12 September 2017

Highlands posts solid result

A strong operating performance at the Ramu Nickel / Cobalt mine, coupled with significantly reduced corporate overheads and administrative expenses, have enabled Highlands Pacific Limited (ASX: HIG) to report a net profit of US$1.46 million for the six months to June 2017 (2016: US$23.6 million loss).

The net profit of US$1.46 million included an impairment reversal on the Ramu investment of US$4.99 million, which if excluded would have resulted in Highlands posting an operating loss of US$3.53 million (2016: US$9.0 million loss).

The Ramu mine achieved record production of 16,956 tonnes of nickel and 1,624 tonnes of cobalt in the six months to June 2017, approximately double the 8,024 tonnes of nickel and 786 tonnes of cobalt produced in the corresponding first half of 2016. Production costs, on a per unit basis, also reduced significantly, enabling the Ramu mine to deliver a sharply improved operating profit. Highlands' share of Ramu's comprehensive income therefore increased to $1.05 million, compared with a loss of $3.57 million in the prior June half.

Highlands' operating costs also reduced significantly during the half, despite the Special Meeting, which added approximately $400,000 in costs. The company completed a fundamental strategic review during 2016 which led to major cost reductions being implemented in the December half of the year. The full benefits of the cost savings were evident in the results for the six months to June 2017, with total operating costs reducing by 37% to $1.63 million, from $2.61 million in the prior corresponding period.

Highlands ended the first half of 2017 with a cash balance of US$8.0 million, providing a solid cash buffer to sustain the business as further progress is made in enhancing the value of its project suite.

A feature of the results was a substantial loan repayment to the Company's Ramu joint venture partner, MCC Ramu Nico. In accordance with the Ramu joint venture funding arrangements, and as a consequence of the Ramu mine generating cash operating surpluses, Highlands made debt repayments of $5.38 million in the half, leaving the total loan balance at $128 million, to be repaid from future operating surpluses.

CEO Craig Lennon said Highlands remained ideally positioned to benefit from the emerging recovery in metal prices, with its key projects in Papua New Guinea providing substantial leveraged exposure to copper, nickel, cobalt and gold.

"The improved profit results are encouraging, demonstrating a disciplined approach to costs and rigorous focus on operating efficiency. It is also gratifying to see the steady and consistent improvements in operating performance at Ramu, just as nickel and particularly cobalt prices are rising.

"During the current six months, we expect to see further good results from Ramu, together with ongoing exploration results at Star Mountains and continued progress at Frieda River and Sewa Bay," he said.

For further information:
Joe Dowling
Stockwork Corporate Communications
0421 587755

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

Directors
Ron Douglas, Chairman
Craig Lennon, MD/CEO
Dan Wood
Bart Philemon
John Wylie

Management
Sylvie Moser, CFO
Ron Gawi, GM Port Moresby

Investor and Media Enquiries to:
Joe Dowling
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Website:
www.highlandspacific.com

About Highlands Pacific Limited

Highlands Pacific is a PNG incorporated and registered mining and exploration company listed on the ASX and POMSoX exchanges. Its major assets are interests in the producing Ramu nickel cobalt mine and the Frieda River copper gold project; with exploration in progress in the Star Mountains. Highlands also has exploration tenements at on Normanby Island (Sewa Bay).

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 (a wholly owned subsidiary of PanAust Limited which in turn is a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd.) has 80%.

CONSOLIDATED INTERIM
FINANCIAL REPORT

2017

HALF-YEAR ENDED 30 JUNE 2017

HIGHLANDS
PACIFIC
Diversified Mineral Resource Company

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DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Highlands Pacific Limited and its subsidiaries (the "Group") for the half-year ended 30 June 2017.

This report should be read in conjunction with the Annual Report.

