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*The Mining Investment Experts*

**OZEQUITIES  
COMMENTARY  
On Field Visit**

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## **Heritage Gold NZ Ltd (“HTM”)** *“First Class Gold Exploration Permits in NZ”*

*The week before last I spent a couple of days in New Zealand, inspecting the gold projects of HTM. The objective was to familiarise myself, as a non-executive director, with the merits of the projects. I thought I would kill two birds with one stone and present the FEC clients with a summary of my thoughts and perspectives of the potential, wearing my hat as an analyst.*

### *The Bottom Line – Promising, Inexpensive Gold Play*

I, like many others in Australia, had dropped Heritage off my radar screen. It actually took a field trip for me to appreciate just how good the ground is, and what the upside may be.

There is no doubting the quality of the gold exploration ground that HTM holds in New Zealand. The proximity adjacent to the Martha gold mine, currently producing at a rate of 100,000 oz p.a. and having produced about 8 million ounces over a long history, shows that it is in the right geological environment.

The 100%-owned Talisman gold mine already has a 200,000 oz resource and could support a tight, grade focused mining operation with considerable potential for resource extensions.

The market capitalisation is \$9.6m with the share price at 4.5¢. This is not expensive. Yes, there will need to be a capital raising soon as the cash balance is below \$1m, but this should not be a problem in the current gold environment.

The impetus of new, invigorated management provides its own momentum. The correct selling of the story, backed by exploration work in the field over the next 6-12 months, should lead to renewed interest in the stock as investors position themselves for leverage to the rising gold price.

### *Strategically Located in The Waihi Gold District*

HTM's main three groups of permits are strategically located at the southern end of the Coromandel Peninsula, which has produced over 13 mill. oz of gold and 60 mill. oz of silver from a number of deposits. Two of these lie adjacent to and partially surrounding the 8 mill. oz Martha Gold Mine, currently being operated by Newmont. The third project, Karangahake, covers the 1 mill oz. and second largest historical gold mine in the Coromandel, the Talisman gold mine.

### *Waihi North (see Diagram 1)*

HTM is looking for extensions of Newmont's Waihi orebody at depth and new ore positions in similar structural positions. The potential for parallel structures to the Martha veins is considered high, immediately north of the pit. The magnetic signature suggests that the same epithermal system can be traced at least 1 km into the HTM ground and two drill holes have already confirmed typical Martha-type alteration.

HTM intends to conduct geophysical surveys and drill test the targets. Conceptually, the company is targeting orebodies > 500,000 oz at grades of 7-12 gpt in three locations; Waihi Extensions, Mataura and Waitete.

To date HTM has spend almost \$800,000 and is aiming to spend another \$1.5-2m.

The Golden Valley permit, to the east, has provided some early encouraging results for similar styles of geology, but there has been very little detailed work conducted yet.

### *Talisman Gold Mine (100% HTM)*

The Talisman gold mine is a valuable asset that underpins the current share price with a gold resource of approximately 200,000 oz. Historically, it produced more than 1 mill. oz of gold and 3 mill. oz of silver. It last operated in the 1990s, on a small but very high grade basis, by private miners, on 8 Level. This is the level we entered on, walking almost 1100m into the mine which appeared to be relatively clean and safe. We observed a number of stopes worked in recent years with frequent inspection of the ore veins.

The main source of historical gold was the Maria vein which averaged 27 gpt over a strike length of 1.5 km, at an average width of 2-3m from surface at the top of the mountain to a depth of 700m, which is about 150m below sea level, at the base of the gorge. This is open at depth and offers the opportunity for mining of new positions (as opposed to remnant ore).

The Welcome/Crown vein system was lower grade at 15 gpt but it was more consistent than the Maria. It is located approximately 300m to the east of the Maria vein.

Interestingly, when Cyprus and NZ Goldfields were excavating a ventilation crosscut between these two veins in the 1980s, it intersected a totally new vein which it named the Mystery. Subsequently another company, believed to be Southern Gold, drove along the vein 30m to the north and 20m to the south. At the

northern end the final assay across the face was approximately 1.4m at 50 gpt. Thus the Mystery vein may offer a high grade narrow vein mining opportunity without the complications of remnant mining.

