district is New Zealand's most prolific gold producer and has yielded a total of over 8Moz of gold and 49Moz of silver to date. Heritage's Karangahake area has been the second largest producer in the district with 1Moz of gold and 3Moz of silver recorded and with strong potential for more.

## Karangahake Project, NZ (100%)

The Karangahake epithermal system is comprised of gold-mineralised quartz veins extending over four kilometres of strike and is held with the contiguous Talisman, Dominion Knoll, and Rahu exploration permits.

## The Talisman Mine

Most of Karangahake's production has come from the Talisman mine. Rehabilitation work has continued during the year opening new areas to access and maintaining ventilation and services throughout the No 8. Level in support of drilling.

Last year we reported resources of 109,600oz gold and 438,400oz silver had been defined at the Talisman mine. The second phase programme at Talisman was completed in April 2005. The JORC compliant resource was upgraded to 205,000oz gold and 800,000oz silver, based on extensive underground drilling and additional channel sampling.

Planning for the third phase is underway with the aim of increasing the resource and the early recovery of metallurgical bulk samples. The Company intends to widen the No. 8 Level drive to create access for modern equipment to remove the metallurgical samples from ore

shoots within the current resource. This work will also include excavation of drilling positions at regular intervals on the No. 8 Level to enable systematic drilling of the ore shoots and expand the resource base.

Heritage's primary objective is to define sufficient gold resources for an economic mining operation. Based on our exploration success to date and our understanding of the Karangahake system, Heritage considers there is potential to yield sufficient ore for a 20 year mine life, which would justify establishing a treatment plant near Karangahake.

Baseline environmental studies have been underway since last year to acquire data in support of any applications for resource consents for development. These studies are being coordinated by environmental consultants URS New Zealand Ltd. This firm has been involved with environmental studies for most major gold mine developments in New Zealand over the last 20 years and has strong technical capabilities.

## Dominion Knoll

Heritage received encouraging results from the Dominion Knoll permit, immediately to the south and west of the Talisman mine during the year. Several major quartz veins parallel to the veins in the Talisman mine (or strike and depth extension of them) were outlined by geochemical and geophysical signatures. These are drill-ready targets and offer significant discovery potential for gold resources accessible from extensions to the existing levels of the Talisman mine.

## Rahu

Several lines of evidence point to the Rahu area immediately to the north of the Ohinemuri River and on strike with Talisman as having potential equal to, or better than Talisman. Exploration has defined a 2km zone of coincident geochemical, resistivity and ground magnetic anomalies, an established signature of epithermal gold prospectivity throughout the Waihi gold district.

Reverse circulation drilling previously encountered anomalous gold values in all holes of an eight-hole programme, with best assays of 1.0m at 7.80g/t gold and 198.0g/t silver and widespread lower tenor gold mineralisation. The holes were drilled to depths of less than 50m. The results confirm Heritage's geological model for the property which suggests that gold and silver grades should improve at depth. The Rahu block is believed to have been downthrown by 300m supporting the potential for Talisman-style grades to be intersected in deeper drilling beneath these strong indications.

Heritage's drill discovery of gold at Rahu strengthens our view of the overall extent and potential of the Karangahake system. Additional drilling is proposed for the coming year.

Further permit applications have been lodged over Rahu to ensure continuity of title for the Company's development of the Karangahake project. Mining permits have also been lodged over Talisman and Rahu, and a consolidated mining permit application has been lodged for the entire Karangahake project area.



Rahu Ridge in foreground and Mt Karangahake in centre distance



# DIRECTORS' REPORT

For the year ended 31 March 2005

## Other Waihi Gold Projects, NZ (100%)

Heritage and Newmont Mining Corporation are the two dominant holders of prospective areas in the Waihi gold district. Heritage holds a large area adjacent to the northern boundary of the Martha mine, with the Waihi North and Waitete exploration permits. The hydrothermal alteration zone associated with the Martha gold deposit extends into the Waihi North permit which also contains other large areas of hydrothermal alteration and mineralisation not previously tested.



Exploration holes drilled by Heritage near the Martha mine boundary in 2003 encountered strong alteration and minerals similar to those found in the Martha ore body. The holes were designed to test for quartz veining interpreted from geophysical surveys. The results suggest the holes passed over the top of the intended targets. Further geophysical surveys are planned to give better definition ahead of further drilling.

At Golden Valley, east of Newmont's Favona discovery, Heritage has located beneath barren cover rocks a number of magnetic features interpreted as zones of hydrothermal alteration. Geochemical sampling, ground magnetic surveying and geological mapping have defined several alteration zones that are now ready for follow up exploration under a recently applied for exploration permit.

At Onemana, some 30km north east of Waihi, earlier exploration by Heritage encountered high-grade mineralisation at relatively shallow depths, beneath a hydrothermal eruption breccia.

Heritage has the largest area of applications and granted permits in the Waihi district and they lie within 18km of Newmont's plant and mine.

In our view without additional gold ore, Newmont's Martha open pit mine may close around March 2006 and the Favona underground mine currently being developed will not be in production until February 2007. Favona's production is expected to be about 350,000 tonnes annually, which is well below the plant's capacity.



There is potential for Heritage to achieve early production if suitable toll treating or some other arrangement can be negotiated with Newmont at Waihi. Alternatively, Heritage is in a position to continue as explorer in its own right, evaluating the lesser explored areas around the Waihi Processing Plant, building JORC reserves at Karangahake, and progressively assessing development options as it moves forward.