Directors

The following persons were Directors of Highlands Pacific Limited during the whole of the half-year and up to the date of this report:

Craig Lennon (Managing Director)

Ron Douglas (Chairman) - appointed on 9 February 2017

Dan Wood

Bartholomew Philemon

John Wylie - appointed on 19 April 2017
Ken MacDonald - resigned on 28 March 2017
Mike Carroll - resigned on 19 April 2017

Results and Dividends

Highlands Pacific has recorded a net profit of US$1.5 million for the six months to June 2017 (half year 2016: loss US$23.6 million). The profit includes the following items:

- an operating profit of US$1 million for the 6 months to June 2017 for the Group's interest in the Ramu Nickel mine;
- reversal of impairment of the carrying value of the Group's investment in the Ramu Nickel mine by US$5 million as a result of the further reduction in operating costs; partially offset by
- labour costs of US$0.7 million;
- consultants, services and administrative costs of US$1.1 million; and
- interest charge of US$3.3 million on non-recourse borrowings relating to the Group's interest in the Ramu Nickel mine.

A strong operating performance at the Ramu Nickel mine, coupled with significantly reduced corporate overheads and administrative expenses, have enabled Highlands Pacific to report a net profit of US$1.46 million for the six months to June 2017.

The strong operating performance at the Ramu Nickel mine was the result of the project achieving record production of 16,956 tonnes of nickel and 1,624 tonnes of cobalt in the six months to June, approximately double the 8,024 tonnes of nickel and 786 tonnes of cobalt produced in the corresponding first half of 2016. Production costs, on a per unit basis, also reduced significantly. Highlands' share of Ramu's comprehensive income therefore increased to US$1.05 million, compared with a loss of US$3.57 million in the prior June half-year period.

Highlands ended the first half of 2017 with a cash balance of US$8 million, providing a solid cash buffer to sustain the business as further progress is made in enhancing the value of its project suite.

A feature of the results was a substantial loan repayment to the Company's Ramu joint venture partner, MCC Ramu Nico. In accordance with the Ramu joint venture funding arrangements, and as a consequence of the Ramu operation generating cash operating surpluses, Highlands made debt repayments of US$5.38 million in the half, leaving the total loan balance at US$128 million, to be repaid from future operating surpluses.

There is no dividend paid or recommended.

Review of operations

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

At the Star Mountains project, the Company and its joint venture partner Anglo American plc ("Anglo American") undertook a major exploration drilling program which identified further evidence of extensive mineralisation. Highlands and Anglo American commenced the campaign in October 2016, and six holes have now been drilled for a total of 5,182.6 metres. Since the end of June, Anglo American has assumed management of the joint venture having achieved the required project expenditure of US$25 million.

At the Ramu nickel mine, new production records were achieved during the half year as cobalt prices moved past US$60,000/t and nickel prices showed signs of recovery.

At the Frieda River project, the Company's joint venture partner, Frieda River Limited ("FRL") (a wholly owned subsidiary of Guangdong Rising Asset Management Co. Ltd. ("GRAM")), continued to work with the PNG authorities to progress the application for a Special Mining Lease.

The Company continued its process of board renewal during the period, with Mr Ron Douglas appointed Chairman, replacing Mr Ken MacDonald, and Mr John Wylie, the Chief Executive of the PNG Sustainable Development Program, appointed to replace Mr Mike Carroll, who retired.

This report is made in accordance with a resolution of Directors.

R Douglas.

RON DOUGLAS
Chairman

12 September 2017

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 30 June 2017

	Notes	June 2017 US$000	June 2016 US$000
Finance income		55	41
Other revenue		-	4
Total operating income		**55**	**45**
Labour costs		701	1,910
Consultants and services costs		645	246
General and administration costs		446	335
Depreciation and amortisation	3	31	33
Net foreign exchange (gain) / losses		(190)	83
Total operating costs		**1,633**	**2,607**
Interest expense	5	(3,299)	(3,178)
Reversal of provision of exploration costs	4	299	287
Reversal / (Impairment) of non-current assets	5	4,986	(14,534)
Share of operating profit / (loss) of equity accounted investments	5	1,049	(3,574)
Profit / (Loss) from operations before income tax		**1,457**	**(23,561)**
Income tax (expense) / benefit		-	-
Profit / (Loss) for the period		**1,457**	**(23,561)**
Other comprehensive income for the period		-	-
Total comprehensive income / (loss) for the period		**1,457**	**(23,561)**

