



**HIGHLANDS
PACIFIC**



11 Sept 2015

Financial Report for six months to June 2015

Highlands Pacific Limited (ASX: HIG) has recorded a cash balance of US\$10.5 million at June 2015, up from US\$6.2 million at June 2014. The increase in cash follows Anglo American's initial US\$5 million cash payment to Highlands as part of the farm-in to the Star Mountains copper-gold exploration project in PNG in February this year.

Highlands posted an operating loss of US\$647,000 for the six months to June 2015, before a non-cash impairment charge of US\$9.5 million on the carrying value of the company's interest in the Ramu Nickel Joint Venture.

The total comprehensive loss for the period was US\$10.2 million, which compares with a loss of US\$3.0 million in the prior corresponding six months to June 2014.

Highlands' Managing Director and CEO John Gooding said the Company had made significant progress during the June half and ended the period with a solid cash position.

"We are well positioned to advance our four key projects, notwithstanding difficult market conditions and depressed commodity prices. We continue to focus on generating maximum returns for our shareholders throughout the commodity price cycle, and remain confident that our suite of projects will deliver excellent results. The next six months will see further solid progress, with the completion of the Frieda River feasibility work, continued exploration at Star Mountains, further progress in ramp-up of production at Ramu and the potential for more exploration at Sewa Bay. This should be an exciting period for Highlands Pacific," he said.

The main elements of the financial result were as follows:

- Highlands took the decision to begin to participate in the operating surpluses of the Ramu Nickel Joint Venture from January this year. The operation has subsequently reported an operating surplus of approximately US\$18 million for the half year to June 2015 after capital expenditure of US\$2.5 million, of which Highlands was entitled to receive 8.56% or US\$1.61 million. This enabled Highlands to repay US\$1.29 million in project debt and record a receivable of US\$320,000.
- After depreciation charges, Highlands recorded an operating loss of US\$2 million from its interest in the Ramu Nickel joint venture. In addition, the company incurred interest charges of US\$2.6 million on non-recourse debt associated with the investment.
- The formal nomination into the Ramu Nickel Joint Venture in January generated a non-cash gain of \$666,000 due to the valuation of Highland's interest in the joint venture exceeding the associated accumulated investment.
- At the end of the half year, the subdued medium term outlook for nickel and cobalt prices led to a reassessment of the carrying value of the company's 8.56% interest in the Ramu Nickel Joint Venture, leading to an impairment charge of US\$9.5 million. This reduced the carrying value to US\$150 million, having been grossed up for borrowings.



- Highlands received US\$5 million from Anglo American in February this year, as an initial part payment to acquire a 51% interest in the Star Mountains joint venture. The transaction increased cash balances for Highlands and enabled the reversal of previously provided exploration and development expenditure, with a positive impact on the statement of comprehensive income. A further US\$5 million payment is due from Anglo American in February 2016.

Highlands continued to make steady operational progress during the half year to June 2015, in each of its four projects in Papua New Guinea.

World class project portfolio



Frieda River Copper-Gold

- One of world's largest undeveloped Cu deposits
- 13 million tonnes Cu, 20 Mozs Au
- Committed partner in PanAust
- Feasibility study due 2015

Ramu Nickel

- US\$2.1 billion project
- Annual output 31,150 tonnes Ni, 3300 tonnes Cobalt
- +20 year mine life
- Strong partner in MCC

Star Mountains Copper-Gold

- 515 Sq Kms tenements
- Anglo American JV formed
- Drill program underway

Sewa Bay Nickel

- Potential Ni laterite project
- New partner in Sojitz
- Auger drill program completed



Ramu Nickel Mine

The Ramu mine continued to ramp-up to full production during the half year, producing 12,155 tonnes of nickel and 1,173 tonnes of cobalt and achieving a production rate of 77% of nameplate capacity.

Progress in commissioning has continued in the current half, with production rates exceeding 90% of nameplate in the current quarter, providing confidence the operation will exceed its target production rate of 83% (25,800 tonnes of nickel) in the full year. Throughput is expected to reach full capacity in 2016.