## Cobalt Project, Australia (33%)

Broken Hill Cobalt Limited (BHC) owns the Thackaringa Cobalt project near Broken Hill in New South Wales. During the year, BHC considered various development and funding options for the Thackaringa cobalt project. BHC also holds several exploration licences in New South Wales in joint venture with other parties, where exploration mainly for gold and base metals is ongoing. Heritage has a 33% equity in BHC and manages the Thackaringa cobalt project.

## Compensation

On 3 June 2005 Heritage reported it had reached a settlement with the Crown over its claim for compensation for expenditure incurred on projects sterilised by a 1997 amendment to the NZ Crown Minerals Act. Under the settlement agreement the Crown denied any liability to Heritage and paid the Company \$220,000 in full and final settlement of all outstanding claims.

## Corporate Governance

The Company has reviewed its corporate governance procedures and these are reported in the notes to the Annual Report.

## Website

With the increase in activity, Heritage is committing additional resources to improved communications. The Company's website is being upgraded over the coming month.

## Stock Exchange Listing

Shares in the Company continue to be quoted on the New Zealand Stock Exchange (NZX), the Australian Stock Exchange, and the Stock Exchange of Newcastle (NSX). The Company's warrants are currently quoted on the NZX and NSX.

The financial report was authorised for issue by the Board on 7th June 2005.

Peter Atkinson  
Managing Director  
7th June 2005



## SCHEDULE OF HERITAGE GOLD TENEMENTS

### Granted Exploration Permits

40 346 Waihi North  
40 518 Onemana  
40 521 Dominion Knoll  
40 644 Waitete

### Mining Permit Applications

41 874 Rahu  
41 889 Talisman  
41 890 Talisman Consolidated

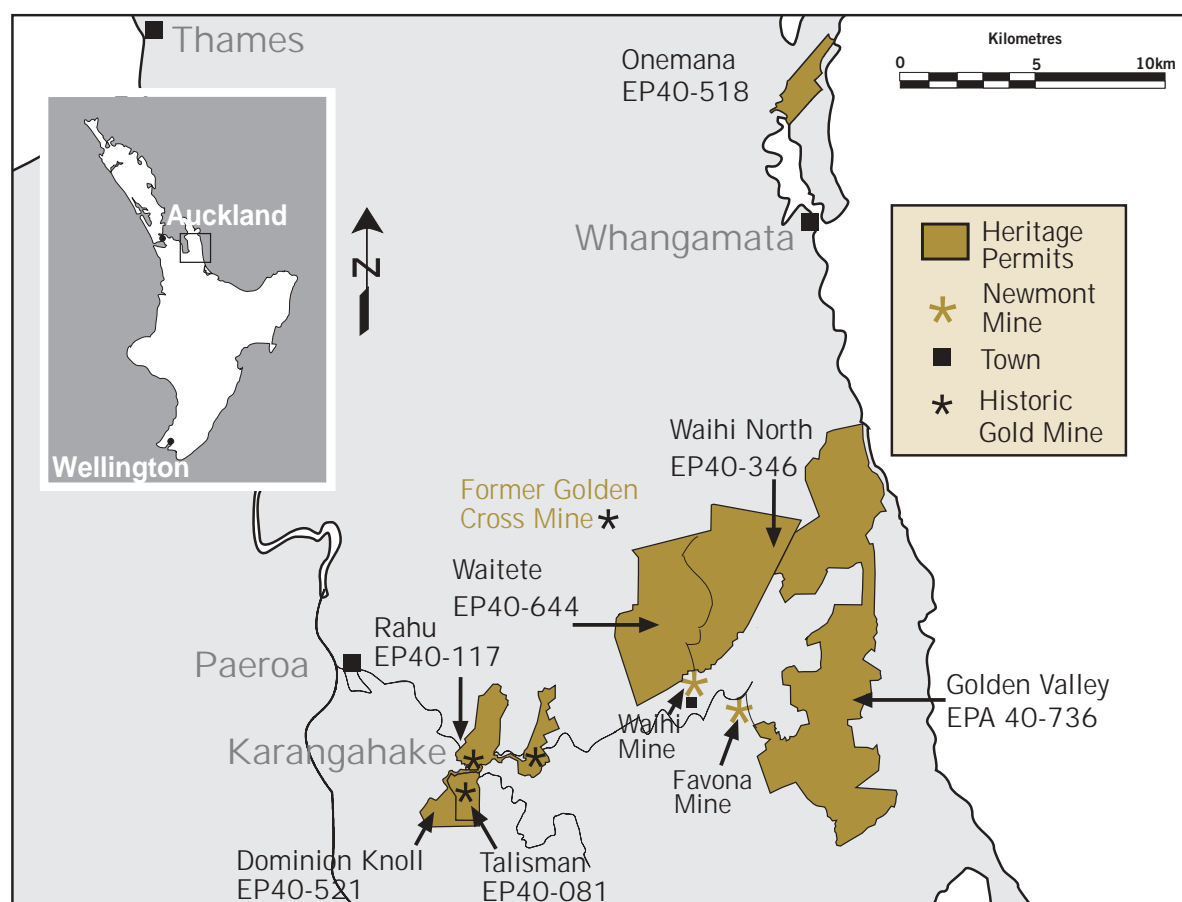
### Exploration Permit Appraisal Extension Application

