



Incorporated in New Zealand ABN 009 474 702

**REGISTERED (HEAD) OFFICE**

541 Parnell Road, Parnell, Auckland, New Zealand  
Phone: (+64 9) 303-1893 • Fax: (+64 9) 303-1612  
Email: [office@heritagegold.co.nz](mailto:office@heritagegold.co.nz)

**AUSTRALIAN OFFICE**

1<sup>st</sup> floor, 25 Richardson Street, West Perth,  
Western Australia 6005  
Phone: (+61 8) 9481-2040 • Fax: (+61 8) 9481-2041

30 April 2012

**ANNOUNCEMENT BY HERITAGE GOLD NZ LIMITED (ASX: HTM, NZSX: HGD)  
FOR PUBLIC RELEASE**

**Quarterly Activities Report to 31 March 2012**

Heritage Gold is pleased to present its quarterly report for the period ended 31 March 2012.

**HIGHLIGHTS**

- Scoping Study Review found the Talisman gold development has the potential to be highly profitable, with a net present value greater than A\$150 million;
- Additional project development work and resource definition planned;
- Experienced senior mining engineer, Mr Paul Griffin, appointed to oversee project;
- Major corporate restructuring, capital raising and board changes announced since end of March quarter.

**TALISMAN GOLD PROJECT (100%) – Waihi district, NZ**

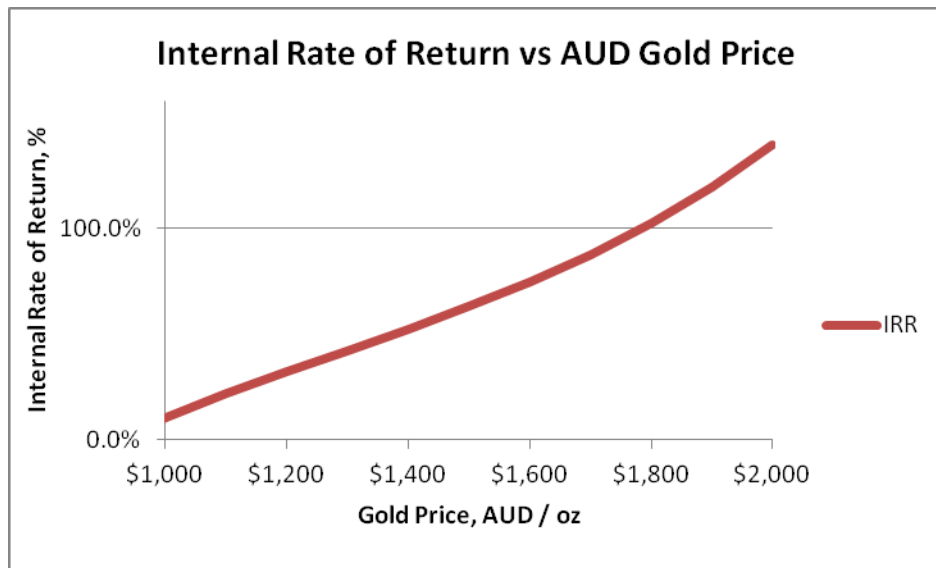
**Talisman Mine**

The Talisman Scoping Study Review was completed during the quarter by Mining One, an Australian mining consulting firm

The Review found that, for the assumptions made and after applying a 7.5% discount rate, the project had a net present value (NPV) of more than A\$150 million. That included a conservative 25% contingency on all operating costs. The maximum cash outlay at any one time during the 12-year project would be A\$20 million, which would occur in year four.

Overall, the Review showed that the project was robust in the price range of A\$1,200 to A\$2,000 per ounce of gold and had a break even gold price of under A\$1000 per ounce.

Using the base case assumed gold price of A\$1,600 per ounce and silver price of A\$30 per ounce (close to current market values), the Review projected an Internal Rate of Return (IRR) of more than 70% (Figure 1).



*Figure 1 Talisman Scoping Study IRR trend with Gold Price*

The Review by Melbourne-based mining consultants Mining One Pty Ltd (Mining One) incorporated the following changes to previous work:

- Updated capital and operating costs, which generally increased;
- Updated gold and silver prices, which greatly increased;
- Modified many mining and production parameters and incorporated new developments in mining practice, as well as advancements in mining technology;
- Amended production schedules to include prioritised mining of accessible and high-grade ore early in the project and deferred less accessible low-grade ore to later in the project; and
- Detailed a new financial analysis for the scoped project.