Frieda River Copper-Gold Project

The feasibility work for the Frieda River project made solid progress during the half year, and remains on schedule for initial results to be released before the end of the year.

The feasibility work is being managed by PanAust, which was acquired by Chinese company Guangdong Rising Assets Management (“GRAM”) during the June quarter and was subsequently delisted from the Australian Stock Exchange on 12 June 2015.

As the major shareholder and operator of the project, with an 80% interest, GRAM remains fully committed to the successful development of the Frieda River project. The PanAust project team remains in place and is continuing to advance the various design and engineering components of the feasibility work. Finalisation of the acquisition has enabled the PanAust team to refocus on the feasibility work. The involvement of GRAM as the major shareholder in the project has brought enhanced funding capability and delivered greater certainty for the project development.

Star Mountains Copper-Gold Project

Exploration drilling advanced steadily at Star Mountains during the half year, funded by joint venture partner Anglo-American. As at early September, four holes have been drilled with a fifth nearly completed for a total of approximately 3,000 metres. Early analysis of core has confirmed presence of skarn and porphyry style mineralisation. Assays for completed holes are due imminently.

Depending on results an additional two holes are planned in the coming months. Anglo remains fully committed to the project, which envisages the company spending US\$25 million on exploration over four years, and declaring a JORC compliant inferred resource of 3 million tonnes of contained copper-equivalent within five years, to earn an initial 51% interest in the project.

Sewa Bay Nickel Laterite Project

An exploration campaign was carried out at the Sewa Bay prospect on Normanby Island in PNG during the first half of the year, funded by Japanese trading house Sojitz. The auger drilling program was carried out between March and May and encountered a number of encouraging intercepts including:

- 1.1 metres at 1.61% Ni from surface
- 1 metre at 1.43% Ni from surface
- 2.4 metres at 1.42% Ni from surface
- 1 metre at 1.41% Ni from surface
- 1.9 metres at 1.4% Ni from surface
- 6.3 meters at 1.12% Ni from surface
- 4.6 meters at 1.11% Ni from surface

Two main areas of mineralisation above 1% nickel cover an area of 7 square kilometres, and may have the potential to lead to declaration of a resource. Discussions are being held with Sojitz to consider further exploration over the coming 12 months.

Please refer ASX Announcement dated 18 August 2015 for full details. Highlands 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.



For further information, please contact:

John Gooding or Craig Lennon
Highlands Pacific - 07 3239 7800

Joe Dowling
Stockwork Corporate Communications
0421 587755

Competent Persons Statement: Details contained in this report that pertain to exploration results and exploration targets are based upon, and fairly represent, information and supporting documentation compiled by Mr Larry Queen, a member of the Australasian Institute of Mining and Metallurgy, and who is a full-time employee of Highlands Pacific. Mr Queen has sufficient experience relevant to the style of mineralisation and the 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 the information compiled by him in the form and context in which it appears.



ASX Code: HIG

PoMSox Code: HIG

Shares on Issue: 919 million

Options on Issue: 7.2 million

Performance Rights: 24.4 million

Directors

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

Management

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

For further information, please contact:

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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 POMSx 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 in the Star Mountains. Highlands also has exploration tenements at 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 has enabled an extensive exploration program to be commenced in 2015.

Ramu Nickel Cobalt Mine

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

Frieda River Copper/Gold Project*

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

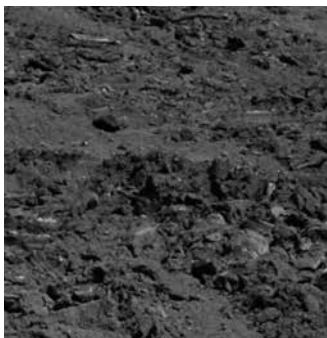
* Subject to the right of the Independent State of Papua New Guinea to acquire up to a 30% equity interest in any mining development in the country.



CONSOLIDATED INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 30 JUNE 2015

2015



**HIGHLANDS
PACIFIC**

Diversified Mineral Resource Company



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Directors' Report

Your Directors present their report on the consolidated entity consisting of Highlands Pacific Limited and its subsidiaries (the "Group") for the half-year ended 30 June 2015.

