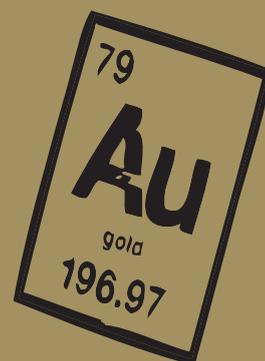


Heritage Gold NZ Limited Annual Report 2010



....unlocking value



HERITAGE

GOLD NZ LIMITED

Incorporated in New Zealand / ABN 009 474 702



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Directors' Report

For the year ended 31 March 2010

The directors are pleased to present the annual report for Heritage Gold for the year ended 31 March 2010.

HIGHLIGHTS

- **Talisman mining permit granted**
- **Joint venture search widens**
- **Scoping study updated**

OVERVIEW

A year ago we noted the impact of the global economic crisis on the stock market and our activities. While some uncertainty still prevails, the minerals sector, especially gold, appears to be recovering from that impact faster than most others.

In New Zealand, the minerals industry has been fortunate to have received considerable encouragement from the new National Party Government, at a time when other jurisdictions appeared to be trending in the opposite direction.

This was reflected in the support of shareholders to our NZ\$1.95M fund raising in December 2009, which is assisting our strategy to unlock the inherent value we have identified in several of our projects.

For the Karangahake gold project this is by way of a joint venture and/or sale of equity in the project. The Company is seeking an investment bank to manage the process of widening the search for a joint venture partner or investor. We are in discussions to achieve this and advance the development of this prime gold property.

The potential of the Golden Valley project is enhanced by its immediate proximity to New Zealand's richest gold mine at Waihi. We have initiated a low detection level geochemical survey to locate precious metal anomalies through barren cover rocks over known geophysical anomalies. This is being followed up by seismic surveys and drilling.

Near Broken Hill in New South Wales the Thackaringa property covers geological environments known to be highly prospective for cobalt and base metals, including several occurrences of Broken Hill style mineralisation.

Broken Hill Prospecting Ltd (BHPL), holder of the Thackaringa cobalt project, is now progressing a round of private fund raising for further drilling on the property, prior to preparing a prospectus for an IPO to secure a stock exchange listing for BHPL.

Very encouraging results from our successful exploration over the past three years have highlighted the significant cobalt and base metal potential within the two mining leases and the surrounding exploration licence. The listing of the company will crystallise the market value of Heritage Gold's 33% equity.

Meanwhile the company is reviewing other mineral opportunities as they arise.

Throughout the year Heritage has maintained a good working relationship with residents and land holders in the communities where it operates. In New Zealand this includes the Department of Conservation (DOC).

WAIHI GOLD PROJECTS (New Zealand) (100%)

KARANGAHAKE GOLD PROJECT

Talisman Mine

In New Zealand, the Karangahake project contains historically rich underground mines and a 4km long zone of epithermal mineralisation with gold resources delineated over part of its length.

Discussions with potential joint venture partners continued during the period and the decision was made to broaden the search for a suitable partner or equity investor for the property.

Approaches to investment banks will lead to selection of a suitable firm to manage the process for a formal joint venture or sale of equity in the project.

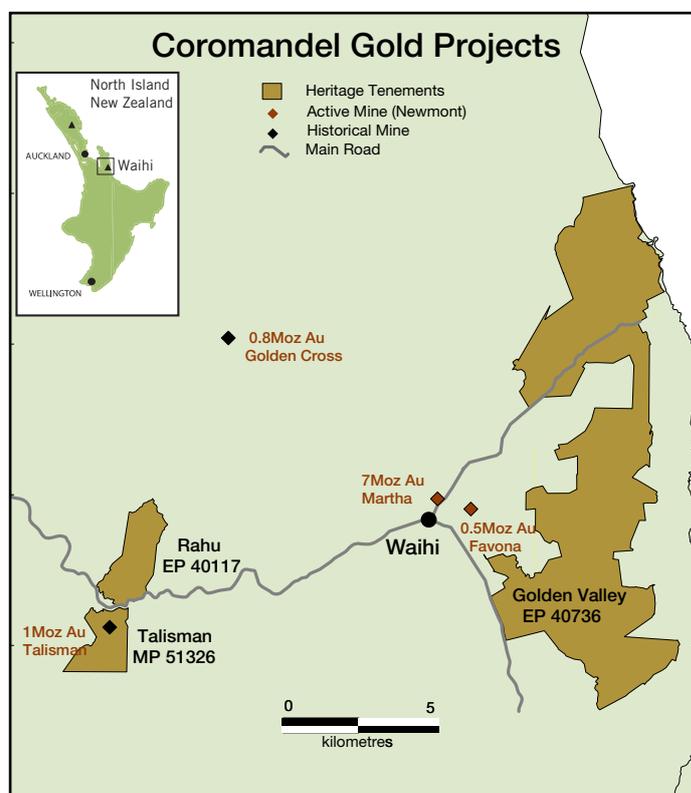
An independent review of the earlier (October 2008) scoping study was undertaken, enabling consideration of increases in the price of gold and silver, variations in likely capital and operating costs, and other parameters.

The resource target for the Karangahake project is 400,000-500,000 oz of gold, to support a production rate of 50,000 oz annually for 3 years, building to 100,000 oz in the medium term.

The mining centre has historic production of 1 million oz gold and 3 million oz silver, while the company has reported resources of 205,000 oz gold and 800,000 oz silver in the Talisman mine (ASX/NZSX release 31 Oct 2008, 11 May 2005).

The geological potential is well in excess of the resource target, as noted in the 2008 scoping study that estimated geological potential ranging from 0.83M to 3.3M oz gold, and 2.47M to 9.88M oz silver (ASX/NZSX release 31 October 2008).

(Note: Geological potential is conceptual in nature and insufficient exploration has been completed to allow estimation of a mineral resource as defined in the JORC Code. It is uncertain whether further exploration will result in the determination of a mineral resource.)



A mining permit covering the original Talisman and Dominion Knoll exploration permits was granted in December 2009 for a period of 25 years.

The Company has an access arrangement for exploration over the area with DOC and is considering its underground mining requirements for variations to this existing access.

At year end preparation of a project development report to underpin further negotiations for the Karangahake project was begun.

Research managed by the University of Auckland also commenced. Directed at studying the relationship between geological structure and known high grade gold mineralisation, it will complement a study being planned for the Rahu permit.

A good working relationship has been maintained with residents living near the project and DOC. Numerous tours of the mine were arranged, including a visit from the New Zealand Forest and Bird Society.

Rahu

The permit is north along strike from, and contiguous with, the Talisman mining permit.

Relogging of diamond drill core was completed to ensure consistency of interpretation. The data will be used in a planned independent structural interpretation of the property and subsequent geological modelling to aid prediction of higher grade mineralisation at depth, below the previous shallow indications of widespread low to medium gold values. This data will guide follow-up resource drilling.