Basic earnings per share			
From continued operations		US$ 0.002	US$ (0.025)
Diluted earnings per share			
From continued operations		US$ 0.002	US$ (0.025)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 30 June 2017

	Share Capital US$000	Fair Value & Other Reserves US$000	Accumulated Losses US$000	Total US$000
Half-Year ended 30 June 2017				
Balance at 1 January 2017	303,911	(4,382)	(305,808)	(6,279)
Net comprehensive income	-	-	1,457	1,457
Transaction with owners in their capacity as owners				
Issue of share based payments	-	205	-	205
Issue of share capital	(5)	-	-	(5)
Balance at 30 June 2017	**303,906**	**(4,177)**	**(304,351)**	**(4,622)**
Half-Year ended 30 June 2016				
Balance at 1 January 2016	303,913	(5,149)	(289,973)	8,791
Net comprehensive loss	-	-	(23,561)	(23,561)
Transaction with owners in their capacity as owners				
Issue of share based payments	-	486	-	486
Issue of share capital	(2)	-	-	(2)
Balance at 30 June 2016	**303,911**	**(4,663)**	**(313,534)**	**(14,286)**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	June 2017 US$000	December 2016 US$000	June 2016 US$000
CURRENT ASSETS				
Cash and cash equivalents		7,953	10,526	11,533
Receivables	2	4,661	1,444	682
		12,614	**11,970**	**12,215**
NON-CURRENT ASSETS				
Property, plant and equipment	3	155	184	208
Exploration and evaluation expenditure	4	37,510	37,100	36,951
Investment in Ramu Nickel mine	5	82,000	82,000	70,000
		119,665	**119,284**	**107,159**
TOTAL ASSETS		**132,279**	**131,254**	**119,374**
CURRENT LIABILITIES				
Trade and other payables	6	1,810	2,005	1,764
Borrowings	7	7,923	4,381	452
Provisions		134	122	307
		9,867	**6,508**	**2,523**
NON-CURRENT LIABILITIES				
Borrowings	7	127,004	131,001	131,111
Provisions		30	24	26
		127,034	**131,025**	**131,137**
TOTAL LIABILITIES		**136,901**	**137,533**	**133,660**
NET LIABILITIES		**(4,622)**	**(6,279)**	**(14,286)**
EQUITY				
Contributed equity	8	303,906	303,911	303,911
Reserves		(4,177)	(4,382)	(4,663)
Accumulated losses		(304,351)	(305,808)	(313,534)
TOTAL DEFICIT		**(4,622)**	**(6,279)**	**(14,286)**

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 30 June 2017

	June 2017 US$000	June 2016 US$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from other operations	-	4
Interest from investments	53	33
Income tax (paid) / refunded	(1)	3
Payments to suppliers and employees	(1,583)	(2,129)
Net cash used in operating activities	**(1,531)**	**(2,089)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration, evaluation and development	(6,265)	(5,273)
Contributions from joint venture partners	4,699	4,699
Receipt from recovery of exploration costs	341	5,298
Purchase of property, plant and equipment	(2)	(7)
Net cash (used in) / from investing activities	**(1,227)**	**4,717**
CASH FLOWS FROM A FINANCING ACTIVITY		
Costs associated with issue of ordinary shares	(5)	(2)
Net cash used in a financing activity	**(5)**	**(2)**
Net (decrease) / increase in cash and cash equivalents	**(2,763)**	**2,626**
Cash and cash equivalents at the beginning of the half-year	10,526	8,990
Effects of exchange rate changes on cash and cash equivalents	190	(83)
Cash and cash equivalents at end of the half-year	**7,953**	**11,533**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the half-year ended 30 June 2017

RECONCILIATION OF NET PROFIT / (LOSS) AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

