

annual report 2004



INDEX

THE BOARD OF DIRECTORS	1
DIRECTORS' REPORT	2
TENEMENT LOCATIONS	5
AUDITORS' REPORT	6
FINANCIAL STATEMENTS	7
NOTES TO FINANCIAL STATEMENTS	10
ADDITIONAL INFORMATION	14
COMPANY DIRECTORY	20



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. Mr. Elliott's 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); Marlborough Resources NL (Chairman), Argonaut Resources NL (Chairman), Eastern Star Gas Limited and Sundance Resources Limited.

Mr. Elliott has served as a Director on the Heritage Gold Board for 6 months being appointed Director on 20 November 2003 and Chairman in June 2004.

Peter Robert Atkinson BSc, FAusIMM *Managing Director*

Peter Atkinson has over 30 years broad experience in the mining industry in Australasia, mainly on the boards of listed companies. He has been involved in joint ventures with international mining groups, the listing of mining companies on the New Zealand and Australian stock exchanges, corporate planning, and the raising of risk capital in Australia, New Zealand and the United Kingdom. He 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 Managing Director of the Heritage Gold Board having served for 19 years, being appointed on 23 August 1985. Mr Atkinson was Chairman of the Board of Directors from his initial appointment as Director until June 2004.

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 19 years, being appointed on 23 August 1985.

Geoffrey Guild Hill B Econ (Syd); MBA (NSW); ASIA; FCPA; FAICD *Non-executive Director*

Geoffrey Hill has participated in merchant banking at senior executive level since 1973, and has specialised in mergers and acquisitions. 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.

Mr. Hill has been a member of the Securities Institute of Australia since 1969 and is an authorised representative of Financial Services License holder PCP Securities Limited. He formed International Pacific Securities Limited in 1987 and Geoffrey Hill & Associates in 1996. Currently he is Managing Director of Pitt Capital Partners.

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

Mr. Hill has served as a Director of Heritage Gold for nearly 5 years being appointed on 28 July 1999.

James Murray McKee BA (Hons) *Non-executive (Independent) Director*

Murray McKee is a management consultant who previously held senior management positions in Coal Corporation of New Zealand Limited (1987-1995) and was Chairman of the Coal Research Association of New Zealand (1995).

A former Ministerial Appointee to the New Zealand Conservation Authority, he is also a former Chairman of the West Coast Conservation Board (1992-93) and Councillor of the New Zealand Minerals Industry Association (1993-95).

Mr. McKee has served on the Heritage Gold Board for 8 years, being appointed a Director on 16 March 1996.

Ralph Nicholas Stagg *Executive Director*

Ralph Stagg has 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 SoCo Limited an unlisted public company with investments in cobalt resources. Mr. Stagg was appointed Director of Heritage Gold on 30 November 1999 and has served on the Board for over 4 years.

Matthew Geoffrey Hill *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 is currently Business Development Manager for Aspermont Limited a leading publisher of news related services to the mining and investment community.

Mr. Hill was appointed as Alternate Director for Geoffrey Hill on 1 December 1999 and has served for over 4 years.

DIRECTORS' REPORT

for the year ended 31 March 2004

INTRODUCTION

Heritage has made significant advances on several of its projects over the past 12 months, especially the gold properties in the Waihi district in New Zealand.

Karangahake

The principal area of interest is the Karangahake project, about 15km west of Newmont's Martha mine at Waihi.

In July last year Heritage undertook a shallow reverse circulation ("RC") drilling programme at Rahu Ridge, immediately north of the old Talisman mine at Karangahake.

Results were highly encouraging and Heritage then began an extensive underground sampling and mapping programme in the Talisman mine to establish an initial resource base for the Karangahake project. This work was completed recently and the Company announced the delineation of a (JORC compliant) resource of 109,600oz of gold and 438,400oz of silver.

Phase 2 sampling and underground drilling is now being planned for the Talisman mine with the aim of at least doubling these resources.

The Company's target is a resource capable of sustaining a 7-10 year operation at 50,000oz annually and the proximity of Karangahake to Newmont's Waihi treatment plant may reduce development costs in the short term.

The Waihi gold district has been the largest and richest area of gold production in New Zealand, with a single mine (the Martha mine) producing over 6.6Moz of gold and more than 42Moz of silver from 1878 up to the present time. Karangahake was the second largest producer with 1Moz of gold and 3Moz of silver.



The Martha mine is scheduled to close at the end of 2006, when Newmont expects to be producing ore from the Favona high grade deposit near its treatment plant, south of Waihi. Favona production is likely to be in the order of 350,000 tonnes annually, compared with the plant's rated capacity of 1.3M tonnes per annum, and further discoveries will be needed to take up the shortfall.

Other Gold Prospects

Heritage has several other gold prospects in the district and is planning to test epithermal gold targets at Rahu (north of Talisman), Waihi North (adjacent to the northern boundary of the Martha mining licence), and Dominion Knoll (adjacent to Talisman). Prospective zones in the Golden Valley permit will also be explored this year.

Heritage is currently the largest tenement holder within a 15km radius of the Waihi treatment plant and is actively seeking development opportunities. The Heritage Board remains focused on the Company's main objective – to develop an economic mining operation in the Waihi district.

GOLD PROJECTS (NEW ZEALAND)

Karangahake

The Karangahake gold project includes the Talisman, Rahu and Dominion Knoll exploration permits. Heritage has explored the permits using geophysical, geochemical, geological and drilling methods with success, and identified numerous drilling targets.

Talisman

An extensive underground channel sampling and mapping programme at the Talisman mine commenced in November 2003. The work was mainly on the number 8 level and extended into the 5A level of the adjacent Crown mine, as part of a phased programme to define a gold resource for development feasibility. The discovery cost of the 109,600oz gold (and 438,400oz silver) resource was NZ\$3.70 (US\$2.30) per ounce.

Phase 2 of the programme will focus on the levels 100m above and below the number 8 level and involve underground diamond drilling as well as channel sampling. It is expected to at least double this initial resource base.



Rahu

In August 2003 Heritage completed an 8-hole RC drilling programme on Rahu Ridge and encountered anomalous gold values in every hole, with the best assays in holes drilled at the lowest topographic positions.