The permit was extended until November 2011 and a variation of conditions agreed.

GOLDEN VALLEY PROJECT

The Golden Valley permit is contiguous with the eastern margin of Newmont's highly productive mining tenements.

Geophysical signatures in several areas of the permit reflect interpreted large scale hydrothermal alteration systems, similar to that hosting the Waihi gold deposits.

The permit is covered in large part by barren rocks, which obscure the underlying altered basement rocks of interest for their gold content.

Through research conducted by the University of Auckland a low detection level surface geochemical technique has been identified as likely to indicate concentrations of gold at depth beneath the cover rocks.

A seismic survey method was assessed in early 2009 as effective for estimating depth of cover rocks in the permit.

The geochemical technique is being applied to the areas of the geophysical anomalies and followed up with shallow seismic surveys to predict the thickness of barren cover, to enable drill targets to be identified.

The geochemical survey forms part of the University of Auckland's current research programme.

A change of conditions for the permit was granted to enable this work to form part of the agreed exploration programme.

OTHER WAIHI PERMITS

Waitete

In mid-2009 Heritage allowed the permit to expire due to its low prospectivity ranking.

GOLD AND BASE METALS PROJECT

(Northland, New Zealand) (100%)

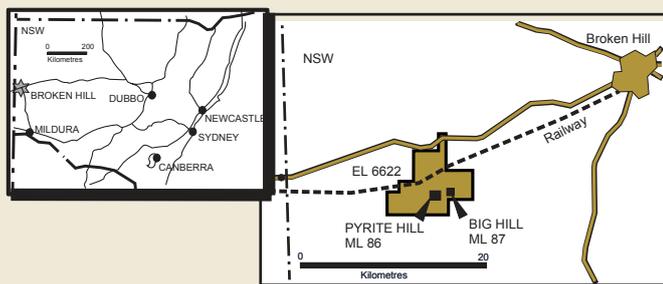
Following encouraging results the Company, through its wholly owned subsidiary Northland Minerals Limited, applied for extensions of term for the 3 prospecting permits. After balance date the applications were declined by the Ministry of Economic Development.

BROKEN HILL PROSPECTING LIMITED

(NSW, Australia) (Heritage 33%)

In the past three years BHPL has completed programmes of extensive geological mapping and sampling that identified sulphide gossan horizons in outcrop. These encouraging results were followed up by shallow rotary air blast (RAB) drilling to trace extensions of these horizons under thin soil cover.

THACKARINGA COBALT PROJECT – AUSTRALIA



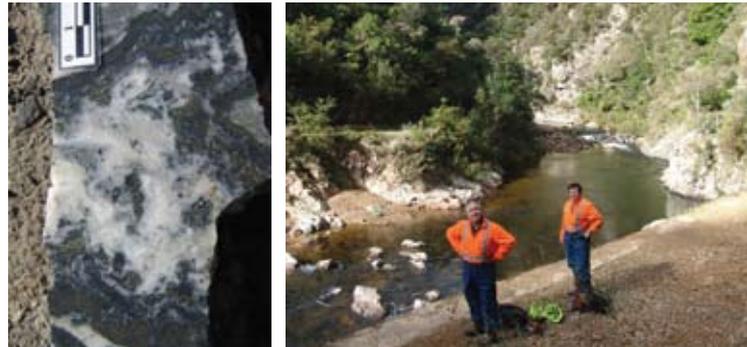
The gossans are anomalous for a variety of base metals, including cobalt, copper, lead and zinc, as well as gold.

Little detailed exploration of this type has been carried out in the past in this area and the encouraging results indicate significant potential for additional cobalt resources and new areas of Broken Hill-style base metal mineralisation.

Further RAB and reverse circulation (RC) drilling is planned for 2010, leading to diamond drilling to test deeper targets.

An Information Memorandum has been prepared and BHPL is undertaking a private fund raising to complete the planned drilling and for the preparation of a prospectus for an IPO, leading to a stock exchange listing later this year.

The company's exploration licence was renewed until August 2011.



COLLABORATIVE RESEARCH

Heritage Gold has continued to support and co-fund University of Auckland collaborative research projects in the Waihi district, with the Foundation for Research Science and Technology.

The research programmes are aimed at finding geological keys to the discovery of new gold deposits in this highly mineralised terrain.

OUTLOOK

The Board is determined to crystallise the value of the individual projects as expressed by the market capitalisation of the Company.

The interest shown by shareholders and their contact by telephone and email is appreciated.

On behalf of the Board,

Peter Atkinson
Executive Director

11 June 2010

DISCLOSURE:

1. The information in this report that relates to exploration results is based on information compiled by Mr Murray Stevens. Mr Stevens is an independent consulting geologist who is a corporate member of the AusIMM. Mr Stevens has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Stevens consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.
2. The statement referring to geological potential in the Talisman Scoping Study is based on the recognition that only part of the geological potential will be realised. The figures quoted range from 25% realisation to full realisation of the geological potential. This gives the range of 3.84 million tonnes at 6.7 g/t gold and 20 g/t silver, for 827,000 ounces gold and 2.47 million ounces silver to 15.37 million tonnes at 6.7 g/t gold and 20 g/t silver, for 3.3 million ounces gold and 9.88 million ounces silver.

Board of Directors

At 31 March 2010

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

Chairman and Non-executive Director

Geoffrey Hill is a merchant banker based in Hong Kong and is currently chairman of International Pacific Securities and principal of Hill Sherlock & Willis. He has over 30 years experience in the merchant banking industry. Career highlights include the formation of Bancorp Holdings, appointment to the board of Morgan Grenfell and Co Plc and the merger of his merchant banking business to form Pitt Capital Partners, with W H Soul Pattinson Partners in 2002.

Professional directorships include Hills Industries Limited, Asian Property Investments Limited, Centrex Limited, Broken Hill Prospecting Limited, Outback Exploration Limited, So Co Limited and Metals Finance Limited

Mr Hill has served as a Director of Heritage Gold for almost 11 years being appointed on 28 July 1999.

James Murray McKee BA (Hons)

Deputy Chairman and Non-executive (Independent) Director

Murray McKee practices as a public policy and risk management adviser 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 (1993–1995).

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 13 years, being appointed a Director on 16 March 1996.

Peter Robert Atkinson BSc, FAusIMM

Executive Director

Peter Atkinson is a New Zealand resident with 40 years of broad experience in the mining industry in Australasia, including 25 years experience as a director of listed companies. He has arranged joint ventures with international mining groups, the listing of mining companies on the New Zealand and Australian stock exchanges and the raising of risk capital in Australia, New Zealand and the United Kingdom.

Mr Atkinson has served on government advisory committees in New Zealand and Australia, is past president of the NZ Minerals Industry Association, and has managed the stock exchange listing of e-commerce companies in New Zealand.