40 081 Talisman  
40 117 Rahu

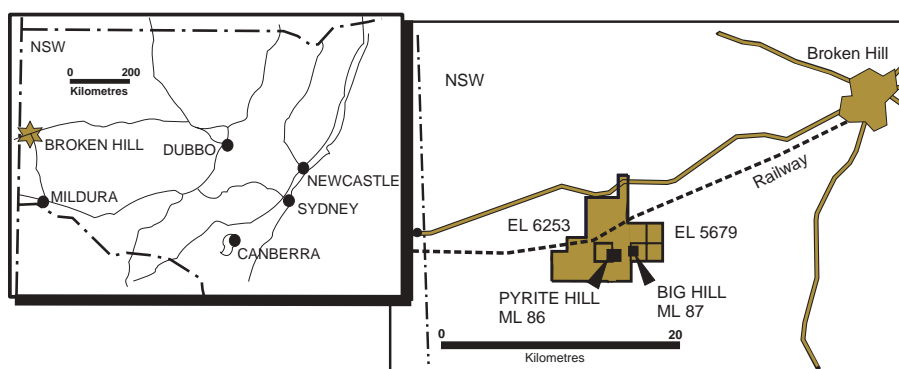
### Exploration Permit Application

40 736 Golden Valley

## GOLD PROJECTS – COROMANDEL NEW ZEALAND



## THACKARINGA COBALT PROJECT – AUSTRALIA



## SCHEDULE OF HERITAGE GOLD TENEMENTS



## AUDIT REPORT

### TO THE SHAREHOLDERS OF HERITAGE GOLD NZ LIMITED

We have audited the financial statements on pages 7 to 9. The financial statements provide information about the past financial performance of the Company and Group and their financial position as at 31 March 2005. This information is stated in accordance with the accounting policies set out on pages 10 and 14.

#### 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 2005 and of the results of operations and cash flows for the year ended 31 March 2005.

#### AUDITORS' RESPONSIBILITIES

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

#### BASIS OF OPINION

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

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

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

Other than in our capacity as auditors we 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 7 to 9:
  - 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 2005 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 7 June 2005 and our unqualified opinion is expressed as at that date.



CARLTON - DFK  
AUCKLAND



## STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 March 2005

	Note	Consolidated 31-Mar-05 \$	Parent 31-Mar-05 \$	Consolidated 31-Mar-04 \$	Parent 31-Mar-04 \$
<b>REVENUE</b>					
Other income				1,000	1,000
Interest received		38,268	38,268	49,092	49,092
Profit on sale of shares		2,745	492	44,170	9,853
Bad debts recovered			2,253		34,317
Total operating revenues		41,013	41,013	94,262	94,262
<b>EXPENDITURE</b>					
Depreciation – office equipment and fittings		4,827	4,827	4,041	4,041
Remuneration of directors	2	15,000	15,000	25,500	25,500
Rent and leasing		16,373	16,373	16,266	16,266
Interest expense		403	403	543	543
Audit fees - auditing financial statements		8,860	8,860	8,650	8,650
Operating expenses		327,076	327,076	388,919	388,919
Foreign exchange loss		37	37	610	610
Loss on sale fixed asset				602	602
Total expenditure		372,576	372,576	445,131	445,131
Operating surplus/(deficit)		(331,563)	(331,563)	(350,869)	(350,869)
Share of retained surplus/(deficit) of associated company		(33,626)		(3,793)	
Net surplus/(deficit)		(365,189)	(331,563)	(354,662)	(350,869)
Add accumulated deficit brought forward		(5,730,931)	(5,617,533)	(5,376,269)	(5,266,664)
Accumulated deficit at end of year		(6,096,120)	(5,949,096)	(5,730,931)	(5,617,533)

## STATEMENT OF MOVEMENT IN EQUITY

For the year ended 31 March 2005

	Note	Consolidated 31-Mar-05 \$	Parent 31-Mar-05 \$	Consolidated 31-Mar-04 \$	Parent 31-Mar-04 \$
Equity at beginning of year		7,343,692	7,434,748	7,209,422	7,142,500
Net surplus/(deficit) for the year		(365,189)	(331,563)	(354,662)	(350,869)
Increase (decrease) in revaluation reserve		18,244	585	(152,510)	1,675
Total recognised revenues and expenses		(346,945)	(330,978)	(507,172)	(349,194)
Contributions from owners:					
Ordinary shares issued		2,106,570	2,106,570	415,000	415,000
Warrants issued				226,442	226,442
		2,106,570	2,106,570	641,442	641,442
Equity at end of year		9,103,317	9,210,340	7,343,692	7,434,748

