



**HIGHLANDS
PACIFIC**



13 March 2015

2014 Financial Statements

Net profit after tax of US\$7.6 m (2013: loss of US\$37.2m)

Highlands Pacific Limited (ASX: HIG) has achieved a major turnaround in earnings, reporting a profit of US\$7.6 million for the year to 31 December 2014, compared with a prior year loss of US\$37.2 million.

The profit included a US\$15 million impairment reversal for the Company's investment in the Ramu nickel mine. The value of the Company's interest in Ramu has been increased to US\$50 million from US\$35 million due to improving production rates, a better outlook for nickel prices in the medium term and a revised financing structure whereby Highlands will gain access to earlier cash flows.

Cash at bank at 31 December 2014 was US\$7.1 million. This does not include the US\$5.0 million received by the Group on 11 February 2015 as the result of the completion of the Star Mountains Joint Venture and Farm-in Agreements with Anglo American Plc.

Managing Director of Highlands Pacific Mr John Gooding said 2014 had been a year of substantial operational progress for Highlands' suite of nickel, copper and gold projects in PNG.

"The turnaround in the financial results is encouraging and largely reflects the improvement in outlook for Ramu, which achieved its first operating surplus in 2014. Ramu is continuing to ramp up steadily to full production in 2016, as nickel prices are forecast to increase," he said.

"Over the past year we have also seen major advancements at our other projects. At Frieda River, one of the largest undeveloped copper projects in the world, PanAust became the major partner after purchasing Glencore Plc's 80% interest. PanAust brings fresh pragmatic development concepts to the project, and renewed focus and commitment with the Feasibility Study due for completion by November this year."

"At the exciting Star Mountains project, Anglo American became our joint venture partner and is soon to commence an important exploration drilling campaign to test new targets being identified. We continue to believe that Star Mountains has the potential to be a major copper-gold project."

"And at Sewa Bay, in Milne Bay province, we recently announced that Japanese trading house Sojitz Group had commenced working with Highlands towards a joint venture and farm-in agreement. Exploration drilling is soon to begin at Sewa Bay, with the prospect of developing a modest direct shipping export nickel mining operation."

"So 2014 was a significant year for Highlands, and has set the company up for further important milestones to be reached in the current year," he said.

The full financial results are attached.

For further information, please contact:

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Highlands Pacific - 07 3239 7800

Joe Dowling
Stockwork Corporate Communications
0421 587755



ASX Code: HIG

PoMSox Code: HIG

Shares on Issue: 921 million

Options on Issue: 7.2 million

Performance Rights: 19.9 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

**For further information, please
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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. Highlands also has an exploration tenement 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. The joint venture with partner Anglo American substantiates the world class potential and will enable an extensive exploration program to be undertaken in 2015 and beyond.

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. Highlands also has an option to acquire an additional 9.25% interest in Ramu at fair market value, which could increase the company's interest in the mine to 20.55%, if the option is exercised.

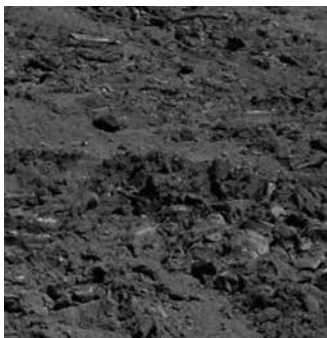
Frieda River Copper-Gold Project*

The Frieda River Copper-Gold Project is located 175kms north-west of the Porgera gold mine and 75km north-east of the Ok Tedi mine. Highlands has a 20% interest in the project and PanAust 80%. 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.



ANNUAL REPORT 2014



**HIGHLANDS
PACIFIC**

Diversified Mineral Resource Company



HIGHLANDS PACIFIC

Diversified Mineral Resource Company

"For more than 20 years Highlands Pacific Limited has been successfully operating in Papua New Guinea. It is now arguably PNG's premier minerals explorer, developer and producer, advancing some of the country's most important copper, gold and nickel assets. The PNG incorporated company, listed on the ASX and POMSoX Exchanges (under the code HIG) provides investors with leverage to the country's significant mineral resource endowment. Highlands Pacific is a joint venture partner in the massive Frieda River Copper-Gold project in the East Sepik and Sanduan Provinces with PanAust Limited; a joint venture partner in the prospective Star Mountains Copper-Gold project located 20 kms north of the Ok Tedi mine with Anglo American Plc and has an investment in the producing US\$2.1bn Ramu Nickel-Cobalt mine near Madang, and exploration ground on Normanby Island targeting nickel laterites with Sojitz Group."

Annual General Meeting

21 May 2015 at 10.00am (AEST)

Grand Papua Hotel, Mary Street, Port Moresby, PNG





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Chairman's and Managing Director's Report

Highlands Pacific achieved substantial progress in 2014 and has started the current year with exciting growth plans coming to fruition in its impressive suite of projects.

While the outlook for the global economy remained uncertain during 2014, creating challenging conditions across the resources sector, Highlands was nevertheless able to advance its business significantly by introducing innovative new partnerships, refining project planning, reducing development risks and seeing steady improvements in operating performance.

We continue to focus on delivering our strategy - that is to use our extensive experience in resource projects in developing countries in the Asia Pacific to identify valuable deposits and bring them to production in ways that deliver greatest value to our shareholders.

Highlands is a unique company, with highly leveraged exposure to our preferred metals - nickel, copper and gold - and with a pipeline of world class projects at all stages of the development chain - exploration, development and production.

Frieda River Copper-Gold Project

During 2014, one of the highlights was the consummation of a new partnership with PanAust Limited in the Frieda River Copper-Gold project in PNG.

The Frieda River project is one of the largest undeveloped copper-gold projects in the world, with a resource in excess of 2 billion tonnes of ore, containing more than 13Mt of copper and 20Moz of gold. Highlands has been working towards development of the Frieda River project for over 20 years and the introduction of PanAust brings renewed commitment and focus to the project, as well as a revised development concept that is more manageable in scope with a reduced capital requirement. PanAust brings extensive technical experience, having successfully developed the Phu Kham Copper-Gold project in Laos, and Frieda River, as PanAust's biggest development project, will be the focus for management attention

and resources. PanAust is already well advanced on preparation of a US\$50 million feasibility study, which is expected to be completed by November this year.

PanAust's acquisition of its 80% interest in the Frieda River project from Glencore Plc was first announced in November of 2013, and as part of the transaction, Highlands made a placement of 64 million shares (7.5% of the Company) to PanAust at a premium price of AU7.76 cents per share, raising AU\$5 million. The Frieda River transaction was completed in August of 2014, and PanAust then exercised its option to take an additional 64 million shares in Highlands on the same terms as the earlier placement, lifting its shareholding to approximately 14% and making it the largest shareholder in the Company.

We are delighted to have PanAust as a major shareholder. Culturally, strategically and operationally, our companies are closely aligned and we believe that together, we will be able to bring the project to production and deliver significant value for our shareholders over a mine life expected to be well in excess of 20 years.

Ramu Nickel-Cobalt Mine

The remarkable success of the Ramu Nickel-Cobalt mine was confirmed during the year, with the operation achieving positive cashflow for the first time and moving closer to full production.

The Ramu mine is one of the most ambitious and successful mining developments to have been completed in PNG over the past two decades, with a capital cost of just over US\$2 billion, expected annual production of some 31,150 tonnes of nickel, and a production life of over 20 years.

First discovered in 1962, Highlands assumed management of the joint venture in 1992 and has worked tirelessly over the past 23 years to bring the project to where it is today. Highlands holds an 8.56% stake in the Ramu Nickel Joint Venture, and with the project achieving a net operating surplus (after capital expenditure)

of approximately US\$44 million in 2014 (unaudited), Highlands announced in early 2015 that it is conditionally exercising its right to begin receiving a share of the operating cashflows being generated.

This is a major milestone for Highlands, as it means that the Company will begin receiving a growing source of cashflow to fund ongoing corporate costs and project development expenses.

Under the joint venture agreement in place with the project operator, Metallurgical Corporation of China Limited (MCC), Highlands will on confirmation of nomination receive its pro-rata share of operating surpluses, of which 80% will be applied to repay its share of project debt (approximately US\$86 million), and the remaining 20% will be available to Highlands for its own purposes.

At full annual production of 31,150 tonnes of nickel and 3,300 tonnes of cobalt, expected to be achieved in 2016, the operation is expected to have a production cost of approximately US\$10,000 per tonne of nickel.

The market outlook for nickel prices continues to be favourable, with some analysts predicting prices will reach more than US\$20,000/tonne in 2016, compared with less than US\$15,000/tonne today. This suggests that the Ramu operation will be generating significant returns for Highlands' shareholders in the medium term as we continue to grow production and reduce unit costs.

Star Mountains Copper-Gold Project

Late in the year, Highlands was able to announce an important new joint venture with a wholly owned subsidiary of global diversified miner Anglo American Plc to advance the prospective Star Mountains Copper-Gold project.

Anglo American is now in the advanced stage of planning an initial four hole, 3,000 metre drilling campaign, with exploration to start in April, 2015.

The Star Mountains exploration tenements cover 515 sq kms in the highlands of PNG and exploration over the past three years, funded and conducted by Highlands, has identified significant copper and gold mineralisation.

Under the terms of the joint venture, Anglo American has paid Highlands US\$5 million for its initial interest in the joint venture, with a second US\$5 million payment due in 12 months. Ultimately, Anglo American will be able to earn up to an 80% interest by spending US\$25 million on exploration over a four year period, declaring a 43-101/JORC compliant inferred resource estimate of 3 million tonnes of contained copper-equivalent within five years, and completing a Bankable Feasibility Study (BFS) within 15 years.

An important aspect of the agreement is that Anglo American will provide Highlands with up to US\$150 million in project development funding as a deferred free-carry following completion of the BFS.

We are clearly delighted to have a partner of the calibre of Anglo American to work with us in the exploration and development of the Star Mountains project, which has the potential as a major copper-gold porphyry prospect.

Anglo American brings all of the attributes we were looking for in a joint venture partner, possessing formidable exploration and mining experience, knowledge of the broader region and its difficult operating conditions, and strong financial capacity. We look forward to working with them to prove up the Star Mountains resource and develop the project over the coming years.

Sewa Bay Nickel Laterite Project

Another important development during the year was the introduction of Sojitz Group, a Japanese trading house with operations in 50 countries, to undertake exploration for nickel laterites at Highlands' Sewa Bay tenements on Normandy Island in Milne Bay Province.

Sojitz and Highlands have signed a Service Agreement and Memorandum of Understanding with the aim of developing a Farm-in Joint Venture Agreement which see Sojitz emerge as the majority partner and responsible for funding further drilling and study programs.

An initial six month work program consisting of 1,500 metres of auger drilling will commence in early 2015 and cost approximately US\$465,000, funded solely by Sojitz.

We remain optimistic that Sewa Bay could support a modest-sized direct-shipping export nickel mining operation, and we will be working towards that goal with Sojitz over the next 12-18 months.

Conclusion

As stated at the outset, Highlands has clearly made significant headway during 2014, and we look forward to continuing that momentum in the current year.

Already, we are well advanced in working with our new partners on exploration programs in the Star Mountains and at Sewa Bay, we will begin receiving cash from our interest in the Ramu joint venture in June, and the feasibility study for Frieda River will be completed by November 2015.

So 2015 promises to be an exciting year, and we will be providing timely updates as the year progresses.

Finally, we thank our fellow Directors for their wise counsel during the year, as well as our management team and staff for their hard work, skill and dedication. We also offer our gratitude to all our shareholders for their continued support.

**Ken MacDonald (Chairman) and
John Gooding (Managing Director)**

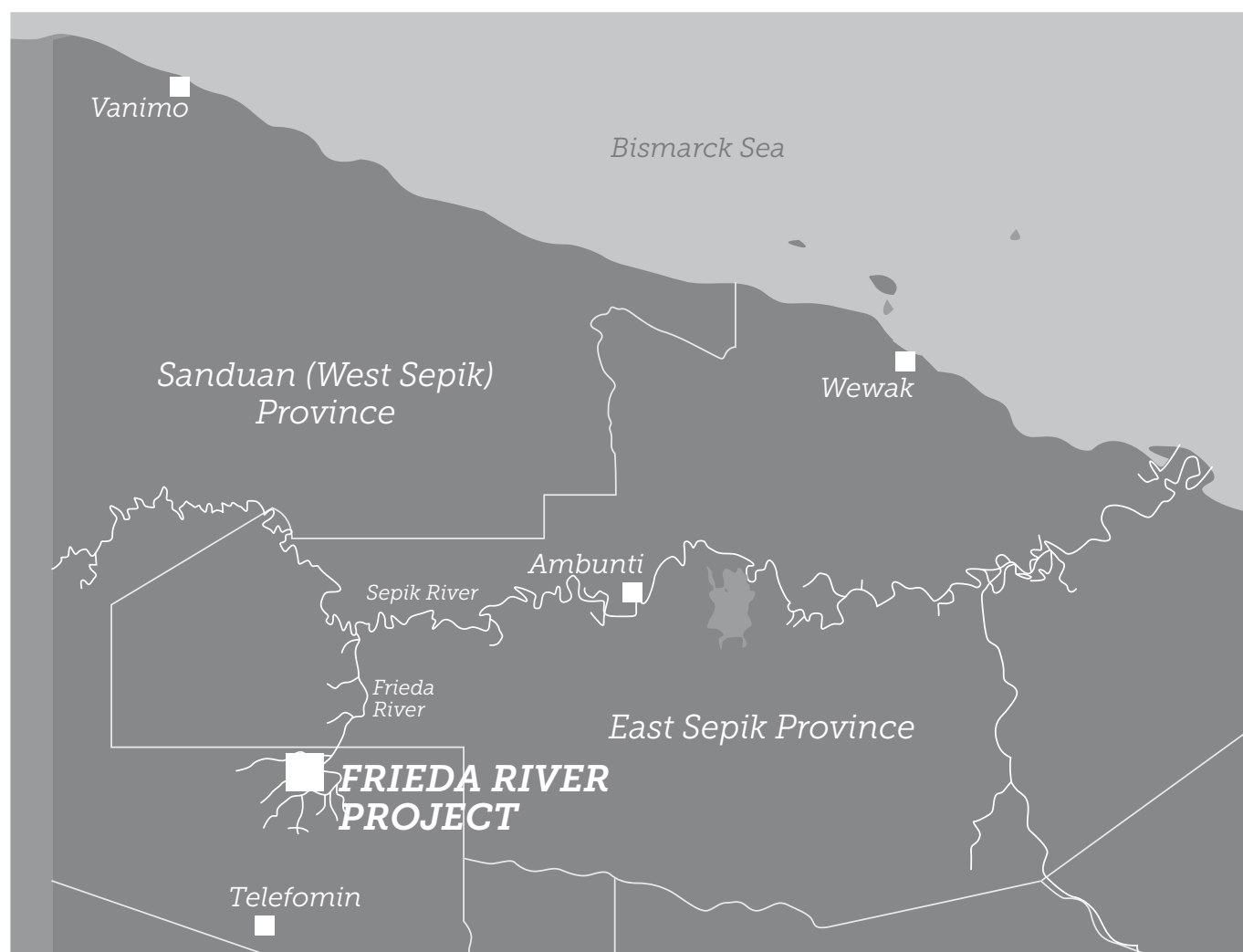
Frieda River Copper-Gold Project

- New Partner, New Development Concept

About Frieda: The Frieda River Copper-Gold project is PNG's largest undeveloped copper-gold project and one of the top 10 undeveloped open pit copper mines in the world. With a resource inventory of 13Mt of copper, 20Moz of gold and 49Moz of silver, the Frieda River project has three times the in-ground metal content of all the copper gold extracted in the past 25 years from PNG's Ok Tedi copper mine. The Frieda River project district copper inventory is more than 2.5 times the 5.3Mt of contained copper at the

Panguna deposit in Bougainville (1.8Bt of indicated and inferred resources at 0.34% copper) and more than Newcrest/Harmony's proposed underground Wafi Golpu project which contains 9Mt of copper and 28Moz of gold.