Highlights were:

- RHRC-2: 6.0m at 2.41g/t Au and 63.6g/t Ag from 10m, including 1.0m at 7.80g/t Au and 198.0g/t Ag from 14m
- RHRC-3: 5.0m at 1.73g/t Au and 3.6g/t Ag from 13m
- RHRC-6: 3.0m at 0.61g/t Au from 15m
- RHRC-7: 3.0m at 0.55g/t Au from 1m
7.0m at 0.71g/t Au from 14m,
including 1.0m at 1.19g/t Au from 15m
- RHRC-8: 34.0m at 0.34g/t Au from 11m

Rahu Ridge is interpreted as the northern strike extension of the main Karangahake gold deposits and is outlined by coincident geochemical, resistivity and ground magnetic anomalies over an open ended 1.7km long zone.

The RC drilling programme tested the anomalies at shallow depths to confirm their validity. The Company's geological model suggests that gold/silver grades will improve at depth, similar to other deposits in the district, and further drilling is planned for this zone.

Dominion Knoll

Encouraging results have been received from a programme of mapping, geochemical sampling and geophysical surveys in this permit, which adjoins the western side of the Talisman permit.

Waihi North

Two diamond drill holes last year encountered strong hydrothermal alteration and anomalous gold values adjacent to the northern boundary of Newmont's Martha mining licence.

The holes were sited on anomalies delineated by ground geophysical surveys and the results confirmed that the mineralising system responsible for the Martha gold deposit extends into the Waihi North permit.

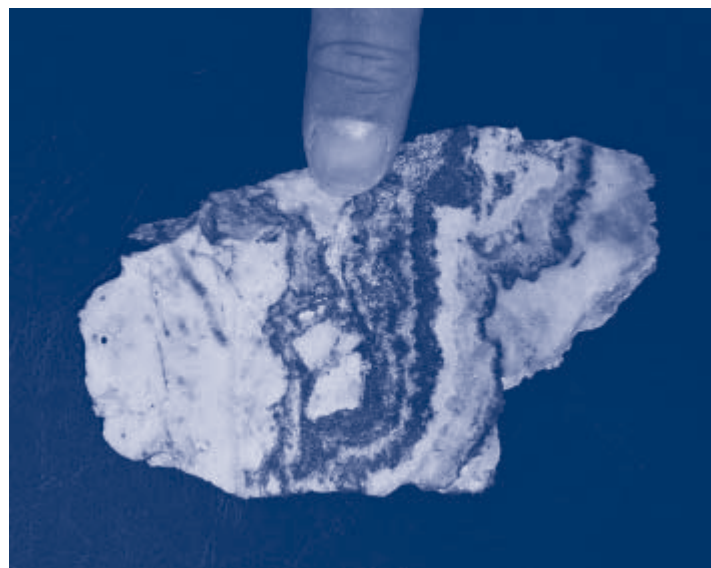
Subsequent analysis of drill core samples and further interpretation showed the presence of 5 resistive zones, which are believed to correlate with zones of silicification or quartz veins within the Waihi epithermal system. The evidence suggests that the two diamond holes were drilled over the top of the geophysical anomalies and deeper drilling will be required to test these features fully.

Golden Valley

Reprocessing and filtering of aeromagnetic data has identified areas of possible hydrothermal alteration with a similar signature to Waihi and Karangahake. Preliminary geological mapping has also been undertaken during the year, with further reconnaissance geophysics, mapping and sampling planned for areas of alteration in the current financial year.

Onemana

Heritage is developing a digital computer model of the high level epithermal gold/silver mineralisation at Onemana. Previous exploration results at Breccia Knob and Western Ridge, and a review of the structural interpretation and geophysics show analogies to other gold mineralisation in the Waihi district, including Favona and Rahu.





COBALT PROJECT (AUSTRALIA)

The price of cobalt has risen from a low of US\$6.00/lb in 2002 to a high in early 2004 of US\$29.00/lb. The Company is using bio-oxidation testwork to find an efficient and economic method of extracting cobalt from the resource outlined at Thackaringa.

Thackaringa

Samples of drill hole material from the Thackaringa project near Broken Hill were sent to Micron Laboratories in Perth for testwork aimed at reducing potential processing and capital costs.

Two trials, a tray leach and a column leach, are currently underway using bacterial oxidation technology. A preliminary report on the testwork indicated dissolution of cobalt in the samples and the trials will continue for 1-2 months.

Heritage paid the receiver of Western Metals Ltd the sum of AU\$5,000 to extend its option over Western Metals' exploration licence for a further 12 months to 31 May 2005.

Heritage has a 33% interest in Broken Hill Cobalt Ltd, the owner of the Thackaringa Cobalt project, and is managing the exploration and testwork for the project. Longer term funding for the cobalt project through a capital raising is under review, in conjunction with a possible stock exchange listing for Broken Hill Cobalt Ltd.

Thackaringa Extended

The area of interest around the cobalt project was expanded by an exploration licence application over 64 sq km adjoining the Thackaringa project tenements to the north west. The application area is prospective for repetitions of the cobalt mineralisation currently being evaluated.

COMPENSATION

Heritage is pursuing a claim against the Crown for expenditure the Company incurred on projects sterilised by a 1997 amendment to the NZ Crown Minerals Act. Heritage had previously spent \$8M on the projects.

A trial date of 6 September 2004 has been set down in the High Court in Wellington and the Company is reviewing preparations for the case with its legal advisors.

FUNDING

On 30 June 2003 the Company advised the stock exchange that warrant holders had made a further payment of 1 cent per warrant, resulting in payment to the Company of a total of \$226,286.81.

On 15 October 2003 the Company reported that it had placed 7.2M shares at 5 cents each to an overseas investor, raising a total of \$360,000.

The Company is considering opportunities in the short to medium term for funding the continued development of the Talisman gold project.

CORPORATE GOVERNANCE

In relation to Australian Stock Exchange ("ASX") requirements the Company has implemented a formal review process to comply as far as practicable with all aspects of the corporate governance requirements and best practice guide during the current financial year. A number of changes to the Company's corporate governance procedures had already been adopted at the date of this report.

