



**HIGHLANDS
PACIFIC**



8 March 2019

Highlands Pacific Full-Year results

Highlands Pacific Limited (ASX: HIG) achieved a net profit of US\$22.3 million for the 12 months to December 2018, compared with a prior-year profit of US\$37.4 million.

The result included adjustments to the valuations of the Company's interests in the Ramu nickel/cobalt project and the Star Mountains copper/gold project.

Ramu achieved record annual production of 35,355 tonnes of nickel in the year to December 2018, which was up 2% from the prior year, and cobalt production totalled 3,275 tonnes, which was slightly lower than the record 3,308 tonnes produced in 2017.

The excellent production performance delivered increased revenues despite some easing in nickel and cobalt prices during the year. Ramu's operating costs also were reduced, resulting in Highlands' share of Ramu's comprehensive income increasing sharply from US\$3.5 million in 2017, to US\$9.8 million in 2018.

The carrying value of Highlands' interest in Ramu increased to US\$142.1 million, following an impairment reversal of US\$31.4 million.

Offsetting the results relating to Ramu was a US\$9.6 million impairment of Highlands' 100% interest in the Star Mountains project. The Star Mountains project remains on care and maintenance as Highlands continues to seek new joint venture partners to fund further exploration.

Highlands' general and administrative costs were reduced during the year, totaling just US\$2.4 million, down from US\$3.1 million in the prior year. An increase in foreign exchange losses to US\$0.8 million led to an increase in total operating costs to US\$3.3 million, compared with US\$2.9 million in the prior year.

The Company ended 2018 with a healthy cash balance of US\$14.9 million, following a capital raising conducted in June 2018 when 142.5 million Highlands shares were issued to Cobalt 27 Capital Corp in a private placement raising A\$15 million.

Cobalt 27 is currently Highlands' largest shareholder, with approximately 20% of the Company, and it is proposing to purchase the outstanding shares at a price of A\$10.5 cents cash per share, valuing the Company at approximately A\$115 million.

Shareholders will receive an extra A\$1.0 cent per share if the closing spot price of nickel exceeds US\$13,220 per tonne over five consecutive trading days before 31 December 2019.

Shareholders will vote on the proposed Scheme at a meeting scheduled for late April 2019.

Highlands' directors recommend that shareholders vote in favour of the Scheme in the absence of a superior proposal and subject to an Independent Expert concluding that the Scheme is in the best interests of shareholders.

**For further information, please contact:
Joe Dowling, Stockwork Corporate Communications
0421 587755**



ASX Code: HIG
PoMSox Code: HIG
Shares on Issue: 1,093 million
Performance Rights: Nil

Directors

Ron Douglas, Chairman
Craig Lennon, MD/CEO
Anthony Milewski
Ernie Gangloff

Management

Sylvie Moser, CFO/Company
Secretary
Ron Gawi, GM Port Moresby

Investor and Media Enquiries to:

Joe Dowling
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0421 587755

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. 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 on Normanby Island (Sewa Bay).

Ramu Nickel Cobalt Mine

The producing Ramu nickel cobalt mine is located 75km west of the provincial capital of Madang, PNG. Highlands holds an 8.56% interest in the Ramu project that will increase to 11.3% at no cost to Highlands once Highlands' share of Ramu project debt is repaid to the project manager and joint venture partner Metallurgical Corporation of China (MCC).

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.

Frieda River Copper/Gold Project

The Frieda River copper gold project is located 175km 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%.

2018

ANNUAL REPORT



Diversified Mineral Resource Company

CORPORATE DIRECTORY

Directors	Ron Douglas – Chairman Craig Lennon – Managing Director Anthony Milewski – appointed 4 June 2018 Ernie Gangloff –appointed 17 October 2018	
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 (PO 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 (PO 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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CHAIRMAN'S AND MANAGING DIRECTORS REPORT

Dear Shareholder,

This year has been a year of considerable challenge and ultimately change with the company confronting a number of diverse outcomes resulting in the recently announced decision to sell the company via a Scheme of Arrangement (Scheme) and release the funds back to shareholders.

The announcement of the Scheme followed an extended period during which Highlands sought to close a proposed Streaming Arrangement with Cobalt 27 Capital Corp (Cobalt 27) that was announced on 22 May 2018.

A key condition precedent to the Streaming Arrangement was the entry into a clarification agreement with the Company's joint venture partner and lender in the Ramu Nickel Cobalt project, Metallurgical Corporation of China (MCC). Entry into this clarification agreement (which subsequently became known as the Project Way Forward Agreement (PWFA)) was required prior to the longstop date in the Streaming Agreement, being 31 December 2018. During late 2018, it became evident that the conditions to the Streaming Agreement were unlikely to be satisfied by 31 December 2018 due to the difficulty in satisfying the requirements imposed by MCC in the PWFA. At this time Highlands entered into discussions with Cobalt 27 regarding alternative transactions which would deliver value to Highlands shareholders. The Scheme arose as a result of those discussions and the following other material events:

- Highlands is in arbitration with its joint venture partner on the Frieda River project regarding contribution of capital for the ongoing studies. In addition, the recently released feasibility for the project indicated that development would require circa US\$6bn of pre-production capital and would not see production until 2028 at the earliest;
- Our joint venture partner at Star Mountains had withdrawn, and Highlands has been unsuccessful in introducing a new partner; and
- Corporately, Highlands had a declining cash balance with no realistic prospect of generating revenue or additional shareholder value.

Cobalt 27 is currently Highlands' largest shareholder, with approximately 20% of the Company, and it is proposing to purchase the outstanding shares at a price of A\$10.5 cents cash per share, valuing the Company at approximately A\$115 million.

Shareholders will receive an extra A\$1.0 cent per share if the closing spot price of nickel exceeds US\$13,220 per tonne over five consecutive trading days before 31 December 2019. At the time of writing, the nickel price was approximately US\$12,500 per tonne.

Shareholders will vote on the proposed Scheme at a meeting expected to be held in late April 2019.

Highlands independent directors recommend that shareholders vote in favour of the Scheme in the absence of a superior proposal and subject to an Independent Expert concluding that the Scheme is in the best interests of shareholders.

The Scheme provides shareholders with the opportunity to realise their full investment in Highlands for cash at a significant premium to recent market prices, and with the possibility of further payments if the nickel price continues to rise. The A\$10.5 cents consideration represents a premium of 43.8% over the closing price of Highlands shares immediately prior to the announcement of the Scheme.

Commodity prices continue to be volatile. The copper prices remain subdued at approximately US\$6,200/tonne and cobalt prices have retreated from last year's record high of US\$95,250/tonne achieved in March 2018, to be trading around US\$33,000/tonne. After peaking above US\$15,100/tonne in May 2018, the nickel price fell steadily for the remainder of 2018 before staging a recovery at the beginning of 2019.

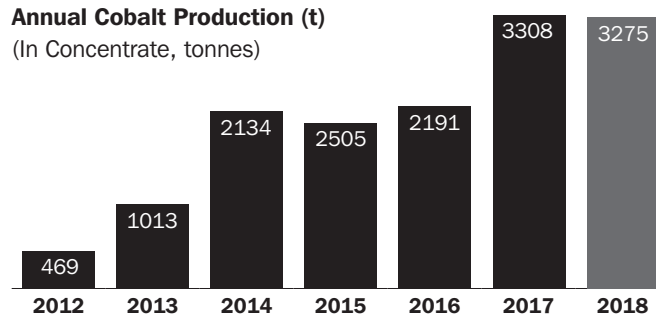
Against this uncertain backdrop, the Company's key projects have continued to develop over the year, with the Ramu nickel/cobalt mine, in particular, achieving excellent operating results.

RAMU NICKEL/COBALT PROJECT

Highland's holds an 8.56% interest in the Ramu project, which achieved record production of 35,355 tonnes of nickel in concentrate in the 12 months to 31 December 2018. Annual cobalt production was 3,275 tonnes, slightly below the record output of 3,308 tonnes achieved in 2017.

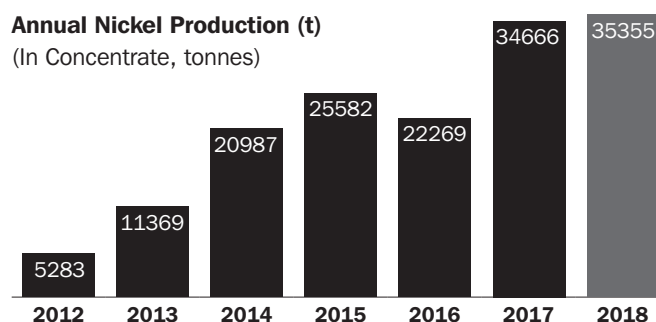
Annual Cobalt Production (t)

(In Concentrate, tonnes)



Annual Nickel Production (t)

(In Concentrate, tonnes)



The strong production results confirm Ramu as one of the largest nickel and cobalt producers in the Asia Pacific, and one of the most successful nickel laterite operations to have been built over the past few decades.

The operation realised a net cash inflow of US\$93 million for the year to December 2018 (unaudited) after capital expenditure of US\$5 million. After cash call adjustments, Highlands received a cash distribution from the project of US\$634,000 for the year, with an additional US\$3.6 million applied to reduce loan balances.

FRIEDA RIVER PROJECT

The Company's other major asset is its 20% interest in the Frieda River copper project in Papua New Guinea.

The project manager, PanAust Ltd (PanAust), a wholly-owned subsidiary of Guangdong Rising Assets Management Co Ltd (GRAM), released a further feasibility study for the project in December 2018. The 2018 feasibility study looked at the project from a broader regional development context compared with earlier studies, and it concluded that the project required extensive third party or government investment in regional infrastructure as a prerequisite.

The new study found that the project, including the Frieda River mine and process plant, together with a proposed hydro-electric facility, but excluding road, transport and regional power transmission infrastructure, has a total pre-production capital cost of US\$6 billion and generated a post-tax Internal Rate of Return of 11% in real terms, with a seven-year implementation schedule.

As now proposed by PanAust, the project relies on the construction and upgrade of roads linking the mine site to the Port of Vanimo on the northern coast of PNG, as well as upgrades of Port and airstrip infrastructure at an estimated cost of US\$739 million, to be funded by government and/or public-private partnerships. It also requires a 340km slurry pipeline to be built linking the process plant at the mine site with the Port of Vanimo, at a cost of US\$351 million.

PanAust has since lodged an amended development proposal with the PNG Mineral Resources Authority based on the new feasibility study, which is now being considered by government.

Contemporaneously with the proposed Cobalt 27 Scheme, Highlands announced on 2 January 2019 that it had agreed with Cobalt 27 to use its best endeavours to negotiate an agreement with PanAust to exit the Frieda River project. Negotiations were continuing as this report was being prepared.

STAR MOUNTAINS PROJECT

Highlands made good progress with the Star Mountains copper/gold exploration project during 2018, declaring a maiden Mineral Resource in February 2018. Using a 0.3% copper cut-off grade, the deposit is estimated to contain 210 million tonnes grading 0.4% copper and 0.4g/t gold, for 840,000 tonnes of contained copper and 2.9 Moz contained gold.

Cu cut-off grade	Mt	% Cu	g/t Au	Mt Cu	Moz Au
0.20	450	0.3	0.3	1.4	4.5
0.30	210	0.4	0.4	0.84	2.9
0.40	80	0.5	0.6	0.40	1.6

Highlands regained 100% ownership of the Star Mountains leases during the year, after Anglo American plc (Anglo American) advised that it was withdrawing from the project following a review of its global exploration portfolio. Anglo American and Highlands established the joint venture in February 2015 and in the period of its involvement, Anglo American spent a total of US\$38 million on the project including a US\$10 million payment to Highlands Pacific for its initial entry.

This comes on top of significant funding by various project participants since the initial discovery by Kennecott in the early 1970s.

Highlands continues to seek a new joint venture partner for the project, which to this point has been unsuccessful.

SEWA BAY NICKEL PROJECT

Highlands holds 100% of the Sewa Bay project in Milne Bay province, where extensive nickel laterite mineralisation has been identified through exploration work conducted with international trading house Sojitz Group and Pacific Metals over prior years. The parties held extended discussions regarding further exploration but were unable to reach agreement on the pathway forward. Highlands is now conducting a strategic review of the project.