He is also a director of Coromandel Gold Limited, Northland Minerals Limited, Broken Hill Prospecting Limited and Prophecy Mining Limited.

As founding director of Heritage Gold he has been on the Board since his appointment on 23 August 1985.

Matthew Geoffrey Hill MBA, MAICD, FINISIA

Non-executive Director

Matthew Hill's expertise lies in investment banking matters. Mr Hill is currently managing director of Asia Pacific Capital based in Sydney where he is responsible for corporate finance in the resources sector.

Mr Hill has previous experience in the media and venture capital sectors. More recently Mr Hill was business manager of Souls Private Equity Limited and executive director of Corporate Finance at Pitt Capital Partners in Melbourne.

Mr Hill was appointed as alternate director for Geoffrey Hill on 1 December 1999, and was appointed a Director on 10 October 2006.

Warwick Robert Grigor BEc, LLB, MAusIMM, FAICD

Non-executive (Independent) Director

Warwick Grigor is a graduate of the Australian National University having completed degrees in law and economics. He went straight from university to Hamersley Iron Pty Ltd in Perth before being employed as a senior mining analyst and research partner with stockbroking firms in Sydney.

Mr Grigor has over 25 years experience in financial markets and stock broking and is a founding partner and shareholder of BGF Equities. He heads the Sydney office of BGF Equities and is executive chairman and research director of BGF Equities with offices in Melbourne, Sydney and Hongkong.

In 1991 Mr Grigor established Far East Capital, a research-based investment bank specialising in emerging mining companies. He was senior gold analyst at County Natwest (Sydney) 1986–1991 where he was voted 'Best Mining Analyst' three years in a row by the Register of Australian Mining and was consistently rated among the sector's best.

Mr Grigor was appointed a Director on 19 April 2007.

Tenement Schedule

PERMITS HELD BY HERITAGE GOLD NZ LIMITED

Granted Mining Permit, Coromandel, New Zealand

51 326 Talisman

Granted Exploration Permits, Coromandel, New Zealand

40 117 Rahu

40 736 Golden Valley

Granted Exploration Licence, New South Wales, Australia

6622 Pine Ridge Extended



Audit Report

TO THE SHAREHOLDERS OF HERITAGE GOLD NZ LIMITED

We have audited the financial statements on pages 7 to 15. The financial statements provide information about the past financial performance of the Company and Group and their financial position as at 31 March 2010. 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 2010 and of the results of operations and cash flows for the year ended 31 March 2010.

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 New Zealand auditing standards. 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 information in the financial statements.

Other than in our capacity as auditors we have no relationship with, or interests in, the Company or Group.

Fundamental Uncertainty

In forming our unqualified opinion, we have considered the adequacy of the disclosures made in the financial report regarding

- the possible outcome of negotiations with potential joint venture partners to develop the Talisman mining permit area and
- maintaining adequate funding in the future to achieve successful commercial extraction and realisation of the mineral resources.

The financial report has been prepared on a going concern basis. The continuing validity of the going concern basis will depend on the success of these initiatives. The financial report does not include any adjustments that would result if the initiatives were not successful.

Details of the circumstances relating to this fundamental uncertainty are described in note 18.

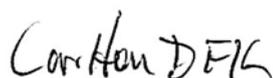
UNQUALIFIED OPINION

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 7-15.
 - comply with generally accepted accounting practice;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of the financial position of the Company and Group as at 31 March 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 11 June 2010 and our unqualified opinion is expressed as at that date.



Carlton - DFK
Chartered Accountants
AUCKLAND

Heritage Gold NZ Limited

STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 March 2010

	Note	Group		Parent	
		2010	2009	2010	2009
		\$	\$	\$	\$
Continuing Operations					
Other operating income	2	65,648	290,297	65,648	290,297
Administrative expenses	3, 4	(435,105)	(559,429)	(435,105)	(559,369)
Exploration costs written off	10	(290,510)	(2,315,399)	(147,253)	(2,315,399)
Loss from operations		(659,967)	(2,584,531)	(516,710)	(2,584,471)
Share of results of associates	13	38,390	(31,590)	-	-
Net profit/(loss) for the year		(621,577)	(2,616,121)	(516,710)	(2,584,471)
Total comprehensive income/(loss)		(621,577)	(2,616,121)	(516,710)	(2,584,471)
Net profit/(loss) attributable to:					
Company shareholders		(621,577)	(2,616,121)	(516,710)	(2,584,471)
Comprehensive profit/(loss) attributable to:					
Company shareholders		(621,577)	(2,616,121)	(516,710)	(2,584,471)
Earnings per share					
Basic earnings/(loss) per share					
From continuing operations		(0.20) cents	(0.91) cents	(0.17) cents	(0.90) cents
Diluted earnings/(loss) per share					
From continuing operations		(0.20) cents	(0.79) cents	(0.17) cents	(0.78) cents

Heritage Gold NZ Limited

STATEMENT OF CHANGES IN EQUITY

As at 31 March 2010

Note	Group 2010				Group 2009			
	Share Capital	Capital Reserves	Retained Earnings	Total Equity	Share Capital	Capital Reserves	Retained Earnings	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
Total comprehensive income/(loss)	-	-	(621,577)	(621,577)	-	-	(2,616,121)	(2,616,121)
Shares issued	7 1,929,699	-	-	1,929,699	-	-	-	-
Equity at beginning of year	22,339,695	335,341	(13,044,254)	9,630,782	22,339,695	335,341	(10,428,133)	12,246,903
Equity at end of year	24,269,394	335,341	(13,665,831)	10,938,904	22,339,695	335,341	(13,044,254)	9,630,782
Note	Parent 2010				Parent 2009			
	Share Capital	Capital Reserves	Retained Earnings	Total Equity	Share Capital	Capital Reserves	Retained Earnings	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
Total comprehensive income/(loss)	-	-	(516,710)	(516,710)	-	-	(2,584,471)	(2,584,471)
Shares issued	7 1,929,699	-	-	1,929,699	-	-	-	-
Equity at beginning of year	22,339,695	297,641	(12,729,089)	9,908,247	22,339,695	297,641	(10,144,618)	12,492,718
Equity at end of year	24,269,394	297,641	(13,245,799)	11,321,236	22,339,695	297,641	(12,729,089)	9,908,247

