

HERITAGE

GOLD NZ LIMITED

Incorporated in New Zealand / ABN 009 474 702



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www.heritagegold.co.nz

unlocking world class mining opportunities



DIRECTORS' REPORT

For the year ended 31 March 2011

The directors are pleased to present the annual report for Heritage Gold for the year ended 31 March 2011.

HIGHLIGHTS

- Development options for the Karangahake gold project near Waihi are under active consideration, including a joint venture or a mining alliance with a contractor
- Evaluation is underway of potential large-scale gold projects in the Pacific "Ring of Fire", including projects in Papua New Guinea
- Broken Hill Prospecting Ltd raised A\$4.5M in successful IPO and has undertaken successful drilling programmes on two base metal prospects
- Further drilling is planned by BHPL to extend its JORC compliant cobalt resource

OVERVIEW

The main focus of Heritage Gold is the search for precious metal deposits in the Pacific Ring of Fire, the volcanic chain that describes a rough circle around the perimeter of the Pacific and hosts many large precious and base metal deposits.

In New Zealand negotiations were underway in the latter half of the year with several companies recently showing interest in joint venturing the Karangahake gold project near Waihi.

Thanks to the strong gold price, the Company is also reviewing other development alternatives, which include commencing with a small scale operation through a mining alliance with a contractor, as a base from which to expand later.

Heritage is engaging a mining consultant to further update its Karangahake scoping study and to review all mining options. Plans also are afoot to strengthen the Company's mining expertise by recruiting a mining engineer.

A first stage access consent will be sought from the Department of Conservation in July 2011 for the existing Mining Permit.

At Golden Valley, the Company's second Waihi project, several gold geochemical anomalies were outlined after substantial exploration work using a variety of techniques. These focussed on detecting favourable drilling targets beneath barren cover rocks in the permit, which is adjacent to the operating Martha and Favona gold mines.

The Company also supported ongoing research by the University of Auckland into new exploration techniques to assist further discoveries. Heritage continued to maintain a good working relationship with residents and landowners in its operating permits.

Heritage is also looking to expand its operations by reviewing promising precious metal opportunities in the Pacific region. Discussions have been held regarding one project in Papua New Guinea, and a second potential venture has recently emerged. The Company has an experienced team of employees and consultants who have expertise in epithermal gold deposits, narrow vein mining and engineering. They are also conversant with resource consents, permitting, environmental issues and community consultation.

In Australia, as we foreshadowed last year, Broken Hill Prospecting Limited (BHPL) completed a pre-IPO funding round. This was followed by a successful IPO which raised A\$4.5M and the company listed on the

ASX and NZSX on 17 February 2011.

BHPL completed an extensive rotary air blast (RAB) drilling programme of anomalous base metal gossan zones followed by reverse circulation (RC) drilling on two of the major base metal anomalies in its Thackaringa exploration licence, with encouraging results.

The market value of Heritage Gold's 21.7% equity in BHPL was NZ\$4.7M on 31 March 2011.

WAIHI GOLD PROJECTS (NEW ZEALAND) (100%)

KARANGAHAKE PROJECT

Talisman Mine

Heritage Gold is 100% owner of the project, which includes a 25-year mining permit over 299 hectares, including the historic Talisman and Crown-Welcome mines, and holds the Rahu exploration permit over 405 hectares adjacent to the mining permit.

Karangahake hosts several mines which are collectively among the largest historical producers in the Hauraki Goldfield with recorded production of 1M oz gold and 3M oz silver. The Company has outlined a JORC compliant¹ mineral resource of 205,000 oz gold and 800,000 oz silver in the mining permit and is confident of the potential to substantially expand the tenor and scale of the resource.

Karangahake is about 12 kilometres west of Waihi where the Martha and Favona gold mines are currently operated by Newmont Mining. The Martha mine has produced more than 7.5M oz gold and more than 43M oz silver since 1883.

While Heritage continues with due diligence investigations by potential joint venture partners it is also considering other options for the development of the existing resource and preparing a new scoping study for the project.

A further announcement on the evaluation and development of the project will be made by the end of the September quarter.

The Directors are confident the geological potential at Karangahake is significantly greater than the existing resource, particularly in extensions to the Talisman ore shoots, parallel vein zones, concealed veins and north along strike through Taukani Hill and into the Rahu permit.

Taukani Hill Exploration

As part of the evaluation of additional resources Heritage has extended surface exploration to Taukani Hill, immediately north of the Talisman mine, where it has mapped extensions of the Talisman mine vein system.

Initial sampling and mapping work has been encouraging and results are expected to be available in mid-July.

An MSc research student from the University of Auckland conducted regional soil sampling in the southern Hauraki Goldfield and used the results to define background levels for gold, silver and common pathfinder elements.

This work allows more quantitative definition of geochemical anomalies in soils over epithermal deposits. Follow up work at Karangahake validated these results by clearly defining the gold bearing veins.

Rahu

During the period Heritage Gold has applied additional techniques to locate favourable targets within the broad, mineralised breccia zones previously drilled.