The accompanying notes form part of these financial statements

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2005

	Note	Consolidated 31-Mar-05 \$	Parent 31-Mar-05 \$	Consolidated 31-Mar-04 \$	Parent 31-Mar-04 \$
<b>EQUITY</b>					
Shareholders' equity	13	9,103,317	9,210,340	7,343,692	7,434,748
Total Shareholders' equity		9,103,317	9,210,340	7,343,692	7,434,748
Represented by:					
<b>NON CURRENT ASSETS</b>					
Fixed assets	6	46,179	46,179	52,199	52,199
Share investments	3	53,688	13,688	35,445	13,103
Investment in associate	12	1,032,977	1,180,000	1,066,602	1,180,000
Total non current assets		1,132,844	1,239,867	1,154,246	1,245,302
<b>INTANGIBLE ASSETS</b>					
Deferred expenditure:					
Capitalised prospecting expenditure	8	7,397,449	7,397,449	5,711,292	5,711,292
Total intangible assets		7,397,449	7,397,449	5,711,292	5,711,292
<b>CURRENT ASSETS</b>					
Cash		6,945	6,945	5,223	5,223
Short term deposits		780,399	780,399	649,783	649,783
Intercompany loan		73,108	73,108		
Debtors	7	82,480	82,480	31,345	31,345
Accrued income		1,991	1,991	741	741
Prepayments				838	838
Total current assets		944,923	944,923	687,930	687,930
Total assets		9,475,216	9,582,239	7,553,468	7,644,524
<b>LESS CURRENT LIABILITIES</b>					
Creditors	7	370,798	370,798	207,206	207,206
Hire purchase		1,101	1,101	2,570	2,570
Total current liabilities		371,899	371,899	209,776	209,776
		9,103,317	9,210,340	7,343,692	7,434,748

For and on behalf of the Board:  
DIRECTOR



P R Atkinson  
Dated: 7 June 2005

DIRECTOR



J M McKee  
Dated: 7 June 2005

The accompanying notes form part of these financial statements

# STATEMENT OF CASHFLOWS

For the year ended 31 March 2005

	Note	Parent and Consolidated 31-Mar-05 \$	Parent and Consolidated 31-Mar-04 \$
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from:			
Receipts from customers			1,000
Interest received		37,016	46,284
		37,016	47,284
Cash was disbursed to:			
Payments to suppliers		(327,941)	(330,187)
Payments to employees		(60,964)	(79,697)
Interest paid		(408)	(543)
		(389,313)	(410,427)
Net cash outflows from operating activities	14	(352,297)	(363,143)
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>			
Cash was provided from:			
Proceeds from sale of fixed assets			500
Proceeds from sale of shares		2,745	
Proceeds from sale of equity investments		10,625	46,161
		13,370	46,661
Cash was applied to:			
Prospecting expenditure		(1,556,920)	(702,324)
Purchase of fixed assets		(7,635)	(52,472)
Equity Investments		(69,285)	(1,115)
		(1,633,840)	(755,911)
Net cash outflows from investing activities		(1,620,470)	(709,250)
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>			
Cash was provided from:			
Issues of shares		2,106,570	360,000
Warrant payments			226,442
		2,106,570	586,442
Cash was applied to:			
Hire purchase		(1,464)	(1,981)
		(1,464)	(1,981)
Net cash inflows from financing activities		2,105,106	584,461
Net increase /(decrease) in cash held		132,339	(487,932)
Exchange gain/(loss)		(1)	610
Cash at start of year		655,006	1,142,328
Cash at end of year		787,344	655,006
<b>CASH COMPRISES:</b>			
Cash		6,945	5,223
Short term deposits		780,399	649,783
		787,344	655,006

The accompanying notes form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 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 Stock Exchange of Newcastle (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 subsidiary 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.

#### Fixed Assets

Fixed assets are 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	10-18.6%
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 recognized in the statement of financial position include cash balances, receivables, payables, investments in and loans to others and borrowing.

Financial instruments are stated at market value. Any gain or loss is recognized 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

The investment in associated company, Broken Hill Cobalt Limited was equity accounted for the 6 month period to 31 December 2004 (previous year - 9 months to 31 March). The effect of this change is not considered to be material. There were no other changes in accounting policies. All other policies have been applied on bases consistent with those used in previous years.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 2. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2005 \$	2004 \$
P J D Elliott	7,500	
P R Atkinson	90,000*	90,000*
D J Williams		
J M McKee	7,500	7,500
G G Hill		
R N Stagg		18,000
M G Hill (alternate)		

\*of which \$11,400, (2004: \$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.

## 3. SHARE INVESTMENTS

	Consolidated 2005	Parent 2005	Consolidated 2004	Parent 2004
Investment in listed companies	44,589	4,589	26,346	4,004
Investment in other companies	9,099	9,099	9,099	9,099
Total share investments	\$53,688	\$13,688	\$35,445	\$13,103

Listed shares have been valued at market value.

Coromandel Gold Limited, the company's subsidiary, sold 2,342,487 shares in Training Solutions Limited (formerly E-Cademy Holdings Limited) and realised a gain on the sale of \$2,253. (See Note 7 also).

## 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 \$7,536,946 (2004:\$5,850,788). There are non-mining taxation losses of \$5,764,698 (2004:\$5,448,715) 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 (2004:NIL).

## 6. FIXED ASSETS

Fixed Assets	Consolidated & Parent 2005			Consolidated & Parent 2004		
	At Cost	Accumulated Depreciation	Book Value	At Cost	Accumulated Depreciation	Book Value
Office equipment & fittings	19,442	10,004	9,438	32,409	18,102	14,307
Field equipment	68,962	32,221	36,741	43,651	5,759	37,892
Total	\$88,404	\$42,225	\$46,179	\$76,060	\$23,861	\$52,199

## 7. RELATED PARTY TRANSACTIONS

Payments for consulting services to companies in which Directors have a substantial interest amounted to \$67,086 (2004:\$1,132) (refer also to Note 2.) Project Geoscience provided technical services totalling \$59,233 and Williams & Hughes provided legal services totalling \$7,853, both at normal commercial rates.