	June 2017 US$000	June 2016 US$000
Reported net profit / (loss) after taxation	**1,457**	**(23,561)**
Add / (Less) non-cash items:		
Depreciation	31	33
Reversal of provision for exploration costs	(299)	(287)
Fair value of share based payments	205	486
Effects of exchange rate changes on cash and cash equivalents	(190)	83
(Reversal) / impairment of non-current assets	(4,986)	14,534
Share of operating (profit) / loss of equity accounted investments	(1,049)	3,574
Interest expense	3,299	3,178
	(2,989)	**21,601**
Add / (Less) movements in working capital items:		
Increase in debtors and prepayments	(2)	(127)
Decrease / (Increase) in creditors and provisions	3	(2)
	1	**(129)**
Net Cash Flow from Operating Activities	**(1,531)**	**(2,089)**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

Highlands Pacific Limited 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 condensed consolidated interim financial report for the half-year reporting period ended 30 June 2017 has been prepared in accordance with International Accounting Standard IAS 34: Interim Financial Reporting.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Highlands Pacific Limited during the interim reporting period in accordance with the continuous disclosure requirements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The Group's borrowings of US$135 million include US$128 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. Refer notes 4 and 7.

Accordingly, notwithstanding the net liability position at 30 June 2017, the directors have prepared the interim financial report on a going concern basis.

2. RECEIVABLES

	June 2017 US$000	Dec 2016 US$000
Current		
Sundry receivables	60	58
Receivable from joint venturers*	4,601	1,386
	4,661	**1,444**

*Represents an amount owing by MCC Ramu NiCo Limited relating to Highlands' share of the MHP sales of the Ramu Nickel mine. This also includes an amount owing by Anglo American plc and Sojitz Group ("Sojitz") for cash calls relating to Highlands' management of the Star Mountains project and the Sewa Bay project.

3. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US$000	Plant and Equipment US$000	Total US$000
Consolidated - 30 June 2017			
Cost			
Balance at 1 January 2017	241	571	812
Additions	2	-	2
Balance at 30 June 2017	243	571	814
Accumulated depreciation			
Balance at 1 January 2017	147	481	628
Charge for the half-year	9	22	31
Balance at 30 June 2017	156	503	659
Net book value at 30 June 2017	**87**	**68**	**155**

4. EXPLORATION AND EVALUATION EXPENDITURE

	Frieda US$000	Others US$000	Total US$000
Balance 1 January 2017	27,500	9,600	37,100
Capitalised during the half-year period			
Direct holding cost	317	42	359
Interest on Frieda carried funding loan	93	-	93
Management fee (reduction of previous exploration expenditure provision)	-	(341)	(341)
Provision for exploration costs	-	299	299
Balance 30 June 2017	**27,910**	**9,600**	**37,510**

FRIEDA

The carrying value of the Group's interest in the Frieda River project, is US$27.9 million at 30 June 2017. The US$0.4 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 FRL. Refer note 7.

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 Limited (now a wholly owned subsidiary of GRAM) and Glencore plc previously announced to the market, together with the additional activities and expenditure undertaken by FRL.

FRL, on behalf of the Frieda River Joint Venture, submitted a Special Mining Lease ("SML") application to the PNG Mineral Resources Authority ("MRA") 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. FRL are liaising with the PNG authorities, seeking to progress the application for a SML.

FRL released its initial Frieda River Feasibility Study in May 2016. An international minerals industry consulting group, Behre Dolbear Australia Pty Ltd ("BDA"), were engaged to conduct a peer review to determine if, in their view, it complied with the joint venture agreement ("EDMOA"). The initial BDA review made reference to a number of shortcomings and omissions in the feasibility study. FRL then carried out additional work, the results of which were released in an Addendum. The final BDA report, which is not binding on the parties, concludes that the feasibility study and the addendum work together provides a study of a standard that could be provided to lenders for consideration of finance. Reference is made to the Group's ASX Announcements dated 19 January 2017 and 3 March 2017.