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



New Owners: Ownership of the Frieda River project officially changed in August 2014, when PanAust Limited completed the purchase of Glenore Plc's 80% interest in the project for an initial consideration of US\$25 million. PanAust also has reimbursed Glenore approximately \$4 million for its expenditures on the Project since 1 November 2013 when the transaction was announced, and a further payment of US\$50 million is scheduled to be paid to Glenore on 31 December 2015. In addition, on successful completion of a mining operation at Frieda River, Glenore will receive a 2% net smelter return royalty (on PanAust's interest in the Project) to a total aggregate amount of US\$50 million.

Highlands Pacific Limited holds a 20% interest in the project, and the PNG Government has a right to acquire up to a 30% interest. If the Government exercises its right to its full extent, Highlands' holding would reduce to 15% and PanAust's to 55%.

Development Concept: Since acquiring its interest in the project, PanAust has refined the base case development concept and has proposed a new development which is more modest in scope and more manageable in terms of capital expenditure and funding requirements.

The base case development concept involves an open pit and a single process plant module incorporating a SAG mill and two ball mills.

Life-of-mine mill feed is estimated to be approximately 600Mt, with an average processing rate of 30Mtpa over a 20-year mine life to produce average annual copper and gold in concentrate of 125,000t and 200,000oz respectively.

Relatively soft ores are expected to be processed in the first five years of operation allowing mill throughput rates of more than 20% above the life-of-mine average. Thereafter the ore is scheduled to become progressively harder leading to lower throughput rates in the final years of operation.

The following table summarises the key life-of mine parameters for the base case development:

Total mill feed	600Mt @ 0.50% Cu, 0.30g/t Au
Processing rate	30Mtpa +/- 20%
Waste:ore strip ratio	0.7:1
Average annual copper in concentrate production (tonnes)	125,000
Average annual gold in concentrate production (ounces)	200,000
C1 cash cost (US\$/lb copper, assumes US\$1,300/oz gold price)	1.30 – 1.40
All-in sustaining cost (US\$/lb copper)	1.60 – 1.70

The preliminary capital cost estimate for the base case is approximately US\$1.7 billion (2013 dollars including 15% contingency on direct development costs), excluding mining fleet and power station. A staged development approach also is being considered which would require lower initial capital expenditure with a deferred capital expansion of the processing facilities in years' three to five. In addition, a low cost hydro-power option is being considered, augmenting Intermediate Fuel Oil generated power.

Feasibility Study: PanAust is already well advanced in preparation of a US\$50 million feasibility study based on the revised base case, and is responsible for 100% of the costs incurred to finalise the study, which is expected to be completed by November, 2015.

PanAust will be responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programmes until lodgement of a Mining Lease or Special Mining Lease application.

Licence Status: The Frieda River Joint Venture has several exploration licences with the main resource area being covered by EL58 which is current until November 2015. Environmental studies are significantly advanced but are yet to be finalized as an Environment Impact Statement. This will occur when a formal development application is lodged to seek government approvals and conversion of the exploration licences to a Special Mining Lease (SML) which is a pre-cursor for funding, finance and development. Upon Issue of a SML the joint venture partners would arrange project finance.

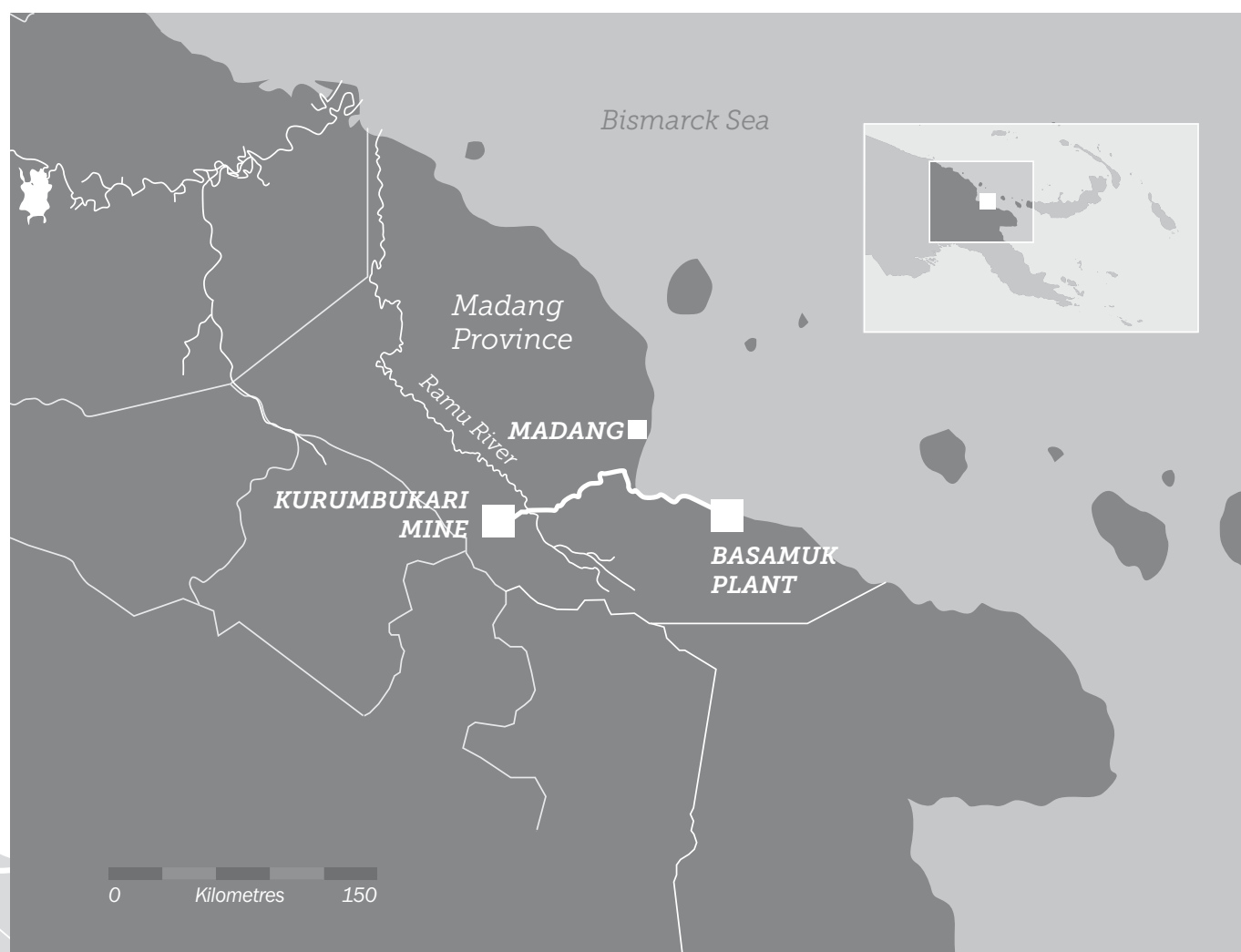
Ramu Nickel-Cobalt Mine

- a long life, world class asset

The US\$2.1bn Ramu Nickel-Cobalt Mine near Madang, on the north coast of PNG, is one of the largest and most ambitious mining and processing projects to have been successfully brought into production in PNG during the past decade. Construction was largely completed by 2012 and the plant has since been progressively commissioned, with throughput steadily increasing to 72% of nameplate capacity in the December quarter of 2014.

The joint venture achieved a major milestone in 2014, reporting its first operating cash surplus of US\$44 million, after capital expenditure of US\$23 million (unaudited).

The production figures until the end of 2014 are shown in the table opposite, demonstrating the consistent improvement in operating performance.



	2012 Year	2013 Year	2014 Year	Nameplate
Ore Mined (wet tonnes)	1,547,000	3,481,800	6,009,450	8,500,000
Ore Processed (dry tonnes)	647,000	1,252,998	2,273,276	3,400,000
MHP Produced (dry tonnes)	13,777	29,736	57,360	78,000
Contained Nickel (tonnes)	5,283	11,369	20,987	31,150
Contained Cobalt (tonnes)	469	1,013	2,134	3,300
MHP Shipped (dry tonnes)	576	39,472	57,216	78,000
Contained Nickel (tonnes)	217	15,123	21,100	31,150
Contained Cobalt (tonnes)	19	1,338	2,164	3,300

In the current year, throughput is expected to increase to 83%, and reach full capacity in 2016. The Ramu nickel project has a planned mine life of more than 20 years and an expected production cost of around US\$10,000/tonne at full capacity, making it a truly world class asset capable of generating substantial cashflows.

Location: The Kurumbukari nickel and cobalt laterite mine is connected by a 135km pipeline from the Kurumbukari plateau, to the Basamuk process plant which is 75km east of the provincial capital of Madang, along the Rai Coast of the Vitiaz Basin.

History: First discovered in 1962, the predecessor to Highlands Pacific, Highlands Gold Limited, in 1992 assumed the management of the current joint venture. An intensive period of geological exploration and engineering led to a prefeasibility study and in 1996 the establishment of the Ramu Nickel Joint Venture to prepare a bankable feasibility study. In 2000 the project was granted its Special Mining Licence and in 2005 Metallurgical Corporation of China Limited (MCC) joined the joint venture and was responsible for financing and construction of the project.

Ownership: The Kurumbukari mine and Basamuk process plant is a joint venture between Highlands (8.56%), the PNG Government and Landowners (6.44%) and MCC Ramu Nico Ltd (85%). MCC holds a 61% interest in MCC Ramu Nico Ltd, with the remaining 39% held by a number of other Chinese entities.

Highlands' interest in the mine which will increase to 11.3% at no cost after internal project debt has been repaid from operating cash flow. Highlands also has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%.

Operatorship: MCC is the mine's operator.

Free Carry: The Ramu project debt funding is non-recourse to Highlands with Highlands' equity interest free carried. As part of the joint venture agreement in place for Ramu, Highlands was entitled to choose the date when it wished to access operating cash surpluses being generated by the project, effectively isolating it from losses during the commissioning phase.

With Ramu having achieved an operating cash surplus in 2014, Highlands made a decision in early 2015 to begin participating, enabling it to begin receiving its pro-rata share of operating surpluses, with the first cashflows to be distributed in June. Of those funds, 80% initially will be applied to repay Highland's share of Ramu capital costs of \$1.010 billion (Highlands' share approximately US\$86 million). The remaining 20% will be available

to Highlands for its own purposes. Based on a forecast nickel price of approximately \$20,000/tonne, it is anticipated that Highlands will have repaid its share of the capped project capital by 2025, at which point its share in the project will increase to 11.3% at no cost.

Mining and Beneficiation Plant: The Kurumbukari nickel deposit is a low strip ratio, free digging open pit mine. Face shovels and backhoe configured excavators mine the average 12 metre thick ore-body and load into trucks for delivery to the beneficiation plant. The plant removes the chromite and creates a correctly sized and consistent slurry feed for overland pipeline transport to the Basamuk process plant.

Slurry Pipeline: A 135km slurry pipeline runs from the Kurumbukari mine/beneficiation plant to the Basamuk process plant, with a drop in elevation of about 680m. The majority of the pipeline has been buried and has road access for ease of checking and maintenance.

Basamuk Process Plant: The Basamuk process plant incorporates three High Pressure Acid Leach (HPAL) trains (autoclaves) and is designed to produce 78,000 tonnes (dry) of mixed hydroxide product containing 31,150 tonnes of nickel and 3,300 tonnes of cobalt per annum. The plant has a two train acid making facility as well as a limestone processing plant for making the key reagents used in the making of the mixed hydroxide product.

Exports and Sales: Since production started in 2012 mixed nickel cobalt hydroxide intermediate product has been exported to China where contracts are in place to receive the product. Up until the end of 2014 a total of 36,440 t of nickel and 3,521 t of cobalt in an intermediate form has been sold.

Environment and Deep Sea Tailings: Based on advice from international experts received during the study and permitting stages it was decided to dispose of the tailings from the operation into the 1,500 metre deep sea canyons as this represented the most appropriate and safe method of disposal. Reasons for this decision include the fact that the area has among the highest rainfalls in the region and land based tailing storage could be disturbed in a highly active volcanic and high-rainfall region while impinging on agriculture and landholder customary land.

For more information on Ramu review the website:

www.ramunico.com

Star Mountains Copper-Gold Project

- a Anglo American joint venture formed

About the Star Mountains Exploration Tenements:

The Star Mountains exploration tenements cover 515 sq kms and are located within the prospective New Guinean Orogenic Belt, which hosts the Grasberg, Ok Tedi, Porgera and Hidden Valley mines, as well as the Frieda River deposit. The tenements, which include Nong River EL1312, Mt Scorpion EL1781, Munbil EL2001 and Tifalmin EL1392, are approximately 20km north east of the Ok Tedi mine and 25kms from the support town of Tabubil, in the West Sepik Province of PNG.

Exploration over the past three years, funded and conducted by Highlands, has identified significant copper and gold mineralisation in early stage drilling.

Highlands has identified 17 copper gold targets to date and drilled six of these targets, of which all but one encountered mineralisation. Intercepts include:

- 596m @ 0.61% Cu & 0.85g/t Au from 24 m down hole,
- 22m @ 1.42% Cu & 0.57 g/t Au from 146m down hole,
- 68m @ 0.97% Cu & 0.37 g/t Au from 280m down hole.

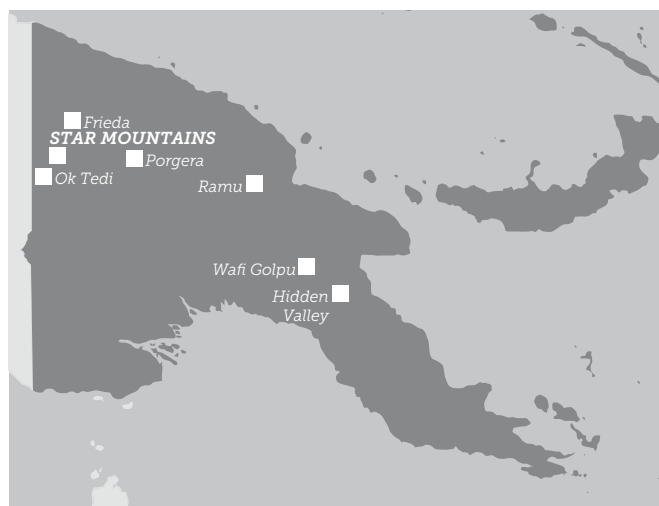
Ownership: In December 2014, Highlands and Anglo American Plc announced that they were forming a joint venture to undertake exploration and potential development of the Star Mountains project.

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

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

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

Phase 2 (80% interest) – Anglo American can move to an 80% interest in the Joint Venture by completing and funding a Bankable



Feasibility Study (BFS) within 15 years of the execution of the Farm-in and Joint Venture Agreements.

Development Free-Carry – Anglo American will provide Highlands with up to US\$150 million in project development funding as a deferred free-carry following completion of the BFS.

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

Preparation for the an exploration and drilling campaign has already commenced, with a four hole, 3,000 metre campaign to begin in April 2015, following completion of a helicopter-magnetic survey to identify targets.

History: The Star Mountains region has only been drilled twice in the last 50 years. The first drilling was conducted by Kennecott in the late 1960's when the Mt Fubilan deposit was discovered, and subsequently mined by Ok Tedi Mining Limited. Highlands undertook a drilling campaign for three years from 2010 where 28 diamond drill holes were drilled over six prospects which produced some major intersections of copper gold porphyry mineralisation.

Sewa Bay

EL1761 Sewa Bay

EL1761 is a 758 sq km exploration licence located in the western portion of Normanby Island in the D'Entrecasteaux group of islands, Milne Bay Province, Papua New Guinea. The tenement covers several blocks of exposed Cretaceous Ultramafic rocks over which nickeliferous laterites have developed.

In July 2013, Highlands conducted a 20 hole reconnaissance auger-drill sampling and rock chip recovery exploration programme for nickel bearing laterite developed on ultramafic rock. Results showed elevated nickel grades indicative of laterite soils.