At balance date, debtors included \$5,004 (2004:\$80) owing by companies in which directors had an interest. At balance date, creditors included \$28,231 (2004:\$448) owing to companies in which directors had an interest.

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

Coromandel Gold repaid part of the intercompany loan from the proceeds of sale of investment shares. As a result, the parent company was able to reverse part of the provision made previously against this loan. (See also Note 3).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 8. DEFERRED EXPENDITURE

	Consolidated & Parent	
	2005	2004
Total prospecting cost and mining tenements	7,397,449	5,711,292
Less prospects written-off during the year	Nil	Nil
Total	\$7,397,449	\$5,711,292

The net value of prospecting costs is supported by an independent valuation of the Company's tenements, prepared by Mr. Richard Barker, dated 24 May 2004. The ultimate value of this asset is dependent on further development and successful commercial extraction and realisation of the respective areas.

### Compensation Claim

The Company is claiming compensation from the Crown in respect of expenditure on properties excluded from mining by an amendment to the Crown Minerals Act 1991 and written off. Costs incurred and expensed during the year in respect of the claim amounted to \$26,938 (2004:\$30,452).

## 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 6.76% as at 31 March 2005, 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. COMMITMENTS

### Operating lease commitments

Lease commitments under non-cancellable operating leases	Consolidated & Parent	
	2005	2004
Not later than one year	24,820	9,045
Later than one year but not later than two years	7,907	1,100
	\$32,727	\$10,145

## 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.

## 12. ASSOCIATED COMPANIES

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 30 June 2004 and unaudited interim financial information to 31 December 2004.

### Investments in associated companies

	Consolidated	
	2005	2004
Share of associate's surplus/(deficit)	(33,625)	(3,793)
Income tax	Nil	Nil
Share of recognised revenue and expenses	(33,625)	(3,793)
Shares at cost	1,180,000	1,180,000
Share of surplus/(deficit)	(113,398)	(109,605)
Opening balance	1,066,602	1,070,395
Share of recognised revenue and expenses	(33,625)	(3,793)
Balance at end of year	\$1,032,977	\$1,066,602

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 13. EQUITY & RESERVES

### Share revaluation reserve

	Consolidated 2005	Parent 2005	Consolidated 2004	Parent 2004
Opening balance	22,342		176,527	
Revaluation of listed share investments	19,919	2,261	(154,185)	
Closing balance	\$42,261	\$2,261	\$22,342	Nil

### Warrants

	Consolidated & Parent	
	2005	2004
Opening balance	578,371	351,929
Warrants issued		226,442
Closing balance	\$578,371	\$578,371

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. Further payment of 7 cents each to convert 22,676,680 Warrants to fully paid ordinary shares is due within 5 years of the issue date, ie 26 June 2007.

### Share capital

	2005 Number	Consolidated & Parent		2004
		2005 \$	2004 Number	2004 \$
Opening balance	82,009,400	12,177,350	73,809,400	11,762,350
Shares issued	26,000,000	2,106,570	8,200,000	415,000
Closing balance	108,009,400	\$14,283,920	82,009,400	\$12,177,350

On 31 August 2004 Heritage issued 12,000,000 Ordinary Fully Paid Shares at an issue price of AU\$0.08 each and on 29 December 2004 Heritage issued a further 14,000,000 Ordinary Full Paid Shares at an issue price of AU\$0.08 each. The shares were issued to sophisticated and habitual investors and raised \$2,106,570 net of expenses for exploration work in the Talisman area and for working capital.

### Options

On 28 August 2000 shareholders approved an employee share option plan. Under the plan the pool of 6,000,000 options were not quoted or tradeable and were issued at the discretion of the directors for no consideration. The options had exercise dates from 1 July 2001 to 30 June 2004 and exercise prices of 12 to 16 cents each. All tranches have expired with no options having been exercised.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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

	2005	2004
Net deficit after taxation and before including share of retained deficit of associates	(331,563)	(350,869)
Add non-cash items:		
Depreciation	4,827	4,041
Decrease/(increase) in share capital		(55,000)
Loss/(gain) on sale of share investments		(1,317)
Decrease/(increase) in share valuation		65,610
Exchange loss	37	610
	4,864	13,944
Add/(less) movement in working capital:		
Decrease/(increase) in debtors	(3,966)	159
Increase/(decrease) in creditors	26,013	(6,383)
Decrease/(increase) in prepayments	838	(838)
Decrease/(increase) in GST	(48,483)	(19,156)
	(25,598)	(26,218)
Net cashflows from operating activities	(352,297)	(363,143)

## 15. CONTINGENT LIABILITIES

	Consolidated & Parent	
	2005	2004
Contingent Liabilities	Nil	Nil

## 16. EARNINGS PER SHARE

	2005	2004
Earnings/(deficit) per share	(0.38) cents	(0.46) 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. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 3 June 2005 Heritage reported it had reached a settlement with the Crown in relation to its claim for compensation. Under the terms of the settlement, the Crown denied any liability to Heritage and made a payment of NZ\$220,000 to Heritage in full and final settlement of all claims (Note 8).