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

DIRECTORS

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

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

RESULTS AND DIVIDENDS

The net loss from ordinary activities after income tax for the Group for the half-year is US\$10.2 million (half year 2014: US\$3 million). The loss includes the following items:

- impairment charge of US\$9.5 million on the carrying value of the Groups' investment in the Ramu Nickel Joint Venture;
- reversal of previously provided for exploration and development expenditure of US\$5.3 million primarily as a result of US\$5.0 million received from Anglo American in February as the first of two payments for the joint venture arrangement on the Star Mountains project;
- a gain of US\$0.7 million as a result of nominating into the Ramu Nickel Joint Venture;
- an operating loss of US\$2.0 million for the 6 months to June 2015 for the Groups' interest in the Ramu Nickel Joint Venture;

- interest charge of US\$2.6 million on non-recourse borrowings relating to our interest in the Ramu Nickel Joint Venture; and
- labour costs of US\$931,000 and consultants and administrative costs of US\$877,000.

There is no dividend paid or recommended.

REVIEW OF OPERATIONS

The Group's principal activities were exploring for minerals and carrying out studies on prospective mineral deposits either in their own right or in joint ventures with the objective of developing mining operations. During the last six months activities at our Star Mountains Copper-Gold Project re-commenced, after finalisation of the joint venture agreement with Anglo American in February 2015. Ramp-up to name-plate capacity continued at the Ramu Nickel-Cobalt Mine with an annualised average production rate of 77% achieved for the first half of 2015, while feasibility studies at the Frieda River Copper-Gold Project continued according to schedule, with our partner PanAust Limited who were taken over by Guandong Rising Asset Management Co. Ltd. ("GRAM"). The Group also participated in a small exploration program at Sewa Bay, fully funded by Japanese trading group Sojitz.

This report is made in accordance with a resolution of Directors



Ken Macdonald
Chairman

11 September 2015

Condensed consolidated statement of comprehensive income

For the half-year ended 30 June 2015

	Notes	June 2015 US\$000	June 2014 US\$000
Finance income		41	49
Other revenue		4	5
Total Operating Income		45	54
Labour costs		931	1,026
Consultants and services costs		428	367
General and administration costs		449	442
Depreciation and amortisation	2	37	43
Exploration and development costs	3	-	1,349
Net foreign exchange (gain) losses		124	(178)
Total Operating Costs		1,969	3,049
Interest expense		2,619	-
Reversal of provision of exploration costs	3	5,294	-
Impairment of non-current assets	4	(9,504)	-
Gain on nomination into the Ramu Nickel Joint Venture	4	666	-
Share of operating loss of equity accounted investments	4	(2,064)	-
Loss from operations before income tax		(10,151)	(2,995)
Income tax (expense) benefit		-	-
Loss for the period		(10,151)	(2,995)
Other comprehensive income for the period		-	-
Total comprehensive loss for the period		(10,151)	(2,995)
Basic Earnings per share			
From continued operations		(0.0110)	(0.0035)
Diluted Earnings per share			
From continued operations		(0.0110)	(0.0035)

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

Condensed consolidated statement of changes in equity

For the half-year ended 30 June 2015

	Share Capital US\$000	Fair Value & Other Reserves US\$000	Retained Earnings US\$000	Total US\$000
Half-Year ended 30 June 2015				
Balance at 1 January 2015	303,914	(5,588)	(221,961)	76,365
Net losses	-	-	(10,151)	(10,151)
Transaction with owners in their capacity as owners				
Issue of share based payments	-	163	-	163
Issue of share capital	(1)	-	-	(1)
Balance at 30 June 2015	303,913	(5,425)	(232,112)	66,376
Half-Year ended 30 June 2014				
Balance at 1 January 2014	299,547	(5,879)	(229,588)	64,080
Net losses	-	-	(2,995)	(2,995)
Transaction with owners in their capacity as owners				
Issue of share based payments	-	127	-	127
Issue of share capital	(1)	-	-	(1)
Balance at 30 June 2014	299,546	(5,752)	(232,583)	61,211