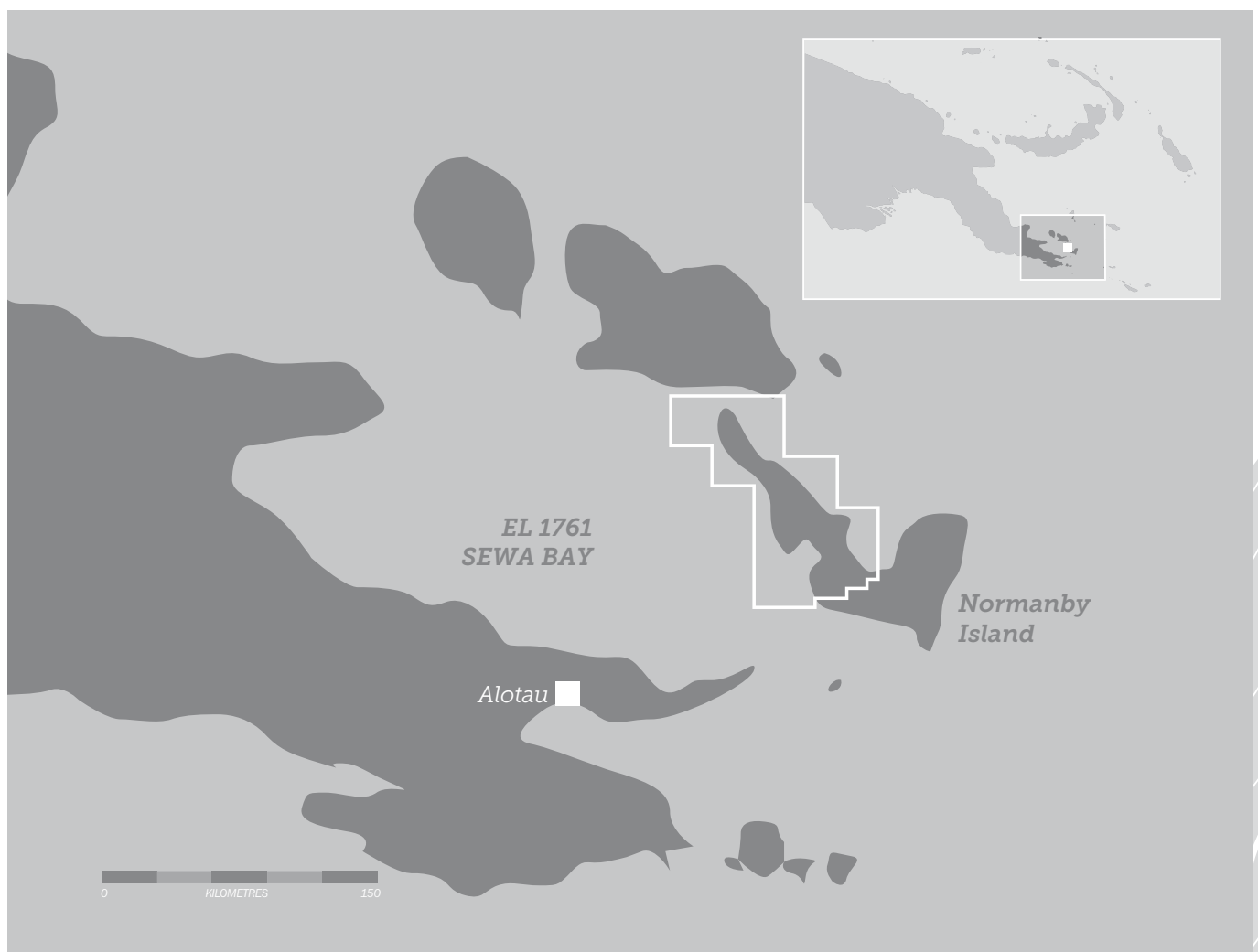
The shallowly sub cropping and outcropping nickel bearing ultramafic laterites at Sewa Bay are geologically similar to a number of South-West Pacific laterites that are host to nickel deposits.

New partner to advance exploration

In December 2014, Highlands and Japanese trading house Sojitz Group announced plans to work towards a potential joint venture to investigate the discovery and export of nickel laterites from the Sewa Bay tenement.

Sojitz and Highlands signed a Service Agreement and Memorandum of Understanding with the aim of developing a Farm-in Joint Venture Agreement which would see Sojitz emerge as the majority partner and responsible for funding further drilling and study programmes.

An initial six month work programme will commence in early 2015 and cost approximately US\$465,000, funded by Sojitz. The programme will consist of 1,500 metres of auger drilling, with 1,500 samples being taken for assaying.



Mineral Resource and Ore Reserve Statements

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

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

Frieda River Copper-Gold Porphyry Project

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

Horse/Ivaal/Trukai at a 0.2% Cu cut-off and constrained by a pit shell (US\$2.5/lb Cu & US\$ 1000/oz Au)

	31 December 2014				31 December 2013			
Category	MTonnes	Cu %	Au %	Ag g/t	MTonnes	Cu %	Au %	Ag g/t
Measured	780	0.51	0.28	0.79	780	0.51	0.28	0.79
Indicated	410	0.44	0.20	0.72	410	0.44	0.20	0.72
Inferred	920	0.4	0.2	0.7	900	0.4	0.2	0.7
Total	2110	0.45	0.22	0.76	2090	0.45	0.22	0.76

Koki at a 0.2% Cu cut-off

	31 December 2014			31 December 2013		
Category	MTonnes	Cu %	Au %	MTonnes	Cu %	Au %
Inferred	452	0.37	0.25	452	0.37	0.25

Ekwai at a 0.2% Cu cut-off

	31 December 2014			31 December 2013		
Category	MTonnes	Cu %	Au %	MTonnes	Cu %	Au %
Inferred	170	0.38	0.23	170	0.38	0.23

No additional resource drilling or modelling has taken place on Horse/Ivaal/Trukai, Koki or Ekwai since the 2013 Resource report, however reporting of the HIT Inferred Resource tonnes has been changed from one significant figure in the 2013 Resource (900 MTonnes) to two significant figures for the 2014 Resource (920 MTonnes). This brings reporting of the Inferred Resource inline with the reporting of the Measured and Indicated. 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.

Mineral Resource and Ore Reserve Statements

Nena

	31 December 2014 at a 0.3% Cu cut-off					31 December 2013 at a 0.5% Cu cut-off				
Category	MTonnes	Cu %	Au %	As %	Sb ppm	MTonnes	Cu %	Au %	As %	Sb ppm
Indicated	33	2.81	0.65	0.22	153	33	2.81	0.65	0.22	153
Inferred	12	1.84	0.45	0.14	88	12	1.84	0.45	0.14	88
Total	45	2.55	0.60	0.20	136	45	2.55	0.60	0.20	136

No additional resource drilling or modelling has taken place on Nena since 2012 to 2013 so there is no change to the reported resource tonnes or grade. Highlands Pacific is not aware of any new information or data that materially affects the information presented herein and confirms that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

Ramu Nickel-Cobalt Laterite Project

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

31 December 2014				31 December 2013			
Kurumbukari							
Category	MTonnes	Ni %	Co %	Category	MTonnes	Ni %	Co %
Measured	38	0.9	0.1	Measured	40	0.9	0.1
Indicated	7	1.4	0.1	Indicated	7	1.4	0.1
Inferred	4	1.2	0.1	Inferred	4	1.2	0.1
Total	49	1.0	0.1	Total	51	1.0	0.1
Ramu West							
Indicated	17	0.8	0.1	Indicated	17	0.8	0.1
Inferred	3	1.5	0.2	Inferred	3	1.5	0.2
Total	20	0.9	0.1	Total	20	0.9	0.1
Greater Ramu							
Inferred	60	1.0	0.1	Inferred	60		0.1
Global Total	129	1.0	0.1	Global Total	131	1.0	0.1

Changes in the reported mineral resources for the Ramu project reflect depletion of mined areas.

Mineral Resource and Ore Reserve Statements

Ramu Reserve

The following table shows the 2014 Ramu ore reserve estimate.

31 December 2014					31 December 2013				
Category	MTonnes	Ni%	Co%	Rocks +2mm MTonnes	Category	MTonnes	Ni%	Co%	Rocks +2mm MTonnes
Kurumbukari									
Proved	33	0.9	0.1		Proved	35	0.9	0.1	
Probable	6	1.4	0.1	11	Probable	7	1.4	0.1	11
Total	39	1.0	0.1	11	Total	42	1.0	0.1	11
Ramu West									
Proved					Proved				
Probable	14	0.9	0.1		Probable	14	0.9	0.1	
Total	14	0.9	0.1		Total	14	0.9	0.1	
Global Total	53	1.0	0.1	11	Global Total	55	1.0	0.1	11

The 2014 Ramu Ore Reserve was estimated from part of the mineral resource, reported above, in a study to estimate reserves conducted by AMC Consultants. The new ore reserve estimate shows a decrease in contained metal and ore tonnes when compared to the 2013 Ore Reserve, due to reserve depletion from mining partially offset by a decrease in the cut-off grade. The 2013 Ore Reserve was based on Modifying Factors assumed at that time with some reliance upon Modifying Factors developed in the Ramu feasibility study (2007) to reflect ongoing production ramp-up. Metal price, operating cost, and metallurgical recovery assumptions were updated in 2014 based on the past year's operational information. The 2014 cut-off grade decreased to approximately 0.63% Nickel equivalent (including cobalt metal credits).

Notes

This summary of the mineral resources and the ore reserves as at 31 December 2014 should be read in conjunction with the comprehensive report 2014 Mineral Resources and Ore Reserves statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 13 March 2015.

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 Ramu Ore Reserve is estimated using prices of US\$28,820/t nickel and US\$19,636/t cobalt.

Corporate Governance - reserves and resources calculations

Due to the nature, stage and size of the Company's existing operations, the Board believes there would be no efficiencies gained by establishing a separate mineral reserves and resources committee responsible for reviewing and monitoring the Company's processes for estimating mineral resource and ore reserves and for ensuring that the appropriate internal controls are applied to such calculations.

Mineral Resource and Ore Reserve Statements

However, the Company ensures that any mineral reserve and ore resource estimations are prepared by competent geologists and are reviewed independently and verified including estimation methodology, sampling, analytical and test data.

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

Competent Persons Statement

The database information used for the Horse/Ivaal/Trukai, Koki and Ekwai resource estimates was compiled and verified as suitable for this estimate by Lawrence Queen. Details contained in this Annual Report that pertain to the Horse/Ivaal/Trukai, Koki and Ekwai Resource Estimates are based upon, and fairly represent, information and supporting documentation compiled by Simon Tear. Mr. Tear 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 full-time employee of Highlands Pacific and a Member of The Australasian Institute of Mining and Metallurgy. Both Mr. Queen and Mr. Tear have sufficient experience which is relevant to the style of mineralisation 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 Tear consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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

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

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

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

Our Commitment

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

Workplace Health and Safety

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

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

**Table A – Highlands Operations
Accident Statistics**

Number of:	2014	2013	2012	2011	2010
Fatalities	0	0	0	0	0
Lost time injuries	0	0	1	0	0
Average no. of employees	15	15	70	50	35

**Table B – Ramu Project (not operated by Highlands)
Accident Statistics**

Number of:	2014	2013	2012	2011	2010
Fatalities	1	0	0	1	3
Lost time injuries	2	1	5	2	12
Average no. of employees	1,391	1,400	1,184	1,668	2,500

**Table C – Frieda Project (not operated by Highlands)
Accident Statistics**

Number of:	2014	2013	2012	2011	2010
Fatalities	0	0	0	0	0
Lost time injuries	0	0	0	0	0
Average no. of employees	62	84	148	154	220

Health Program

In most parts of Papua New Guinea, the poor availability of health services to the rural communities is an area of concern. Highlands and its joint venturers assist these communities by providing medical supplies and regular health extension visits by company community health workers. These programs address pressing health issues including HIV/AIDS, malaria, tuberculosis, typhoid and other diseases. During the year Highlands assisted with building and opening a Community Aid Post in Tifalmin.

Environmental Management

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

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

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

Landowner and Community Relations

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

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

- O Open and honest communication
- L Long term view
- G Grateful for each other
- E Expectations realistic also environmental responsibility
- T Trust is important
- A Agreements honoured.

Business Development

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

Board of Directors

Ken MacDonald

Chairman Independent, Non-executive Director

Appointed: 01 February 2008 FAICD

Ken MacDonald has over 40 years' experience in corporate law, with particular emphasis on the energy and natural resources sector as a partner with Allens Arthur Robinson and its predecessors where he headed the firm's Energy, Resources and Infrastructure Department and had responsibility for its Port Moresby office. He retired as partner on 31 December 2007 but remains an active consultant to the firm. He has advised the Queensland Government in many significant transactions, from leading the Queensland Government legal team for the Suncorp Metway merger and subsequent privatisation, through to the sale of the Queensland retail energy business. He regularly advises on mergers and acquisitions, corporate governance issues, joint ventures, capital raisings and business regulation. He has long experience as a listed company director. In addition to his present role with Highlands Pacific, Mr MacDonald is a Director and Deputy Chancellor of Bond University Limited, and recently retired after over 20 years as The Deputy Chairman of QIC. Mr MacDonald was a Director of Rivercity Motorway Group from August 2006 to February 2011.

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

John Gooding

Managing Director

Appointed: 21 May 2007 FIEAust. FAusIMM, MAICD

John Gooding is the Managing Director and Chief Executive Officer of Highlands Pacific Limited. He is a Mining Engineer with over 40 years' experience in gold and base metals resources including mining, exploration, smelting, refinery operations, sales & marketing, major capital expansion projects, commercial and management. He has held executive management positions with Normandy Mining, MIM, Xstrata, Ok Tedi Mining and Roche Mining. He holds a Mine Managers Certificate (Qld, NSW & NT) and is a Fellow of both the Institute of Engineers & the Australasian Institute of Mining & Metallurgy. Mr Gooding is a Board Member of the PNG Chamber of Mines and Energy and a Director of Hillgrove Resources Limited since July 2007.

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

Mike Carroll

Independent, Non-executive Director

Appointed: 01 April 2008 FCPA, MAICD

Mike Carroll is a Fellow of Certified Practising Accountants with over 40 years' experience in a broad range of industries (in all states of Australia). These include mining, petroleum, building and construction, property and a number of service industries. Mr Carroll has held executive management positions with Brambles Industries Limited, James Hardie and Comalco and is currently Chief Executive Officer of Neumann Associate Companies. He has extensive experience in acquisitions (including integration), Government

and semi-Government relationships, business development, profit growth and Corporate Governance. Mr Carroll is a member of the Australian Institute of Directors.

Mr Carroll is Chairman of the Board's Audit Committee (Chair), Remuneration Committee and Nominations Committee.

Dan Wood AO

Independent, Non-executive Director

Appointed: 28 May 2010

Dan Wood is an adjunct professor and advisory board member with the W H Bryan Mining and Geology Research Centre at the University of Queensland, and an exploration geologist with a distinguished record in the mining industry. He retired from mineral exploration in late 2008 after 24 years with BHP and almost 18 years with Newcrest Mining Limited, during which time he was associated with a number of significant discoveries, including the Cadia porphyry ore bodies in Australia. After joining Newcrest Mining at its formation in 1990, he was Executive General Manager Exploration for Newcrest from the mid-1990s onwards, leading its highly successful exploration team which was judged by the Metals Economics Group of Canada to have been the world's most successful gold explorer, 1992-2005. He has extensive experience and an international reputation in mineral exploration and discovery. In 2002, he was jointly awarded the Joe Harms Medal by the Geological Society of Australia for discovering the Cadia gold-copper deposits in NSW. In 2013, he was the recipient of awards from the Society for Mining, Metallurgy & Exploration in the USA, and the Prospectors & Developers Association of Canada. Mr Wood is a Fellow of the Society of Economic Geologists in the USA and was its 2012 Distinguished Lecturer.

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

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

Bartholomew Philemon

Independent, Non-executive Director

Appointed: 21 September 2012

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

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

Corporate Governance

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. Companies with a 31 December reporting date are expected to measure their governance practices against the recommendations in the 3rd edition commencing with the financial year ended 31 December 2015 however the Board of Highlands Pacific has elected to early adopt.