### **Review Parameters**

Mining One was engaged to update previous studies of the Talisman Project. The main inputs for the Review came from two prior independent studies as well as a range of design files and geological models.

A mining schedule from a previous study in 2008 was utilised, with some amendments to prioritise the mining of accessible and high-grade ore in early production and to defer less accessible low-grade ore.

The Review was based on a 12-year mine life, with staged development during the first six years to reach 150,000 tpa.

The study assumed average ore grade would be 10.2 g/t gold with 95% recovery, and 14.3 g/t silver with 65% recovery. The processing plant would operate for 24 hours-a-day and 365 days-a-year.

### **Summary of Results**

The primary purpose of the Review was to produce an updated financial analysis, while also providing recommendations on how the Talisman project could progress.

The Review noted that only a small amount of resource satisfied the low risk categories of the JORC code and it recommended further drill definition. Because of the substantial amount of past mining activity, it also noted that there was potential for a considerable increase in the geological resource.

The Review proposed that the Talisman Mine be developed in a phased and progressive manner during the first four years, building to 150,000 tpa in year six. Early access through existing workings

would enable the mine to produce ore by small-scale stoping, generating early cash flow. After that, it proposed that the mine introduce a mechanised method, such as long-hole stoping or jumbo flat-backing, requiring separate decline access.

Previous studies recommended that the mine be managed on an owner-operator basis, although Mining One said that use of an underground contractor should be considered.

The review noted that managing the environmental and heritage considerations are pivotal in realising the potential of the resource, and these require on-going investigation.

Mining One put forward two ore processing options, being toll treatment (the sale of the ore to a plant operated by another party) or a new processing plant. A combined approach, with toll treatment of ore for four years while a purpose-built mill was constructed, was also considered. The completion of the mill would then coincide with the mine approaching full production.

Mining One considered that, based on the mining and processing assumptions used, the Talisman Project had the potential to be highly profitable in today's economic conditions. Based on a gold price of A\$1,600 per ounce and silver price of A\$30 per ounce, Mining One found that the NPV of the project was more than A\$150 million at a discount rate of 7.5%. This included a conservative 25% contingency on all operating costs. The maximum cash outlay at any one time during the 12-year mine life would be A\$20 million, which occurred in year four.

In order to improve the confidence, and to enable the project to move to the pre-feasibility or feasibility stages, Mining One recommended that further drilling and geological interpretation be undertaken to redefine ore resources to JORC compliant categories with higher confidence levels. A new mine design and schedule should then be completed using the new data. The study also said that efficiencies would be gained through new definition and design of a process plant that would have an effective production rate during the full life of mine, and that further test work was required to better define the operating parameters of the plant.

The values attributed to the project are not compliant with the VALMIN Code because they are based on conceptual resource estimates. The values assumed in the Mining One report will be achieved only if the grade and tonnage assumptions are met through the planned work outlined in the Scoping Study Review.

### ***Planned Work***

Heritage now plans to advance the project through drill testing and geological studies to increase the confidence level of high-grade ore zones, particularly the known gold mineralisation which is easily accessible, subject to funding.

Initially, Heritage is commencing a project development study to include mining and processing options, mine design and scheduling. This work will use new data collected during the following planned work:

- Underground hydrology assessment;
- Underground geotechnical review;
- Evaluation of underground development methodology;
- Underground bulk sampling by small-scale trial stoping;
- Metallurgical development and test work using the ore bulk samples;
- Definition and design of an ore processing system; and
- Planning of environmental management and end-of-mine closure.

These project development activities (pre-feasibility study) will be carried out throughout the rest of 2012 and into 2013 with the aim of producing a feasibility report, which is expected to justify developing the New Talisman underground gold mine.

## **RESTRUCTURING OF HERITAGE GOLD**

During the quarter, the Board resolved to significantly restructure Heritage's assets so that the company could focus exclusively on the Talisman development.

The company will change its name after close of business on 16 May 2012 to New Talisman Gold Mines Ltd and has applied to both stock exchanges for a new code.

All of the company's existing non-core assets will be transferred to a wholly-owned subsidiary, Coromandel Gold Limited (CGL), which in due course will be "spun out" pro rata to Heritage shareholders and, in the meantime, be responsible for its own on-going funding.