The accompanying notes form part of these financial statements

Heritage Gold NZ Limited
 STATEMENT OF FINANCIAL POSITION
 As at 31 March 2010

	Note	Group		Parent	
		2010	2009	2010	2009
Equity		\$	\$	\$	\$
Attributable to parent company shareholders	7	10,938,904	9,630,782	11,321,236	9,908,247
Attributable to minority interest	7	-	-	-	-
		10,938,904	9,630,782	11,321,236	9,908,247
Current liabilities					
Payables	8	109,987	76,158	109,987	76,158
Employees		22,708	19,802	22,708	19,802
Total current liabilities		132,695	95,960	132,695	95,960
Total equity and liabilities		11,071,599	9,726,742	11,453,931	10,004,207
Current assets					
Cash		2,053,730	807,114	2,053,730	807,114
Receivables and prepayments		21,308	22,142	21,308	22,142
Advances to related parties	8	107,841	295,754	251,158	375,356
Total current assets		2,182,879	1,125,010	2,326,196	1,204,612
Non-current assets					
Property, plant & equipment	9	18,500	30,164	18,500	30,164
Intangible assets	10	7,710,238	7,652,632	7,710,238	7,573,090
Investments	11	39,517	35,191	20,667	16,341
Investment in subsidiary companies	12	-	-	-	-
Investment in associate company	13	1,120,465	883,745	1,378,330	1,180,000
Total non current assets		8,888,720	8,601,732	9,127,735	8,799,595
Total assets		11,071,599	9,726,742	11,453,931	10,004,207

For and on behalf of the Board:



P R Atkinson
 Dated 11 June 2010



J M McKee
 Dated 11 June 2010

The accompanying notes form part of these financial statements

Heritage Gold NZ Limited
CASH FLOW STATEMENT
For year ended 31 March 2010

	Note	Group		Parent	
		Year 2010 \$	Year 2009 \$	Year 2010 \$	Year 2009 \$
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Interest received		26,318	99,330	26,318	99,330
Other		187	-	187	-
		26,505	99,330	26,505	99,330
<i>Cash was disbursed to:</i>					
Payments to suppliers		(334,224)	(634,984)	(334,224)	(634,984)
Rent		(23,137)	(30,841)	(23,137)	(30,841)
Payments to and on behalf of employees		(68,563)	(117,670)	(68,563)	(117,670)
		(425,924)	(783,495)	(425,924)	(783,495)
Net cash outflows from operating activities	16	(399,419)	(684,165)	(399,419)	(684,165)
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Intercompany loan repayments		817	-	817	-
Proceeds from sale plant and equipment		372	-	372	-
		1,189	-	1,189	-
<i>Cash was applied to:</i>					
Prospecting expenditure		(276,933)	(1,893,087)	(213,218)	(1,893,087)
Purchase of property, plant and equipment		-	(10,842)	-	(10,842)
Intercompany loans		(19,934)	-	(83,649)	-
		(296,867)	(1,903,929)	(296,867)	(1,903,929)
Net cash outflows from investing activities		(295,678)	(1,903,929)	(295,678)	(1,903,929)
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Issue of shares		1,955,706	-	1,955,706	-
<i>Cash was applied to:</i>					
Share issue expenses		(34,653)	-	(34,653)	-
Net cash inflows from financing activities		1,921,053	-	1,921,053	-
Net increase /(decrease) in cash held		1,225,956	(2,588,094)	1,225,956	(2,588,094)
Exchange gain/(loss)		20,660	154,324	20,660	154,324
Cash at start of year		807,114	3,240,884	807,114	3,240,884
Cash at end of year		2,053,730	807,114	2,053,730	807,114
CASH COMPRISES:					
Cash		113,730	391,081	113,730	391,081
Short term deposits		1,940,000	416,033	1,940,000	416,033
		2,053,730	807,114	2,053,730	807,114

All cash balances are available without restriction except for \$85,000 on deposit which is security for guarantees issued by the bank.

The accompanying notes form part of these financial statements

Notes to the Financial Statements

For the year ended 31 March 2010

1. STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Heritage Gold NZ Limited is a company incorporated in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX). The Company is an issuer for the purposes of the Financial Reporting Act 1993 and the financial statements of the company and group 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 accounting principles adopted are those recognised as appropriate for the measurement and reporting of earnings and financial position on the historical cost basis modified by the revaluation of certain assets. These consolidated and parent financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and comply with International Financial Reporting Standards (IFRS). For this purpose, the company has designated itself as profit-oriented. The financial statements comprise the consolidated financial statements of the group and the separate financial statements of the parent company. The information is presented in New Zealand dollars.

Specific accounting policies

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

(a) Prospecting costs

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

(b) 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, or the exploration or prospecting permit is relinquished, the value or cost of the tenement is immediately recognised as an expense in the statement of comprehensive income.

(c) Property plant and equipment

All property, plant and equipment is initially recorded at cost. When an item of property, plant and equipment is disposed of, the gain or loss is recognised in the statement of comprehensive income and is calculated as the difference between the sale price and the carrying value.

(d) Depreciation

Depreciation is provided on a straight line basis at rates calculated to allocate the difference between the cost and residual values of each asset over its estimated useful life. For this purpose, the Company has adopted the depreciation rates set by the Inland Revenue Department as appropriate.

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	10-67%
Office equipment	Straight line	18-24%

(e) Impairment

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication of 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 comprehensive income. Recoverable amount is the higher of fair value less costs to sell and value in use.

(f) Segment Information

Operating segments are reported if:

- Revenue is 10% or more of combined operating segment revenues;
- The absolute value of profit or loss is greater than 10% of the combined reported profits or losses of all operating segments, whichever is greater;
- Assets are 10% or more of the combined assets of all operating segments; or
- Information about the segment would be useful to users of the financial statements.

(g) Taxation

The company 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. Mining losses can be set off against non-mining income in the ratio 3:2. Deferred taxation assets are recognised in the financial statements only to the extent that it is probable that there will be future taxable profit to utilise them.

(h) Share capital

Ordinary shares and options are classified as equity. Direct costs of issuing shares and options are deducted from the proceeds of the issue.

(i) Cash flows

For the purpose of the statement of cash flows, cash includes cash on hand and deposits held at call with banks.

(j) Employee entitlements

The liability for annual leave is accrued and recognised in the statement of financial position.

(k) Foreign currencies

Transactions in foreign currencies are converted into NZ currency at the 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 resulting from these translations are recognised in the statement of comprehensive income.

(l) 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 net surplus 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.

(m) Basis of consolidation

The consolidated financial statements include the parent company and its subsidiaries accounted for using the purchase method. All significant intercompany transactions are eliminated on consolidation. In the parent company's separate financial statements, the investment in subsidiaries is stated at cost less any impairment losses.

(n) Associate companies

Associate companies are companies in which the group holds a substantial shareholding and in whose commercial and financial policy decisions it participates. Associate companies have been reflected in the consolidated financial statements on an equity accounting basis, which shows group's share of retained surpluses and its share of post acquisition increases or decreases in net assets in the statement of comprehensive income. In the parent company's separate financial statements, investment in associates is stated at cost less any impairment losses.

Notes to the Financial Statements

For the year ended 31 March 2010

(o) Financial instruments

Financial instruments recognized in the statement of financial position include cash balances, receivables, payables, investments in and loans to others and borrowing. Financial instruments are stated at market value. Any gain or loss is recognized in the statement of comprehensive income.