For the New Zealand Stock Exchange ("NZX") corporate governance requirements the Company has implemented a programme to make changes to its procedures so as to comply with the Listing Rule amendments as far as practicable before 29 October 2004. Some of the changes required under the amendments had already been adopted at the date of this report.

Heritage is in compliance with the requirements of the Newcastle Stock Exchange ("NSX").

WEBSITE

In accordance with corporate governance requirements the Company is updating its website (www.heritagegold.co.nz) progressively to comply with changes required by Listing Rule amendments of the ASX and NZX.

STOCK EXCHANGE LISTING

Heritage is listed on the New Zealand Stock Exchange, the Australian Stock Exchange, and the Stock Exchange of Newcastle. The Company's warrants are currently listed on the NZX and NSX.

The financial report was authorised for issue by the Board on 15 June 2004.

Peter Atkinson
Managing Director
15 June 2004

TENEMENT LOCATIONS

SCHEDULE OF HERITAGE GOLD TENEMENTS

Granted Exploration Permits

40-081	Talisman
40-117	Rahu
40-346	Waihi North
40-518	Onemana
40-521	Dominion Knoll

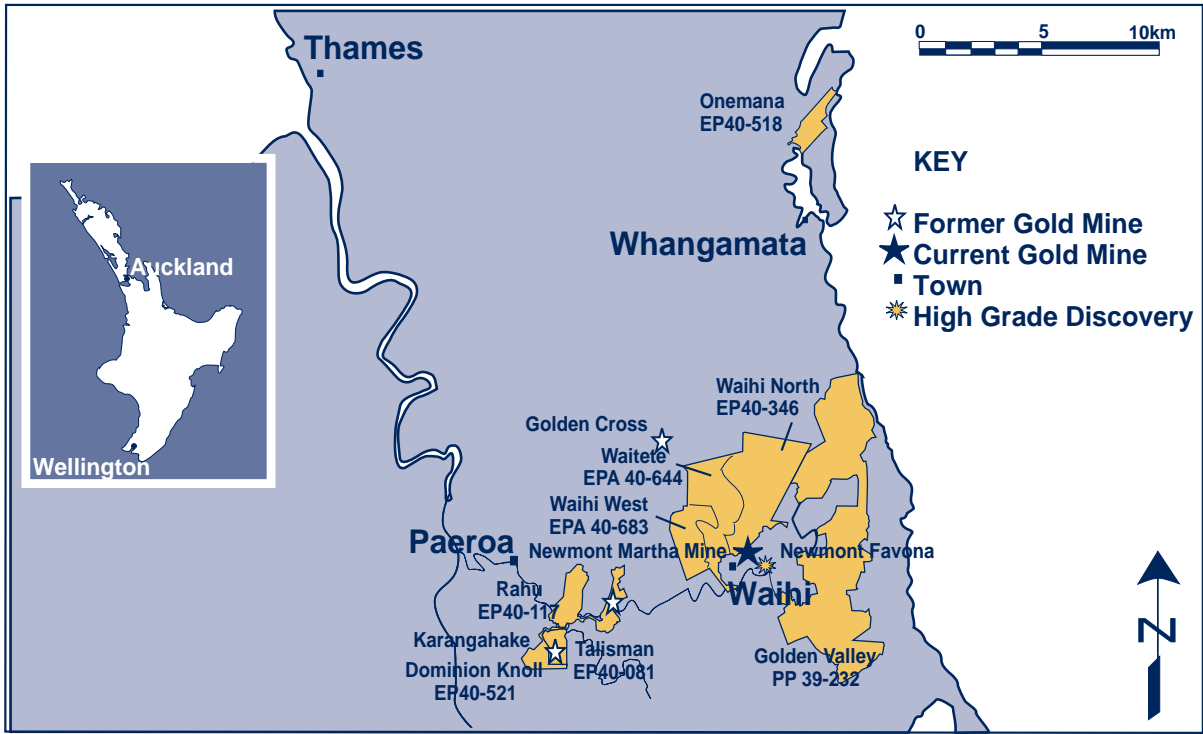
Granted Prospecting Permit

39-232	Golden Valley
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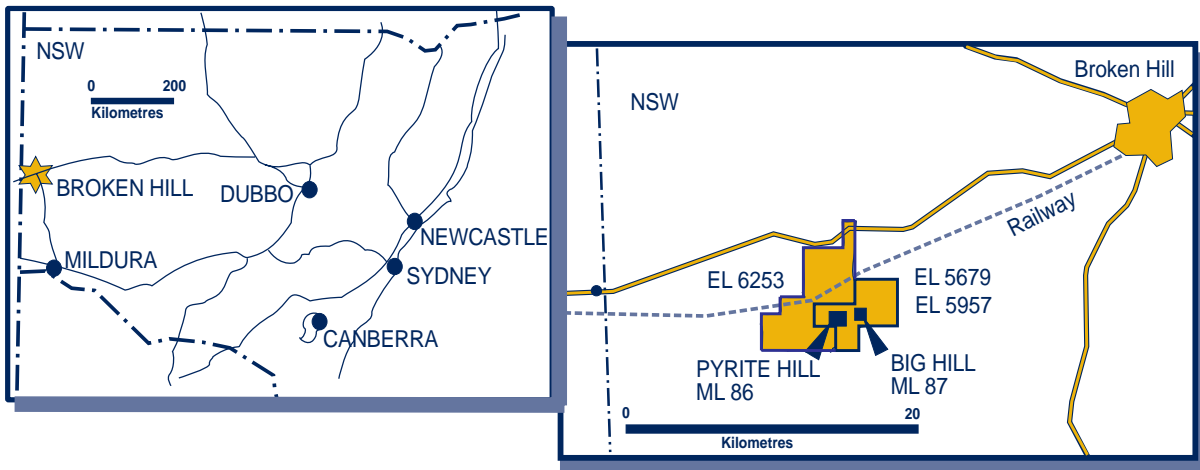
Exploration Permit Applications

40-644	Waitete
40-683	Waihi West

GOLD PROJECTS – COROMANDEL NEW ZEALAND



THACKARINGA COBALT PROJECT – AUSTRALIA



AUDITORS' REPORT

for the year ended 31 March 2004



AUDIT REPORT TO THE SHAREHOLDERS OF HERITAGE GOLD NZ LIMITED

We have audited the financial statements on pages 7 to 13. The financial statements provide information about the past financial performance of the Company and Group and their financial position as at 31 March 2004. This information is stated in accordance with the accounting policies set out on pages 10 and 11.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2004 and of the results of operations and cash flows for the year ended 31 March 2004.

