



28 March 2017

Highlands Pacific 2016 Annual Results

Highlands Pacific Limited (ASX: HIG) ended 2016 with a healthy cash balance of US\$10.5 million, reduced ongoing operating costs and a renewed and reinvigorated management team.

The 12 months to December 2016 was a period of fundamental change for Highlands. In June, the Company implemented a comprehensive corporate restructure to cut costs and preserve cash in the face of stubbornly depressed metal prices.

The cost savings involved broad reductions in corporate overheads as well as significant reductions in executive numbers, including the departure of three General Managers and salary cuts for Directors and remaining executives. As part of the restructure process, the long-serving Chief Executive and Managing Director, John Gooding, chose to retire in November to be replaced by Craig Lennon, who had served as Chief Financial Officer since 2007.

The efficiency program has reduced ongoing operating costs by approximately A\$1.75 million per year, however incurred one-off redundancy costs of US\$1.03 million in 2016. On an underlying basis operating expenses reduced to US\$3.26 million, which compares with US\$4.3 million in 2015. Cost reductions were achieved in all categories including staff costs, occupancy costs, consultants' fees, Directors' fees, travel, company secretarial and corporate affairs.

After interest expense of US\$6.3 million and losses of US\$5.6 million (total US\$11.9 million) associated with the Ramu operation, the bottom line loss for the Group was US\$15.8 million (2015: US\$68 million).

Highlands Managing Director Craig Lennon said the Company had made solid progress in 2016.

"Highlands has undergone a period of significant rejuvenation and we are looking to the future with optimism and confidence.

"The Company provides investors with major leveraged exposure to commodity prices through our interests in an exciting suite of projects. We continue to achieve record performances at Ramu and Star Mountains drilling results are encouraging. The Frieda River project is moving forward with a Special Mining Lease application being lodged during the year.

"We also have refined our strategy and in addition to the continued careful development of our existing projects, the Board believes that the Company needs to focus on suitable acquisitions or mergers that provide an avenue to create value for shareholders, with the need for any transaction to generate positive cashflows within reasonable and manageable timeframes.

"That is all happening against a background of early signs that metal prices are recovering, leaving us with a positive outlook for the current year and beyond," Mr Lennon said.



In the Company's annual report lodged with the Australian Securities Exchange today, Highlands' Directors continue to unanimously recommend that shareholders vote against the spill motions proposed by shareholder PanAust Ltd (wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd (GRAM)), to remove four Highlands' directors and replace them with three GRAM nominees.

"The Board spill would constitute a change of control of Highlands, without any payment or premium for control being paid to our shareholders," Directors said.

"Of particular concern is the potential for a conflict of interest to arise under a GRAM dominated board, due to GRAM's position as a joint venture partner and manager of the Frieda River project.

"If GRAM nominees were to gain control of the Highlands' Board, there is a risk that they would act to further GRAM's agenda in relation to Frieda River, rather than act in the interests of all 7,310 shareholders" Directors said.

**For further information, please contact:
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0421 587755**



ASX Code: HIG
PoMSox Code: HIG
Shares on Issue: 936 million
Performance Rights: 17 million

Directors

Ken MacDonald, Chairman
 Ron Douglas, Chairman elect
 Craig Lennon, Managing Director
 Mike Carroll
 Dan Wood
 Bart Philemon

Management

Sylvie Moser, CFO and Company Secretary
 Ron Gawi, GM Port Moresby
 Leslie Nand, GM Exploration Projects

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About Highlands Pacific Limited

Highlands Pacific is a mining and exploration company registered and incorporated in PNG and listed on the Australian and Port Moresby stock exchanges. Highlands has a long history of successful exploration and project development in PNG. The Company was formed in 1997 and has since established an impressive suite of projects providing investors with leveraged exposure to copper, nickel and gold. Its major assets are interests in the producing Ramu nickel cobalt mine and the Frieda River copper gold project, with exploration in progress at the highly prospective Star Mountains tenements. Highlands also has exploration territory on Normanby Island (Sewa Bay), at the south eastern tip of PNG. Through the efforts of its highly experienced staff, the Company is committed to the responsible development of mining projects for the benefit of all its stakeholders, including shareholders, landowners, business partners and the broader PNG community.

Star Mountains Prospects

The Star Mountains exploration tenements are located approximately 20km north of the Ok Tedi mine, in the West Sepik Province, PNG. They lie within the highly prospective New Guinean Orogenic Belt, which hosts the Grasberg, Ok Tedi, Porgera and Hidden Valley mines, as well as the Frieda deposit. The Star Mountains project is held within a joint venture with partner Anglo American plc.

Ramu Nickel Cobalt Mine

The producing Ramu nickel cobalt mine is located 75km west of the provincial capital of Madang, PNG. Highlands 8.56% interest in Ramu will increase to 11.3% at no cost to Highlands after repayment of its share of the project debt. Highlands also has an option to acquire an additional 9.25% interest in Ramu at fair market value, which could increase the company's interest in the mine to 20.55%, if the option is exercised.

Frieda River Copper/Gold Project

The Frieda River copper gold project is located 175kms north-west of the Porgera gold mine and 75km north-east of the Ok Tedi mine. Highlands has a 20% interest in the project and Frieda River Limited (FRL) (a wholly owned subsidiary of PanAust Limited which in turn is a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd.) 80%.

2016

ANNUAL REPORT



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CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

Dear Shareholder,

The 12 months to December 2016 was a period of fundamental change and renewal for your Company. While we continued to work hard to add value to our suite of projects, the Company implemented a comprehensive corporate restructure to cut costs and preserve cash in the face of stubbornly depressed metal prices.

The savings initiatives involved broad reductions in corporate overheads as well as significant reductions in executive numbers, including the departure of three General Managers and salary cuts for Directors and remaining executives. In addition, as part of the restructure process, the long-serving Chief Executive and Managing Director, John Gooding, chose to retire in November, to be replaced by Craig Lennon, who had served as Chief Financial Officer since 2007. We thank John for his many years of service.

A process of Board renewal was commenced during the year, and since year-end, the Chairman, Ken MacDonald, has announced his retirement. Mr MacDonald is being replaced by Ron Douglas, who joined the Board in February 2017. Mr Douglas brings a wealth of resource sector experience to the role, as well as extensive management skills from many years in senior executive positions with other organisations.

Highlands Pacific ended the 2016 year well placed, with a small but energetic management team, a workable cash buffer, reduced cash consumption, and with project development work being funded largely by our joint venture partners.

In February 2017, however, the Company was served with a requisition notice from one of its shareholders, PanAust Ltd (a wholly owned subsidiary of the Chinese government owned Guangdong Rising Assets Management Co Ltd (GRAM)), to convene a Special Meeting to remove four of Highlands' five Independent Non-Executive Directors and replace them with three GRAM nominees. This would give GRAM nominees effective control of the Board.

Your Directors, including those GRAM has not sought to remove, unanimously recommend that shareholders vote against the spill motions at the Special Meeting to be held in May, immediately after the 2017 Annual General Meeting.

Your Directors are motivated purely by the desire to protect shareholders' interests, maximise the value of the Company's assets and achieve the best results for all shareholders.

The GRAM proposal would effectively amount to a change in control of the Company without any payment to shareholders, let alone a full price including a premium for control.

Of particular concern is the potential for a conflict of interest to arise under a GRAM dominated board, due to GRAM's position as a joint venture partner and manager of the Frieda River project. GRAM holds an 80% interest in the project and Highlands holds 20%, and we have been in dispute with GRAM regarding their plans for the project and funding of development work. While it is clear that the Frieda River project is a valuable asset with the capacity to generate significant returns for shareholders if developed appropriately, we believe the GRAM development proposal is of a scale that requires considerable capital and has production elements that are high risk.

Instead, Highlands has been urging GRAM to adopt a more modest project plan that would provide improved risk adjusted returns for our shareholders.

GRAM has now initiated this attempted Board spill. If they were to gain control of the Highlands' Board, there is a risk that they would act to further GRAM's agenda in relation to Frieda River, rather than act in the interests of all 7,312 shareholders.

As this report is issued, we are continuing to explain our position to our shareholders and ask for your support for an independent Highlands Pacific Board focused on protecting your interests and your interests alone. You will have recently received documentation regarding the Special Meeting, and we urge you to read it carefully and vote against the resolutions proposed by GRAM.

STRATEGY

We believe that Highlands Pacific is in a special position, providing shareholders with leveraged exposure to potentially highly valuable resources projects in PNG. Our strategy essentially has been to utilise our exploration expertise and regional knowledge base to identify precious or base metal projects or exploration territory that can be enhanced through further development and investigation.

A key to this past strategy was the development of our existing ore bodies into operating entities to create cashflow to grow the business. This was realised with Ramu.

However, based on the findings of the recent PanAust Frieda River feasibility study, which differ greatly to the small scale project identified by PanAust in 2014, the development of Frieda River project into an operating mine of this current scale will not occur in the near term and this required Highlands to revisit its strategy. To this end, the Company is exploring all options to maximise the value of its stake in the Frieda River project, including a potential sale.

In the nine months since the release of the Frieda River feasibility study, your Board has spent considerable time reviewing the strategy to grow returns for shareholders.

The Board believes that moving forward the Company needs to focus on suitable acquisitions or mergers that provide an avenue to create value for shareholders, with the need for any transaction to generate positive cashflows within reasonable and manageable timeframes.

OPERATIONAL DEVELOPMENTS

Turning then to the operational performance during 2016, we can report solid progress, albeit there also were some serious setbacks and challenges.

The external environment was difficult due to uncertainty about the outlook for the global economy, fuelled by political instability in the US and Europe. Commodity prices remained depressed, which affected the financial performance of most resource companies operating in precious and industrial metals sectors.

For most of the 2016 year, copper traded at its lowest level since 2009, bouncing along in a range of between US\$2-\$2.20 per pound. The price recovered a little to US\$2.60/lb in October, still well down from prices of around US\$4.50/lb achieved in early 2011.

Nickel prices were close to 15 year lows during the year, trading below US\$9,000/tonne for the first six months before sentiment improved slightly, taking prices back above US\$10,000/tonne by year end.

Like many other resources companies, the Highlands Pacific share price performance was adversely affected. Our shares traded around AU 6 cents for much of the year, which was disappointing. The effect of depressed commodity prices was compounded by the negative market response to the GRAM development plan for Frieda River.

Unfortunately there is nothing that we can do about global commodity prices, so we concentrated on doing what we could to maximise the value of our projects during the year. Working with our various joint venture partners, we managed to push the projects forward to different degrees. And so far in 2017, we are seeing signs of improving fundamentals in metals markets that give us reason to be positive about the outlook for the Company over the medium term.

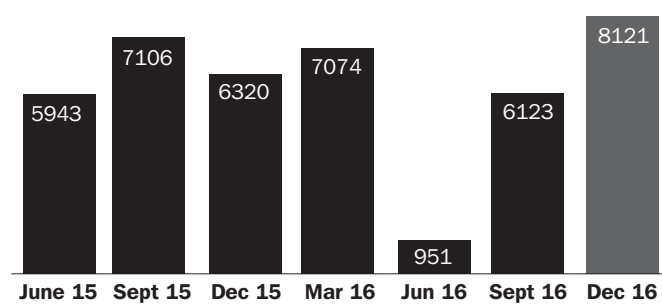
A number of important developments occurred during the year.

- 1) A highlight was the excellent progress that was achieved at the Star Mountains Copper Gold exploration project, where we are working with our joint venture partner Anglo American plc. Following a successful 2015 drilling campaign, we commenced a new program in October 2016 targeting new prospects identified through extensive field work and airborne geophysical surveys. The campaign involves four 800 metre plus diamond drill holes at two highly prospective targets - Unfin and Fune. Results from the first two holes have confirmed mineralisation at each of the prospects and more drilling is being carried out to further test the potential for the area to host a major copper porphyry deposit.
- 2) At the Ramu Nickel/Cobalt mine, in which Highlands holds an 8.56% interest, a tragic accident occurred in April, when a high pressure steam pipeline failed, resulting in the death of one employee and the injury of two others. The operation was immediately shut down and the manager, Metallurgical Corporation of China (MCC), engaged an external contractor to conduct a thorough investigation. Remedial work was subsequently carried out before the plant resumed operations in early July. Highlands is continuing to work with MCC to ensure that exemplary safety standards are enforced at the project.

Following the resumption of processing, production ramped up quickly and achieved record results in the three months to December, with output of 21,300 tonnes of MHP containing 8,121 tonnes of nickel.

QUARTERLY NICKEL PRODUCTION

(In Concentrate, tonnes)



For the full year, total output was 57,800 tonnes of Mixed Hydroxide Product, containing 22,300 tonnes of nickel and 2,190 tonnes of cobalt.

Total output for 2017 is expected to exceed 30,000 tonnes of nickel and 3,000 tonnes of cobalt, leaving the project well placed to benefit from continued recovery in metal prices.

- 3) Regarding the Frieda River Copper Gold project, the project manager, GRAM, released a feasibility study in May proposing a large-scale project producing an average of 175,000 tonnes of copper and 250,000 ounces of gold per year, with an initial mine life of 17 years.

The project, as proposed by GRAM/PanAust, would have an estimated total capital cost of almost US\$6 billion, including pre-production capital of US\$3.6 billion and US\$2.3 billion in sustaining and development capital to be spent over the life of the mine. Highlands' view is that the feasibility study was incomplete. We believe the project as proposed faces major challenges - financially, technically, and environmentally, and generates insufficient risk-adjusted returns for shareholders. We are continuing to work towards the development of a more pragmatic project delivering enhanced returns, and to resolve ongoing disputes with GRAM regarding funding of project development work.

Following the release of the feasibility study, an application was submitted to the PNG government for a Special Mining Lease for the project followed by an Environmental Impact Statement.

- 4) In November, we announced the next stage of exploration at the Sewa Bay nickel laterite project in Milne Bay, to be conducted in conjunction with international trading house Sojitz Group, and Japan's Pacific Metals Co. Ltd. The exploration activity will include an airborne laser and imagery (LIDAR) survey over the 200 sq km tenement area, to provide detailed topographical mapping, and will be funded by Sojitz and Pacific Metals.

CONCLUSION

As is evident, a great deal has happened in the past year. We are now a stronger company, with great projects that have the capacity to generate significant returns for shareholders in the future.

Your current Directors are completely focused on protecting your interests and extracting full value from our projects. It is important that Highlands remains an independent company to achieve that outcome, and therefore we urge shareholders to support the existing board at the forthcoming Special Meeting to be held in May.

We thank all our employees and our fellow Directors for their hard work and commitment during 2016, as we confronted a range of challenges and took a number of difficult decisions to preserve value for shareholders. And finally, we thank our shareholders for their ongoing interest in the company.

Ken MacDonald (Chairman), Ron Douglas (Chairman elect) and Craig Lennon (Managing Director)

RAMU NICKEL/COBALT MINE

The Ramu Nickel/Cobalt mine near Madang, on the north coast of PNG, managed to pass some important production milestones during 2016, with the Basamuk process plant consistently approaching design capacity for the first time since commissioning commenced.

Highlands holds an 8.56% interest in the Ramu joint venture, which is majority owned and operated by Chinese group Metallurgical Corporation of China Ltd (MCC).

The plant achieved total production of 57,824 tonnes of Mixed Hydroxide Product in 2016, containing 22,269 tonnes of nickel and 2,191 tonnes of cobalt for the year.

This included record quarterly production of 8,121 tonnes of nickel in the December quarter.

	2012	2013	2014	2015	2016
Ore Processed (dry kt)	647	1,253	2,273	2,784	2,270
MHP Produced (dry t)	13,777	29,736	57,360	65,286	57,824
- Contained Ni (t)	5,283	11,369	20,987	25,582	22,269
- Contained Co (t)	469	1,013	2,134	2,505	2,191
MHP Shipped (dry t)	576	39,472	57,216	53,291	64,307
- Contained Ni (t)	217	15,123	21,100	20,747	24,199
- Contained Co (t)	19	1,338	2,164	2,004	2,376

While overall production outcomes were encouraging, project performance was marred by a tragic accident in April when one employee was killed and two others injured when a high pressure steam line failed at the Basamuk process plant. Operations were immediately suspended and MCC engaged an external contractor to conduct a thorough investigation in conjunction with the PNG Mineral Resources Authority and the PNG Mines Inspectorate to ensure safety standards were in place and operating effectively.

Remedial work was subsequently carried out before the plant resumed operations in early July.

In the current year, throughput is expected to exceed 30,000 tonnes of nickel in concentrate.

The Ramu nickel project has a planned mine life of more than 20 years, making it a truly world class asset capable of generating substantial cashflows.

Location: The Kurumbukari nickel laterite mine is connected by a 135km pipeline to the Basamuk process plant which is 75km east of the provincial capital of Madang.

History: The deposit was first discovered in 1962. In 2000 the project was granted its Special Mining Licence and in 2005 Metallurgical Corporation of China Limited (MCC) joined the joint venture and was responsible for financing and construction of the project.

Ownership: The project is a joint venture between Highlands (8.56%), the PNG Government and Landowners (6.44%) and MCC Ramu Nico Ltd (85%). MCC holds a 61% interest in MCC Ramu Nico Ltd, with the remaining 39% held by a number of other Chinese entities. Highlands' interest in the project will increase to 11.3% at no cost after internal project debt has been repaid from operating cash flow. Highlands also has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%.

