



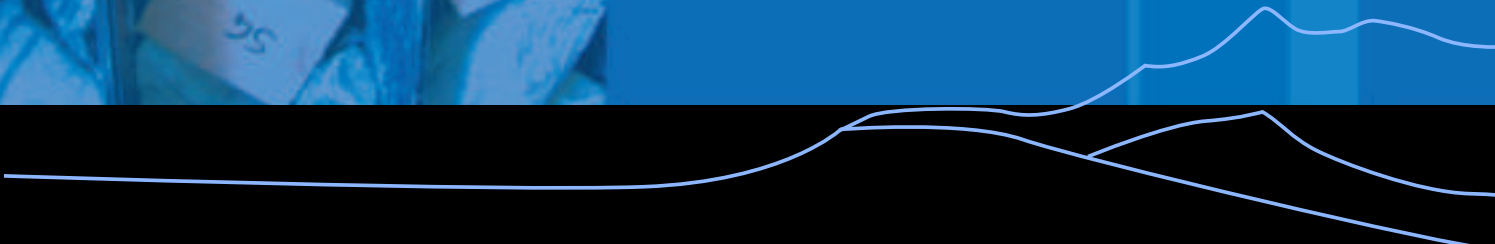
HERITAGE

GOLD NZ LIMITED

Incorporated in New Zealand / ABN 009 474 702



HERITAGE GOLD [ANNUAL REPORT](#) | 2006



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THE BOARD OF DIRECTORS



JAMES MURRAY MCKEE BA (Hons) **Chairman and Non-executive (Independent) Director**

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

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

Mr. McKee has served on the Heritage Gold Board for 10 years, being appointed a Director on 16 March 1996 and Chairman on 3 May 2006.

PETER ROBERT ATKINSON BSc, FAusIMM **Managing Director**

Peter Atkinson has over 35 years of broad experience in the mining industry in Australasia, mainly on the boards of listed companies. He has been involved in joint ventures with international mining groups, the listing of mining companies on the New Zealand and Australian stock exchanges, corporate planning, and the raising of risk capital in Australia, New Zealand and the United Kingdom.

Mr. Atkinson has served on government 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 nearly 21 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, and of public listed Sipa Resources Limited.

Mr. Williams has served as Director on the Heritage Gold Board for almost 21 years, being appointed on 23 August 1985.

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

Non-executive Director

Geoffrey Hill is a merchant banker based in Hong Kong and is currently Chairman of Pitt Capital Asia Limited. He is a principal of Pitt Capital Partners Limited. Career highlights include appointment to the board of Morgan Grenfell and Co Plc.

Professional directorships include Brickworks Investments Limited, Huntley Investment Company Limited, and Hills Industries Limited. Mr Hill is Alternate Director of Souls Private Equity Limited.

Mr. Hill has served as a Director of Heritage Gold for almost 7 years being appointed on 28 July 1999.

RALPH NICHOLAS STAGG, BSc MSc DIC MIMMM FAusIMM CEng CP

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 in 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 6 years.

MATTHEW GEOFFREY HILL, MBA, MAICD **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 Business Manager - Private Equity at Pitt Capital Partners Limited. Pitt Capital Partners is the in-house merchant bank for W H Soul Pattinson group and managers of Souls Private Equity Limited, a private equity fund with over \$AUD 160million in Assets under management. Mr Hill is responsible for the day to day evaluation of private equity investments for Souls Private Equity Limited.

Mr. Hill was appointed as Alternate Director for Geoffrey Hill on 1 December 1999 and has served for over 6 years.

DIRECTORS' REPORT

For the year ended 31 March 2006

STRATEGIC REVIEW

In the March quarter Heritage completed a strategic review of its operations.

Waihi District Operations (Au), New Zealand

A first step is to establish a specific management team to advance evaluation of the gold projects in the Waihi district. Heritage is also considering the spin-off of a new company and listing it on the New Zealand stock exchange, to raise the tempo of evaluation work.

Implementation of the strategy commenced after year end and further announcements will be made to the stock exchange.

Northland Region (Au, Ag, Cu and base metals), New Zealand

Heritage's recent applications for two prospecting permits in the Northland region of New Zealand cover ground favourable for the discovery of epithermal gold-silver deposits, porphyry copper-gold deposits, and gold-rich volcanogenic massive sulphide base metal deposits. The Company's exploration expertise has been developed in the Coromandel region, which has similar geology and mineralisation to the Northland areas.

The decision to expand activity into the Northland region is a further step in the strategy being implemented.

Thackaringa Operations (Co), New South Wales

As a 33 percent equity holder in Broken Hill Cobalt Limited (BHCL), which has tenements over the Thackaringa cobalt project near Broken Hill in New South Wales, Heritage is supporting the company's plans to seek a public listing and search for additional cobalt resources to underpin potential development.

GOLD PROJECTS – Coromandel (New Zealand)



Karangahake Project (100%)

Heritage's three exploration permits lie about 15km west of Waihi within a prominent hydrothermal alteration system covering 16 km². Mineralised veins, which have been mined at Talisman in the southern part of the area, have been traced along strike for 4km, based on surface outcrop, strong soil and rock geochemical anomalies, and geophysical signatures.

At the Talisman mine a JORC-compliant resource of 205,000oz gold and 800,000oz silver has been estimated. The mine has recorded production of 1Moz of gold and 3Moz of silver.