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 provide tax advice to the Group.

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 13:
 - 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 2004 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 15 June 2004 and our unqualified opinion is expressed as at that date.

CARLTON - DFK
AUCKLAND

15 June 2004

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2004

	Note	Consolidated 31-Mar-04 \$	Parent 31-Mar-04 \$	Consolidated 31-Mar-03 \$	Parent 31-Mar-03 \$
REVENUE					
Other income		1,000	1,000	2,833	2,833
Interest received		49,092	49,092	15,826	15,826
Gain on sale of share investments		44,170	9,853	1,039,368	-
Reduction in provision for doubtful debts		-	34,317	-	1,039,368
TOTAL OPERATING REVENUES		94,262	94,262	1,058,027	1,058,027
EXPENDITURE					
Depreciation		4,041	4,041	4,079	4,079
Remuneration of directors	2	25,500	25,500	32,400	32,400
Rent and leasing		16,266	16,266	15,692	15,692
Interest expense		543	543	662	662
Audit fees - auditing financial statements		8,650	8,650	8,800	8,800
- other services		-	-	2,330	2,330
Operating expenses	7	388,919	388,919	258,893	258,893
Foreign exchange Loss		610	610	23	23
Loss on sale of share investments		-	-	3,798	3,798
Loss on sale fixed assets		602	602	-	-
TOTAL EXPENDITURE		445,131	445,131	326,677	326,677
Net surplus/(deficit) for the year		(350,869)	(350,869)	731,350	731,350
Share of retained surplus/(deficit) of associated company after income tax	12	(3,793)	-	(116,348)	-
Net surplus/(deficit) attributable to parent company shareholders		(354,662)	(350,869)	615,002	731,350
Add accumulated deficit brought forward		(5,376,269)	(5,266,664)	(5,991,271)	(5,998,014)
Accumulated deficit at end of year		(5,730,931)	(5,617,533)	(5,376,269)	(5,266,664)

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 31 March 2004

	Consolidated 31-Mar-04 \$	Parent 31-Mar-04 \$	Consolidated 31-Mar-03 \$	Parent 31-Mar-03 \$
Equity at beginning of year	7,209,422	7,142,500	8,132,856	6,059,221
Total recognised revenues & expenses	(354,662)	(350,869)	615,002	731,350
Shares/warrants issued	641,442	641,442	351,929	351,929
Increase (decrease) in revaluation reserve	(152,510)	1,675	(1,890,365)	-
Equity at end of year	7,343,692	7,434,748	7,209,422	7,142,500

Notes on pages 10 to 13 form part of, and are to be read in conjunction with, these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 March 2004

	Note	Consolidated 31-Mar-04 \$	Parent 31-Mar-04 \$	Consolidated 31-Mar-03 \$	Parent 31-Mar-03 \$
EQUITY					
Share capital	13	12,177,350	12,177,350	11,762,350	11,762,350
Warrants	13	578,371	578,371	351,929	351,929
Capital reserve		123,750	123,750	123,750	123,750
Share premium reserve		70,235	70,235	70,235	70,235
Asset revaluation reserve	13	102,575	102,575	100,900	100,900
Revaluation reserve - share investments		22,342	-	176,527	-
		13,074,623	13,052,281	12,585,691	12,409,164
Less accumulated deficit		(5,730,931)	(5,617,533)	(5,376,269)	(5,266,664)
Total shareholder's equity		7,343,692	7,434,748	7,209,422	7,142,500
Represented by:					
NON CURRENT ASSETS					
Fixed assets	6	52,199	52,199	10,647	10,647
Share investments	3	35,445	13,103	188,830	12,303
Investment in associates	12	1,066,602	1,180,000	1,070,395	1,180,000
Total non current assets		1,154,246	1,245,302	1,269,872	1,202,950
INTANGIBLE ASSETS					
Deferred expenditure:					
Capitalised prospecting expenditure	8	5,711,292	5,711,292	4,845,076	4,845,076
Total intangible assets		5,711,292	5,711,292	4,845,076	4,845,076
CURRENT ASSETS					
Cash		5,223	5,223	6,910	6,910
Short term deposits		649,783	649,783	1,135,418	1,135,418
Debtors	7	31,345	31,345	9,540	9,540
Accrued income		741	741	3,549	3,549
Prepayments		838	838	-	-
Total current assets		687,930	687,930	1,155,417	1,155,417
Total assets		7,553,468	7,644,524	7,270,365	7,203,443
LESS CURRENT LIABILITIES					
Creditors	7	207,206	207,206	56,392	56,392
Hire purchase		2,570	2,570	4,551	4,551
Total current liabilities		209,776	209,776	60,943	60,943
		7,343,692	7,434,748	7,209,422	7,142,500

For and on behalf of the Board:
DIRECTOR



P R Atkinson
Dated: 15 June 2004

DIRECTOR



J M McKee
Dated: 15 June 2004

Notes on pages 10 to 13 form part of, and are to be read in conjunction with, these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2004

	Note	Parent & Consolidated	
		31 Mar 2004	31 March 2003
		\$	\$
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		1,000	2,133
Interest received		46,284	12,982
		47,284	15,115
Cash was disbursed to:			
Payments to suppliers		(330,187)	(211,147)
Payments to employees		(79,697)	(100,417)
Interest paid		(543)	(47)
		(410,427)	(311,611)
Net cash inflows/(outflows) from operating activities	14	(363,143)	(296,496)
CASHFLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of fixed assets		500	-
Proceeds from sale of equity investments		46,161	1,089,646
		46,661	1,089,646
Cash was applied to:			
Prospecting expenditure		(702,324)	(204,091)
Purchase of fixed assets		(52,472)	(4,804)
Equity investments		(1,115)	-
		(755,911)	(208,895)
Net cash inflows/(outflows) from investing activities		(709,250)	880,751
CASHFLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Issues of shares		360,000	-
Warrant payments		226,442	351,929
		586,442	351,929
Cash was applied to:			
Hire purchase repayments		(1,981)	(2,419)
		(1,981)	(2,419)
Net cash inflows/(outflows) from financing activities		584,461	349,510
Net increase/(decrease) in cash held		(487,932)	933,765
Exchange gain/(loss)		610	(41)
Cash at start of year		1,142,328	208,605
Cash at end of year		655,006	1,142,328
Cash comprises:			
Cash		5,223	6,910
Short term deposits		649,783	1,135,418
		655,006	1,142,328

Notes on pages 10 to 13 form part of, and are to be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2004

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 subsidiaries and associates.