## ADDITIONAL INFORMATION

### DIRECTORS' INFORMATION

Name of Director	Ordinary share in which Director has a relevant interest 31 March 2005
G G Hill	20,393,400
P R Atkinson	8,301,560
R N Stagg	1,000,000
D J Williams	62,514
J M McKee	nil
P J Elliott	nil
M G Hill (alternate)	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 2005.

### DIRECTORS' DISCLOSURES OF INTERESTS

The following general disclosures of interests were received in relation to the year ended 31 March 2005.

Name of Director	Entity	Status
P R Atkinson	Prophecy Mining Limited	Director and Shareholder
	Up Minister Limited	Director and Shareholder
	Broken Hill Cobalt Limited	Director
	Coromandel Gold Limited	Director
R N Stagg	So Co Limited	Director
	Project Geoscience Pty Limited	Director
D J Williams	Prophecy Mining Limited	Director and Shareholder
	Williams & Hughes	Partner
	Sipa Resources Ltd	Director
	Teck Cominco Australia Pty	Director
	Teck Cominco WA Pty Ltd	Director
G G Hill	So Co Limited	Director
	Geoffrey Hill & Associates Pty Limited	Director and Shareholder
	Pitt Capital Partners Limited	Director
	Pacific Strategic Investments Ltd	Chairman
	Hills Industries Ltd	Director
	Huntly Investment Company Ltd	Director
	Enterprise Energy NL	Director
J M McKee	Broad Horizons Limited	Director
P J Elliott	Magnesium International Ltd	Deputy Chairman
	Australia Oriental Minerals NL	Chairman
	Argonaut Resources NL	Chairman
M G Hill	Waterfront Group Limited	Director

### CHANGES IN DIRECTORS

No changes in Directors during the year ended 31 March 2005.

### SHAREHOLDING STATISTICS AS AT 8 JUNE 2005

Name	Shares	%	Name	Shares	%
Southern Cobalt NL	20,000,000	18.52	Warwick M Harvey	1,335,200	1.24
Peter R Atkinson	8,301,560	7.69	Matthew J Barnett	1,250,000	1.16
Bestfield Company	7,200,000	6.67	Basil C McGirr	1,186,950	1.10
RBC Global Services Australia Nominee Pty Ltd	6,250,000	5.79	Ralph N Stagg	1,000,000	0.93
Prophecy Mining Ltd	4,000,000	3.70	Bluestar Management Pty Ltd	1,000,000	0.93
Clodene Pty Ltd	3,000,000	2.78	Relativity Pty Ltd	949,000	0.88
Baron Nominees Pty Ltd	2,200,000	2.04	Clodene Pty Ltd	925,000	0.86
Merrill Lynch (Australia) Nominees Ltd	2,076,325	1.92	First NZ Capital Custodians Ltd	915,725	0.85
Troyward Pty Ltd	2,000,000	1.85	Basil C McGirr	676,967	0.63
ANZ Nominees Ltd	1,863,000	1.72	<b>TOTAL FOR TOP 20</b>	<b>67,729,727</b>	<b>62.71</b>
J P Morgan Nominees Australia Ltd	1,600,000	1.48	<b>TOTAL SHARES</b>	<b>108,009,400</b>	<b>100.00</b>

## ADDITIONAL INFORMATION

### DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Holders	Shares	%
1 - 1,000	30	23,978	0.02
1,001 - 5,000	251	870,364	0.81
5,001 - 10,000	208	1,877,695	1.74
10,001 - 100,000	416	15,802,248	14.63
100,001 and over	112	89,435,115	82.80
Totals	1,017	108,009,400	100.00

### SUBSTANTIAL SECURITY HOLDERS

As at 8 June 2005 the following holders have given notice, in accordance with the Securities Amendment Act 1998, that they are substantial security holders in the Company. The number of voting securities shown below is as last advised to the Company.

Geoffrey Guild Hill	20,393,400	Registered Holder and Non-Beneficial Owner
So Co Limited	20,000,000	Registered Holder and Beneficial Owner
Peter Robert Atkinson	8,301,560	Registered Holder and Beneficial Owner
Prophecy Mining Limited	4,000,000	Registered Holder and Beneficial Owner

Total voting securities on issue as at 8 June 2005: 108,009,400

### WARRANT HOLDING STATISTICS AS AT 8 JUNE 2005

Name	Warrants	%	Name	Warrants	%
John Mowbray	4,596,000	20.28	Frederick K Stone & Florence V Stone	366,666	1.62
Stuart M Mowbray & Richard F Oldham	3,427,600	15.12	John Mowbray	337,333	1.49
Forsyth Barr Custodians Ltd	2,000,000	8.83	ASB Nominees Ltd	300,000	1.32
Warwick M Harvey	1,400,000	6.18	ASB Nominees Ltd	274,000	1.21
I E Properties Pty Ltd	1,248,000	5.51	Ross Asset Management Ltd	250,000	1.10
Relativity Pty Ltd	632,666	2.79	Ianaki Semerdziev	248,750	1.10
Ralph Stagg	500,255	2.21	Te Oneroa Ltd	234,131	1.03
Peter W Hall	500,000	2.21	First NZ Capital Custodians Ltd	201,993	0.89
Campbell Developments Ltd	499,999	2.21	Jennifer A Mather	200,000	0.88
Basil C McGirr	476,082	2.10	<b>TOTAL FOR TOP 20</b>	<b>18,143,475</b>	<b>80.07</b>
Graeme H Gowland	450,000	1.99	<b>TOTAL WARRANTS</b>	<b>22,662,680</b>	<b>100.00</b>