#### *Narrow, High Grade Gold Mines in Perspective*

This type of mine can be problematic for junior companies, particularly when there is a great deal of rehabilitation and dewatering to be undertaken. Companies invariably under-estimate the capital cost and the time it takes to build up sustainable production levels from a number of stopes. The key to a profitable mine is to minimise dilution and maximise grade, a point often lost when companies try to move too many tonnes to maximise efficiency of labour or to keep a hungry mill fully utilised. It is a specialised business.

As far as HTM is concerned, with the Talisman, there are some advantages. Most of the mine is “dry”, being above gorge level with good drainage. Remnant mining is a slow and tricky business, but the availability of depth extensions into virginal ground and untapped potential of the Mystery vein could make for an easier mining operation. Exploration drilling to confirm this vein could be undertaken from underground cuddies, thereby reducing drilling costs. Ultimately it may be sensible for HTM to joint venture development and production with a specialist narrow vein miner.

#### *Exploration Elsewhere on the Karangahake Permit*

Good exploration potential exists for repeats of the Talisman mine in parallel structures. These would be narrow high grade epithermal positions that could be accessed by adits rather than shafts, just as the Talisman was exploited. Geologically, the grades could easily be 10-20 gpt and widths could be 1.5-3.0m. Targets of 500,000 oz in size are realistic.

There have already been nine diamond drill holes completed at Rahu with all of them hitting gold mineralisation to some extent. Mineralised breccias have returned grades of 3 to 5 gpt in two holes, but with individual clasts of vein material assaying over 7gpt, suggesting a major mineralised vein structure at depth.

#### *History of Heritage in New Zealand*

Coincidentally, when I was working as an analyst at County Natwest in 1986, we raised most of the money for the IPO. At the time gold was strong and there was considerable potential for high-grade epithermal gold deposits on the Coromandel Peninsular in the north island of New Zealand. It was a classic “rim-of-fire” gold play. Back then there was a strong anti-mining lobby in NZ, particularly on the Coromandel. This slowed down exploration and caused considerable distraction that stymied enthusiasm in the early years.

Since then the attitude towards mining has softened considerably. The Kiwis have seen the benefits offered by successful gold mines such as Golden Cross, Macraes and Martha. The town of Waihi, around which HTM now has most of its projects, is strongly pro-mining.

Throughout the last 20 years the Company has persevered under the managing directorship of Peter Atkinson. Raising capital was often difficult, and by the time the Kiwis began to realise that gold mining was a good thing, the gold price itself served as a deterrent to investment in gold exploration. Nevertheless, the company managed to strengthen its tenement position and upgrade it, to the point where it now has some very exciting high grade potential waiting to be assessed – at the right time of the gold cycle – as the gold price is on an upward curve.

#### *A New Managing Director*

HTM has recently appointed a new MD, Trent Lash, a qualified mining engineer with decades of involvement in mining support services. Whilst it is his first directorship of an ASX-listed exploration company, he knows his way around the mining business.

