22 March 2016

2015 Financial Statements

Highlands Pacific Limited (ASX: HIG) has recorded a loss from operations of US$4.2 million for the year to December 2015, compared with a loss of US$7.4 million in 2014.

The better operating result was due to lower exploration and development costs, principally at the Star Mountains project, following the execution of a joint venture and farm-in agreement with Anglo American plc in February 2015. Anglo American subsequently funded exploration at the project, reducing Highland's exploration and development costs from US$2.8 million in 2014, to zero in 2015. Exploration and development costs at the Group's other projects are either borne by partners, or capitalised.

Total operating costs therefore fell significantly, from US$7.5 million in 2014, to US$4.3 million in 2015.

As a result of a reassessment of the carrying value of the Group's 8.56% interest in the Ramu Nickel mine, given the depressed outlook for commodity prices, the asset has been impaired by US$74 million, reducing the carrying value to US$85 million. The impairment is a non-cash item and it is to be noted that an impairment is not a write off, but a provision which can be reversed in the event of improvements in market outlook or operational performance, including mine life extensions.

The Group has also booked the borrowings that relate to the Group's interest, held in the wholly-owned subsidiary Ramu Nickel Limited, in the Ramu Nickel mine and owing to MCC Ramu NiCo Limited. These borrowings represent the Group's 8.56% share of principal repayments (capped to a specified development threshold) and interest repayments made by MCC Ramu NiCo Limited to third party lenders on behalf of the Group, plus any accumulated interest charged by MCC Ramu Nico Limited. The borrowings are held in the Group's wholly owned subsidiary Ramu Nickel Limited and are non-recourse to the Group or Parent entity Highlands Pacific Limited. The borrowings are to be repaid out of the Group's share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating or financing cash flows generated by the Group.

The bottom line loss for the Group was US$68 million (2014: profit of US$7.6 million).

Cash at bank at 31 December 2015 was US$9.0 million. This has since increased following receipt of the final US$5.0 million payment from Anglo American for its interest in the Star Mountains project.

Highlands Pacific Managing Director John Gooding said Highlands had made significant progress in 2015, despite very challenging conditions in global commodity markets, and extremely depressed prices for copper and nickel.

"A highlight of the year was the completion of the Star Mountains transaction with Anglo American, which enabled us to push on with a successful exploration campaign during the remainder of the year. In addition, we saw excellent operational improvements implemented at Ramu, where throughput rates are increasing steadily, and at Sewa Bay, we were able to achieve some impressive exploration results."

"At the Frieda River project, our partner PanAust is close to completing a major feasibility study, which has the potential to underpin an application for a Special Mining License to be lodged by mid-year."

For further information, please contact:
Joe Dowling, GM Investor Relations and Communications on 0421 587755

ASX Code: HIG
PoMSox Code: HIG
Shares on Issue: 928 million
Performance Rights: 29.8 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
Leslie Nand, GM Exploration Projects
Joe Dowling, GM Investor Relations and Communications

Investor and Media Enquiries to:
Joe Dowling - 0421 587755

Website:
www.highlandspacific.com

About Highlands Pacific Limited

Highlands Pacific is a PNG incorporated and registered mining and exploration company listed on the ASX and POMSoX 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 lodgment 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.

2015 ANNUAL REPORT

HIGHLANDS PACIFIC
Diversified Mineral Resource Company

Highlands Pacific provides investors with leveraged exposure to multiple commodities through a suite of long-life, world-class resource projects, with a variety of development profiles.

The Company's projects are located in Papua New Guinea, where Highlands has built a reputation, over the past 20 years, as one of the country's most experienced and successful mineral explorers and project developers. Highlands is a joint venture partner in the massive Frieda River Copper/Gold mine development project and the highly prospective Star Mountains Copper/Gold exploration project. It holds an 8.56% stake in the Ramu Nickel/Cobalt mine and process plant and is exploring for nickel on tenements on Normanby Island in the south of the country.

Annual General Meeting

19 May 2016 at 10.00am (AEST)
Grand Papua Hotel, Mary Street, Port Moresby, PNG

HIGHLANDS PACIFIC
Diversified Mineral Resource Company

Chairman's and Managing Director's Report

Highlands Pacific continued to make good progress with the development of its portfolio of world-class mineral resource projects during 2015.

The Board and Management remain focused on creating wealth for shareholders through carefully targeted, disciplined exploration, coupled with systematic development and derisking of mining and mineral processing projects.

The strategy also has involved the introduction of joint venture partners to provide additional financial resources, enabling projects to be developed in ways that create value for our shareholders.

In line with that strategy, the company was able to push forward with its four main projects during the year, working with its various joint venture partners to achieve its operational goals.

This was notwithstanding the protracted cyclical weakness in global commodity prices which overshadowed the entire mining industry during the year. Caused by uncertainties surrounding Chinese and global growth, and the accompanying threat of reduced demand for industrial and precious metals, it resulted in the nickel price falling by almost 50% during 2015, ending the year at US$8707 per tonne, which was the lowest price since July 2003. Unfortunately, despite the forecasts of many experts, the price has continued to fall in 2016.

Similarly, the copper price fell by almost 30% during 2015, ending December at US$4638/tonne, which was the lowest since mid 2009.

As shareholders will be aware, the fall in commodity prices had a flow on effect on the Highlands Pacific share price, which ended the year at A6.7 cents. While that share price was higher than the A5.7 cents price that prevailed at the start of 2015, and was well above the comparable performance of the Standard & Poors/ASX 300 Metals and Mining Index, which declined by more than 30%, it was nevertheless a disappointing outcome that did not reflect the strong operational achievements of 2015.