BOARD CHANGES

During the year, the Company made a number of changes to the board to reflect movements in the share register.

Following the announcement of the initial Cobalt 27 streaming arrangement in May 2018, which also involved the issue of 142 million shares to Cobalt 27 at a price of A\$10.5 cents per share, Cobalt 27 Chairman and CEO Anthony Milewski joined the Highlands Board of Directors.

Shortly thereafter, PNG Sustainable Development Program sold its interest in Highlands and its representative on the Highlands Board, Mr John Wylie, consequently resigned.

In October, long standing director Bart Philemon stepped down from the Board and was replaced by Mr Ernie Gangloff. We thank all the previous and current directors for their significant contributions to the Company during the past year, which was a challenging period and saw a number of important and difficult decisions being made. We remain confident that these various decisions, and in particular the consideration of the proposed Scheme of Arrangement, are in the best interests of shareholders.

Finally, we offer our deep appreciation to the Company's small but dedicated team of employees who have worked so hard to generate a positive outcome for our shareholders.

BOARD OF DIRECTORS

RON DOUGLAS

Chairman Independent, Non-Executive Director

Appointed: 7 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 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 Nomination Committee and Remuneration Committee.

ANTHONY MILEWSKI

Non-Independent, Non-Executive Director

Appointed: 4 June 2018

Anthony Milewski has spent his career in various aspects of the mining industry, including as a company director, advisor, founder and investor. In particular, he has been active in the battery metals industry including investing in cobalt and nickel and actively trading physical cobalt. In 2016, one of the industry's leading publications, 'The Mining Journal,' named him as a Future Mining Leader. In 2017, Anthony accepted an invitation from the London Metals Exchange to join the LME Cobalt Committee which includes representatives from the largest mining and commodities companies globally to represent the interests of the industry to the board of directors of the LME.

Anthony has managed numerous mining investments at various stages of development, including exploration, development, production and turnaround situations, and across a broad range of commodities. He has served as a director of both public and private companies and has been seconded as interim CEO on multiple occasions. He is a member of the investment team at Pala Investments Limited. Prior to joining Pala Investments, he worked at Firebird Management LLC. Anthony previously worked at Renaissance Capital and Skadden, Arps, Slate, Meagher & Flom LLP in Moscow, where he focused on advisory and transactional work in metals & mining and oil & gas sectors.

Anthony has lived and worked in Africa and Russia, including a year as a Fulbright scholar, and has spent considerable time in Central Asia. He holds a B.A. in Russian history from Brigham Young University, an M.A. in Russian and Central Asian Studies from the University of Washington, a J.D. from the University of Washington and an LLM from the Russian Academy of Sciences.

Mr Milewski is a member of the Audit Committee, Remuneration Committee and Nomination Committee.

CRAIG LENNON

Managing Director

Appointed: 1 December 2016

Craig Lennon is the Managing Director and Chief Executive Officer of Highlands Pacific Limited. Prior to this appointment Mr Lennon served as Chief Financial Officer at Highlands for 9 years and has been with the company for over 18 years. Preceding Highlands, he worked for companies in Australia and the United Kingdom in industries including manufacturing, construction, retail, hospitality and mining. Mr Lennon is a Chartered Accountant, has a Graduate Diploma in Applied Corporate Governance with the Chartered Secretaries Australia, 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 Nomination Committee and PNG Issues Committee.

ERNIE GANGLOFF

Independent, Non-Executive Director

Appointed: 17 October 2018

Ernie Gangloff, an accountant by profession, has extensive experience in finance, risk management, corporate governance and community relations. He is a director of the Bank of South Pacific, former Finance Director of the Kramer Group, current President of the Institute of National Affairs, and former President of the Business Council of Papua New Guinea. He is currently engaged with landowner companies involved with the Lihir Gold Mine and Simberi Gold Mine and has worked previously with the Ok Tedi, Hidden Valley and Wafi-Golpu projects.

Mr Gangloff is Chairman of the Audit Committee, a member of the Remuneration Committee and PNG Issues Committee.

CORPORATE GOVERNANCE

This statement has been approved by the Board of the Company. The statement has been prepared as at 5 March 2019 with reference to the 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

The Board of Highlands Pacific is fully committed to the principle of best practice in corporate governance. The Company can ensure transparency and fair dealings with all stakeholders. Highlands takes an integrated approach to corporate governance to comply with the regulatory obligations associated with the two principal stock exchange listings in PNG and Australia.

In compiling this report the Directors have referred to the Australian Securities Exchange (ASX) Corporate Governance Council's 'Corporate Governance Principles and Recommendations' 3rd edition.

The Highlands Pacific Board has adopted the principles and recommendations and complies with them all except as identified below, at: 1.5, 2.1, 2.4, 4.1 and 7.1.

A summary of the following Highlands' Corporate Governance policies can be obtained from the Company's website – www.highlandspacific.com

- Board Charter
- Code of Conduct
- Audit Committee Charter
- Nomination Committee Charter
- Remuneration Committee Charter
- Risk Management Charter
- Dealing in the Company's Securities by Directors and Employee Disclosure
- Shareholder Communication
- Diversity and Inclusion Policy
- Environmental Policy
- Occupational Health and Safety Policy

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

RECOMMENDATION 1.1

A listed entity should disclose:

- (a) the respective roles and responsibilities of its Board and management; and
- (b) those matters expressly reserved to the Board and those delegated to management

The Board of Directors has been charged by shareholders with overseeing the affairs of the Company to ensure that they are conducted appropriately and in the interests of all shareholders. The Board defines the strategic goals and objectives of the Group, as well as broad issues of policy and establishes an appropriate framework of Corporate Governance within which Board members and management must operate. The Board has responsibility

for establishing control and accountability for monitoring senior executive performance and implementation of strategy.

The Board is responsible for:

- reviewing and determining the Company's strategic direction;
- reviewing and approving budgets and forecasts and set goals;
- appointment and remuneration of the Managing Director/Chief Executive Officer;
- reviewing the financial performance;
- approving acquisition and disposal of assets;
- reviewing risk management and compliance;
- overseeing the integrity of the Company's control and accountability systems;
- overseeing the Company's processes for making timely and balanced disclosure;
- reporting to shareholders;
- compliance with all applicable laws and regulations; and
- monitoring the effectiveness of the Company's governance practices.

The day to day running and administration of the Company is currently overseen by the Company Secretary in conjunction with the Board.

RECOMMENDATION 1.2

A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and
- (b) provide security holders with all material information in its possession relevant to a decision whether or not to elect or re-elect a Director.

The Company undertakes appropriate checks before it appoints a person or, puts forward to shareholders a new candidate for election, as a Director. These checks include references as to the person's character, experience and education. The Company does not propose to check criminal records or the bankruptcy history for potential new Board members, however, if deemed necessary or applicable in the future, this may form part of the checks.

The Company includes all material information in its possession relevant to a decision whether or not to elect or re-elect a Director in the relevant Notice of Meeting. Information relating to each Director is on the Company's website.

RECOMMENDATION 1.3

A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.

The Company has written agreements with each Director and senior executive, which sets out the terms and conditions of their appointment including their obligations, responsibilities and their duties. Directors are not appointed for a fixed term but are, excluding the Managing Director, subject to re-election by shareholders at least every three years, this is in accordance with the Constitution of the Company. It is a policy of the Company

CORPORATE GOVERNANCE - CONTINUED

that any Director over 72 years of age must stand for re-election by the shareholders at each Annual General Meeting. Subject to maintaining the continuity of Board experience, a Non-Executive Director may not serve for more than 12 years.

A Director appointed to fill a casual vacancy or as an addition to the Board, only holds office until the next general meeting of shareholders and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director) must retire at each Annual General Meeting of shareholders.

RECOMMENDATION 1.4

The Company Secretary of a listed entity should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

The Company Secretary is appointed on the basis that they, will be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

Directors have access to the Company Secretary who is appointed by the Board. The Company Secretary reports to the Chairman, in particular to matters relating to the corporate governance.

RECOMMENDATION 1.5

A listed entity should:

- (a) have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
- (b) disclose that policy or a summary of it; and
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and either:
 - (1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined 'senior executive' for the purposes); or
 - (2) if the entity is a 'relevant employer' under the Workplace Gender Equality Act, the entity's most recent 'Gender Equality Indicators', as defined in and published under the Act.

Given the small size of the Company and the status of the Company's projects, the Directors believe that it is not appropriate at this stage to set measurable objectives in relation to diversity beyond those included in the Diversity and Inclusion Policy. Notwithstanding this, the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds in such a manner that best adds to overall shareholder value and which reflects the values, principles and spirit of the Diversity and Inclusion Policy.

The Company considers that diversity refers to all the characteristics that make individuals different from each other. It includes factors such as religion, race, ethnicity, language, gender, sexual orientation, disability, age or any other area of potential difference.

31 December 2018			
Gender diversity report	Total positions	Held by women	% held by women
Board	3	-	-
Senior executive	3	1	33%
Other employees	3.5	2.5	71%
Total organisation	9.5	3.5	37%

RECOMMENDATION 1.6

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board adopted an annual, self-evaluation process to measure its own performance and the performance of its committees. The nomination committee is responsible for periodically assessing the skill set currently represented on the Board – the nomination committee charter is located on the Company's website at: <http://www.highlandspacific.com/pdf/Nomination-Committee-Charter.pdf>.

The Board Charter is located on the Company's website at: <http://www.highlandspacific.com/pdf/Board-Charter.pdf>.

The Board believes that this approach is appropriate given its size and the nature of the Company's operations.

RECOMMENDATION 1.7

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Chairman reviews the performance of the Managing Director annually which is assessed against key performance indicators (KPIs) set by the Board's Remuneration Committee and takes into account achievement and performance towards the Company's objectives and (where appropriate) performance benchmarks and the achievement of individual performance objectives.

The Managing Director reviews the performance of the senior executives annually, against agreed KPIs, taking into account achievement and performance towards the Company's objectives and individual performance objectives.

The Board recognises the need for flexibility in defining performance objectives which must reflect the current status of the Company (as an exploration company) and the respective stages of its projects.

Performance evaluation of the Managing Director and senior executives was undertaken in respect of the reporting period 31 December 2018.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

RECOMMENDATION 2.1

The Board of a listed entity should:

- (a) have a nomination committee which:
 - (1) has at least three members, a majority of whom are independent Directors; and
 - (2) is chaired by an independent Director; and disclose
 - (3) the charter of the committee;
 - (4) the members of the committee; and
 - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Company has established a nomination committee which operates under the guideline of a charter. The charter of the nomination committee is disclosed on the Company's website, at: <http://www.highlandspacific.com/pdf/Nomination-Committee-Charter.pdf>.

The committee has three members and chaired by an independent Director. Due to the size of the Company and the composition of the Board, the majority of the committee members are not independent. The Chair, Mr R Douglas, a non-executive, independent Director, Mr C Lennon, the executive Director (CEO) and Mr A Milewski, a non-executive non-independent Director. The details of the members of the committee and their attendance to the committee meetings are disclosed in the Directors' Report section of the 2018 Annual Report.

At each annual general meeting, the following Directors retire:

- i. one third of Directors (excluding the Managing Director);
- ii. Directors appointed by the Board to fill a casual vacancy or otherwise; and
- iii. Directors who have held office for more than three years since the last general meeting at which they were elected.

RECOMMENDATION 2.2

A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

The Company evaluates the mix of skills and experience annually, although, diversity is recognised by the Board, given the size of the Company and the nature of its projects, is not the focus. At the end of the reporting period, the Board comprised of four Directors from diverse backgrounds with a range of skills, attributes and experience.

The following table demonstrates the skills and experience of the Directors across a spectrum that are considered relevant to the Company. Biographical information on each Director is contained in the 2018 Annual Report and on the Company's website.