Further bulk sampling and channel sampling in the Talisman mine has added significant extra data to the project database. Bulk sampling results have so far confirmed the presence of small tonnages of stope fill averaging 6.9g/t gold.



The Talisman and Rahu permits were extended for a further four years and the consents needed for the evaluation work at the Talisman mine were granted. Discussions continued with Newmont Waihi Gold over processing of metallurgical samples at their Waihi plant.

The Company donated historic mining equipment to the Department of Conservation (DOC) for incorporation in local historic sites, which DOC is restoring for tourism purposes.

Geophysical and geochemical research projects in the Talisman area are co-funded by Heritage and the Government to help identify techniques likely to assist discovery of further mineralisation. Research has indicated the effectiveness of gravity, magnetic, radiometric, and specific geochemical surveys in locating mineralised zones.

Several shallow RC holes drilled to the south west of the Talisman mine each encountered anomalous gold values. Small mine workings were found nearby and the St Patrick's zone was mapped over 200m strike with vein widths up to 1.5m. In the 54 samples collected, gold values ranged from 0.02 to 8.80g/t and silver values from 0.03 to 190.0g/t.

As part of its strategic review the Company considered various options for the Karangahake project, including joint ventures and spinning off a special purpose company to advance evaluation and development. An important objective is to increase the resource base to support a separate treatment plant.

Other Gold Projects (100%)

Heritage has two other major gold projects in the district, within a 10km radius of Newmont's Waihi treatment plant.

Waihi North extends from the boundary of the Martha open pit mine, northerly for 10km to the southern boundary of the Golden Cross mine. The permit covers the northern part of the Waihi hydrothermal alteration system that hosts the Martha gold deposit and the Favona discovery. Several alteration systems have been identified by exploration work in the Waihi North permit, using mapping, geophysics and geochemical techniques.

At Golden Valley, along the eastern boundary of Newmont's Martha and Favona mining tenements near the Waihi treatment plant, Heritage has a 50 km² area that contains major structures and geophysical anomalies, similar to those associated with the adjacent Martha and Favona gold deposits. Work on the Golden Valley permit has given encouraging results and further sampling and geophysical surveys are scheduled, along with drilling.

The Martha mine at Waihi is New Zealand's largest gold deposit. Total recorded production, since its discovery in 1878, amounts to approximately 7.4Moz gold and nearly 51Moz silver.

There is a high probability of other deposits being located within the Waihi alteration system, as was confirmed by the Favona underground discovery some three years ago.

DIRECTORS' REPORT

For the year ended 31 March 2006



GOLD & BASE METALS PROSPECTS (New Zealand)

Northland (100%)

Near the end of the period Heritage reviewed available exploration data for the Northland region and identified areas with geology favourable for precious metal and base metal mineralisation.

The region has had very little detailed exploration, although two companies are currently working on specific gold target areas in the north east. A review of geological indicators and other data encouraged Heritage to apply for two prospecting permits through its wholly owned subsidiary, Northland Minerals Limited.

The Hikurangi application in eastern Northland is prospective for gold, silver and porphyry copper-gold deposits. It is geologically similar to the Coromandel volcanic zone, which hosts the large Martha gold deposit and Heritage's Waihi district gold projects, but has had little modern exploration.

The Tangihua application on the western side of Northland covers geological features favourable for gold-rich volcanogenic massive sulphide base metal deposits. Several small examples occur in the area, although there has been no systematic modern exploration for these deposit types.

On granting, Northland Minerals is planning a programme of regional geophysics, geological mapping, geochemical surveys and computer-aided deposit modelling to assist delineation of prospect areas for detailed evaluation.

BROKEN HILL COBALT LIMITED (Heritage 33%)

Broken Hill Cobalt Limited holds two mining leases and an exploration licence over the Thackaringa Cobalt project, south west of Broken Hill, NSW.

The Company has applied for a further area that includes the present licence and ground previously held by Western Metals Copper Limited (Receivers & Managers Appointed) in the project area.

BHCL has completed several phases of metallurgical testwork to examine options for future processing of the mineralisation. Market surveys have been undertaken for cobalt and by-product minerals in the deposits, which have only been drill tested to 100m below surface.

The Company has an exploration licence south of Broken Hill, where several geophysical, geological, and geochemical anomalies represent targets with potential for gold and base metal mineralisation.

BHCL is currently examining options for stock exchange listing and funding to advance the evaluation work.

STOCK EXCHANGE LISTING

Shares in the Company are quoted on the New Zealand Stock Exchange, the Australian Stock Exchange, and the Stock Exchange of Newcastle. The Company's warrants are currently quoted on the New Zealand and Newcastle exchanges.

The financial report was authorised for issue by the Board on 6 June 2006.