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

Condensed consolidated statement of financial position

As at 30 June 2015

		June 2015 US\$000	December 2014 US\$000	June 2014 US\$000
	Notes			
CURRENT ASSETS				
Cash and cash equivalents		10,471	7,106	6,179
Receivables		857	538	47
		11,328	7,644	6,226
NON-CURRENT ASSETS				
Receivables		-	-	482
Property, plant and equipment	2	269	295	333
Exploration and evaluation expenditure	3	26,600	26,500	26,500
Investment in Ramu Nickel Joint Venture	4	150,000	50,000	34,993
		176,869	76,795	62,308
TOTAL ASSETS		188,197	84,439	68,534
CURRENT LIABILITIES				
Trade and other payables	5	1,802	1,642	915
Borrowings	6	3,000	-	-
Provisions		289	262	284
		5,091	1,904	1,199
NON-CURRENT LIABILITIES				
Trade and other payables	5	6,194	6,127	6,083
Borrowings	6	110,516	-	-
Provisions		20	43	41
		116,730	6,170	6,124
TOTAL LIABILITIES		121,821	8,074	7,323
NET ASSETS				
		66,376	76,365	61,211
SHAREHOLDERS' EQUITY				
Contributed Equity	7	303,913	303,914	299,546
Reserves		(5,425)	(5,588)	(5,752)
Retained earnings (losses)		(232,112)	(221,961)	(232,583)
TOTAL SHAREHOLDERS' EQUITY		66,376	76,365	61,211

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

Condensed consolidated statement of cash flows

For the half-year ended 30 June 2015

	June 2015 US\$000	June 2014 US\$000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from other operations	4	5
Interest from investments	45	44
Income tax (paid)	(2)	-
Payments to suppliers and employees	(2,571)	(1,919)
Net cash (outflow) from operating activities	(2,524)	(1,870)
CASH FLOW FROM INVESTING ACTIVITIES		
Exploration, evaluation and development	(3,932)	(737)
Contributions from joint venture partners	4,678	-
Receipt from recovery of exploration costs	5,279	-
Purchase of property, plant and equipment	(11)	-
Net cash inflow (outflow) from investing activities	6,014	(737)
CASH FLOW FROM FINANCING ACTIVITIES		
Costs associated with issue of ordinary shares	(1)	(1)
Net cash (outflow) from financing activities	(1)	(1)
Net increase / (decrease) in cash and cash equivalents	3,489	(2,608)
Cash and cash equivalents at the beginning of the half-year	7,106	8,609
Effects of exchange rate changes on cash and cash equivalents	(124)	178
Cash and cash equivalents at end of the half-year	10,471	6,179
RECONCILIATION OF NET (LOSS) AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES		
Reported Net Loss after Taxation	(10,151)	(2,995)
Add (less) non-cash items:		
Depreciation	37	43
Reversal of provision for exploration costs	(5,294)	1,349
Fair value of share based payments	163	127
Effects of exchange rate changes on cash and cash equivalents	124	(178)
Impairment of non-current assets	9,504	-
Gain on nomination into the Ramu Nickel Joint Venture	(666)	-
Share of operating loss of equity accounted investments	2,064	-
Interest expense	2,619	-
	8,551	1,341
Add (less) movements in working capital items:		
(Increase) in debtors and prepayments	-	(6)
(Decrease) in creditors and provisions	(924)	(210)
	(924)	(217)
Net Cash Flow from Operating Activities	(2,524)	(1,870)

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

Notes to the condensed consolidated financial statements

For the half-year ended 30 June 2015

1. STATEMENT OF ACCOUNTING POLICIES

Highlands Pacific Limited and its subsidiaries (together the “Group”) carry out exploration and development activities. All of the Group’s activities are carried out in Papua New Guinea, where the Company is incorporated and domiciled. The registered office is in Port Moresby, Papua New Guinea.

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

The condensed consolidated interim financial report for the half-year reporting period ended 30 June 2015 has been prepared in accordance with International Accounting Standard IAS 34: *Interim Financial Reporting* and other generally accepted accounting practice in PNG.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2014 and any public announcements made by Highlands Pacific Limited during the interim reporting period in accordance with the continuous disclosure requirements.