Skills and Experience	No. of Director
Geology and Exploration	
- Understanding JORC reporting requirements and what it means	2
- Understanding significance of exploration results	
- Experience with understanding geotechnical issues (e.g. – dams/mine stability)	
Mining operation	
- Understanding the stages in the life of a mine: [prospecting, exploration, development, exploitation and reclamation]	3
Financial acumen	
- Experience in the governance of listed organisations	4
- Membership of governance bodies and organisations	
- Understanding of financing transactions	
- Shareholder rights	
Governance and Legal	
- Experience in the governance of listed organisations	3
- Membership of governance bodies and organisations	
- Understanding of financing transactions	
- Shareholder rights	
Mergers and Acquisitions	
- Transactions within the resource sector (e.g. mergers, acquisitions, Joint Ventures, IPOs etc)	4
Fund raising	
- Understanding the requirements to fund raising in a public listed company	3

CORPORATE GOVERNANCE - CONTINUED

RECOMMENDATION 2.3

A listed entity should disclose:

- (a) the names of the Directors considered by the Board to be independent Directors;
- (b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 (of ASX Corporate Governance Principles and Recommendations) but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and
- (c) the length of service of each Director.

In the opinion of the Board, to qualify as being 'independent', a Director must be independent of management and free of any business or other relationship which could materially interfere or could reasonably be perceived to interfere materially with the Director's independent exercise of their judgement.

Mr C Lennon, Managing Director, was appointed on 1 December 2016. Mr C Lennon holds less than 5% of the share capital of the Company at the end of the reporting period. By virtue of his position as Managing Director, Mr Lennon is not considered by the Board to be an independent Director for the purpose of ASX Recommendation.

Mr R Douglas, Chairman, was appointed as a non-executive Director on 7 February 2017 and is considered by the Board to be an independent Director, having regard to the factors set out above. Mr R Douglas holds less than 5% of the share capital of the Company at the end of the reporting period.

Mr A Milewski, was appointed as a non-executive Director on 4 June 2018 and is not considered by the Board to be an independent Director, due to his position as Executive Chairman and CEO of Cobalt 27, a substantial shareholder of the Company who hold 20% of the share capital of the Company at the end of the reporting period.

Mr E Gangloff, was appointed as a non-executive Director on 17 October 2018 and is considered by the Board to be an independent Director having regard to the factor set out above.

RECOMMENDATION 2.4

A majority of the Board of a listed entity should be independent Directors.

Two of the four Board members are independent Directors.

The Company recognises a high performing and effective Board is essential for the proper governance of a listed entity. The Board will consider appointing independent Director(s) in the future, when the Company is of sufficient size and having regard to the scale and nature of its activities. In the meantime, the Company believes that given the size and scale of its operations, non-compliance by the Company with this recommendation will not be detrimental to the Company or its Shareholders.

RECOMMENDATION 2.5

The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO.

Mr Ron Douglas is the Chairman of the Board and is an independent Director.

RECOMMENDATION 2.6

A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

The Company provides new Directors with an induction package including copies of its relevant policies and procedures.

Each Director has the right to request Company assistance with any special professional development opportunities which they think would be of assistance in undertaking their duty as a Director.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

RECOMMENDATION 3.1

A listed entity should:

- (a) have a code of conduct for its Directors, senior executives and employees; and
- (b) disclose that code or a summary of it.

The Board has approved a Code of Conduct ('Code') which applies to all Directors, executives and employees without exception. In summary, the Code provides guidelines for the standards of behaviour required by Directors, executives and employees:

- act honestly, with integrity and high ethical standards;
- use due care and diligence in fulfilling their duties;
- not make improper use of information acquired in their position;
- exercise independent judgement and actions;
- not allow personal interests, or those of associates, conflict with the interest of the Company;
- comply at all times with both the spirit and the letter of the law, as well as, policies of the Company.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

RECOMMENDATION 4.1

The Board of a listed entity should:

- (a) have an audit committee which:
 - (1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and
 - (2) is chaired by an independent Director, who is not the chair of the Board, and disclose:
- (3) the charter of the committee;

- (4) the relevant qualifications and experience of the members of the committee; and
- (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Company has established an Audit Committee which is comprised of Mr Ernie Gangloff and Mr Anthony Milewski. One member is an independent non-executive Director.

Mr Ernie Gangloff is the Chairman of the Audit Committee and is considered independent for the purpose of ASX Recommendations. Mr Anthony Milewski is not considered independent for the purpose of ASX Recommendations, as he is the Executive Chairman and CEO of Cobalt 27, a substantial shareholder of the Company.

The Board will consider appointing an Independent Director in the future, when the Company is of sufficient size.

The Company's external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

Details relating to the relevant qualifications and experience of the members of the committee and the number of times the committee met throughout the reporting period and the individual attendances of the members at those meetings are set out on an Annual Basis in the Director's Report contained in the Company's 2018 Annual Report which is released to the market and posted on the Company's website at: <http://www.highlandspacific.com/financial-reports>.

RECOMMENDATION 4.2

The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Board has received a declaration in the form set out in Recommendation 4.2 from the Chief Executive Officer and Chief Financial Officer in relation to the financial statements for the reporting period.

RECOMMENDATION 4.3

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Company's external auditor attends the AGM and is available to answer questions from shareholders relating to the conduct of the audit.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

RECOMMENDATION 5.1

A listed entity should:

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- (b) disclose that policy or a summary of it.

The Board is committed to keeping its shareholders, and the market, fully informed of major developments having an impact on the Company.

Currently the Chairman, the CEO and the Company Secretary are charged with the responsibility to ensure compliance with ASX Listing Rule disclosure requirements. The Board has approved a Disclosure and Shareholder Communication Policy which is reproduced on the Company's website at: <http://www.highlandspacific.com/pdf/Disclosure.pdf>. The Board is responsible for scrutinising events and information to determine whether disclosure is required in order to maintain market integrity.

The Company Secretary is responsible for communications with the ASX.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

RECOMMENDATION 6.1

A listed entity should provide information about itself and its governance to investors via its website.

The Company recognises the right of shareholders to be informed of matters, in addition to those prescribed by law, which affect their investments in the Company.

Information about the Company's Shareholder Communication can be accessed at: <http://www.highlandspacific.com/pdf/Shareholder-Communication.pdf>, along with the Company's charters and other policies and procedures.

The Company's website provides a description of the Group's projects and all material announcements released to the ASX.

It is the Company's communication policy to communicate with shareholders and other stakeholders in a regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

RECOMMENDATION 6.2

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

The Company has a Disclosure policy that outline the processes followed to ensure communication with shareholders and the investment community is effective, consistent and adheres to the principles of continuous disclosure. The Disclosure policy is located on the Company's website at: <http://www.highlandspacific.com/pdf/Disclosure.pdf>

CORPORATE GOVERNANCE - CONTINUED

RECOMMENDATION 6.3

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Board encourages active participation by shareholders at each Annual General Meeting of the Company.

The Disclosure and Shareholder Communication policy the Company has in place details that all shareholders are encouraged to participate at meetings of security holders. The Company permits shareholders to cast their proxies prior to a General Meeting if they are unable to attend the meeting. At any General Meeting, shareholders are encouraged to ask questions of the Board of Directors in relation to the matters to be considered at such meeting and where appropriate relating to the operation of the Company.

RECOMMENDATION 6.4

A listed entity should give security holders the option to receive communication from, and send communications to, the entity and its security registry electronically.

The Company provides security holders the option to receive communication from and send communication to, the entity and its security registry electronically.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

RECOMMENDATION 7.1

The Board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
 - (1) has at least three members, a majority of whom are independent Directors;
 - (2) is chaired by an independent Director and disclose
 - (3) the charter of the committee;
 - (4) the members of the committee; and
 - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

The Board has not established a specific committee to oversee risk, however is provided with regular reporting in respect of operations and the financial condition of the Group aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

The Board recognises that there are inherent risks associated with mining and exploration, in particular in Papua New Guinea where there continues to be some uncertainty regarding the amendments to and implementation of the revised Mining Act.

The Audit Committee assists the Board in its risk management role by reviewing the financial and reporting aspects of the group's risk management and control practices.

RECOMMENDATION 7.2

The Board or a committee of the Board should:

- (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
- (b) disclose, in relation to each reporting period, whether such a review has taken place.

Due to the size of the Company, the implementation of the risk management and internal control system to manage the Company's material business risks rests with the CEO/Managing Director and the Company Secretary/CFO.

The Board regularly monitors the operational and financial performance of the Company. The Board also receives and reviews advice on operational and financial risk to assist with developing the necessary strategies, in conjunction with management, to mitigate those risks.

RECOMMENDATION 7.3

A listed entity should disclose:

- (a) if it has an internal audit function, how the function is structured and what role it performs; or
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

In light of the nature and extent of the Company's operation and activities, the Company has not established an internal audit function.

The Board continuously review the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks.

The Board is provided with regular reporting on the management of operations and the financial condition of the Company, aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

RECOMMENDATION 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The Company recognises its corporate responsibility to all stakeholders and the continual need for sustainable, harmonious operations. The Company promotes best practice in terms of community development, environmental protection and safety management in all its operations.

The projects that the Company holds an interest in, (either 100% or through a joint venture arrangement) are at the high-risk exploration

stage and accordingly the Company recognises the need to correctly manage the expectation of local communities with respect to risks and rewards. In this regard, the Company continually assesses the needs of the local communities where it operates and aims to respond where appropriate to their desires and expectations within available resources.

In the project the Company explores itself, it is conscious of its responsibility in relation to the environment and strives to achieve minimal impact as far as possible in its work areas. The Company seeks to ensure that any disturbance of land which may arise as a result of sampling or drilling is carried out in full cooperation with the local people and authorities and with minimal impact on the environment.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

RECOMMENDATION 8.1

The Board of a listed entity should:

- (a) have a remuneration committee which:
 - (1) has at least three members, a majority of whom are independent Directors; and
 - (2) is chaired by an independent Director, and disclose:
 - (3) the charter of the committee;
 - (4) the members of the committee; and
 - (5) as at the end of each reporting period and the individual attendances of the members at those meetings; or
- (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Company does have a Remuneration Committee which is charged with assessing the performance of senior management in conjunction with the Managing Director, (senior executives undergo annual reviews with the Managing Director to discuss their role description in the context of the strategic plan of the Company and their performance against their role). The review is reported to the remuneration committee.

The remuneration committee makes recommendation to the Board of the Managing Director's aggregate compensation and determines the remuneration for non-executive Directors subject to the Director's aggregate compensation not exceeding the maximum annual sum approved by shareholders.

The charter of the remuneration committee can be found at: <http://www.highlandspacific.com/pdf/Remuneration-Committee-Charter.pdf>.

The Remuneration Committee, comprises of three members, Mr R Douglas (chairman) is an independent, non-executive Director, Mr A Milewski is a non-executive but not considered by the Board to be an independent Director and Mr E Gangloff is an independent, non-executive Director.

The Directors' Report to Shareholders details the member's attendance and frequency of the remuneration committee meetings held during the year.

RECOMMENDATION 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.

The Director's Report to Shareholders details the structure of fees and payments made to non-executive Directors and the Managing Director and are further detailed in the 2018 Annual Report. The aggregate remuneration of non-executive Directors is approved by shareholders. Individual Director's remuneration is determined by the Board within the approved aggregate total. As at the date of this report all non-executive Directors are entitled to remuneration of A\$50,000 each per annum (plus statutory superannuation where applicable) inclusive of Committee responsibilities. The Chairman receives remuneration of A\$100,000 (plus statutory superannuation). No retirement benefits are payable to non-executive Directors.

RECOMMENDATION 8.3

A listed entity which has an equity-based remuneration scheme should:

- (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- (b) disclose that policy or a summary of it.

Whilst Highlands Pacific encourages ownership of the Company by Directors, management and employees as a means of aligning their interest with shareholders' interest, strict rules are in place regarding their ability to deal in the Company's securities.