Funding: MCC Ramu NiCo Limited was responsible for development and financing of the project. Upon Highlands' decision to begin participating in the operating cashflows of the project and thus enabling it to begin receiving its pro-rata share of operating surpluses, it also commenced repaying its share of project borrowings. Highlands' borrowings include its 8.56% share of principal (capped to a specified development threshold) and interest repayments made by MCC Ramu NiCo Limited to third parties on behalf of Highlands, plus any accumulated interest charged by MCC Ramu NiCo Limited. The borrowings are held in Highlands' wholly owned subsidiary, Ramu Nickel Limited, and are non-recourse to the Highlands Group. The borrowings are to be repaid out of the Group's share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating and financing cashflows generated by the Highlands Group. Of the operating surpluses available to Highlands, currently 80% is applied to repayments of borrowings. Once the borrowings have been repaid, Highlands' interest in the Ramu Nickel mine will increase to 11.3% at no cost to Highlands.

Mining and Beneficiation Plant: The Kurumbukari nickel deposit is a low strip ratio, free digging open pit mine. Excavators mine the average 12 metre thick ore-body and load into trucks for delivery to the beneficiation plant.

The plant removes the chromite and creates a consistent slurry feed for pipeline transport to the Basamuk process plant.

A 135km slurry pipeline runs from the Kurumbukari mine/beneficiation plant to Basamuk, with a drop in elevation of about 680m.

Basamuk Process Plant: The Basamuk process plant incorporates three High Pressure Acid Leach (HPAL) trains (autoclaves).

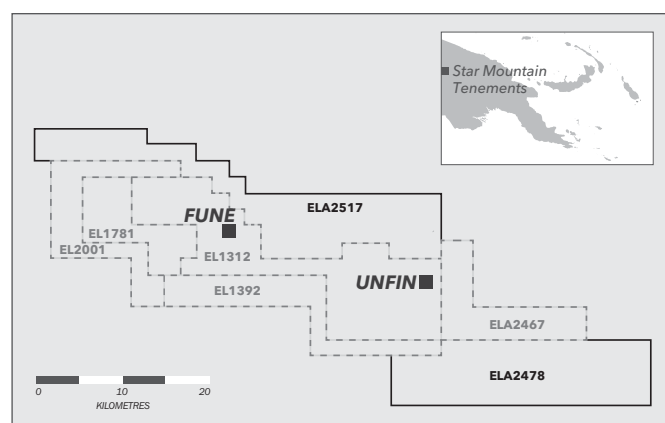
For more information on Ramu review the website: www.ramunico.com

STAR MOUNTAINS COPPER/GOLD PROJECT

The Star Mountains exploration tenements cover 675 sq kms and are located within the prospective New Guinean Orogenic Belt, which hosts the Grasberg, Ok Tedi, Porgera and Hidden Valley mines, as well as the Frieda River deposit.

The tenements, which include Nong River EL1312, Mt Scorpion EL1781, Munbil EL2001 and Tifalmin EL1392, have been expanded in 2016 by the addition of Mt Abemh EL2467. Two new applications also have been made for tenements at Ilem River ELA 2478 and Lake Louise ELA 2517, which together cover more than 300 sq kms. The Star Mountains tenements are approximately 20km north east of the Ok Tedi mine and 25kms from the support town of Tabubil, in the West Sepik Province of PNG.

The project is a joint venture between Highlands and Anglo American Plc, which acquired an interest in the project in early 2015 and has been undertaking exploration as part of a farm-in agreement.



2016 DRILL CAMPAIGN

Anglo American and Highlands began a major drilling campaign at the tenements in October 2016, following a successful nine hole program in 2015 for over US\$10 million (funded by Anglo American).

The 2016 campaign increased the exploration expenditure for 2016 to more than US\$8 million (funded by Anglo American).

The current program involves four diamond drill holes of approximately 800-1,000 metres each at two prospective targets - Unfin and Fune.

The work builds on the 2015 drilling which confirmed the presence of mineralisation in the nearby Olgal and Kum Kom prospects. Aero-magnetic surveys, a 3,300km ZTEM survey and extensive prospect mapping over the previous 12 months identified Unfin and Fune as two of the most promising untested targets in the tenements. The current drilling is aimed at testing the potential for mineralisation at depth.

Initial results from the first two holes of the current campaign have been encouraging, confirming mineralisation at the prospects tested and providing improved understanding of the geology of the two sites.

At Unfin, the first hole reached a depth of 1,061 metres and encountered extended zones of low grade copper and gold mineralisation as well as some higher grade intercepts.

At Fune, one hole has been completed to a depth of 750 metres, with results again confirming a mineralised system.

Further holes are currently being drilled at each of the prospects, with target depths of 1,000 metres.

For full reports of the drilling and drill results, please see ASX announcements of 25 February 2016 and 9 March 2017, available at: <http://www.highlandspacific.com/asx>.

Ownership: In early 2015, Highlands and Anglo American executed a joint venture agreement to undertake exploration and potential development of the Star Mountains project.

The joint venture and farm-in agreements consist of the following:

US\$10 million payment – Anglo American paid Highlands an initial US\$5 million in February 2015, with a second US\$5 million paid in February 2016.

Phase 1 (51% interest) – Anglo American can earn a 51% interest in the joint venture by spending US\$25 million on exploration over four years, and declaring a 43-101/JORC compliant inferred resource of 3Mt of contained copper-equivalent within five years.

Phase 2 (80% interest) – Anglo American can move to an 80% interest in the Joint Venture by completing a Bankable Feasibility Study (BFS) within 15 years of the execution of the Farm-in and Joint Venture Agreements. Development Free-Carry – Anglo American will provide Highlands with up to US\$150 million in project development funding as a deferred free-carry following completion of the BFS. Anglo American will recover this US\$150 million from a portion of Highland's share of project cashflows once in production.

Highlands will continue to manage the project, however, Anglo American will have the right to take over management of the project when it has invested US\$25 million in project expenditure.

History: The first drilling at Star Mountains was conducted by Kennecott in the late 1960s. Highlands undertook a drilling campaign for three years from 2010 where 28 diamond drill holes were drilled over six prospects.

FRIEDA RIVER COPPER/GOLD PROJECT

About Frieda: The Frieda River Copper/Gold project is one of the top 10 undeveloped open pit copper deposits in the world, with a resource inventory of 11.5Mt of copper and 20Moz of gold.

Location: The Frieda River project is 70kms south of the Sepik River on the border of the Sanduan and East Sepik Provinces of Papua New Guinea some 500kms upriver from the coast.

Highlands holds a 20% interest in the project, with the other 80% owned by Chinese state-owned company Guangdong Rising Assets Management Co. Ltd ("GRAM"), following its acquisition of PanAust Ltd in 2015.

The PNG Government has a right to acquire up to a 30% interest in the project by paying a 30% share of sunk costs at the time that it grants a Special Mining Lease. Under the joint venture agreement between Highlands and GRAM, if the Government exercises its right to acquire a 30% stake, Highlands' holding would reduce to 15% and GRAM's to 55%.

Development Concept: GRAM released a feasibility study on the project in May 2016, proposing a large-scale, open-pit mining operation feeding ore to a conventional process plant producing an average 175,000 tonnes of copper (in concentrate) and 250,000 ounces of gold, with an initial mine life of 17 years.

The Study concluded that the project would have an estimated initial pre-production capital cost of US\$3.6 billion, excluding mobile mining fleet and an oil fired power generation facility. An additional US\$2.3 billion will be spent over the life of the mine on development and sustaining capital.

Following the release of the study, a Special Mining Lease application was submitted to the PNG government in June 2016 and an Environmental Impact Statement submitted in December 2016. Following permitting, which might take all of 2017, construction would take approximately six years.

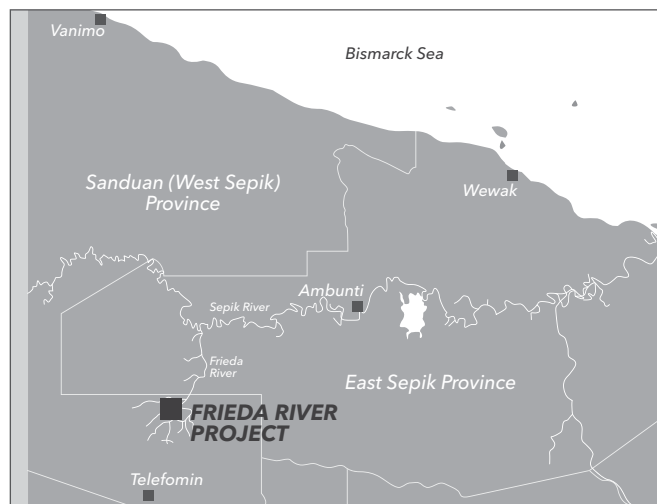
Joint venture partner commitment to development of the project remains subject to a range of challenges, including debt and equity

funding, commodity prices, design refinement, environmental and community approvals. It also will be affected by such matters as government infrastructure support and the level of ownership that the national government elects to acquire in the project.

Highlands and GRAM have been in dispute regarding the proposed development. Highlands' view is that the feasibility study remains incomplete, and has been urging PanAust to consider a smaller project that poses fewer technical and funding risks.

In addition, under the joint venture agreement, GRAM was to remain responsible for all project costs up to the time of application for a mining lease, which required the support of the completed feasibility study.

Highlands is continuing to seek a negotiated settlement with GRAM that protects the interests of Highlands' shareholders. Highlands remains hopeful that, with further work, the project can be viably developed and can create significant value for Highland's shareholders by providing highly leveraged exposure to future increases in metal prices.



SEWA BAY

The Sewa Bay nickel laterite project (EL1761) is a 758 sq km exploration licence located in the western portion of Normanby Island in the D'Entrecasteaux group of islands, Milne Bay Province.

Highlands has been conducting exploration at the tenements in conjunction with international trading house Sojitz Group and Japanese company Pacific Metals Co. Ltd.

Following a successful 2015 auger drilling campaign, a new program was announced in November 2016 which has included an airborne laser and imagery (LIDAR) survey over the tenement area, to provide detailed topographical mapping. The survey was completed in February 2017 with results expected in the coming months.

The 2015 campaign, which included 303 auger drill holes of new surface rock free laterite, encountered intercepts including:

- 1.1 metres at 1.61% Ni from surface
- 1 metre at 1.43% Ni from surface
- 2.4 metres at 1.42% Ni from surface
- 1 metre at 1.41% Ni from surface
- 1.9 metres at 1.4% Ni from surface

As a result of the auger drilling program, two main areas of mineralisation above 1% nickel were identified covering an area of 7 square kilometres.

For full reports of the drilling and drill results, please see ASX announcements of 18 August 2015, available at: <http://www.highlandspacific.com/asx-announcements>.

2016 MINERAL RESOURCES AND ORE RESERVES STATEMENT

Highlands Pacific has equity interests in two projects with estimated mineral resources:

- **Frieda River Copper/Gold Project**, located 70kms south of the Sepik River on the border of the Sandaun and East Sepik Provinces of Papua New Guinea some 500kms upriver from the coast ; and
- **Ramu Nickel/Cobalt Mine**, located 75kms west of the coastal town of Madang, near the Ramu River.

FRIEDA RIVER COPPER/GOLD PROJECT

Mineral Resources have been estimated for four deposits in the Frieda River Copper/Gold project: the Horse/Ivaal/Trukai (HIT), Koki and Ekwai copper/gold porphyry deposits and the Nena epithermal high-sulphidation copper/gold deposit.

During 2016, additional resource drilling and modelling took place on the Koki and Ekwai deposits. This work resulted in the Resource for Ekwai and Koki being combined with Horse/Ivaal/Trukai (HIT) into a new Resource which is reported as the Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Resource.

Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Resource at a 0.2% Cu cut-off and constrained by a pit shell (US\$4.95/lb Cu & US\$2,175/oz Au)

31 December 2016			
Category	MTonnes	Cu %	Au %
Measured	620	0.53	0.30
Indicated	1,240	0.44	0.22
Inferred	780	0.35	0.18
Total	2,640	0.44	0.23

In 2015, the HITEK Resource was reported as three separate Resources; the Horse/Ivaal/Trukai (HIT) Resource, the Koki Resource and the Ekwai Resource.

Horse/Ivaal/Trukai (HIT) Resource at a 0.2% Cu cut-off and constrained by a pit shell (US\$2.5/lb Cu & US\$1,000/oz Au)

31 December 2015			
Category	MTonnes	Cu %	Au %
Measured	780	0.51	0.28
Indicated	410	0.44	0.20
Inferred	920	0.4	0.2
Total	2,110	0.45	0.22

Koki Resource at a 0.2% Cu cut-off

31 December 2015			
Category	MTonnes	Cu %	Au %
Inferred	450	0.4	0.2

Ekwai Resource at a 0.2% Cu cut-off

31 December 2015			
Category	MTonnes	Cu %	Au %
Inferred	170	0.4	0.2

The total tonnes of the HITEK Resource (2,640 MTonnes) is slightly smaller than the previously reported HIT, Ekwai and Koki Resources while the average grade for both copper and gold are slightly improved. These minor changes are largely reflective of the improved definition of the Koki and Ekwai portions of the Resource.

The biggest change is a substantial increase in the portion of the Resource classified as Indicated and decrease in the tonnes reported as Measured. The increase in the Indicated tonnes is a direct result of the Ekwai and Koki drilling, while the decrease in Measured tonnes is a result of the change in classification criteria in order to harmonize the HIT Resource with the Ekwai and Koki Resources.

HITEK RESERVE

Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Reserve at a nominal 0.21% Cu cut-off (US\$3.30/lb Cu & US\$1,455/oz Au)

31 December 2015			
Category	MTonnes	Cu %	Au %
Proved	413	0.54	0.32
Probable	272	0.45	0.21
Total	686	0.50	0.28

The 2016 **Horse/Ivaal/Trukai, Ekwai and Koki (HITEK) Ore Reserve** was estimated from part of the mineral resource, reported above, in a study to estimate reserves conducted by GRAM. The 2016 Ore Reserve was based on a mine plan and modifying factors detailed in the report Frieda River Copper/Gold project, PNG Feasibility Study Addendum 2017 Volume 3 Chapter 7 Appendix 7-9 Mineral Resource and Ore Reserve.

2016 MINERAL RESOURCES AND ORE RESERVES STATEMENT - CONTINUED

NENA

31 December 2016 at a 0.3% Cu cut-off						31 December 2015 at a 0.5% Cu cut-off				
Category	MTonnes	Cu %	Au %	As %	Sb ppm	MTonnes	Cu %	Au %	As %	Sb ppm
Indicated	33	2.81	0.65	0.22	153	33	2.81	0.65	0.22	153
Inferred	12	1.84	0.45	0.14	88	12	1.84	0.45	0.14	88
Total	45	2.55	0.60	0.20	136	45	2.55	0.60	0.20	136

No additional resource drilling or modelling has taken place on Nena since 2014 so there is no change to the reported resource tonnes or grade. Highlands Pacific is not aware of any new information or data that materially affects the information presented herein and confirms that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

RAMU NICKEL/COBALT LATERITE MINE

Due to operational constraints and complications in developing a mine plan that reflects the increasing importance of hydro sluicing at Kurumbukari, an updated Resource and Reserve Report was unavailable from the operator and manager, Ramu NiCo Management (MCC) Limited, in time for the release of this Annual Report. A complete update for the Ramu Nickel/Cobalt Mine Resource and Reserve will be released by Highlands Pacific when an update is available from Ramu NiCo Management (MCC) Limited.

Ramu Ni-Co Mine Resource (at a 0.5% nominal cut-off and excluding oversize (+2mm))

31 December 2015			
Category	MTonnes	Cu %	Au %
Kurumbukari			
Measured	36	0.9	0.1
Indicated	7	1.4	0.1
Inferred	4	1.2	0.1
Total	46	1.0	0.1
Ramu West			
Indicated	17	0.8	0.1
Inferred	3	1.5	0.2
Total	20	0.9	0.1
Greater Ramu			
Inferred	60	1.0	0.1
Global Total	126	1.0	0.1

As far as Highlands Pacific is aware any changes to the end of 2016 in the reported mineral resources for the Ramu mine will reflect depletion of mined areas and some remnant resource sterilized due to rehabilitation and back fill.

RAMU RESERVE

The following table shows the 2015 Ramu ore reserve estimate.

31 December 2015				
Category	MTonnes	Ni%	Co%	Rocks +2mm MTonnes
Kurumbukari				
Proved	31	0.9	0.1	
Probable	6	1.3	0.1	9
Total	37	1.0	0.1	9
Ramu West				
Proved				
Probable	14	0.9	0.1	
Total	14	0.9	0.1	
Global Total	51	1.0	0.1	9

The 2015 Ramu Ore Reserve was estimated from part of the mineral resource, reported above, in a study to estimate reserves conducted by AMC Consultants. The 2015 Ore Reserve was based on the Kurumbukari mine plan and modifying factors based on information about the operations in 2015. The 2015 cut-off grade was approximately 0.58% Nickel equivalent (including cobalt metal credits).

As far as Highlands Pacific is aware any changes to the end of 2016 in the reported Ore Reserves for the Ramu mine will reflect depletion of mined areas and some remnant resource sterilized due to rehabilitation and back fill in addition to any adjustment that reflect the changing mining methods and changes in long term commodity prices.

RAMU 2016 PRODUCTION

In 2016 Ramu Nickel Management Limited reported production of 2.3 MT of laterite grading 1.12% nickel and 0.11% cobalt from the Kurumbukari Mine.