Highlands remains of the view that the feasibility study does not meet the standards required by the EDMOA. This is now subject to arbitration. Reference is made to the Group's ASX Announcement dated 14 July 2017.

The Group's expenditure to date on the Frieda River project is US$47 million.

OTHER

These represent 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 2016 year. The exploration programs managed by the Group on the Star Mountains project and the Sewa Bay project result in the Group receiving management fees, which are applied to previous exploration expenditure, giving a reversal of prior provisions for exploration costs.

The Group's expenditure to 30 June 2017 on the Star Mountains project, net of receipt of management fees and payments from Anglo American, is US$17.1 million.

5. INVESTMENT IN RAMU NICKEL MINE

	June 2017 US$000	December 2016 US$000	June 2016 US$000
(i) Summarised financial information for Ramu Nickel Mine			
Current assets	158,495	151,884	170,863
Non-current assets	1,720,515	1,764,717	1,801,362
Current liabilities	81,577	61,343	91,934
Non-current liabilities	30,379	29,952	29,935
Net assets	1,767,054	1,825,306	1,850,356
Group's share of net assets	151,260	156,246	158,390
Provisions for impairment	(69,260)	(74,246)	(88,390)
Investment at recoverable amount	82,000	82,000	70,000
Reconciliation to carrying amounts:			
Opening net assets	82,000	85,000	85,000
Share of associated entity's production costs	(10,142)	(15,796)	(8,023)
Share of associated entity's other comprehensive income / (loss)	(4,274)	(5,978)	(2,160)
Share of additional contribution	9,430	19,164	9,717
Reversal of / (Provision for) impairment	4,986	(390)	(14,534)
Closing net assets	**82,000**	**82,000**	**70,000**
(ii) Interest in Ramu Nickel Mine			
Revenue	16,393	17,806	7,578
Other indirect costs	(870)	(1,419)	(882)
Share of associated entity's production costs	(10,142)	(15,796)	(8,023)
Share of associated entity's other comprehensive income / (loss)	(4,274)	(5,978)	(2,160)
Direct holding costs	(58)	(167)	(87)
Share of associated entity's total comprehensive income/(loss)	**1,049**	**(5,554)**	**(3,574)**
(iii) Sale of MHP Product			
Share of associated entity's MHP Products (Wet Metric Tonnes)	11,114	14,221	6,670
Revenue from sales of MHP products	16,392	17,804	7,577
Other revenue	1	2	1
(iv) Loan payable to MCC Ramu Nico Limited			
Opening balance	128,962	119,533	119,533
Further funding for cash calls	1,246	2,059	1,595
Sales commission payable to MCC Ramu Nico Limited	281	702	515
Interest accrued	3,299	6,265	3,178
Loan repayment	(5,375)	-	-
Additional drawdown	-	403	403
Closing balance	**128,413**	**128,962**	**125,224**

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 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 less 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 carrying value of the Group's interest in the Ramu Nickel mine remains unchanged at US$82 million. Operating costs have been further reduced which offsets the 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 as to the present value of the expected future cash flows before financing from 2017 through to 2031. The calculations use cash flow projections based on financial budgets covering the period from 2017 to 2031.

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	30 June 2017	31 December 2016
Nickel Price	US$4.29 – US$7.34	US$5.07 – US$8.27
Cobalt Price (US/Lb)	US$16.23 – US$22.11	US$13.41 – US$14.03
LOM years	15 years	14 years
Production Rate	100%	100%
After tax discount rate (Real)	13.40%	11.57%
(Nb. Prices above are nominal.)		

Sensitivities

Management performed a sensitivity analysis on the long-term 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 long-term price assumptions range for nickel results in a movement in the present value of future cash flows of approximately US$8 million, while a negative 10% movement results in a reduction of US$7 million.

Holding all other assumptions constant, a change in WACC to 13% would result in an increase in the present value of future cashflows of US$2 million and change in WACC to 14% would result in a decrease of US$3 million.