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

The total carrying value of prospecting expenditure and mining tenements is supported by an independent valuation prepared by Mr Richard Barker on 24 May 2004. 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%

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 to be revalued annually to market value. Any revaluation surplus above cost is transferred directly to the revaluation reserve and 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 term borrowing.

Financial instruments are stated at market value. Any gain or loss is recognized in the Statement of Financial Performance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2004

Associated Companies

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

Changes in Accounting Policies

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

2. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2004	2003
	\$	\$
PR Atkinson	90,000*	90,000*
DJ Williams	-	-
JM McKee	7,500	7,500
GG Hill	-	-
RN Stagg	18,000	13,500
MG Hill (alternate)	-	-

*of which \$11,400, (2003: \$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 2004	Parent 2004	Consolidated 2003	Parent 2003
Investment in listed companies	26,346	4,004	179,731	3,204
Investment in other companies	9,099	9,099	9,099	9,099
Total share investments	\$35,445	\$13,103	\$188,830	\$12,303

Listed shares have been valued at market value.

Coromandel Gold Limited, the company's subsidiary, sold 1,500,000 shares in Cadmus Technology Limited (CTL) and 6,500,000 shares in Training Solutions Ltd (formerly E-cademy Holdings Limited) and realised a gain on the sale of \$34,317. This amount has been used to repay the intercompany loan from Heritage to Coromandel Gold Limited. (See note 7 also).

4. SEGMENT INFORMATION

During the current year the Company had only one business segment: mineral exploration within Australasia.

5. TAXATION

The company has estimated mining taxation losses available to carry forward to offset against future mining income of \$5,850,788 (2003: \$4,984,572). There are non-mining taxation losses of \$5,448,715 (2003: \$5,096,200) 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 (2003: NIL).

6. FIXED ASSETS

Fixed Assets	Consolidated & Parent 2004			Consolidated & Parent 2003		
	At Cost	Accumulated Depreciation	Book Value	At Cost	Accumulated Depreciation	Book Value
Fixtures and fittings	2,127	944	1,183	2,002	656	1,346
Office equipment	10,652	4,463	6,190	8,407	3,144	5,263
Computer hardware	14,222	8,256	5,965	10,206	6,325	3,881
Computer software	5,408	4,439	969	4,093	3,936	157
Field Equipment	43,651	5,759	37,892	NIL	NIL	NIL
Total \$	76,060	23,861	52,199	24,708	14,061	10,647

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2004

7. RELATED PARTY TRANSACTIONS

Payments for consulting services to companies in which Directors have a substantial interest amounted to \$1,132, (2003:\$629) (refer also to note 2.) Williams & Hughes provided legal services totalling \$1,132 at normal commercial rates. At balance date, debtors included \$80 (2003: NIL) owing by companies in which directors had an interest. At balance date, creditors had \$448 (2003:NIL) owing to companies in which directors had an interest.

No related party debts have been written off during the year. Following the sale of investment shares by Heritage's subsidiary, Coromandel Gold repaid part of the intercompany loan. As a result, the parent company was able to reverse part of the provision made previously against this loan. (See also note 3).

8. DEFERRED EXPENDITURE

	Consolidated & Parent	
	2004	2003
Total prospecting cost and mining tenements	15,015,076	14,148,860
Less prospects written-off	9,303,784	9,303,784
Total	\$5,711,292	\$4,845,076

The net value of prospecting costs is supported by an independent valuation, 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 now 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 \$30,452 (2003:\$6,544).

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 with trading banks and other financial institutions. 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 5.14% as at 31 March 2004, 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

Joint Venture Commitments:

The Company had no Joint Venture commitments at 31 March 2003.

Operating Lease Commitments

Lease commitments under non-cancellable operating leases

	Consolidated & Parent	
	2004	2003
Not later than one year	\$9,045	\$22,728
Later than one year but not later than two years	\$1,100	\$8,523

11. SUBSIDIARY COMPANIES

Coromandel Gold Limited is a 100% owned subsidiary of Heritage Gold.

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 2003 and unaudited interim financial information for the 9 months to 31 March 2004.

INVESTMENTS IN ASSOCIATED COMPANIES

	Consolidated	
	31 March 2004	31 March 2003
Share of associates' surplus/(deficit)	(3,793)	(116,348)
Income tax	NIL	NIL
Share of recognised revenue and expenses	(3,793)	(116,348)
Shares at cost	1,180,000	1,180,000
Share of surplus/(deficit)	(109,605)	6,743
Opening balance	1,070,395	1,186,743
Share of recognised revenue and expenses	(3,793)	(116,348)
Balance at end of year	1,066,602	1,070,395

13. EQUITY

Revaluation Reserve

	Consolidated & Parent	
	2004	2003
Opening balance	176,527	2,066,892
Revaluation of listed share investments	(154,185)	(1,890,365)
Closing balance	22,342	176,527

Warrants

On 26 June 2002 Heritage issued 36,726,287 Warrants for an initial payment of 1 cent each, the net proceeds being \$351,929. An additional payment of 1 cent per Warrant was paid by 26 June 2003 being \$226,442 net of expenses, 14,097,606 Warrants lapsed. Further payment of 7 cents each to convert 22,676,681 Warrants to fully paid ordinary shares is due within 5 years of the issue date, i.e. 26 June 2007.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2004