Work has included relogging of drill core, re-interpretation of the structural geology, review of previous geochemical and geophysical data, detailed surface mapping to correlate outcrop with drill hole intersections at





depth, and a CSAMT geophysical survey designed to penetrate to about 300 metres depth. Results from the CSAMT survey are due by early July.

Detailed studies of the favourable breccia zones are in progress.

The objective of the programme is to locate high grade feeder veins, analogous to other gold deposits in the district, by

defining suitable drilling targets at depth beneath the low grade breccia mineralisation.

GOLDEN VALLEY PROJECT

The property covers about 25 square kilometres and extends along the eastern margin of Newmont's Martha and Favona gold mines at Waihi.

In the March quarter 2011 the term of the exploration permit was extended for a further 5 years and a change of conditions was approved which will assist the exploration programme.

Work completed in the period included close spaced, low detection limit geochemical soil surveys and seismic survey lines to model geochemical and geophysical anomalies beneath variable thicknesses of barren cover rocks, to aid drilling target identification.

BROKEN HILL PROSPECTING LIMITED (AUSTRALIA) (21.7%)

The company lodged a prospectus in November 2010 for the issue of up to 25 million shares at A\$0.20 each with one free attaching option (exercisable at A\$0.20 within three years of listing) for every two shares allotted.

After successfully raising A\$4.5M, BHPL was listed on the ASX and NZSX on 17 February 2011.

The market capitalisation of Heritage Gold's 21.7% interest in the company was NZ\$4.7M at 31 March 2011, however, under IFRS requirements Heritage must equity account its interest in BHPL (see Note 13 to the accounts).

BHPL holds an exploration licence for base metals that includes numerous occurrences of Broken Hill style mineralisation at Thackaringa, about 25 kilometres south west of Broken Hill.

The historic base metal ore bodies at Broken Hill have been mined for nearly 130 years and are the world's largest known deposits of lead-zinc-silver ore.

RAB drilling in 2010 showed that the mineralised zones at Pyramid Hill and Himalaya North are 500 metres and more than 1,000 metres long,

respectively. They have characteristics similar to those observed on the Broken Hill main line of lode.

In the first quarter of 2011 RC drilling of 6 holes was undertaken at each prospect.

At Pyramid Hill strongly anomalous copper and base metal values and lode bearing rocks were identified in a small section of the 500 metre strike length.

In 4 of these holes zones containing significant levels of gold, silver and base metals were intersected.

Substantial sulphide bearing zones were encountered in holes 1 and 6, with 40 metre and 17 metre (m) down-hole widths of disseminated sulphide averaging 0.07% Cu in these holes. The best intersections within these broader zones of disseminated mineralisation were:

- 5 m averaging 0.32% Cu, 1 g/t Ag, 0.66 g/t Au, 0.04% Zn, 0.23 lb/t Co and 569 ppm Ni from 64 m depth in hole 1;
- 4 m averaging 0.22% Cu, 1 g/t Ag, 0.07 g/t Au, 0.09 lb/t Co, and 278 ppm Ni from 24 m depth in hole 6.

At Himalaya North the 6 RC holes encountered similar zones of mineralisation to Pyramid Hill.

The next drilling programmes will test extensions to BHPL's cobalt deposits at Pyrite Hill and Big Hill, where it has previously reported total inferred mineral resources estimated at 15 million tonnes with a combined average grade of over 2.1 lbs per tonne.

NEW PROSPECTS

Heritage Gold is reviewing potentially large scale epithermal prospects in the Pacific region and nearby islands within the Ring of Fire.

DIRECTOR RESIGNATION

After the end of the financial year Warwick Grigor resigned as a director after nearly four years in the position and on the Audit and Remuneration Committees. Heritage acknowledges the significant contribution made by Mr Grigor and is seeking a new independent director.

OUTLOOK

Your directors are committed to ensuring the value of the Company's assets is reflected in its market capitalisation and is implementing a communications strategy to support this objective.

The Board acknowledges the continuing interest shown by shareholders and welcomes their enquiries about the Company's progress.