The policy can be found on the Company's website at: <http://www.highlandspacific.com/pdf/Dealing-in-the-Company's-Securities-by-Directors-and-Employees.pdf>

2018 MINERAL RESOURCES AND ORE RESERVE STATEMENT

Highlands Pacific has equity interests in three 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.
- **Ramu Nickel/Cobalt mine**, located 75kms west of the coastal town of Madang, near the Ramu River.
- **Star Mountains Copper/Gold project**, which is located approximately 20kms north east of the Ok Tedi mine and 25kms from the support town of Tabubil, in the West Sepik Province.

FRIEDA RIVER COPPER/GOLD PROJECT

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

HITEK MINERAL RESOURCE

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

Category	31 December 2018			31 December 2017		
	Tonnes (Mt)	Copper (%)	Gold (g/t)	Tonnes (Mt)	Copper (%)	Gold (g/t)
Measured	620	0.53	0.30	620	0.53	0.30
Indicated	1,240	0.44	0.22	1,240	0.44	0.22
Inferred	780	0.35	0.18	780	0.35	0.18
Total	2,640	0.44	0.23	2,640	0.44	0.23

HITEK ORE RESERVE

Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Ore Reserve at a nominal 0.21% Cu cut-off

Category	31 December 2018			31 December 2017		
	Tonnes (Mt)	Copper (%)	Gold (g/t)	Tonnes (Mt)	Copper (%)	Gold (g/t)
Proved	604	0.51	0.30	413	0.54	0.32
Probable	761	0.42	0.21	272	0.45	0.21
Total	1,365	0.46	0.25	686	0.50	0.28

No additional resource drilling has taken place on HITEK since 2016, however there was a new feasibility study released in December 2018 (Sepik Development Project Feasibility Study). As a result of the completion of this feasibility study the HITEK Ore Reserves were updated. Details of the Ore Reserve were released on 10 December 2018 entitled '**Frieda River Copper/Gold Project Ore Reserve Update**'. 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.

NENA

Nena sulphide Mineral Resource at a 0.3% Cu cut-off

Category	31 December 2018				
	MTonnes	Cu %	Au g/t	As %	Sb ppm
Indicated	35	2.35	0.79	2,500	160
Inferred	17	1.68	0.29	1,200	80
Total	52	2.13	0.63	2,000	130

Category	31 December 2017				
	MTonnes	Cu %	Au g/t	As %	Sb ppm
Indicated	35	2.35	0.79	2,500	160
Inferred	17	1.68	0.29	1,200	80
Total	52	2.13	0.63	2,000	130

Nena Gold Cap Mineral Resource 2017 at a 0.5 g/t gold cut-off, with an upper copper limit of 0.3%

Category	31 December 2018				
	MTonnes	Cu %	Au g/t	As %	Sb ppm
Indicated	11	0.07	1.35	3,000	230
Inferred	10	0.06	1.28	2,100	170
Total	20	0.06	1.32	2,600	200

Category	31 December 2017				
	MTonnes	Cu %	Au g/t	As %	Sb ppm
Indicated	11	0.07	1.35	3,000	230
Inferred	10	0.06	1.28	2,100	170
Total	20	0.06	1.32	2,600	200

No additional resource drilling has taken place on Nena since 2013 to 2014 and no additional Resource modelling has taken place since 2017. The 2017 Resource modelling resulted in the reporting of an oxide gold cap Mineral Resource in addition to a revision to the sulphide copper gold Mineral Resource. 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.

STAR MOUNTAINS PROJECT

A Mineral Resource has been estimated for the Olgal porphyry copper/gold deposit, one of a number of porphyry copper gold prospects Highlands Pacific has located in the Star Mountains.

Olgal

31 December 2018 at a 0.3% Cu cut-off			
Category	Tonnes (Mt)	Copper (%)	Gold (g/t)
Indicated	-	-	-
Inferred	210	0.4	0.4
Total	210	0.4	0.4

31 December 2017 at a 0.3% Cu cut-off			
Category	Tonnes (Mt)	Copper (%)	Gold (g/t)
Indicated	-	-	-
Inferred	210	0.4	0.4
Total	210	0.4	0.4

Details of the mineral Resource are given in **Highlands declares maiden Resource at Star Mountains** released 20 February 2018.

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 PROJECT

Due to different reporting timelines, an updated Resource and Reserve Report was completed by the operator and manager, Ramu NiCo Management (MCC) Limited, in September 2018 for the period ended 15 June 2018. Further updates for the Ramu Nickel/Cobalt Project Mineral Resources and Ore Reserves will be released by Highlands Pacific when they are available from Ramu NiCo Management (MCC) Limited.

During 2016 and 2017 additional drilling took place at Ramu. This work resulted in the Mineral Resources and Ore Reserves for Ramu being updated. Details of the Mineral Resource and Ore Reserve were released on 10 September 2018 entitled '**Ramu Mineral Resource and Ore Reserve Update**'.

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

15 June 2018			
Category	MTonnes	Ni %	Co %
Measured	34	0.9	0.1
Indicated	42	0.9	0.1
Subtotal	76	0.9	0.1
Inferred	60	1.0	0.1
Total	136	0.9	0.1

RAMU RESERVE

The following table shows the 2016 Ramu Ore Reserve estimator.

Kurumbukari 31 December 2016			
Category	MTonnes	Ni %	Co %
Measured	37	0.9	0.1
Indicated	5	1.3	0.1
Inferred	2	1.2	0.1
Total	44	0.96	0.1

Ramu West

Category	MTonnes	Ni %	Co %
Indicated	17	0.9	0.1
Inferred	3	1.5	0.1
Total	20	1.0	0.1

Greater Ramu

Category	MTonnes	Ni %	Co %
Inferred	60	1.0	0.1

Global Total

	MTonnes	Ni %	Co %
Total	124	1.0	0.1

As the 2017 drilling extended the original Kurumbukari block to the north into the original Greater Ramu block and to the west into an area with no previous drilling, the June 2018 Mineral Resource estimate update was only reported for the entire Ramu area with no separation for the three original resource blocks.

2018 Ramu Ore Reserve estimate.

15 June 2018			
Category	MTonnes	Ni %	Co %
Proved	24	0.9	0.1
Probable	33	0.9	0.1
Total	56	0.9	0.1

Kurumbukari 31 December 2016				
Category	MTonnes	Ni %	Co %	Rocks+2mm MTonnes
Proved	29	0.9	0.1	-
Probable	6	1.3	0.1	9
Total	35	1.0	0.1	9

2018 MINERAL RESOURCES AND ORE RESERVE STATEMENT - CONTINUED

Ramu West

Category	MTonnes	Ni %	Co %	Rocks + 2mm MTonnes
Proved	-	-	-	-
Probable	14	0.9	0.1	-
Total	14	0.9	0.1	-

Grand Total

	MTonnes	Ni %	Co %	Rocks + 2mm MTonnes
Total	49	1.0	0.1	9

As the 2017 drilling extended the original Kurumbukari block to the north into the original Greater Ramu block and to the west into an area with no previous drilling, the June 2018 Ore Reserve update was only reported for the entire Ramu area with no separation for the three original resource blocks.

As far as Highlands Pacific is aware, any change to the end of 2018 in the reported Ore Reserves for the Ramu project 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 2018 PRODUCTION

In 2018 Ramu Nickel Management Limited reported production of **3.7** MT of laterite grading **1.10%** nickel and **0.10%** cobalt from the Kurumbukari Mine to the Basamuk refinery.

NOTES

Frieda River Copper Gold Project

The summary of the HITEK Mineral Resources as at 31 December 2018 should be read in conjunction with the comprehensive report Mineral Resources and Ore Reserves statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 24 March 2017.

The summary of the HITEK Ore Reserves as at 31 December 2018 should be read in conjunction with the comprehensive report Mineral Resources and Ore Reserves statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 10 December 2018.

The summary of the Nena Mineral Resources as at 31 December 2018 should be read in conjunction with the comprehensive report Nena Mineral Resources statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 27 November 2017.

Star Mountains Copper Gold Project

The summary of the Olgal Mineral Resources as at 31 December 2018 should be read in conjunction with the report Highlands declares maiden Resource at Star Mountains that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 20 February 2018.

Ramu Nickel/Cobalt Project

The summary of the Ramu Mineral Resources and the Ore Reserves as at 15 June 2018 should be read in conjunction with the comprehensive report Ramu Mineral Resource and Ore Reserve Update that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 10 September 2018.

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\$1,390/oz gold. The Ramu Ore Reserve was estimated using prices of US\$12,000/t nickel and US\$48,501/t cobalt.

CORPORATE GOVERNANCE ORE RESERVES AND MINERAL 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 Resources and Reserves 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 Resource and Ore Reserve 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 Ore Reserves and Mineral Resources in accordance with the 2012 JORC Code.

Competent Persons Statement

The database information used for the HITEK and Nena Mineral Resource estimates were compiled and verified as suitable for this estimate by Mr Shaun Versace. Details contained in this Annual Report that pertain to the HITEK and Nena Mineral Resource Estimates are based upon, and fairly represent, information and supporting documentation compiled by Mr 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 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 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 HITEK Ore Reserve Estimate are based upon, and fairly represent, information and supporting documentation compiled by Mr Scott 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 mineralization 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.

Details contained in this Annual Report that pertain to exploration results are based upon, and fairly represent, information and supporting documentation compiled by Mr Queen. 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.

The information in this report that relates to Ramu Mineral Resources is based on information compiled by Mr Zhang Xueshu, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Zhang Xueshu is a full-time employee and Chief Geologist of Sinomine Resources Exploration Co 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 Zhang Xueshu consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Ramu Ore Reserves is based on information compiled by Mr Gao Xiang, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Gao Xiang is a part-time employee of Sinomine Resources Exploration Co 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 Gao Xiang consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The database information used for the Olgal resource estimate was compiled and verified as suitable for this estimate by Mr Lawrence Queen. Details contained in this Report that pertain to the Olgal Resource Estimates are based upon, and fairly represent,

information and supporting documentation compiled by Mr Arnold van der Heyden. Mr van der Heyden is a full-time employee of H&S Consultants Pty Ltd and a Member of the Australasian Institute of Mining and Metallurgy. Mr Queen is a contractor for Highlands Pacific and a Member of the Australasian Institute of Mining and Metallurgy. Both Mr Queen and Mr van der Heyden have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are 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 and Mr van der Heyden consent to the inclusion in the report of the matters based on their 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 Queen. 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.

DIRECTORS' REPORT TO SHAREHOLDERS

The 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 2018 (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:

Ron Douglas	Chairman
Craig Lennon	Managing Director
Anthony Milewski	appointed 4 June 2018
Ernie Gangloff	appointed 17 October 2018
Bart Philemon	retired 17 October 2018
John Wylie	retired 18 July 2018

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 2018 and the number of meetings attended by each Director were:

	Scheduled Directors' Meetings		Non-scheduled Directors' 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
R. Douglas	6	6	7	7	2	2	3	3	1	1
C. Lennon	6	6	7	7	-	-	-	-	1	1
B. Philemon	5	5	5	5	7	6	-	-	-	-
J. Wylie	3	3	4	4	4	4	2	2	1	1
A. Milewski	3	3	1	1	4	4	1	1	1	1
E. Gangloff	1	1	2	2	1	1	1	1	-	-

DIRECTORS' SHAREHOLDINGS AND INTERESTS

Details of Directors' related direct and indirect shareholdings and interests in the equity of the Company, as at 31 December 2018, are as follows:

Director and position	Interest held by director in shares in Highlands	Interest held by director in performance rights in Highlands
C Lennon, Managing Director	6,750,000	-
R Douglas, Chairman, Non-Executive Director	750,000	-

COMPANY SECRETARY

The Group has two Company Secretary roles:

- Ms Sylvie Moser, the operational Company Secretary looking after day to day requirements including Company announcements and meetings of the Board. Ms Moser is also the Chief Financial Officer.
- 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 mineral activities and the 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 profit after tax of US\$22.3m is reported by the Group for the year. The profit includes the following items:

- an operating profit of US\$9.8m for the Group's interest in the Ramu Nickel mine;
- reversal of impairment of the carrying value of the groups investment in the Ramu Nickel mine by US\$31.4m;
- impairment of non-current assets of US\$9.6m;
- interest charge of US\$6m on non-recourse borrowings relating to the Groups interest in the Ramu Nickel mine;
- general and administrative expenditure of US\$2.4m;
- provision of exploration costs US\$0.1m; and
- net foreign exchange loss US\$0.8m.