(1) Receivables and payables

Receivables and payables are initially recorded at fair value. Due allowance is made for impaired receivables (doubtful debts). The resulting carrying amount for receivables is not materially different from estimated realisable value.

(2) Share investments

Share investments in listed companies are designated as financial assets at fair value. They are initially recorded at cost and subsequently to market value. Gains or losses are recorded in the statement of comprehensive income. Share investments in unlisted companies cannot be reliably valued. They are therefore carried at cost less any impairment losses. Impairment losses, once recognised, are not reversed.

(p) Changes in accounting policies

There have been no changes in accounting policies other than the adoption of new and revised standards. Other accounting policies have been applied on bases consistent with those used in previous years. The impact of new standards is not expected to be material.

2. OPERATING INCOME

	Group Mar 2010	Group Mar 2009	Parent Mar 2010	Parent Mar 2009
	\$	\$	\$	\$
Interest	29,720	120,542	29,720	120,542
Gain on exchange valuation	31,277	168,573	31,277	168,573
Gain on share revaluation	4,326	1,182	4,326	1,182
Gain on equipment disposal	325	-	325	-
Total operating income	65,648	290,297	65,648	290,297

3. OPERATING EXPENSES BY NATURE

	Group Mar 2010	Group Mar 2009	Parent Mar 2010	Parent Mar 2009
	\$	\$	\$	\$
Audit fees	14,740	10,693	14,740	10,693
Depreciation	3,076	3,582	3,076	3,582
Directors fees	96,000	82,998	96,000	82,998
Directors remuneration	67,500	160,041	67,500	160,041
Employee salaries	66,137	112,227	66,137	112,227
Exploration costs written off	290,510	2,315,399	147,253	2,315,399
Rental & lease costs	23,137	30,841	23,137	30,841
Other	164,515	159,047	164,515	158,987
Total operating costs	725,615	2,874,828	582,358	2,874,768

4. DIRECTORS' AND EMPLOYEES' REMUNERATION

	Group and Parent	
	2010	2009
	\$	\$
PR Atkinson	67,500*	67,500*
JM McKee	20,000	20,000
GG Hill	28,000	14,000
MG Hill	20,000	20,000
WR Grigor	28,000	28,998
TW Lash	Nil	204,380*

*of which \$20,250 (2009:\$160,041) is expensed and the remainder is capitalised in the statement of financial position as part of field expenditure.

Remuneration of Employees

The number of employees, who are not directors, whose remuneration and benefits exceeded \$100,000 in the financial year was:

	Group	Parent
\$110,001-\$120,000	1	1

5. TAXATION

No income tax has been charged to the statement of comprehensive income. The company has estimated mining taxation losses available to offset against future mining income of \$10,437,290 (2009: \$10,300,412) and non-mining taxation losses of \$12,693,201 (2009: \$12,199,798) to carry forward. Such losses will only be available to be offset if:

- The Company derives future assessable income of a nature and an amount sufficient to enable the benefit of the losses to be realised;
- The Company continues to comply with the conditions for deductibility imposed by the law;
- There are no adverse changes in tax legislation or tax rates which affect the Company in realising the benefit from the deduction for the losses.

Tax effect accounting is applied on a comprehensive basis to all timing differences using the liability method but deferred tax will not be recognised unless future taxable profit is probable. There have been no movements through the imputation credit account, the balance of which is Nil (2009: Nil).

6. SEGMENT INFORMATION

During the current period, the Company had only one business segment - mineral exploration, within New Zealand and Australia.

Notes to the Financial Statements

For the year ended 31 March 2010

7. EQUITY & RESERVES

Equity	Group 2010 \$	Group 2009 \$	Parent 2010 \$	Parent 2009 \$
Share capital	24,269,394	22,339,695	24,269,394	22,339,695
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	40,456	2,756	2,756
Accumulated deficit	(13,665,831)	(13,044,254)	(13,245,799)	(12,729,089)
Total parent shareholder equity	10,938,904	9,630,782	11,321,236	9,908,247
Minority interest	-	-	-	-
	10,938,904	9,630,782	11,321,236	9,908,247

The group's capital is managed with the objectives of maintaining adequate working capital so that all obligations can be met on time. All components of equity are regarded as "capital". All internal capital management objectives have been met. This has not changed since last year.

Accumulated deficit	Group 2010 \$	Group 2009 \$	Parent 2010 \$	Parent 2009 \$
Opening balance	(13,044,254)	(10,428,133)	(12,729,089)	(10,144,618)
Net loss for year	(621,577)	(2,616,121)	(516,710)	(2,584,471)
Closing balance	(13,665,831)	(13,044,254)	(13,245,799)	(12,729,089)

There were no movements in other reserves.

Share capital	Group and Parent			
	2010 Number	2010 \$	2009 Number	2009 \$
Ordinary Shares				
Opening Balance	287,703,320	22,339,695	287,703,320	22,339,695
Shares Issued	55,849,868	1,929,699	-	-
Closing Balance	343,553,188	24,269,394	287,703,320	22,339,695

All authorised shares have been issued; there are no outstanding calls. All shares have equal voting rights and will share equally in dividends and surplus on winding up. The shares have no par value.

Options – Listed

The 35,825,129 Options issued per Prospectus dated 13 November 2007 expired on 20 November 2009.

Options - Unlisted

The 3,000,000 options issued to WR Grigor on 13 April 2007 expired on 13 April 2009.

The 3,000,000 options issued to TW Lash on 7 September 2007 expired on 22 December 2009.

8. RELATED PARTY TRANSACTIONS

Payments for consulting services to companies in which directors have a substantial interest amounted to \$115,500 (2009:\$312,378). At balance date creditors included \$84,051 payable to directors and other related companies (2009:\$13,053); debtors included \$321 (2009:Nil). No related party debts were written off during the period.

