



2 September 2014

## Financial Report for six months to 30 June 2014

**Net loss after tax of US\$3.0m (June 2013: US\$30.4m)**

**Cash at Bank US\$6.2m (June 2013: US\$7.2m)**

**Highlands Pacific (ASX: HIG) has released its financial report for the half-year ended 30 June 2014.**

The result for the half-year is a net operating loss of US\$3.0 million which includes continued investment in exploration and development activities of US\$1.3 million.

Cash at bank at 30 June 2014 was US\$6.2 million, however this does not include the AU\$5.0 million share placement completed yesterday with PanAust Limited.

**Managing Director of Highlands Pacific Mr John Gooding said today:** “The first six months of 2014 may seem to have been quiet, but behind the scenes a lot has been achieved in progressing our three key assets and we expect more positive activity in the second half of this year. Yesterday we held our first Frieda River joint venture meeting with PanAust, we issued AU\$5 million in new shares and welcomed PanAust as our largest single shareholder, and we look forward to sharing more updates about our projects through the remainder of the year. With regard to the Star Mountains exploration tenements, we have actively pursued joint venture discussions and we hope to introduce a new partner by year’s end. At Ramu the mine and process plant continues to make progress with plant throughput currently nearing 80%. Further improvements in the nickel and cobalt prices also bode well for Ramu and our investment”

The full financial results are attached.

**For further information, please contact:**

John Gooding or Craig Lennon  
Highlands Pacific - 07 3239 7800

**Media Enquiries to:**

Simon Jemison  
Collins St Media - 03 9224 5319



**ASX Code: HIG**

**PoMSox Code: HIG**

**Shares on Issue: 919 million**

**Options on Issue: 7.2 million**

**Performance Rights: 24.4 million**

#### **Directors**

Ken MacDonald, Chairman  
John Gooding, Managing Director  
Mike Carroll  
Dan Wood  
Bart Philemon

#### **Management**

Craig Lennon, CFO & Co.Sec  
Larry Queen, Chief Geologist  
Peter Jolly, GM Projects  
Ron Gawi, GM Port Moresby

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#### **Media Enquiries to:**

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#### **Website:**

**[www.highlandspacific.com](http://www.highlandspacific.com)**

## **About Highlands Pacific Limited**

Highlands Pacific is a PNG incorporated and registered mining and exploration company listed on the ASX and PoMSOX exchanges. Its major assets are interests in the producing US\$2.1bn Ramu nickel cobalt mine and the Frieda River copper gold project; with exploration in progress on the Star Mountains (Nong River, Mt Scorpion, Munbil and Tifalmin) licenses approximately 20km north of the Ok Tedi mine. Highlands also has exploration tenements at Muller Range on the border of the Western and Southern Highlands Provinces and on Normanby Island (Sewa Bay).

### **Star Mountains Prospects\***

The Star Mountains exploration tenements, which include Nong River EL1312, Mt Scorpion EL1781, Munbil EL2001 and Tifalmin EL1392, 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.

### **Ramu Nickel Cobalt Mine**

The producing Ramu nickel mine is located 75km west of the provincial capital of Madang, PNG. Highlands 8.56% interest in Ramu will increase to 11.3% at no cost to Highlands after repayment of its share of the project debt (estimated to be paid by 2018). From commissioning, Highlands has access to its pro-rata 8.56% share of Ramu's post-debt servicing, net cash flow. Highlands also has an option to acquire an additional 9.25% interest in Ramu at fair market value, which could increase the company's interest in the mine to 20.55%, if the option is exercised.

### **Frieda River Copper-Gold Project\***

The Frieda River Copper-Gold Project is located 175kms north-west of the Porgera gold mine and 75km north-east of the Ok Tedi mine. Highlands has a 20% interest in the project. PanAust will be responsible for 100% of the costs incurred by the Frieda River Joint Venture to finalise the definitive feasibility study for PanAust's development concept and will appoint and fund the cost of an independent expert to provide a peer review. PanAust will also be responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programmes up to the point in time of lodgement of the Mining Lease or Special Mining Lease application.

\* Subject to the right of the Independent State of Papua New Guinea to acquire up to a 30% equity interest in any mining development in the country.