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 2018.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Group's net assets increased by US\$33.4m from US\$31.5m to US\$64.9m. This movement can be summarised as follows:

- increase in cash of US\$8.0m;
- increase in receivables of US\$2.4m;
- decrease in trade and other payables of US\$2.2m;
- increase in the investment, net of impairment, in Ramu of US\$33.7m; offset by
- decrease in exploration and evaluation of US\$8.7m;
- increase in borrowings of US\$2.7m.

Contributed equity increased to US\$315.0m following the issue of shares to Cobalt 27 Capital Corp. 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.

DIRECTORS' REPORT TO SHAREHOLDERS - CONTINUED

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 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. 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-Executives Directors do not receive performance related remuneration and are not entitled to participate in the Group's Performance Rights Plan.

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. The STI Plan is a short-term incentive program, based on both Group and individual employee performance-related measures. The LTI Plan complements the STI Plan with measures that further drive long term performance with Highlands. There was no LTI grant in 2018.

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 for individuals to achieve and exceed targets and objectives.

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 2018 STI grant paid to eligible employees?	The 2018 STI grant payment remains outstanding as at 31 December 2018.
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

There was no LTI grants in 2017 and 2018.

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

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 is included in this Annual Report and can be found at <http://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 2018 year. The Board on the recommendation of the Remuneration Committee approved an increase to Mr Lennon's fixed annual remuneration to AU\$472,500 for the 2019 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.

DIRECTORS' REPORT TO SHAREHOLDERS - CONTINUED

CORPORATE GOVERNANCE

In recognising the need for the highest standard of corporate behaviour and accountability appropriate to an organisation such as Highlands Pacific Limited, the Directors support and have adhered to principles of sound corporate governance. The Company's Corporate Governance Statement, prepared in accordance with the 3rd Edition of the Corporate Governance Principles and Recommendation of the ASX Corporate Governance Council, is contained in this Annual Report and can be found on the Highlands Pacific Limited website at <http://www.highlandspacific.com/corporate>.

Signed this 8 March 2019 in accordance with a resolution of the Directors.

FOR AND ON BEHALF OF THE BOARD



RON DOUGLAS

Chairman



CRAIG LENNON

Managing Director

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STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		Consolidated		Holding Company	
		2018	2017	2018	2017
	Notes	US\$000	US\$000	US\$000	US\$000
Finance Income		65	109	-	-
Total Income	2	65	109	-	-
General and administrative costs		2,404	3,106	-	-
Depreciation and amortisation		39	61	-	-
Net foreign exchange (gain) losses		833	(220)	-	-
Total Operating Costs	3	3,276	2,947	-	-
Net operating costs		(3,211)	(2,838)	-	-
Interest expense	10	(5,954)	(6,433)	-	-
Reversal of provision of exploration costs	9	(127)	358	-	-
Provision for diminution of investment	11	-	-	(9,545)	-
Reversal of impairment of subsidiary advances	12	-	-	11,458	258
Reversal of impairment of investments	10	31,369	42,877	-	-
Impairment of exploration and evaluation expenditure	9	(9,600)	-	-	-
Share of operating profit of equity accounted investments	10	9,789	3,473	-	-
Profit from Operation Before Income Tax		22,266	37,437	1,913	258
Income tax expense	4	-	-	-	-
Profit for the Year		22,266	37,437	1,913	258
Other Comprehensive Income for the Year		-	-	-	-
Total Comprehensive Income for the Year		22,266	37,437	1,913	258
Basic earnings per share	5	US\$0.0215	US\$0.040		
Diluted earnings per share	5	US\$0.0212	US\$0.039		

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018


		Contributed Equity	Reserves	Accumulated Losses	Total
	Notes	US\$000	US\$000	US\$000	US\$000
CONSOLIDATED					
Year Ended 31 December 2018					
Balance as at 1 January 2018		303,906	(3,988)	(268,371)	31,547
Profit for the year		-	-	22,266	22,266
Transactions with owners in their capacity as owners					
Issue of share capital	16	11,075	-	-	11,075
Balance as at 31 December 2018		314,981	(3,988)	(246,105)	64,888
Year Ended 31 December 2017					
Balance as at 1 January 2017		303,911	(4,382)	(305,808)	(6,279)
Profit for the year		-	-	37,437	37,437
Transactions with owners in their capacity as owners					
Share based payments	25	-	394	-	394
Issue of share capital	16	(5)	-	-	(5)
Balance as at 31 December 2017		303,906	(3,988)	(268,371)	31,547
HOLDING COMPANY					
Year Ended 31 December 2018					
Balance as at 1 January 2018		303,906	(506)	(272,077)	31,323
Profit for the year		-	-	1,913	1,913
Transactions with owners in their capacity as owners					
Issue of share capital	16	11,075	-	-	11,075
Balance as at 31 December 2018		314,981	(506)	(270,164)	44,311
Year Ended 31 December 2017					
Balance as at 1 January 2017		303,911	(900)	(272,335)	30,676
Profit for the year		-	-	258	258
Transactions with owners in their capacity as owners					
Share based payments	25	-	394	-	394
Issue of share capital	16	(5)	-	-	(5)
Balance as at 31 December 2017		303,906	(506)	(272,077)	31,323

STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Consolidated		Holding Company	
		2018	2017	2018	2017
		US\$000	US\$000	US\$000	US\$000
CURRENT ASSETS					
Cash and cash equivalents	6	14,857	6,816	-	-
Receivables	7	4,025	1,598	-	-
		18,882	8,414	-	-
NON-CURRENT ASSETS					
Property, plant and equipment	8	90	124	-	-
Exploration and evaluation expenditure	9	29,237	37,948	-	-
Investment in Ramu Nickel mine	10	142,097	110,000	-	-
Investment in subsidiaries	11	-	-	-	9,545
Advances to subsidiaries	12	-	-	44,314	21,781
		171,424	148,072	44,314	31,326
TOTAL ASSETS		190,306	156,486	44,314	31,326
CURRENT LIABILITIES					
Trade and other payables	13	684	2,871	-	-
Borrowings	14	9,413	9,270	-	-
Provisions	15	167	177	-	-
		10,264	12,318	-	-
NON-CURRENT LIABILITIES					
Advances from subsidiaries	12	-	-	3	3
Borrowings	14	115,137	112,611	-	-
Provisions	15	17	9	-	-
		115,154	112,620	3	3
TOTAL LIABILITIES		125,418	124,938	3	3
NET ASSETS/(LIABILITIES)		64,888	31,548	44,311	31,323
SHAREHOLDERS' EQUITY					
Contributed equity	16	314,981	303,906	314,981	303,906
Reserves	17	(3,988)	(3,988)	(506)	(506)
Accumulated losses		(246,105)	(268,370)	(270,164)	(272,077)
TOTAL SHAREHOLDERS' EQUITY		64,888	31,548	44,311	31,323

For, and on behalf of, the Board


Ron Douglas
 Chairman
 8 March 2019


Craig Lennon
 Managing Director

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		Consolidated		Holding Company	
		2018	2017	2018	2017
	Notes	US\$000	US\$000	US\$000	US\$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest from investments		75	110	-	-
Income tax paid		-	(1)	-	-
Payments to suppliers and employees		(2,415)	(2,714)	-	-
Net Cash Used in Operating Activities	22	(2,340)	(2,605)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Advance to subsidiaries		-	-	(11,075)	5
Receipt from recovery of exploration costs		-	446	-	-
Contribution from joint venture partners		18	8,867	-	-
Payment to joint venture partner		(573)	-	-	-
Receipts from joint ventures		1,772	-	-	-
Purchase of property, plant and equipment	8	(5)	(2)	-	-
Exploration, evaluation and development		(1,073)	(10,631)	-	-
Net Cash from/(Used in) Investing Activities		139	(1,320)	(11,075)	5
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares	16	11,265	-	11,265	-
Costs associated with issue	16	(190)	(5)	(190)	(5)
Net Cash Used in Financing Activities		11,075	(5)	11,075	(5)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
CASH EQUIVALENTS		8,874	(3,930)	-	-
Add cash brought forward		6,816	10,526	-	-
Effect of exchange rate changes on cash and cash equivalents		(833)	220	-	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD		14,857	6,816	-	-
CASH COMPRISES					
Cash and cash equivalents	6	14,857	6,816	-	-

These Statements of Cash Flows are to be read in conjunction with the accompanying notes.

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 8 March 2019. 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 IFRS requires the 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\$2.3 million for the year ended 31 December 2018 (2017: US\$2.6 million) and a net asset position of US\$64.9 million (2017: US\$31.5 million). Cash held at bank as at 31 December 2018 was US\$14.9 million (2017: US\$6.8 million).

The Group holds interests in numerous mining projects at various stages ranging from exploration to production.

The Group's borrowings of US\$125 million include US\$118 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\$7 million relate to the Carried Funding Loan.

Standards, amendments and interpretations effective in the year ended 31 December 2018

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2018.

- IFRS 9, 'Financial Instruments' replaced the guidance in IAS 39 with a standard that is less complex, and principles based.
- Amendments to IFRS 15 'Revenue from contracts with customers' replaces IAS 11 and IAS 18. This amendment is based on the principle that revenue is recognised when control of a good or service transfers to a customer.
- Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions.
- Annual improvements 2014 – 2016 – IFRS 1. This amendment makes minor changes to first time adoption of IFRS and IAS 28 regarding measuring an associate or joint venture at fair value.

(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 2018 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 joint ventures. The Group does not have joint control in relation to the Ramu mine and Frieda River project, 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 ('US\$'), 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 foreign currency translation reserve within Equity.

(e) Revenue recognition

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

(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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

(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 asset's 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 asset 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) Borrowings

Borrowings are initially recognised at fair value, net of transaction cost incurred. Borrowings subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

(p) 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.

(q) 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 Performance Rights Plan. Information relating to these are set out in note 25.

The fair value of the 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 rights.

The fair value at grant date is independently determined using a Black-Scholes pricing model or Monte Carlo simulations that takes into account the exercise price, the term of the right, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the 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 right.

The fair value of the 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 rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(r) 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.

(s) 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.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account 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.

(t) 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 there are indications that 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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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 13.38%, proved and probable reserves, long term nickel prices of US\$8.16/lb and cobalt prices of US\$24.26/lb, and operating costs consistent with operator plans and historical data.

(u) New accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2018 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

- 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. IFRS 16 now requires 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. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The timing of expense recognition will also be brought forward although the impact on reported profit is not expected to be significant.
- IFRIC 23, 'Uncertainty over income tax treatments' (effective 1 January 2019) clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes' are applied where there is uncertainty over income tax positions. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
- Annual improvements 2015 – 2017 makes minor changes to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective 1 January 2019).

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.