9. PROPERTY, PLANT & EQUIPMENT

	Group and Parent				
	Fixtures & fittings	Office equipment	Field equipment	Motor vehicle	Total
1 April 2009					
Cost	1,928	19,360	28,725	18,000	68,013
Accum depreciation	1,858	14,027	17,869	4,095	37,849
Carrying amount	70	5,333	10,856	13,905	30,164
Movement ended year ended 31 Mar 2010					
Additions	-	195	-	-	195
Depreciation	(23)	(3,053)	(4,485)	(3,780)	(11,341)
Disposals	-	(136)	(382)	-	(518)
	(23)	(2,994)	(4,867)	(3,780)	(11,664)
31 March 2010					
Cost	718	11,008	16,071	18,000	45,797
Accum depreciation	671	8,669	10,082	7,875	27,297
Carrying amount	47	2,339	5,989	10,125	18,500

Notes to the Financial Statements

For the year ended 31 March 2010

10. INTANGIBLE ASSETS

	Group		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Prospecting costs & mining tenements				
Opening balance	7,652,632	8,132,817	7,573,090	8,102,708
Development expenditure	348,116	1,835,214	284,401	1,785,781
Less prospects written-off during the year	(290,510)	(2,315,399)	(147,253)	(2,315,399)
Carrying amount	7,710,238	7,652,632	7,710,238	7,573,090

The carrying amount of intangible assets is stated at cost. The carrying value of prospecting costs is within a range determined by Mr Richard Barker and included in his valuation of the company's tenements dated 5 June 2009. The ultimate value of this asset is dependent on further development, successful commercial extraction and realisation of the respective areas. As there is no active market for these assets, the valuation was determined using other valuation techniques. Mr Barker has confirmed that he is not aware of any material impairment to the value of the company's tenements during the year ended 31 March 2010. Prospecting expenditure written off during the year included exploration permits relinquished – Waihi North during the previous financial year and Waitete and Northland permits relinquished in the current financial year.

11. SHARE INVESTMENTS

	Group		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Investment in listed companies	30,418	26,092	11,568	7,242
Investment in unlisted companies	9,099	9,099	9,099	9,099
Total share investments	39,517	35,191	20,667	16,341

Unlisted shares are held for the long term at cost because fair value of unlisted shares cannot be reliably measured.

12. SUBSIDIARY COMPANIES

	2010	2009	Incorp in	Balance date	Activity
Coromandel Gold Limited	100%	100%	NZ	31 March	Share investment
Northland Minerals Limited	100%	100%	NZ	31 March	Minerals exploration

All subsidiaries are direct subsidiaries of the company and the investment in each subsidiary is recorded at cost (Nil) in the statement of financial position.

13. ASSOCIATE COMPANY

The group owns a 33% interest in Broken Hill Prospecting Limited (formerly Broken Hill Cobalt Limited), an unlisted company incorporated in New Zealand. Broken Hill Prospecting owns mining rights to cobalt deposits in Australia. Its balance date is 30 June. On 31 January 2010 part of the existing loan was converted to shares. The group's share of Broken Hill Prospecting's deficit is based on unaudited financial statements to 31 March 2010.

Investment in associate company

	Group		Details of associate at 31 March 2010
	2010	2009	
	\$	\$	\$
Share of associate's surplus/(deficit)	38,390	(31,590)	Assets
Income tax	-	-	Liabilities
Share of recognised revenue and expenses	38,390	(31,590)	Revenue
Shares at cost	1,180,000	1,180,000	Loss for the 9 month period
Share of surplus/(deficit)	(296,255)	(264,665)	
Opening balance	883,745	915,355	
Convert loan to shares	198,330	-	
Share of recognised revenue and expenses	38,390	(31,590)	
Balance at year end	1,120,465	883,745	

14. FINANCIAL INSTRUMENTS

Credit Risk

Financial instruments which potentially subject the company to credit risk principally consist of bank balances and receivables. Surplus funds are placed on short term deposit with major trading banks and the company 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. No collateral is held on these assets and the balances are stated net of recognised impairment losses. All bank deposits were held with one bank and represented 100% of cash. 93% of receivables represents an advance to an associate company. No other receivables exceed 10% of total receivables. The group deals only with banks having at least an A credit rating.

Notes to the Financial Statements

For the year ended 31 March 2010

Currency Risk

The company has exposure to foreign exchange risk as a result of transactions from normal trading activities mainly denominated in Australian currencies. The company holds funds in an Australian currency bank account. Exposure to exchange is unhedged.

Liquidity Risk

Management supervises liquidity by budgeting and by carefully controlling expenditure from existing cash resources. The group relies on new equity to fund exploration expenditure.

Interest Rate Risk

The company has exposure to interest rate risk to the extent that it invests for fixed terms at fixed rates.

Re-pricing Analysis	Effective Interest Rate	Total \$	6 months or less \$
2010 short term bank deposits	4.4%	1,940,000	1,940,000
2009 short term bank deposits	3.3%	406,000	406,000

Over the long term changes in interest rates will affect profit or loss.

Fair Values

As stated in Note 3, the fair value of unlisted shares cannot be reliably measured. Except for unlisted shares, there is no material difference between the carrying amounts and estimated fair values of the company's financial assets and liabilities.

15. COMMITMENTS

Operating lease commitments

Lease commitments under non-cancellable operating leases:

	Group & Parent	
	2010	2009
	\$	\$
Not later than one year	14,000	24,650
Later than one year but not later than two years	8,167	9,883
	<u>22,167</u>	<u>34,533</u>

The group has capital commitments of Nil (2009:Nil)

16. RECONCILIATION OF OPERATING CASH FLOW AND REPORTED DEFICIT

	Group Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net deficit after taxation and before including share of retained deficit of associates	(659,967)	(2,584,531)	(516,710)	(2,584,471)
Add non-cash items:				
Depreciation	3,076	3,582	3,076	3,582
Write off field expenditure	290,510	2,315,399	147,253	2,315,399
Exchange (gain)/loss	(20,660)	(168,572)	(20,660)	(168,572)
	<u>272,926</u>	<u>2,150,409</u>	<u>129,669</u>	<u>2,150,409</u>
Add (less) movement in working capital:				
Decrease (increase) in debtors	(97)	1,415	(97)	1,415
Increase (decrease) in creditors	(14,491)	(290,280)	(14,491)	(290,340)
Decrease (increase) in accrued income	(3,401)	3,220	(3,401)	3,220
Decrease (increase) in GST	5,611	35,602	5,611	35,602
	<u>(12,378)</u>	<u>(250,043)</u>	<u>(12,378)</u>	<u>(250,103)</u>
Net cash flows from operating activities	<u>(399,419)</u>	<u>(684,165)</u>	<u>(399,419)</u>	<u>(684,165)</u>

17. CONTINGENT LIABILITIES

	Group and Parent	
	Mar 2010	Mar 2009
	\$	\$
Contingent liabilities	Nil	Nil

Notes to the Financial Statements

For the year ended 31 March 2010

18. GOING CONCERN

The financial report has been prepared on a going concern basis. The Directors retain sufficient funds to ensure that financial obligations can continue to be met for longer than 12 months. The continuing validity of the going concern basis will depend on:

- the outcome of negotiations with potential partners to develop the Talisman mining permit area, and
- maintaining adequate funding in the future to achieve successful commercial extraction and realisation of the Company's mineral resources.

The Directors are confident that these these initiatives will be achieved successfully.