Share Capital

	Consolidated & Parent		Consolidated & Parent	
	2004	2004	2003	2003
	No.	\$	No.	\$
Opening balance	73,809,400	11,762,350	73,809,400	11,762,350
Shares issued	8,200,000	415,000	NIL	NIL
Closing balance	82,009,400	12,177,350	73,809,400	11,762,350

Options

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

	Number of options issued	Exercise price	Exercise date	Expiry date
Employee 2nd Tranche	1,866,667	14c	1 July 2002	30 June 2003
Employee 3rd Tranche	1,866,667	16c	1 July 2003	30 June 2004

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

	2004	2003
Net deficit after taxation and before including share of retained deficit of associates	(350,869)	731,350
Add non-cash items:		
Depreciation	4,041	4,079
Decrease (increase) in share capital	(55,000)	NIL
Loss (gain) on sale of share investments	(1,317)	(1,039,442)
Decrease (increase) in share valuation	65,610	3,872
Exchange loss	610	23
	13,944	(1,031,468)
Add (less) movement in working capital:		
Decrease (increase) in debtors	159	(719)
Increase (decrease) in creditors	(6,383)	5,597
Decrease (increase) in prepayments	(838)	NIL
Decrease (increase) in GST	(19,156)	(1,257)
	(26,218)	3,621
Net cashflows from operating activities	(363,143)	(296,497)

15. CONTINGENT LIABILITIES

	Consolidated & Parent	
	2004	2003
Contingent liabilities	Nil	Nil

Despite implementing and maintaining health and safety procedures, consistent with its advisers' recommendations for its activities at the Talisman mine, the Company suffered a workplace accident which resulted in an Occupational Safety and Health investigation. The directors do not believe the Company's policies and procedures are deficient, but the Health and Safety in Employment Act imposes strict liability on employers and therefore, unless the Company can show a total absence of fault, a prosecution may result.

ADDITIONAL INFORMATION

DIRECTORS' INFORMATION

Name of Director	Ordinary share in which Director has a relevant interest 31 March 2004	Shares acquired during year	Options issued during year	Consideration	Issue date
P R Atkinson	8,301,560				
R N Stagg	1,000,000	1,000,000		\$55,000	15 September 2003
D J Williams	62,514				
G G Hill	nil				
J M McKee	nil				
P J Elliott	nil		7,200,000	Exercisable between years 1 & 5	22 November 2003
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 2004.

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	SoCo Limited	Director
	Project Geoscience Pty Limited	Director
D J Williams	Prophecy Mining Limited	Director and Shareholder
	Williams & Hughes	Partner
G G Hill	SoCo Limited	Director
J M McKee	Broad Horizons Limited	Director

CHANGES IN DIRECTORS

Patrick Elliott was appointed Director on 20 November 2003 and Chairman of the Board in June 2004.

PRINCIPAL ACTIVITIES

The group's principal activities during the year was mineral exploration, primarily gold.

ADDITIONAL INFORMATION

SHAREHOLDING STATISTICS AS AT 8 JUNE 2004

TWENTY LARGEST SHAREHOLDERS

Name	Shares	%	Name	Shares	%
Southern Cobalt NL	20,000,000	24.39	ANZ Nominees Ltd	663,330	0.81
Peter R Atkinson	8,301,560	10.12	Peter W Hall	500,000	0.61
Bestfield Company	7,200,000	8.78	Jane H Williams	447,130	0.55
Prophecy Mining Ltd	4,000,000	4.88	Glenstall Investments Pty Ltd	430,000	0.52
Warwick M Harvey	2,043,600	2.49	Terence C McManus	400,080	0.49
Troyward Pty Ltd	2,000,000	2.44	Republic Securities Ltd	393,400	0.48
Merrill Lynch (Australia) Nominees Ltd	1,326,325	1.62	Frank C Hall & Dorothy M Hall	385,000	0.47
Ralph N Stagg	1,000,000	1.22	Dorothy L Franklin	380,000	0.46
McNeil Nominees Pty Ltd	1,000,000	1.22	Ianaki Semerdziev	373,126	0.45
Relativity Pty Ltd	949,000	1.16			
Forbar Custodians Ltd	849,635	1.04	TOTAL FOR TOP 20	52,642,186	64.20
			TOTAL SHARES	82,009,400	

DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Holders	Shares	%
1 - 1,000	31	24,481	0.03
1,001 - 5,000	233	814,128	1.00
5,001 - 10,000	194	1,717,028	2.09
10,001 - 100,000	379	14,033,800	17.11
100,001 and over	82	65,419,963	79.77
Totals	919	82,009,400	100.00

SUBSTANTIAL SECURITY HOLDERS

As at 8 June 2004 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	Non-Beneficial Owner
SoCo 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 2004: 82,009,400

WARRANT HOLDING STATISTICS AS AT 8 JUNE 2004

Name	Warrants	%	Name	Warrants	%
John Mowbray	4,596,000	20.28	Ralph Stagg	500,255	2.21
Stuart M Mowbray &			Peter W Hall	500,000	2.21
Richard F Oldham	3,000,000	13.24	Frederick K Stone &		
Forbar Custodians Ltd	2,000,000	8.83	Florence V Stone	366,666	1.62
I E Properties Pty Ltd	1,248,000	5.51	John Mowbray	337,333	1.49
Warwick M Harvey	1,230,000	5.43	Keith R Frankum	250,000	1.10
John R Mowbray	673,332	2.97	Graeme H Gowland	250,000	1.10
Relativity Pty Ltd	632,666	2.79	Ianaki Semerdziev	248,750	1.10
Ross Asset Management Ltd	550,000	2.43	Guan Yue Hong	200,000	0.88
Basil C McGirr	548,082	2.42	Jennifer A Mather	200,000	0.88
ASB Nominees Ltd	524,000	2.31	Portfolio Custodian Ltd	200,000	0.88
			TOTAL FOR TOP 20	18,055,084	79.68
			TOTAL WARRANTS	22,662,680	

ADDITIONAL INFORMATION

DISTRIBUTION OF WARRANT HOLDINGS

Size of Holding	Holders	Shares	%
1 - 1,000	0	0	0
1,001 - 5,000	55	143,480	0.63
5,001 - 10,000	23	165,390	0.73
10,001 - 100,000	71	2,751,635	12.14
100,001 and over	31	19,602,175	86.50
Totals	180	22,662,680	100.00

ADDITIONAL INFORMATION

CORPORATE GOVERNANCE

The Company is not subject to Chapters 6, 6A, 6B and 6C of the (Australian) Corporations Act dealing with the acquisition of shares (i.e., substantial holdings and takeovers). However, the Company is subject to the New Zealand Takeovers Code which is broadly similar in effect to Chapters 6, 6A, 6B, and 6C of the Australian Corporations Act.