While we are acutely conscious of the challenging conditions in global commodity markets, and the impact that has on our cashflows and funding capabilities, we can only focus our attention on the things we can control. We remain confident that commodity prices will recover in time, and it is important to remember that our projects have estimated productive lives likely to be well in excess of 20 years (in the case of Frieda River, Ramu and potentially Star Mountains). Consequently, while the market conditions may have a short term impact, we remain committed to our strategy, which we are confident will deliver value for shareholders over time.

Frieda River Copper/Gold Project

The year to December 2015 was an important period for the Frieda River project. Our joint venture partner, PanAust Ltd, which holds an 80% interest in the project, was acquired by the Guangdong Rising Assets Management Company of China (GRAM) in the middle of 2015.

GRAM is a large Chinese government owned institution with substantial financial capability and with a long term view.

During the year, PanAust made progress in the detailed technical studies, engineering, design and financial analysis required for what is a large and complex exercise.

At year end, the study was being finalised, with the completion date extended to allow for full consideration of various design concepts and operating parameters.

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.

Ramu Nickel/Cobalt Mine

The US$2.1 billion Ramu Nickel/Cobalt mine, one of the triumphs of the PNG resources sector over the past 20 years, continued to achieve consistent improvements in operating performance over the 12 months to December as it steadily ramped up to full production.

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 into production, which commenced in 2012. Highlands holds an 8.56% stake in the Ramu Nickel Joint Venture, which is managed by the Metallurgical Corporation of China, which controls 85%. The remaining 6.44% is held by the PNG Government and local community.

During 2015, the mine and process plant produced a record 25,582 tonnes of nickel in concentrate, up 22% from the prior year output of 20,987 tonnes due to increased mine production and plant throughput. Cobalt metal in concentrate production increased 17% to 2505 tonnes for the year. Output for 2016 is expected to grow strongly, exceeding 29,000 tonnes of nickel, with the plant achieving full nameplate production rates on a consistent basis by the end of the year. Despite depressed global nickel prices, the improved performance of the project and rigorous cost controls leave it well positioned to benefit from any potential nickel price recovery.

Star Mountains Copper/Gold Project

Early in 2015, Highlands successfully created a joint venture agreement with global diversified miner Anglo American Plc to advance the prospective Star Mountains Copper/Gold project.

The Star Mountains exploration tenements cover 515 sq kms in the north west of PNG where exploration by Highlands has previously identified significant copper/gold mineralisation.

Under the terms of the joint venture, Anglo American paid Highlands US$5 million for its initial interest in the joint venture, with a second US$5 million payment received in February 2016. 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 metal within five years, and completing a Bankable Feasibility Study (BFS) within 15 years.

Following the execution of the joint venture agreement, a major initial exploration drilling campaign commenced, which involved nine holes for a total of 5387 metres. Drilling was completed by the end of the year and results have confirmed the presence of extensive copper/gold mineralisation at the tenements that were the focus of the campaign. The drilling has provided important geological information that will underpin further exploration activity this year and may ultimately lead to declaration of a mineral resource.

Sewa Bay Nickel Laterite Project

Another important development during the year was the completion of an auger drilling program at the Sewa Bay project, carried out in conjunction with and funded by Japan's Sojitz Group. The campaign involved 303 auger holes totalling 545 metres, and three pits were dug to a depth of 2 metres. The drilling identified extensive nickel mineralisation and may lead to further exploration in 2016.

Conclusion

The next 12 months will be an important period for Highlands. The completion of the Frieda River feasibility study will be an important milestone for the company, potentially setting the stage for the development of the project to commence.

In addition, exploration efforts at Star Mountains and Sewa Bay will continue to advance, and further production increments are expected at Ramu. While the commodity markets and sector are likely to continue to provide challenges for us in the near term you can be assured that we will continue to endeavour to deliver value for our shareholders.

We thank our fellow Directors for their contribution and diligence during the year, as well as our lean management team and staff for their hard work and commitment. Finally, we thank our shareholders for their interest and support.

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

Frieda River Copper/Gold Project

Resource inventory of 13Mt of copper, 20Moz of gold and 49Moz of silver.

Ramu Nickel/Cobalt Mine

Production capacity of plus 30,000t of nickel per year.

Star Mountains Copper/Gold Project

The 2015 exploration campaign involved nine drill holes totalling 5387 metres of drilling.

Sewa Bay

The 2015 exploration campaign involved 303 auger holes totalling 545 metres of drilling.

Basamuk port

Frieda River Copper/Gold Project

- New project partner

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 deposits 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: Chinese state-owned company Guangdong Rising Assets Management (GRAM) emerged as the beneficial owner and manager of the Frieda River project during 2015, through its acquisition of PanAust Ltd.

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%.

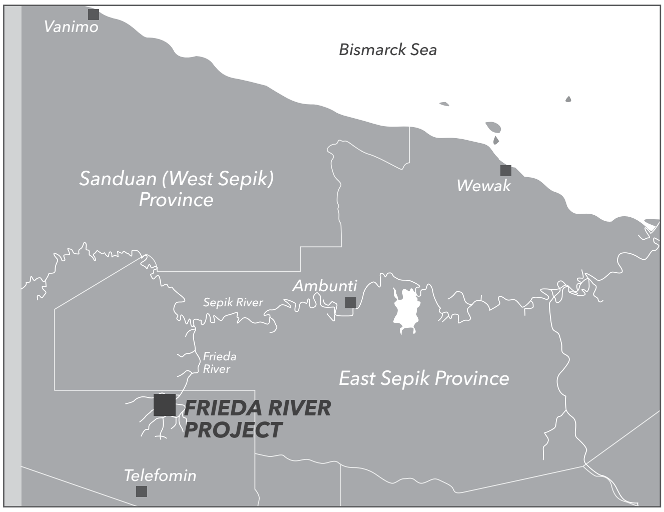
Development Concept: The base case development concept previously proposed by PanAust in September 2014 involved an open pit and a single process plant module incorporating a SAG mill and two ball mills.