Peter Atkinson
Managing Director
6 June 2006

SCHEDULE OF HERITAGE GOLD TENEMENTS

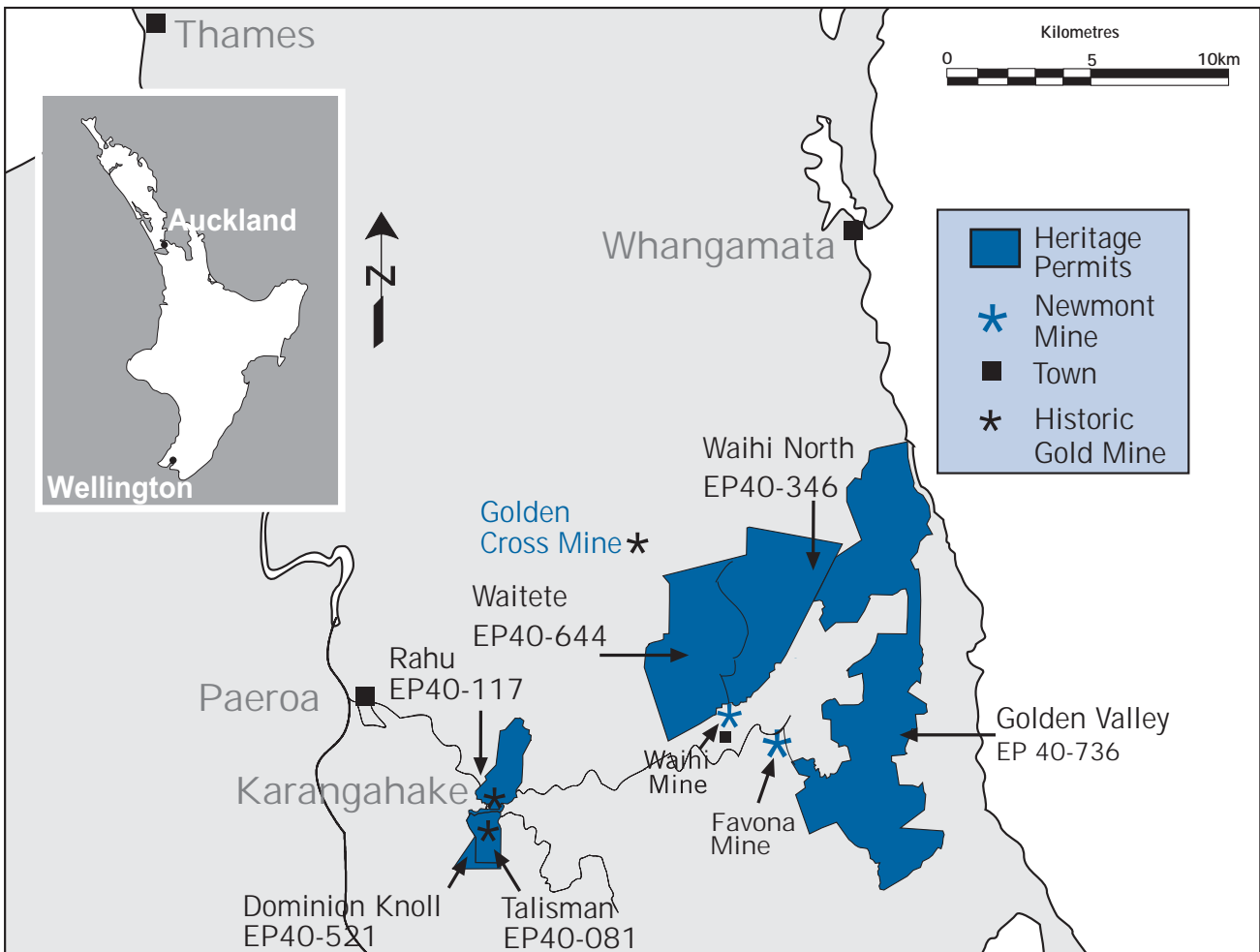
Granted Exploration Permits

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

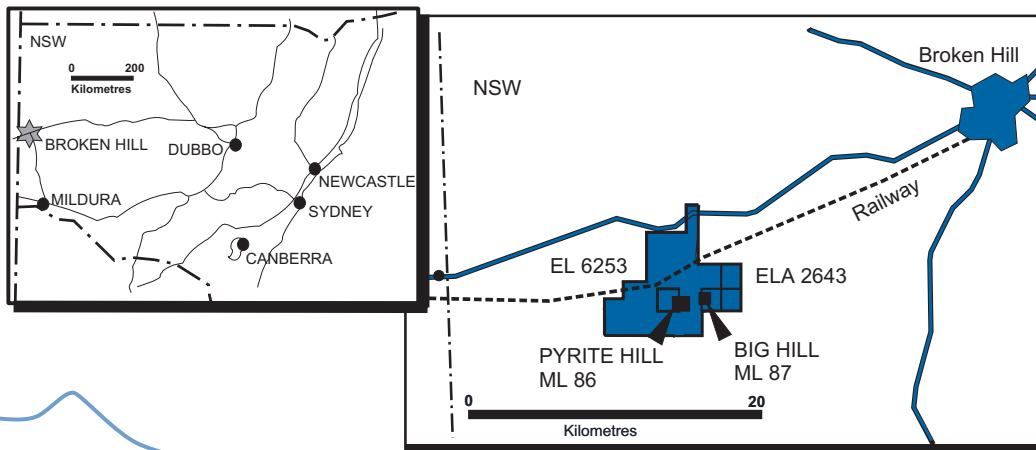
Prospecting Permit Applications

(by Northland Minerals Ltd)	
39 317	Hikurangi
39 318	Tangihua

GOLD PROJECTS – COROMANDEL NEW ZEALAND



THACKARINGA COBALT PROJECT – AUSTRALIA



AUDIT REPORT

TO THE SHAREHOLDERS OF HERITAGE GOLD NZ LIMITED

We have audited the financial statements on pages 6 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 2006. This information is stated in accordance with the accounting policies set out on page 9.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board is responsible for the preparation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2006 and of the results of operations and cash flows for the year ended 31 March 2006.