*Consolidated Interim Financial Report*  
*For The Half-Year Ended 30 June*

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**2014**



**HIGHLANDS  
PACIFIC**

Diversified Mineral Resource Company

*Highlands Pacific Limited And Subsidiary Companies*

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## *Index to Consolidated Interim Financial Report*

---

**03**

*Director's Report*

---

### ***Interim Financial Report***

---

**04**

*Condensed Consolidated Statement  
of Comprehensive Income*

---

**05**

*Condensed Consolidated Statement  
of Changes in Equity*

---

**06**

*Condensed Consolidated Statement  
of Financial Position*

---

**07**

*Condensed Consolidated Statement  
of Cash Flows*

---

**08**

*Notes to the Condensed Consolidated  
Financial Statements*

---

**13**

*Directors' Declaration*

---

**14**

*Independent Auditor's Review Report  
to the Members*

---

# 03 *Directors' Report*

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Your Directors present their report on the consolidated entity consisting of Highlands Pacific Limited and its subsidiaries (the "Group") for the half-year ended 30 June 2014.

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

## **DIRECTORS**

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

John Gooding (Managing Director)  
Ken MacDonald (Chairman)  
Mike Carroll  
Dan Wood  
Bart Philemon

## **RESULTS AND DIVIDENDS**

The net loss from ordinary activities after income tax for the Group for the half-year is US\$3.0 million (half year 2013:US\$30.4 million). The loss includes labour costs of US\$1.0 million and expenditure of US\$1.3 million that is associated with the exploration and development of our projects.

There is no dividend paid or recommended.

## **REVIEW OF OPERATIONS**

During the half-year the Group's principal activities were exploring for minerals and carrying out studies on prospective mineral deposits either in their own right or in joint ventures with the objective of developing mining operations. Activities at our Star Mountains Copper-Gold Project remained on care and maintenance during the first half of 2014 while a joint venture partner was sought; ramp-up to name-plate capacity continued at the Ramu Nickel-Cobalt Mine with an annualised average production rate of 60% achieved for the first half of 2014; and study activities were ongoing at the Frieda River Copper-Gold Project in preparation for PanAust Limited entering the project.

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



**KEN MACDONALD**  
CHAIRMAN

2nd September 2014



# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 30 June 2014

		June 2014	June 2013
	Notes	US\$000	US\$000
Finance income		49	104
Other revenue		5	10
<b>Total Operating Income</b>		<b>54</b>	<b>114</b>
Labour costs		1,026	1,210
Consultants and services costs		367	523
General and administration costs		442	561
Exploration and development costs		1,349	2,957
Depreciation and amortisation	2	43	36
Net foreign exchange (gain) losses		(178)	266
<b>Total Operating Costs</b>		<b>3,049</b>	<b>5,553</b>
Impairment of non-current assets		-	25,000
<b>Loss from operations before income tax</b>		<b>(2,995)</b>	<b>(30,439)</b>
Income tax (expense) benefit		-	-
<b>Net loss for the period</b>		<b>(2,995)</b>	<b>(30,439)</b>
Other comprehensive income for the period		-	-
<b>Total comprehensive loss for the period</b>		<b>(2,995)</b>	<b>(30,439)</b>
<b>Basic Earnings per share</b>			
From continued operations		(0.0035)	(0.039)
<b>Diluted Earnings per share</b>			
From continued operations		(0.0035)	(0.039)

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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the half-year ended 30 June 2014*

	Share Capital	Fair Value & Other Reserves	Retained Earnings	Total
	US\$000	US\$000	US\$000	US\$000
<b>Half-Year ended 30 June 2014</b>				
Balance at 1 January 2014	299,547	(5,879)	(229,588)	64,080
Net losses	-	-	(2,995)	(2,995)
<b>Transaction with owners in their capacity as owners</b>				
Issue of share based payments	-	127	-	127
Issue of share capital	(1)	-	-	(1)
<b>Balance at 30 June 2014</b>	<b>299,546</b>	<b>(5,752)</b>	<b>(232,583)</b>	<b>61,211</b>
<b>Half-Year ended 30 June 2013</b>				
Balance at 1 January 2013	294,804	(6,310)	(192,420)	96,074
Net losses	-	-	(30,439)	(30,439)
<b>Transaction with owners in their capacity as owners</b>				
Issue of share based payments	-	144	-	144
Issue of share capital	(2)	-	-	(2)
<b>Balance at 30 June 2013</b>	<b>294,802</b>	<b>(6,166)</b>	<b>(222,859)</b>	<b>65,777</b>