Life-of-mine mill feed was 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.

This base case is currently being reassessed as part of the feasibility study, with a variety of designs, revised engineering concepts and alternative operating parameters being considered to maximise returns for shareholders and ensure up-front capital expenditure is most efficiently determined.

Feasibility Study: PanAust is now close to finalisation of the draft feasibility study. The draft will be subjected to a rigorous independent peer review, ahead of a potential application to the PNG Government for a special mining lease accompanied by a completed feasibility study.

PanAust is 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.



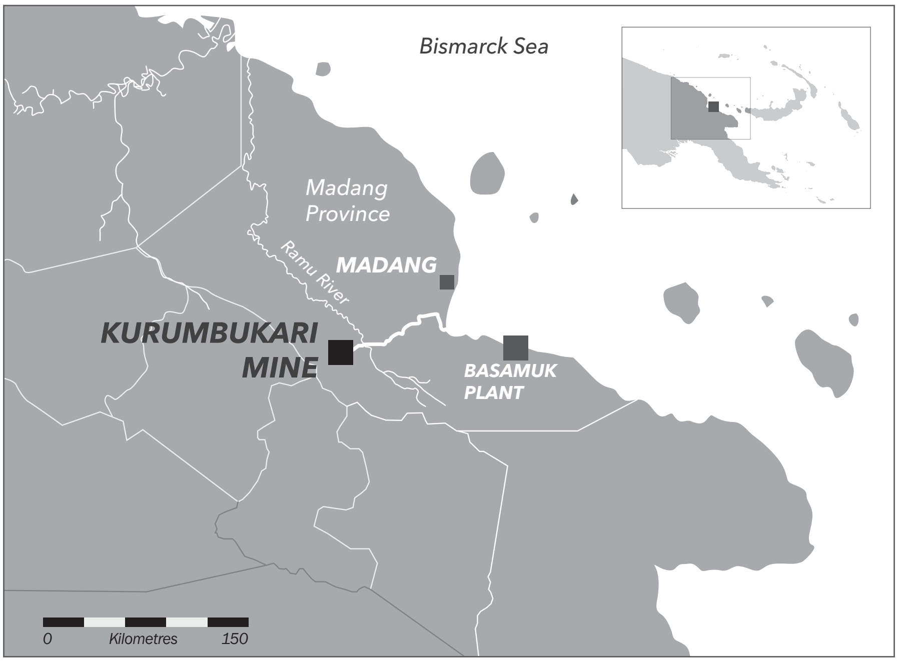
Ramu Nickel/Cobalt Mine

- 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 a record 25,500 tonnes in 2015.

The production figures until the end of 2015 are shown in the table below, demonstrating the consistent improvement in operating performance.

	2012	2013	2014	2015	Nameplate
Ore Processed (dry kilotonnes)	647	1,252	2,273	2,784	3,400
MHP Produced (dry tonnes)	13,777	29,736	57,360	65,286	78,000
Contained Nickel (tonnes)	5,283	11,369	20,987	25,582	31,150
Contained Cobalt (tonnes)	469	1,013	2,134	2,505	3,300
% Nameplate capacity	17%	36%	67%	82%	100%
MHP Shipped (dry tonnes)	576	39,472	57,216	53,291	-
Contained Nickel (tonnes)	217	15,123	21,100	20,747	-
Contained Cobalt (tonnes)	19	1,338	2,164	2,004	-



In the current year, throughput is expected to exceed 29,000 tonnes of nickel in concentrate, and should achieve full production rates by year end. The Ramu nickel project has a planned mine life of more than 20 years, making it a truly world class asset capable of generating substantial cashflows.

The steady growth in production and improved cost controls leave the project well placed to benefit from any recovery in commodity prices from currently depressed levels.

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 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.

Funding: MCC Ramu NiCo Limited was responsible for development and financing of the mine. Upon Highlands' decision to begin participating in the operating cashflows of the mine and thus enabling it to begin receiving its pro-rata share of operating surpluses, it also commenced repaying its share of project borrowings. Highlands' borrowings include its 8.56% share of principal (capped to a specified development threshold) and interest repayments made by MCC Ramu NiCo Limited to third parties on behalf of Highlands, plus any accumulated interest charged by MCC Ramu NiCo Limited. The borrowings are held in Highlands' wholly owned subsidiary, Ramu Nickel Limited, and are non-recourse to the Highlands Group. The borrowings are to be repaid out of the Group's share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating and financing cashflows generated by the Highlands Group. Of the operating surpluses available to Highlands each year, 80% is applied to repayments of borrowings. Once the borrowings have been repaid, Highlands' interest in the Ramu Nickel mine will increase to 11.3% at no cost to Highlands.

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 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.

For more information on Ramu review the website:
www.ramunico.com

Star Mountains Copper/Gold Project

- 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.

Ownership: In early 2015, Highlands and Anglo American Plc executed a joint venture agreement 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 paid 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.

History: The Star Mountains region has only been drilled three times in the last 50 years. The first drilling was conducted by Kennecott in the late 1960s 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.

2015 Drill Campaign

During 2015, Anglo and Highlands conducted a major exploration drilling campaign involving nine drill holes for a total of 5387 metres of drilling.