19. EARNINGS PER SHARE

Shares on issue 1 April 2009	287,703,320
Issued 16 December 2009	55,849,868
Shares on issue 31 March 2010	343,553,188

	Group Mar 2010	Group Mar 2009	Parent Mar 2010	Parent Mar 2009
Profit/(loss) from continuing operations	(621,577)	(2,616,121)	(516,710)	(2,584,471)
Average number of shares on issue	306,319,943	287,703,320	306,319,943	287,703,320
Basic earnings per share	(0.20) cents	(0.91) cents	(0.17) cents	(0.90) cents
Diluted average shares on issue	306,319,943	329,528,449	306,319,943	329,528,449
Diluted earnings per share	(0.20) cents	(0.79) cents	(0.17) cents	(0.78) cents

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

20. EMPLOYEE BENEFITS

	Group Mar 2010	Group Mar 2009	Parent Mar 2010	Parent Mar 2009
Balance at beginning of year	19,802	35,587	19,802	35,587
Additional provision	15,326	19,083	15,326	19,083
Amount utilised	12,420	34,868	12,420	34,868
Balance at end of year	22,708	19,802	22,708	19,802
Represented by:				
Current liability	22,708	19,802	22,708	19,802

21. RECEIVABLES AND PREPAYMENTS

	Group Mar 2010	Group Mar 2009	Parent Mar 2010	Parent Mar 2009
Sundry receivables	5,724	11,239	5,724	11,239
Accrued income	5,117	1,716	5,117	1,716
Prepayments	10,467	9,187	10,467	9,187
	21,308	22,142	21,308	22,142

Health of receivables - all financial assets are within the contracts terms. None are overdue. (2009:Nil) and none are impaired (2009:Nil). No collateral is held for receivables.

22. JUDGEMENT AND ESTIMATION UNCERTAINTY

The preparation of financial statements of necessity involves judgement and estimation. The effect of judgement is greatest in the assessment of impairment to capitalised exploration expenditure. The directors have therefore obtained independent confirmation from an experienced valuer as described in Note 10.

23. SIGNIFICANT EVENTS SINCE BALANCE DATE

There have been no significant events since balance date.

Additional Information

DIRECTORS' INFORMATION

Name of Director	Relevant Interest in Ordinary Shares	
P R Atkinson	16,201,950	Substantial security holder - 9.96% holding
W R Grigor	2,000,000	
G G Hill	34,190,198	
M G Hill	Nil	
J M McKee	Nil	

The management services contract dated 27 May 1999 between the company and Up Minister Limited, a company associated with PR Atkinson, was extended for a further year, ending 31 March 2011.

Additional Information

DIRECTORS DISCLOSURE OF INTERESTS

The following general disclosures of interest were received in relation to the year ended 31 March 2010.

Name of Director	Entity	Status
P R Atkinson	Broken Hill Prospecting Limited	Director
	Coromandel Gold Limited	Director
	Prophecy Mining Limited	Director and Shareholder
	Up Minister Limited	Director and Shareholder
W R Grigor	Peninsula Minerals Limited	Director
G G Hill	Asian Property Investments Limited	Director
	Broken Hill Prospecting Limited	Director
	Centrex Limited	Director
	Hill Sherlock Willis & Partners	Director
	Hills Industries Limited	Director
	International Pacific Securities Group	Director
	International Pacific Strategic Investments Limited	Director
	Metals Finance Limited	Chairman
Outback Exploration Limited	Director	
M G Hill	Asia Pacific Capital Pty Limited	Director
	Broken Hill Prospecting Limited	Director
	International Pacific Capital Limited	Director
	International Pacific Capital (Fiji) Limited	Director
	So Co Limited	Director
Waterfront Group Limited (Fiji)	Director	
J M McKee	Broad Horizons Limited	Director

SHAREHOLDING STATISTICS AS AT 7 JUNE 2010

Name	Shares	%
So Co Limited	20,285,714	5.90%
Fortis Clearing Nominees Pty Limited	13,379,420	3.89%
Peter Robert Atkinson	10,901,950	3.17%
Hamish Elliot Brown	10,835,714	3.15%
Bestfield Company	9,700,000	2.82%
HFT Nominees Ltd	7,230,085	2.10%
International Pacific Capital Limited	6,388,685	1.86%
Basil Courtney McGirr	6,307,030	1.84%
Peter William Hall	5,500,000	1.60%
Prophecy Mining Limited	5,300,000	1.54%
James Lee McGirr	4,429,794	1.29%
Robert Marshall Walsham & Rachel Sandra Walsham	3,382,714	0.98%
Relativity Pty Ltd	3,135,618	0.91%
Troyward Pty Ltd	3,000,000	0.87%
Feoh Pty Ltd	2,985,714	0.87%
Relativity Pty Ltd	2,962,618	0.86%
Pacific Gold Resources Limited	2,790,000	0.82%
Ianaki Semerdziev	2,610,714	0.77%
John Reader Mowbray	2,253,562	0.67%
Karakoram No2 Pty Limited	2,250,214	0.66%
TOTAL FOR TOP 20	125,629,546	36.57%
TOTAL SHARES	343,553,188	100.00%

DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Holders	Shares	%
1 - 1,000	98	28,521	0.01%
1,001 - 5,000	223	788,219	0.23%
5,001 - 10,000	224	1,905,514	0.55%
10,001 - 100,000	811	34,195,375	9.95%
100,001 and over	470	306,635,559	89.25%
TOTAL	1,826	343,553,188	100.00%

Corporate Governance

In accordance with the ASX Corporate Governance Council's Principles and 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 statement. 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 committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

EXPLANATIONS FOR DEPARTURES FROM ASX PRINCIPLES AND RECOMMENDATIONS

During the Company's 2009/2010 financial year ("Reporting Period") the Company has followed each of the ASX Principles and Recommendations, other than in relation to the matters specified below.

Principle 2

Recommendation 2.1: A majority of the Board should be independent directors

Notification of Departure

The board does not have a majority of independent directors. For the Reporting Period, two directors were considered independent.

Explanation for Departure

The Board considers that it continues to be of a suitable structure to govern the Company's affairs in a manner that is in the best interests of shareholders. The Board has put in place appropriate safeguards, in particular, where the financial affairs of the Company are concerned. The Audit Committee is made up of the two independent directors who had the opportunity to meet separately with the external auditor in respect of the financial reports. The Audit Committee monitors and makes recommendations for improvement of the Company's internal controls. The Board also relied 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 2009/2010 accounts.

Principle 2

Recommendation 2.2: The chairperson should be an independent director

Notification of Departure

The Chair is not an independent director.

Explanation for Departure

The Company has been chaired by Mr Geoffrey Hill who is not independent. The Board believes that Mr Hill is the most appropriate person for the position as chair at this time because of the extent of his experience. The only matter that precludes Mr Geoffrey Hill from being independent is his substantial shareholding. The Board believes however that Mr Geoffrey Hill has consistently demonstrated that he is able to make decisions that are in the best interests of the Company.