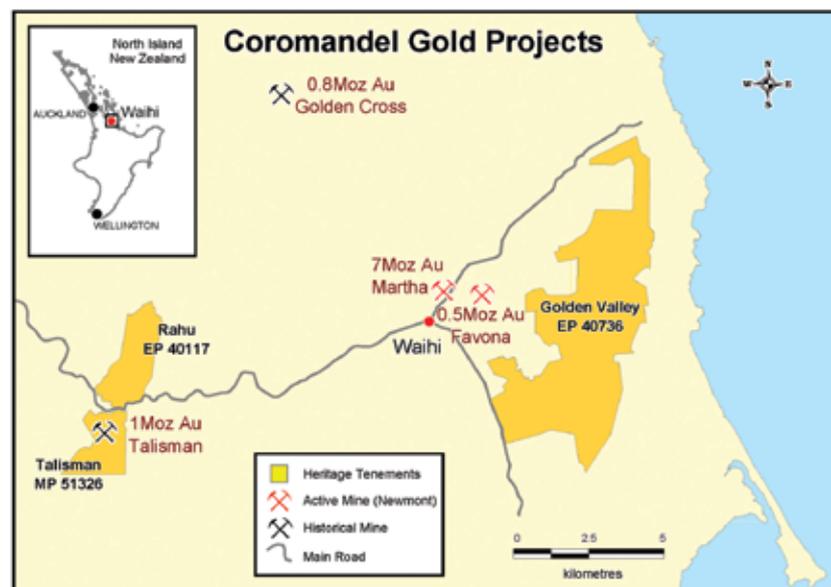
On behalf of the Board,

Peter Atkinson
Executive Director
7 June 2011

DISCLOSURE: Competent Person Statements

1. The information in this report that relates to gold 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.

The information in this report that relates to BHPL base metal exploration results is based on information compiled by Mr Wolfgang Rudolf Leyh MScApp; MScQual; BScApp. Mr Leyh is an independent consulting geologist who is a corporate member of the AusIMM. Mr Leyh 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 Leyh consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.



BOARD OF DIRECTORS

At 31 March 2011

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 Asian Property Investments Limited, Broken Hill Prospecting Limited, So Co Limited and Metals Finance Limited.

Mr Hill has served as a Director of Heritage Gold for 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 15 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 for 25 years since his appointment on 23 August 1985.

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 Hong Kong.

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, serving on the Board for 4 years.

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 has served for 4 years since his appointment as Director on 10 October 2006.

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



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HERITAGE GOLD NZ LIMITED

Report on the consolidated financial report

We have audited the consolidated financial report of Heritage Gold NZ Limited and its subsidiaries, on pages 7 to 16, which comprise the statement of financial position of Heritage Gold NZ Limited and the consolidated statement of financial position as at 31 March 2011, the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the consolidated financial statements

The directors are responsible for the preparation of a consolidated financial report in accordance with generally accepted accounting practice in New Zealand and which gives a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express an opinion on the consolidated financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial report that gives a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with or interests in Heritage Gold NZ Limited or any of its subsidiaries.

Opinion

In our opinion, the consolidated financial report on pages 7 to 16:

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- gives a true and fair view of the financial position of Heritage Gold NZ Limited and the group as at 31 March 2011 and the financial performance and cash flows of the group for the year ended on that date.

Emphasis of matter

Going concern

We draw attention to note 18 to the financial statements which describes the uncertainty resulting from:

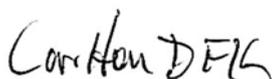
- the outcome of negotiations with potential joint venture partners to develop the Talisman mining permit area, and
- maintaining adequate funding in the future to achieve successful commercial extraction and realisation of the mineral resources.

The financial report has been prepared on a going concern basis, the validity of which depends on the success of these initiatives. The financial statements do not include any adjustments that may be necessary if the initiatives were not successful.

Report on Other Legal and Regulatory Requirements

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

In our opinion proper accounting records have been kept by the Heritage Gold NZ Limited as far as appears from our examination of those records.



CARLTON – DFK

Chartered Accountants

AUCKLAND

7 June 2011

HERITAGE GOLD NZ LIMITED

Statement of Comprehensive Income

For year ended 31 March 2011

	Note	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Continuing Operations					
Other operating income	2	74,100	65,648	74,100	65,648
Administrative expenses	3, 4	(460,335)	(435,105)	(630,205)	(435,105)
Exploration costs written off	10	(385,479)	(290,510)	(359,863)	(147,253)
Gain/(loss) from operations		(771,714)	(659,967)	(915,968)	(516,710)
Share of results of associates	13	(79,577)	38,390	-	-
Net profit/(loss) for the year		(851,291)	(621,577)	(915,968)	(516,710)
Total comprehensive income/(loss)		(851,291)	(621,577)	(915,968)	(516,710)
Net profit/(loss) attributable to Company shareholders		(851,291)	(621,577)	(915,968)	(516,710)
Comprehensive profit/(loss) attributable to Company shareholders		(851,291)	(621,577)	(915,968)	(516,710)
Earnings per share					
Basic earnings/(loss) per share					
From continuing operations		(0.25) cent	(0.22) cent	(0.27) cent	(0.17) cent
Diluted earnings/(loss) per share					
From continuing operations		(0.25) cent	(0.22) cent	(0.27) cent	(0.17) cent

HERITAGE GOLD NZ LIMITED

Statement of Changes in Equity

As at 31 March 2011

	Note	Group 2011	Group 2011	Group 2011	Group 2011	Group 2010	Group 2010	Group 2010	Group 2010
		Share Capital \$	Capital Reserves \$	Retained Earnings \$	Total Equity \$	Share Capital \$	Capital Reserves \$	Retained Earnings \$	Total Equity \$
Total comprehensive income/(loss)		-	-	(851,291)	(851,291)	-	-	(621,577)	(621,577)
Shares issued	7	-	-	-	-	1,929,699	-	-	1,929,699
Equity at beginning of year		24,269,394	335,341	(13,665,831)	10,938,904	22,339,695	335,341	(13,044,254)	9,630,782
Equity at end of year		24,269,394	335,341	(14,517,122)	10,087,613	24,269,394	335,341	(13,665,831)	10,938,904
	Note	Parent 2011	Parent 2011	Parent 2011	Parent 2011	Parent 2010	Parent 2010	Parent 2010	Parent 2010
		Share Capital \$	Capital Reserves \$	Retained Earnings \$	Total Equity \$	Share Capital \$	Capital Reserves \$	Retained Earnings \$	Total Equity \$
Total comprehensive income/(loss)		-	-	(915,968)	(915,968)	-	-	(516,710)	(516,710)
Shares issued	7	-	-	-	-	1,929,699	-	-	1,929,699
Equity at beginning of year		24,269,394	297,641	(13,245,799)	11,321,236	22,339,695	297,641	(12,729,089)	9,908,247
Equity at end of year		24,269,394	297,641	(14,161,767)	10,405,268	24,269,394	297,641	(13,245,799)	11,321,236