Notes

Frieda River Copper/Gold Project

The summary of the HITEK mineral resources and the ore reserves as at 31 December 2016 should be read in conjunction with the comprehensive report 2016 Mineral Resources and Ore Reserves statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 24 March 2017.

Highlands Pacific Confirms

The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves.

The Mineral Resources and Ore Reserve estimates are reported on a 100% ownership basis. Highlands Pacific has a 20% beneficial ownership in the Frieda River Copper/Gold project and an 8.56% beneficial ownership in the Ramu Nickel/Cobalt Laterite Mine.

The tonnes and grades are stated to a number of significant figures that reflects the confidence of the estimate. Each number is rounded individually so the tables may show apparent inconsistencies between the sum of the rounded components and the corresponding rounded total.

The Frieda River HITEK Ore Reserve is estimated using prices of US\$3.30/lb copper and US\$1,455/oz gold. The 2015 Ramu Ore Reserve was estimated using prices of US\$17,764/t nickel and US\$26,448/t cobalt.

CORPORATE GOVERNANCE - RESERVES AND RESOURCES CALCULATIONS

Due to the nature, stage and size of the Company's existing operations, the Board believes there would be no efficiencies gained by establishing a separate mineral reserves and resources committee responsible for reviewing and monitoring the Company's processes for estimating mineral resource and ore reserves and for ensuring that the appropriate internal controls are applied to such estimates. However, the Company ensures that any mineral reserve and ore resource estimations are prepared by competent geologists and are reviewed independently and verified including estimation methodology, sampling, analytical and test data.

The Company will report any future mineral reserves and resources estimates in accordance with the 2012 JORC Code.

Competent Persons Statement

The database information used for the HITEK Mineral Resource estimates was compiled and verified as suitable for this estimate by Mr Shaun Versace. Details contained in this Annual Report that pertain to the HITEK Mineral Resource Estimates are based upon, and fairly represent, information and supporting documentation compiled by Mr Shaun Versace. Mr. Versace is a full-time employee of PanAust Limited (a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd) and a Member of The Australasian Institute of Mining and Metallurgy. Mr. Versace has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Versace consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Details contained in this Annual Report that pertain to the Nena Resource Estimate are based upon, and fairly represent, information and supporting documentation compiled by Mr Paul Gow, a Member

of the Australasian Institute of Mining and Metallurgy (AusIMM) and at the time the estimate was prepared was a full-time employee of Glencore-Xstrata. Mr Gow has sufficient experience which is relevant to the style(s) of mineralisation and type(s) of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Gow consents to the inclusion in this report of the matters based upon the information in the form and context in which it appears.

Details contained in this Annual Report that pertain to the HITEK Ore Reserve Estimate are based upon, and fairly represent, information and supporting documentation compiled by Mr Scott Alexander Cowie, a Member of the Australasian Institute of Mining and Metallurgy (AusIMM) CP (Min) and a full-time employee of PanAust Limited (a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd). Mr Cowie has sufficient experience which is relevant to the style(s) of mineralisation and type(s) of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Cowie consents to the inclusion in this report of the matters based upon the information in the form and context in which it appears.

The information in this report that relates to the 2015 Ramu Mineral Resources is based on information compiled by Lawrence Queen, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Queen is a contractor for Highlands Pacific and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Queen consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Details contained in this Annual Report that pertain to the 2015 Ramu Ore Reserve Estimate are based upon, and fairly represent, information and supporting documentation compiled by Mr Patrick Smith, a Member of the Australasian Institute of Mining and Metallurgy (AusIMM) CP (Min) and a full-time employee of AMC Consultants Pty Ltd. Mr Smith has sufficient experience which is relevant to the style(s) of mineralisation and type(s) of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Smith consents to the inclusion in this report of the matters based upon the information in the form and context in which it appears.

Details contained in this Annual Report that pertain to exploration results are based upon, and fairly represent, information and supporting documentation compiled by Mr Lawrence Queen, a Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and a contractor for Highlands Pacific. Mr Queen has sufficient experience which is relevant to the style(s) of mineralisation and type(s) of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Queen consents to the inclusion in this report of the matters based upon the information in the form and context in which it appears.

OUR COMMITMENT

Highlands takes its commitment to health and safety issues, community relationships and the environment very seriously. Also, in addition to our own operations we encourage and take a keen interest in the performance of our joint venture partners in these important areas.

WORKPLACE HEALTH AND SAFETY

Highlands is committed to providing a safe and healthy working environment for its employees and contractors. Our standards, as set out in the Corporate Occupational Health & Safety Policy, commit our employees to the highest level of occupational health and safety. These standards are maintained for all employees, contractors and visitors at project sites, by our health and safety representatives.

Highlands remains committed to minimising the number of work related injuries by implementing safe work practices, providing appropriate personal protective equipment and conducting safety training sessions and workshops on a regular basis, while conforming to the relevant safety and health legislations.

Table A – Highlands Operations

Accident Statistics					
Number of:	2016	2015	2014	2013	2012
Fatalities	0	0	0	0	0
Lost time injuries	0	0	0	0	1
Average no. of employees	115	120	15	15	70

Table B – Ramu Mine (not operated by Highlands)

Accident Statistics					
Number of:	2016	2015	2014	2013	2012
Fatalities	1	1	1	0	0
Lost time injuries	2	3	2	1	5
Average no. of employees	1,528	1,606	1,391	1,400	1,184

Unfortunately at our Ramu Nickel operation, in April 2016 one fatality was recorded at the Basamuk refinery. The incident was caused by a burst steam line and resulted in a 79 day shutdown while the incident was investigated. Improved safety systems have been put in place to minimize such incidents occurring again.

Table C – Frieda Project (not operated by Highlands)

Accident Statistics					
Number of:	2016	2015	2014	2013	2012
Fatalities	0	0	0	0	0
Lost time injuries	0	0	0	0	0
Average no. of employees	136	84	62	84	148

HEALTH PROGRAM

In most parts of Papua New Guinea, the poor availability of health services to the rural communities is of concern. Highlands and

its joint venture partners assist these communities by providing medical supplies and regular health extension visits by company community health workers. These programs address pressing health issues including HIV/AIDS, malaria, tuberculosis, typhoid and other diseases. Access to a reliable source of water is an issue in the region.

ENVIRONMENTAL MANAGEMENT

Highlands is committed to minimising any negative impact of exploration, mining and mineral processing on the environment by integrating environmental considerations with community interests when planning its activities.

Extensive studies have been conducted at the Ramu mine and Frieda River project by specialist environmental consultants. The findings of these studies have been incorporated into the development strategies of each project and continue to be a focus area. For our Star Mountains project we have an approved environmental management plan and hold all relevant permits from the PNG Department of Environment and Conservation (DEC) to undertake an exploration program.

No significant environmental incidents or accidents were reported during the year by either Highlands or our Joint Venture partners at the Ramu mine, Frieda River or Star Mountains projects.

LANDOWNER AND COMMUNITY RELATIONS

The Highlands' approach to landowner and community relations is to work closely with local communities and government institutions to establish itself as a reliable and credible partner. Open and transparent communication with all stakeholders, but in particular the communities impacted by Highlands operations, is the foundation of its programs. This requires a continuous process of the highest standard in open communication, consultation and participative decision-making. Highlands has been operating in PNG for many years and has an excellent record in this area.

The Principles of our community relations approach are embodied in the Tok Pisin word "OLGETA" meaning "all together". Each of the letters in this word represents a Principle we want to convey in our approach;

O Open and honest communication

L Long term view

G Grateful for each other

E Expectations realistic also environmental responsibility

T Trust is important

A Agreements honoured.

BUSINESS DEVELOPMENT

Highlands is committed to building the capacity of the local communities to enable them to continue to support the Company's operations, through the provision of necessary training and assistance, as well as working with the communities to identify new and innovative business opportunities. During our exploration activities we make a point of hiring as much local labour as possible and also provide opportunities to the local communities to provide food, timber and other useful products at market rates.

BOARD OF DIRECTORS

KEN MACDONALD

Chairman Independent, Non-executive Director

Appointed: 01 February 2008

FAICD

Ken MacDonald has over 40 years' experience in corporate law, with particular emphasis on the energy and natural resources sector as a partner with Allens Arthur Robinson and its predecessors where he headed the firm's Energy, Resources and Infrastructure Department and had responsibility for its Port Moresby office. He retired as partner on 31 December 2007 but remains an active consultant to the firm. He has advised the Queensland Government in many significant transactions, from leading the Queensland Government legal team for the Suncorp Metway merger and subsequent privatisation, through to the sale of the Queensland retail energy business. He regularly advises on mergers and acquisitions, corporate governance issues, joint ventures, capital raisings and business regulation. He has long experience as a listed company director. In addition to his present role with Highlands Pacific, Mr MacDonald is a Director and Deputy Chancellor of Bond University Limited, and recently retired after over 20 years as The Deputy Chairman of QIC. He is also Chairman of the Queensland Business Leaders Hall of Fame Governing Committee.

Mr MacDonald is Chairman of the Board's Nomination Committee and Remuneration Committee.

CRAIG LENNON

Managing Director

Appointed: 01 December 2016

BBus (Acctg), CA, GDip AppFin (Finsia)

Craig Lennon is the Managing Director and Chief Executive Officer of Highlands Pacific Limited. Prior to this appointment he served as Chief Financial Officer at Highlands for 9 years and has been with the company for over 15 years. Preceding Highlands he had worked for companies in Australia and United Kingdom in industries including manufacturing, construction, retail, hospitality and mining. Craig has a Graduate Diploma in Applied Corporate Governance with the Chartered Secretaries Australia and a Graduate Diploma in Applied Finance with FINSIA and is a member of the Australian Institute of Company Directors.

Mr Lennon is a member of the Nominations Committee and PNG Issues Committee.

MIKE CARROLL

Independent, Non-executive Director

Appointed: 01 April 2008

FCCA, MAICD

Mike Carroll is a Fellow of Certified Practising Accountants with over 40 years' experience in a broad range of industries (in all states of Australia). These include mining, petroleum, building and construction, property and a number of service industries. Mr Carroll has held executive management positions with Brambles Industries Limited, James Hardie and Comalco, and until recently was Chief Executive Officer of Neumann Associate Companies. He has extensive experience in acquisitions (including integration), Government and semi-Government relationships, business development, profit growth and Corporate Governance. Mr Carroll is a member of the Australian Institute of Directors.

Mr Carroll is Chairman of the Board's Audit Committee and a member of the Remuneration Committee and Nomination Committee.

DAN WOOD AO

Independent, Non-executive Director

Appointed: 28 May 2010

Dan Wood is an adjunct professor with the W H Bryan Mining and Geology Research Centre at the University of Queensland and an exploration geologist with a distinguished international record and reputation in the mining industry. He retired from mineral exploration in late 2008 after 24 years with BHP and almost 18 years with Newcrest Mining Limited, during which time he was associated with a number of significant discoveries, including the Cadia ore bodies in Australia. After joining Newcrest Mining at its formation in 1990 he was Executive General Manager Exploration from the mid-1990s onwards, leading the Company's exploration team which was judged by the Metals Economics Group of Canada to have been the world's most successful gold explorer, 1992-2005.

Mr Wood was appointed an Officer of the Order of Australia in 2015, for distinguished service to the mining and resource industry, particularly mineral exploration through contribution as a geologist, academic and in executive roles.

Mr Wood is a member of the Board's Audit Committee and Remuneration Committee.

BARTHOLOMEW PHILEMON

Independent, Non-executive Director

Appointed: 21 September 2012

Bartholomew Philemon brings to the Board extensive experience in government affairs and economic development issues at the national and Pacific regional levels having served with great distinction as member for the Lae Open seat from 1992 until 2012. Mr Philemon was recently a Director of the Bank of Papua New Guinea (August 2013 to June 2016) and Oil Search Limited (November 2012 to September 2016), and has, among many appointments, been Chairman of Air Niugini, and has held a number of Ministerial posts in PNG Governments including Minister of Foreign Affairs and Minister for Finance and Treasury.

Mr Philemon is a member of the Board's Audit Committee and PNG Issues Committee.

RON DOUGLAS

Independent, Non-executive Director

Appointed: 07 February 2017

Ron Douglas is an engineer by training and has more than 30 years' experience in senior management in the mining industry. This includes five years as Executive General Manager Projects and Studies at Newcrest Mining, (during which time he was involved in the development of Hidden Valley, Lihir Expansion and the Wafi/Golpu development in Papua New Guinea), and three years as Global Head of Projects and Technology at Orica. He also is the former CEO of Australian Solomons Gold and former Managing Director for Anglesey Aluminium Metal Ltd (Rio Tinto). Mr Douglas is currently employed as Executive Vice President Global Project Delivery at Ausenco, based in Brisbane.

Mr Douglas is a member of the Board's Nomination Committee and Remuneration Committee.

DIRECTORS' REPORT TO SHAREHOLDERS

Your Directors take pleasure in presenting the Annual Report (the "Report") including the Financial Statements of Highlands Pacific Limited (the "Company") and the Consolidated Accounts of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (referred to as "the year").

PNG COMPANY LAW

Highlands Pacific Limited is a Company limited by shares that is incorporated in, and domiciled in Papua New Guinea.

The Company is subject to the Companies Act 1997 of Papua New Guinea and not the Corporations Act 2001 of Australia. The PNG Securities Act 1997 (the "Securities Act") also applies to the Company and its shareholders. The Securities Act governs the offering of securities to the public in PNG and deals with the requirements for a prospectus to be prepared in connection with the offering of securities. The Securities Act also contains a range of laws regulating the operation of the securities market in PNG including stock market manipulation laws; false trading and market rigging transactions; false or misleading statements in relation to securities; fraudulently inducing persons to deal in securities; and disseminating information about illegal transactions. The Securities Act contains a prohibition against insider trading. The Securities Act also contains provisions dealing with the disclosure of substantial

shareholdings which require the giving of notice where a shareholder has a relevant interest in at least five percent of the shares in a listed Company. A substantial shareholder is also required to give notice of changes in his or her relevant interest of one percent or more in the relevant class of shares. There are also provisions to allow a Company to require the disclosure of the beneficial owners of shares in the Company.

DIRECTORS

The Directors in office for the whole or part of the financial year and up to the date of this Report:

Ken MacDonald	
Mike Carroll	
Dan Wood	
Bart Philemon	
Ron Douglas	
John Gooding	Managing Director, held office from 1 January 2016 – 30 November 2016
Craig Lennon	Managing Director, held office from 1 December 2016
Ron Douglas	Appointed as a Director on 7 February 2017

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The number of meetings of the Company's Board of Directors and each Board Committee held during the year ended 31 December 2016 and the numbers of meetings attended by each Director were:

	Scheduled Director's Meetings		Non-scheduled Director's Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended
K. MacDonald	6	6	9	9	-	-	4	4	3	3
J. Gooding	6	6	9	8	-	-	-	-	3	3
M. Carroll	6	6	9	9	8	8	4	4	3	3
D. Wood	6	6	9	9	8	8	4	4	-	-
B. Philemon	6	5	9	9	8	7	-	-	-	-

DIRECTORS' SHAREHOLDINGS AND INTERESTS

Details of Directors' related direct and indirect shareholdings and interests in the equity of the Company, as at 31 December 2016, are as follows:

Director & position	Interest held by director in shares in Highlands	Interest held by director in performance rights in Highlands
K MacDonald, Chairman	1,000,000	-
C Lennon, Managing Director	2,190,000	5,920,000
M Carroll, Non-Executive Director	304,307	-
D Wood, Non-Executive Director	1,100,000	-
B Philemon, Non-Executive Director	1,028	-

COMPANY SECRETARY

The Group has two Company Secretary roles:

- Mr Craig Lennon, the operational Company Secretary looking after day to day requirements including Company announcements and meetings of the Board. Mr Lennon is also the Chief Financial Officer. Mr Lennon held these roles from 1 January 2016 – 30 November 2016;
- Ms Sylvie Moser took over the operational Company Secretary role as well as the Chief Financial Officer role from 1 December 2016; and
- Mr Erik Andersen, Papua New Guinea ("PNG") resident Company Secretary as required by the Investment Promotions Authority in PNG. Mr Anderson is a Partner with Gadens Lawyers in PNG.

PRINCIPAL ACTIVITIES

During the year, the Group's principal activities were the exploration and evaluation of minerals activities and the development and operation of mines either in its own right or in joint ventures in Papua New Guinea.

REVIEW OF OPERATIONS

The Group's operations for the year are reviewed in the front section of the Annual Report.

A net loss after tax of US\$15.8m is reported by the Group for the year. The loss includes the following items:

- general and administrative expenditure of US\$3.0m;
- restructure and redundancy costs of US\$1.0m;
- interest capitalised on the borrowings associated with the investment in the Ramu project of US\$6.3m; and
- share of operating loss of the Ramu project of US\$5.6m; offset by
- reversal of provision for exploration costs US\$0.6m

DIVIDENDS

Since the end of the previous financial year no amounts were paid or declared by way of dividend by the Company. The Directors do not recommend a final dividend in respect of the year ended 31 December 2016.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Group's net assets decreased by US\$15m from US\$8.8m to negative US\$6.3m. This movement can be summarised as follows:

- increase in cash of US\$1.7m;
- increase in exploration and evaluation of US\$0.6m
- decrease in trade and other payables and provisions of US\$0.6m; offset by
- decrease in receivables of US\$5.2m;
- decrease in the investment, net of impairment, in Ramu of US\$3.0m; and
- increase in borrowings of US\$9.6m.