AUDITORS' RESPONSIBILITIES

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

BASIS OF OPINION

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

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

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

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

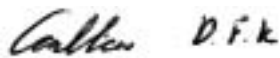
UNQUALIFIED OPINION

We have obtained all the information and explanations that we have required.

In our opinion :

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 6 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 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 6 June 2006 and our unqualified opinion is expressed as at that date.



CARLTON - DFK
Chartered Accountants
AUCKLAND

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 March 2006

	Note	Consolidated 31-Mar-06 \$	Parent 31-Mar-06 \$	Consolidated 31-Mar-05 \$	Parent 31-Mar-05 \$
REVENUE					
Other income		220,000	220,000	-	-
Interest received		32,466	32,466	38,268	38,268
Profit on sale of shares		1,041	-	2,745	492
Bad debts recovered		-	1,041	-	2,253
Foreign exchange gain/(loss)		15	15	(37)	(37)
Operating revenue		253,522	253,522	40,976	40,976
EXPENDITURE					
Depreciation - office equipment and fittings		4,916	4,916	4,827	4,827
Donations		578	578	-	-
Remuneration of directors	2	15,000	15,000	15,000	15,000
Rent and leasing		17,068	17,068	16,373	16,373
Interest expense		308	308	403	403
Audit fees - auditing financial statements		11,080	11,080	8,860	8,860
Operating expenses		456,187	456,187	327,076	327,076
Write off field expenditure		2,369,786	2,369,786	-	-
Operating expenses		2,874,923	2,874,923	372,539	372,539
Operating surplus/(deficit)		(2,621,401)	(2,621,401)	(331,563)	(331,563)
Share of retained surplus/(deficit) of associated company		(18,066)	-	(33,626)	-
Net surplus/(deficit) after share of retained surplus of associated company		(2,639,467)	(2,621,401)	(365,189)	(331,563)
Add accumulated deficit brought forward		(6,096,120)	(5,949,096)	(5,730,931)	(5,617,533)
Accumulated deficit at end of year		(8,735,587)	(8,570,497)	(6,096,120)	(5,949,096)

STATEMENT OF MOVEMENT IN EQUITY

For the year ended 31 March 2006

	Note	Consolidated 31-Mar-06 \$	Parent 31-Mar-06 \$	Consolidated 31-Mar-05 \$	Parent 31-Mar-05 \$
Equity at beginning of year		9,103,317	9,210,340	7,343,692	7,434,748
Net surplus/(deficit) after share of retained surplus of associated company		(2,639,467)	(2,621,401)	(365,189)	(331,563)
Increase (decrease) in revaluation reserve		(1,805)	496	18,244	585
Total recognised revenue and expenses		(2,641,272)	(2,620,905)	(346,945)	(330,978)
Contributions from owners:					
Shares/warrants issued/paid		1,168,064	1,168,064	2,106,570	2,106,570
		1,168,064	1,168,064	2,106,570	2,106,570
Equity at end of year		7,630,109	7,757,499	9,103,317	9,210,340

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 March 2006

	Note	Consolidated 31-Mar-06 \$	Parent 31-Mar-06 \$	Consolidated 31-Mar-05 \$	Parent 31-Mar-05 \$
EQUITY					
Total shareholder equity		7,630,109	7,757,499	9,103,317	9,210,340
Represented by:					
NON CURRENT ASSETS					
Property, plant and equipment	6	16,206	16,206	46,179	46,179
Share investments	3	51,884	14,184	53,688	13,688
Investment in Broken Hill Cobalt Limited	12	1,014,910	1,180,000	1,032,977	1,180,000
		1,083,000	1,210,390	1,132,844	1,239,867
Intangible assets					
Deferred expenditure:					
Capitalised prospecting expenditure	8	6,024,369	6,024,369	7,397,449	7,397,449
Total non current assets		7,107,369	7,234,759	8,530,293	8,637,316
CURRENT ASSETS					
Cash		1,013	1,013	6,945	6,945
Short term deposits		515,497	515,497	780,399	780,399
Intercompany loan		93,107	93,107	73,108	73,108
Debtors	7	17,758	17,758	82,480	82,480
Accrued income		1,063	1,063	1,991	1,991
Total current assets		628,438	628,438	944,923	944,923
Total assets		7,735,807	7,863,197	9,475,216	9,582,239
LESS CURRENT LIABILITIES					
Creditors	7	105,698	105,698	370,798	370,798
Hire purchase		-	-	1,101	1,101
Total current liabilities		105,698	105,698	371,899	371,899
		7,630,109	7,757,499	9,103,317	9,210,340