(v) Rounding

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

2. REVENUE

	Consolidated		Holding Company	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
Finance Income				
Interest income	65	109	-	-

3. EXPENSES

	Notes	Consolidated		Holding Company	
		2018	2017	2018	2017
		US\$000	US\$000	US\$000	US\$000
Total operating costs		3,276	2,947	-	-
Operating costs are stated after charging / (crediting):					
General and administrative costs					
- salaries and employee benefits		1,059	1,282	-	-
- office costs		607	678	-	-
- consultants costs		163	238	-	-
- non-executive Director fees and benefits		170	206	-	-
- corporate affairs and public relations costs		173	368	-	-
- company secretarial and public listing costs		89	176	-	-
- travel and accommodation costs		45	24	-	-
- audit		76	102	-	-
- other services		22	32	-	-
		2,404	3,106	-	-
Depreciation					
- land and buildings	8	19	17	-	-
- plant and equipment	8	20	44	-	-
		39	61	-	-
Net foreign exchange (gains)/losses		833	(220)	-	-

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

4. INCOME TAX

	Consolidated		Holding Company	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
Reconciliation of income tax expense to prima facie tax expense				
Profit before income tax expense for the year	22,266	37,437	12,993	258
Income tax on the profit for the year at an average of 30% (2017: 30%)	6,680	11,231	3,898	77
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Impairment of subsidiary advances	-	-	(3,898)	(77)
Non-deductible interest	1,786	1,930	-	-
Utilisation of prior year losses not previously brought to account	(79)	(5)	-	-
Unrealised foreign exchange gains/losses	259	(73)	-	-
Sundry non-deductible items	140	141	-	-
	8,786	13,224	-	-
Deferred tax asset not brought to account	(8,786)	(13,224)	-	-
Income tax expense	-	-	-	-
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	1,180	1,735	-	-
Potential tax benefit @ 30% - not recognised	354	521	-	-
Other deferred tax assets not recognised				
<i>Amounts recognised in profit and loss</i>				
Exploration costs and impairment	61,625	80,596	-	-
Unrealised foreign exchange gains	-	18	-	-
Provision for employee entitlements	388	40	-	-
	62,013	80,654	-	-
Set off against deferred tax liabilities (below)	(2,378)	(42)	-	-
Net deferred tax assets not recognised	59,635	80,612	-	-
Potential tax benefit @ 30% - not recognised	17,890	24,184	-	-
Total deferred tax benefit not recognised	18,245	24,705	-	-
Deferred tax liabilities				
<i>Amounts recognised in profit and loss</i>				
Provision for unearned income	-	(16)	-	-
Unrealised foreign exchange gains (losses)	(29)	(1)	-	-
Sundry items	(2,349)	(25)	-	-
Exploration costs	-	-	-	-
	(2,378)	(42)	-	-
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	2,378	42	-	-
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.

	2018	2017
Basic earnings per share		
Weighted average number of ordinary shares on issue ('000)	1,036,032	935,604
(Loss) / Profit attributable to ordinary equity holders of the company used to calculate basic earnings per share (US\$000's)	22,266	37,437
Basic earnings per share (US\$)	0.0215	0.040
Diluted earnings per share		
Weighted average number of ordinary shares on issue ('000)	1,036,032	935,604
Adjustments for calculation of diluted earnings per share		
- Options / Performance rights	14,287	17,325
Weighted average number of ordinary shares for diluted earnings per share on issue ('000)	1,050,319	952,929
(Loss) / Profit attributable to ordinary equity holders of the company used to calculate diluted earnings per share (US\$000's)	22,266	37,437
Diluted earnings per share (US\$)	0.0212	0.0393

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 rights have not been included in the determination of basic earnings per share. There were no rights issued to employees in 2018. Details relating to rights are set out in note 16.

6. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
Cash at bank and in hand	14,424	1,570	-	-
Short-term bank deposits	433	5,246	-	-
	14,857	6,816	-	-

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\$45,127 (AU\$63,937) for the leasing of property at 167 Eagle Street, Brisbane, Australia; (2017: US\$49,871 (AU\$63,937)).

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

7. RECEIVABLES

	Consolidated		Holding Company	
	2018	2017	2018	2017
Current	US\$000	US\$000	US\$000	US\$000
Sundry receivables	55	64	-	-
Receivable from joint ventures*	3,970	1,534	-	-
	4,025	1,598	-	-

*In 2018, this represents an amount owing by MCC Ramu NiCo Limited relating to Highlands' share of the MHP sales at the Ramu Nickel mine. In 2017, this represents an amount owing by MCC Ramu NiCo Limited relating to Highlands' share of the MHP sales at the Ramu Nickel mine and an amount owing by Sojitz Group ('Sojitz') for cash call relating to Highlands' management of the Sewa Bay project.

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Plant and Equipment	Total
	US\$000	US\$000	US\$000
CONSOLIDATED - 2018			
Cost			
Cost brought forward	242	571	813
Additions	5	-	5
Cost carried forward	247	571	818
Depreciation			
Brought forward	164	526	689
Charge for the year	20	19	39
Depreciation carried forward	184	545	728
Net Book Value at 31 December 2018	64	25	90
CONSOLIDATED - 2017			
Cost			
Cost brought forward	240	571	811
Additions	2	-	2
Cost carried forward	242	571	813
Depreciation			
Brought forward	147	482	628
Charge for the year	17	44	61
Depreciation carried forward	164	526	689
Net book value at 31 December 2017	79	45	124

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

9. EXPLORATION AND EVALUATION EXPENDITURE

	Frieda	Other	Total
	US\$000	US\$000	US\$000
Balance as at 1 January 2018	28,348	9,600	37,948
Capitalised during the year:			
- Direct holding cost	622	127	749
- Interest on Frieda carried funding loan	267	-	267
Impairment of non-current assets	-	(9,600)	(9,600)
Provision of exploration costs	-	(127)	(127)
Balance as at 31 December 2018	29,237	-	29,237
Balance as at 1 January 2017	27,500	9,600	37,100
Capitalised during the year:			
- Direct holding cost	647	88	735
- Interest on Frieda carried funding loan	201	-	201
Management fee (reduction of previous exploration expenditure provision)	-	(446)	(446)
Provision of exploration costs	-	358	358
Balance as at 31 December 2017	28,348	9,600	37,948

FRIEDA

The carrying value of the Group's interest in the Frieda River project is US\$29.2 million at 31 December 2018. The US\$0.9 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), (a wholly owned subsidiary of PanAust Limited (PanAust), which is in turn a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd) ('GRAM'). Refer note 14.

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 and Glencore plc previously announced to the market in 2014, together with the additional activities and expenditure undertaken by FRL.

FRL, on behalf of the Frieda River Joint Venture, submitted an amended Proposal for Development on 13 December 2018 in relation to the Frieda River Project's Special Mining Lease (SML) application originally lodged in May 2016. The Proposal for Development was accompanied by a feasibility study, completed in December 2018 that adopted a fundamentally different approach to the project, considering the Frieda River project within a broader regional development context and requiring extensive third party or government investment in regional infrastructure as a prerequisite.

The parties are in dispute regarding Highlands' funding obligations under the joint venture agreement. Reference is made to the Group's ASX Announcement dated 10 April 2018.

The arbitration between Highlands and PanAust has been suspended while the Scheme of Arrangement, announced by Highlands and Cobalt 27 Capital Corp ('Cobalt 27') on 2 January 2019, is being processed. If the Scheme of Arrangement is unsuccessful and unless Highlands and PanAust can negotiate a settlement of the arbitration, then the arbitration will continue.

On 2 January 2019, Highlands announced that it had entered into a Scheme Implementation Agreement ('SIA') with Cobalt 27 to acquire all of the shares in Highlands which it does not already own. Separately from this arrangement, Cobalt 27 have entered into an arrangement with PanAust and its subsidiaries, under which, if the arrangement is implemented, Cobalt 27 will cause Highlands Frieda Limited (then, a wholly owned subsidiary of Cobalt 27) to transfer 20% participating interest in the Frieda River project to PanAust for US\$9.55 million (the carrying value of the 20% participating interest as at 30 June 2018, of US\$28.8 million; less the outstanding principal and interest on loans made by PanAust's subsidiaries to Highlands as at 31 December 2018 being US\$6.89 million; less all amounts which PanAust claim as payable by Highlands (which are currently the subject of dispute and arbitration) in respect of calls under the Frieda River Joint Venture Agreement of US\$12.45 million.

The Group's expenditure to date on the Frieda River project is US\$48.3 million.

OTHER

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

Anglo American withdrew from the Star Mountains Joint Venture in early 2018 (reference is made to the Group's ASX Announcement dated 8 February 2018), and the Group regained 100% of the Star Mountain tenements. The project was placed on care and maintenance

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

and the search for potential joint venture partners was undertaken. At 31 December 2018, no joint venture partner has been secured. The Board has taken the decision to impair the Star Mountains project in its entirety. Refer note 19.

The Groups' expenditure to 31 December 2018 on the Star Mountains project is US\$17.1 million.

10. INVESTMENT IN RAMU NICKEL MINE

	31 Dec 2018	31 Dec 2017
	US\$000	US\$000
(i) Summarised financial information for Ramu Nickel Mine		
Current Assets	192,969	92,764
Non-current Assets	1,566,266	1,666,726
Current Liabilities	68,643	73,796
Non-current Liabilities	30,581	34,187
Net Assets	1,660,011	1,651,507
Group's share of net assets	142,097	141,369
Provisions for impairment	-	(31,369)
Investment at recoverable amount	143,700	110,000
Reconciliation to carrying amounts:		
Opening net assets	110,000	82,000
Share of associated entity's production costs	(15,992)	(19,857)
Share of associated entity's other comprehensive loss	(8,877)	(10,127)
Share of additional contribution	25,596	15,107
Reversal of provision for impairment	31,369	42,877
Closing net asset	142,097	110,000
(ii) Interest in Ramu Nickel Mine		
Revenue	38,667	35,586
Other indirect costs	(2,990)	(2,001)
Share of associated entity's production costs	(15,992)	(19,857)
Share of associated entity's other comprehensive loss	(8,877)	(10,127)
Direct holding costs	(478)	(128)
Share of royalty (payment)	(541)	-
Share of associated entity's total comprehensive income	9,789	3,473
(iii) Sale of MHP Product		
Share of associated entity's MHP Products (Wet Metric Tonnes)	14,898	21,094
Revenue from sales of MHP products	38,667	35,585
Other revenue	-	1
(iv) Loan to MCC Ramu NiCo Limited		
Opening balance	115,260	128,962
(Repayment of) further funding for cash calls	-	(8,231)
Sales commission payable to MCC Ramu NiCo Limited	-	772
Interest accrued	5,954	6,433
Loan repayment	(3,553)	(12,676)
Additional drawdown	-	-
Closing balance	117,662	115,260

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 were to 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 ended on 31 December 2018.

Highlands announced in May 2018 that it had entered into a streaming transaction with Cobalt 27, under which Cobalt 27 would pay Highlands an upfront deposit of US\$113 million which would be used to repay loan balances owing to MCC Ramu NiCo Ltd. A key condition precedent to the Streaming Arrangement was formal approval from the Company's joint venture partner and lender in the Ramu Nickel/Cobalt Project, Metallurgical Corporation of China ('MCC') for Highlands to repay its Ramu project loans to MCC. Highlands had been seeking the formal approval from MCC since May 2018 and the parties had negotiated a contractual framework (known as the Project Way Forward Agreement ('PWFA')) to facilitate the repayment of the Ramu project loans, the subsequent step up in joint venture interest and a Sales Agency Agreement to formalize MCC's role as sales agent for Highlands. After a long delay, on 21 December 2018, Highlands received from MCC the executed PWFA and Sales Agency Agreement. The delay in receipt of the approval from MCC meant it was not possible for all closing conditions of the Streaming Agreement to be satisfied by the long stop date of 31 December 2018, hence, the Streaming Agreement was terminated and did not proceed to financial close.

The carrying value of the Group's interest in the Ramu Nickel mine has been increased to US\$142.1 million, which is the Group's equity accounted share of the net assets of the Ramu Nickel mine. The previous impairment held against the investment has been fully reversed in the current period. This is primarily driven by fluctuation in commodity prices and the containment of operating costs. In assessing the carrying value of its interest in the Ramu Nickel mine for impairment testing purposes, the Directors have adopted a value in use ('VIU') methodology as to the present value of the expected future cash flows before financing from 2019 through to June 2033. The calculations use cash flow projections based on financial budgets covering the period from 2019 to June 2033.

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	2018	2017
Nickel Price	US\$5.29 – US\$8.16	US\$5.26 – US\$7.89
Cobalt Price (US/Lb)	US\$24.23 – US\$27.36	US\$21.35 – US\$29.55
LOM years	14.5 years	14 years
Production Rate	100%	100%
After tax discount rate (Real)	13.38%	12.48%

(Nb. Prices above are nominal.)

Sensitivities

Management performed a sensitivity analysis on the 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\$15 million, while a negative 10% movement results in a reduction of US\$17.5 million.

Holding all other assumption constant, a change in WACC to 13% would result in an increase in the present value of future cashflows of US\$3.0 million and change in WACC to 14% would result in a decrease of US\$4.9 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 2017 year.