Assay results were released progressively during the year, which confirmed the presence of extensive copper/gold mineralisation.

Drilling results included:

At the Olgal prospect:

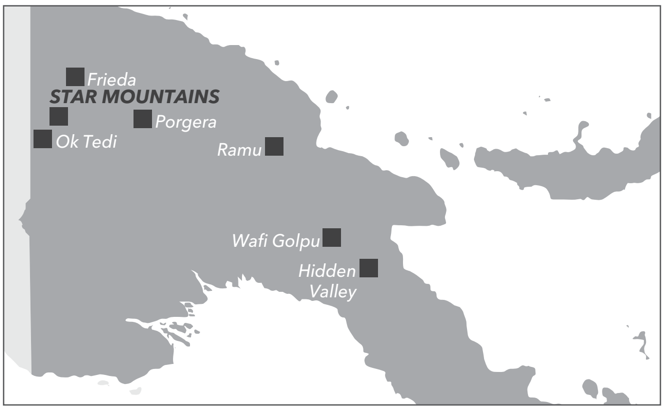
- (Hole 018OLG15) 260 metres @ 0.31% copper and 0.19 g/t gold, Including 10.9 metres @ 0.60% copper and 0.34 g/t gold from 314m downhole
- (Hole017OLG15) 434.9 metres @ 0.52% copper and 0.72 g/t gold, Including 100 metres @ 0.82% copper and 1.39 g/t gold from 76m downhole
- (Hole 019OLG15) 183 metres @ 0.53% copper and 0.58 g/t gold from 168m downhole, Including 16 metres @ 0.69% copper and 0.53 g/t gold from 198m downhole and 87 metres @ 0.67% copper and 0.84 g/t gold from 260m downhole
- (Hole 020OLG15) 430 metres @ 0.39% copper and 0.24 g/t gold from 168m downhole

At the Kum Kom prospect:

- (Hole 004KUM15) 13metres @ 1.3% copper and 0.53 g/t gold from 107m downhole
    - 26.5 metres @ 0.89% copper and 1.4 g/t gold from 282m downhole
    - 30 metres @ 1.0% copper and 0.23 g/t gold from 515m downhole
- (Hole 003KUM15) 30.6 metres @ 0.61% copper and 0.54 g/t gold, Including 12.1 metres @ 0.94%copper and 0.72 g/t gold from 292.9m downhole

The campaign provided substantial information to assist in understanding the geology of the Star Mountains prospects, and to plan further exploration efforts in the current year. Extensive field work and airborne geophysical surveys are currently being conducted to identify further targets for drilling.

For full reports of the drilling and drill results, please see ASX announcements of 29 September and 27 October 2015, and 25 February 2016 available at http://www.highlandspacific.com/asx.



Sewa Bay

- Exploration program conducted

Sewa Bay

The Sewa Bay project (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.

During 2015, Highlands conducted an auger drilling campaign in conjunction with Japanese trading house Sojitz Group, which identified extensive nickel mineralisation. The campaign involved 303 auger holes totalling 545 metres, and three pits were dug to a depth of 2 metres. The drilling was aimed at testing thicker nickel laterite zones formed over ultramafic units which cover some 50 square kilometres.

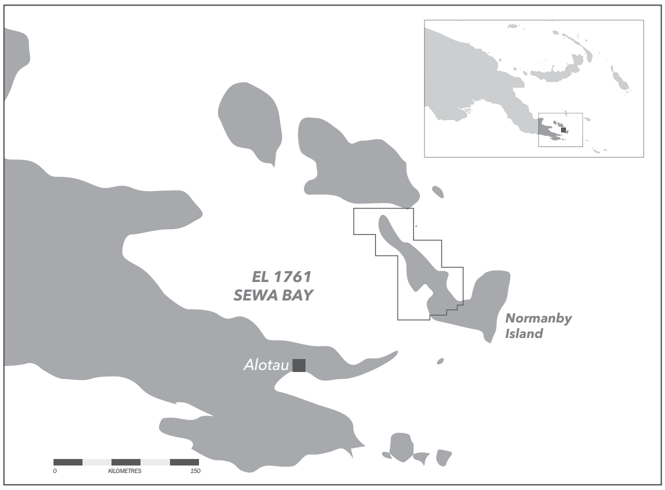
The program was carried out between March and May and encountered intercepts including:

- 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 metres at 1.12% Ni from surface
- 4.6 metres at 1.11% Ni from surface

For full reports of the drilling and drill results, please see ASX announcements of 18 August 2015, available at http://www.highlandspacific.com/asx-announcements.

Two main areas of mineralisation above 1% nickel cover an area of 7 square kilometres.

The campaign confirmed an extensive area of nickel laterite that may ultimately support a modest mining project. Discussions are continuing with Sojitz regarding further exploration in the current year.



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 2015				31 December 2014			
Category	**MTonnes**	**Cu %**	**Au %**	**Ag g/t**	**MTonnes**	**Cu %**	**Au %**	**Ag g/t**
Measured	780	0.51	0.28	0.8	780	0.51	0.28	0.8
Indicated	410	0.44	0.20	0.7	410	0.44	0.20	0.7
Inferred	920	0.4	0.2	0.7	920	0.4	0.2	0.7
Total	**2110**	**0.45**	**0.22**	**0.8**	**2110**	**0.45**	**0.22**	**0.8**

Koki at a 0.2% Cu cut-off

	31 December 2015			31 December 2014		
Category	**MTonnes**	**Cu %**	**Au %**	**MTonnes**	**Cu %**	**Au %**
Inferred	450	0.4	0.2	450	0.4	0.2

Ekwai at a 0.2% Cu cut-off

	31 December 2015			31 December 2014		
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 2014 Resource report 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.