The accompanying notes form part of these financial statements

HERITAGE GOLD NZ LIMITED

Statement of Financial Position

As at 31 March 2011

	Note	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Equity					
Attributable to parent company shareholders	7	10,087,613	10,938,904	10,405,268	11,321,236
		10,087,613	10,938,904	10,405,268	11,321,236
Current liabilities					
Payables	8	98,796	109,987	98,796	109,987
Employee benefits		5,284	22,708	5,284	22,708
Total current liabilities		104,080	132,695	104,080	132,695
Total equity and liabilities		10,191,693	11,071,599	10,509,348	11,453,931
Current assets					
Cash		1,244,128	2,053,730	1,244,128	2,053,730
Receivables and prepayments		24,944	21,308	24,944	21,308
Advances to related parties	8	-	107,841	-	251,158
Total current assets		1,269,072	2,182,879	1,269,072	2,326,196
Non-current assets					
Property, plant & equipment	9	11,216	18,500	11,216	18,500
Intangible assets	10	7,701,089	7,710,238	7,700,152	7,710,238
Investments	11	45,205	39,517	26,355	20,667
Investment in subsidiary companies	12	-	-	-	-
Investment in associate company	13	1,165,111	1,120,465	1,502,553	1,378,330
Total non-current assets		8,922,621	8,888,720	9,240,276	9,127,735
Total assets		10,191,693	11,071,599	10,509,348	11,453,931

For and on behalf of the Board:



P R Atkinson
Dated 7 June 2011



J M McKee
Dated 7 June 2011

The accompanying notes form part of these financial statements

HERITAGE GOLD NZ LIMITED

Statement of Cash Flows

For year ended 31 March 2011

	Note	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Cash flows from operating activities					
<i>Cash was provided from:</i>					
Interest received		67,780	26,318	67,780	26,318
Other		83	187	83	187
		67,863	26,505	67,863	26,505
<i>Cash was disbursed to:</i>					
Payments to suppliers		(450,417)	(334,224)	(450,417)	(334,224)
Rent		(12,923)	(23,137)	(12,923)	(23,137)
Payments to and on behalf of employees		(75,103)	(68,563)	(75,103)	(68,563)
		(538,443)	(425,924)	(538,443)	(425,924)
Net cash outflows from operating activities	16	(470,580)	(399,419)	(470,580)	(399,419)
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Intercompany loan repayments		107,172	817	107,172	817
Proceeds from sale plant and equipment		30	372	30	372
		107,202	1,189	107,202	1,189
<i>Cash was applied to:</i>					
Prospecting expenditure		(303,053)	(276,933)	(303,053)	(213,218)
Purchase of property, plant and equipment		(2,445)	-	(2,445)	-
Investments		(129,070)	(129,070)	(129,070)	(129,070)
Intercompany loans		(11,411)	(19,934)	(11,411)	(83,649)
		(445,979)	(296,867)	(445,979)	(296,867)
Net cash outflows from investing activities		(338,777)	(295,678)	(338,777)	(295,678)
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		(809,357)	1,225,956	(809,357)	1,225,956
Exchange gain/(loss)		(245)	20,660	(245)	20,660
Cash at beginning of year		2,053,730	807,114	2,053,730	807,114
Cash at end of year		1,244,128	2,053,730	1,244,128	2,053,730
CASH COMPRISES:					
Cash		27,021	113,730	27,021	113,730
Short term deposits		1,217,107	1,940,000	1,217,107	1,940,000
		1,244,128	2,053,730	1,244,128	2,053,730

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 2011

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 (NZSX) 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 and these financial statements comprise the separate financial statements of the parent company and the consolidated financial statements of the group.

The company is engaged in minerals exploration.

The Directors authorised these financial statements for issue on 6 June 2011.

Statement of Compliance

These consolidated and parent financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP) as represented by the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS). For this purpose the company has designated itself as profit-orientated. The financial statements comply with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Measurement base

The accounting principles adopted are those recognised as appropriate for the measurement and reporting of financial performance and financial position on the historical cost basis modified by the revaluation of certain assets. The information is presented in New Zealand dollars.

Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Where material, information on significant assumptions and estimates is provided in the relevant accounting policy or will be provided in the relevant note.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

Adoption of New and Revised Standards

Early adoption of Standards, Interpretations and modifications

The Directors have elected to adopt the following in advance of their effective dates:

- NZ IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2013).
- NZ IAS 24 (Revised) Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011).
- Deferred Tax: Recovery of Underlying Assets, an amendment to NZ IAS 12 Income Taxes (effective for accounting periods beginning on or after 1 January 2012).