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

2. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$000	Plant and Equipment US\$000	Total US\$000
Consolidated - 30 June 2015			
Cost			
Balance at 1 January 2015	232	559	791
Additions	-	11	11
Disposals	-	-	-
Cost 30 June 2015	232	570	802
Depreciation			
Balance at 1 January 2015	113	383	496
Charge for the year	8	29	37
Disposals	-	-	-
Depreciation Carried forward	121	412	533
Net Book Value at 30 June 2015	111	158	269

Notes to the condensed consolidated financial statements (continued)

For the half-year ended 30 June 2015

3. EXPLORATION AND EVALUATION EXPENDITURE

	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2015	26,500	-	26,500
Capitalised during the period			
Direct holding cost	34	(15)	19
Frieda carried funding loan	66	-	66
Joint venture exploration expenditure	-	4,103	4,103
Management fee – joint-venture participants	-	(279)	(279)
Recovery of joint venture exploration expenditure	-	(9,103)	(9,103)
Less provision for exploration	-	5,294	5,294
Balance 30 June 2015	26,600	-	26,600

Frieda

The carrying value of the Group's interest in the Frieda River Copper-Gold Project is US\$26.6 million for the period. The US\$0.1 million increase represents Highlands' direct holding costs in overseeing its interest in the Frieda River Joint Venture and the capitalization of interest on the Carried Funding Loan owed to Frieda River Limited (a wholly owned subsidiary of PanAust Limited, in turn a wholly owned subsidiary of GRAM). Refer note 5.

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

PanAust is 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 is responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programmes up to the date of lodgement of the Mining Lease or Special Mining Lease application.

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

Other

Other represents the Star Mountains Copper-Gold Project and the Sewa Bay Nickel Laterite Project. Exploration costs associated with these projects are fully provided for, given the stage of the project.

On 11 February 2015, the Group executed Joint Venture and Farm-in agreements for the Star Mountains Projects with a wholly owned subsidiary of Anglo American. The agreements resulted in Highlands receiving a total of US\$10 million from Anglo American, in two tranches of US\$5 million each. The first tranche of US\$5 million was received on execution of the agreements in February 2015, with the second tranche of US\$5 million to be received in February 2016. The receipt of the first US\$5 million tranche reduced the Group's previous exploration costs by this amount, with a reversal of prior provision for exploration costs booked in the accounts.

The exploration programs managed by the Group on the Star Mountains Project and the Sewa Bay Project ensued in the Group receiving a management fee, which was applied to exploration expenditure, giving a reversal of prior provision for exploration costs, such that the carrying value of both projects remain at nil. The Group's expenditure to date on the Star Mountains Project, net of receipts and management fees, is US\$18 million.

Notes to the condensed consolidated financial statements (continued)

For the half-year ended 30 June 2015

4. INVESTMENT IN RAMU NICKEL JOINT VENTURE

(i) Summarised financial information for Ramu Nickel Joint Venture

	1 January 2015	30 June 2015
Current Assets	187,518	230,666
Non-current Assets	1,876,883	1,838,015
Current Liabilities	(187,518)	(182,872)
Non-current Liabilities	(22,134)	(22,440)
Net Assets	1,854,749	1,863,369
Group's share of net assets	158,767	159,504
Provisions for impairment	-	(9,504)
Investment at recoverable amount	158,767	150,000
Reconciliation to carrying amounts:		
Opening net assets 1 January 15		158,767
Share of associated entity's production costs		(8,151)
Share of associated entity's other comprehensive income/(loss)		(3,538)
Share of additional contribution		12,426
Provision for impairment		(9,504)
Closing net asset 30 June 15		150,000

(ii) Interest in Ramu Nickel Joint Venture

Revenue	9,950
Share of associated entity's production costs	(8,151)
Share of associated entity's other comprehensive income/(loss)	(3,538)
Direct holding costs	(325)
Share of associated entity's total comprehensive income/(loss)	(2,064)

(iii) Sale of MHP Product

Share of associated entity's MHP Products (DMT)	2,133
Revenue from sales of MHP products	9,942
Other revenue	8