For and on behalf of the Board:
DIRECTOR



P R Atkinson
Dated: 6 June 2006

DIRECTOR



J M McKee
Dated: 6 June 2006

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 March 2006

	Note	Parent and Consolidated 31-Mar-06 \$	Parent and Consolidated 31-Mar-05 \$
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest received		33,332	37,016
Compensation claim		220,000	-
		253,332	37,016
Cash was disbursed to:			
Payments to suppliers		(421,258)	(327,941)
Payments to employees		(62,559)	(60,964)
Interest paid		(306)	(408)
		(484,123)	(389,313)
Net cash outflows from operating activities	14	(230,791)	(352,297)
CASHFLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of shares		-	2,745
Proceeds from sale of equity investments		-	10,625
		-	13,370
Cash was applied to:			
Prospecting expenditure		(1,183,871)	(1,556,920)
Purchase of property, plant and equipment		(1,043)	(7,635)
Equity investments		(22,086)	(69,285)
		(1,207,000)	(1,633,840)
Net cash outflows from investing activities		(1,207,000)	(1,620,470)
CASHFLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Issues of shares		1,168,064	2,106,570
Short term loan		192,007	-
		1,360,071	2,106,570
Cash was applied to:			
Hire purchase		(1,098)	(1,464)
Short term loan repayment		(192,007)	-
		(193,105)	(1,464)
Net cash inflows from financing activities		1,166,966	2,105,106
Net increase /(decrease) in cash held		(270,825)	132,339
Exchange gain/(loss)		(9)	(1)
Cash at beginning of year		787,344	655,006
Cash at end of year		516,510	787,344
CASH COMPRISES:			
Cash		1,013	6,945
Short term deposits		515,497	780,399
		516,510	787,344

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006

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 associate.

Measurement Base

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

Specific Accounting Policies:

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

Prospecting Costs

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

Mining Tenements

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

Property, Plant and Equipment

Property, Plant and Equipment is initially recorded at cost.

Depreciation

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

Rates used during the year were:

Computer software and hardware	Straight line	30-36%
Field equipment	Straight line	10-50%
Fixtures and fittings	Straight line	10-18.6%
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 recognised in the statement of financial position include cash balances, receivable, payables, investments in and loans to others and borrowing.

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

Associated Companies

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

Changes in Accounting Policies

The investment in associated company, Broken Hill Cobalt Limited was equity accounted for the 15 month period to 31 March 2006 (unaudited) (previous year - 6 months to 31 December). 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 2006

2. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2006 \$	2005 \$	
Directors			
PJD Elliott	7,500	7,500	
PR Atkinson	90,000*	90,000*	*of which \$11,400, (2005:\$11,400) is expensed and the remainder is capitalised in the Statement of Financial Position as part of field expenditure.
DJ Williams	-	-	
JM McKee	7,500	7,500	
GG Hill	-	-	
RN Stagg	-	-	
MG Hill (alternate)	-	-	
Employees			
No employee received remuneration and other benefits exceeding \$100,000.			

3. SHARE INVESTMENTS

	Consolidated 2006	Parent 2006	Consolidated 2005	Parent 2005
Investment in listed companies	42,785	5,085	44,589	4,589
Investment in other companies	9,099	9,099	9,099	9,099
Total share investments	\$51,884	\$14,184	\$53,688	\$13,688

Listed shares have been valued at market value.

Coromandel Gold Limited, the company's subsidiary, sold 1,150,000 shares in Training Solutions Limited (formerly E-Cademy Holdings Limited) and realised a gain on the sale of \$1,041. (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 \$8,910,026 (2005:\$7,536,946). There are non-mining taxation losses of \$8,329,879 (2005: \$5,764,698) 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 (2005:NIL).

6. PROPERTY, PLANT AND EQUIPMENT

Property, Plant & Equipment	Consolidated & Parent 2006			Consolidated & Parent 2005		
	At Cost	Accumulated Depreciation	Book Value	At Cost	Accumulated Depreciation	Book Value
Fixtures & fittings	2,127	1,485	642	2,127	1,236	891
Office equipment	8,210	4,817	3,393	7,773	3,177	4,596
Computer hardware	8,306	7,209	1,097	8,227	4,729	3,498
Computer software	1,843	1,409	434	1,315	862	453
Field equipment	70,691	60,051	10,640	68,962	32,221	36,741
Total	\$91,177	\$74,971	\$16,206	\$88,404	\$42,225	\$46,179

7. RELATED PARTY TRANSACTIONS

Payments for consulting services to companies in which Directors have a substantial interest amounted to \$32,119 (2005:\$67,086) (refer also to note 2). Project Geoscience provided technical services totalling \$27,023 and Williams & Hughes provided legal services totalling \$5,096, both at normal commercial rates.

At balance date, debtors included \$6,296 (2005:\$5,004) owing by companies in which directors had an interest. At balance date, creditors included \$27,952 (2005:\$28,231) 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 2006

8. DEFERRED EXPENDITURE

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

	Consolidated & Parent	
	2006	2005
Total prospecting cost and mining tenements	8,394,155	7,397,449
Less prospects written-off during the year	2,369,786	Nil
Total	\$6,024,369	\$7,397,449

Compensation Claim

The Company received \$220,000 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 \$75,461 (2005:\$26,938).

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 6.64% as at 31 March 2006, 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	
	2006	2005
Not later than one year	\$7,907	\$24,820
Later than one year but not later than two years	\$Nil	\$7,907

11. SUBSIDIARY COMPANIES

Name	Shareholding	Balance date	Activity
Coromandel Gold Limited	100%	31 March	Share investment
Northland Minerals Limited	100%	31 March	Mineral prospecting
Strength Investments Limited	100%	31 March	Non-trading

12. ASSOCIATE COMPANY

The group owns a 33% interest in Broken Hill Cobalt Limited. Broken Hill Cobalt owns the exploration rights to cobalt deposits in Australia. Its balance date is 30 June. The Group's share of Broken Hill Cobalt's deficit is based on audited financial statements to 30 June 2005 and unaudited interim financial information to 31 March 2006.