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

6. TRADE AND OTHER PAYABLES

	Consolidated	
	June 2017	December 2016
	US$000	US$000
Current		
Trade creditors	93	377
Accruals and other creditors*	1,717	1,628
	1,810	**2,005**

Amounts not expected to be settled within the next 12 months

*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$38,798 (2016 December: US$37,573).

7. BORROWINGS

	Consolidated	
	June 2017	**December 2016**
	US$000	**US$000**
Current		
Loan from MCC Ramu NiCo Limited**	7,923	4,381
	7,923	**4,381**
Non Current		
Loan from FRL*	6,513	6,420
Loan from MCC Ramu NiCo Limited**	120,491	124,581
	127,004	**131,001**

*The Carried Funding Loan represents the amount owing to FRL as at 30 June 2017. 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$92,988 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 Borrowing Costs. This loan balance will continue to accrue interest at a rate of "US$ 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 5.

8. CONTRIBUTED EQUITY

Paid Up Capital	June 2017 US$000	December 2016 US$000	June 2017 Shares 000's	December 2016 Shares 000's
Balance brought forward	303,911	303,913	927,778	920,578
Issued during the half-year period	-	-	8,138	7,200
Less costs associated with issue	(5)	(2)	-	-
Balance carried forward	**303,906**	**303,911**	**935,916**	**927,778**

The total number of shares issued as at 30 June 2017 was 935,915,836. 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.

9. SEGMENT REPORTING

	Exploration US$000	Frieda US$000	Ramu US$000	Corporate US$000	Group US$000
30 June 2017					
Segment revenue	-	-	-	55	55
Segment result	299	-	2,736	(1,578)	1,457
Net Profit / (Loss)	299	-	2,736	(1,578)	1,457
Segment assets	9,600	27,910	82,000	12,769	132,279
Segment liabilities	(1,335)	(6,583)	(128,466)	(517)	(136,901)
Acquisition of segment assets	-	-	-	2	2
Segment depreciation and amortisation	-	-	-	(31)	(31)
30 June 2016					
Segment revenue	-	-	-	45	45
Segment result	287	-	(21,286)	(2,562)	(23,561)
Net Profit / (Loss)	287	-	(21,286)	(2,562)	(23,561)
Segment assets	9,600	27,351	70,000	12,423	119,374
Segment liabilities	(763)	(6,339)	(125,224)	(1,334)	(133,660)
Acquisition of segment assets	-	-	-	7	7
Segment depreciation and amortisation	-	-	-	(33)	(33)
31 December 2016					
Segment asset	9,600	27,499	82,000	12,155	131,254
Segment liabilities	(1,290)	(6,432)	(129,022)	(789)	(137,533)

10. CONTINGENT ASSETS

Highlands Pacific Limited has an entitlement to a royalty from gold produced at the Woodlark Gold Project in PNG. The royalty is an amount of A$10 per ounce for the first 200,000 ounces produced from the area of the former exploration tenement EL455 at Woodlark Island, Milne Bay Province. Highlands has notified Kula Gold Ltd of its entitlement to the royalty, outlined in Kula's IPO prospectus in 2010. Reference is made to the Group's ASX announcement dated 10 March 2017.

11. EVENTS OCCURRING AFTER BALANCE DATE

No significant events occurred subsequent to balance date.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 3 to 14 are in accordance with:

(i) International Financial Reporting Standard IAS 34: Interim Financial Reporting and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Highlands Pacific Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

RON DOUGLAS
Chairman

12 September 2017

Report on review of interim financial information

to the Directors of Highlands Pacific Limited

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Highlands Pacific Limited (the Company) and its subsidiaries (the Group) as at 30 June 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the half-year then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, 'Interim financial reporting'. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting'.

Restriction on distribution or use

This report is made solely to the Directors of the Company, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Company, as a body, for our review work, for this report or for the conclusions we have formed.

PricewaterhouseCoopers

Christopher Hansor
Partner
Registered under the Accountants Registration Act 1996

Port Moresby
12 September 2017

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