#### *Dunmarra Uranium Licences*

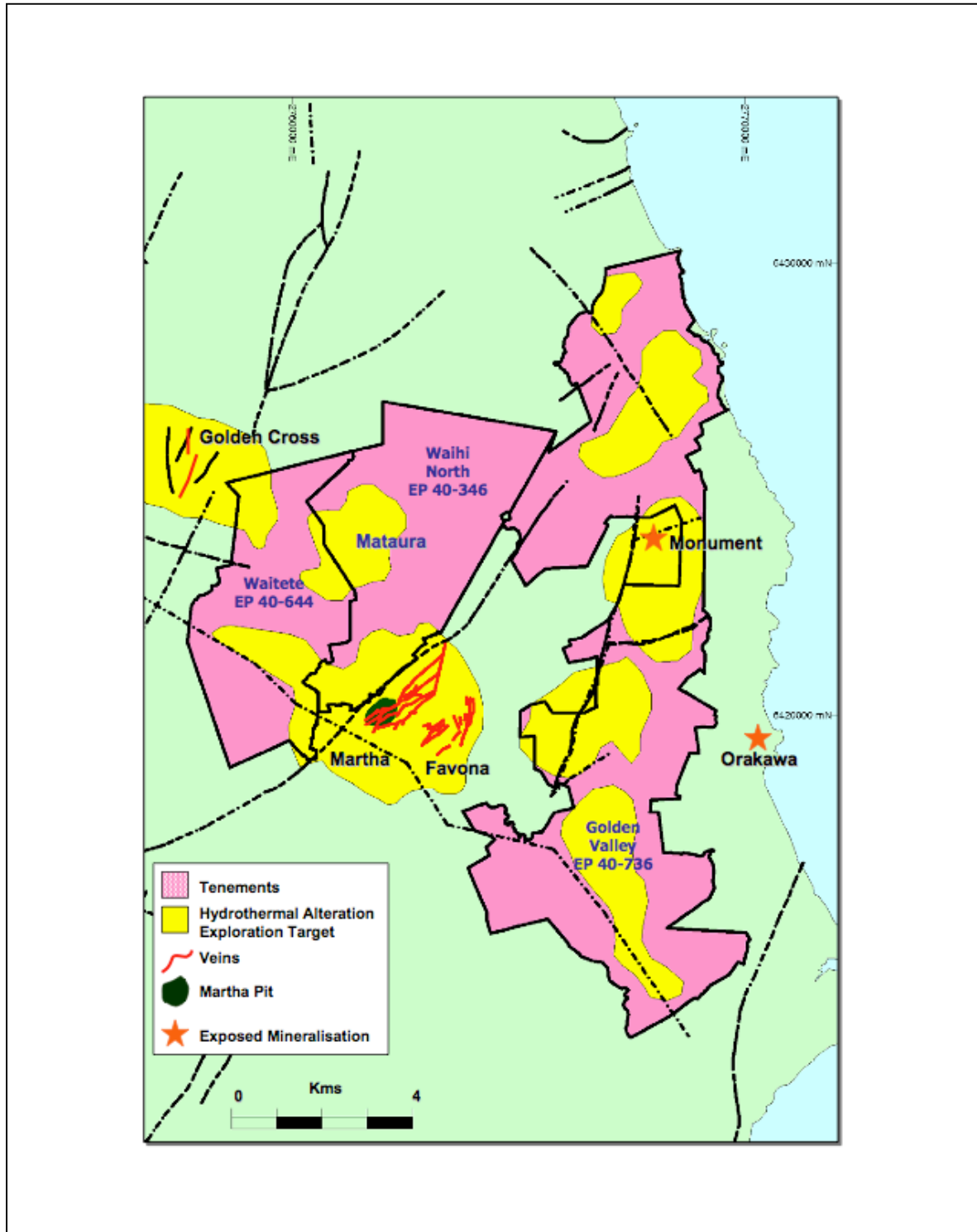
Although the uranium bubble has burst for the time being, HTM has the right to earn 50% of a potentially exciting uranium play in the Northern Territory. The concept revolves around the erosion and transportation of uranium from the rich Macarthur Basin to the north, to migrate and become trapped in sandstone structures at depths of approximately 50m. Previously drilled water bores have provided anecdotal evidence of uranium 30-40 years ago, but a modern program is required to verify the concept. Final grant of these licences is expected to be achieved in November.

#### *Thackaringa Cobalt Project*

HTM has a one third interest in a cobalt resource near Broken Hill. There is currently a plan to spin this out in a separate company that may raise \$5-7m to take the project to the next stage, and ultimately even production of a cobalt-rich pyrite concentrate for export to China.

Contact OZEQUITIES NEWSLETTER “Australia’s Most Comprehensive Daily Digest of Equities News”, at [ozequities@pacific.net.au](mailto:ozequities@pacific.net.au). Tel: +613 97485033. Warwick Grigor is a director of Far East Capital Ltd, an ASIC Licensed research and investment firm. He and his associates have a material interest in the securities of Heritage Gold NZ Ltd, being shareholders, and Warwick Grigor is a non-executive director of HTM. This report provides information of a general nature and it does not contain a recommendation, express or implied, to deal in the securities mentioned herein. A professional investment advisor should be consulted before acting on the contents

Diagram 1. Location of HTM Leases Showing Proximity to Martha Gold Mine



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