Takeovers Code

In New Zealand, the Takeovers Code prohibits a person or group of associated persons from acquiring 20% or more of the voting rights in Heritage Gold NZ Limited except in compliance with the Code. The permitted compliance methods include:

- (i) full or partial takeover offers made in accordance with the procedures set out in the Code;
- (ii) acquisition or allotment of voting securities with the approval of an ordinary resolution of shareholders of Heritage Gold NZ Limited;
- (iii) a 5% creep option for a person that already holds or controls more than 50% of the voting securities; and
- (iv) compulsory purchase options which are triggered upon the acquisition of 90% of the voting securities.

Further information about the Takeovers Code can be obtained at the New Zealand Takeovers Panel's website at www.takeovers.govt.nz.

Overseas Investment Regulations

The New Zealand Overseas Investment Act 1973 and the Overseas Investment Regulations 1995 control foreign investment in New Zealand. An application to the Overseas Investment Commission (OIC) must be made by non-residents and overseas controlled companies planning to purchase an equity share of 25% or more in a New Zealand company having assets of NZ\$50 million or more, or to purchase directly or indirectly certain categories of sensitive land, which may be relevant to Heritage Gold's mining activities.

Further information on the overseas investment regime can be obtained from the OIC's website at www.oic.govt.nz.

The Board of Directors

The Board of Heritage Gold NZ Limited is responsible for control of the Company's activities on behalf of its shareholders, including setting of strategic direction and policy, and approval of the annual budget. Responsibility for the regular operations of the Company is delegated to the Managing Director who is accountable to the Board.

DISCLOSURE ON CORPORATE GOVERNANCE UNDER ASX LISTING RULES

Introduction

Heritage Gold NZ Ltd has taken positive steps towards improving its corporate governance status by adopting systems of accountability and control commensurate with its small size and stage of development. The board of directors is committed to administering these policies and procedures with openness and integrity commensurate with the Company's needs.

The following additional information about the Company's corporate governance practices is set out on the company's website at www.heritagegold.co.nz :

- (a) statement of board and management functions, including details of materiality threshold;
- (b) summary of policy and procedure for selection and appointment of new directors;
- (c) summary of code of conduct for Directors and key executives;
- (d) code of conduct for the Company;
- (e) summary of policy on securities trading;
- (f) policy and procedure for selection of external auditor and rotation of audit engagement partners;
- (g) summary of policy and procedures for compliance with continuous disclosure requirements;
- (h) summary of arrangements regarding communication with and participation of shareholders;
- (i) summary of Company's risk management policy and internal compliance and control system; and
- (j) summary of process for performance evaluation of the board, board committees, individual directors and key executives.

Explanations For Departures From Best Practice Recommendations

During the 1 April 2003 to 31 March 2004 Reporting Period the Company has complied with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below. A copy of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations, as published by the ASX Corporate Governance Council ("**ASX Principles and Recommendations**"), are set out on the Company's website under the section entitled "Corporate Governance"

ADDITIONAL INFORMATION

P ("Principle Ref."):1 — BPR ("Best Practice Recommendation Ref."):1.1A

Notification of Departure. A formal statement of Board and Management functions was adopted at the Board meeting on 1 June 2004, but was not in place at 31 March 2004.

Explanation. The board considers that the ongoing efficient business practices of the board and management at 31 March 2004 ("year end") demonstrate that appropriate structures were in place and functions within those structures were sufficiently understood and capable of being carried out by the responsible individuals and have been carried out by those individuals. The Company therefore will be in compliance in the 2004/2005 financial year.

P.1 BPR 1.1B

Notification of Departure. Formal letters of appointment for non-executive directors were executed prior to the date of this annual report, but were not in place at 31 March 2004.

Explanation. Directors were appointed in accordance with requirements at time of appointment. The Company will be in compliance with BPR 1.1 in the 2004/2005 financial year.

P.2 BPR 2.1

Notification of Departure. Peter Atkinson, Geoffrey Hill, Ralph Stagg and Patrick Elliott do not satisfy the test of independence as set out in the ASX Corporate Governance Council Practice Recommendations.

Explanation. Although there is not a majority of independent directors on the Board, the Board considers that its composition is adequate to discharge its duties in a manner that is in the best interests of shareholders, in particular given that its two independent directors are sufficient to constitute a quorum.

P.2 BPR 2.2; 2.3

Notification of Departure. An independent director, Patrick Elliott, was appointed Chairman prior to the date of this report. However, at 31 March 2004 the Chairman was the Managing Director.

Explanation. The board considered that the executive role carried out by Mr Atkinson was in the best interests of the Company at that time. This was evidenced by the continued success of the Company while Mr Atkinson fulfilled both roles in a manner that was in the best interests of the Company and without conflict. Mr Elliott was subsequently appointed Chairman of the Company and Mr Atkinson will continue in the role of Managing Director. The Company will be in compliance in the 2004/2005 financial year.

P.2 BPR 2.4

Notification of Departure. There was no nomination committee at year end.

Explanation. The board members decided that no efficiencies would be achieved by establishing a separate nomination committee. The whole board carries out the functions which would otherwise be undertaken by the nomination committee.

P.3 BPR 3.1

Notification of Departure. There was no written code of conduct at year end.

Explanation. The Company documented these practices and principles into a written code which was approved by the board prior to the date of this annual report. The board considers its business practices at 31 March 2004, as led by the example of board and key executives, were the equivalent of a code of conduct. The Company will be in compliance in the 2004/2005 financial year.