Investments in associate company	Consolidated	
	31 March 2006	31 March 2005
Share of associate's surplus/(deficit)	(18,067)	(33,625)
Income tax	Nil	Nil
Share of recognised revenue and expenses	(18,067)	(33,625)
Shares at cost	1,180,000	1,180,000
Share of surplus/(deficit)	(147,023)	(113,398)
Opening balance	1,032,977	1,066,602
Share of recognised revenue and expenses	(18,067)	(33,625)
Balance at end of year	\$1,014,910	\$1,032,977

13. EQUITY & RESERVES

Equity	Consolidated		Parent	
	2006	2006	2005	2005
Share capital (131,559,399 shares)	15,452,984	15,452,984	14,283,920	14,283,920
Warrants	577,371	577,371	578,371	578,371
Capital reserve	123,750	123,750	123,750	123,750
Share premium reserve	70,235	70,235	70,235	70,235
Asset revaluation reserve	100,900	100,900	100,900	100,900
Revaluation reserve share investments	40,456	2,756	42,261	2,261
Total shareholder equity	\$16,365,696	\$16,327,996	\$15,199,437	\$15,159,437

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006

13. EQUITY & RESERVES continued

Revaluation reserve	Consolidated 2006	Parent 2006	Consolidated 2005	Parent 2005
Opening balance	42,261	2,261	22,342	-
Revaluation of listed share investments	(1,805)	496	19,919	2,261
Closing balance	\$40,456	\$2,757	\$42,261	\$2,261

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. 49,999 warrants were converted to fully paid ordinary shares in September 2005.

Following the pro-rata rights issue in October 2005 the warrant conversion price is 6.5 cents each to convert the 222,626,682 remaining warrants to fully paid ordinary shares within 5 years of the issue date, ie 26 June 2007.

Share capital

	Consolidated & Parent			
	2006 Number	2006 \$	2005 Number	2005 \$
Opening Balance	108,009,400	14,283,920	82,009,400	12,177,350
Shares Issued	23,549,999	1,169,064	26,000,000	2,106,570
Closing Balance	131,559,399	\$15,452,984	108,009,400	\$14,283,920

A pro-rata rights issue on 31 October 2005 raised \$1,175,000 (before expenses) for the next phase of work at the Talisman Mine at Karangahake, for advancing exploration on the Company's cobalt and other gold properties and for working capital. 23,500,000 ordinary fully paid shares and 23,500,000 attaching options (listed) were issued at a share price of NZ 5 cents for each share with free attaching option.

Options – Listed

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

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

Options - Unlisted

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

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

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

	2006	2005
Net deficit after taxation and before including share of retained deficit of associates	(2,621,401)	(331,563)
Add non-cash items:		
Depreciation	4,916	4,827
Write off field expenditure	2,369,786	-
Exchange gain	(15)	37
	2,374,687	4,864
Add (less) movement in working capital:		
Decrease (increase) in debtors	(765)	(3,966)
Increase (decrease) in creditors	3,434	26,013
Decrease (increase) in prepayments	-	838
Decrease (increase) in GST	13,254	(48,483)
	15,923	(25,598)
Net cashflows from operating activities	\$(230,791)	\$(352,297)

15. CONTINGENT LIABILITIES

	Consolidated & Parent 2006	2005
Contingent Liabilities	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006

16. EARNINGS PER SHARE

Earnings/(deficit) per share	2006 (0.0224)	2005 (0.0038)
------------------------------	------------------	------------------

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

17. ADOPTION OF INTERNATIONAL FINANCIAL ACCOUNTING STANDARDS

The Directors have commenced planning for the transition to NZ IFRS and have made the decision to adopt NZ IFRS for the year ending 31 March 2008.

18. SIGNIFICANT EVENTS SINCE BALANCE DATE

There are no significant events occurring after balance date.

ADDITIONAL INFORMATION

STATEMENT OF DIRECTORS' INTERESTS

Directors held the following equity securities in the company at 31 March 2006:

	Beneficially held		Non-beneficially held		Held by associated persons	
	2006	2005	2006	2005	2006	2005
Ordinary Shares						
P R Atkinson	8,721,560	8,301,560	4,240,000	4,000,000	Nil	Nil
P J Elliott	1,440,000	Nil	Nil	Nil	Nil	Nil
G G Hill	Nil	Nil	24,472,080	20,393,400	Nil	Nil
R N Stagg	1,200,000	1,000,000	Nil	Nil	Nil	Nil
D J Williams	75,016	62,514	Nil	Nil	536,556	447,130
Warrants						
R N Stagg	500,255	500,255	Nil	Nil	Nil	Nil
D J Williams	41,676	41,676	Nil	Nil	1,000,000	1,000,000
Options (listed)						
P R Atkinson	420,000	Nil	240,000	Nil	Nil	Nil
P J Elliott	1,440,000	Nil	Nil	Nil	Nil	Nil
G G Hill	Nil	Nil	4,078,680	Nil	Nil	Nil
R N Stagg	200,000	Nil	Nil	Nil	Nil	Nil
D J Williams	12,502	Nil	Nil	Nil	89,426	Nil

In addition, Mr P J Elliott held 7,200,000 Executive Options (unlisted) refer to Note 13 in the Notes to Financial Statements.