The Highlands Pacific Board has adopted the principles and recommendations and complies with them all except as identified below.

A summary of the following Highlands' Corporate Governance policies can be obtained from the Company's website:

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

Board of Directors

Role & Responsibility of the Board

The Board has a formal Board Charter which sets out the responsibilities, structure and composition of the Board. It provides that the Board's broad function is to:

- define the Company's strategic direction;
- establish goals for management and regularly reviewing management performance;
- review the operational and financial performance of the Company's activities;
- establish procedures to identify and manage areas of business risk;
- undertake succession planning, including appointment of the Managing Director;
- set the overall Company remuneration policy which incorporates appropriate performance hurdles;
- ensure shareholders are informed of all significant developments affecting the Company's state of affairs; and
- formulate general corporate governance statements.

The Board has delegated to management the responsibility for implementing corporate strategies and managing the day-to-day operations of the Company in accordance with the guidelines set down by the Board.

Composition of the Board

The Board is to be constituted with a majority of Non-Executive Directors, including a Chairman who is independent.

The Company's constitution provides that the number of Directors from time to time shall be the number determined by the Board, being a number not less than three, nor more than nine.

The Board should comprise Directors with an appropriate range of skills, experience and qualifications to enable it to perform its role to a high standard.

The table below details the balance achieved with the current Board composition in terms of skills required for the Company.

Skill & Experience	Directors (out of 5)
Exploration & Geology	1
Mining Operation	1
Commercial	5
Financial	3
Fund Raising	5
Legal	1

The Board currently comprises five Directors including four independent Non-Executive Directors and the Managing Director. The Board's intention is to maintain a blend of qualifications, skills and experience of Directors, appropriate for the size and activities of the Company. The Chairman is a Non-Executive and independent member of the Board.

Each Director has the right to request Company assistance with any special professional development opportunities which that Director thinks would be of assistance in undertaking his or her duties as a Director of the Company. The Chairman has also arranged for all Directors to be included on the invitation list for Corporate Governance workshops periodically conducted by a law firm and an accounting firm.

The Company's constitution requires one-third of the Directors (rounded up to a whole number) to retire by rotation at each Annual General Meeting and no Director may be in office for more than three years without standing for re-election. Also a Director appointed during the year must stand for re-election at the next Annual General Meeting. Retiring Directors may offer themselves for re-election.

It is a policy of the Company that any Director over 72 years of age submits him or herself 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.

The Nomination Committee is responsible for reviewing the Board's membership and oversees the nomination of new Directors.

It is the view of the Board that the role of the Chairman and the Managing Director should be separate. The Managing Director is responsible for implementing corporate strategies and policies.

Independence of Directors

The Board recognise all Directors must act in the best interests of the Company and its shareholders as whole.

Directors of the Board are considered to be independent if:

- they do not represent any major shareholder or group of shareholders;
- a period of three years has elapsed since they held a management position with the Company; or
- they have not been an adviser or principal of a firm or company so retained by the Company.

Directors' access to professional advice

All Directors have the right to seek independent professional advice in regard to their duties. The Company will bear the expense of such advice, subject to the approval of the Chairman, which will not be unreasonably withheld. Any advice received by a Director is shared by all Directors.

Board committees

The Board operates through a number of sub committees in addition to those committees set up specifically to oversee special matters or transactions.

Audit Committee

The Board, as part of its program to achieve and maintain high standards of corporate governance, has established an Audit Committee to ensure the maintenance of an effective and efficient audit program and the effectiveness and reliability of the Company's internal control and financial risk management system.

The Audit Committee is to comprise of at least three members with the majority of members being independent Non-Executive Directors. The Chair of the Audit Committee must be an independent Non-Executive Director and not Chair of the Board.

The role of the Audit Committee is documented in a charter approved by the Board and covers the following:

- ensure that effective measures are in place to describe, communicate and implement the standards of integrity required by the Company of its Directors, managers and employees in relation to financial control and financial reporting;
- satisfy itself that effective systems of accounting and internal control are established and maintained to manage financial risk;
- satisfy itself as regards the integrity and prudence of management internal and financial control systems, including the review of policies and procedures;
- ensure the Board is aware of any matters that might have a material impact on the financial condition or affairs of the Company;
- review and assess the adequacy of management reporting to the Board;
- review the quarterly, half-yearly and annual financial statements and other information released to the public;
- recommend to the Board the appointment of the internal and external auditors. The appointment of external auditors is to be reviewed every five years and the lead audit partner must be rotated every five years;
- review the efficiency and effectiveness of the internal and external auditors in relation to their respective accountabilities;
- ensure that there has been no unjustified restrictions or limitations imposed on the auditors from within the Company;
- ensure that the scope of the audits (internal and external) is adequate;

Corporate Governance

- review and assess the findings of the internal and external auditors;
- report any matter identified during the course of carrying out its duties that the audit committee considers should be brought to the attention of the Board; and
- perform or undertake on behalf of the Board such other tasks or actions as the Board may from time to time instruct.

Current members of the Audit Committee are Mr M Carroll (Chairman - FCPA, MAICD); Mr B Philemon; and Mr D Wood (BSc (Hons), MSc); all of whom are independent Non-Executive Directors. There were seven meetings held during the year and all members attended meetings they were eligible to attend with the exception of Mr D Wood who missed one meeting.

Remuneration Committee

The purpose of the Remuneration Committee is documented in a charter approved by the Board and covers the following:

- assessing the performance of management in conjunction with the Managing Director (senior executives have 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, with the Managing Director documenting and managing the process and reporting to the Remuneration Committee);
- recommending to the Board the remuneration of the Managing Director and senior executive staff, after considering the Managing Directors own recommendations; and
- determining the remuneration for Non-Executive Directors subject to the Directors' aggregate compensation not exceeding the maximum annual sum approved by shareholders.

The Remuneration Committee is to comprise of at least three members with the majority of members being independent Non-Executive Directors. The Chair of the Remuneration Committee must be an independent Non-Executive Director and can be the Chair of the Board.

The Remuneration Committee meets once a year or more frequently if required in special circumstances. The Committee may obtain advice from external consultants regarding the appropriate level of remuneration for the senior executives and Non-Executive Directors.

An assessment of the performance of management in conjunction with the Managing Director did take place during the reporting year in accordance with the process detailed above.

Current members of the Remuneration Committee are Mr K MacDonald (Chairman), Mr D Wood and Mr M Carroll. There were

three meetings held during the year and all members attended meetings they were eligible to attend.

The Directors' Report to Shareholders details the structure of fees and payments to Non-Executive Directors and the Managing Director while the audited accounts further detail specific payments made during the year. The Non-Executive Directors are not entitled to any schemes for retirement benefits other than superannuation.

Nomination Committee

The role of the Nomination Committee is documented in a charter approved by the Board and covers the following:

- assessing periodically the skill set required to discharge competently the Board's duties, having regard to the strategic direction of the Group, and assessing the skills currently represented on the Board;
- regularly reviewing and making recommendations to the Board regarding the structure, size and composition (including the balance of skills, knowledge and experience) of the Board and the effectiveness of the Board as a whole, and keeping under review the leadership needs of the Group, both executive and non-executive;
- preparing a description of the role and capabilities required for a particular appointment;
- identifying suitable candidates (executive and non-executive) to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board (this will include any subsequent decisions to extend an appointment);
- ensuring that, on appointment, Directors:
 - shall receive a formal letter of appointment, setting out the time commitment and responsibility envisaged in the appointment including any responsibilities with respect to Board Committees or in acting in a capacity other than as a Director (e.g. as Chair or as a lead independent Director);
- have the opportunity to participate in a Group induction program to gain an understanding of:
 - the Group's financial, strategic, operational and risk management position;
 - the rights, duties and responsibilities of the Director;
 - the roles and responsibilities of senior executives; and
 - the role of Board committees.
- specifically acknowledge to the Group, if they are Non-Executive Directors that they will have sufficient time to meet what is expected of them. The acknowledgment shall be renewed prior to submitting a motion for re-election.

Corporate Governance

- identifying the existing Directors who are due for re-election by rotation at Annual General Meetings, in accordance with the Constitution;
- reviewing annually the performance of the Board, its committees and Directors. The evaluation will include:
- comparing the performance of the Board with respect to the requirements of the Board Charter and current best practice principles of corporate governance;
- review of the individual Directors contribution to the Board;
- the performance of the Board's committees; and
- establishing the goals and objectives of the Board for the upcoming year.
- giving full consideration to appropriate succession planning, satisfying itself that processes and plans are in place in relation to the Board.

The Nomination Committee normally meets once a year or more frequently if required in special circumstances. The Committee may obtain advice from external consultants if required.

Current members of the Nomination Committee are Mr K MacDonald (Chairman), Mr M Carroll and Mr J Gooding. There were two meetings held during the year and all members attended meetings they were eligible to attend.

Details of the nomination, selection and appointment processes are available on the Company website.

PNG Issues Committee

The committee meets on an adhoc basis to advise the Board on PNG issues. Members of the PNG Issues Committee are Mr J Gooding (Chairman) and Mr B Philemon.

Risk oversight and management

The effective identification of potential risks and the management of those risks is an important priority for the Board and management of Highlands Pacific. The Board recognises that as part of its commitment to good corporate governance, it is responsible for overseeing the establishment and implementation by management of the Group's risk management system.

To effectively manage risk, Highlands has implemented a structured risk management framework that communicates its commitment to risk management, identify, assess and manage all forms of risk, and to train its people in the methods of risk management.

Fundamentally there are two important principles in risk management that are upheld within Highlands. These are:

- that the risk management process is a means to an end – which means that the risk management process is used to develop risk controls that are then internalised and integrated to become a part of the way that the business operates, and
- that risk management is a function of line management – which means that the executive managers are accountable for managing risk within their area.

The risk management system will require the completion of a risk register for corporate and other appropriate areas which is reviewed annually in full, in particular when significant changes and events occur, or new projects are undertaken and reported to the Board.

The Board, through the Audit Committee, is responsible for ensuring that there are adequate policies and procedures in place in relation to risk management, compliance and internal controls.

The Board does not consider the Company of sufficient size to warrant a dedicated internal audit function.

The Company, as a mineral exploration, development and production company faces inherent risks in its activities, including economic, environmental and social sustainability risks which may have a material impact on the business and the Company's ability to create value for its shareholders. These risks are identified and managed through the process detailed above.

Management Assurances

In accordance with ASX principles and recommendations, the Managing Director and the Chief Financial Officer are required to state that the integrity of the financial statements contained within this report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

They are further required to state that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

The Board can confirm that the above has been received from management, being the Managing Director and the Chief Financial Officer.

Ethical standards

Code of Conduct

It is Company policy that the Directors, management and employees conduct their activities with honesty, integrity and high ethical standards.

Corporate Governance

A Code of Conduct is issued to all Directors and management, with a copy of the code being made available to employees as part of their induction to the Company.

The Code provides guidelines for the standards of behaviour required in relation to the following:

- compliance with corporate policies and applicable laws;
- confidential information;
- trading in the Company's securities;
- community standards; and
- conflicts of interest.

Dealing in the Company's Securities

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

The Company's policy stipulates that Directors, management and employees, including associates, must not deal in the Company's securities during a prohibited period. A prohibited period means any closed period:

- the period from 14 days prior to 2 days trading days after the publication of the company's annual results;
- the period from 14 days prior to 2 days trading days after the publication of the company's half-year results; or
- the period from 14 days prior to 2 days trading days after the publication of the company's quarterly results.

Before trading, or giving instructions for trading in the Company's securities, a Director must:

- notify the Chairman in writing of the intention to trade;
- confirm that the Director does not hold any inside information;
- if the Director is seeking clearance to trade in exceptional circumstances, provide full disclosure of such circumstances;
- have been notified by the Chairman that there is no reason to preclude the director from trading in the Company's securities as notified; and
- comply with any conditions on trading imposed by the Chairman (standard condition is that the trade must take place within five business days from notification).

Where the Chairman intends to trade in the Company's securities, the Chairman must notify and obtain clearance in the abovementioned manner from at least one other Director and the Managing Director before trading, or giving instructions to trade.

In the case of any officer or employee, the person must notify and

obtain clearance from the Managing Director before trading, or giving instructions for trading.

The Company recognises the policy is only a guideline and insider trading provisions of the Australian Corporations Act and PNG Securities Act must also be observed.

A copy of the Code and the trading policy are available on the Company website.

Disclosure and shareholder communication

The Board seeks to provide timely and relevant information to its shareholders and the broader investment community in line with its continuous disclosure obligations under the ASX and POMSx listing rules.

Communication to shareholders can take the form of specific announcements, quarterly reports, or half-yearly and annual reports. All releases are posted on the Company's website immediately after they are released to the ASX and POMSx.

The Annual General Meeting also allows the Company to communicate with shareholders and all shareholders are encouraged to attend the meeting. The Company's auditors are invited to attend and make themselves available for questions on matters relating to the Company and its performance.

Diversity and inclusion policy

The Company strives to create an inclusive culture in which differences are recognised and valued. By bringing together men and women from diverse backgrounds and giving each person the opportunity to contribute their skills, experience and perspectives, we believe that we are able to deliver the best solutions to challenges and deliver sustainable value for the Company and its stakeholders.

Diversity and inclusion for HPL means:

- embracing workforce diversity – age, gender, race, national or ethnic origin, religion and physical ability.
- valuing diversity of perspective – leveraging the diverse thinking, skills, experience and working styles of our employees and other stakeholders.
- respecting stakeholder diversity – developing strong and sustainable relationships with communities, employees, governments and suppliers.

We believe that being a diverse and inclusive organisation improves outcomes and will help the Company to achieve its vision to create shareholder wealth through exploration, development and operation of its resource projects. The benefits include:

Corporate Governance

- making good decisions about how we organise and optimise resources and work by eliminating structural and cultural barriers to working together effectively;
- protecting our exploration licences by recognising, respecting and taking into account in our decisions, the needs and interests of diverse stakeholders;
- delivering strong performance and growth by being able to attract, engage and retain diverse talent;
- innovation by drawing on diverse perspective, skills and experience of our employees and other stakeholders; and
- adapting and responding effectively to changing societal expectations.

Our commitment to diversity and inclusion aligns with our values of accountability, respect, teamwork and integrity. Diversity and inclusion are supported at the highest levels in the Company, by the Board. The Board has established this policy and, together with other key management personnel, guides the development of diversity and inclusion strategy and reviews progress against measurable objectives and key programmes of work. The implementation of these objectives is overseen by the Company's Board through the Managing Director and Chairman.

The Board has not yet set any measurable statistics in relation to diversity, having regard to the small number of its permanent employees at this stage in the Company's development. Nevertheless, it is the Company's policy to employ PNG Nationals wherever possible, and to promote and give opportunities to women.

As at the date of this Annual Report the following diversity statistics include:

Board – 20% PNG national representation; no women;

Senior management – 25% PNG national representation; 13% women;

Permanent employees – 47% PNG nationals; 18% women.

Directors' Report to Shareholders

Your Directors take pleasure in presenting the Annual Report (the "Report") including the Financial Statements of Highlands Pacific Limited (the "Company") and the Consolidated Accounts of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 (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 of the financial year and up to the date of this Report:

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

Refer to the previous section for Directors' experience and special responsibilities. A statement on Directors' independence is set out in the Corporate Governance section of the Annual Report.