Frieda carried Funding Loan of US\$6.4m reclassified into Borrowings from Trade and other payables in 2015.

Contributed equity remained unchanged at US\$303.9m. Details of contributed equity are disclosed in note 16 of the Financial Statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments for Highlands Pacific Limited are discussed in the front section of the Annual Report.

ENVIRONMENTAL REGULATION

The Company is subject to significant environmental regulations in respect to its operations in Papua New Guinea under the Environment Act 2000 and has strictly adhered to these requirements. No Government department has notified the Company of any environmental breaches during the financial year nor are the Directors aware of any environmental breaches.

INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Constitution requires it, to the extent that it is permitted to do so by the Companies Act 1997 of Papua New Guinea, to indemnify all Directors and officers for:

- (a) any liability to any person (other than the Company or a Company related to it) for any act or omission in that person's capacity as a Director or officer; and
- (b) costs incurred by that person in settling or defending any claim or proceeding relating to any such liability, not being criminal liability or liability in respect of a breach of the duty to act in good faith and in the best interests of the Company.

For this purpose 'officer' means any Director or Secretary of the Company or any subsidiary of the Company and the General Managers.

During the year the Company has paid an insurance premium in respect of insuring against liability of Directors and officers, from claims brought against them individually or jointly while performing services for the Company, and against expenses relating to such claims.

In accordance with commercial practice, the insurance policy prohibits disclosure of the amount of the premium and the nature and amount of the liability covered.

No claims under the policy have been made by the Company during or since the end of the financial year.

Highlands Pacific Limited has not entered into any agreement to indemnify the Auditors.

NON-AUDIT SERVICES

The Company may decide to employ the Auditor on assignments additional to their statutory audit duties where the Auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the Auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are disclosed in the Financial Statements in note 3.

The Audit Committee has developed a policy to ensure that the independence of the Group's auditor is not impaired in providing non-audit services to the Group so that both the Group and the external auditor can comply with relevant auditor independence rules which apply in the jurisdictions in which the Group operates.

DONATIONS

In accordance with Company policy no donations were made to any political parties or for political purposes.

REMUNERATION REPORT

Principles used to determine the nature and amount of remuneration

Non-Executive Directors

Non-Executive Directors, including the Chairman, are paid fixed fees for their services to the Group. The fees paid reflect the demands which are made on, and the responsibilities of, the Directors and they are reviewed annually by the Board. The Board also seeks the advice of independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and

DIRECTORS' REPORT TO SHAREHOLDERS - CONTINUED

in line with the market. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market.

The remuneration inclusive of superannuation (currently 9.5%) as a total to Non-Executive Directors is approved by the shareholders. The current limit is US\$600,000 p.a. and was approved by shareholders on 16 May 2013. As part of cost saving initiatives undertaken during the year, directors' remuneration was reduced by 20%. The current remuneration for non-executive directors, other than the Chairman is AU\$50,000 p.a. plus a 9.5% superannuation contribution. The current remuneration for the Chairman is AU\$100,000 p.a. plus a 9.5% superannuation contribution.

In order to maintain impartiality and independence, Non-Executive Directors do not receive performance related remuneration and are not entitled to participate in the Group's Performance Rights Plan (previously Executive Share Option Scheme).

Managing Director

Managing Director's remuneration includes a fixed base remuneration inclusive of superannuation contributions, an at-risk cash remuneration (Short Term Incentive - STI) and an at-risk equity-based remuneration (Long Term Incentive - LTI). The structure of remuneration arrangements for Key Management Personnel is, in broad terms, no different to the Managing Director. The main differences relate to the weighting for different components of their remuneration, with the proportion of at-risk remuneration increasing with seniority.

The Board, through the Remuneration Committee is responsible for determining the remuneration package for the Managing Director. The Managing Director does the same with respect to the executive management group, subject to the Remuneration Committee's oversight. The Group has engaged the services of independent and specialist remuneration consultants in formulating recommendations on the remuneration packages for the Managing Director and the executive management group.

The Board takes the view that employee incentive schemes are important elements of remuneration which provide tangible incentives to employees to improve the Group's performance in both the short term and the longer term. In turn, improved performance benefits shareholders. The STI Plan is a short term incentive program, based on both Group and individual employee performance-related measures. The LTI Plan compliments the STI Plan with measures that further drive long term performance with Highlands. There were no LTI grant or STI payments for the 2016 year.

Short Term Incentive Plan

The STI Plan is designed to help drive performance within the Group by providing a vehicle for rewarding the Managing Director and executive and senior management. The performance measures are a combination of Group and individual measures chosen to directly align the individual's reward to the Group's strategy, performance and resultant shareholder value. The amount of the entitlement is based on a percentage range of each employee's fixed remuneration. The total potential STI available is set at a level so as to provide sufficient incentive to individuals to achieve

and exceed targets and objectives. In 2016 the Board determined that STI payments would not be offered for the 2016 year, in line with the cost cutting measures implemented and announced on 30 June 2016.

Summary of Short Term Incentive Plan

What is the Short Term Incentive Plan?	An incentive plan under which eligible employees are granted a cash amount which is based on a percentage range of each employee's fixed remuneration (determined according to seniority and ability to influence the performance of the Group), and assessed according to performance against a combination of Group and individual measures.
When was the 2016 STI grant paid to eligible employees?	There were no STI grants paid in 2016, as the Board determined and announced on 30 June 2016 that in line with cost cutting measures no STIs would be granted and paid in 2016.
Why does the Board consider the STI Plan an appropriate incentive?	A STI Plan is a globally recognised form of reward for management, aimed at ensuring focus and alignment with Group objectives and strategy.
In what circumstances are STI entitlements forfeited?	Where an employee is either dismissed for cause, resigns from employment, or is guilty of fraud, prior to conclusion of the performance period, the STI amount will be forfeited upon cessation of employment.
What happens to STI entitlements upon a change of control in the Group?	Upon a change of control event, the Board must determine the extent, if any, to which early vesting on a full or a pro-rated basis is the appropriate outcome in all the circumstances.
What is the relationship between Group performance and allocation of STI?	Overall performance is calculated as Group performance together with the personal performance adjusted for the appropriate weighting for the individual employee and then multiplied by the maximum STI percentage available.
What is the period over which Group performance is assessed?	The assessment period is 1 January to 31 December financial year preceding the grant date of the STI.

Long Term Incentive Plan

The Board reviews and adjusts on an annual basis the content and balance of equity-based remuneration to ensure the effectiveness of equity incentives and to recognise the potential impact on the eligible employees. The amount of equity remuneration received by employees is performance-dependent and will vary according to the extent to which the related Group performance measures are met and is at the recommendation of the Company's remuneration advisors. All equity-based remuneration is 'at-risk' and will lapse or be forfeited, if the prescribed performance conditions are not met by the Group. There was no LTI grant for the 2016 year.

The Board wants to ensure that the remuneration of Highlands' executives is in line with the market and that there is an effective incentive for the executives to improve Highlands' performance and the value of investments of the shareholders. The Board has sought external advice in making its determination, both, in the form of equity incentive and the quantum, in conjunction with the overall remuneration package offered to employees and the Managing Director.

The granting of Performance Rights to the Managing Director, in the opinion of the Board could be regarded as giving of a financial benefit to a related party of the Company, therefore, shareholder approval is required under ASX Listing Rule 10.14 before any issue of securities, such as Performance Rights can be made.

Performance Conditions

The Performance Rights will only vest once the Board advises that the March 2017 Performance Rights Offer Performance Conditions have been satisfied. The Performance Conditions are set out below:

1. Highlands Total Shareholder Return ("TSR") matching a Peer Group as recommended by independent external consultants over a 3 calendar year period to the end of 2019, rights would be vested as to 50% (of the 50%) if performance is at the 50th percentile, and 100% (of the 50%) if performance is at or exceeds the top quartile performance for that period. (TSR will be measured by an independent third party over the performance period of 1 January 2017 to 31 December 2019).
2. The remaining 50% measured on pro-rata lineal performance of the Company market capitalisation from 1 January 2017 based on the Company's strategic target of AU\$250 million by the end of 2020, adjusted for any securities issued. (Market capitalisation growth will be measured by an independent third party over the Performance Period (1 January 2017 to 31 December 2019) using the reference points of market capitalisation of the Company at those times in relation to strategic target).

Summary of Long Term Incentive Plan

What is the LTI Plan?	An incentive plan under which eligible employees are granted rights to receive ordinary fully paid shares in the Company (Performance Rights). The entitlement is contingent on the Group achieving performance hurdles over a set performance period.
Who participates in the LTI?	The Managing Director, Key Management Personnel and selected employees.
Why does the Board consider the LTI an appropriate incentive?	The LTI is designed to reward employees for Group performance and to align the long-term interests of shareholders, senior and executive employees and the Group, by linking a significant proportion of participating employees' remuneration at-risk, to the Group's future performance, currently assessed over a three year period from the date of grant of the related performance rights.
What are the key features of the LTI?	<ul style="list-style-type: none"> • Performance rights (zero priced options); • Eligible employees include Executive Director, Key Management Personnel and senior employees but not Non-Executive Directors; • Annual offers; • Allocation based on a LTI remuneration dollar value with LTI dollar value to be a prescribed percentage of fixed remuneration; • Internal and external performance measures; • Three year period; • Fair value expensed over the vesting period; and • Plan limited to 5% of issued capital.
In what circumstances are LTI entitlements forfeited?	The LTI amount will be forfeited upon cessation of employment prior to conclusion of the performance period in circumstances where the employee is either dismissed for cause, resigns from employment, or is guilty of fraud.
When do the Performance Rights vest?	Performance rights vest (i.e may be exercised) three years after the date of grant, provided performance conditions are met.
What is the period over which Group performance is assessed?	The assessment period is the three years commencing on 1 January in the year the grant is issued.
How are shares provided to participants under the LTI?	Once the performance rights have vested shares are issued by the Company to eligible LTI participants as new capital.
Why did the Board choose the above performance hurdles?	The Board determined that, at the current stage of the Group's development and having regard to its inability to fully control progress at Frieda River, Star Mountains and Ramu in the immediate future, it was most appropriate to align long term incentives fully with the relative performance of the Group's share price, as the best and fairest available measure of Group performance.
Is the benefit of participation in the LTI affected by changes in the share price?	Yes, employees in the LTI will be affected in the same way as all shareholders by changes in the Company's share price. The value employees receive through participation in the LTI will be reduced if the share price falls during the vesting period and will increase if the share price rises over the same period.
Are the performance conditions re-tested?	No, the performance conditions are only tested once, at the end of the three year performance period.

Details of equity based incentive payments are disclosed in note 25 of the Financial Statements, including the inputs in order to calculate the fair value.

As detailed above, Non-Executive Directors are not entitled to participate in any equity based incentive payment arrangements.

DIRECTORS' REPORT TO SHAREHOLDERS - CONTINUED

DETAILS OF DIRECTORS' REMUNERATION

The Directors' remuneration is detailed in note 20 of the Financial Statements.

DETAILS OF SERVICE AGREEMENTS WITH DIRECTORS

As detailed in the Corporate Governance Report, which can be found at www.highlandspacific.com, one-third of the Directors are to retire at each Annual General Meeting and no Director may be in office for more than three years without standing for re-election.

There are no service agreements with the Directors for the provision of services to the Company outside of their role as a Director.

MANAGING DIRECTOR SERVICE AGREEMENTS

The Managing Director, Mr Craig Lennon, has an employment agreement for an ongoing term with a fixed annual remuneration of AU\$450,000 for the 2017 year. Mr Lennon's fixed annual remuneration remains this level for the 2017 year. The notice period Mr Lennon has to give the company is 3 months, while the notice period the Group must give is 12 months or a termination payment of 100% of the fixed annual remuneration amount.

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement, prepared in accordance with the 3rd Edition of the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council, can be found on the Highlands Pacific Limited website at <http://www.highlandspacific.com/corporate>.

Signed this 28 March 2017 in accordance with a resolution of the Directors.

For, and on behalf of, the Board



Ken MacDonald
Chairman



Craig Lennon
Managing Director

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STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2016

		Consolidated		Holding Company	
		2016	2015	2016	2015
	Notes	US\$000	US\$000	US\$000	US\$000
Finance Income		90	72	-	-
Other income		5	8	-	-
Total Income	2	95	80	-	-
Restructure and redundancy costs		1,031	-	-	-
General and administrative costs		3,006	4,067	-	-
Exploration and development costs		-	-	-	-
Depreciation and amortisation		66	73	-	-
Net foreign exchange loss		194	174	-	-
Total Operating Costs	3	4,297	4,314	-	-
Net operating costs		(4,202)	(4,234)	-	-
Interest expense	10	(6,265)	(5,663)	-	-
Reversal of provision of exploration costs	9	576	20,328	-	-
Impairment of subsidiary advances	12	-	-	(310)	(38,858)
Impairment of non-current assets	10	(390)	(73,856)	-	(7,856)
Reversal of impairment of non-current assets	10	-	666	-	-
Share of operating loss of equity accounted investment	10	(5,554)	(5,253)	-	-
Profit (Loss) from operation before income tax		(15,835)	(68,012)	(310)	(46,714)
Income tax expense	4	-	-	-	-
Profit (Loss) for the period		(15,835)	(68,012)	(310)	(46,714)
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		(15,835)	(68,012)	(310)	(46,714)
Basic earnings per share	5	US(\$0.017)	US(\$0.074)		
Diluted earnings per share	5	US(\$0.017)	US(\$0.074)		

STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 31 December 2016

	Notes	Share Capital US\$000	Reserves US\$000	Retained Earnings US\$000	Total US\$000
CONSOLIDATED					
Year Ended 31 December 2016					
Balance as at 1 January 2016		303,913	(5,149)	(289,973)	8,791
(Loss) for the period		-	-	(15,835)	(15,835)
Transactions with owners in their capacity as owners					
Share based payments	25	-	767	-	767
Issue of share capital	16	(2)	-	-	(2)
Balance as at 31 December 2016		303,911	(4,382)	(305,808)	(6,279)
Year Ended 31 December 2015					
Balance as at 1 January 2015		303,914	(5,588)	(221,961)	76,365
(Loss) for the period		-	-	(68,012)	(68,012)
Transactions with owners in their capacity as owners					
Share based payments	25	-	439	-	439
Issue of share capital	16	(1)	-	-	(1)
Balance as at 31 December 2015		303,913	(5,149)	(289,973)	8,791
HOLDING COMPANY					
Year Ended 31 December 2016					
Balance as at 1 January 2016		303,913	(1,667)	(272,025)	30,221
(Loss) for the period		-	-	(310)	(310)
Transactions with owners in their capacity as owners					
Share based payments	25	-	767	-	767
Issue of share capital	16	(2)	-	-	(2)
Balance as at 31 December 2016		303,911	(900)	(272,335)	30,676
Year Ended 31 December 2015					
Balance as at 1 January 2015		303,914	(2,106)	(225,311)	76,497
(Loss) for the period		-	-	(46,714)	(46,714)
Transactions with owners in their capacity as owners					
Share based payments	25	-	439	-	439
Issue of share capital	16	(1)	-	-	(1)
Balance as at 31 December 2015		303,913	(1,667)	(272,025)	30,221

STATEMENTS OF FINANCIAL POSITION

For the Year Ended 31 December 2016

		Consolidated		Holding Company	
		2016	2015	2016	2015
	Notes	US\$000	US\$000	US\$000	US\$000
CURRENT ASSETS					
Cash and cash equivalents	6	10,526	8,990	-	-
Receivables	7	1,444	6,656	-	-
		11,970	15,646	-	-
NON-CURRENT ASSETS					
Property, plant and equipment	8	184	234	-	-
Exploration & evaluation expenditure	9	37,100	36,487	-	-
Investment in Ramu Nickel mine	10	82,000	85,000	-	-
Investment in subsidiaries	11	-	-	9,545	9,545
Advances to subsidiaries	12	-	-	21,134	20,679
		119,284	121,721	30,679	30,224
TOTAL ASSETS		131,254	137,367	30,679	30,224
CURRENT LIABILITIES					
Trade and other payables	13	2,005	2,472	-	-
Borrowings	14	4,381	2,000	-	-
Provisions	15	122	289	-	-
		6,508	4,761	-	-
NON-CURRENT LIABILITIES					
Advances from subsidiaries	12	-	-	3	3
Borrowings	14	131,001	123,796	-	-
Provisions	15	24	19	-	-
		131,025	123,815	3	3
TOTAL LIABILITIES		137,533	128,576	3	3
NET ASSETS/LIABILITIES		(6,279)	8,791	30,676	30,221
SHAREHOLDERS' EQUITY					
Contributed equity	16	303,911	303,913	303,911	303,913
Reserves	17	(4,382)	(5,149)	(900)	(1,667)
Retained losses		(305,808)	(289,973)	(272,335)	(272,025)
TOTAL SHAREHOLDERS' EQUITY		(6,279)	8,791	30,676	30,221

For, and on behalf of, the Board

Ken MacDonald
Chairman

28 March 2017

Craig Lennon
Managing Director

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2016

		Consolidated		Holding Company	
		2016	2015	2016	2015
	Notes	US\$000	US\$000	US\$000	US\$000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipt from other operations		5	8	-	-
Interest from investments		84	77	-	-
Income tax refund (paid)		3	(2)	-	-
Payments to suppliers and employees		(4,214)	(4,662)	-	-
Net cash used in operating activities	22	(4,122)	(4,579)	-	-
CASH FLOW FROM INVESTING ACTIVITIES					
Advance from (to) subsidiaries		-	-	2	1
Receipt from recovery of exploration costs		5,615	5,709	-	-
Contribution from joint venture partners		9,316	9,292	-	-
Purchase of property, plant and equipment	8	(16)	(12)	-	-
Exploration, evaluation and development		(9,061)	(8,351)	-	-
Net cash used in investing activities		5,854	6,638	2	1
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares	16	-	-	-	-
Costs associated with issue	16	(2)	(1)	(2)	(1)
Net cash from financing activities		(2)	(1)	(2)	(1)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
		1,730	2,058	-	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD					
		10,526	8,990	-	-
CASH COMPRISES					
Cash and cash equivalents	6	10,526	8,990	-	-

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Highlands Pacific Limited (the Company or the Holding Company) and its subsidiaries (together the Group) invest in and carry out exploration, evaluation and development activities in the resource industry. All the Group's current activities are carried out in Papua New Guinea, where the Company is incorporated and domiciled. The registered office is in Port Moresby, Papua New Guinea.