Messrs J M McKee and M G Hill held no securities beneficially, non-beneficially or by an associated person.

The following general disclosures of interest were received in relation to the year ended 31 March 2006:

Name of Director	Entity	Status	Entity	Status
P R Atkinson	Broken Hill Cobalt Limited	Director	Coromandel Gold Limited	Director
	Prophecy Mining Limited	Director & Shareholder	Up Minister Limited	Director & Shareholder
P J Elliott	Argonaut Resources NL	Chairman	Australian Oriental Minerals	Chairman
	Magnesium International Limited	Deputy Chairman	NL	
G G Hill	Brickworks Investment Co Limited	Director	Broken Hill Cobalt Limited	Director
	Hills Industries Limited	Director	Huntly Investment Co Limited	Director
	Pacific Strategic Investments Limited	Director	PCP Securities Limited	Director
	Pitt Capital Partners Limited	Director	PSI Securities Limited	Director
	Rundle Capital Partners Limited	Director	So Co Limited	Director
	Souls Asian Investments Limited	Director	Souls Funds Management	Director
	Souls Private Equity Limited	Alternate Director for D Fairfull	Limited	
M G Hill (alternate for G G Hill)	Waterfront Group Limited	Director		
J M McKee	Broad Horizons Limited	Director		
R N Stagg	Broken Hill Cobalt Limited	Director	Project Geoscience Pty Limited	Director
	So Co Limited	Director		
D J Williams	Prophecy Mining Limited	Director & Shareholder	Sipa Resources Limited	Director
	Teck Cominco Australia Pty	Director	Williams & Hughes	Director

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 2006.

ADDITIONAL INFORMATION

CHANGES IN DIRECTORS

There were no changes in Directors during the year ended 31 March 2006. Mr P J Elliott resigned as Director on 3 May 2006.

SHAREHOLDING STATISTICS AS AT 7 JUNE 2006

Name	Shares	%
Southern Cobalt NL	20,000,000	15.20%
Peter R Atkinson	8,721,560	6.63%
Bestfield Company	8,640,000	6.57%
RBC Dexia Investor Services	6,250,000	4.75%
PCP Securities Ltd	4,472,080	3.40%
Prophecy Mining Ltd	4,240,000	3.22%
Clodene Pty Ltd	3,840,000	2.92%
Merrill Lynch (Australia) Nominees Ltd	2,826,325	2.15%
Baron Nominees Pty Ltd	2,665,000	2.03%
Clodene Pty Ltd	2,110,000	1.60%
Bluestar Management Pty Ltd	2,000,000	1.52%
Troyward Pty Ltd	2,000,000	1.52%
First NZ Capital Custodians Ltd	1,840,536	1.40%
Basil C McGirr	1,781,950	1.35%
Patrick J Elliott	1,440,000	1.09%
Ralph N Stagg	1,200,000	0.91%
Basil C McGirr	1,166,217	0.89%
Relativity Pty Ltd	1,138,800	0.87%
Peter W Hall	800,000	0.61%
Goffacan Pty Ltd	762,000	0.58%
TOTAL FOR TOP 20	77,894,468	59.21%
TOTAL SHARES	131,559,399	100.00%

DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Holders	Shares	%
1 - 1,000	26	20,281	0.02%
1,001 - 5,000	223	787,375	0.60%
5,001 - 10,000	205	1,771,918	1.35%
10,001 - 100,000	462	17,315,460	13.16%
100,001 and over	156	111,664,365	84.87%
Totals	1072	131,559,399	100.00%

SUBSTANTIAL SECURITY HOLDERS

As at 7 June 2006 the following holders have given notice, in accordance with the Securities Amendment Act that they are substantial security holders in the Company. The number of voting securities shown below is as last advised to the Company.

So Co Limited	20,000,000	Registered Holder and Beneficial owner
Peter Robert Atkinson	8,721,560	Registered Holder and Beneficial owner
Bestfield Company	8,640,000	Registered Holder and Beneficial owner

WARRANT HOLDING STATISTICS AS AT 7 JUNE 2006

Name	Warrants	%
John Mowbray	4,596,000	20.32%
Stuart M Mowbray & Richard F Oldham	3,627,600	16.04%
Basil C McGirr	1,336,082	5.91%
I E Properties Pty Ltd	1,248,000	5.52%
Forbar Custodians Ltd	1,200,000	5.30%
Michael J Smit	900,000	3.98%
Peter W Hall	640,000	2.83%
Relativity Pty Ltd	632,666	2.80%
Ralph N Stagg	500,255	2.21%
Cambell Developments Ltd	499,999	2.21%
Graeme H Gowland	450,000	1.99%
Frederick K Stone & Florence V Stone	348,666	1.54%
John Mowbray	337,333	1.49%

ADDITIONAL INFORMATION

WARRANT HOLDING STATISTICS AS AT 7 JUNE 2006 continued

Name	Warrants	%
First NZ Capital Custodians	301,993	1.34%
ASB Nominees Ltd	300,000	1.33%
Keith R Frankum	250,000	1.11%
Ross Asset Management Ltd	250,000	1.11%
Semerdziev Ianaki	248,750	1.10%
Susan J Fox	246,666	1.09%
Te Oneroa Ltd	234,131	1.04%
TOTAL FOR TOP 20	18,148,141	80.26%
TOTAL WARRANTS	22,612,681	100.00%