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 2014 and the numbers of meetings attended by each Director were:

	Scheduled Director's Meetings		Non-scheduled Director's Meetings		Audit Committee Meetings	
	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended
K. MacDonald	6	6	2	2	-	-
J. Gooding	6	6	2	2	-	-
M. Carroll	6	6	2	2	7	7
D. Wood	6	6	2	1	7	6
B. Philemon	6	6	2	1	7	7

	Remuneration Committee Meetings		Nomination Committee Meetings	
	No. Eligible to Attend	No. Eligible to Attend	No. Eligible to Attend	No. Attended
K. MacDonald	3	3	2	2
J. Gooding	-	-	2	2
M. Carroll	3	3	2	2
D. Wood	3	3	-	-
B. Philemon	-	-	-	-

Directors' shareholdings and interests

Details of Directors' related direct and indirect shareholdings and interests in the equity of the Company, as at 31 December 2014, are as follows:

Director & position	Interest held by director in shares in Highlands	Interest held by director in options and performance rights in Highlands
K MacDonald, Chairman	800,000	-
J Gooding, Managing Director	3,520,215	13,550,000
M Carroll, Non-Executive Director	304,307	-
D Wood, Non-Executive Director	100,000	-
B Philemon, Non-Executive Director	1,028	-

Directors' Report to Shareholders

Company secretary

The Group has two Company Secretaries:

- Mr Craig Lennon, the operational Company Secretary looking after day to day requirements including Company announcements and meetings of the Board. Mr Lennon is also the Chief Financial Officer; and
- Mr Erik Andersen, Papua New Guinea ("PNG") resident Company Secretary as required by the Investment Promotions Authority in PNG. Mr Anderson is a Partner with Gadens Lawyers in PNG.

Principal activities

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

Review of operations

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

A net profit after tax of US\$7.6m is reported by the Group for the year. The profit includes the following items:

- exploration and development expenditure of US\$2.8m; and
- general and administrative expenditure of US\$4.2m; offset by
- reversal of previous impairment of the carrying value of the Group's investment in the Ramu mine by US\$15.0m as part of the 31 December 2014 year end review due to improved production rates, better outlook for nickel prices in the medium term and a revised financing structure whereby Highlands will gain access to earlier cash flows; and
- interest revenue of US\$0.1m.

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 2014.

Significant changes in state of affairs

The Group's net assets increased by US\$12.3m from US\$64.1m to US\$76.4m. This movement can be summarized as follows:

- decrease in cash of US\$1.5m;
- increase in trade and other payables of US\$1.2m; and
- increase in the investment in Ramu of US\$15.0m;

Contributed equity increased by US\$4.4m from US\$299.5m to US\$303.9m as the result of a share placement of ordinary shares. Details of the changes in contributed equity are disclosed in note 15 of the Financial Statements.

Matters subsequent to the end of the financial year

On 11 February 2015 the Group executed Joint Venture and Farm-in Agreements for the Star Mountains Copper-Gold project with a wholly owned subsidiary of Anglo American Plc. Refer note 26 of the Financial Statements.

On 23 February 2015 the Group announced it has conditionally exercised its right to nominate into the Ramu Nickel Joint Venture. Refer notes 18 and 26 of the Financial Statements.

Likely developments and expected results of operations

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

Environmental regulation

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

Insurance and indemnification of directors and officers

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

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

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

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

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

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

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

Directors' Report to Shareholders

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, excluding the Chairman, comprises AU\$60,000 p.a. plus a 9.5% superannuation contribution. The current remuneration for the Chairman is AU\$120,000 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 (previously Executive Share Option Scheme).

Managing Director

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

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

The Board takes the view that employee incentive schemes are important elements of remuneration which provide tangible incentives to employees to improve the Group's performance in both the short term and the longer term. In turn, improved performance benefits shareholders. The STI Plan is a short term incentive program, based on both Group and individual employee performance-related measures. Incentive payments in relation to performance over the 1 January 2014 to 31 December 2014 performance period were made in December 2014. The LTI Plan complements the STI Plan with measures that further drive long term performance with Highlands.

Short Term Incentive Plan

The STI Plan is designed to help drive performance within the Group by providing a vehicle for rewarding the Managing Director and executive and senior management. The performance measures are a combination of Group and individual measures chosen to directly align the individual's reward to the Group's strategy, performance and resultant shareholder value. The amount of the entitlement is based on a percentage range of each employee's fixed remuneration. The total potential STI available is set at a level so as to provide sufficient incentive to individuals to achieve and exceed targets and objectives. In 2014 the Board determined that the STI offered for the 1 January 2014 to 31 December 2014 performance period would be 'cash only', in line with previous years. Equity continues to be offered through the LTI Plan.

Directors' Report to Shareholders

Summary of Short Term Incentive Plan (STI)

What is the STI 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 2014 STI grant paid to eligible employees?	The STI amount was paid to employees in December 2014, following assessment of performance against the applicable measures during the 2014 performance period.
Who participated in the 2014 STI?	The Managing Director, Key Management Personnel and selected employees.
Why does the Board consider the STI Plan an appropriate incentive?	A STI Plan is a globally recognised form of reward for management, aimed at ensuring focus and alignment with Group objectives and strategy.
In what circumstances are STI entitlements forfeited?	Where an employee is either dismissed for cause, resigns from employment, or is guilty of fraud, prior to conclusion of the performance period, the STI amount will be forfeited upon cessation of employment.
What happens to STI entitlements upon a change of control in the Group?	Upon a change of control event, the Board must determine the extent, if any, to which early vesting on a full or a pro-rated basis is the appropriate outcome in all the circumstances.
What is the relationship between Group performance and allocation of STI?	Overall performance is calculated as Group performance together with the personal performance adjusted for the appropriate weighting for the individual employee and then multiplied by the maximum STI percentage available.
What is the period over which Group performance is assessed?	The assessment period is 1 January to 31 December financial year preceding the grant date of the STI.

Long Term Incentive Plan

The Board reviews and adjusts on an annual basis the content and balance of equity-based remuneration to ensure the effectiveness of equity incentives and to recognise the potential impact on the eligible employees. The amount of equity remuneration received by employees is performance-dependent and will vary according to the extent to which the related Group performance measures are met. All equity-based remuneration is 'at-risk' and will lapse or be forfeited, if the prescribed performance conditions are not met by the Group.

The Group performance measures for the 2014 grant, over a three year vesting period, were matching the Total Shareholder Return for a Peer Group as recommended by an independent external consultant.

Directors' Report to Shareholders

Summary of Long Term Incentive Plan (LTI)

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

Directors' Report to Shareholders

Details of equity based incentive payments are disclosed in note 24 of the Financial Statements, including the inputs in order to calculate the fair value. Further to this information, the table below details the equity based incentive payments for the Managing Director.

Name & Position	Grant Date	Rights Granted	Rights Vested & Exercised	Rights Lapsed
John Gooding, Managing Director	19 May 2011	1,200,000	300,000	900,000
John Gooding, Managing Director	17 May 2012	1,600,000	Nil	Nil
John Gooding, Managing Director	16 May 2013	2,600,000	Nil	Nil
John Gooding, Managing Director	22 May 2014	4,350,000	Nil	Nil

As detailed above, 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 19 of the Financial Statements.

Details of service agreements with Directors

As detailed in the Corporate Governance section of the Annual Report, one-third of the Directors (rounded up to a whole number) 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 John Gooding, has an employment agreement with an end date of 13 July 2018 with a fixed remuneration of AU\$630,000 for the 2015 year. The notice period Mr Gooding has to give the company is 1 month while the notice period the Group must give is 1 month while the termination payment to Mr Gooding is 100% of fixed remuneration amount.

Corporate governance

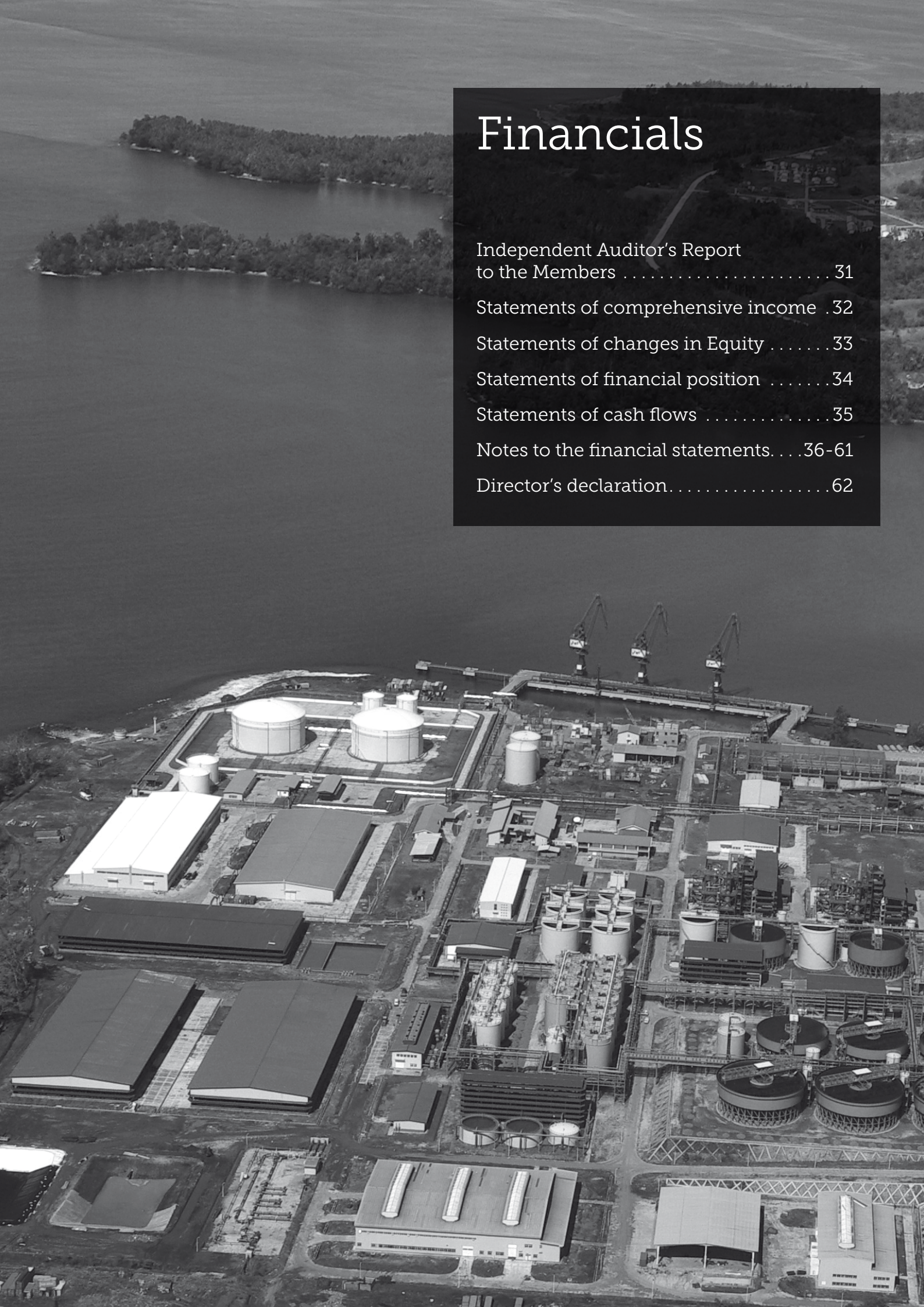
In recognising the need for the highest standard of corporate behaviour and accountability appropriate to an organisation such as Highlands Pacific Limited, the Directors support and have adhered to principles of sound corporate governance. The Company's Corporate Governance Statement is contained in this Annual Report

Signed this 12 March 2015 in accordance with a resolution of the Directors.

For and on behalf of the Board

Ken MacDonald
Chairman

John E Gooding
Managing Director



Financials

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Independent Auditor's Report

to the shareholders of Highlands Pacific Limited

Report on the financial statements

We have audited the accompanying financial statements of Highlands Pacific Limited (the Company), which comprise the statements of financial position as at 31 December 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2014 or from time to time during the financial year.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements:

1. comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2014, and their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

The Companies Act 1997 requires 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 2014:

1. we have obtained all the information and explanations that we have required;
2. in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records; and
3. we have no relationship with, or interests in, the Company or any of its subsidiaries other than in our capacities as auditor and tax advisor. These services have not impaired our independence as auditor of the Company and the Group.

Restriction on distribution or use

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

Grant E Burns
Engagement Leader

SC Beach
Partner

Registered under the
Accountants Registration
Act 1996

Port Moresby
12 March 2015

Statements of comprehensive income

For the year ended 31 December 2014

	Notes	Consolidated		Holding Company	
		2014 US\$000	2013 US\$000	2014 US\$000	2013 US\$000
Finance Income	2	119	142	-	-
Other income	2	9	15	-	-
Net foreign exchange gain	3	-	-	-	-
Total Income		128	157	-	-
General and administrative costs	3	4,242	4,819	-	-
Exploration and development costs	3	2,787	4,133	-	-
Depreciation and amortisation	3	83	77	-	-
Net foreign exchange loss	3	396	722	-	-
Total Operating Costs	3	7,508	9,751	-	-
Loss from operations		(7,380)	(9,594)	-	-
Impairment of subsidiary advances	12	-	-	(4,659)	(13,433)
Impairment of non-current assets	9 /10 /11	-	(37,567)	-	(18,670)
Reversal of impairment	10/11	15,007	9,993	15,007	-
Profit (Loss) before income tax		7,627	(37,168)	10,348	(32,103)
Income tax expense	4	-	-	-	-
Profit (Loss) for the period		7,627	(37,168)	10,348	(32,103)
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		7,627	(37,168)	10,348	(32,103)
Basic earnings per share	5	US\$0.009	US(\$0.047)		
Diluted earnings per share	5	US\$0.009	US(\$0.047)		

These Statements of Comprehensive Income are to be read in conjunction with the accompanying notes

Statements of changes in equity

For the year ended 31 December 2014

	Notes	Share Capital US\$000	Reserves US\$000	Retained Earnings US\$000	Total US\$000
CONSOLIDATED					
Balance as at 1 January 2014		299,547	(5,879)	(229,588)	64,080
Profit (Loss) for the period		-	-	7,627	7,627
Transactions with owners in their capacity as owners					
Share based payments	24	-	291	-	291
Issue of share capital	15	4,367	-	-	4,367
Balance as at 31 December 2014		303,914	(5,588)	(221,961)	76,365
Year Ended 31 December 2013					
Balance as at 1 January 2013		294,804	(6,310)	(192,420)	96,074
Profit (Loss) for the period		-	-	(37,168)	(37,168)
Transactions with owners in their capacity as owners					
Share based payments	24	-	431	-	431
Issue of share capital	15	4,743	-	-	4,743
Balance as at 31 December 2013		299,547	(5,879)	(229,588)	64,080
HOLDING COMPANY					
Year Ended 31 December 2014					
Balance as at 1 January 2014		299,547	(2,397)	(235,659)	61,491
Profit (Loss) for the period		-	-	10,348	10,348
Transactions with owners in their capacity as owners					
Share based payments	24	-	291	-	291
Issue of share capital	15	4,367	-	-	4,367
Balance as at 31 December 2014		303,914	(2,106)	(225,311)	76,497
Year Ended 31 December 2013					
Balance as at 1 January 2013		294,804	(2,828)	(203,556)	88,420
Profit (Loss) for the period		-	-	(32,103)	(32,103)
Transactions with owners in their capacity as owners					
Share based payments	24	-	431	-	431
Issue of share capital	15	4,743	-	-	4,743
Balance as at 31 December 2013		299,547	(2,397)	(235,659)	61,491

These Statements of Changes in Equity are to be read in conjunction with the accompanying notes.