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 the 2014 Resource report 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 2015			31 December 2014		
Category	**MTonnes**	**Ni %**	**Co %**	**MTonnes**	**Ni %**	**Co %**
Kurumbukari						
Measured	36	0.9	0.1	38	0.9	0.1
Indicated	7	1.4	0.1	7	1.4	0.1
Inferred	4	1.2	0.1	4	1.2	0.1
Total	**46**	**1.0**	**0.1**	**49**	**1.0**	**0.1**
Ramu West						
Indicated	17	0.8	0.1	17	0.8	0.1
Inferred	3	1.5	0.2	3	1.5	-
Total	**20**	**0.9**	**0.1**	**20**	**0.9**	**-**
Greater Ramu						
Inferred	60	1.0	0.1	60	-	-
Global Total	**126**	**1.0**	**0.1**	**129**	**1.0**	**0.1**

Changes in the reported mineral resources for the Ramu project reflect depletion of mined areas and some remnant resource sterilized due to rehabilitation and back fill.

Mineral Resource and Ore Reserve Statements

Ramu Reserve

The following table shows the 2015 Ramu ore reserve estimate

	31 December 2014				31 December 2013			
Category	**MTonnes**	**Ni %**	**Co %**	**Rocks +2mm MTonnes**	**MTonnes**	**Ni %**	**Co %**	**Rocks +2mm MTonnes**
Kurumbukari								
Proved	31	0.9	0.1	-	33	0.9	0.1	-
Probable	6	1.3	0.1	9	6	1.4	0.1	11
Total	**37**	**1.0**	**0.1**	**9**	**39**	**1.0**	**0.1**	**11**
Ramu West								
Proved								
Probable	14	0.9	0.1	-	14	0.9	0.1	-
Total	14	0.9	0.1	-	14	0.9	0.1	-
Global Total	**51**	**1.0**	**0.1**	**9**	**53**	**1.0**	**0.1**	**11**

The 2015 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 2014 Ore Reserve, due to reserve depletion from mining and a minor amount of sterilization due to pit infilling and rehabilitation partially offset by a decrease in the cutoff grade. The 2015 Ore Reserve was based on the Kurumbukari mine plan and modifying factors based on information about the operations in 2015. The 2015 cut-off grade decreased to approximately 0.58% Nickel equivalent (including cobalt metal credits).

Notes

This summary of the mineral resources and the ore reserves as at 31 December 2015 should be read in conjunction with the comprehensive report 2015 Mineral Resources and Ore Reserves statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 22 March 2016.

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$17,764/t nickel and US$26,448/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 estimates.

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.

Mineral Resource and Ore Reserve Statements

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 the 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 the 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:	2015	2014	2013	2012	2011
Fatalities	0	0	0	0	0
Lost time injuries	0	0	0	1	0
Average no. of employees	**120**	**15**	**15**	**70**	**50**

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

Number of:	2015	2014	2013	2012	2011
Fatalities	1	1	0	0	1
Lost time injuries	3	2	1	5	2
Average no. of employees	**1,606**	**1,391**	**1,400**	**1,184**	**1,668**

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

Number of:	2015	2014	2013	2012	2011
Fatalities	0	0	0	0	0
Lost time injuries	0	0	0	0	0
Average no. of employees	**103**	**62**	**84**	**148**	**154**

The tragic fatality at Ramu Operations occurred at the KBK mine site when a logging contractor, employed to clear land for mining, was hit by a falling tree. The incident initiated a thorough review of logging practises and procedures.

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. Access to reliable supply of potable water also is a significant health issue in the region. During the year Highlands provided materials and labour to refurbish the Tifalmin weir, which had fallen into a state of disrepair from debris coming through the watercourse. The reservoir formed by the weir is a vital water supply for the region.

The reconstruction work took approximately 2 weeks to complete and required a significant commitment of aerial (helicopter) logistics by the Company.

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 Conservation & Environment Protection Authority to undertake exploration.

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 people 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. He is also Chairman of the Queensland Business Leaders Hall of Fame Governing Committee.

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 and a member of the Remuneration Committee and Nomination Committee.

Dan Wood AO

Independent, Non-executive Director
Appointed: 28 May 2010

Dan Wood is an adjunct professor with the W H Bryan Mining and Geology Research Centre at the University of Queensland and an exploration geologist with a distinguished international record and reputation 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 ore bodies in Australia. After joining Newcrest Mining at its formation in 1990 he was Executive General Manager Exploration from the mid-1990s onwards, leading the Company's exploration team which was judged by the Metals Economics Group of Canada to have been the world's most successful gold explorer, 1992-2005.

Mr Wood was appointed an Officer of the Order of Australia in 2015, for distinguished service to the mining and resource industry, particularly mineral exploration through contribution as a geologist, academic and in executive roles.

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

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 a 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.

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 of 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, rotated every five years;
- 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;
- 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 six meetings held during the year and all members attended meetings they were eligible to attend.

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 Director's 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.
- 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 was one meeting held during the year and all members attended the meeting.

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 to communicate 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.

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.

Corporate Governance

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 above mentioned 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 POMSoX 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 POMSoX.