P.4 BPR 4.3

Notification of Departure. Peter Atkinson resigned from the audit committee prior to the date of this annual report, but at 31 March 2004, the composition of the committee did not comply with BPR 4.3 in that:

- (a) not all of the members were non-executive (Peter Atkinson & Ralph Stagg are executives); and
- (b) there was not a majority of independent directors (only David Williams and James McKee are independent).

Explanation. Although there was not strict compliance with BPR 4.3 at year end, the board considers that given the composition of the board, and qualifications and availability of board members, the existing audit committee had the best and most suitable composition to efficiently carry out the functions of an audit committee. Mr Atkinson and Mr Stagg were both valuable members of the audit committee in view of their respective extensive experience in the financial matters of listed and unlisted mining and exploration companies.

P.4 BPR 4.4

Notification of Departure. The audit committee adopted a formal operating charter, approved by the board, prior to the date of this annual report, but did not have one at year end.

Explanation. Although there was no formal charter, the board considers that the ongoing efficient practices of the committee evidence the existence and application of established and understood functions. The Company will be in compliance in the 2004/2005 financial year.

P.5 BPR 5.1

Notification of Departure. Written policies and procedures designed to ensure ASX Listing Rule disclosure requirements were approved by the board prior to the date of this annual report, but there were no such policies and procedures in place at year end.

Explanation. Although there were no written policies and procedures, the policies and procedures did in fact exist and were applied. The Company will be in compliance in the 2004/2005 financial year.

P.6 BPR 6.1

Notification of Departure. After year end the Company's shareholders communication strategy to communicate with and actively promote shareholder involvement in the Company was documented and disclosed, while at 31 March 2004 the strategy was designed but not disclosed in a formal way.

ADDITIONAL INFORMATION

Explanation. The strategy was documented and disclosed subsequent to the end of the financial year. The Company will be in compliance in the 2004/2005 financial year.

P.7 BPR 7.1

Notification of Departure. After year end the Company developed a framework for risk management which covers financial, operational and organisational risks, but the Company did not have a formal risk oversight and management policy and internal compliance and control system at 31 March 2004.

Explanation. The Company intends to develop this framework into a detailed policy as its operations continue to grow.

P.8 BPR 8.1

Notification of Departure. The process for performance evaluation of the board, its committees and individual directors, and key executives was approved by the board after year end, but was not documented at 31 March 2004.

Explanation. The process was not disclosed, but did occur by way of an informal review by the Chairman. A brief statement of the process has since been approved by the board and disclosed. The Company will be in compliance in the 2004/2005 financial year.

P.9 BPR 9.1

Notification of Departure. At year end all board members were remunerated in accordance with the ASX Listing Rules, although the company's remuneration policy was not disclosed.

Explanation. The Company has since made an appropriate disclosure and will be in compliance in the 2004/2005 financial year.

P.9 BPR 9.2

Notification of Departure. At 31 March 2004 the whole board carried out the functions which would otherwise be undertaken by the remuneration committee. There was no remuneration committee.

Explanation. The board members decided that no efficiencies would be achieved by establishing a separate remuneration committee. All matters of remuneration were determined by the board in accordance with corporations law requirements, especially in respect of related party transactions. No director participated in any deliberation regarding his own remuneration or related issues.

P.10 BPR 10.1

Notification of Departure. At year end the board considered its business practices, as led by the example of the board and key executives, were the equivalent of a code of conduct. There was no disclosed code of conduct.

Explanation. The Company has since documented these practices and principles into a written code of conduct which has been approved by the board. The Company will be in compliance in the 2004/2005 financial year.

ADDITIONAL INFORMATION

Skills, Experience, Expertise and Term of Office of Each Director

These details are contained in profiles in the Directors' Report.

Identification of Independent Directors

The independent directors of the Company are James McKee and David Williams.

Mr Williams is a commercial lawyer and partner of West Australian law firm Williams & Hughes, which provides some minor legal services to the Company but is not a material professional adviser.

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.

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 Director)

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 30 years experience in the financial matters of listed and unlisted mining and exploration companies.

Prior to 1 June 2004, Mr Atkinson was also a member of the Audit Committee. However, in the interest of providing a majority of independent non-executive directors, the Board resolved to change the composition of the Audit Committee.

Number of Audit Committee Meetings and Names of Attendees

During the Reporting Period the Audit Committee held 3 meetings. All members of the audit committee attended all meetings other than Mr Stagg, who attended 2 meetings.

Confirmation Whether Performance Evaluation of the Board and its Members Have Taken Place and How Conducted

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

Company's Remuneration Policies

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 minor 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:

- Peter 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
- Ralph Stagg is compensated for his services in an executive capacity and does not receive a separate fee for his services as a director.

All of the directors, both executive and non-executive, have received a one-off issue of incentive options which were subject to necessary shareholder approvals.

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.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no retirement benefits for non-executive directors.

NZX LISTING RULE AMENDMENTS AND CORPORATE GOVERNANCE BEST PRACTICE CODE

The October 2003 NZX Corporate Governance Listing Rule Amendments will require adoption by Heritage from 29 October 2004. At the date of this report Heritage has implemented several changes to its corporate governance procedures to reflect the new requirements and the remaining changes will be implemented by 29 October 2004. Heritage's next annual report will meet the requirement to disclose any material differences between the corporate governance principles adopted by Heritage and the NZX Corporate Governance Best Practice Code.

NSX CORPORATE GOVERNANCE

Heritage is in compliance with the requirements of the NSX.

COMPANY DIRECTORY

Directors

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

Alternate Director

Matthew G Hill (alternate to GG Hill)

Company Secretary

Mrs Sue Sangster

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National Australia Bank, West Perth

Auditors

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Solicitors

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

Share Registrars

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138 Tancred Street
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Telephone(+64 3) 308-8887

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Registries Limited
28 Margaret Street, Sydney
NSW 2000, Australia
Telephone(+61 2)9279-0677

Securities Listed

New Zealand Stock Exchange
Code: Shares HGD
Warrants HGDC

Australian Stock Exchange
Code: Shares HTM

Newcastle Stock Exchange
Code: Shares HGD
Warrants HGDCHA

NEWMONT & HERITAGE PERMITS
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