Statements of financial position

As at 31 December 2014

		Consolidated		Holding Company	
		2014	2013	2014	2013
	Notes	US\$000	US\$000	US\$000	US\$000
CURRENT ASSETS					
Cash and cash equivalents	6	7,106	8,609	-	-
Receivables	7	538	40	-	-
		7,644	8,649	-	-
NON-CURRENT ASSETS					
Receivables	7	-	461	-	-
Property, plant and equipment	8	295	376	-	-
Exploration & evaluation expenditure	9	26,500	26,500	-	-
Investment in Ramu Mine	10	50,000	34,993	-	-
Investment in subsidiaries	11	-	-	17,401	2,395
Advances to subsidiaries	12	-	-	59,099	59,099
		76,795	62,330	76,500	61,494
TOTAL ASSETS					
		84,439	70,979	76,500	61,494
CURRENT LIABILITIES					
Trade and other payables	13	1,642	1,071	-	-
Provisions	14	262	187	-	-
		1,904	1,258	-	-
NON-CURRENT LIABILITIES					
Advances from subsidiaries	12	-	-	3	3
Trade and other payables	13	6,127	5,544	-	-
Provisions	14	43	97	-	-
		6,170	5,641	3	3
TOTAL LIABILITIES					
		8,074	6,899	3	3
NET ASSETS					
		76,365	64,080	76,497	61,491
SHAREHOLDERS' EQUITY					
Contributed equity	15	303,914	299,547	303,914	299,547
Reserves	16	(5,588)	(5,879)	(2,106)	(2,397)
Retained earnings (losses)		(221,961)	(229,588)	(225,311)	(235,659)
TOTAL SHAREHOLDERS' EQUITY		76,365	64,080	76,497	61,491

For, and on behalf of, the board

Ken MacDonald
Chairman

12 March 2015

John E Gooding
Managing Director

These Statements of Financial Position are to be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 31 December 2014

	Notes	Consolidated		Holding Company	
		2014	2013	2014	2013
		US\$000	US\$000	US\$000	US\$000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipt from other operations		9	15	-	-
Interest from investments		122	180	-	-
Income tax paid		-	(6)	-	-
Payments to suppliers and employees		(3,811)	(4,764)	-	-
Net cash used in operating activities	21	(3,680)	(4,575)	-	-
CASH FLOW FROM INVESTING ACTIVITIES					
Advance from (to) subsidiaries		-	-	(4,367)	(4,743)
Purchase of property, plant and equipment	8	(2)	(152)	-	-
Exploration, evaluation and development		(1,791)	(5,335)	-	-
Net cash used in investing activities		(1,793)	(5,487)	(4,367)	(4,743)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares	15	4,652	4,985	4,652	4,985
Costs associated with issue	15	(286)	(242)	(286)	(242)
Net cash from financing activities		4,366	4,743	4,366	4,743
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
		(1,107)	(5,319)	-	-
Add cash brought forward		8,609	14,650	-	-
Effect of exchange rate change on cash and cash equivalents		(396)	(722)	-	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD		7,106	8,609	-	-
CASH COMPRISES					
Cash and cash equivalents	6	7,106	8,609	-	-

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

Notes to the financial statements

For the year ended 31 December 2014

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 12 March 2015. 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 ("IFRSs") and other generally accepted accounting practice in PNG.

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

Early adoption of standards

The Group did not elect to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2014.

Historical cost convention

These financial statements have been prepared on an historical cost basis with the exception of certain financial instruments being measured at fair value. The methods used to measure fair value are discussed further in accounting policy note 1(j).

b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Highlands Pacific Limited as at 31 December 2014 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.

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.

Joint ventures - Jointly controlled assets

Where there is joint control in a joint venture the proportionate interests in the assets, liabilities and expenses of the joint venture activity are incorporated in the financial statements under the appropriate headings. Where there is no joint control the interest is accounted for on an investment basis as exploration, evaluation and development expenditure until such time as joint control exists. Details of the joint ventures are set out in note 18.

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.

Notes to the financial statements

For the year ended 31 December 2014

d) Foreign currency translation

Functional and presentation currency

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

Transaction and balances

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

Group companies

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

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

e) Revenue recognition

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

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 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

h) Cash and cash equivalents

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

i) Receivables

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

j) Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale

Notes to the financial statements

For the year ended 31 December 2014

securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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

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

k) Property, Plant and Equipment

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

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

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

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

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

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

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

l) Exploration, evaluation and development 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.

Development costs relating to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation.

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 assets exceeds its recoverable amount and an impairment reversal is recognised for the amount by which the carrying amount of the assets is below the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Notes to the financial statements

For the year ended 31 December 2014

n) Trade and other payables

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

o) Provisions

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

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

p) Employee benefits

Wages and salaries, annual leave and sick leave

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

Long service leave

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

Retirement benefit obligations

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

Share-based payments

Share-based compensation benefits are provided to employees via the Executive Option Scheme and the Performance Rights Plan. Information relating to these are set out in note 24.

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

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

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

Notes to the financial statements

For the year ended 31 December 2014

q) Contributed equity

Ordinary shares are classified as equity.

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

r) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

s) Critical accounting judgements, estimates and assumptions

Judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

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

The Group, on each reporting date, tests whether the carrying value of long life assets, such as investments in exploration and evaluation expenditure, development expenditure, and property, plant and equipment, have suffered any impairment. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, operating costs, capital costs and production rates. The impairment testing for the current year has been based on – for the Ramu mine, a real discount rate of 11.3%, proved and probable reserves, long term nickel prices of US\$8.91/lb and cobalt prices of US\$13.53/lb, and operating costs consistent with operator plans and historical data.

t) New accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2014 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

IFRS 9 - Financial Instruments

Summary – Amendments for classification and measurement of financial assets only

Application date of standard – 1 January 2018

Impact on Consolidated Entity's financial report – Currently the consolidated entity does not have any material financial asset and therefore the impact is not expected to be material.

Application date for the Consolidated Entity – 1 January 2018.

The Group will adopt the new standards and amendments as and when they become effective. This adoption is not expected to have material impact on the Group financial statements.

u) Rounding

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

2. REVENUE

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Finance Income				
Interest income	119	142	-	-
Other Income				
Rental income	9	15	-	-

Notes to the financial statements

For the year ended 31 December 2014

3. EXPENSES

	Notes	Consolidated		Holding Company	
		2014	2013	2014	2013
		US\$000	US\$000	US\$000	US\$000
Total operating costs		7,508	9,751	-	-
Operating costs are stated after charging / (crediting):					
General and administrative costs					
- salaries and employee benefits		2,535	2,580	-	-
- office costs		856	1,038	-	-
- consultants costs		148	186	-	-
- non-executive Director fees and benefits		298	369	-	-
- corporate affairs and public relations costs		99	212	-	-
- company secretarial and public listing costs		136	190	-	-
- travel and accommodation costs		52	63	-	-
- audit		65	106	-	-
- other services		53	75	-	-
		4,242	4,819	-	-
Exploration and development costs					
- salaries and employee benefits		1,133	1,580	-	-
- consultants costs		259	169	-	-
- travel and accommodation costs		150	304	-	-
- drilling		109	376	-	-
- hired equipment		198	893	-	-
- other services		938	811	-	-
		2,787	4,133	-	-
Depreciation					
- land and buildings	8	17	18	-	-
- plant and equipment	8	66	59	-	-
		83	77	-	-
Net foreign exchange (gains) losses		396	722	-	-

Notes to the financial statements

For the year ended 31 December 2014

4. INCOME TAX

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Reconciliation of income tax expense to prima facie tax expense				
Profit / (loss) before income tax expense for the year	7,627	(37,168)	10,348	(32,103)
Income tax (benefit) on the loss for the year at an average of 30% (2013: 30%)	2,288	(11,151)	3,105	(9,631)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Impairment of subsidiary advances	-	-	(3,105)	9,631
Impairment of / (Reversal) of impairment of non current assets	(4,502)	-	-	-
Utilisation of prior year losses not previously brought to account	(429)	(1,664)	-	-
Unrealised foreign exchange gains/losses	133	218	-	-
Sundry items	174	74	-	-
	(2,336)	(12,523)	-	-
Deferred tax asset not brought to account	2,336	12,523	-	-
Income tax expense	-	-	-	-
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	14,866	18,533	-	-
Potential tax benefit @ 30% - not recognised	4,460	5,560	-	-
Other deferred tax assets not recognised				
<i>Amounts recognised in profit and loss</i>				
Exploration costs	121,376	123,767	-	-
Unrealised foreign exchange gains (losses)	160	775	-	-
Provision for employee entitlements	568	928	-	-
	122,104	125,470	-	-
Set off against deferred tax liabilities (below)	(13,464)	(7,080)	-	-
Net deferred tax assets not recognised	108,640	118,390	-	-
Potential tax benefit @ 30% - not recognised	32,592	35,517	-	-
Total deferred tax benefit not recognised	37,052	41,077	-	-
Deferred tax liabilities				
<i>Amounts recognised in profit and loss</i>				
Unrealised foreign exchange gains (losses)	(50)	(1)	-	-
Sundry items	(21)	(24)	-	-
Exploration costs	(13,393)	(7,055)	-	-
	(13,464)	(7,080)	-	-
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	13,464	7,080	-	-
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.

Notes to the financial statements

For the year ended 31 December 2014

5. EARNINGS PER SHARE

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

Basic earnings per share	2014	2013
Weighted average number of ordinary shares on issue (000)	875,401	798,620
(Loss) / Profit attributable to ordinary equity holders of the company used to calculate basic earnings per share (US\$000's)	7,627	(37,168)
Basic earnings per share (US\$)	0.0087	(0.0465)
Diluted earnings per share		
Weighted average number of ordinary shares on issue (000)	875,401	798,620
Adjustments for calculation of diluted earnings per share		
- Options	-	-
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	875,401	798,620
(Loss) / Profit attributable to ordinary equity holders of the company used to calculate diluted earnings per share (US\$000's)	7,627	(37,168)
Diluted earnings per share (US\$)	0.0087	(0.0465)

Options and rights granted to employees are considered to be potential ordinary shares and have been included to the extent they are dilutive in the determination of diluted earnings per share. Options and rights were not included in 2014 and 2013 as the options and rights would have been anti-dilutive. The options and rights have not been included in the determination of basic earnings per share. Details relating to options and rights are set out in note 15.

6. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Cash at bank and in hand	2,423	2,914	-	-
Short-term bank deposits	4,683	5,695	-	-
	7,106	8,609	-	-

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 23.

c) Contingent Liability

The Group has given a bank guarantee of US\$52,441 (AU\$63,937) for the leasing of property at 167 Eagle Street, Brisbane, Australia and US\$115,650 (PGK300,000) as a foreign currency dealing limit.

Notes to the financial statements

For the year ended 31 December 2014

7. RECEIVABLES

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Current				
Sundry receivables	41	40	-	-
Other receivable*	497	-	-	-
	538	40	-	-
	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Non-Current				
Other receivable*	-	461	-	-
	-	461	-	-

*Represents an amount owing by Nord Australex Nominees (PNG) Limited ("Nord") totaling US\$500,000, which is receivable when the Ramu mine achieves commercial production and has been discounted back from the expected due date to the balance date by the Short Term Bond rate of 2.50%. At 31 December 2014, it is expected that this amount will be received within 12 months, hence, the change in reporting to current receivable. For further information on the impairment of other receivables refer note 23.

8. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings	Plant & Equip't	Total
	US\$000	US\$000	US\$000
CONSOLIDATED - 2014			
Cost			
Cost brought forward	232	557	789
Additions	-	2	2
Disposals	-	-	-
Cost carried forward	232	559	791
Depreciation			
Brought forward	96	317	413
Charge for the year	17	66	83
Disposals	-	-	-
Depreciation carried forward	113	383	496
Net book value at 31 December 2014	119	176	295
CONSOLIDATED - 2013			
Cost			
Cost brought forward	232	418	650
Additions	-	152	152
Disposals	-	(13)	(13)
Cost carried forward	232	557	789
Depreciation			
Brought forward	78	271	349
Charge for the year	18	59	77
Disposals	-	(13)	(13)
Depreciation carried forward	96	317	413
Net book value at 31 December 2013	136	240	376

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

Notes to the financial statements

For the year ended 31 December 2014

9. EXPLORATION & EVALUATION EXPENDITURE

	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2014	26,500	-	26,500
Capitalised during the year:			
- Direct holding cost	146	1,375	1,521
- Expenditure incurred by Glencore/Xstrata on behalf of Highlands	807	-	807
Less provisions for exploration costs	(953)	(1,375)	(2,328)
Balance 31 December 2014	26,500	-	26,500
Balance 1 January 2013	37,173	-	37,173
Capitalised during the year:			
- Direct holding cost	234	3,615	3,849
- Expenditure incurred by Glencore/Xstrata on behalf of Highlands	1,660	-	1,660
Less provisions for exploration costs	-	(3,615)	(3,615)
Less impairment of Frieda project assets	(12,567)	-	(12,567)
Balance 31 December 2013	26,500	-	26,500

In assessing the carrying value of the Frieda River project of US\$26.5 million the Directors have adopted a fair value less cost to sell valuation methodology. The valuation has been based on the transaction completed between the new joint venture partner PanAust Limited ("PanAust") and the previous joint venture partner Glencore Plc ("Glencore"). The transaction which was announced on 1 November 2013 and completed on 25 August 2014, involved PanAust entering into a share sale and purchase agreement with Glencore to acquire Glencore's interest in the Frieda River project. Post this transaction, PanAust holds an 80% interest and Highlands a 20% interest in the Frieda River Joint Venture.

The costs of US\$953,000 capitalised during the year were then provided against. These costs represent Highlands' direct holding costs for the overseeing of its interest in the Frieda River Joint Venture and Highlands' share of project expenditure carried by Frieda River Limited. Refer note 13.

Prior to the PanAust acquisition Highlands had been free-carried by Glencore for its share of project expenditure to January 2012, however, from that time until the PanAust acquisition a carried funding loan arrangement to be repaid during production was in place. From the date of PanAust's acquisition, 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 of lodgement of the Mining Lease or Special Mining Lease application.

The Group's expenditure to date on the Frieda project is US\$46 million.

Other, represents Star Mountains exploration costs which are fully provided for given the stage of the exploration on this project. The Group's expenditure to date on the Star Mountains project is US\$23 million.

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10. INVESTMENT IN RAMU MINE

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Ramu				
Balance brought forward	34,993	50,000	-	-
Capitalised during the year	459	518	-	-
Less provisions for development costs	(459)	(518)	-	-
Less impairment of Ramu investment	-	(25,000)	-	-
Add reversal of impairment of Ramu investment	15,007	9,993	-	-
Balance carried forward	50,000	34,993	-	-

The carrying value of the Group's interest in the Ramu mine has been increased due to the reversal of previous impairments by US\$15 million to a carrying value of US\$50 million. This reversal is the result of improved production rates, better outlook for nickel prices in the medium term and a revised financing structure whereby Highlands will gain access to earlier cash flows. US\$459,000 was capitalised and provided during the year, representing Highlands direct holding costs in relation to overseeing its investment in the Ramu mine.

Construction on the project commenced in 2008 with water and pressure commissioning commencing in 2011. Ore commissioning and ramp up commenced in 2012 with the project achieving 67% of its nameplate capacity in 2014. This throughput is expected to increase to 83% in 2015.

In assessing the carrying value of the Ramu mine, the Directors have adopted a fair value less cost to sell methodology in reference to the present value of the expected present value of the expected future cash flows from 2015 through to the end of mine life in 2031 at a risk adjusted equity real discount rate of 11.3%. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for nickel of US\$8.91/lb and cobalt US\$13.53/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\$14 million, while a negative 10% movement results in a reduction of US\$14 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 cash flows 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\$99 million which means the Group is now holding an impairment charge of approximately US\$49 million on the project.

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 2013 year.

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INVESTMENTS AT COST

	Holding Company	
	2014	2013
	US\$000	US\$000
Investments in subsidiaries - at cost	130,186	130,186
Less: provision for diminution*	(112,785)	(127,791)
	17,401	2,395

*At 31 December 2014, the US\$15m impairment in Ramu Nickel Limited taken up in December 2013 was reversed, however, the US\$4m impairment booked in Highlands Frieda Limited at 31 December 2013 remained, resulting in the Holding Company's investment equaling the carrying value of the projects.

12. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Advances to subsidiaries				
Advances	-	-	174,868	170,208
Less provision for write-off	-	-	(115,769)	(111,109)
	-	-	59,099	59,099
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	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Current				
Trade creditors	109	39	-	-
Accruals and other creditors*	1,533	1,032	-	-
	1,642	1,071	-	-
Non-Current				
Other creditors*	-	224	-	-
Carried Funding Loan**	6,127	5,320	-	-
	6,127	5,544	-	-

*During 1999, Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu Nickel 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\$221,823 (AU\$270,450) to be paid to Eastern when the Ramu project commences

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commercial production. The amount booked is discounted from the estimated date of payment to the balance date using the Short Term Bond rate of 2.50%. At 31 December 2013 the amount was not expected to be paid within 12 months and was then transferred to non-current liability. However, at 31 December 2014 this amount is expected to be paid within 12 months and was therefore treated as a current liability.