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; and
- 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:

- 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 – 21% PNG national representation; 11% women; and
- Permanent employees – 60% PNG nationals; 15% 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 2015 (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 2015 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	4	4	0	0
J. Gooding	6	6	4	4	0	0
M. Carroll	6	6	4	4	6	6
D. Wood	6	6	4	4	6	6
B. Philemon	6	5	4	4	6	5

	Remuneration Committee Meetings		Nomination Committee Meetings	
	No. Eligible to Attend	No. Eligible to Attend	No. Eligible to Attend	No. Attended
K. MacDonald	3	3	1	1
J. Gooding	0	0	1	1
M. Carroll	3	3	1	1
D. Wood	3	3	0	0
B. Philemon	0	0	0	0

Directors' shareholdings and interests

Details of Directors' related direct and indirect shareholdings and interests in the equity of the Company, as at 31 December 2015, 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	1,000,000	-
J Gooding Managing Director	4,200,215	12,050,000
M Carroll Non-Executive Director	304,307	-
D Wood Non-Executive Director	1,100,000	-
B Philemon Non-Executive Director	1,028	-

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 loss after tax of US$68.0m is reported by the Group for the year. The loss includes the following items:

- general and administrative expenditure of US$4.0m;
- impairment of the carrying value of the Group's investment in the Ramu project by US$73.9m due to the negative outlook on commodity prices in the short to medium term;
- interest capitalised on the borrowings associated with the investment in the Ramu project of US$5.6m; and
- share of operating loss of the Ramu project partially offset by the reversal of impairment on nomination into the project of US$4.6m; offset by
- reversal of previous provisions for exploration costs associated with the Star Mountains project of US$20.3m due to the transaction with Anglo American.

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 2015.

Significant changes in state of affairs

The Group's net assets decreased by US$67.6m from US$76.4m to US$8.8m. This movement can be summarized as follows:

- increase in cash of US$1.9m;
- increase in receivables of US$6.1m;
- increase in exploration and evaluation of US$10.0m;
- increase in the investment in Ramu, net of imparement of US$35.0m; off set by
- increase in trade and other payables and provisions of US$1.0m; and
- increase in borrowings of US$119.5m.

Contributed equity remained unchanged at US$303.9m. Details of contributed equity are disclosed in note 16 of the Financial Statements.

Matters subsequent to the end of the financial year

On 11 February 2016 the Group received the second payment of US$5m from Anglo American in accordance with the Joint Venture and Farm-in Agreements executed on 11 February 2015 for the Star Mountains project. Refer note 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 of 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 bests 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.

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-Executive 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 2015 to 31 December 2015 performance period were made in January 2016. The LTI Plan compliments 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 2015 the Board determined that the STI offered for the 1 January 2015 to 31 December 2015 performance period would be 'cash only', in line with previous years. Equity continues to be offered through the LTI Plan.

Summary of Short Term Incentive Plan

What is the Short Term Incentive Plan?	An incentive plan under which eligible employees are granted a cash amount which is based on a percentage range of each employee's fixed remuneration (determined according to seniority and ability to influence the performance of the Group), and assessed according to performance against a combination of Group and individual measures.
When was the 2015 STI grant paid to eligible employees?	The STI amount was paid to employees in January 2016, following assessment of performance against the applicable measures during the 2015 performance period.
Who participated in the 2015 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 2015 grant, over a three year vesting period, were matching the Total Shareholder Return for a Peer Group as recommended by an independent external consultant.

Summary of Long Term Incentive Plan

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?	• 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.

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 as at 31 December 2015.

Name & Position	Grant Date	Rights Granted	Rights Vested & Exercised	Rights Lapsed
John Gooding, Managing Director	17 May 2012	1,600,000	680,000	920,000
John Gooding, Managing Director	16 May 2013	2,600,000	Nil	Nil
John Gooding, Managing Director	22 May 2014	4,350,000	Nil	Nil
John Gooding, Managing Director	21 May 2015	5,100,000	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 20 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 annual remuneration of AU$630,000 for the 2015 year. Mr Gooding's fixed remuneration remains this level for the 2016 year and has not changed since 2013. The notice period Mr Gooding has to give the company is 3 months while the notice period the Group must give is 12 months or a termination payment of 100% of the fixed annual remuneration amount.

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 22 March 2016 in accordance with a resolution of the Directors.

For and on behalf of the Board

Ken MacDonald
Chairman

John E Gooding
Managing Director

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 2015, 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 2015 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 2015, 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 2015:

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

PricewaterhouseCoopers

Grant E Burns
Partner

Registered under the
Accountants Registration
Act 1996

Port Moresby
22 March 2016

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Statements of comprehensive income

For the year ended 31 December 2015

		Consolidated		Holding Company	
		2015	2014	2015	2014
	Notes	US$000	US$000	US$000	US$000
Finance Income		72	119	-	-
Other income		8	9	-	-
Total Income	**2**	**80**	**128**	**-**	**-**
General and administrative costs		4,067	4,242	-	-
Exploration and development costs		-	2,787	-	-
Depreciation and amortisation		73	83	-	-
Net foreign exchange loss		174	396	-	-
Total Operating Costs	**3**	**4,314**	**7,508**	**-**	**-**
Net Operating Costs		**(4,234)**	**(7,380)**	**-**	**-**
Interest expense	10	(5,663)	-	-	-
Reversal of provision of exploration costs	9	20,328	-	-	-
Impairment of subsidiary advances	12	-	-	(38,858)	(4,659)
Impairment of non-current assets	10	(73,856)	-	(7,856)	-
Reversal of impairment of non-current assets	10	666	15,007	-	15,007
Share of operating loss of equity accounted investment	10	(5,253)	-	-	-
Profit (Loss) from operation before income tax		**(68,012)**	**(7,627)**	**(46,714)**	**10,348**
Income tax expense	4	-	-	-	-
Profit (Loss) for the period		**(68,012)**	**(7,627)**	**(46,714)**	**10,348**
Other comprehensive income for the period		**-**	**-**	**-**	**-**
Total comprehensive income for the period		**(68,012)**	**(7,627)**	**(46,714)**	**10,348**
Basic earnings per share	5	US($0.074)	US$0.009		
Diluted earnings per share	5	US($0.071)	US$0.009		