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	June 2014 US\$000	December 2013 US\$000	June 2013 US\$000
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		6,179	8,609	7,245
Receivables		47	40	74
		<b>6,226</b>	<b>8,649</b>	<b>7,319</b>
<b>NON-CURRENT ASSETS</b>				
Receivables		482	461	482
Property, plant and equipment	2	333	376	372
Exploration and evaluation expenditure	3	26,500	26,500	38,927
Investment in Ramu Mine	4	34,993	34,993	25,000
		<b>62,308</b>	<b>62,330</b>	<b>64,781</b>
<b>TOTAL ASSETS</b>		<b>68,534</b>	<b>70,979</b>	<b>72,100</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	5	915	1,071	546
Provisions		284	187	189
		<b>1,199</b>	<b>1,258</b>	<b>735</b>
<b>NON-CURRENT LIABILITIES</b>				
Trade and other payables	5	6,083	5,544	5,504
Provisions		41	97	84
		<b>6,124</b>	<b>5,641</b>	<b>5,588</b>
<b>TOTAL LIABILITIES</b>		<b>7,323</b>	<b>6,899</b>	<b>6,323</b>
<b>NET ASSETS</b>		<b>61,211</b>	<b>64,080</b>	<b>65,777</b>
<b>SHAREHOLDERS' EQUITY</b>				
Contributed Equity	6	299,546	299,547	294,802
Reserves		(5,752)	(5,879)	(6,166)
Retained earnings (losses)		(232,583)	(229,588)	(222,859)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>61,211</b>	<b>64,080</b>	<b>65,777</b>

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



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 30 June 2014

	June 2014 US\$000	June 2013 US\$000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from other operations	5	10
Interest from investments	44	141
Income tax (paid)	-	(6)
Payments to suppliers and employees	(1,919)	(3,037)
<b>Net cash (outflow) from operating activities</b>	<b>(1,870)</b>	<b>(2,892)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Exploration, evaluation and development	(737)	(4,138)
Purchase of property, plant and equipment	-	(107)
<b>Net cash (outflow) from investing activities</b>	<b>(737)</b>	<b>(4,245)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Costs associated with issue of ordinary shares	(1)	(2)
<b>Net cash (outflow) from financing activities</b>	<b>(1)</b>	<b>(2)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(2,608)</b>	<b>(7,139)</b>
Cash and cash equivalents at the beginning of the half-year	8,609	14,650
Effects of exchange rate changes on cash and cash equivalents	178	(266)
<b>Cash and cash equivalents at end of the half-year</b>	<b>6,179</b>	<b>7,245</b>
<b>RECONCILIATION OF NET (LOSS) AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Reported Net Loss after Taxation</b>	<b>(2,995)</b>	<b>(30,439)</b>
<b>Add (less) non-cash items:</b>		
Depreciation	43	36
Provision for exploration, evaluation and development costs	1,349	2,957
Fair value of share based payments	127	144
Effects of exchange rate changes on cash and cash equivalents	(178)	266
Impairment of non-current assets	-	25,000
	1,341	28,403
Add (less) movements in working capital items:		
(Increase) / decrease in debtors and prepayments	(6)	(3)
(Decrease) / increase in creditors and provisions	(210)	(853)
	(216)	(856)
<b>Net Cash Flow from Operating Activities</b>	<b>(1,870)</b>	<b>(2,892)</b>

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the half-year ended 30 June 2014*

## 1. STATEMENT OF ACCOUNTING POLICIES

Highlands Pacific Limited and its subsidiaries (together the “Group”) carry out exploration and development activities. All of the Group’s 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 Securities Exchange and the Port Moresby Stock Exchange.

The condensed consolidated interim financial report for the half-year reporting period ended 30 June 2014 has been prepared in accordance with International Accounting Standard IAS 34: *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2013 and any public announcements made by Highlands Pacific Limited during the interim reporting period in accordance with the continuous disclosure requirements.

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

### Going Concern

The Group incurred an operating loss after income tax of US\$3.0 million (June 2013: US\$30.4 million) and had a total operating and investing cash outflow of US\$2.6 million for the half year ended 30 June 2014 (June 2013: US\$7.1 million outflow). The Group holds interests in three mining projects at various stages of appraisal and development and intends to continue investing capital to assess and develop those assets. Cash held at bank as at 30 June 2014 was US\$6.2 million (June 2013: US\$7.2 million). The Group has some discretion as to how aggressively it can pursue these plans and can tailor its activities to match available capital. In the near term, additional funds will be required and are expected from other sources as existing cash balances are not expected to be sufficient to fund the ongoing operations or the planned level of future development and exploration activity. This expenditure could be curtailed if additional funding is not secured.