DISTRIBUTION OF WARRANT HOLDINGS

Size of Holding	Holders	Shares	%
2,000 - 5,000	52	132,014	0.58%
5,001 - 10,000	21	152,058	0.67%
10,001 - 100,000	70	2,852,643	12.62%
100,001 and over	29	19,475,966	86.13%
Totals	172	22,612,681	100.00%

OPTION HOLDING STATISTICS AS AT 7 JUNE 2006

Name	Options	%
PCP Securities Ltd	4,078,680	17.36%
Goffacan Pty Ltd	2,142,000	9.11%
Clodene Pty Ltd	1,630,000	6.94%
Bestfield Company	1,440,000	6.13%
Patrick J Elliott	1,440,000	6.13%
Clodene Pty Ltd	1,185,000	5.04%
Bluestar Management Pty Ltd	1,000,000	4.26%
William G Kroon	600,000	2.55%
Baron Nominees Pty Ltd	465,000	1.98%
Peter R Atkinson	420,000	1.79%
ANZ Nominees Ltd	418,000	1.78%
Basil C McGirr	337,016	1.43%
Peter W Hall	320,000	1.36%
Basil C McGirr	320,000	1.36%
Richard F Oldham	271,000	1.15%
Som Investments Pty Ltd	253,800	1.08%
Prophecy Mining Ltd	240,000	1.02%
James Lee McGirr	229,000	0.97%
Technica Pty Ltd	218,000	0.93%
Ralph N Stagg	200,000	0.85%
TOTAL FOR TOP 20	17,207,496	73.22%
TOTAL OPTIONS	23,500,000	100.00%

DISTRIBUTION OF OPTION HOLDINGS

Size of Holding	Holders	Shares	%
2,000 - 5,000	121	349,571	1.49%
5,001 - 10,000	55	467,581	1.99%
10,001 - 100,000	105	3,902,244	16.60%
100,001 and over	31	18,780,604	79.92%
Totals	312	23,500,000	100.00%

ADDITIONAL INFORMATION

CORPORATE GOVERNANCE

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

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

EXPLANATIONS FOR DEPARTURES FROM ASX GUIDELINES RECOMMENDATIONS

Principle 2 Recommendation 2.1

Notification of Departure:

The Board comprises 3 directors who the Company considers are not independent (Messrs Atkinson, Hill, and Stagg) and two directors who are considered to be independent. On 3 May 2006 Mr Elliott resigned as a director of the Company.

Explanation of 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 negates the need for a majority of independent directors, in particular where the financial affairs of the Company are concerned. In May 2006, Mr McKee, an independent non-executive director, replaced Mr Elliott 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. The Board also relies on the sign-off of senior management with respect to the financial reports, which sign-off has been provided in respect of the Company's 2005/2006 accounts. Finally, two independent directors are sufficient to constitute a quorum.

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 of 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

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 director remuneration packages are to be determined however the Remuneration Committee does not comply with principle 2.6 of the NZX Code in that the Remuneration Committee does not recommend the remuneration packages to shareholders.

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

Explanation of Departure:

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

Except as disclosed the Company adheres to the NZX Code.

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

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 that could be considered to affect his ability to exercise independent judgment. Having regard to materiality thresholds, the legal services provided by Mr Williams' law firm are not considered to be material either from Mr Williams's 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 and Ralph Stagg 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.

CONFIRMATION WHETHER PERFORMANCE EVALUATION OF THE BOARD AND ITS MEMBERS HAVE TAKEN PLACE AND HOW CONDUCTED

During the Reporting Period an evaluation of the whole Board was carried out. The evaluation process comprised part of a strategy meeting and occurred on 13 February 2006 and was conducted by the Chairman. Further on 2 May 2006 it was decided to appoint committee members to the nomination and remuneration committees to enable these to function more efficiently. Previously the full board carried out these duties.

RISK MANAGEMENT

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

REMUNERATION

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

Of the non-executive directors:

- James McKee and Patrick Elliott each receive a fixed fee for their services as directors during the Reporting Period;
- 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 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
- Mr Ralph Stagg is compensated for his services in an executive capacity and does not receive a separate fee for his services as a director.

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

There are no 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 that incorporates short and medium term incentives for executive directors.

REMUNERATION COMMITTEE

The Remuneration Committee met twice during the year, once as the full Board and once as a Committee comprised of Mr Williams and Mr McKee.

NOMINATION COMMITTEE

The Nomination Committee comprised of Mr McKee and Mr M Hill (alternate for Mr G Hill) met once during the year.

Directors

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

Alternate Director

Matthew G Hill (alternate to GG Hill)

Company Secretary

Mrs Sue Sangster

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Solicitors

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Simpson Grierson Law, Auckland
Williams & Hughes, Perth

Share Registrars

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Securities Listed

New Zealand Stock Exchange
Code: Shares HGD
Options HGDOA
Warrants HGDCA

Australian Stock Exchange
Code: Shares HTM
Options HTMO

Newcastle Stock Exchange
Code: Shares HGD
Options HGDOC
Warrants HGDXHA