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 2015

	Notes	Share Capital US$000	Reserves US$000	Retained Earnings US$000	Total US$000
CONSOLIDATED					
Year Ended 31 December 2015					
Balance as at 1 January 2015		303,914	(5,588)	(221,961)	76,365
Profit (Loss) for the period		-	-	(68,012)	(68,012)
Transactions with owners in their capacity as owners					
Share based payments	25	-	439	-	439
Issue of share capital	16	(1)	-	-	(1)
Balance as at 31 December 2015		**303,913**	**(5,149)**	**(289,973)**	**8,791**
Year Ended 31 December 2014					
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	25	-	291	-	291
Issue of share capital	16	4,367	-	-	4,367
Balance as at 31 December 2014		**303,914**	**(5,588)**	**(221,961)**	**76,365**
HOLDING COMPANY					
Year Ended 31 December 2015					
Balance as at 1 January 2015		303,914	(2,106)	(225,311)	76,497
Profit (Loss) for the period		-	-	(46,714)	(46,714)
Transactions with owners in their capacity as owners					
Share based payments	25	-	439	-	439
Issue of share capital	16	(1)	-	-	(1)
Balance as at 31 December 2015		**303,913**	**(1,667)**	**(272,025)**	**30,221**
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	25	-	291	-	291
Issue of share capital	16	4,367	-	-	4,367
Balance as at 31 December 2014		**303,914**	**(2,106)**	**(225,311)**	**76,497**

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

Statements of financial position

As at 31 December 2015

	Notes	Consolidated 2015 US$000	Consolidated 2014 US$000	Holding Company 2015 US$000	Holding Company 2014 US$000
CURRENT ASSETS					
Cash and cash equivalents	6	8,990	7,106	-	-
Receivables	7	6,656	538	-	-
		15,646	**7,644**	**-**	**-**
NON-CURRENT ASSETS					
Property, plant and equipment	8	234	295	-	-
Exploration & evaluation expenditure	9	36,487	26,500	-	-
Investment in Ramu Nickel mine	10	85,000	50,000	-	-
Investment in subsidiaries	11	-	-	9,545	17,401
Advances to subsidiaries	12	-	-	20,679	59,099
		121,721	**76,795**	**30,224**	**76,500**
TOTAL ASSETS		**137,367**	**84,439**	**30,224**	**76,500**
CURRENT LIABILITIES					
Trade and other payables	13	2,472	1,642	-	-
Borrowings	14	2,000	-	-	-
Provisions	15	289	262	-	-
		4,761	**1,904**	**-**	**-**
NON-CURRENT LIABILITIES					
Advances from subsidiaries	12	-	-	3	3
Trade and other payables	13	6,263	6,127	-	-
Borrowings	14	117,533	-	-	-
Provisions	15	19	43	-	-
		123,815	**6,170**	**3**	**3**
TOTAL LIABILITIES		**128,576**	**8,074**	**3**	**3**
NET ASSETS		**8,791**	**76,365**	**30,221**	**76,497**
SHAREHOLDERS' EQUITY					
Contributed equity	16	303,913	303,914	303,913	303,914
Reserves	17	(5,149)	(5,588)	(1,667)	(2,106)
Retained losses		(289,973)	(221,961)	(272,025)	(225,311)
TOTAL SHAREHOLDERS' EQUITY		**8,791**	**76,365**	**30,221**	**76,497**

For, and on behalf of, the board

Ken MacDonald
Chairman

John E Gooding
Managing Director

22 March 2016

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 2015

	Notes	Consolidated 2015 US$000	Consolidated 2014 US$000	Holding Company 2015 US$000	Holding Company 2014 US$000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipt from other operations		8	9	-	-
Interest from investments		77	122	-	-
Income tax paid		(2)	-	-	-
Payments to suppliers and employees		(4,662)	(3,811)	-	-
Net cash used in operating activities	**22**	**(4,579)**	**(3,680)**	**-**	**-**
CASH FLOW FROM INVESTING ACTIVITIES					
Advance from (to) subsidiaries		-	-	1	(4,367)
Receipt from recovery of exploration costs		5,709	-	-	-
Contribution from joint venture partners		9,292	-	-	-
Purchase of property, plant and equipment	8	(12)	(2)	-	-
Exploration, evaluation and development		(8,351)	(1,791)	-	-
Net cash used in investing activities		**6,638**	**(1,793)**	**1**	**(4,367)**
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares	16	-	4,652	-	4,652
Costs associated with issue	16	(1)	(286)	(1)	(286)
Net cash from financing activities		**(1)**	**4,366**	**(1)**	**4,366**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,058**	**(1,107)**	**-**	**-**
Add cash brought forward		7,106	8,609	-	-
Effect of exchange rate change on cash and cash equivalents		(174)	(396)	-	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD		**8,990**	**7,106**	**-**	**-**
CASH COMPRISES					
Cash and cash equivalents	6	8,990	7,106	-	-

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 2015

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 22 March 2016. The Company has the power to amend and revise the financial report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are presented in accordance with the Papua New Guinea Companies Act 1997, and comply with International Financial Reporting Standards ("IFRS") and other generally accepted account practice in PNG. 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).

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).

The Group has total operating cash outflow of US$4.5 million for the year ended 31 December 2015 (2014: US$3.7 million) and a net asset position of US$8.8 million (2014: US$76.4 million).