As a result of these matters there is a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern, and therefore it may be unable to realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Directors believe that the Group has reasonable prospects of securing sufficient funding to fund operations for the foreseeable future in order to meet their objectives and strategies. Additionally, the Directors have curtailed exploration expenditure and management has reviewed corporate expenditure levels. Accordingly, given various options it is appropriate to prepare financial statements on a going concern basis.

At this time, the Directors are of the opinion that no asset is likely to be realized for an amount less than the amount at which it is recorded in the financial statements as at 30 June 2014. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the half-year ended 30 June 2014

## 2. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$000	Plant and Equipment US\$000	Total US\$000
<b>Consolidated - 30 June 2014</b>			
<b>Cost</b>			
Balance at 1 January 2014	232	557	789
Additions	-	-	-
Disposals	-	-	-
<b>Cost 30 June 2014</b>	<b>232</b>	<b>557</b>	<b>789</b>
<b>Depreciation</b>			
Balance at 1 January 2014	96	317	413
Charge for the year	7	36	43
Disposals	-	-	-
<b>Depreciation Carried forward</b>	<b>103</b>	<b>353</b>	<b>456</b>
<b>Net Book Value at 30 June 2014</b>	<b>129</b>	<b>204</b>	<b>333</b>

## 3. EXPLORATION AND EVALUATION EXPENDITURE

	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2014	26,500	-	26,500
<b>Capitalised during the period</b>			
Direct holding cost	81	599	680
Frieda carried funding loan	516	-	516
Less provisions for exploration	(597)	(599)	(1,196)
<b>Balance 30 June 2014</b>	<b>26,500</b>	<b>-</b>	<b>26,500</b>

The carrying value of the Group's interest in the Frieda River Copper-Gold Project remained at US\$26.5 million for the period. The US\$0.6 million of expenditure represents Highlands direct holding costs in relation to overseeing its interest in the Frieda River Joint Venture and Highlands' 18.18% share of project expenditure carried by Xstrata Frieda River Limited.

On 1 November 2013 PanAust announced that it had entered into a share sale and purchase agreement with a subsidiary of Glencore for PanAust to acquire Glencore's interest in the Frieda River project in Papua New Guinea. This transaction was completed on 25 August 2014 following satisfaction of certain condition precedents relating to applicable regulatory approvals.

Also on 1 November 2013 PanAust and Highlands announced that they had entered into an agreement, subject to the completion of the PanAust Glencore Agreement, providing the framework for the future relationship between the parties in relation to further equity support and the Frieda River Joint Venture. PanAust and Highlands have agreed that the two parties will hold interests of 80% and 20% respectively in the Frieda River Joint Venture on the completion of the PanAust Glencore Agreement.

In assessing the carrying value of the Frieda River project the Directors have adopted a fair value less cost to sell valuation methodology. The valuation has been based on the transaction between PanAust and Glencore previously announced to the market.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*For the half-year ended 30 June 2014*

Highlands has been free-carried by Glencore on its share of project expenditure to January 2012, however, from this time until 25 August 2014 a carried funding loan arrangement to be repaid during production is in effect. From 25 August 2014 PanAust will be responsible for 100% of the costs incurred by the Frieda River Joint Venture to finalise the definitive feasibility study for PanAust's development concept and fund the cost of an independent expert to provide a peer review. PanAust will also be responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programmes up to the point in time of lodgement of the Mining Lease or Special Mining Lease application.

The Group's expenditure to date on the Frieda project is US\$39 million; hence the Group is carrying the value of the project at the maximum level allowed.

Other, represents Star Mountains exploration costs which are fully provided for given the stage of the exploration on this project.

#### 4. INVESTMENT IN RAMU MINE

	<b>Consolidated 30 June 2014 US\$000</b>
<b>Ramu</b>	
Balance 1 January 2014	34,993
Capitalised during the year	154
Less provisions for development costs	(154)
<b>Balance 30 June 2014</b>	<b>34,993</b>

The carrying value of the Group's interest in the Ramu Mine remained at US\$35 million for the period. US\$154,000 was expensed in the profit and loss during the period, representing Highlands direct holding costs in relation to overseeing its investment in the Ramu Mine.