### DISTRIBUTION OF WARRANT HOLDINGS

Size of Holding	Holders	Warrants	%
1 - 1,000			
1,001 - 5,000	52	132,014	0.58
5,001 - 10,000	21	152,058	0.67
10,001 - 100,000	68	2,777,308	12.25
100,001 and over	30	19,601,300	86.50
Totals	171	22,662,680	100.00

## ADDITIONAL INFORMATION

### CORPORATE GOVERNANCE

During the 2004/2005 financial year (the "Reporting Period") Heritage Gold NZ Ltd has continued to operate in accordance with systems of control and accountability which the Company has previously adopted as the basis for the administration of corporate governance. This report sets out the key corporate governance practices of the Company during the Reporting Period, providing disclosure to the extent recommended by the ASX, in accordance with its "Principles of Good Corporate Governance and Best Practice Recommendations" (the "ASX Guidelines"), and to the extent required by the NZX, in accordance with its "Corporate Governance Best Practice Code" (the "NZX Code").

Commensurate with the spirit of the ASX Guidelines and the NZX Code, the Company has followed each of the recommendations to the extent the Board considered that their implementation was practicable and likely to genuinely improve the Company's internal processes and accountability to external stakeholders. To the extent that the Company has adopted a practice that differs from the recommendations, disclosure is made of the Company's practice, and how that practice embraces the ASX and/or NZX principles.

Additional information about the Company's corporate governance practices, including disclosure of the various charters, policies and procedures which form the Company's corporate governance framework is set out on the company's website at [www.heritage.co.nz](http://www.heritage.co.nz)

### EXPLANATIONS FOR DEPARTURES FROM ASX GUIDELINES

In June 2004, the Company adopted a comprehensive framework for corporate governance, including charters, policies and procedures as recommended by the ASX. As a result, departures from the ASX recommendations were minimal during the Reporting Period. These departures are as follows:

#### Principle 2 Recommendation 2.1

##### Notification of Departure:

The composition of the Board has not altered since the publication of the Company's 2004 Annual Report. As such, the Board continues to comprise four directors which the Company considers are not independent (Messrs Atkinson, Hill, Stagg and Elliott) and two directors who are considered to be 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 considers that appropriate safeguards are in place, which negate the need for a majority of independent directors, in particular where the financial affairs of the Company are concerned. In June 2004, Mr. Elliott, a non-executive director, replaced the Managing Director as Chairman. In addition, the Audit Committee includes both of the independent directors, who have the opportunity to meet separately with the external auditor in respect of the financial reports. Both of the independent directors are also actively involved in monitoring, and making recommendations for improvement of, the Company's internal controls. Finally, two independent directors are sufficient to constitute a quorum.

#### Principle 2 Recommendation 2.2, 2.3

##### Notification of Departure:

The Chairman, Mr. Elliott, is not considered to be independent.

##### Explanation for Departure:

The Company appointed Mr. Elliott as Chairman on 1 June 2004, to replace the Managing Director as Chairman. The Board considered Mr. Elliott's non-executive status a key factor in appointing him to the role. While Mr. Elliott is not considered to be independent, the

Board is of the view that this does not impede his ability to act as an impartial and independent Chairman. In any event, the Board considers that it has taken a conservative approach in determining Mr. Elliott to be non-independent. The Board notes that only the grant of a substantial number of options (none of which have yet been exercised) as consideration for some consultancy services prevent Mr. Elliott from being considered independent. Mr. Elliott has no other relationships with the Company which affect his ability to exercise independent judgment. In this regard, the Board considers it highly unlikely that Mr. Elliott's ability to perform the role of Chairman would be impeded in any way.

#### Principle 4 Recommendation 4.3

##### Notification of Departure:

The Audit Committee comprises the two independent directors (Messrs McKee and Williams) and Mr Stagg. The composition of the committee did not comply with B.P.R 4.3 in that not all of the members were non-executive (Mr. Stagg is an executive).

##### Explanation for Departure:

Although there was not strict compliance with B.P.R 4.3, the board considers that the existing Audit Committee has the best and most suitable composition to efficiently carry out its functions and ensure integrity in the financial reports. Mr. Stagg is 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 have the opportunity to meet separately with the external auditor to the extent this is considered necessary.

### EXPLANATIONS FOR DEPARTURES FROM NZX CODE

The NZX Corporate Governance Listing Rule amendments came into effect on 29 October 2003. From 29 October 2004 the changes implemented by these amendments have been in full force, including the requirement to disclose any material differences between the corporate governance principles adopted by Heritage and the 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

##### Notification of Departure:

The Remuneration Committee has adopted a charter in respect of the method by which directors' 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 of Departure:

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

#### NZX Code Requirement 2.7

##### 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 of Departure:

Under the Charter adopted by the Board the Remuneration Committee meets twice a year to review the Company's executive compensation programme. Director remuneration has been maintained at existing levels over the past year and will be reviewed in the current year with

## ADDITIONAL INFORMATION

into the next phase of its operations. 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**

#### **Notification of Departure:**

The Audit Committee comprises 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 is an executive).