The Company is listed on both the Australian Stock Exchange and the Port Moresby Stock Exchange.

The consolidated financial statements were authorised for issue by the Board of Directors on 28 March 2017. The Company has the power to amend and revise the financial report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are presented in accordance with the Papua New Guinea Companies Act 1997, and comply with International Financial Reporting Standards ("IFRS") and other generally accepted accounting practice in PNG. These financial statements have been prepared on an historical cost basis. The methods used to measure fair value are discussed further in accounting policy note 1(j).

The preparation of financial statements in accordance with IFRSs requires a use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in policy note 1(s).

The Group has a total operating cash outflow of US\$4.1 million for the year ended 31 December 2016 (2015: US\$4.5 million) and a net asset position of negative US\$6.3 million (2015: positive US\$8.8 million) as a result of the impairment in the Ramu Nickel mine and the loan which is non recourse to the Group.

Cash held at bank as at 31 December 2016 was US\$10.5 million (2015: US\$9.0 million). In February 2016, the Group received the second tranche of US\$5 million from Anglo American for the acquisition of its initial interest in the Star Mountain project. Refer notes 7 and 9.

The Group holds interests in three mining projects at various stages ranging from appraisal to production.

The Group's share of the Star Mountain project's exploration expenditure is the responsibility of Anglo American up to the date of completion of a definitive feasibility study. Refer note 9.

Frieda River Limited, (a wholly owned subsidiary of PanAust Limited, which is in turn a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd) (from hereon, collectively referred to as "GRAM") is responsible for the completion of a feasibility study and 100% of the costs to maintain the Frieda River project site, assets and community relations programs up to the date of lodgement of the Special Mining Lease ("SML") application accompanied by the requisite completed feasibility study.

PanAust Limited, on behalf of the Frieda River Joint Venture, submitted a SML application to the PNG Mineral Resources Authority on 24 June 2016. This lodgement satisfied a condition of the key Exploration License (EL58) that an application for a SML in respect of the Frieda River project be made on or before 30 June 2016.

A peer review of the feasibility study completed by GRAM in May 2016 was conducted by international minerals industry consulting group, Behre Dolbear Australia ("BDA") to determine if, in their view it complied with the Joint Venture Agreement ("EDMOA"). BDA in their January 2017 report also considered information subsequently provided by GRAM in November 2016 which covers various aspects of the proposed development and dealing with deficiencies identified by BDA. GRAM have since the January 2017 report provided further information to BDA in February 2017 which is referred to as Frieda River Study Addendum. Reference is made to our ASX Announcement dated 19 January 2017 and 3 March 2017.

The Group remains of the view that the feasibility study requires further work to achieve the required standard obligated by the EDMOA, in particular, in relation to the Integrated Storage Facility ("ISF"). Refer note 9.

The Group's borrowings of US\$135 million include US\$129 million for the Group's interest in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. These borrowings are held in the Group's wholly owned subsidiary Ramu Nickel Limited and are non-recourse to the Group or Parent entity Highlands Pacific Limited and are to be repaid out of the Group's share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating or financing cashflows generated by the remainder of the Group. The Group's borrowings in the Frieda River Limited project of US\$6 million relate to the Carried Funding Loan. Refer note 14.

At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 31 December 2016. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern. Accordingly, notwithstanding the net liability position at 31 December 2016 the directors have prepared the financial report on a going concern basis.

Early adoption of standards

The Group did not elect to apply any new or amended standards before their operative date in the annual reporting period beginning 1 January 2016.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2016.

The following new standards, amendments and interpretations are mandatory for the first time for the financial year beginning 1 January 2016, but did not have a significant impact on the entity:

- Amendments to IAS 27 'Separate financial statements' on the equity method. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Annual improvements 2014 makes minor changes to IFRS 5, IFRS 7, IAS 19 and IAS 34
- Amendments to IAS 1 'Presentation of Financial Statements' form a part of the IASB's Disclosure Initiative and clarify guidance in IAS 1

(b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Highlands Pacific Limited as at 31 December 2016 and the results of all subsidiaries for the year then ended. Highlands Pacific Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including Special Purpose Entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Highlands Pacific Limited (less impairment if any).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii) Joint Ventures

The Group has interests in various joint ventures. The Group does not have joint control in relation to the Ramu, Frieda River and Star Mountain projects and accordingly these are not joint operations or joint ventures as defined by IFRS 11 Joint Arrangements. The interests in the projects are accounted for at cost less impairment with interests being equity accounted for once the project reaches production.

iii) Associates

Associates are all entities or ventures over which the group has significant influence but not control or joint control.

Investments in associates are accounted for using the equity method of accounting (see (iv) below) after initially being recognised at cost.

iv) Equity Method of Accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of other comprehensive income of the investee in other comprehensive

income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealised gains on transactions are eliminated to the extent of the interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Company.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Group operates predominately in the exploration, evaluation and development industry in Papua New Guinea.

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency. The Board has determined that the primary economic environment in which the Group operates is determined by the US dollar, as the Group's investment process is based on US dollars and the majority of its likely future revenue streams are in US dollars or currencies related to US dollars.

Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in the statement of comprehensive income.

(e) Revenue recognition

Interest income is recognised on a time proportion basis using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

(f) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (refer note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(h) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(i) Receivables

Other receivables are recognised at original amount receivable less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(j) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques.

The carrying value less impairment provisions of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

(k) Property, Plant and Equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. Where re-valued assets are sold, the amounts included in fair value and other reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

The depreciation on property, plant and equipment relating to general operations is calculated on a straight line basis to write off the cost or re-valued amount of each asset to their residual value over their estimated useful lives as follows:

Buildings	20 – 50 years
Plant and Equipment	5 – 10 years
Motor Vehicles	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(l) Exploration and evaluation expenditure

Cumulative exploration, evaluation and development expenditure incurred by or on behalf of the Group is carried forward as an asset when it is incurred in relation to separate areas of interest for which rights of tenure are current. Cost includes the cost of acquisition, exploration, evaluation and development, and an allocation of overhead costs associated with these functions.

Cumulative exploration and evaluation expenditure for each area of interest is provided against unless the expenditure is expected to be recouped through successful development and exploration, or alternatively, sale of the area. Exploration expenditure in the areas of interest which have not reached a stage which permits a reasonable assessment of economically recoverable mineral reserves are fully provided for.

When an area of interest is abandoned, any expenditure carried forward in respect to that area is written off, firstly against any existing provision for that expenditure with any remaining balance being charged to earnings. Upon commencement of development, accumulated expenditure is transferred from exploration and evaluation expenditure and is carried forward with development expenditure until the commencement of mining operations, at which time the expenditure is transferred to mining properties and property, plant and equipment.

(m) Impairment of long life assets

Property, plant and equipment and other non-current assets, including investments in mine development and exploration are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or a previous impairment needs to be reversed. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount and an impairment reversal is recognised for the amount by which the carrying amount of the assets is below the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts disclosed as current liabilities are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(p) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Accumulated sick leave is not accrued and not payable on cessation of employment.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months

after the reporting date regardless of when the actual settlement is expected to occur.

Retirement benefit obligations

The Group contributes to a number of defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to a privately administered pension plan on a mandatory basis. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Share-based payments

Share-based compensation benefits are provided to employees via the Executive Option Scheme and the Performance Rights Plan. Information relating to these are set out in note 25.

The fair value of the options and rights granted are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and rights.

The fair value at grant date is independently determined using a Black-Scholes option pricing model or Monte Carlo simulations that takes into account the exercise price, the term of the option / right, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option / right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option and right.

The fair value of the options and rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options and rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options and rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(q) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(r) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding the costs of servicing equity holders other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Critical accounting judgements, estimates and assumptions

Judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances. The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Carrying value of exploration, evaluation and development expenditure and mine property

The Group, on each reporting date, tests whether the carrying value of long life assets, such as investments in exploration and evaluation expenditure, development expenditure, and property, plant and equipment, have suffered any impairment. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, operating costs, capital costs and production rates. The impairment testing for the current year for the Group's interest in the Ramu Nickel mine, has been based on a real discount rate of 11.57%, proved and probable reserves, long term nickel prices of US\$8.27/lb and cobalt prices of US\$13.41/lb, and operating costs consistent with operator plans and historical data.

(t) New accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2016 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

- Amendments to IAS 7 'Statement of Cash Flows' on disclosure initiative (effective 1 January 2017). These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018). This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- IFRS 9 "Financial Instruments" (effective 1 January 2018) replaces the guidance in IAS 39 with a standard that is less complex and principles based. The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities.
- IFRS 16, "Leases" (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed and IFRS 16 will require a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. For lessees who previously entered into operating leases, one of the main impacts will be an increase in debt on the balance sheet.

The Group will adopt the new standards and amendments as and when they become effective. The Group has conducted initial investigations and does not consider that standards that are not yet effective will have a material impact on the entity in the current or future reporting periods and on foreseeable transactions.

(u) Rounding

The financial statements have been rounded to the nearest thousand dollars.

2. REVENUE

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Finance Income				
Interest income	90	72	-	-
Other Income				
Rental income	5	8	-	-

3. EXPENSES

	Notes	Consolidated		Holding Company	
		2016	2015	2016	2015
		US\$000	US\$000	US\$000	US\$000
Total operating costs		4,297	4,314	-	-
Operating costs are stated after charging / (crediting):					
Restructure and redundancy costs		1,031	-	-	-
General and administrative costs					
- salaries and employee benefits		1,709	2,265	-	-
- office costs		644	791	-	-
- consultants costs		122	160	-	-
- non-executive Director fees and benefits		219	250	-	-
- corporate affairs and public relations costs		38	174	-	-
- company secretarial and public listing costs		104	117	-	-
- travel and accomodation costs		32	149	-	-
- audit		103	99	-	-
- other services		35	63	-	-
		3,006	4,067	-	-
Depreciation					
- land and buildings	8	17	17	-	-
- plant and equipment	8	49	56	-	-
		66	73	-	-
Net foreign exchange (gains) losses		194	174	-	-

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

4. INCOME TAX

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Reconciliation of income tax expense to prima facie tax expense				
Profit / (loss) before income tax expense for the year	(15,835)	(68,012)	(310)	(46,714)
Income tax (benefit) on the loss for the year at an average of 30% (2015: 30%)	(4,751)	(20,404)	(93)	(14,014)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Impairment of subsidiary advances	-	-	93	14,014
Non-deductible interest	1,880	-	-	-
Utilisation of prior year losses not previously brought to account	(811)	(3,510)	-	-
Unrealised foreign exchange gains/losses	46	76	-	-
Sundry non-deductible items	275	(11)	-	-
	(3,361)	(23,849)	-	-
Deferred tax asset not brought to account	3,361	23,849	-	-
Income tax expense	-	-	-	-
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	1,256	6,456	-	-
Potential tax benefit @ 30% - not recognised	377	1,937	-	-
Other deferred tax assets not recognised				
<i>Amounts recognised in profit and loss</i>				
Exploration costs and impairment	137,699	175,313	-	-
Unrealised foreign exchange gains (losses)	9	44	-	-
Provision for employee entitlements	302	567	-	-
	138,010	175,924	-	-
Set off against deferred tax liabilities (below)	(28)	(51)	-	-
Net deferred tax assets not recognised	137,982	175,873	-	-
Potential tax benefit @ 30% - not recognised	41,395	52,762	-	-
Total deferred tax benefit not recognised	41,772	54,699	-	-
Deferred tax liabilities				
<i>Amounts recognised in profit and loss</i>				
Unrealised foreign exchange gains (losses)	(2)	(34)	-	-
Sundry items	(26)	(17)	-	-
	(28)	(51)	-	-
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	28	51	-	-
Net deferred tax liability	-	-	-	-

The benefits for tax losses will only be obtained if:

- assessable income of a nature and of an amount sufficient to enable the benefit to be realised is derived,
- conditions of deductibility imposed by law continue to be complied with, and
- no changes in tax legislation adversely affect the ability in realising the benefit.

The tax losses are available to be carried forward for a maximum of 20 years.

There are no income tax impacts relating to other comprehensive income.

5. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. The diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Basic earnings per share	2016	2015
Weighted average number of ordinary shares on issue (000)	927,089	920,433
(Loss) / Profit attributable to ordinary equity holders of the company used to calculate basic earnings per share (US\$000's)	(15,835)	(68,012)
Basic earnings per share (US\$)	(0.0171)	(0.0739)
Diluted earnings per share		
Weighted average number of ordinary shares on issue (000)	927,089	920,433
Adjustments for calculation of diluted earnings per share		
- Options / Performance rights	-	-
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	927,089	920,433
(Loss) attributable to ordinary equity holders of the company used to calculate diluted earnings per share (US\$000's)	(15,835)	(68,012)
Diluted earnings per share (US\$)	(0.0171)	(0.0739)

Options and rights granted to employees are considered to be potential ordinary shares and included to the extent they are dilutive in the determination of diluted earnings per share. The options and rights have not been included in the determination of basic earnings per share. Details relating to options and rights are set out in note 16.

6. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Cash at bank and in hand	4,408	3,297	-	-
Short-term bank deposits	6,118	5,693	-	-
	10,526	8,990	-	-

(a) Reconciliation to cash at the end of the year

The above figures reconcile to cash at the end of the financial year as shown in the statements of cash flows.

(b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 24.

(c) Contingent Liability

The Group has given a bank guarantee of US\$46,265 (AU\$63,937) for the leasing of property at 167 Eagle Street, Brisbane, Australia and US\$94,500 (PGK300,000) as a foreign currency dealing.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

7. RECEIVABLES

	Consolidated		Holding Company	
	2016	2015	2016	2015
Current	US\$000	US\$000	US\$000	US\$000
Sundry receivables	58	50	-	-
Receivable from joint venturers*	1,386	1,606	-	-
Other receivable**	-	5,000	-	-
	1,444	6,656	-	-

*Represents an amount owing by MCC Ramu NiCo Limited relating to Highlands' share of the MHP sales of the Ramu Nickel mine. In 2015, this also includes an amount owing by Anglo American plc ("Anglo American") for cash calls relating to Highlands' management of the Star Mountains project.

**In 2015, this represents the second payment from Anglo American for the acquisition of its initial interest in the Star Mountains project. Refer note 9.

8. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings	Plant & Equip't	Total
	US\$000	US\$000	US\$000
CONSOLIDATED - 2016			
Cost			
Cost brought forward	232	571	803
Additions	9	7	16
Disposals	-	-	-
Write-off Historical Plant and Equipment	-	(7)	(7)
Cost carried forward	241	571	812
Depreciation			
Brought forward	130	439	569
Charge for the year	17	49	66
Disposals	-	-	-
Write-off Historical Plant and Equipment	-	(7)	(7)
Depreciation carried forward	147	481	628
Net book value at 31 December 2016	94	90	184

CONSOLIDATED - 2015			
Cost			
Cost brought forward	232	559	791
Additions	-	12	12
Disposals	-	-	-
Cost carried forward	232	571	803
Depreciation			
Brought forward	113	383	496
Charge for the year	17	56	73
Disposals	-	-	-
Depreciation carried forward	130	439	569
Net book value at 31 December 2015	102	132	234

There is no property, plant and equipment held by the Company.

9. EXPLORATION & EVALUATION EXPENDITURE

	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2016	26,887	9,600	36,487
Capitalised during the year:			
- Direct holding cost	455	39	494
- Interest on Frieda carried funding loan	158	-	158
Management fee (reduction of previous exploration expenditure provision)	-	(615)	(615)
Reversal of Provision for exploration costs	-	576	576
Balance 31 December 2016	27,500	9,600	37,100
Balance 1 January 2015	26,500	-	26,500
Capitalised during the year:			
- Direct holding cost	252	(19)	233
- Interest on Frieda carried funding loan	135	-	135
Sale consideration (reduction of previous exploration expenditure provision)	-	(10,000)	(10,000)
Management fee (reduction of previous exploration expenditure provision)	-	(709)	(709)
Reversal of Provision for exploration costs	-	20,328	20,328
Balance 31 December 2015	26,887	9,600	36,487

Frieda

The carrying value of the Group's interest in the Frieda River project is US\$27.5 million (2015 US\$26.9 million) at the end of the year. The US\$0.6 million increase represents Highlands' direct holding costs in overseeing its interest in the Frieda River project and the capitalization of interest on the Carried Funding Loan owed to Frieda River Limited ("FRL").