The bulk of construction on the project commenced in the 2008 year and continued through to the end of 2010 year. The project undertook water and pressure commissioning, where possible, in the 2010 and 2011 years however, an injunction preventing the operation of the Deep Sea Tailings Placement system prevented the project from operating fully. This injunction and associated legal appeals were finally removed in December 2011 and the project commenced ore commissioning in February 2012. This ore commissioning and ramp-up phase has not progressed as quickly as planned, however, in the last six months the mine achieved an annualized average production rate of 60% and in the final weeks of June 2014 achieved above 70%.

In assessing the carrying value of the Ramu Mine, the Directors have adopted a fair value less cost to sell (FVLCS) methodology in reference to the present value of the expected future cash flows from 2016 through to the end of mine life in 2031 at a risk adjusted equity real discount rate of 11.25%. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for nickel of US\$8.67/lb and cobalt US\$12.92/lb. A positive 10% movement in the price assumption for nickel results in a movement in the present value of future cash flows of approximately US\$17.4 million, while a negative 10% movement results in a reduction of US\$17.1 million. This difference is the result of financing arrangements Highlands has with its joint venture partner.

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 however, are such that it is impracticable to disclose the extent of the possible effects of a change in a key assumption in isolation.

The Group's expenditure to date on the Ramu Mine is approximately US\$96 million which means the Group is now holding an impairment charge of approximately US\$61 million on the project.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the half-year ended 30 June 2014

## 5. TRADE AND OTHER PAYABLES

	Consolidated	
	Jun-14	Dec-13
	US\$000	US\$000
<b>Current</b>		
Trade creditors	22	39
Accruals and other creditors	893	1,032
	<b>915</b>	<b>1,071</b>
<b>Non-Current</b>		
Other creditors*	247	224
Carried Funding Loan**	5,836	5,320
	<b>6,083</b>	<b>5,544</b>

\* During 1999, Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu joint venture. The terms of payment due to Eastern under this agreement were varied by a further agreement executed on the 1st February 2010 reducing the total amount payable from AU\$1.5 million to AU\$1.0 million. During 2010 PGK1.7 million was paid to Eastern with the balance of US\$246,926 (AU\$262,130) to be paid to Eastern when the Ramu project commences commercial production. This amount has been booked as a non-current other creditor and discounted from the estimated date of payment to the balance date using the Short Term Bond Rate 2.53%.

\*\* The Carried Funding Loan represents the amount owing to Xstrata Frieda River Limited ("XFRL") as at 30 June 2014 as the result of XFRL carrying the Group's share of expenditure on the Frieda project from 23 January 2012 up until the date an application for a Special Mining Lease is made. The Carried Funding Loan has been classified as a financial liability in accordance with IAS32 *Financial Liability* and measured at amortised cost. Interest on the loan of US\$59,643 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 *Borrowing Costs*.

## 6. CONTRIBUTED EQUITY

	June	December	June	December
	2014	2013	2014	2013
	US\$000	US\$000	Shares 000's	Shares 000's
<b>Paid Up Capital</b>				
Balance brought forward	299,547	294,804	853,778	789,133
Issued during the period	-	4,985	483	64,645
Less costs associated with issue	(1)	(242)	-	-
<b>Balance carried forward</b>	<b>299,546</b>	<b>299,547</b>	<b>854,261</b>	<b>853,778</b>

The total number of shares issued as at 30 June 2014 was 854,261,346. 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the half-year ended 30 June 2014

## 7. SEGMENT REPORTING

	Exploration	Frieda	Ramu	Corporate	Group
30 June 2014	US\$000	US\$000	US\$000	US\$000	US\$000
Segment revenue	-	-	-	54	54
Segment result	(599)	(597)	(154)	(1,645)	(2,995)
Net Profit / (Loss)	(599)	(597)	(154)	(1,645)	(2,995)
Segment assets	-	26,500	35,475	6,559	68,534
Segment liabilities	(45)	(5,871)	(247)	(1,160)	(7,323)
Acquisition of segment assets	-	-	-	-	-
Impairment of non-current assets	-	-	-	-	-
Segment depreciation and amortisation	-	-	-	(43)	(43)