	Holding Company	
	2018	2017
	US\$000	US\$000
INVESTMENTS AT COST		
Investments in subsidiaries - at cost	130,186	130,186
Less: provision for diminution	(130,186)	(120,641)
	-	9,545

12. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
Advances to subsidiaries				
Advances	-	-	187,535	176,460
Less provision for write-off	-	-	(143,221)	(154,679)
	-	-	44,314	21,781
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	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
Current				
Trade creditors	17	47	-	-
Payable to joint ventures*	-	2,255	-	-
Accruals and other creditors**	667	569	-	-
	684	2,871	-	-

*In 2017 payable to joint ventures represented US\$1.8 million prepayments received from customers relating to Highlands' share of MHP sales of the Ramu Nickel mine and US\$463,590 owed to Anglo American plc ('Anglo American') for cash call relating to the Star Mountain project.

**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\$47,922 (2017: US\$41,603).

14. BORROWINGS

	Consolidated	
	2018	2017
	US\$000	US\$000
Current		
Loan from MCC Ramu NiCo Limited**	9,413	9,270
Closing Balance	9,413	9,270
Non-Current		
Loan from FRL*	6,888	6,621
Loan from MCC Ramu NiCo Limited**	108,249	105,990
Closing Balance	115,137	112,611

*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 2018. 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 IFRS 9 Financial Instruments and measured at amortised cost. Interest on the loan of US\$266,622 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.

**The amount classified as current represents that portion of the loan expected to become repayable within 12 months of year end.

15. PROVISIONS

	Consolidated	
	Employee Entitlements	Employee Entitlements
	2018	2017
	US\$000	US\$000
Opening balance – long service leave	186	146
Charged for the year	(2)	40
Closing Balance - long service leave	184	186
Analysis of total provisions:		
Current	167	177
Non-Current	17	9
Total	184	186

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

	2018	2017	2018	2017
	US\$000	US\$000	Shares 000's	Shares 000's
Balance as at 1 January	303,906	303,911	935,916	927,778
Issued during the year	11,265	-	156,818	8,138
Less costs associated with issue	(190)	(5)	-	-
Balance as at 31 December	314,981	303,906	1,092,734	935,916

The total number of shares issued as at 31 December 2018 was 1,092,733,836 (2017: 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.

b) Movement in paid up capital

Date	Details	Notes	No. of Shares	Issue Price AU\$	US\$000
1 January 2018	Opening Balance		935,915,836		303,906
22 January 2018	Exercising of zero priced employee performance rights	(i)	14,287,500	0.00	-
	Transaction cost arising on share issue above				(5)
4 June 2018	Share issue		142,530,500	0.105	11,265
	Transaction cost arising on share issue above				(185)
31 December 2018	Closing Balance		1,092,733,836		314,981

(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 2018 is nil (2017: 17,150,000).

The rights granted during the 2015-year vest subject to completion of performance hurdles and expired on 31 December 2017. On 22 January 2018, 14,287,500 performance rights from Tranche 1 and 2 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 exercised or lapsing during the financial year is further set out in note 20.

17. RESERVES

	Consolidated		Holding Company	
	2018	2017	2018	2017
	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	5,762	5,368	5,762	5,368
Fair value of options and performance rights expensed	-	394	-	394
Balance carried forward	5,762	5,762	5,762	5,762
Total Reserves	(3,988)	(3,988)	(506)	(506)

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 2018 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.

18. REMUNERATION OF EMPLOYEES

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

		Group No. of Employees	
US\$	PGK	2018	2017
69,851 - 72,888	230,000 - 239,999	1	1
85,036 - 88,073	280,000 - 289,999	-	1
94,147 - 97,184	310,000 - 319,999	2	1
224,738 - 227,775	740,000 - 749,999	1	1
236,886 - 239,923	780,000 - 789,999	-	1
300,663 - 303,700	990,000 - 999,999	-	1
331,033 - 334,070	1,090,000 - 1,099,999	-	1
425,180 - 428,217	1,400,000 - 1,419,999	1	-
Total		5	7

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

The 2018 comparatives have been converted at the current year exchange rates to arrive at the equivalent US Dollar bands.

PGK1.00 = US\$0.3037.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

19. INTERESTS IN OTHER ENTITIES

At 31 December 2018

	Interest	Nature of interest	Activity
Ramu joint venture (Note 1 below)	8.56%	Associate	Production
Frieda River joint venture (Notes 2 and 4 below)	20%	Cost	Exploration and Evaluation
Nong River (Notes 3 and 4 below)	100%	Cost	Exploration and 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. Anglo American withdrew from the Star Mountains Joint Venture in early 2018 (reference is made to the Group's ASX Announcement dated 8 February 2018), and the Group regained 100% of the Star Mountain tenements. 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
S Moser	Chief Financial Officer
R Gawi	General Manager Port Moresby

(d) Key management personnel compensation

	Consolidated		Holding Company	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
Short-term employee benefits*	1,101	1,129	-	-
Share based payments	-	167	-	-
	1,101	1,296	-	-

*Key management personnel include director's remuneration.

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

2018 Year	Cash Remuneration and Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
Name and Position	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
R Douglas, <i>Chairman</i>	75	-	-	7	-	82
C Lennon, <i>Managing Director</i>	361	49	-	18	-	428
A Milewski, <i>Non-Executive Director*</i>	25	-	-	-	-	25
B Philemon, <i>Non-Executive Director*</i>	29	-	-	3	-	32
J Wylie, <i>Non-Executive Director*</i>	19	-	-	2	-	21
E Gangloff, <i>Non-Executive Director*</i>	9	-	-	1	-	10
Total	518	49	-	31	-	598

*Anthony Milewski was appointed as the nominee director for Cobalt 27 on 4 June 2018. John Wylie ceased as director on 18 July 2018, his director's fees were paid to PNG SDP. Bart Philemon ceased as director on 17 October 2018 and Ernie Gangloff was appointed as director on 17 October 2018.

2017 Year	Cash Remuneration and Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
Name and Position	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
K MacDonald, <i>Chairman*</i>	18	-	-	2	-	20
R Douglas, <i>Chairman*</i>	63	-	-	6	-	69
C Lennon, <i>Managing Director</i>	363	-	-	22	86	471
D Wood, <i>Non-Executive Director*</i>	34	-	-	3	-	37
M Carroll, <i>Non-Executive Director*</i>	12	-	-	1	-	13
J Wylie, <i>Non-Executive Director*</i>	25	-	-	2	-	27
B Philemon, <i>Non-Executive Director</i>	37	-	-	3	-	40
Total	552	-	-	39	86	677

*Ken McDonald ceased as Chairman on 28 March 2017 and Ron Douglas was appointed as Chairman from 28 March 2017. Mike Carroll ceased as director on 19 April 2017 and John Wylie was appointed as director from 19 April 2017. John Wylie's director's fees were paid to PNG SDP. Dan Wood ceased as director on 24 November 2017.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

(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

There were no outstanding Performance Rights held during 2018 by each director or other key management personnel of the Group, including their personally related parties.

2018 Year

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
C Lennon	3,200,000	-	(3,200,000)	-
Other key management personnel of the Group				
S Moser	975,000	-	(975,000)	-
R Gawi	975,000	-	(975,000)	-

2017 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*	9,450,000	-	(3,262,500)	(1,087,500)	5,100,000	5,100,000
C Lennon*	5,920,000	-	(1,360,000)	(1,360,000)	3,200,000	3,200,000
Other key management personnel of the Group						
S Moser*	1,795,000	-	(410,000)	(410,000)	975,000	975,000
L Queen*	2,390,000	-	(817,500)	(272,500)	1,300,000	1,300,000
P Jolly*	4,155,000	-	(1,428,750)	(476,250)	2,250,000	2,250,000
R Gawi	1,795,000	-	(410,000)	(410,000)	975,000	975,000
L Nand	2,250,000	-	-	-	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.

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.

2018 Year

Name	Balance at the start of the year	Received during the year on the exercise of performance rights	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
R Douglas	-	-	750,000	750,000
C Lennon	3,550,000	3,200,000	-	6,750,000
B Philemon*	1,028	-	-	1,028
E Gangloff	-	-	-	-
Other Key Management Personnel of the Group				
S Moser	100,000	975,000	-	1,075,000
R Gawi	1,125,000	975,000	-	2,100,000

*Bart Philemon ceased as director on 17 October, 2018.

2017 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
C Lennon	2,190,000	1,360,000	-	3,550,000
D Wood*	1,100,000	-	-	1,100,000
M Carroll*	304,307	-	-	304,307
B Philemon	1,028	-	-	1,028
Other Key Management Personnel of the Group				
S Moser	80,500	410,000	(390,500)	100,000
R Gawi	715,500	410,000	-	1,125,500

*Ken MacDonald ceased as Chairman on 28 March 2017. Mike Carroll ceased as a director on 19 April 2017. Dan Wood ceased to be a director on 24 November 2017.

(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	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
<i>Advances to / from subsidiaries</i>				
Beginning of the year	-	-	176,460	176,071
Movements during the year	-	-	11,075	390
End of year	-	-	187,535	176,460

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

(h) Transactions with related parties

	Consolidated		Holding Company	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
<i>The following transactions occurred with related parties</i>				
Fees from associate	-	446	-	-
Management fees to subsidiaries	-	-	-	-

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 2018 is as follows:

Consolidated	Exploration / Evaluation US\$000	Frieda US\$000	Ramu US\$000	Corporate US\$000	Group US\$000
2018					
Segment revenue	-	-	-	65	65
Segment result	(9,977)	-	34,104	(1,861)	22,266
Net Profit / (Loss)	(9,977)	-	34,104	(1,861)	22,266
Segment assets	-	29,237	142,097	18,972	190,306
Reversal of (impairment of) assets	(9,600)	-	31,369	-	21,769
Segment liabilities	(4)	(6,947)	(117,804)	(660)	(125,415)
Acquisition of segment assets	-	-	-	5	5
Segment depreciation and amortisation	-	-	-	39	39
2017					
Segment revenue	-	-	-	109	109
Segment result	358	-	39,917	(2,838)	37,437
Net Profit / (Loss)	358	-	39,917	(2,838)	37,437
Segment assets	9,600	28,348	110,000	8,538	156,486
Reversal of impairment of assets	-	-	42,877	-	42,877
Segment liabilities	(738)	(6,641)	(117,114)	(445)	(124,938)
Acquisition of segment assets	-	-	-	2	2
Segment depreciation and amortisation	-	-	-	61	61

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

	Notes	Consolidated		Holding Company	
		2018	2017	2018	2017
		US\$000	US\$000	US\$000	US\$000
Reported Net Profit after Taxation		22,266	37,437	1,913	258
Add/(less) non-cash and non-operating items:					
Depreciation and amortisation	8	39	61	-	-
Reversal of (provision for) exploration costs		127	(358)	-	-
(Reversal of) impairment of non-current assets		(31,369)	(42,877)	-	-
Impairment of non-current assets		9,600	-	-	-
Provision for diminution of investment		-	-	9,545	-
Reversal of impairment of subsidiary advances		-	-	(11,458)	(258)
Share of operating (profit)/loss of equity accounted investments		(9,790)	(3,473)	-	-
Fair value of share based payments		-	394	-	-
Net (gain)/loss on foreign currency balances	3	833	(220)	-	-
Interest expense		5,954	6,433	-	-
		(24,606)	(40,040)	(1,913)	(258)
Add/(less) movements in working capital items:					
(Increase)/decrease in debtors and prepayments		(5)	(6)	-	-
Increase/(decrease) in creditors and provisions		4	4	-	-
		(1)	(2)	-	-
Net Cash Flow from Operating Activities		(2,340)	(2,605)	-	-

23. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	110	116	-	-
One to two years	113	118	-	-
Two to five years	84	180	-	-
	307	414	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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 2018 is 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	
	2018	2017
	US\$000	US\$000
Cash and cash equivalents	14,857	6,816
Other receivables	4,026	1,598
	18,883	8,414

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

	2018		2017	
	Gross	Impairment	Gross	Impairment
	US\$000	US\$000	US\$000	US\$000
Not past due				
6 months or less	4,025	-	1,598	-
6 to 12 months	-	-	-	-
	4,025	-	1,598	-

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	6 months or less	6 - 12 months	> 1 years
	US\$000	US\$000	US\$000	US\$000
Consolidated 31 December 2018				
Non-derivative financial liabilities				
Trade and other creditors	684	684	-	-
Borrowings	124,550	-	9,413	115,137
	125,234	684	9,413	115,137
Consolidated 31 December 2017				
Non-derivative financial liabilities				
Trade and other creditors	2,871	2,871	-	-
Borrowings	121,881	-	9,270	112,611
	124,752	2,871	9,270	112,611

(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 2018 year the Group incurred a loss of US\$833,488 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	
	2018	2017	2018	2017
	AU\$000	AU\$000	AU\$000	AU\$000
Cash and cash equivalents	17,809	4,481	-	-
Other receivables	-	16	-	-
Trade and other creditors	(518)	(307)	-	-
	17,291	4,190	-	-

	Consolidated		Holding Company	
	2018	2017	2018	2017
	PGK\$000	PGK\$000	PGK\$000	PGK\$000
Cash and cash equivalents	832	911	-	-
Other receivables	130	107	-	-
Trade and other creditors	(488)	(1,196)	-	-
	474	(178)	-	-

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
AUD	0.7519	0.7644	0.7058	0.7800
PGK	0.3037	0.3140	0.2970	0.3095

A 10% strengthening / weakening of the Australian dollar and the Papua New Guinea Kina, with all other variables constant, would have affected profit before tax and equity by US\$1,077,270 (2017: US\$341,470).