**The Carried Funding Loan represents the amount owing to Frieda River Limited ("FRL") (a wholly owned subsidiary of PanAust Limited) as at 31 December 2014. 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 the sale arrangements between former partner Glencore Plc and PanAust Limited was completed. 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\$125,928 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 Borrowing Costs (refer note 25). 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.

Amounts not expected to be settled within the next 12 months

Other creditors include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months.

14. PROVISIONS

Consolidated		
	Employee Entitlements	Employee Entitlements
	2014	2013
	US\$000	US\$000
Opening Balance	284	305
Charged for the year	21	23
Foreign exchange impact	-	(44)
Closing Balance	305	284
	2014	2013
	US\$000	US\$000
Analysis of total provisions:		
Current	262	187
Non-Current	43	97
	305	284

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

15. CONTRIBUTED EQUITY

a) Paid Up Capital – Consolidated and Holding Company

	2014	2013	2014	2013
	US\$000	US\$000	Shares	Shares
			000's	000's
Balance 1 January	299,547	294,804	853,778	789,133
Issued during the year	4,652	4,985	64,917	64,645
Less costs associated with issue	(285)	(242)	-	-
Balance 31 December	303,914	299,547	918,695	853,778

The total number of shares issued as at 31 December 2014 was 918,694,336 (2013: 853,777,764). 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 financial statements

For the year ended 31 December 2014

b) Movement in paid up capital

Date	Details	Notes	No. of Shares	Issue Price AU\$	US\$000
1 January 2014	Opening balance		853,777,764		299,547
2 February 2014	Exercising of zero priced employee performance rights	(i)	483,582	0.000	-
2 September 2014	Share Placement	(ii)	64,432,990	0.0776	4,652
	Transaction costs arising on share issue above				(285)
31 December 2014	Balance		918,694,336		303,914

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

(ii) Share Placement – quoted ordinary shares.

c) Share Options

The number of unissued ordinary shares under option at 31 December 2014 is 7,225,000 (2013: 9,625,000).

Options issued under the Directors' and Executives' Share Option Scheme

	Exercise price	No. of options issued	Expiry date	Exercised during current and previous years	Lapsed during current and previous years
Tranche 7*	A\$0.078	3,360,000	29 January 2014	960,000	2,400,000
Tranche 9	A\$0.266	15,750,000	31 March 2015	500,000	8,025,000

*On 29 January 2014 all of the remaining Tranche 7 options lapsed without being exercised.

The options issued under the Executive Share Option Scheme are exercisable after the completion of certain performance hurdles by certain dates. The exercise period for these options commences on the day that the performance hurdle is achieved ("vesting date") and will end on the expiry date. Options are granted under the plan for no consideration.

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

Information relating to the Highlands Pacific Limited Executive Option Scheme, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is further set out in note 24.

d) Performance Rights

The number of unissued ordinary shares under performance rights at 31 December 2014 is 24,370,000 (2013: 14,731,082).

Performance Rights issued under the Highlands Pacific Performance Rights Plan

	No. of performance rights issued	Vesting date / Expiry Date	Exercised during current and previous years	Expired during current and previous years
Tranches 1, 2 and 3	3,630,000	31 December 2013	815,835	2,814,165
Tranche 1*	4,510,000	31 December 2014	-	80,000
Tranche 1	7,330,000	31 December 2015	-	130,000
Tranche 1	12,740,000	31 December 2016	-	-

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

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

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The rights granted during the 2011 year were in 3 tranches allowing for an allocation of rights to vest on 31 December 2011 and 31 December 2012 with the balance vesting and expiring on 31 December 2013. On 7 February 2014 483,582 performance rights from Tranche 3 vested and shares issued, with the balance of 2,407,499 lapsing unexercised due to performance hurdles not being met.

The rights granted during the 2012 year vest subject to completion of performance hurdles and will expire on 31 December 2014.

*On 28 January 2015 1,882,750 performance rights from Tranche 1 vested and shares issued, with the balance of 2,547,250 lapsing unexercised due to performance hurdle not being met.

The rights granted during the 2013 year vest subject to completion of performance hurdles and will expire on 31 December 2015.

The rights granted during the 2014 year vest subject to completion of performance hurdles and will expire on 31 December 2016.

Information relating to the Highlands Pacific Performance Rights Plan, including details of performance rights issued, exercised or lapsed during the financial year and performance rights outstanding at the end of the financial year, is further set out in note 24.

16. RESERVES

	Consolidated		Holding Company	
	2014	2013	2014	2013
	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	3,871	3,440	3,871	3,440
Fair value of options and performance rights expensed	291	431	291	431
Balance carried forward	4,162	3,871	4,162	3,871
Total Reserves	(5,588)	(5,879)	(2,106)	(2,397)

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 2014 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 options and performance rights issued but not exercised.

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17. REMUNERATION OF EMPLOYEES

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

US\$	PGK	Group No. of Employees	
		2014	2013
40,880 - 44,968	100,000 - 109,999	1	-
65,408 - 69,496	160,000 - 169,999	-	1
69,496 - 73,584	170,000 - 179,999	1	-
73,584 - 77,672	180,000 - 189,999	-	1
86,260 - 90,800	190,000 - 199,999	-	-
81,760 - 85,848	200,000 - 209,999	-	1
89,936 - 94,024	220,000 - 229,999	1	1
98,112 - 102,200	240,000 - 249,999	1	-
127,120 - 131,660	280,000 - 289,999	-	-
138,992 - 143,080	340,000 - 349,999	-	1
147,168 - 151,256	360,000 - 369,999	1	-
163,520 - 167,608	400,000 - 409,999	-	1
175,784 - 179,872	430,000 - 439,999	-	1
196,224 - 200,312	480,000 - 489,999	1	-
200,312 - 204,400	490,000 - 499,999	-	1
224,840 - 228,928	550,000 - 559,999	1	-
306,600 - 310,688	750,000 - 759,999	-	1
343,392 - 347,480	840,000 - 849,999	1	-
372,008 - 376,096	910,000 - 919,999	-	1
392,448 - 396,536	960,000 - 969,999	1	-
523,264 - 526,943	1,280,000 - 1,289,000	-	1
576,408 - 580,496	1,410,000 - 1,419,999	1	-
Total		10	11

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

The 2013 comparatives have been converted at the current year exchange rates to arrive at the equivalent US Dollar bands.

PGK1.00 = US\$0.4088

18. JOINT VENTURES

At 31 December 2014 joint venture interests comprised:

	Percentage Interest	Activity
Ramu joint venture (Note 1 below)	8.56	Development
Frieda River joint venture (Notes 2 & 3 below)	20	Exploration & Evaluation
Nong River joint venture (Notes 2 & 4 below)	100	Exploration & Evaluation

Notes to the financial statements

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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%. The Group must give notice to China Metallurgical Construction (Group) Corporation ("MCC") during the Mine Development and Operating Phase as to when it will participate in the project. At the time of notice the Group will then receive its share of revenue and be responsible for its share of operating costs and financing costs. Up until nomination MCC will fund the Group's share of the project operating costs and financing costs. Given at this point in the mine the Group does not have joint control hence the interest is treated as development expenditure or intangible and not under joint venture accounting at 31 December 2014. Refer note 25.
2. The joint venture arrangements 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.
3. Frieda River: as a result of the completion of the acquisition by PanAust Limited from Glencore Plc of Frieda River Limited, PanAust now has an 80% interest in the Frieda River Joint Venture with Highlands having the remaining 20%. Refer note 9.
4. Star Mountains: as a result of the completion of the PanAust / Glencore transaction, Highlands has 100% interest in all of the Star Mountains tenements as at 31 December 2014. Refer note 25, Joint Venture and Farm-In agreements completed on 11 February 2015 between Highlands and a wholly owned subsidiary of Anglo American Plc. Under these agreements Anglo American Plc can earn up to an 80% interest in the Star Mountains Joint Venture through the completion of certain milestones.

19. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Parent entity

The parent entity within the Group is Highlands Pacific Limited.

b) Subsidiaries

Interests in subsidiaries are set out in note 11.

c) Key management personnel

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

Name	Position
C Lennon	Chief Financial Officer
L Queen	Chief Geologist
P Jolly	General Manager Projects
R Gawi	General Manager Port Moresby

d) Key management personnel compensation

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Short-term employee benefits*	1,466	1,503	-	-
Share based payments	159	265	-	-
	1,625	1,768	-	-

*Key management personnel compensation excludes director's remuneration.

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For the year ended 31 December 2014

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

2014 Year						
Name & Position	Cash Remuneration & Fees US\$000	Short-term Incentives US\$000	Non- monetary Benefits US\$000	Superannuation US\$000	Share-based Payments (Long-term Incentives) US\$000	Total US\$000
K MacDonald, Chairman	109	-	-	10	-	119
J Gooding, Managing Director	541	368	-	32	106	1,047
D Wood, Non-Executive Director	55	-	-	5	-	60
M Carroll, Non-Executive Director	55	-	-	5	-	60
B Philemon, Non-Executive Director	55	-	-	5	-	60
Total	815	368	-	57	106	1,346
2013 Year						
Name & Position	Cash Remuneration & Fees US\$000	Short-term Incentives US\$000	Non- monetary Benefits US\$000	Superannuation US\$000	Share-based Payments (Long-term Incentives) US\$000	Total US\$000
K MacDonald, Chairman	116	-	-	11	-	127
J Gooding, Managing Director	591	289	-	19	165	1,064
D Simonsen, Non-Executive Director	44	-	-	4	-	48
D Wood, Non-Executive Director	58	-	-	5	-	63
M Carroll, Non-Executive Director	58	-	-	5	-	63
B Philemon, Non-Executive Director	58	-	-	5	-	63
R Garnaut, Non-Executive Director	5	-	-	-	-	5
Total	930	289	-	49	165	1,433

Director's fees are paid in AUD.

- Mr R Garnaut was appointed a director on 21 September 2012 and resigned as a director on 17 January 2013.
- Mr D Simonsen resigned as a director on 30 September 2013.

Notes to the financial statements

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e) Equity instrument disclosures relating to key management personnel

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

Details of share-based payments are disclosed in note 24.

Option and Performance Rights holdings

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

2014 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	11,955,800	4,350,000	(180,800)	(900,000)	15,225,000	6,600,000
Other key management personnel of the Group						
C Lennon	4,680,467	2,720,000	(105,467)	(525,000)	6,770,000	2,000,000
L Queen	2,210,267	1,090,000	(60,267)	(300,000)	2,940,000	900,000
P Jolly	2,198,267	1,905,000	(60,267)	(300,000)	3,743,000	700,000
R Gawi	1,148,267	820,000	(60,267)	(300,000)	1,608,000	300,000
2013 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	16,435,000	2,600,000	(79,200)	(7,000,000)	11,955,800	6,675,000
Other key management personnel of the Group						
C Lennon	4,701,667	1,625,000	(46,200)	(1,600,000)	4,680,467	1,425,000
L Queen	2,486,667	650,000	(26,400)	(900,000)	2,210,267	800,000
P Jolly	1,586,667	1,138,000	(26,400)	(500,000)	2,198,267	-
R Gawi	686,667	488,000	(26,400)	-	1,148,267	-

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.

Notes to the financial statements

For the year ended 31 December 2014

2014 Year				
Name	Balance at the start of the year	Received during the year on the exercise of options and performance rights	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
K MacDonald	800,000	-	-	800,000
M Carroll	304,307	-	-	304,307
D Simonsen	60,000	-	-	60,000
D Wood	100,000	-	-	100,000
J Gooding	3,339,415	180,800	-	3,520,215
B Philemon	1,028	-	-	1,028
Other Key Management Personnel of the Group				
C Lennon	534,533	105,467	-	640,000
L Queen	289,733	60,267	-	350,000
P Jolly	1,969,733	60,267	-	2,030,000
R Gawi	39,733	60,267	-	100,000
2013 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	600,000	-	200,000	800,000
M Carroll	304,307	-	-	304,307
D Simonsen	60,000	-	-	60,000
D Wood	100,000	-	-	100,000
J Gooding	3,260,215	79,200	-	3,339,415
Other Key Management Personnel of the Group				
C Lennon	888,333	46,200	(400,000)	534,533
L Queen	263,333	26,400	-	289,733
P Jolly	1,943,333	26,400	-	1,969,733
R Gawi	13,333	26,400	-	39,733

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	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Advances to / from subsidiaries				
Beginning of the year	-	-	170,208	165,034
Movements during the year	-	-	4,660	5,174
End of year	-	-	174,868	170,208

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

Notes to the financial statements

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20. 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. Exploration/Evaluation, Frieda and Ramu consist of projects that are currently under Exploration/Evaluation or Development stages of their lives. 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 2014 is as follows:

Consolidated	Exploration / Evaluation US\$000	Frieda US\$000	Ramu US\$000	Corporate US\$000	Group US\$000
2014					
Segment revenue	-	-	-	128	128
Segment result	(1,376)	-	14,548	(5,546)	7,627
Income tax (expense) benefit	-	-	-	-	-
Net Profit / (Loss)	(1,376)	-	14,548	(5,546)	7,627
Segment assets	-	26,500	35,454	7,478	69,432
Impairment of assets	-	-	-	-	-
Reversal of impairment	-	-	15,007	-	15,007
Segment liabilities	(227)	(6,127)	(222)	(1,498)	(8,074)
Acquisition of segment assets	-	-	-	2	2
Segment depreciation and amortisation	-	-	-	83	83
2013					
Segment revenue	-	-	-	157	157
Segment result	(3,615)	(12,567)	(15,525)	(5,461)	(37,168)
Income tax (expense) benefit	-	-	-	-	-
Net Profit / (Loss)	(3,615)	(12,567)	(15,525)	(5,461)	(37,168)
Segment assets	-	26,500	35,454	9,025	70,979
Impairment of assets	-	(12,567)	(25,000)	-	(37,567)
Reversal of impairment	-	-	9,993	-	9,993
Segment liabilities	(153)	(5,320)	(224)	(1,202)	(6,899)
Acquisition of segment assets	-	234	-	152	386
Segment depreciation and amortisation	-	-	-	77	77

Notes to the financial statements

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

	Notes	Consolidated		Holding Company	
		2014	2013	2014	2013
		US\$000	US\$000	US\$000	US\$000
Reported Net Profit (Loss) after Taxation		7,627	(37,168)	10,348	(32,103)
Add (less) non-cash and non-operating items:					
Depreciation and amortisation	8	83	77	-	-
Exploration, evaluation and development costs		2,787	4,133	-	-
Impairment of non-current assets		(15,007)	27,574	-	-
Impairment of subsidiary advances		-	-	4,659	13,433
Fair value of share based payments		291	431	-	-
Impairment of investment in subsidiaries /(reversal) of impairment		-	-	(15,007)	18,670
Net (gain) loss on foreign currency balances	3	396	722	-	-
		(11,450)	32,937	(10,348)	32,103
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		-	31	-	-
Increase (decrease) in creditors and provisions		142	(375)	-	-
		142	(344)	-	-
Net Cash Flow from Operating Activities		(3,680)	(4,575)	-	-

22. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	152	124	-	-
One to two years	175	7	-	-
Two to five years	-	-	-	-
	327	131	-	-

23. 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

For the year ended 31 December 2014

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 with high credit ratings are used for the depositing of surplus funds.