	Exploration	Frieda	Ramu	Corporate	Group
30 June 2013	US\$000	US\$000	US\$000	US\$000	US\$000
Segment revenue	-	-	-	114	114
Segment result	(2,829)	-	(25,128)	(2,482)	(30,439)
Net Profit / (Loss)	(2,829)	-	(25,128)	(2,482)	(30,439)
Segment assets	-	38,927	25,482	7,691	72,100
Segment liabilities	(58)	(5,264)	(247)	(754)	(6,323)
Acquisition of segment assets	-	1,754	-	107	1,861
Impairment of non-current assets	-	-	(25,000)	-	(25,000)
Segment depreciation and amortisation	-	-	-	(36)	(36)

### 31 December 2013

Segment assets	-	26,500	35,454	9,025	70,979
Segment liabilities	(153)	(5,320)	(224)	(1,202)	(6,899)

## 8. EVENTS OCCURRING AFTER BALANCE DATE

On 1 November 2013 PanAust announced that it had entered into a share sale and purchase agreement with a subsidiary of Glencore plc for PanAust to acquire Glencore's interest in the Frieda River project in Papua New Guinea. This transaction was completed on 25 August 2014 following satisfaction of certain condition precedents relating to applicable regulatory approvals.

On 1 September 2014 a US\$4.7 million (AU\$5.0 million) placement with PanAust Limited was completed. In accordance with the Share Placement Agreement Highlands has issued 64,432,990 fully paid shares to PanAust Limited which represents an issue price of approximately A7.76c per share.



## DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 12 are in accordance with:
  - (i) International Financial Reporting Standard IAS34: Interim Financial Reporting and other mandatory professional reporting requirements; and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Highlands Pacific Limited will be able to pay its debts as and when they become due and payable.

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



**KEN MACDONALD**  
CHAIRMAN

2nd September 2014



# INDEPENDENT AUDITOR'S REVIEW REPORT TO THE DIRECTORS OF HIGHLANDS PACIFIC LIMITED

## Report on the condensed interim financial statements

We have reviewed the accompanying condensed interim financial statements of Highlands Pacific Limited (the Company), which comprise the condensed statement of financial position as at 30 June 2014, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year then ended, and other explanatory notes for the Group. The Group comprises the Company and the entities it controlled at 30 June 2014 or from time to time during the half-year.

The condensed interim financial statements do not contain all the disclosures required of the full financial statements under generally accepted accounting practice in Papua New Guinea. Reading these condensed financial statements, therefore, is not a substitute for reading the annual financial statements of the Company.

### *Directors' responsibility for the condensed interim financial statements*

The Directors of the Company are responsible for the preparation of these financial statements such that they present fairly the matters to which they relate in accordance with IAS 34 'Interim Financial Reporting' and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the condensed interim financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' in order to state whether, on the basis of the procedures described, anything has come to our attention that makes us believe that the condensed interim financial statements do not present fairly the matters to which they relate. As the auditor of the Company, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion

### *Conclusion*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed interim financial statements of Highlands Pacific Limited do not present fairly the Group's financial position as at 30 June 2014 and its financial performance and cash flows for the half-year ended on that date in accordance with IAS 34 'Interim Financial Reporting'.

### *Emphasis of matter*

Without modifying our conclusion, we draw attention to Note 1 in the condensed interim financial statements which indicates the Group continues to experience operating losses and negative cash flows and will seek to obtain new funding to finance future operations and development and exploration activity. These conditions, along with the other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the interim condensed financial statements.