(iv) Loan from MCC Ramu Nico Limited

Balance as at 1 January 2015	108,100
New borrowing incurred	4,087
Interest accrued	2,619
Loan Repayment	(1,290)
Balance as at 30 June 2015	113,516

Notes to the condensed consolidated financial statements (continued)

For the half-year ended 30 June 2015

On 1 January 2015 the Group nominated into the Ramu Nickel Joint Venture and recognised its interest at fair value resulting in a fair value gain of US\$666,000. From this point the Group commenced receiving its pro-rata share of operating surpluses and will contribute to its share of on-going capital expenditure requirements. On nomination the Group also recognized the loan balance owing by the Group to MCC Ramu NiCo Limited for its 8.56% share of capped development costs plus accumulated interest for monies paid by MCC Ramu NiCo Limited to lenders on behalf of the Group up to 1 January 2015. These borrowings are non-recourse to the Group and will be repaid out of the Group's share of operating surpluses and on-going capital expenditure requirements at the rate of 80% of this net distribution. For the six months ended 30 June 2015 the Group repaid US\$1,290,000 and has an entitlement to US\$320,000 booked as a receivable.

After increasing the carrying value of the Group's interest in the Ramu Nickel Joint Venture by US\$108.1 million for the loan balance on nomination and accounting for the six months of operations the carrying value has been impaired by US\$9.5 million to US\$150 million. This impairment is the result of the negative outlook on commodity prices in the short to medium term.

In assessing the carrying value of its interest in the Ramu Nickel Joint Venture at 30 June 2015, the Directors have adopted a fair value less cost to sell methodology in reference to the present value of the expected future cash flows before financing from 2015 through to the end of mine life in 2031 at a weighted average cost of capital of 7.00% (real). Other critical assumptions used in arriving at the present value of the future cash flows include long term (2020 onwards) commodity prices for nickel of US\$10.05/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\$22 million, while a negative 10% movement results in a reduction of US\$22 million.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of the asset relatively modest changes in one or more assumptions could require a material adjustment (negative or positive) to the carrying value of the related non-current asset within the next reporting period. The inter-relationships of the significant assumptions upon which estimated future cashflows are based 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 ore commissioning and ramp-up phase is continuing and for the last six months the operation achieved an annualized average production rate of 77% and in the weeks since 30 June achieved a rate of 90%.

5. TRADE AND OTHER PAYABLES

	Consolidated	
	Jun-15	Dec-14
	US\$000	US\$000
Current		
Trade creditors	7	109
Accruals and other creditors*	1,795	1,533
	1,802	1,642
Non-Current		
Carried Funding Loan**	6,194	6,127
	6,194	6,127

* During 1999, Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu joint venture. The terms of payment due to Eastern under this agreement were varied by a further agreement executed on the 1st February 2010 reducing the total amount payable from AU\$1.5 million to AU\$1.0 million. During 2010 PGK1.7 million was paid to Eastern with the balance of US\$221,823 (AU\$270,450) to be paid to Eastern when the Ramu project commences commercial production. This amount has been booked as a current other creditor and discounted from the estimated date of payment to the balance date using the Short Term Bond Rate 2.53%. Refer note 9.

** The Carried Funding Loan represents the amount owing to Frieda River Limited ("FRL") (a wholly owned subsidiary of PanAust Limited) as at 30 June 2015. This loan is as the 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\$66,408 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 *Borrowing Costs*. This loan will continue to accrue interest at a rate of US\$ one month

Notes to the condensed consolidated financial statements (continued)

For the half-year ended 30 June 2015

LIBOR plus 2% and is repayable by Highlands out of production cash flows.

6. BORROWINGS

	Consolidated	
	Jun-15	Dec-14
	US\$000	US\$000
Current		
Loan to MCC Ramu NiCo Limited	3,000	-
	3,000	-
Non-Current		
Loan to MCC Ramu NiCo Limited	110,516	-
	110,516	-

These borrowings are non-recourse to the Group and will be repaid out of the Group's share of operating surpluses and on-going capital expenditure requirements at a rate of 80% of net distributions. Refer note 4.