NZ IFRS 9 makes changes to the way financial assets are categorised and limits the circumstances under which an instrument may be designated as measured at fair value through profit or loss. The methods used to account for financial assets are unchanged; fair value or amortised cost using the effective interest method. However, the reclassifications can have the effect of transferring some instruments from one measurement basis to the other. All of the Group's financial instruments continue to be accounted for on the basis used before the adoption of NZ IFRS 9. The accounting for financial liabilities as it affects the Group is the same in NZ IFRS 9 as in NZ IAS 39. There are therefore no changes to the financial statements as a result of adopting this standard.

NZ IAS 24 (revised) differs from the "old" NZ IAS 24 by slightly modifying the definition of 'related party' and providing a partial exemption from the disclosure requirements for government-related entities. The modified definition has slightly reduced the extent of transactions to be reported.

The revised standard explicitly states that entities are not related simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

Entities that are controlled or jointly controlled by directors or close members of their family are related to the Group and transactions with such entities continue to be reported as before.

Deferred Tax: Recovery of Underlying Assets, an amendment to NZ IAS 12, relates to deferred tax arising from investment property measured at fair value. The Group has no investment property and the amendment has no effect on the financial statements.

Standards and interpretations in issue not yet adopted:

The Group has reviewed all other Standards and Interpretations issued by the Financial Reporting Standards Board and does not expect these standards to have any material impact on the financial statements of the Company and Group.

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 all tangible property, plant and equipment 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	10-36%
Fixtures and fittings	Straight line	10%
Office equipment	Straight line	18-30%

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

(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) Cashflows

For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with banks and short-term highly liquid investments with original maturities of three months or less.

(j) Employee entitlements

The liability for annual leave is accrued and recognised in the statement of financial position. Annual leave is recorded at the undiscounted amount expected to be paid for the entitlement earned.

(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 all subsidiaries over which the parent company has the power to control the financial reporting and operating policies. The purchase method is used to prepare the consolidated financial statements, which involves adding together like terms of assets, liabilities, income and expenses on a line-by-line basis. 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

Associates are companies in which the Group has significant influence but not control over the financial and operating policies. Investments in associates are initially recognised at cost and subsequently by using the equity method, which increases or decreases the carrying amount by the Group's share of profit or loss and other comprehensive income of the associate. In the parent company's separate financial statements, investment in associates is stated at cost less any impairment losses.

(o) Financial instruments

Financial instruments recognised in the statement of financial position include cash balances, receivables, payables, investments in and loans to others and borrowing. The Parent and Group have no off-balance sheet financial instruments.

(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 even if the circumstances leading to the impairment are resolved. Financial instruments are stated at market value. Any gain or loss is recognised in the statement of comprehensive income.

(p) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of the receivables or payables balance in the statement of financial position.

(q) 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 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Interest	67,737	29,720	67,737	29,720
Gain on exchange valuation	915	31,277	915	31,277
Gain on share revaluation	5,365	4,326	5,365	4,326
Gain on equipment disposal	83	325	83	325
Total operating income	74,100	65,648	74,100	65,648

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

3. OPERATING EXPENSES BY NATURE

	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Audit fees – financial statements	15,197	14,740	15,197	14,740
Depreciation	2,542	3,076	2,542	3,076
Directors fees	96,000	96,000	96,000	96,000
Directors remuneration	90,277	67,500	90,277	67,500
Donations	50	-	50	-
Employee salaries	67,219	66,137	67,219	66,137
Exploration costs written off	385,479	290,510	359,863	147,253
Provision for impaired loan	-	-	169,870	-
Rental & lease costs	12,991	23,137	12,991	23,137
Other	176,059	164,515	176,059	164,515
Total operating costs	845,814	725,615	990,068	582,358

4. DIRECTORS' AND EMPLOYEES' REMUNERATION

	Group and Parent	
	2011 \$	2010 \$
PR Atkinson	90,277*	67,500*
WR Grigor	28,000	28,000
GG Hill	28,000	28,000
MG Hill	20,000	20,000
JM McKee	20,000	20,000

*of which \$67,067 (2010:\$20,250) 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 during the financial year was nil. The remuneration of PR Atkinson, an executive director, is shown above. The group does not employ other key management personnel.

5. TAXATION

	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Operating loss before taxation	(771,714)	(659,967)	(915,968)	(516,710)
Prima facie income tax at 30%	(231,514)	(197,990)	(274,790)	(155,013)
Add/(subtract) the taxation effect of permanent differences				
Non-deductible legal fees	1,812	5,939	1,812	5,939
Tax losses not recognised	(229,702)	(192,051)	(272,978)	(149,074)
Temporary differences not recognised	(1,564)	1,053	49,397	1,053
Income tax expense/(benefit) not recognised	(231,266)	(190,998)	(223,581)	(148,021)

Deferred tax will not be recognised unless future taxable profit is probable.

The parent company has estimated mining taxation losses available to offset against future mining income of \$10,427,474 (2010: \$10,437,290) and non-mining taxation losses of \$13,415,165 (2010: \$12,669,896) 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.