### **Restriction on distribution or use**

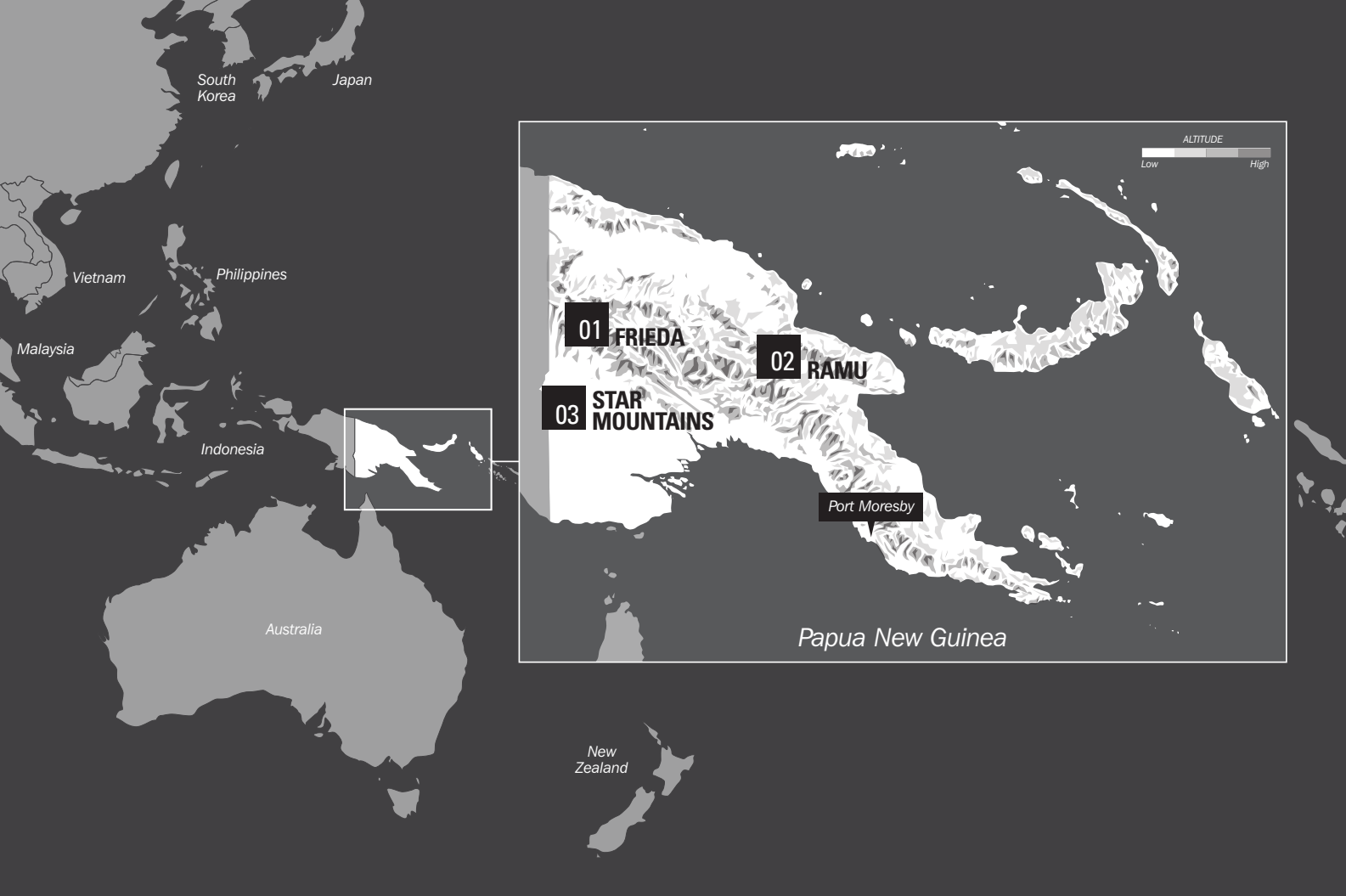
This report is made solely to the Directors of the Company, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other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

PricewaterhouseCoopers

**GE Burns**

Engagement Leader

Port Moresby  
2nd September 2014



## 01 *Frieda*

**Frieda River Copper-Gold Project:** Frieda is 175kms north west of the giant Porgera gold mine and 75kms north east of the Ok Tedi copper gold mine.

**How big is Frieda?** Frieda is among the worlds largest undeveloped copper gold projects, and PNG's largest copper gold deposit, 2.5 times more copper than Panguna Bougainville, and three times as much contained copper as all the copper extracted from Ok Tedi in the past 25 years.

## 02 *Ramu*

**Ramu Nickel Mine:** The US\$2.1bn Ramu Nickel Cobalt Mine is 75kms south west of the provincial capital of Madang. Ramu commenced commissioning in 2012 and will eventually ramp up to 31,150 tonnes of nickel and 3,300 tonnes of cobalt per annum.

**How big is Ramu?** Ramu is the largest minerals project development in PNG in the past 15 years. The mineral reserves underpin a 20 year mine and the resources have the potential for many decades beyond.

## 03

**Star Mountains Project:** The Star Mountains district is approximately 20kms to the north east of the Ok Tedi mine or approximately 25kms from the support town of Tabubil.

**How big is Star Mountains?** Until Highlands began drilling in 2010 no modern exploration had been undertaken in almost 40 years. Highlands had identified an initial 17 copper gold targets within a porphyry cluster and tested six targets many of which have encountered intersections of anomalous copper.



## **HIGHLANDS PACIFIC**

Diversified Mineral Resource Company

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