The move came in the wake of the Review, enhanced by a substantially improved gold price and considerable advances in mining and processing technology.

In order to effect the restructuring, the Heritage Board agreed to:

- Immediately cease exploration and project assessment work outside New Zealand; and
- Transfer all non-Talisman related (non-core) assets to CGL.

The non-core assets, which have a book value of NZ\$2,116,000, include:

- Golden Valley exploration permit (EP), which covers a gold prospect east of the town of Waihi;
- All shares in wholly-owned subsidiary, Northland Minerals Limited (NML), which holds an EP application over a copper prospect in Northland, NZ;
- 17,929,000 shares, representing 21.7% of the issued capital, in Broken Hill Prospecting Limited, which owns a promising cobalt development project near Broken Hill in NSW, Australia (the shares are held in escrow until 17 February 2013);
- A small portfolio of shares in SX-listed and unlisted companies with a total value of less than NZ\$20,000; and
- The sum of NZ\$60,000.

### ***New Senior Appointment***

To accelerate the Talisman development, the Board appointed a very experienced mining engineer, Mr Paul Griffin, to oversee the project as General Manager, Mining.

Mr Griffin is a graduate of University of Otago with more than 20 years overseas mining engineering experience, including with several gold producers in Australia and, most recently, in Africa.

He is well versed in underground mining, having begun his overseas career at the underground gold and nickel operations of Western Mining Corporation in Western Australia. That was followed by terms at Darlot gold mine (WA), CSA mine at Cobar (NSW), Coyote gold mine (WA), Sunrise Dam gold mine (WA), and Geita gold mine (Tanzania).

Mr Griffin's underground mining expertise will be invaluable in the development of the Talisman mine.

### **BOARD CHANGES *(after 31 March 2012)***

Mr Geoffrey Hill stepped down as chairman and director after serving for almost 13 years and playing an important role in advancing the company's mining portfolio.

Mr Peter Atkinson, a founding director, also stepped down as a director.

Mr Murray McKee will continue as deputy chairman, and Mr Matthew Hill and Dr Ian Pringle will continue as directors.

Mr Hill joins Mr Atkinson and Mr McKee (chairman) as a director of CGL.

## **Director Appointments**

Mr Robert Pearce, an experienced mining company director from Perth, Western Australia, accepted an invitation to join the Board as an independent director and chairman.

Mr Pearce has been chairman and/or finance director and CEO of numerous Australian and international mining companies during the last 25 years, including Metals Exploration Ltd, North Kalgurli Mines Ltd, Hampton Gold Mining Areas Plc, Toucan Gold Inc and, more recently, Gladstone Pacific Nickel Ltd and Marenica Energy Ltd.

Subsequently, Mr Griffin BMinTech., GDipMan., MAusIMM was appointed executive director and Mr Alan (Doug) Buerger BSc., MPhil., FAusIMM., MAICD was appointed as an independent director.

Mr Buerger has 40 years' experience in the mining industry; 15 years in Africa, Botswana and Namibia, three years in the Pacific Islands and more than 20 years in Australia. His primary discipline is in exploration geochemistry and geology. For the past 25 years, Mr Buerger has served in general management and executive management roles; 11 years as managing director and CEO of Bendigo Mining from 1995 to 2007. Mr Buerger put together and led the team that built an underground gold mine and surface processing plant in the regional Australian city of Bendigo, Victoria.

## **SHARE PURCHASE PLAN**

After quarter ended, the Company announced a Share Purchase Plan (SPP) to raise capital.

The SPP will give shareholders resident in New Zealand or Australia (eligible shareholders) on 10 April 2012 (the record date) the option of subscribing for shares up to NZ\$15,000, or Australian \$11,800 in total or in lots of NZ\$1,000 or Australian \$800.

The SPP is not available to shareholders who are resident in other countries so as to avoid breaching laws in the relevant jurisdictions.

Heritage, in making this decision, took into account the small number of overseas shareholders not resident in New Zealand or Australia.

The issue price will be NZ 1.9 cents and A 1.5 cents. Payment may be made conveniently by BPay in Australia and by internet banking in New Zealand.

The issue price was calculated by taking the volume weighted average price of Heritage shares traded on the NZSX during the five trading days prior to the record date, discounting the price by 10% and converting to Australian currency using the Westpac bank exchange rate applicable at the close of business on 10 April 2012 at 0.7932.