#### **Explanation of Departure:**

Although there was not strict compliance with principle 3.1 of the NZX Code, the Board considers that the existing Audit Committee has the best and most suitable composition to effectively carry out its functions and ensure integrity in the financial reports. Mr. Stagg is 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 have the opportunity to meet separately with the external auditor to the extent that this is considered necessary.

### **NZX Code Requirement 3.10**

#### **Notification of Departure:**

The Nomination Committee comprises the full Board. The composition of the committee did not comply with principle 3.10 of the NZX Code in that the majority of the committee are not Independent Directors.

#### **Explanation of Departure:**

The Board members decided that no efficiencies would be achieved by establishing a separate Nomination Committee. Procedures for the appointment and removal of directors are governed by the Nomination Committee Charter adopted by the Board.

Except as disclosed above the Company adheres to the NZX Code.

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

These details are contained in the Board of Directors' Report on page 1.

### **IDENTIFICATION OF INDEPENDENT DIRECTORS**

#### **ASX requirements**

In considering independence of directors, the Board refers to the criteria for independence as recommended by the ASX. 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.

The Board considers that its independent directors are James McKee and David Williams.

Mr. McKee is independent within the ASX criteria. The Board also considers Mr. Williams to be independent within the ASX criteria, however in the interests of disclosure offers the following qualification to its assessment: 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 has no other relationships which 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 are not considered to be material either from Mr. Williams' or the Company's perspective. The Board (in the absence of Mr. Williams) therefore considers Mr. Williams to be an independent director, notwithstanding his provision of some professional services to the Company.

#### **NZX requirements**

David Williams and James McKee have been determined as Independent Directors pursuant to NZX Listing Rule 3.3.1A. Peter Atkinson, Geoffrey Hill, Ralph Stagg and Patrick Elliot have been 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.

### **AUDIT COMMITTEE**

#### **Names and qualifications of Audit Committee members**

The following directors are members of the Audit Committee:

David Williams (Chair, Independent)

James McKee (Independent)

Ralph Stagg (Executive)

Mr. Williams' financial literacy has been 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 has extensive experience in the financial matters of listed and unlisted mining and exploration companies.

#### **Number of Audit Committee meetings and names of attendees**

During the Reporting Period the Audit Committee held two meetings. All members of the audit committee attended both meetings.

### **NOMINATION COMMITTEE**

During the Reporting Period an evaluation of the Board and its members was carried out. The evaluation process comprised an informal review by the Chairman.

The Nomination Committee comprises the full Board.

### **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. The Company has also substantially revised its Occupational Health and Safety Plan during the Reporting Period.



## ADDITIONAL INFORMATION

### REMUNERATION COMMITTEE

The remuneration committee comprises the full Board.

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report.

Of the non-executive directors:

- James McKee and Patrick Elliott each receive a fixed fee for their services as directors;
- David Williams receives fees (at normal commercial rates) for providing some legal services to the Company, but he does not receive a separate fee for his services as a director; and
- Geoffrey Hill holds shares and options in the Company, but does not receive any director's fees or payment for any other services provided.

Of the executive directors:

- Mr. Atkinson receives a fixed monthly fee for providing consultancy services in respect of his role as Managing Director. He does not receive additional fees for his services as a director; and
- Mr Stagg is compensated for his services in an executive capacity and does not receive a separate fee for his services as a director.

The Chairman is currently reviewing the remuneration procedure however at present 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 retirement benefits for directors.

To the extent that the Company's resources permit in the future, the Company will consider implementing a more formal policy to incorporate short and medium term incentives for executive directors.

# COMPANY DIRECTORY

## Directors

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

## Alternate Director

Matthew G Hill (alternate to G G Hill)

## Company Secretary

Mrs Sue Sangster

## Registered (Head) Office

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

## Principal Office in Australia

1st Floor, 25 Richardson Street  
West Perth  
Western Australia 6005  
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 Sheffield Young, Auckland  
Simpson Grierson Law, Auckland  
Williams & Hughes, Perth

## Share Registrars

### New Zealand:

BK Registries 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  
Warrants HGDCA

Australian Stock Exchange

Code: Shares HTM

Newcastle Stock Exchange

Code: Shares HGD  
Warrants HGDHXA

# HERITAGE

GOLD NZ LIMITED







**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 Pukekawa Room, Jubilee Building, 545 Parnell Road, Parnell, Auckland, New Zealand on Thursday 11 August 2005 commencing at 11.00am.**

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 2005.

**2 Re-election of Directors**

- (a) Ralph Nicholas Stagg retires by rotation under clause 27.2 of the Company's constitution and, being eligible, offers himself for re-election.
- (b) David John Williams retires by rotation under clause 27.2 of the Company's constitution and, being eligible, offers himself for re-election.

Ralph Nicholas Stagg is not an Independent Director in terms of the NZX Listing Rules because he is an executive director. David John Williams is an Independent Director in terms of the NZX Listing Rules.

**3 Re-appointment of Auditors**

To record the re-appointment of Carlton - DFK as the Company's auditor under section 200 of the Companies Act 1993, and to authorise the Directors to settle their remuneration.

**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**

28 June 2005

## 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: .....

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### 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 Thursday 11 August 2005 in the Pukekawa Room, 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.

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### 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 Ralph Nicholas Stagg	<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"/>

### SIGNED BY EACH SHAREHOLDER NAMED IN SECTION 1

Date:

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#### 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 please indicate that 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.