There have been no movements through the imputation credit account, the balance of which is Nil (2010: 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 2011

7. EQUITY & RESERVES

Equity	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Share capital	24,269,394	24,269,394	24,269,394	24,269,394
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
Share revaluation reserve	40,456	40,456	2,756	2,756
Accumulated deficit	(14,517,122)	(13,665,831)	(14,161,767)	(13,245,799)
Total parent shareholder equity	10,087,613	10,938,904	10,405,268	11,321,236

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 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Balance at beginning of year	(13,665,831)	(13,044,254)	(13,245,799)	(12,729,089)
Net loss attributable to shareholders	(851,291)	(621,577)	(915,968)	(516,710)
Balance at end of year	(14,517,122)	(13,665,831)	(14,161,767)	(13,245,799)

There were no movements in other reserves.

Share capital	Group and Parent			
	2011 Number	2011 \$	2010 Number	2010 \$
Ordinary Shares				
Balance at beginning of year	343,553,188	24,269,394	287,703,320	22,339,695
Shares Issued	-	-	55,849,868	1,929,699
Balance at end of year	343,553,188	24,269,394	343,553,188	24,269,394

All authorised shares have been issued, are fully paid, have equal voting rights and will share equally in dividends and surplus on winding up. The shares have no par value.

8. RELATED PARTY TRANSACTIONS

Payments for consulting services to companies in which directors have a substantial interest amounted to \$102,375 (2010:\$115,500). At balance date, creditors included \$50,281 payable to directors and other related companies (2010:\$84,051) and debtors included \$8,341 (2010:\$321) receivable from related parties. No related party debts were written off during the year other than a loan of \$169,870 from the parent to a subsidiary which was fully provisioned for.

An intercompany loan to an associate company was repaid in full during the year.

9. PROPERTY, PLANT & EQUIPMENT

	Group and Parent				
	Fixtures & fittings \$	Office equipment \$	Field equipment \$	Motor vehicle \$	Total \$
31 March 2010					
Cost	718	11,008	16,071	18,000	45,797
Accum depreciation	671	8,669	10,082	7,875	27,797
Carrying amount	47	2,339	5,989	10,125	18,500
Year ended 31 March 2011					
Carrying amount 1 April 2010	47	2,339	5,989	10,125	18,500
Additions	510	1,707	205	-	2,422
Depreciation	42	2,499	3,385	3,780	9,706
Carrying amount 31 March 2011	515	1,547	2,809	6,345	11,216
31 March 2011					
Cost	1,228	12,715	16,276	18,000	48,219
Accum depreciation	713	11,168	13,467	11,655	37,003
Carrying amount	515	1,547	2,809	6,345	11,216

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

10. INTANGIBLE ASSETS

	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Prospecting costs & mining tenements				
Balance at beginning of year	7,710,238	7,652,632	7,710,238	7,573,090
Development expenditure	376,330	348,116	349,777	284,401
Less prospecting expenditure written off	(385,479)	(290,510)	(359,863)	(147,253)
Balance at end of year	7,701,089	7,710,238	7,700,152	7,710,238

The carrying amount of prospecting expenditure is stated at cost. The ultimate value of this asset is dependent on further development, successful commercial extraction and realisation of the respective areas.

The carrying value of prospecting costs lies within a range determined by Mr Richard Barker in his valuation of the company's tenements dated 19 April 2011. As there is no active market for these assets, the valuation was determined using other valuation techniques.

Prospecting expenditure written off during the year related to cobalt exploration, new prospects assessment and terminated Northland exploration. Mr Barker has confirmed that he is not aware of any other material impairment to the value of the company's tenements during the year ended 31 March 2011.

11. SHARE INVESTMENTS

	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Investment in listed companies	36,106	30,418	17,256	11,568
Investment in unlisted companies	9,099	9,099	9,099	9,099
Total share investments	45,205	39,517	26,355	20,667

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

12. SUBSIDIARY COMPANIES

	Percent held 2011	Percent held 2010	Incorp in	Balance date	Activity
Subsidiaries					
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 17,929,000 shares (21.7%) in Broken Hill Prospecting Limited (BHPL - formerly Broken Hill Cobalt Limited). BHPL owns exploration rights to cobalt deposits in Australia and has been listed on the ASX (BPL) and NZSX (BPL) since 17 February 2011. Its balance date is 30 June.

In accordance with NZ IAS 28, the company has recorded the carrying value of the investment at original cost in the parent company (\$1.503m) and on an equity accounting basis in the group (\$1.165m). At 31 March 2011, the market value of the investment was \$4.697m.

	Group 2011 \$	Group 2010 \$
Results of associate		
Share of associate's surplus/(deficit)	(79,577)	38,390
Income tax	-	-
Share of recognised revenue and expenses	(79,577)	38,390
Investment in associate		
Shares at cost	1,378,330	1,180,000
Share of surpluses/(deficits)	(257,865)	(296,255)
Balance at beginning of year	1,120,465	883,745
Convert loan to shares	124,223	198,330
Share of recognised revenue and expenses	(79,577)	38,390
Carrying value at end of year	1,165,111	1,120,465
Details of associate		
Assets	4,526,583	704,912
Liabilities	183,579	376,082
Revenue	27,447	-
Loss for the 9 month period	283,231	63,491
Percentage held	21.7%	33.0%
Carrying amount	1,165,111	1,120,465

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

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. An advance to an associate company was repaid during the year. Receivables include a related party debtor and a GST refund which comprise 33% and 40% respectively of total receivables. The group deals only with banks having at least an A credit rating.