Funds raised from the SPP will be used to:

- advance the Talisman project towards prefeasibility, including a project development study to include mining and processing options, safety and environmental requirements; and
- fund general working capital.

The SPP documents were mailed to shareholders on 16 April 2012, and the offer closes at 5pm New Zealand time on Wednesday 16 May 2012.

## **GOLDEN VALLEY PROJECT (100%) – Waihi district, NZ**

Data on the prospect was under review during the quarter.

## **NORTHLAND BASE METAL PROJECT (100%) - Northland region, NZ**

The geological data was re-examined during the period.

## OTHER PROSPECTS

Heritage terminated all overseas projects at the end of the quarter, writing off expenditure of \$41,000.

### BROKEN HILL PROSPECTING LTD (21.7%) – NSW, Australia

In the March quarter, BPL reported on 13 reverse circulation (RC) drill holes completed in a program of 21 holes, north-east of Big Hill cobalt deposit at Thackaringa.

Cobaltiferous pyrite mineralisation was intersected in 11 of the holes drilled, with wide and high grade intersections at two prospects.

Samples from the Railway Prospect include:

- 50 metres of 2.63 pound per tonne cobalt in the upper part (downhole depth 40-90m) of hole BER004, including high grade zones of over 4.0 lb/t cobalt.
- High cobalt grades with elevated zinc values in the lower part of hole BER004 (eg 6 metres of 2.41 lb/t Co, 3.51% Zn, and 6 g/t Ag from 120m downhole depth).

The extensive conductivity anomaly at the Railway Prospect (3.5 km from Big Hill deposit) clearly reflects underlying cobalt mineralisation; 9 holes in this area have intersected zones of cobaltiferous pyrite.

Extensive zones of cobalt mineralisation were also intersected 200m north of the Big Hill deposit, including 111m of 0.98 lb/t cobalt in hole BER001.

The Offset Prospect, about 700m north-east of Big Hill, has a chargeability anomaly underlain by cobaltiferous pyrite mineralisation (eg 22m of 1.77 lb/t cobalt in hole BER001).

The current drilling is testing for new deposits of economic, near surface cobalt mineralisation which could add to the existing resources at nearby Pyrite Hill and Big Hill cobalt deposits, which have combined Inferred Resources of 20.8 million tonnes of 1.87 lb/t cobalt and potential for 14-24 million tonnes of similar grade\*.

Complete assays for drill holes BER006 to BER013 are expected over the next several weeks; the remaining eight planned holes are expected to be completed in mid-May.

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\*This potential lies outside of the Inferred Resource because of the absence of nearby drilling. This target is conceptual in nature and more drilling is required to further define it. There is no certainty that this will result in a Mineral Resource.

#### **Competent Person Statement**

*The information in this report that relates to gold exploration results is based on information compiled by or supervised by **Mr Peter Atkinson**. Mr Atkinson is an independent consulting geologist who is a Fellow of the AusIMM. Mr Atkinson 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 December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Mr Atkinson consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

#### **Competent Person Statement**

*The cobalt exploration drilling and results contained in this report are based on information compiled by **Dr Ian Pringle**, a Member of the Australasian Institute of Mining and Metallurgy. Dr Pringle is the Managing Director of Broken Hill Prospecting Ltd and also a Director of Ian J Pringle & Associates Pty Ltd, a consultancy company in minerals exploration. He has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the December 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Dr Pringle has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

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**About Heritage Gold**

Heritage Gold (NZ) Limited is a leading New Zealand, dual listed (NZSX: HGD, ASX: HTM) minerals exploration company with 1800 Australasian shareholders and a portfolio of high quality mineral interests.

It has attractive gold properties near Waihi in the Coromandel region, New Zealand. The historic Talisman underground mine has a JORC compliant mineral resource within a granted mining permit and Heritage holds an adjacent exploration permit along strike.

Following a recent restructuring, the company is advancing its plans to develop the mine and has appointed a senior mining engineer to manage the development.

Heritage Gold owns 21.7% of Broken Hill Prospecting Limited (BPL), which is planning to develop a cobalt project at Thackaringa, about 25 kilometres south-west of Broken Hill in Australia. BPL is listed on both the ASX and NZSX (Code: BPL).

More about Heritage Gold at [www.heritagegold.co.nz](http://www.heritagegold.co.nz)