Principle 4

Recommendation 4.2: Structure the Audit Committee so that it consists of only non-executive directors, a majority of independent directors, an independent chairperson who is not chairperson to the Board, and at least 3 members

Notification of Departure

The Audit Committee is comprised of two members

Explanation for Departure

The Audit Committee is comprised of the two independent directors of the Board. The Board considers the Audit Committee to be comprised of the most appropriate mix of skills and expertise in order to carry out the function of the Audit Committee. The Board has adopted, and the Audit Committee applies, an Audit Committee Charter.

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

Director remuneration packages should be recommended to shareholders

Notification of Departure:

The Remuneration Committee is governed by 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

Directors should be encouraged to take a portion of remuneration under a performance based equity security compensation plan

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 once 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 3.10

A nomination committee should recommend director appointments to the Board and a majority of the nomination committee should be independent directors

Notification of Departure:

The composition of the nomination committee did not comply with principle 3.10 of the NZX Code in that it did not comprise a majority of Independent Directors (i.e. only one out of the two directors was 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

Corporate Governance

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.

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

A profile of each director containing the skills, experience, expertise and term of office of each director is set out in the director profiles.

IDENTIFICATION OF INDEPENDENT DIRECTORS

ASX requirements

In considering independence of directors, the Board refers to the criteria for independence as set out in Box 2.1 of the ASX Principles and Recommendations ("**Independence Criteria**"). 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.

Applying the Independence Criteria, during the reporting period, the independent directors of the Company were J (Murray) McKee and Warwick Grigor.

NZX requirements

Mr J (Murray) McKee and Mr Warwick Grigor were determined Independent Directors pursuant to NZX Listing Rule 3.3.2. Peter Atkinson, Geoffrey Hill and Matthew Hill were determined as not being Independent Directors for the purposes of NZX Listing Rule 3.3.2.

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.

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 was carried out. The evaluation process occurred during the Board Strategy meeting on 24 September 2009. The evaluation was conducted by the chairman and was comprised of an informal round table discussion between the board members.

RISK MANAGEMENT

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

The Company has adopted a Risk Management Policy (available on the Company's website). Under the Policy, the Board delegates day-to-day management of risk to the Chief Executive Officer (or equivalent). The Policy sets out the role of the Chief Executive Officer (or equivalent) and accountabilities. It also contains the Company's risk profile and describes some of the policies and practices the Company has in place to manage specific business risks.

ASSURANCES TO THE BOARD

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) have provided a declaration in accordance with Section 295A of the Corporations Act and have assured the Board that such

declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk.

REMUNERATION

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

Of the non-executive directors:

- Warwick Grigor received a fixed fee for his services as a director;
- Geoffrey Hill received a fixed fee for his services as a director;
- Matthew Hill received a fixed fee for his services as a director;
- J (Murray) McKee received a fixed fee for his services as director.

Of the executive directors:

- Peter Atkinson received a fixed fee for his consulting services to the company.

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 termination or retirement benefits for directors.

REMUNERATION COMMITTEE

The Remuneration Committee members are Mr J McKee and Mr W Grigor. During the Reporting Period the Remuneration Committee held one meeting and both members attended the meeting.

NOMINATION COMMITTEE

The Nomination Committee members are Mr J McKee and Mr M Hill. During the Reporting Period the Nomination Committee held one meeting and both members attended the meeting.

AUDIT COMMITTEE

Names and Qualifications of Audit Committee Members

During the Reporting Period, the Audit Committee members were:

J (Murray) McKee (Independent, Chair);
Warwick Grigor (Independent).

Details of each of the director's qualifications are included in the Board of Director's Profiles. While neither of the Audit Committee members have specific financial qualifications, both members consider themselves to be financially literate and have financial experience and industry knowledge. Mr McKee has gained significant financial experience from his careers in management consulting and senior management over the past 30 years. Mr Grigor has extensive experience as a senior mining analyst and research partner with stock broking firms specialising in mining.

Number of Audit Committee Meetings and Names of Attendees

During the Reporting Period the Audit Committee held two meetings and Mr McKee and Mr Grigor attended both meetings.

Company Directory

Directors

Geoffrey G Hill (Chairman)
J Murray McKee (Deputy Chairman)
Peter R Atkinson (Executive Director)
Warwick R Grigor
Matthew G Hill

Company Secretary

Mrs Sue Sangster

Registered (Head) Office

541 Parnell Road, Parnell
Auckland 1052, New Zealand
Telephone (+64 9) 303-1893
Facsimile (+64 9) 303-1612
Email: office@heritagegold.co.nz
Website: www.heritagegold.co.nz

Principal Office in Australia

1st Floor, 25 Richardson Street
West Perth
Western Australia 6005
Telephone (+61 8) 9481-2040
Facsimile (+61 8) 9481-2041

Bankers

Westpac Bank, Auckland
National Australia Bank, West Perth

Auditors

Carlton DFK
Carlton DFK Centre
135 Broadway
Newmarket
Auckland

Solicitors

Chapman Tripp, Auckland
Simpson Grierson, Auckland
Williams & Hughes, Perth

Securities Listed

New Zealand Stock Exchange
Code: Shares HGD
Australian Securities Exchange
Code: Shares HTM

Share Registrars

New Zealand:

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna, North Shore City 0622
New Zealand
Telephone (+64 9) 488 8777
Facsimile (+64 9) 488 8787

Australia:

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067, Australia
Telephone 1300 850 505
Overseas callers (+61 3) 9415 4000

Managing your shareholding online:

To change your address, update your payment instructions and view your investment portfolio including transactions please visit

www.computershare.co.nz/investorcentre

General enquiries can be directed to:

enquiry@computershare.co.nz

Please assist our registrar by quoting your CSN or shareholder number

Glossary

Alteration: a change to the mineral composition of a rock, typically brought about by the action of hydrothermal fluids

Anomaly: value higher or lower than the expected or norm

g/t: grams per tonne (same as ppm or parts per million)

Geochemical survey: measuring element concentrations in naturally occurring substances (including rocks, soils, stream sediments, vegetation) as aids in the search for economic deposits of metallic minerals

Geochemistry: the study of the abundances of elements in rocks

Geophysics: exploration techniques which rely upon physical contrasts between rock or mineral species

Gossan: a leached, oxidised surface expression of mineralisation

Hydrothermal: pertaining to hot emanations of magma, rich in water

Mineralisation: the group of minerals of interest; generally taken to be sulphide or precious metal minerals

RAB drilling: rotary air blast drilling that uses high-velocity compressed air to blow rock particles cut by the drill bit up to the surface

Resource: a mineral occurrence from which valuable minerals may be recovered; with varying levels of confidence, a resource may be classified as measured, indicated or inferred

Seismic techniques: a seismic detector receives seismic impulses generated by an explosive or dropping a heavy weight on the ground and converts them into readable signals. These can be interpreted to show different rock layers at various depths

Strike: the course or bearing of the rock outcrop of an inclined bed on a level surface