In assessing the carrying value of the Group's interest in the Frieda River project the Directors have adopted a fair value less cost to sell valuation methodology. The valuation has been based on the transaction between PanAust and Glencore plc previously announced to the market, together with the additional activities and expenditure undertaken by Guangdong Rising Assets Management Co Ltd ("GRAM"). FRL, (a wholly owned subsidiary of PanAust Limited, which is in turn a wholly owned subsidiary of GRAM) is responsible for the completion of a feasibility study and 100% of the costs to maintain the Frieda River project site, assets and community relations programs up to the date of lodgement of the Special Mining Lease ("SML") application accompanied by the requisite completed feasibility study.

PanAust Limited, on behalf of the Frieda River Joint Venture, submitted a SML application to the PNG Mineral Resources Authority on 24 June 2016. This lodgement satisfied a condition of the key Exploration License (EL58) that an application for a SML in respect of the Frieda River project be made on or before 30 June 2016.

A peer review of the feasibility study completed by GRAM in May 2016 was conducted by international minerals industry consulting group, Behre Dolbear Australia ("BDA") to determine if, in their view it complied with the Joint Venture Agreement ("EDMOA"). BDA in their January 2017 report also considered information subsequently provided by GRAM in November 2016 which covers various aspects of the proposed development and dealing with deficiencies identified by BDA. GRAM have since the January 2017 report provided further information to BDA in February 2017 which is referred to as Frieda River Study Addendum. Reference is made to our ASX Announcement dated 19 January 2017 and 3 March 2017.

Highlands remains of the view that the feasibility study requires further work to achieve the required standard obligated by the EDMOA, in particular, in relation to the Integrated Storage Facility ("ISF").

The Group's expenditure to date on the Frieda River project is US\$46.6 million.

Other

This represents the Star Mountains project and the Sewa Bay project.

On 11 February 2015, the Group executed Joint Venture and Farm-in agreements for the Star Mountains project with a wholly owned subsidiary of Anglo American. The agreements resulted in Highlands receiving a total of US\$10 million from Anglo American, in two tranches of US\$5 million each, with Anglo American obtaining an undivided 51% interest in the project and associated property including tenements. As a result of the transaction with Anglo American a carrying value of US\$9.6 million was recognised during the 2015 year. The exploration programs managed by the Group on the Star Mountains project and the Sewa Bay project result in the Group receiving

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

fees, which are applied to previous exploration expenditure, giving a reversal of prior provisions for exploration costs.

The Groups' expenditure to 31 December 2016 on the Star Mountains project, net of receipt of management fees and payments from Anglo American, is US\$17.4 million.

10. INVESTMENT IN RAMU NICKEL MINE

	31 Dec 2016	31 Dec 2015
	US\$000	US\$000
(i) Summarised financial information for Ramu Nickel Mine		
Current Assets	151,884	165,336
Non-current Assets	1,764,717	1,806,680
Current Liabilities	61,343	90,605
Non-current Liabilities	29,952	25,612
Net Assets	1,825,306	1,855,799
Group's share of net assets	156,246	158,856
Provisions for impairment	(74,246)	(73,856)
Investment at recoverable amount	82,000	85,000
Reconciliation to carrying amounts:		
Opening net assets	85,000	160,738
Share of associated entity's production costs	(15,796)	(15,550)
Share of associated entity's other comprehensive income/(loss)	(5,978)	(7,352)
Share of additional contribution	19,164	21,020
Provision for impairment	(390)	(73,856)
Closing net asset	82,000	85,000
(ii) Interest in Ramu Nickel Mine		
Revenue	17,806	18,882
Other indirect costs	(1,419)	(708)
Share of associated entity's production costs	(15,796)	(15,550)
Share of associated entity's other comprehensive income/(loss)	(5,978)	(7,352)
Direct holding costs	(167)	(525)
Share of associated entity's total comprehensive income/(loss)	(5,554)	(5,253)
(iii) Sale of MHP Product		
Share of associated entity's MHP Products (Wet Metric Tonnes)	14,221	12,477
Revenue from sales of MHP products	17,804	18,865
Other revenue	2	17
(iv) Loan to MCC Ramu Nico Limited		
Opening balance	119,533	108,100
Further funding for cash calls	2,059	6,993
Sales commission payable to MCC Ramu Nico Limited	702	-
Interest accrued	6,265	5,663
Loan Repayment	-	(1,223)
Additional drawdown	403	-
Closing balance	128,962	119,533

On 1 January 2015 the Group nominated into the Ramu Nickel mine. From this point the Group commenced receiving its pro-rata share of operating surpluses and will contribute to its share of operating deficits and its share of on-going capital expenditure requirements.

On nomination the Group recognised a loan balance owing by the Group to MCC Ramu NiCo Limited for its 8.56% share of capped development costs plus accumulated interest for monies paid by MCC Ramu NiCo Limited to lenders on behalf of the Group up to 1 January 2015. These borrowings are non-recourse to the Company and the Group (excluding Ramu Nickel Limited) and will be repaid by Ramu Nickel Limited out of its share of operating surpluses ongoing capital expenditure requirements at the current agreed rate of 80% of this net distribution. This repayment methodology is due for re-negotiation prior to 31 December 2017.

The ramp up to nameplate capacity is continuing, for the 2016 year the operation achieved an annualized average production rate of 68%. This was down on target rate of 92% due to a fatality at the Basamuk Process Plant which caused the mine to shut down from 12 April until 21 July 2016. On resumption, the operation achieved a throughput rate of 100% in the December quarter and has continued at this rate into 2017.

The carrying value of the Group's interest in the Ramu Nickel mine has been reduced to US\$82 million, this is a result of decline in commodity prices in the short to medium term. In assessing the carrying value of its interest in the Ramu Nickel mine, the Directors have adopted a value in use (VIU) methodology in reference to the present value of the expected future cash flows before financing from 2017 through to 2030. The calculations use cash flow projections based on financial budgets covering the period from 2017 to 2030.

Key assumptions

The key assumptions and estimates used in determining the VIU are related to commodity prices, discount rates, operating costs, exchange rates and capital expenditures.

The following key assumptions were used in impairment and fair value testing:

Assumptions	2016	2015
Nickel Price	US\$5.07 – US\$8.27	US\$4.90 – US\$9.39
Cobalt Price (US/Lb)	US\$13.41 – US\$14.03	US\$12.58 – US\$13.70
LOM years	14 years	15 years
Production Rate	100%	90% - 100%
After tax discount rate (Real)	11.57%	10.29%

(Nb. Prices above are nominal.)

Sensitivities

Management performed a sensitivity analysis on commodity price of nickel, which is the key assumption that impacts impairment calculations. While holding all other assumptions constant, a positive 10% movement in the price assumptions range for nickel results in a movement in the present value of future cash flows of approximately US\$9 million, while a negative 10% movement results in a reduction of US\$8 million.

Holding all other assumption constant, a change in WACC to 11% would result in an increase in the present value of future cashflows of US\$3 million and change in WACC to 12% would result in a decrease of US\$2 million.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of the asset relatively modest changes in one or more assumptions could require a material adjustment (negative or positive) to the carrying value of the related non-current asset within the next reporting period. The inter-relationships of the significant assumptions upon which estimated future cashflows are based are such that it is impracticable to disclose the extent of the possible effects of changes in all key assumptions in isolation.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

11. INVESTMENTS IN SUBSIDIARIES

	% Shareholding *	Class of Share	Country of Incorporation
Ramu Nickel Limited	100	Ordinary	PNG
Highlands Frieda Limited	100	Ordinary	PNG
Highlands Pacific Resources Limited	100	Ordinary	PNG
Highlands Pacific Australia Pty Limited	100	Ordinary	Australia
Highlands Pacific Services Limited	100	Ordinary	PNG

*No change from the 2015 year.

	Holding Company	
	2016	2015
	US\$000	US\$000
INVESTMENTS AT COST		
Investments in subsidiaries - at cost	130,186	130,186
Less: provision for diminution*	(120,641)	(120,641)
	9,545	9,545

*At 31 December 2015, the US\$17.4m investment in Ramu Nickel Limited is fully impaired.

12. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Advances to subsidiaries				
Advances	-	-	176,071	175,306
Less provision for write-off	-	-	(154,937)	(154,627)
	-	-	21,134	20,679
Advances from subsidiaries				
Advances	-	-	3	3

The advances within the Group are interest free with no set repayment terms, but not expected to be repaid within the next 12 months.

13. TRADE AND OTHER PAYABLES

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Trade creditors	377	206	-	-
Accruals and other creditors*	1,628	2,266	-	-
	2,005	2,472	-	-

*Other creditors include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. Current leave obligations expected to be settled after 12 months are US\$37,573 (2015: US\$168,000).

14. BORROWINGS

	Consolidated	
	2016	2015
	US\$000	US\$000
Current		
Loan from MCC Ramu NiCo Limited**	4,381	2,000
Closing Balance	4,381	2,000
	Consolidated	
	2015	2015
	US\$000	US\$000
Non-Current		
Loan from FRL*	6,420	6,263
Loan from MCC Ramu NiCo Limited**	124,581	117,533
	131,001	123,796

*The Carried Funding Loan represents the amount owing to FRL (a wholly owned subsidiary of PanAust Limited, which is in turn a wholly owned subsidiary of GRAM) as at 31 December 2016. This loan is as a result of FRL carrying the Group's share of expenditure on the Frieda project from 23 January 2012 up until 25 August 2014, the date on which former joint venture partner Glencore divested its interest. The Carried Funding Loan has been classified as a financial liability in accordance with IAS32 Financial Instruments - Presentation and measured at amortised cost. Interest on the loan of US\$157,363 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 Borrowing Costs. This loan balance will continue to accrue interest at a rate of "US\$ one month LIBOR" plus 2% and is repayable by Highlands out of production cash flows.

**These borrowings relate to the Group's interest, held in the wholly owned subsidiary Ramu Nickel Limited, in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. As part of the Joint Venture Agreement with MCC Ramu NiCo Limited, MCC Ramu NiCo Limited was responsible for development and financing of the mine. These borrowings represent the Group's 8.56% share of principal repayments (capped to a specified development threshold) and interest repayments made by MCC Ramu NiCo Limited to third party lenders on behalf of the Group, plus any accumulated interest charged by MCC Ramu NiCo Limited. The borrowings are held in the Group's wholly owned subsidiary Ramu Nickel Limited and are non-recourse to the rest of the Group or Parent entity Highlands Pacific Limited. The borrowings are to be repaid out of the Group's share of operating surpluses (sales revenue less operating costs and on-going capital expenditure) rather than operating and financing cashflows generated by the group. Refer note 10.

15. PROVISIONS

	Consolidated	
	Employee Entitlements	Employee Entitlements
	2016	2015
	US\$000	US\$000
Opening Balance - long service leave	308	305
Charged for the year	(162)	3
Closing Balance - long service leave	146	308
	2016	2015
	US\$000	US\$000
Analysis of total provisions:		
Current	122	289
Non-Current	24	19
	146	308

Employee entitlements for annual leave are classified as "Other Creditors" in accordance with the requirements of International Financial Reporting Standards.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

16. CONTRIBUTED EQUITY

(a) Paid Up Capital – Consolidated and Holding Company

	2016 US\$000	2015 US\$000	2016 Shares 000's	2015 Shares 000's
Balance 1 January	303,913	303,914	920,578	918,695
Issued during the year	-	-	7,200	1,883
Less costs associated with issue	(2)	(1)	-	-
Balance 31 December	303,911	303,913	927,778	920,578

The total number of shares issued as at 31 December 2016 was 927,777,086 (2015: 920,577,086). In accordance with the Papua New Guinea Companies Act 1997 the Company's shares are fully paid, have no par value and there is no authorised capital level.

(b) Movement in paid up capital

Date	Details	Notes	No. of Shares	Issue Price AU\$	US\$000
1 January 2016	Opening balance		920,577,086		303,913
4 February 2016	Exercising of zero priced employee performance rights	(i)	7,200,000	0.000	-
	Transaction costs arising on share issue above				(2)
31 December 2016	Balance		927,777,086		303,911

(i) Exercising of performance rights issued to employees when exercised convert into one ordinary share.

(c) Performance Rights

The number of unissued ordinary shares under performance rights at 31 December 2016 is 30,065,000 (2015: 37,265,000).

Performance Rights issued under the Highlands Pacific Performance Rights Plan

	No. of performance rights issued	Vesting date / Expiry Date	Exercised during current and previous years	Expired during current and previous years
Tranche 1	7,330,000	31 December 2015	7,200,000	130,000
Tranche 1	12,740,000	31 December 2016	-	-
Tranche 1, 2	17,325,000	31 December 2017	-	-

The performance rights issued under the Performance Rights Plan are exercisable after the completion of certain performance hurdles by certain dates. Performance rights are granted under the plan for no consideration and have a nil exercise price.

All performance rights granted carry no dividend or voting rights. Each performance right, when exercised, is converted into one ordinary share.

On 4 February 2016, 7,200,000 performance rights from Tranche 1 vested and shares issued, with the balance lapsing unexercised due to performance hurdles not being met.

The rights granted during the 2014 year vest subject to completion of performance hurdles and expired on 31 December 2016. On 3 January 2017, 5,508,750 and on 6 February 2017, 2,630,000 performance rights from Tranche 1 vested and shares were issued, with the balance lapsing unexercised due to performance hurdles not being met.

Information relating to the Highlands Pacific Performance Rights Plan, including details of performance rights issued, exercised or lapsed during the financial year and performance rights outstanding at the end of the financial year, is further set out in note 25.

17. RESERVES

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Foreign Currency Translation Reserve				
Balance brought forward	(9,750)	(9,750)	(6,268)	(6,268)
Movement for the year	-	-	-	-
Balance carried forward	(9,750)	(9,750)	(6,268)	(6,268)
Share-based Payments Reserve				
Balance brought forward	4,601	4,162	4,601	4,162
Fair value of options and performance rights expensed	767	439	767	439
Balance carried forward	5,368	4,601	5,368	4,601
Total Reserves	(4,382)	(5,149)	(900)	(1,667)

Nature and purpose of reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve relates to exchange differences which arose on the previous change in the Group's functional currency from Papua New Guinean Kina to US Dollar.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (US Dollar) are translated on consolidation and any exchange differences arising from the translation of any net investment in foreign entities are taken to the foreign currency translation reserve. There were no exchange differences in 2016 as no entity has a different functional currency; US Dollar is the functional and presentation currency of all the Group entities.

Share-based Payments Reserve

The share-based payments reserve is used to recognise the fair value of performance rights issued.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

18. REMUNERATION OF EMPLOYEES

The number of employees (not including Directors), whose remuneration and benefits exceeded PGK100, 000 falls within the following bands:

US\$	PGK	Group No. of Employees	
		2016	2015
35,299 - 38,508	110,000 - 119,999	1	-
38,508 - 41,717	120,000 - 129,999	-	1
41,717 - 44,926	130,000 - 139,999	-	1
44,926 - 48,135	140,000 - 149,999	2	2
67,389 - 70,598	210,000 - 219,999	1	-
70,598 - 73,807	220,000 - 229,999	1	-
73,807 - 77,016	230,000 - 239,999	-	1
96,270 - 99,479	300,000 - 309,999	-	1
102,688 - 105,897	320,000 - 329,999	1	-
112,315 - 115,524	350,000 - 359,999	-	1
125,151 - 128,360	390,000 - 399,999	1	-
134,778 - 137,987	420,000 - 429,999	1	-
141,196 - 144,405	440,000 - 449,999	1	-
179,704 - 182,913	560,000 - 569,999	-	1
198,958 - 202,167	620,000 - 629,999	1	-
202,167 - 205,376	630,000 - 639,999	-	1
256,720 - 259,929	800,000 - 809,999	1	1
259,929 - 263,138	810,000 - 819,999	-	1
292,019 - 295,228	910,000 - 919,999	-	1
317,691 - 320,900	990,000 - 999,999	1	-
349,781 - 352,990	1,090,000 - 1,099,999	1	-
423,588 - 426,797	1,320,000 - 1,329,999	-	1
667,472 - 670,681	2,080,000 - 2,089,999	-	1
Total		13	14

The remuneration includes costs to the Group of superannuation and other like benefits provided to employees.

The 2016 comparatives have been converted at the current year exchange rates to arrive at the equivalent US Dollar bands.

PGK1.00 = US\$0.3209.

19. INTERESTS IN OTHER ENTITIES

At 31 December 2016

	Interest	Nature of interest	Activity
Ramu joint venture (Note 1 below)	8.56%	Associate	Production
Frieda River joint venture (Notes 2 & 4 below)	20%	Cost	Exploration & Evaluation
Nong River joint venture (Notes 3 & 4 below)	49%	Cost	Exploration & Evaluation

1. Ramu: the Group's 8.56% interest increases to 11.30% at no cost to the Group after the debt for the financing of the project has been repaid. At this time the Group also has the option to purchase an additional 9.25% interest at market value, which if exercised would take the Group's interest to 20.55%. Refer note 10.
2. Frieda River: GRAM has an 80% interest in the Frieda River Joint Venture with Highlands having the remaining 20%. Refer note 9.
3. Star Mountains: on 11 February 2015 the Group executed Joint Venture and Farm-in agreements for the Star Mountains project with a wholly owned subsidiary of Anglo American. The agreements result in Highlands receiving a total of US\$10 million from Anglo American in two tranches of US\$5 million. The first tranche was received upon signing of the agreements on 11 February 2015, with the second US\$5 million being received on 11 February 2016. Anglo American can earn an 80% interest in the joint venture – 51% by spending US\$25 million on exploration over four years and declaring a 43-101/JORC compliant inferred resource of 3 million tonnes of contained copper-equivalent by 11 February 2020 and a further 29% by completing and funding a Bankable Feasibility Study ("BFS") by 11 February 2030. Anglo American will also provide Highlands with up to US\$150 million in project development funding as a deferred free-carry following the completion of the BFS. Refer note 9.
4. The joint ventures as stated are subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development in that country.

20. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Parent entity

The parent entity within the Group is Highlands Pacific Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 11.

(c) Key management personnel

Other than the directors who are included as key management personnel, those that also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the year are as follows:

Name	Position
C Lennon	Chief Financial Officer (until 30 November 2016)
S Moser	Chief Financial Officer (appointed on 1 December 2016)
L Queen	Chief Geologist (ceased employment from 1 October 2016)
P Jolly	General Manager Projects (ceased employment from 1 October 2016)
L Nand	General Manager Exploration
R Gawi	General Manager Port Moresby

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

(d) Key management personnel compensation

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Short-term employee benefits*	2,495	2,545	-	-
Share based payments	706	398	-	-
	3,201	2,943	-	-

*Key management personnel includes director's remuneration.

Details of the Directors' remuneration paid or provided for during the year, including the value of benefits and the fair value of options charged during the year, was as follows:

2016 Year						
	Cash Remuneration & Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
Name & Position	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
K MacDonald, Chairman	78	-	-	7	-	85
J Gooding, Managing Director*	971	-	-	39	328	1,338
C Lennon, Managing Director*	31	-	-	-	-	31
D Wood, Non-Executive Director	39	-	-	4	-	43
M Carroll, Non-Executive Director	39	-	-	4	-	43
B Philemon, Non-Executive Director	39	-	-	4	-	43
Total	1,197	-	-	58	328	1,583

2015 Year						
	Cash Remuneration & Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
Name & Position	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
K MacDonald, Chairman	91	-	-	9	-	100
J Gooding, Managing Director	451	284	-	27	156	918
D Wood, Non-Executive Director	46	-	-	4	-	50
M Carroll, Non-Executive Director	46	-	-	4	-	50
B Philemon, Non-Executive Director	46	-	-	4	-	50
Total	680	284	-	48	156	1,168

*John Gooding ceased employment on 30 November 2016 (his 2016 cash remuneration includes US\$555,000 in termination payment and US\$328,000 in share-based payments) and Craig Lennon was appointed as Managing Director from 1 December 2016.

(e) Equity instrument disclosures relating to key management personnel

Performance Rights provided as remuneration and shares issued on exercise of such options.

Details of share-based payments are disclosed in note 25.

Performance Rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other key management personnel of the Group, including their personally related parties, are set out below.

2016 Year						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Highlands Pacific Limited						
J Gooding*	12,050,000	-	(2,600,000)	-	9,450,000	4,350,000
C Lennon*	7,545,000	-	(1,625,000)	-	5,920,000	2,720,000
Other key management personnel of the Group						
S Moser*	2,283,000	-	(488,000)	-	1,795,000	820,000
L Queen*	3,040,000	-	(650,000)	-	2,390,000	1,090,000
P Jolly*	5,293,000	-	(1,138,000)	-	4,155,000	1,905,000
R Gawi	2,283,000	-	(488,000)	-	1,795,000	820,000
L Nand	2,250,000	-	-	-	2,250,000	-

2015 Year						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Highlands Pacific Limited						
J Gooding	15,225,000	5,100,000	(680,000)	(7,595,000)	12,050,000	2,600,000
Other key management personnel of the Group						
C Lennon	6,345,000	3,200,000	(425,000)	(1,575,000)	7,545,000	1,625,000
L Queen	2,940,000	1,300,000	(170,000)	(1,030,000)	3,040,000	650,000
P Jolly	3,743,000	2,250,000	(297,500)	(402,500)	5,293,000	1,138,000
R Gawi	1,608,000	975,000	(127,500)	(172,500)	2,283,000	488,000
L Nand	-	2,250,000	-	-	2,250,000	-

*John Gooding ceased employment on 30 November 2016 and Craig Lennon was appointed as Managing Director from 1 December 2016. Sylvie Moser was appointed as Chief Financial Officer from 1 December 2016. L Queen and P Jolly ceased employment on 1 October 2016.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Share holdings

The number of shares in the Company held during the financial year by each director and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the year as compensation.

2016 Year

Name	Balance at the start of the year	Received during the year on the exercise of options and performance rights	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
K MacDonald	1,000,000	-	-	1,000,000
M Carroll	304,307	-	-	304,307
D Wood	1,100,000	-	-	1,100,000
J Gooding	4,200,215	2,600,000	-	6,800,215
B Philemon	1,028	-	-	1,028
C Lennon	1,065,000	1,625,000	(500,000)	2,190,000
Other Key Management Personnel of the Group				
S Moser	142,500	488,000	(550,000)	80,500
L Queen	520,000	650,000	-	1,170,000
P Jolly	2,327,500	1,138,000	-	3,465,500
R Gawi	227,500	488,000	-	715,500
L Nand	-	-	-	-

2015 Year

Name	Balance at the start of the year	Received during the year on the exercise of options and performance rights	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
K MacDonald	800,000	-	200,000	1,000,000
M Carroll	304,307	-	-	304,307
D Wood	100,000	-	1,000,000	1,100,000
J Gooding	3,520,215	680,000	-	4,200,215
B Philemon	1,028	-	-	1,028
Other Key Management Personnel of the Group				
C Lennon	640,000	425,000	-	1,065,000
L Queen	350,000	170,000	-	520,000
P Jolly	2,030,000	297,500	-	2,327,500
R Gawi	100,000	127,500	-	227,500
L Nand	-	-	-	-

(f) Loans to key management personnel

There are no loans between directors or other key management personnel and any of the Group companies.

(g) Advances to / from related entities

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
<i>Advances to / from subsidiaries</i>				
Beginning of the year	-	-	175,306	174,868
Movements during the year	-	-	765	438
End of year	-	-	176,071	175,306

Refer note 12 for provisions raised against these advances to subsidiaries.

(h) Transactions with related parties

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
<i>The following transactions occurred with related parties</i>				
Fees from associate	614	709	-	-
Management fees to subsidiaries	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

21. SEGMENT REPORTING

a) Description of Segments

Management considers the business from a project classification perspective and has identified four reportable segments - Exploration/ Evaluation, Frieda, Ramu and Corporate. Corporate consists of all other business activities performed at the offices held in both PNG and Brisbane.

b) Reportable Segment Results

The segment information provided to management for the reportable segments for the year ended 31 December 2016 is as follows:

	Exploration / Evaluation*	Frieda	Ramu	Corporate	Group
	US\$000	US\$000	US\$000	US\$000	US\$000
2016					
Segment revenue	-	-	-	95	95
Segment result	576	-	(12,209)	(4,202)	(15,835)
Income tax (expense) benefit	-	-	-	-	-
Net Profit / (Loss)	576	-	(12,209)	(4,202)	(15,835)
Segment assets	9,600	27,499	82,000	12,155	131,254
Impairment of assets	-	-	(390)	-	(390)
Segment liabilities	(1,290)	(6,432)	(129,022)	(789)	(137,533)
Acquisition of segment assets	-	-	-	16	16
Segment depreciation and amortisation	-	-	-	66	66
2015					
Segment revenue	-	-	-	80	80
Segment result	20,328	-	(84,106)	(4,234)	(68,012)
Income tax (expense) benefit	-	-	-	-	-
Net Profit / (Loss)	20,328	-	(84,106)	(4,234)	(68,012)
Segment assets	14,600	26,887	85,000	10,880	137,367
Impairment of assets	-	-	(73,856)	-	(73,856)
Segment liabilities	(1,105)	(6,319)	(119,693)	(1,459)	(128,576)
Acquisition of segment assets	-	-	-	12	12
Segment depreciation and amortisation	-	-	-	73	73

*Excluding Frieda

22. RECONCILIATION OF NET PROFIT (LOSS) AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

		Consolidated		Holding Company	
		2016	2015	2016	2015
	Notes	US\$000	US\$000	US\$000	US\$000
Reported Net Profit (Loss) after Taxation		(15,835)	(68,012)	(310)	(46,714)
Add (less) non-cash and non-operating items:					
Depreciation and amortisation	8	66	73	-	-
Exploration, evaluation and development costs				-	-
Reversal of provision for exploration costs		(576)	(20,328)	-	-
Impairment of non-current assets		390	73,190	-	-
Impairment of subsidiary advances		-	-	310	38,858
Share of operating loss of equity accounted investments		5,554	5,253	-	-
Fair value of share based payments		767	439	-	-
Impairment of investment in subsidiaries /(reversal) of impairment		-	-	-	7,856
Net (gain) loss on foreign currency balances	3	194	174	-	-
Interest expense		6,265	5,663	-	-
		12,660	64,464	310	46,714
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		(8)	(15)	-	-
Increase (decrease) in creditors and provisions		(939)	(1,016)	-	-
		(947)	(1,031)	-	-
Net Cash Flow from Operating Activities		(4,122)	(4,579)	-	-

23. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	111	102	-	-
One to two years	111	34	-	-
Two to five years	243	-	-	-
	465	136	-	-

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

24. FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and commodity price risk). The Group's overall risk management program seeks to minimise the potential adverse effects arising from financial risks on the Group's financial performance. The Group may use a range of derivative financial instruments to manage risk exposure although at balance date there were no derivative instruments being used to manage financial risk exposure. Risk management is carried out by the Managing Director and Chief Financial Officer under policies approved by the Board of Directors through the Audit Committee. Management identify, quantify, evaluate and where considered prudent, manage financial risks in accordance with established written policies.

a) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding committed transactions.

In relation to banks and financial institutions only the major Australian banking institutions and international institutions are used for the depositing of surplus funds. The long term credit rating of the banks and financial institutions in which funds are deposited at 31 December 2016 are B+ and AA-.

The carrying amounts of the Group's financial assets represent the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2016	2015
	US\$000	US\$000
Cash and cash equivalents	10,526	8,990
Other receivables	1,444	6,656
	11,970	15,646

The aging of the Group's other receivables at the reporting date was as follows:

	2016		2015	
	Gross	Impairment	Gross	Impairment
	US\$000	US\$000	US\$000	US\$000
Not past due				
6 months or less	1,444	-	6,656	-
6 to 12 months	-	-	-	-
	1,444	-	6,656	-

The Group believes that no impairment is necessary in respect of other receivables not past due date as balances are monitored on a regular basis with the result that exposure to bad debts is insignificant.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to settle debts as and when they become due.

The following are the contractual maturities of financial liabilities:

	Total	6mths or less	6 - 12 mths	>1 - years
	US\$000	US\$000	US\$000	US\$000
Consolidated 31 December 2016				
Non-derivative financial liabilities				
Trade and other creditors	2,005	2,005	-	-
Borrowings	135,382	-	4,381	131,001
	137,387	2,005	4,381	131,001

	Total	6mths or less	6 - 12 mths	>1 - years
	US\$000	US\$000	US\$000	US\$000
Consolidated 31 December 2015				
Non-derivative financial liabilities				
Trade and other creditors	2,472	2,472	-	-
Borrowings	125,796	-	2,000	123,796
	128,268	2,472	2,000	123,796

(c) Market risk

Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group is exposed to currency risk on purchases and cash deposits that are denominated in non US Dollars. As a result of this exposure, during the 2016 year the Group incurred a loss of US\$193,673 as shown in the Statements of Comprehensive Income and note 3. This has resulted from the movement in the Australian Dollar to the US Dollar.

The exposure to foreign currency risk in non US Dollars at balance date was as follows:

	Consolidated		Holding Company	
	2016	2015	2016	2015
	AU\$000	AU\$000	AU\$000	AU\$000
Cash and cash equivalents	4,693	3,349	-	-
Other receivables	17	16	-	-
Trade and other creditors	(1,491)	(2,427)	-	-
	3,219	938	-	-

	Consolidated		Holding Company	
	2016	2015	2016	2015
	PGK\$000	PGK\$000	PGK\$000	PGK\$000
Cash and cash equivalents	911	532	-	-
Other receivables	107	84	-	-
Trade and other creditors	(1,196)	(1,492)	-	-
	(178)	(876)	-	-

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
AUD	0.7426	0.7584	0.7236	0.7306
PGK	0.3209	0.3648	0.3150	0.3375

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

A 10% strengthening / weakening of the Australian dollar and the Papua New Guinea Kina, with all other variables constant, would have affected before tax loss and equity by US\$227,350 (2015: US\$38,970).

Interest rate risk

The Group's interest rate risk arises as a result of cash deposits and from long-term borrowings.

Cash deposits, which in turn earn interest income, are subject to the movement of interest rates and the Group does not enter into long-term deposits.

The Group does have US\$3,047,606 on deposit at rates ranging between 0.8% and 0.88% (2015: US\$4,061,748 ranging from 0.35% and 0.54%). It also has AU\$4,103,619 on deposit at rates ranging between 1.74% and 2.39% (2015: AU\$2,101,647 ranging from 2.18% and 2.85%). There is no PGK on deposit at December 2016 (2015: no PGK on deposit).

A change of 100 basis points (plus 1% / minus 1%) in interest rates on variable rate instruments would have affected equity and profit and loss by US\$98,000 (2015: US\$90,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

The variable rate of the Group's long-term borrowings ranges between 5.05% and 5.95%.

The Group does not account for any fixed rate financial rate assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Commodity price risk

The Group is exposed to commodity price risk. This arises from the sale of nickel and cobalt that is priced on, or benchmarked to, open market exchanges. The products are sold by MCC Ramu Nico Limited as sales agent on behalf of the Group at prevailing market prices such as the London Metal Exchange (LME) and Metal Bulletin (MB). The products, predominantly nickel and cobalt, are provisionally priced, that is the selling price is determined preceding the month of shipment followed by an adjustment using the average price of the month of shipment after delivery to the customers. As at 31 December 2016, all products have been shipped and the pricing processes have been completed. Therefore contracts for the physical delivery of commodities are carried in the balance sheet at their realised prices. Derivative commodity contracts may be used to align realised prices to manage risk exposure although at balance date there were no derivative commodity contracts being used.

(d) Capital Management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares, return capital to shareholders, or sell assets to provide cash and or reduce debt levels if applicable. The group will also give consideration whether the payment of dividends is appropriate and at what levels.

Consistent with others in the industry at a similar stage, the Group and parent entity monitor capital on the basis of cash requirements for exploration, development and administrative purposes offset by current cash balances and likely operating inflows. Other factors that will be considered are credit and equity market conditions and expectations from the investment community.

During 2016, the Group's strategy was unchanged from 2015 and is reviewed by the Board.

(e) Fair value

The carrying amounts of cash, short term receivables and short term payable due to their short term nature are a reasonable approximation of fair value due to their short term nature.

The fair values of borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is close to current market rates.

25. SHARE-BASED PAYMENTS

(a) Performance Rights Plan

Performance rights have been issued to senior employees and the Managing Director under the terms of their employment contract and in accordance with the Performance Rights Plan.

Performance rights are granted for no consideration and carry no dividend or voting rights. When exercisable, each performance right is convertible into one fully paid ordinary share. The exercise price of the performance rights is nil.

Grant date	Hurdle / vesting date	Expiry date	Exercise Price (AU\$)	Balance start of year	Granted during year	Exercised during year	Expired during current / prior year	Balance at end of year	Exercisable at end of year
16/05/2013	31/12/2015	31/12/2015	0.0000	7,200,000	-	(7,200,000)	-	-	-
22/05/2014	31/12/2016	31/12/2016	0.0000	12,740,000	-	-	-	12,740,000	-
10/04/2015	31/12/2016	31/12/2017	0.0000	12,225,000	-	-	-	12,225,000	-
21/05/2015	31/12/2016	31/12/2017	0.0000	5,100,000	-	-	-	5,100,000	-

Fair Value of performance rights granted

Grant Date	16th May 2013	22nd May 2014	10th April 2015	21st May 2015
Share price at grant date	AU\$0.077	AU\$0.06	AU\$0.094	AU\$0.115
Fair value at grant date	AU\$337,180	AU\$515,970	AU\$920,543	AU\$486,540
Expected volatility of Company's shares	60%	70%	65%	65%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.50%	2.80%	1.80%	2.00%
Expected vesting period	31st Dec 2015	31st Dec 2016	31st Dec 2017	31st Dec 2017

The performance rights are subject to performance hurdles which if met automatically convert into fully paid ordinary shares.

The weighted average remaining contractual life of the performance rights outstanding at the reporting date is 1 year.

(c) Cost arising from share-based payment transactions

Total cost from share-based payment transactions recognised during the year was as follows:

	December 2016 US\$000	December 2015 US\$000
Options issued under Executive Option Scheme and performance rights issued under the Performance Rights Plan	767	439
Total	767	439

26. EVENTS OCCURRING AFTER BALANCE DATE

There are no events to report after balance date.

27. SUPPLEMENTARY INFORMATION

In accordance with Accounting Standards Board Directive 2 (ASBD 2) and the Investment Promotion Authority approval to prepare and lodge US dollar financial statements, the Company discloses the following information in PNG Kina terms:

	Consolidated		Holding Company	
	2016 PGK000	2015 PGK000	2016 PGK000	2015 PGK000
Revenue	296	219	-	-
Net (Loss) Profit after tax	(49,346)	(186,436)	(966)	(128,054)
Total Assets	416,679	407,013	97,394	89,553
Total Liabilities	436,613	380,966	10	9
Net Assets	(19,934)	26,047	97,384	89,544

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2016 of PGK1.00 = US\$0.3150 (2015 year PGK1.00 = US\$0.3375) while income and expense items are translated at the average rate for the year PGK1.00 = US\$0.3209 (2015 year PGK1.00 = US\$0.3648).