7. CONTRIBUTED EQUITY

	June	December	June	December
	2015	2014	2015	2014
	US\$000	US\$000	Shares 000's	Shares 000's
Paid Up Capital				
Balance brought forward	303,914	299,547	918,694	853,778
Issued during the period	-	4,652	1,883	64,916
Less costs associated with issue	(1)	(285)	-	-
Balance carried forward	303,913	303,914	920,577	918,694

Notes to the condensed consolidated financial statements (continued)

For the half-year ended 30 June 2015

The total number of shares issued as at 30 June 2015 was 920,577,086. In accordance with the Papua New Guinea Companies Act 1997 the Company's shares are fully paid, have no par value and there is no authorised capital level.

8. SEGMENT REPORTING

	Exploration US\$000	Frieda US\$000	Ramu US\$000	Corporate US\$000	Group US\$000
30 June 2015					
Segment revenue	-	-	-	45	45
Segment result	5,294	-	(13,521)	(1,924)	(10,151)
Net Profit / (Loss)	5,294	-	(13,521)	(1,924)	(10,151)
Segment assets	-	26,600	150,000	11,597	188,197
Impairment of assets	-	-	(9,504)	-	(9,504)
Segment liabilities	(911)	(6,194)	(113,516)	(1,200)	(121,821)
Acquisition of segment assets	-	-	-	-	-
Segment depreciation and amortisation	-	-	-	(37)	(37)
30 June 2014					
Segment revenue	-	-	-	54	54
Segment result	(599)	(597)	(154)	(1,645)	(2,995)
Net Profit / (Loss)	(599)	(597)	(154)	(1,645)	(2,995)
Segment assets	-	26,500	35,475	6,559	68,534
Segment liabilities	(45)	(5,871)	(247)	(1,160)	(7,323)
Acquisition of segment assets	-	-	-	-	-
Impairment of non-current assets	-	-	-	-	-
Segment depreciation and amortisation	-	-	-	(43)	(43)
31 December 2014					
Segment assets	-	26,500	50,000	9,025	84,439
Segment liabilities	(227)	(6,127)	(222)	(1,498)	(8,074)

9. EVENTS OCCURRING AFTER BALANCE DATE

In July 2015 the Ramu Nickel-Cobalt mine achieved sufficient production to trigger a receivable owing from Nord Australer Nominees (PNG) Limited to the Group of US\$500,000 and a payable by the Group to Eastern Pacific Mines Limited (refer note 5). These were effected in August 2015.

Directors' declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 13 are in accordance with:
 - (i) International Financial Reporting Standard IAS34: *Interim Financial Reporting* and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Highlands Pacific Limited will be able to pay its debts as and when they become due and payable.

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



Ken Macdonald
Chairman

11 September 2015



Independent Auditor's Review Report

to the Directors of Highlands Pacific Limited

Report on the condensed interim financial statements

We have reviewed the accompanying condensed interim financial statements, being a special purpose financial report, of Highlands Pacific Limited (the Company), which comprise the condensed statement of financial position as at 30 June 2015, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date and other selected explanatory notes for the Group. The Group comprises the Company and the entities it controlled at 30 June 2015 or from time to time during the half-year.

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

Directors' responsibility for the condensed interim financial statements

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

Auditor's responsibility

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

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

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed interim financial statements of Highlands Pacific Limited do not present fairly the Group's financial position as at 30 June 2015 and its financial performance and cash flows for the half-year ended on that date in accordance with IAS 34 'Interim Financial Reporting'.

Restriction on distribution or use

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Grant Burns'.

Grant Burns

Partner

Registered under the Accountants Act 1996

Port Moresby

11 September 2015



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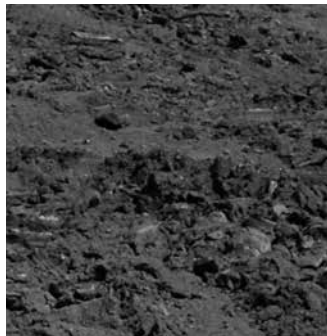
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