Re-pricing Analysis	Effective Interest Rate	Total \$	6 months or less \$
2011 short term bank deposits	4.24%	1,600,000	1,600,000
2010 short term bank deposits	4.40%	1,940,000	1,940,000

Over the long term, changes in interest rates and reduced amounts on deposit will affect profit or loss.

Fair Values

Fair values used in the measurement of financial instruments may vary from values directly observed in active markets to those that have to be derived without reference to observable data.

Investments in listed companies are measured at fair value based on quoted prices in active markets. As stated in Note 11, 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:

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 cash outflows 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.

Group & Parent

	2011	2010
	\$	\$
Not later than one year	8,167	14,000
Later than one year but not later than two years	-	8,167
	8,167	22,167

The group has capital commitments of \$Nil (2010:\$Nil).

16. RECONCILIATION OF OPERATING CASHFLOW AND REPORTED DEFICIT

	Group Consolidated		Parent	
	2011	2010	2011	2010
	\$	\$	\$	\$
Net profit/(deficit) after taxation and before including share of retained deficit of associates	(771,714)	(659,967)	(915,968)	(516,710)
Add non-cash items:				
Depreciation	2,542	3,076	2,542	3,076
Field expenditure write off	385,479	290,510	359,863	147,253
Provision for impaired loan	-	-	169,870	-
Share revaluation (gain)/loss	(5,365)	-	(5,365)	-
Exchange (gain)/loss	(915)	(20,660)	(915)	(20,660)
	381,741	272,926	525,995	129,669
Add (less) movement in working capital:				
Decrease (increase) in debtors	(7,874)	(97)	(7,874)	(97)
Increase (decrease) in creditors	(76,971)	(14,491)	(76,971)	(14,491)
Decrease (increase) in accrued income	73	(3,401)	73	(3,401)
Decrease (increase) in prepayments	9,034	-	9,034	-
Decrease (increase) in GST	(4,869)	5,611	(4,869)	5,611
	(80,607)	(12,378)	(80,607)	(12,378)
Net cash flows from operating activities	(470,580)	(399,419)	(470,580)	(399,419)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

17. CONTINGENT LIABILITIES

	Group and Parent 2011 \$	Group and Parent 2010 \$
Contingent liabilities	Nil	Nil

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 at least the next 12 months.

The Directors are looking at a number of fund raising initiatives and are also engaged in negotiations with potential investors in respect of the Talisman mine project. The future validity of the going concern basis is dependent on the success of these initiatives.

19. EARNINGS PER SHARE

Shares on issue 31 March 2011 343,553,188

	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Profit/(loss) from continuing operations	(851,291)	(621,577)	(915,968)	(516,710)
Weighted average number shares	343,553,188	306,319,943	343,553,188	306,319,943
Basic earnings per share	(0.25) cent	(0.20) cent	(0.27) cent	(0.17) cent
Diluted average shares on issue	343,553,188	306,319,943	343,553,188	306,319,943
Diluted earnings per share	(0.25) cent	(0.20) cent	(0.27) cent	(0.17) cent

20. EMPLOYEE BENEFITS

	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Balance at beginning of year	22,708	19,802	22,708	19,802
Additional provision	5,776	15,326	5,776	15,326
Amount utilised	(23,200)	(12,420)	(23,200)	(12,420)
Balance at end of year	(5,284)	(22,708)	(5,284)	(22,708)
Represented by:				
Current liability	5,284	22,708	5,284	22,708

21. RECEIVABLES AND PREPAYMENTS

	Group 2011 \$	Group 2010 \$	Parent 2011 \$	Parent 2010 \$
Sundry receivables	18,466	5,724	18,466	5,724
Accrued income	5,044	5,117	5,044	5,117
Prepayments	1,434	10,467	1,434	10,467
	24,944	21,308	24,944	21,308

Health of receivables

All financial assets are within the contracts terms. None are overdue and none are impaired. 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 estimation 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

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

The management services contract dated 27 May 1999 between the company and Up Minister Limited was extended for a further year, ending 31 March 2012.

ADDITIONAL INFORMATION

DIRECTORS DISCLOSURE OF INTERESTS

The following general disclosures of interest were received in relation to the year ended 31 March 2011.