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 not have any USD on deposit (2017: US\$2,043,800 at 1.58%). It has AU\$606,684 on deposit at rates ranging between 2.45% and 2.48% (2017: AU\$4,105,444 ranging from 2.10% and 2.26%). There is no PGK on deposit at December 2018 (2017: 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\$72,000 (2017: US\$87,000). 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%.

A change of 100 basis points (plus 1% / minus 1%) in interest rates on long-term borrowings would have affected equity and profit and loss by US\$1.0 million (2017: US\$1.1 million).

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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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 2018, 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 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 2018, the Group's strategy was unchanged from 2017 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

There were no performance rights granted during 2017 and 2018.

26. EVENTS OCCURRING AFTER BALANCE DATE

The Company entered into a Scheme Implementation Agreement ('SIA') with Cobalt 27 Capital Corp. under which Cobalt 27 has agreed to acquire all of the shares in Highlands which it does not already own by way of a Scheme of Arrangement ('Scheme') under the PNG Companies Act. Refer announcement to ASX on 2 January 2019.

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	
	2018	2017	2018	2017
	PGK000	PGK000	PGK000	PGK000
Revenue	214	347	-	-
Net Profit after tax	73,316	119,226	6,299	822
Total Assets	640,761	505,609	149,222	101,215
Total Liabilities	422,283	403,677	10	10
Net Assets	218,478	101,929	149,212	101,205

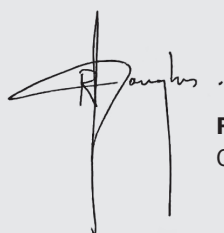
Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2018 of PGK1.00 = US\$0.2970 (2017-year PGK1.00 = US\$0.3095) while income and expense items are translated at the average rate for the year PGK1.00 = US\$0.3037 (2017-year PGK1.00 = US\$0.3140).

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 2018 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,



Ron Douglas
Chairman

8 March 2019



Craig Lennon
Managing Director

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

Our qualified opinion

We have audited the financial statements of Highlands Pacific Limited (the Company), which comprise the statements of financial position as at 31 December 2018, and 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 which 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 2018 or from time to time during the financial year.

In our opinion, except for the possible effect of the matter described in the *Basis for qualified opinion* section of our report, 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 2018, and their financial performance and cash flows for the year then ended.

Basis for qualified opinion

Exploration and evaluation expenditure

Note 9 to the financial statements outlines a scenario in which the Group's interest in the Frieda River project may be disposed for consideration of US\$9.5 million and the forgiveness of the loan payable to Frieda River Limited which is included within borrowings in the consolidated statement of financial position with a carrying value of US\$6.9 million (2017: US\$6.6 million). The consolidated statement of financial position includes capitalised exploration and evaluation expenditure in respect of the Frieda River project of US\$29.2 million at 31 December 2018 (2017: US\$28.3 million). As the consideration in the proposed transaction is less than the carrying value of the Group's interest in the Frieda River project this represents an indicator of impairment. We have not been provided with sufficient audit evidence to demonstrate that the carrying value of capitalised exploration and evaluation expenditure of US\$29.2 million at 31 December 2018 is not impaired. As a result we have been unable to satisfy ourselves as to the valuation of exploration and evaluation expenditure included in the consolidated statement of financial position at 31 December 2018.

Our audit

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 qualified opinion.

Independence

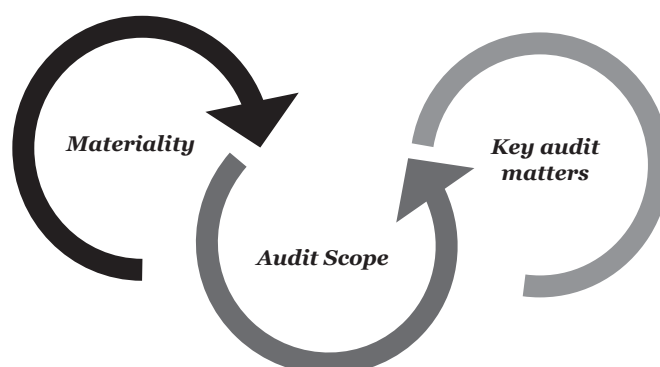
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the area of taxation compliance and advice. The provision of these other services has 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.



Independent Auditor's Report - Continued

<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<ul style="list-style-type: none"> For the purpose of our audit of the Group we used overall group materiality of US\$1,903,000 which represents 1% 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 Group total assets because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark. We selected 1% 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 and audited by PwC 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 Assessment of future cash flows These matters are further described in the <i>Key audit matters</i> section of our report.

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.

<i>Key audit matter</i>	<i>How our audit addressed the key matter</i>
<p>Assessment of the carrying value of the investment in the Ramu Nickel mine of US\$142.1 million and associated impairment reversal of US\$31.4 million</p> <p><i>(Refer to note 10 of the financial statements)</i></p> <p>With changes from a year ago in a number of assumptions used to determine the carrying value of the Group's investment in the Ramu Nickel mine, including long term forecast pricing for nickel and cobalt, the Group has performed an impairment assessment of its carrying value and recognised a reversal of previous impairment charges.</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 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>Our audit focused on the assessment of the reversal of impairment and carrying value recognised as both are significant for the Group because of the significant judgements around the key assumptions used in assessing the carrying value of the asset and the sensitivity of the assessment to changes in these key assumptions.</p>	<p>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 reversal of impairment 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 International Financial Reporting Standards.</p> <p>Together with our valuation expert we reviewed the methodology adopted in the financial model.</p> <p>We benchmarked the long term nickel and cobalt price assumptions used in the financial model 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>

Independent Auditor's Report - Continued

Key audit matter	How our audit addressed the key matter
<p>Assessment of future cashflows</p> <p><i>(Refer to note 1 of the financial statements)</i></p> <p>The Group had a total operating cash outflow of US\$2.3 million for the 2018 year.</p> <p>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 balance date of the financial statements.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none">- Assessing the design of the Group's cash flow projection model for the year ending 31 December 2019 and its consistency with our understanding of the Group's activities.- Comparing the approved 2019 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 2018 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.- Considering the implications on the Group's cash flow projections of potential outcomes of the arbitration process and other activity in respect of the Frieda River project disclosed in note 9 to the financial statements.

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 ability of the Group 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 Group 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 ISAs 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.

Independent Auditor's Report - Continued

- 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 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.
- 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 Group to express an opinion on the financial statements. 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 2018:

- With the exception of the matter described in the *Basis for qualified opinion* section, 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 Act 1996

Port Moresby
8 March 2019

STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2018

The shareholder information set out below was applicable as at 27 February 2019.

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	1,429
5,001 – 10,000	875
10,001 – 100,000	2,738
100,001 and above	590
Total Shareholders	6,912

b) There were 2,600 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AUD0.10 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 above	-
Total Holders	-

LARGEST TWENTY SHAREHOLDERS

The names of the largest twenty shareholders are listed below:

Name	No. of Ordinary Shares Held	% of Total
COBALT 27 CAPITAL CORP	218,500,000	20.00
PANAUST SPV2 PTE LTD	128,865,980	11.79
HKBA NOMINEES LIMITED	104,111,276	9.53
CITICORP NOMINEES PTY LIMITED	64,369,238	5.89
INDEPENDENT PUBLIC BUSINESS CORPORATION OF PAPUA NEW GUINEA	29,218,821	2.67
UBS NOMINEES PTY LTD	23,149,912	2.12
DR THOMAS JOHN BERESFORD GROUP	18,334,086	1.68
MINERAL RESOURCES DEVELOPMENT COMPANY PTY LTD	13,849,426	1.27
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	13,224,371	1.21
ZERO NOMINEES PTY LTD	11,435,815	1.05
MR GEORGE CHIEN HSUN LU + MRS JENNY CHIN PAO LU	10,500,000	0.96
INKESE PTY LTD	10,000,000	0.92
MR MICHAEL PIPEROGLOU	10,000,000	0.92
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	8,000,624	0.73
LU'S INTERNATIONAL LIMITED	7,450,000	0.68
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	7,359,953	0.67
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	7,000,001	0.64
CARRINGTON LAND PTY LTD	7,000,000	0.64
NATIONAL NOMINEES LIMITED <DB A/C>	6,989,792	0.64
MR CRAIG THOMAS LENNON	6,660,000	0.61
Total	706,019,295	64.61

SUBSTANTIAL SHAREHOLDERS

Name	No. of Ordinary Shares Held	% of Total
COBALT 27 CAPITAL CORP	218,500,000	20.00
PANAUST SPV2 PTE LTD	128,865,980	11.79
HKBA NOMINEES LIMITED	104,111,276	9.53
CITICORP NOMINEES PTY LIMITED	64,369,238	5.89

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 2017

Tenement Reference	Beneficial Interest at Commencement of Period	Beneficial Interest at End 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, 2467, 2478 and 2571	100% Note 1, 3	49% Note 1, 3	Sandaun 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 and East Sepik Province
ELs 1744, and 1745	20% Note 1, 4	20% Note 1, 4	East Sepik Province
EL 1896	Nil	20% Note 1, 4	East Sepik Province
SML 9	20% Note 1, 4, 5	20% Note 1, 4, 5	Sanduan Province
ML 157	Nil	20% Note 1, 4, 5	Sanduan Province
LMPs 94, 95	Nil	20% Note 1, 4, 5	Sanduan Province
LMPs 96, 97, 98	Nil	20% Note 1, 4, 5	East Sepik Province
MEs 87, 88	Nil	20% Note 1, 4, 5	Sanduan Province
MEs 89, 90	Nil	20% Note 1, 4, 5	East Sepik Province
ML 522	20% Note 1, 4, 5	Nil	Sanduan Province
LMPs 106-108, 110-114, 116-118	20% Note 1, 4, 5	Nil	Sanduan Province
LMP 109	20% Note 1, 4, 5	Nil	Sanduan and East Sepik Province
LMP 115	20% Note 1, 4, 5	Nil	East Sepik Province
ME 98-100	20% Note 1, 4, 5	Nil	Sanduan and East Sepik Province
ME 101	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 2376 and 2579 (previously 193)	8.56%	8.56%	Madang Province

Mining Tenements acquired or disposed of during the year – nil.

Beneficial percentage interests held in farm-in or farm-out agreements – all the tenements for the Frieda River project and the Ramu mine 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 the Ramu mine 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 Purpose
- ME - Mining Easements

3. In February 2018 Anglo American plc withdrew from the Star Mountains Joint Venture, resulting in Highlands regaining 100% of the Star Mountains tenements.

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



Diversified Mineral Resource Company

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