DIRECTORS' DECLARATION

In the opinion of the Directors:

1. The financial statements and notes of the Company and of the Consolidated Entity:
 - a. comply with International Financial Reporting Standards and other mandatory professional reporting requirements; and,
 - b. give a true and fair view, in all material respects, of the financial position as at 31 December 2016 and performance of the Company and the Consolidated Entity for the year ended on that date; and are in accordance with the Papua New Guinea Companies Act 1997.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors in making this decision have received appropriate certification from the Managing Director and Chief Financial Officer.

On behalf and in accordance with a resolution of the board,



Ken MacDonald
Chairman

28 March 2017



Craig Lennon
Managing Director

Independent Auditor's Report

to the shareholders of Highlands Pacific Limited

Report on the audit of the financial statements of the Company and the Group

Our opinion

We have audited the financial statements of Highlands Pacific Limited (the Company), which comprise the statements of financial position as at 31 December 2016, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2016 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and their financial performance and cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

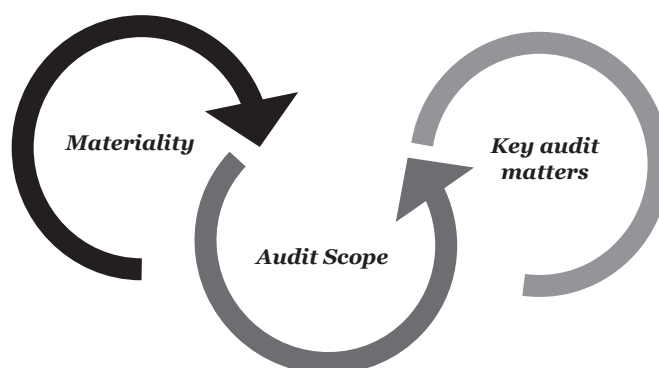
We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out services for the Company and its subsidiaries in the area of tax advice. These services have not impaired our independence as auditor of the Company and the Group.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Company and the Group, their accounting processes and controls and the industries in which they operate.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> • For the purpose of our audit of the Group we used overall group materiality of US\$656,000 which represents approximately 0.5% of the Group's total assets. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole. • We chose total assets as, in our view, it is the metric against which the financial position of the Group is most commonly measured and is a generally accepted benchmark. • We selected 0.5% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds. 	<ul style="list-style-type: none"> • We (PwC Papua New Guinea) conducted audit work over all the subsidiaries which comprise the Group consolidation. • All subsidiaries of the Group are incorporated and operating in Papua New Guinea with the exception of one subsidiary incorporated in Australia. • Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 	<ul style="list-style-type: none"> • Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: <ul style="list-style-type: none"> - Assessment of the carrying value of the investment in the Ramu Nickel mine - Exploration and evaluation expenditure impairment indicator assessment - Assessment of future cashflows • These matters are further described in the <i>Key audit matters</i> section of our report.

Independent Auditor's Report - Continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report.

Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	How our audit addressed the key matter
<p>Assessment of the carrying value of the investment in the Ramu Nickel mine of US\$82 million and associated impairment loss of US\$0.4 million</p> <p><i>(Refer to note 10 of the financial statements)</i></p> <p>With the decline in the long term forecast nickel price from a year ago the Group concluded there was an indicator of impairment of the carrying value of the investment in the Ramu Nickel mine and so performed an impairment assessment of its carrying value and recognised an impairment charge.</p> <p>To assess the carrying value of the investment, the Group has prepared a calculation of the value of the investment based on the net present value of the expected future cash flows before financing costs.</p> <p>The net present value of the expected future cashflows and the impairment charge calculated by the Group are US\$82 million and US\$0.4 million respectively.</p> <p>The key assumptions used in the financial model include long term nickel and cobalt pricing, budgeted operating costs, mine production profile based on the current reserves and resources estimate and the discount rate, as well as the time frames in which the revenues and expenses will occur.</p> <p>Given the investment in the Ramu Nickel mine has previously been impaired, the carrying value assessment is sensitive to changes in all key assumptions that go into the financial model.</p> <p>Our audit focused on the assessment of the impairment charge and carrying value recognised because of the significant judgements around the key assumptions used in assessing the carrying value of the asset and the sensitivity of the carrying value to changes in these key assumptions.</p>	<p>As there was an indicator of impairment we have considered and tested the financial model prepared and used by the Group to support the carrying value of the Ramu Nickel mine investment and the impairment loss recognised at year end.</p> <p>We compared the financial model with the previous year's model and found it was consistently structured and consistent with the basis of preparation required by the accounting standards.</p> <p>Together with our valuation expert we reviewed the methodology adopted in the financial model.</p> <p>We benchmarked the assumptions used as inputs into the financial model around long term nickel and cobalt prices against external forecasts, and the discount rates with our expectation based on the overall estimated Weighted Average Cost of Capital (WACC) for the Group and the specific risks associated with the estimated cashflows from the asset.</p> <p>We performed sensitivity analysis on assumptions used in the financial model. We determined that the calculations were more sensitive to assumptions for nickel and cobalt pricing and discount rates and focused our testing on these assumptions.</p>
<p>Exploration and evaluation expenditure of US\$37.1 million impairment indicator assessment</p> <p><i>(Refer to note 9 of the financial statements)</i></p> <p>Our audit focused on the Group's assessment that there were no indicators of impairment of the carrying value of the exploration and evaluation expenditure asset, because this is one of the significant assets of the Group.</p> <p>The asset includes capitalised expenditure in relation to two areas of exploration interests which are at varying degrees of advancement.</p> <p>We considered this a key audit matter because there are significant judgements involved in considering the existence of indicators of impairment, including consideration of any factors arising that would impact the status or value of each project.</p> <p>If there are indicators of impairment an assessment of the values of the exploration projects would be required.</p>	<p>We considered the directors' assessment of the existence of potential indicators of impairment. Our procedures included:</p> <ul style="list-style-type: none">- Reading the exploration licence terms and conditions.- Examining exploration budgets for 2017 and reading minutes to understand the nature of ongoing activities in each area of interest.- Considering the impact of changes in external forecast gold and copper prices.- Comparing the current carrying value of the projects to historical transactions used to support the carrying value of the capitalised costs and considering if there were any factors subsequent to these transactions that were an indicator of impairment.- Evaluating the disclosures made in note 9, including those regarding the basis for the carrying value of the projects, in light of the requirements of International Financial Reporting Standards.

Key audit matter

How our audit addressed the key matter

Assessment of future cashflows

(Refer to note 1 of the financial statements)

The Group had a total operating cash outflow of US\$4.1 million for the 2016 year and a net liability position of US\$6.3 million at 31 December 2016.

The financial statements continue to be prepared on a going concern basis as the Group expects to have sufficient working capital to carry out its stated objectives for at least 12 months from the date of signing the financial statements.

The Group has prepared cash flow projections which include a number of assumptions and judgements, including estimates of expenditure on projects and administrative expenses, and these projections are used to support the sufficiency of working capital. The most significant cash outflows are general and administrative costs. The projections have been prepared on the basis that the Ramu Nickel Limited loan facility is non recourse to the other entities in the Group and only repayable by Ramu Nickel Limited out of its share of operating surpluses from the Ramu Nickel project.

We focused on this matter as if it had been concluded that it was inappropriate for the financial statements to be prepared on the going concern basis, the values of certain assets and liabilities as set out in the financial statements might have been significantly different.

We assessed the appropriateness of the going concern basis of accounting by evaluating and testing the cash flow projections prepared by the Group. Our procedures included:

- Assessing the design of the Group's cash flow projection model for the year ending 31 December 2017 and the first quarter of 2018 and its consistency with our understanding of the Group's activities.
- Comparing the approved 2017 expenditure budget by area of interest for exploration and evaluation activity with the cash flow projection inputs.
- Comparing forecast administration expenses with actual levels of expenditure for the 2016 year.
- Assessing the Group's consideration of cashflows associated with the Ramu Nickel investment.
- Reviewing legal correspondence received by the Group in relation to the non recourse nature of the Ramu Nickel Limited loan facility.
- Obtaining representations from the directors as to the adequacy of cash resources and the completeness of financial statement disclosures in respect of going concern.

Our responsibilities in respect of the going concern basis of accounting are included below under *Auditor's responsibilities for the audit of the financial statements*. We did not conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Information other than the financial statements and auditor's report

The directors are responsible for the annual report which includes other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Company for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or any of its subsidiaries or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report - Continued

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and the Group to express an opinion on the consolidated financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2016:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Who we report to

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.



PricewaterhouseCoopers



Christopher Hansor
Partner

Registered under the
Accountants Registration
Act 1996

Port Moresby
28 March 2017

STOCK EXCHANGE INFORMATION

For the Year Ended 31 December 2016

The shareholder information set out below was applicable as at 28 February 2017.

SPREAD OF SECURITY HOLDERS

a) Analysis of numbers of shareholders by size of holding:

Category of Holdings	Number of Shareholders
1 - 1,000	1,280
1,001 - 5,000	1,463
5,001 - 10,000	926
10,001 - 100,000	3,008
100,001 and over	635
Total Shareholders	7,312

b) There were 3,088 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AUD0.07 cents.

c) Analysis of numbers of rights holders by size of holding:

Category of Holdings	Number of Holders
1 - 1,000	-
1,001 - 5,000	-
5,001 - 10,000	-
10,001 - 100,000	-
100,001 and over	6
Total Holders	6

LARGEST TWENTY SHAREHOLDERS

The names of the largest twenty shareholders are listed below:

Name	No. of Ordinary Shares Held	% of Total
PANAUST SPV2 PTE LTD	128,865,980	13.77
HKBA NOMINEES LIMITED	119,635,168	12.78
CITICORP NOMINEES PTY LIMITED	100,085,363	10.69
URION HOLDINGS (MALTA) LTD	48,371,246	5.17
INDEPENDENT PUBLIC BUSINESS CORPORATION OF PAPUA NEW GUINEA	30,158,821	3.22
ZERO NOMINEES PTY LTD	27,721,427	2.96
DR THOMAS JOHN BERESFORD GROUP	18,334,086	1.96
MINERAL RESOURCES DEVELOPEMENT COMPANY PTY LTD	13,849,426	1.48
UBS NOMINEES PTY LTD	11,700,000	1.25
INKESE PTY LTD	10,750,000	1.15
J P MORGAN NOMINEES AUSTRALIA LIMITED	9,252,426	0.99
MR JOHN EDWIN GOODING	8,799,390	0.94
CARRINGTON LAND PTY LTD	7,000,000	0.75
MR JIHAD MALAEB	6,350,000	0.68
CABLETIME PTY LTD <THE INGODWE A/C>	6,000,000	0.64
ROOKHARP INVESTMENTS PTY LIMITED	5,665,268	0.61
MR JAY HUGHES + MRS LINDA HUGHES <INKESE SUPER A/C>	5,200,000	0.56
MRS LISA JANE HAMANN	4,900,000	0.52
CBD PLAZA (AUST) PTY LTD	4,512,312	0.48
PNG SUSTAINABLE DEVELOPMENT PROGRAM LTD	4,109,260	0.44
Total	571,260,173	61.04

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders (holding in excess of 5% of the Company's issued ordinary capital), as registered in the Company's share register, are set out below:

Name	No. of Ordinary Shares Held	% of Total
PANAUST SPV2 PTE LTD	128,865,980	13.77
HKBA NOMINEES LIMITED	119,635,168	12.78
CITICORP NOMINEES PTY LIMITED	100,085,363	10.69
URION HOLDINGS (MALTA) LTD	48,371,246	5.17

STOCK EXCHANGE INFORMATION - CONTINUED

VOTING RIGHTS

The voting rights attaching to ordinary shares are:

- on a show of hands, every member present, in person or by proxy, shall have one vote; and
- upon a poll, each share shall have one vote.

JURISDICTION

The Company is incorporated in PNG and is not subject to Chapter 6 of the Australian Corporations Law dealing with the acquisition of shares (including substantial shareholdings and takeovers). The acquisition of securities in PNG is governed by the Takeovers Code 1998 and the Securities Act 1997.

LIST OF MINING TENEMENTS

as at 31 December 2016

Tenement Reference	Beneficial Interest at End of Period	Beneficial Interest at Commencement of Period	Location - Province
Exploration (Highlands Pacific Resources Limited)			
EL 1761	100% Note 1,	100% Note 1	Milne Bay Province
Star Mountains (Highlands Pacific Resources Limited)			
ELs 1312, 1392, 1781, 2001	49% Note 1, 3	100% Note 1, 3	Sanduan Province
EL 2467	49% Note 1, 3	Nil	Sanduan Province
ELAs 2478, 2517	49% Note 1, 3, 5	Nil	Sanduan Province
Frieda River Project (Highlands Frieda Limited)			
ELs 0058, 1895 and 1956	20% Note 1, 4	20% Note 1, 4	Sanduan Province
ELs 1212, 1746 and 1957	20% Note 1, 4	20% Note 1, 4	Sanduan & East Sepik Province
ELs 1744, 1745 and 1896	20% Note 1, 4	20% Note 1, 4	East Sepik Province
EL 1743	Nil	20% Note 1, 4	East Sepik Province
SML 9	20% Note 1, 4, 5	Nil	Sanduan Province
ML 157	20% Note 1, 4, 5	Nil	Sanduan Province
LMPs 94, 95	20% Note 1, 4, 5	Nil	Sanduan Province
LMPs 96, 97, 98	20% Note 1, 4, 5	Nil	East Sepik Province
MEs 87, 88	20% Note 1, 4, 5	Nil	Sanduan Province
MEs 89, 90	20% Note 1, 4, 5	Nil	East Sepik Province
Ramu Mine (Ramu Nickel Limited)			
SML 8	8.56%	8.56%	Madang Province
ML 149	8.56%	8.56%	Madang Province
LMPs 42, 43, 44, 45, 46, 47, 48 and 49	8.56%	8.56%	Madang Province
MEs 75, 76, 77, 78 and 79	8.56%	8.56%	Madang Province
ELs 193 and 2376	8.56%	8.56%	Madang Province

Mining Tenements acquired or disposed of during the year –

Beneficial percentage interests held in farm-in or farm-out agreements – all the tenements for the Frieda River project, the Ramu mine and Star Mountains project are held in joint venture. The percentage detailed in the table above indicated the percentage held by Highlands.

Beneficial percentage interests in farm-in or farm-out agreements acquired or disposed of during the year – all the tenements for the Frieda River project and Star Mountains project are held in joint venture. The percentage detailed in the table above indicated the percentage held by Highlands.

Notes

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country by paying its pro-rata share of historical sunk costs and future development costs.
2. Definitions
EL - Exploration Licence
ELA - Exploration Licence Application

SML - Special Mining Lease

ML - Mining Lease

LMP - Lease for Mining Purposes

ME - Mining Easement

3. On 11 February 2015 Highlands executed Joint Venture and Farm-in agreements with a wholly owned subsidiary of Anglo American Plc. Under the agreements Anglo American can earn up to an 80% interest in the joint venture by achieving certain milestones.
4. The terms of an agreement between PanAust and Highlands provide that should the Government of PNG elect to take up its right under PNG Law to 30% of the project, PanAust will sell down the first 20% of its joint venture interest and thereafter the parties will sell down in equal amounts. Under a scenario where the Government of PNG elects to take up its maximum 30% of the project, the respective joint venture interests would be PanAust 55%, the Government of PNG 30% and Highlands 15%.
5. Under application with Papua New Guinea Mineral Resources Authority

CORPORATE DIRECTORY

Directors	Kenneth MacDonald – Chairman Ron Douglas – Chairman elect Craig Lennon – Managing Director Michael Carroll Dan Wood Bartholomew Philemon	
Company Secretary	Sylvie Moser Erik Andersen	
Senior Management	Sylvie Moser – Chief Financial Officer Ron Gawi – General Manager PNG	
Country of Incorporation	Papua New Guinea	
Registered Offices	Papua New Guinea (Address for Service) Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (P O Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	Australia Level 4 167 Eagle Street Brisbane Qld 4000 (GPO Box 3086, Brisbane Qld 4001) Australia Telephone: (617) 3239 7800 Facsimile: (617) 3221 6727
Share Registries	Papua New Guinea Computershare Investor Services Pty Limited C/- Highlands Pacific Limited Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (P O Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	Australia Computershare Investor Services Pty Limited 117 Victoria Street West End Qld 4101 Australia Freecall (Australia): 1300 552 270 Shareholder information line (outside Australia): Telephone: (61 3) 9415 4000 Facsimile: (61 7) 3237 2152 Email queries: webqueries@computershare.com.au Website: www.computershare.com
Stock Exchanges	Papua New Guinea Port Moresby Stock Exchange Limited POMSoX code: HIG	Australia (Home Exchange) Australian Stock Exchange Limited ASX code: HIG
Bankers	ANZ Banking Group (PNG) Limited	
Auditors	PricewaterhouseCoopers Level 6, PWC Haus Harbour City, Konedobu Port Moresby, NCD 121 Papua New Guinea	
Internet Communications	Website: www.highlandspacific.com Email: info@highlandspacific.com	



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