Director	Entity	Status
P R Atkinson	Broken Hill Prospecting Limited Coromandel Gold Limited Prophecy Mining Limited Up Minister Limited	Director Director Director and Shareholder Director and Shareholder
W R Grigor	Peninsula Minerals Limited Tawana Resources NL	Director Chair
G G Hill	Asian Property Investments Limited So Co Limited Broken Hill Prospecting Limited Hill Sherlock Willis & Partners International Pacific Securities Group Metals Finance Limited	Director Director Director Director Director Chair
M G Hill	Asia Pacific Capital Pty Limited International Pacific Capital Limited So Co Limited	Director Director Director
J M McKee	Broad Horizons Limited	Director

SHAREHOLDING STATISTICS AT 1 JUNE 2011

Name	Shares	
So Co Limited	20,285,714	5.90%
Hamish Elliot Brown	17,171,717	5.00%
ABN AMRO Clearing Sydney Nominees Pty Ltd	14,879,920	4.33%
Peter Robert Atkinson	10,901,950	3.17%
Bestfield Company	9,700,000	2.82%
HFT Nominees Ltd	7,230,085	2.11%
International Pacific Capital Limited	6,388,685	1.86%
Basil Courtney McGirr	6,307,030	1.84%
Peter William Hall	6,000,000	1.75%
Prophecy Mining Limited	5,300,000	1.54%
James Lee McGirr	4,629,794	1.35%
Simon Charles Moore	4,152,288	1.21%
George Matthew James Atkinson	3,391,062	0.99%
Relativity Pty Ltd	3,135,618	0.91%
Robert Marshall Walsham & Rachel Sandra Walsham	3,082,714	0.90%
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	0.81%
Ianaki Semerdziev	2,610,714	0.76%
TOTAL FOR TOP 20	136,905,623	39.85%
TOTAL SHARES	343,553,188	100.00%

DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Holders	Shares	
1 - 1,000	100	28,182	0.01%
1,001 - 5,000	224	789,019	0.23%
5,001 - 10,000	218	1,854,341	0.54%
10,001 - 100,000	804	34,090,192	9.92%
100,001 and over	443	306,791,454	89.30%
TOTAL	1,789	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 PRINCIPALS AND RECOMMENDATIONS

During the Company's 2010/2011 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 was 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 2010/2011 accounts.

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 3

Recommendation 3.3: Disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them

Explanation for Departure

The Board considers the size of the company's operations make it impractical to establish measureable objectives for gender diversity.

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 was 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.

Recommendation 8.2: Structure a Remuneration Committee so that it consists of a majority of independent directors, an independent chairperson who is not chairperson to the Board, and at least 3 members

Notification of Departure

The Remuneration Committee is comprised of two members.

Explanation for Departure

The Remuneration Committee was comprised of the two independent directors of the Board. The Board considers the Remuneration Committee to be comprised of the most appropriate mix of skills and expertise in order to carry out the function of the Remuneration Committee. The Board has adopted, and the Remuneration Committee applies a Remuneration 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 NZSX 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 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.

DIRECTOR SKILLS, EXPERIENCE AND EXPERTISE

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

The board assesses the mix of skills essential to the board's effective operation to be significant experience and expertise in: geological data, financial records, financial markets, risk management and statutory compliance.

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.

GENDER DIVERSITY

The board has adopted a Diversity Policy (available on the Company's website). Gender diversity over the reporting period:

Component	Total	Female Component	% Female Component
Board of Directors	5	0	0%
Senior Management	2	1	50%
Consultants	3	1	33%
Employees	2	1	50%
TOTAL	12	3	25%

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

23 September 2010. The evaluation was conducted by the chairman and comprised an informal round table discussion between 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. Its 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

During the reporting period the Remuneration Committee members were Mr J (Murray) McKee and Mr W Grigor. Remuneration Committee responsibilities were assigned to the whole Board for consideration during the current financial year and carried out during two strategy meetings held during the reporting period.

NOMINATION COMMITTEE

During the reporting period the Nomination Committee members were Mr J (Murray) McKee and Mr M Hill. The Nomination Committee recommended the whole Board review items for consideration. This was done during strategy meetings held during the reporting period.

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 had specific financial qualifications, both members considered 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 three meetings. Mr McKee attended three meetings and Mr Grigor attended one meeting.

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
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Telephone (+64 9) 303-1893
Facsimile (+64 9) 303-1612
Email: office@heritagegold.co.nz
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Principal Office in Australia

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Telephone (+61 8) 9481-2040
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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

Breccia: coarse-grained sediment or rock composed chiefly of fragments derived from pre-existing rocks or minerals enclosed in a fine grained matrix or held together by mineral cement. Breccias consist of broken or angular fragments that are not usually worn by abrasion

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

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

RC Drilling: in reverse circulation drilling the drilling mechanism is a pneumatic reciprocating piston known as a hammer driving a tungsten-steel drill bit and utilising much larger rigs and machinery. RC drilling ideally produces dry rock chips as large air compressors dry the rock ahead of the advancing drill bit. It is slower and costlier but achieves better penetration than RAB drilling and is cheaper than diamond coring

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

Ring of Fire: the volcanic chain that describes a rough circle around the perimeter of the Pacific and hosts many large precious and base metal deposits

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

Director's Statement

The directors of the company declare that:

1. The financial statements and notes, as set out in the Annual Report to 31 March 2011:
 - (a) Comply with New Zealand International Financial Reporting Standards (IFRS), and
 - (b) give a true and fair view of the economic entity's financial position as at 31 March 2011 and of its performance for the year ended on that date.
2. In the directors opinion there are reasonable grounds to believe that the company will be able to pay it's debts as and when they become due and payable.



Peter Atkinson
Executive Director

7 June 2011