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	
	2014	2013
	US\$000	US\$000
Cash and cash equivalents	7,106	8,609
Other receivables	538	501
	7,644	9,110

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

	2014		2013	
	Gross	Impairment	Gross	Impairment
	US\$000	US\$000	US\$000	US\$000
Not past due				
Less than one year	41	-	40	-
Within one year	497	-	-	-
More than a year	-	-	461	-
	538	-	501	-

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

b) Liquidity risk

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

The following are the contractual maturities of financial liabilities:

	Total	6mths or less	6 - 12 mths	>1 - years
	US\$000	US\$000	US\$000	US\$000
Consolidated 31 December 2014				
Non-derivative financial liabilities				
Trade and other creditors	7,769	1,642	-	6,127
	7,769	1,642	-	6,127
	Total	6mths or less	6 - 12 mths	>1 - years
	US\$000	US\$000	US\$000	US\$000
Consolidated 31 December 2013				
Non-derivative financial liabilities				
Trade and other creditors	6,615	1,071	-	5,544
	6,615	1,071	-	5,544

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 2014 year the Group incurred a loss of US\$396,392 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.

Notes to the financial statements

For the year ended 31 December 2014

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

	Consolidated		Holding Company	
	2014	2013	2014	2013
	AU\$000	AU\$000	AU\$000	AU\$000
Cash and cash equivalents	4,541	5,951	-	-
Other receivables	15	14	-	-
Trade and other creditors	(1,430)	(1,092)	-	-
	3,126	4,873	-	-

	Consolidated		Holding Company	
	2014	2013	2014	2013
	PGK\$000	PGK\$000	PGK\$000	PGK\$000
Cash and cash equivalents	595	522	-	-
Other receivables	57	54	-	-
Trade and other creditors	(520)	(155)	-	-
	132	421	-	-

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2014	2013	2014	2013
	US\$000	US\$000	US\$000	US\$000
AUD	0.9090	0.9846	0.8202	0.8948
PGK	0.4088	0.4540	0.3855	0.4130

A 10% strengthening / weakening of the Australian dollar and the Papua New Guinea Kina, with all other variables constant, would have affected before tax loss and equity by US\$256,670 (2013: US\$453,000).

Interest rate risk

The Group's interest rate risk arises as a result of cash deposits. 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.

At the reporting date the Group had no borrowings exposed to interest rate risk. The Group does have US\$2,038,105 on deposit at rates ranging between 0.45% and 0.50% (2013: US\$2,029,763 ranging from 0.43% and 0.483%). It also has AU\$3,099,421 on deposit at rates ranging between 2.70% and 3.35% (2013: AU\$4,097,065 ranging from 2.56% and 3.60%). There is no PGK on deposit at December 2014 (2013: 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\$79,000 (2013: US\$116,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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

Commodity price risk

The Group was not exposed to commodity pricing risks during 2014 or 2013 in respect to revenue other than the impact of commodity prices on project valuations. Refer to details in notes 9 and 10.

d) Capital Management

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

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

Consistently 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 2014, the Group's strategy was unchanged from 2013 and is reviewed by the Board.

Notes to the financial statements

For the year ended 31 December 2014

24. SHARE-BASED PAYMENTS

a) Executive Option Scheme

Employee options have been issued to senior employees and the Managing Director under the terms of their employment contracts and in accordance with the Executive Share Option Scheme.

Options are granted for no consideration and carry no dividend or voting rights. When exercisable, each option is convertible into one fully paid ordinary share.

The exercise price of options is based on the volume weighted average price of all trades of shares on the Australian Stock Exchange during a period of 10 to 20 trading days, at the Directors choice, ending the day before the options are issued.

Options that are issued with a performance hurdle will only be exercisable if the performance hurdle is achieved by the required date. The exercise period will commence on the day that the performance hurdle is achieved and will end on the third anniversary of this date.

Set out below are summaries of the options granted under the plan:

2014 Year									
Grant date	Hurdle / vesting date	Expiry Date	Exercise Price (AU\$)	Balance start of year	Granted during year	Exercised during year	Expired during year	Balance at end of year	Exercisable at end of year
5/02/2009	29/01/2012	29/01/2014	0.0780	2,400,000	-	-	(2,400,000)	-	-
21/04/2010	31/03/2013	31/03/2015	0.2660	2,225,000	-	-	-	2,225,000	2,225,000
20/05/2010	31/03/2013	31/03/2015	0.2660	5,000,000	-	-	-	5,000,000	5,000,000
			9,625,000		-	-	(2,400,000)	7,225,000	7,225,000
Weighted average exercise price (AUD)				0.09	-	-	0.08	0.27	0.27

The options are subject to share price hurdles, which must be met by the hurdle/vesting date above. Once the share price hurdle is met, the options are exercisable up to the expiry date.

The weighted average remaining contractual life of options outstanding at the end of the period was 0.3 years.

There were no options granted during the year.

b) Performance Rights issues

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

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

Grant date	Hurdle / vesting date	Expiry date	Exercise Price (AU\$)	Balance start of year	Granted during year	Exercised during year	Expired during year	Balance at end of year	Exercisable at end of year
19/05/2011	31/12/2011 - 31/12/2013	31/12/2013	0.0000	2,891,081	-	(483,582)	(2,407,499)	-	-
17/05/2012	31/12/2014	31/12/2014	0.0000	4,510,000	-	-	-	4,510,000	-
16/05/2013	31/12/2015	31/12/2015	0.0000	7,330,000	-	-	-	7,330,000	-
27/05/2014	31/12/2016	31/12/2016	0.0000	-	12,740,000	-	-	12,740,000	-

Fair Value of performance rights granted

Grant Date	17th May 2012	16th May 2013	22nd May 2014
Share price at grant date	AU\$0.155	AU\$0.077	AU\$0.06
Fair value at grant date	AU\$699,0500	AU\$546,410	AU\$764,400
Expected volatility of Company's shares	60%	60%	70%
Expected dividend yield	0%	0%	0%
Risk-free interest rate	2.64%	2.50%	2.80%
Expected vesting period	31st Dec 2014	31st Dec 2015	31st Dec 2016

Notes to the financial statements

For the year ended 31 December 2014

The performance rights are subject to performance hurdles which if met automatically convert into fully paid ordinary shares. The rights granted during the 2011 year were granted in 3 tranches allowing for an allocation of rights to vest on 31 December 2011 and 31 December 2012 with the balance vesting and expiring on 31 December 2013. Of the performance rights granted in 2011, 695,502 vested and were issued, with 2,407,499 expiring unissued.

The performance rights issued on 21 May 2012 have not yet vested due to performance hurdles not being met; these will vest and / or expire on 31 December 2014. The performance rights issued on 21 May 2013 will vest and / or expire on 31 December 2015. The performance rights issued on 27 May 2014 will vest and / or expire on 31 December 2016.

The weighted average remaining contractual life of the performance rights outstanding at the reporting date is 2 years.

c) Cost arising from share-based payment transactions

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

	December 2014	December 2013
	US\$000	US\$000
Options issued under Executive Option Scheme and performance rights issued under the Performance Rights Plan	291	431
Total	291	431

25. EVENTS OCCURRING AFTER BALANCE DATE

On 11 February 2015 the Group executed a Joint Venture and Farm-in agreements for the Star Mountains copper-gold project with a wholly owned subsidiary of Anglo American Plc ("Anglo American"). The agreements result in Highlands receiving a total of US\$10 million from Anglo American in two tranches of US\$5 million. The first tranche of US\$5 million was received upon signing of the agreements on 11 February 2015, with the second US\$5 million to be received on 11 February 2016. Anglo American can earn an 80% interest in the joint venture – 51% by spending US\$25 million on exploration over four years and declaring a 43-101/JORC compliant inferred resource of 3 million tonnes of contained copper-equivalent by 11 February 2020 and a further 29% by completing and funding a Bankable Feasibility Study ("BFS") by 11 February 2030. Anglo American will also provide Highlands with up to US\$150 million in project development funding as a deferred free-carry following the completion of the BFS.

On 23 February, the Group announced that it has conditionally exercised its right to nominate into the Ramu nickel Joint Venture. Upon nomination the group will commence receiving a pro-rata share of operation surpluses and will continue to contribute its share of on-going capital expenditure requirements. Of the funds to be distributed to the group, expected to commence in June quarter 2015, 80% initially will be applied to repay the Groups 8.56% share of capped Ramu capital costs, which at 31 December 2014 is approximately US\$86 million. The remaining 20% will be available to the Group for other purposes.

Upon nomination, the Group will account for its 8.56% interest in the mine as a joint venture.

26. 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	
	2014	2013	2014	2013
	PGK000	PGK000	PGK000	PGK000
Revenue	313	346	-	-
Net (Loss) Profit after tax	18,657	(81,868)	25,313	(70,711)
Total Assets	219,038	171,862	198,444	148,893
Total Liabilities	20,947	16,705	8	7
Net Assets	198,091	155,157	198,436	148,886

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2014 of PGK1.00 = US\$0.3855 (2013 year PGK1.00 = US\$0.4130) while income and expense items are translated at the average rate for the year PGK1.00 = US\$0.4088 (2013 year PGK1.00 = US\$0.4540).

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 2014 and performance of the Company and the Consolidated Entity for the year ended on that date; and are in accordance with the Papua New Guinea Companies Act 1997.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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



Ken MacDonald
Chairman

12 March 2015



John E Gooding
Managing Director

Stock exchange information

For the year ended 31 December 2014

a) The shareholder information set out below was applicable as at 28 February 2015.

SPREAD OF SECURITY HOLDERS

Category of Holdings	Number of Shareholders
1 - 1,000	1,270
1,001 - 5,000	1,520
5,001 - 10,000	980
10,001 - 100,000	3,308
100,001 and over	662
Total Shareholders	7,740

b) There were 3,331 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AUD0.058 cents.

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

Category of Holdings	Number of Shareholders
1 - 1,000	-
1,001 - 5,000	-
5,001 - 10,000	-
10,001 - 100,000	-
100,001 and over	9
Total Shareholders	9

d) Holders of 20% or more of options and rights:

Name of Holder	Number Held	Percentage of Holding
John Edwin Gooding	9,200,000	43.99%

LARGEST TWENTY SHAREHOLDERS

Name	No of Ordinary shares held	% of Total
PANAUST SPV2 PTE LTD	128,865,980	14.00
CHAMPION NO 53 LIMITED	102,930,373	11.18
CITICORP NOMINEES PTY LIMITED	100,341,248	10.9
NATIONAL PROVIDENT FUND BOARD	48,371,246	5.25
INDEPENDENT PUBLIC BUSINESS CORPORATION OF PAPUA NEW GUINEA	30,158,821	3.28
ZERO NOMINEES PTY LTD	25,921,427	2.82
DR THOMAS JOHN BERESFORD GROUP	18,334,086	1.99
HKBA NOMINEES LIMITED	16,963,574	1.84
MINERAL RESOURCES DEVELOPEMENT COMPANY PTY LTD	13,849,426	1.50
UBS NOMINEES PTY LTD	11,700,000	1.27
JP MORGAN NOMINEES AUSTRALIA LIMITED	10,892,080	1.18
CARRINGTON LAND PTY LTD	7,000,000	0.76
MR ROBERT BRYAN	6,802,194	0.74
MR JAY HUGHES & MRS LINDA HUGHES (INKESE SUPER A/C)	5,000,000	0.54
INKESE PTY LTD	5,000,000	0.54
CBD PLAZA (AUST) PTY LTD	4,512,312	0.49
MRS LISA JANE HAMANN	4,235,353	0.46
MR CHATCHAI YENBAMROONG	4,011,000	0.44
MR JOHN EDWIN GOODING	3,752,252	0.41
ESCOR INVESTMENTS PTY LTD	3,750,000	0.41
Total	552,391,372	60

Stock exchange information

For the year ended 31 December 2014

SUBSTANTIAL SHAREHOLDERS

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

Name	No of Ordinary shares held	% of Total
PANAUST SPV2 PTE LTD	128,865,980	14.00
CHAMPION NO 53 LIMITED	102,930,373	11.18
CITICORP NOMINEES PTY LIMITED	100,341,248	10.90
NATIONAL PROVIDENT FUND BOARD	48,371,246	5.25

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 2014

Tenement Reference	Beneficial Interest at End of Period	Beneficial Interest at Beginning of Period
Exploration (Highlands Pacific Resources Limited)		
ELs 1392, 1761, 1781	100% Note 1, 3	100% Note 1
EL 1312	100% Note 1, 2, 3	100% Note 1, 2
ELs 1761, 2131	100% Note 1	100% Note 1
Frieda River Project (Highlands Frieda Limited)		
ELs 0058, 1212, 1743, 1745, 1746, 1895, 1896, 1956 and 1957	20% Note 1, 4	20% Note 1, 4
Ramu Project (Ramu Nickel Limited)		
SML 8	8.56%	8.56%
ML 149	8.56%	8.56%
LMPs 42, 43, 44, 45, 46, 47, 48 and 49	8.56%	8.56%
MEs 75, 76, 77, 78 and 79	8.56%	8.56%
ELs 193 and 1178	8.56%	8.56%

Stock exchange information

For the year ended 31 December 2014

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. Upon completion of the PanAust Glencore Agreement on 25 August 2014 EL 1312 reverted to being 100% owned by Highlands. Prior to completion the Nong River lease (EL 1312) was subject to a joint venture agreement with Glencore. Nong River JV: During 2009 Highlands exercised its right to sole fund its own exploration program and retain 100% of the joint venture relating to the Nong River EL 1312 in the absence of a Glencore Xstrata exploration program. Glencore Xstrata has the right to reclaim a 72% interest by paying Highlands three (3) times the exploration expenditure incurred by Highlands at the time Highlands presents a Pre-feasibility Study. There are no time deadlines on when Highlands must produce a Pre-feasibility Study to Glencore Xstrata. Glencore Xstrata then has the right to earn a 72% interest in the joint venture by producing a BFS by the year 2019.
3. On 11 February 2015 Highlands executed Joint Venture and Farm-in agreements with a wholly owned subsidiary of Anglo American Plc. Under the agreements Anglo American can earn up to an 80% interest in the joint venture by achieving certain milestones.
4. On 1 November 2013 PanAust Limited (PanAust) announced that it had entered into a share sale and purchase agreement with a subsidiary of Glencore Xstrata plc (Glencore) for PanAust to Glencore's interest in the Frieda River Copper Gold project in Papua New Guinea. 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 completion of the PanAust Glencore Agreement. The terms of the 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%. The agreement between PanAust and Glencore was completed on 25 August 2014.
5. Definitions
 - EL - Exploration Licence
 - ELA - Exploration Licence Application
 - SML - Special Mining Lease
 - ML - Mining Lease
 - LMP - Lease for Mining Purposes
 - ME - Mining Easement

Corporate Directory

Directors	Kenneth MacDonald - <i>Chairman</i> John Gooding - <i>Managing Director</i> Michael Carroll Dan Wood Bartholomew Philemon	
Company Secretary	Craig Lennon Erik Andersen	
Senior Management	Craig Lennon - <i>Chief Financial Officer</i> Lawrence Queen - <i>Chief Geologist</i> Peter Jolly - <i>General Manager Projects</i> Ron Gawi - <i>General Manager PNG</i>	
Country of Incorporation	Papua New Guinea	Australia
Registered Offices	Papua New Guinea (<i>Address for Service</i>) 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 (P O Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	Australia Computershare Investor Services Pty Limited 117 Victoria Street West End Qld 4101 Australia Freecall (Australia): 1300 552 270 Shareholder information line (outside Australia): Telephone: (61 3) 9415 4000 Facsimile: (61 7) 3237 2152 Email queries: webqueries@computershare.com.au Website: www.computershare.com
Stock Exchanges	Papua New Guinea Port Moresby Stock Exchange Limited POMSoX code: HIG	Australia (<i>Home Exchange</i>) Australian Stock Exchange Limited ASX code: HIG
Bankers	ANZ Banking Group (PNG) Limited	
Auditors	PricewaterhouseCoopers Level 6, Credit House Cuthbertson Street Port Moresby, NCD 121 Papua New Guinea	
Internet Communications	Website: www.highlandspacific.com Email: info@highlandspacific.com	





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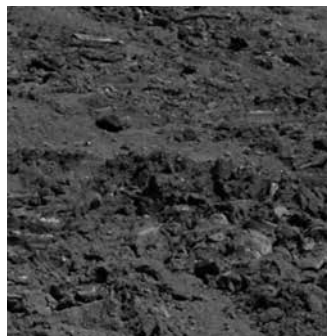
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Diversified Mineral Resource Company