Cash held at bank as at 31 December 2015 was US$9.0 million (2014: US$7.1 million). Subsequent to the year end the Group received the second tranche of US$5 million from Anglo American for the acquisition of its initial interest in the Star Mountain project. Refer notes 7 and 26.

The Group holds interests in three mining projects at various stages ranging from appraisal to production.

The Group's share of the Star Mountain project's exploration expenditure is the responsibility of Anglo American up to the date of completion of a definitive feasibility study. Refer note 9.

PanAust is responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programs up to the date of lodgement of the Special Mining lease application accompanied by the requisite completed Feasibility Study. Refer note 9.

The Group's borrowings of US$119.5 million relate to the Group's interest in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. These borrowings are held in the Group's wholly owned subsidiary Ramu Nickel Limited, and are non-recourse to the Group or Parent entity, Highlands Pacific Limited and are to be repaid out of the Group's share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating or financing cashflows generated by the remainder of the Group. Refer note 14.

At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 31 December 2015. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern.

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 2015.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2015

The following new standards, amendments and interpretations are mandatory for the first time for the financial year beginning 1 January 2015, but did not have a significant impact on the entity:

- IFRIC 21: Levies in relation to the clarification of obligating event.
- Narrow scope amendment to IAS 19 regarding defined benefit plans
- Annual improvements 2012
- Annual improvements 2013

b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Highlands Pacific Limited as at 31 December 2015 and the results of all subsidiaries for the year then ended. Highlands Pacific Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including Special Purpose Entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Highlands Pacific Limited (less impairment if any).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii) Joint Ventures

The Group has interests in various joint ventures. The Group does not have joint control in relation to the Ramu, Frieda River and Star Mountain projects and accordingly these are not joint operations or joint ventures as defined by IFRS 11 Joint Arrangements. The interests in the projects are accounted for at cost less impairment with interests being equity accounted for once the project reaches production.

iii) Associates

Associates are all entities or ventures over which the group has significant influence but not control or joint control.

Investments in associates are accounted for using the equity method of accounting (see (iv) below) after initially being recognised at cost.

iv) Equity Method of Accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealised gains on transactions are eliminated to the extent of the interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Group operates predominately in the exploration, evaluation and development industry in Papua New Guinea.

d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars, 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 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

h) Cash and cash equivalents

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

i) Receivables

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

j) Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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

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

k) Property, Plant and Equipment

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

An asset's carrying amount is written down immediately to its recoverable amount if the 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 and evaluation expenditure

Cumulative exploration, evaluation and development expenditure incurred by or on behalf of the Group is carried forward as an asset when it is incurred in relation to separate areas of interest for which rights of tenure are current. Cost includes the cost of acquisition, exploration, evaluation and development, and an allocation of overhead costs associated with these functions.

Cumulative exploration and evaluation expenditure for each area of interest is provided against unless the expenditure is expected to be recouped through successful development and exploration, or alternatively, sale of the area. Exploration expenditure in the areas of interest which have not reached a stage which permits a reasonable assessment of economically recoverable mineral reserves are fully provided for.

When an area of interest is abandoned, any expenditure carried forward in respect to that area is written off, firstly against any existing provision for that expenditure with any remaining balance being charged to earnings.

Upon commencement of development, accumulated expenditure is transferred from exploration and evaluation expenditure and is carried forward with development expenditure until the commencement of mining operations, at which time the expenditure is transferred to mining properties and property, plant and equipment.

m) Impairment of long life assets

Property, plant and equipment and other non-current assets, including investments in mine development and exploration are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or a previous impairment needs to be reversed. An impairment loss is recognised for the amount by which the carrying amount of the 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.

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 25.

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.

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 and 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 for the Group's interest in the Ramu Nickel mine, has been based on a real discount rate of 10.29%, proved and probable reserves, long term nickel prices of US$9.39/lb and cobalt prices of US$13.70/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 2015 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" (effective 1 January 2018) replaces the guidance in IAS 39 with a standard that is less complex and principles based. The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities.
- Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" (original effective date of 1 January 2016 now postponed). The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- IFRS 16, "Leases" (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed and IFRS 16 will require a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. For lessees who previously entered into operating leases, one of the main impacts will be an increase in debt on the balance sheet.

The Group will adopt the new standards and amendments as and when they become effective. The Group has conducted initial investigations and does not consider that standards that are not yet effective will have a material impact on the entity in the current or future reporting periods and on foreseeable transactions.

u) Rounding

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

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

2. REVENUE

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Finance Income				
Interest income	72	119	-	-
Other Income				
Rental income	8	9	-	-

3. EXPENSES

		Consolidated		Holding Company	
		2015	2014	2015	2014
	Notes	US$000	US$000	US$000	US$000
Total operating costs		**4,314**	**7,508**	**-**	**-**
Operating costs are stated after charging / (crediting):					
General and administrative costs					
- salaries and employee benefits		2,265	2,535	-	-
- office costs		791	856	-	-
- consultants costs		160	148	-	-
- non-executive Director fees and benefits		250	298	-	-
- corporate affairs and public relations costs		174	99	-	-
- company secretarial and public listing costs		117	136	-	-
- travel and accommodation costs		149	52	-	-
- audit		99	65	-	-
- other services		63	53	-	-
		4,067	**4,242**	**-**	**-**
Exploration and development costs					
- salaries and employee benefits		-	1,133	-	-
- consultants costs		-	259	-	-
- travel and accommodation costs		-	150	-	-
- drilling		-	109		
- hired equipment		-	198		
- other services		-	938	-	-
		-	**2,787**	**-**	**-**
Depreciation					
- land and buildings	8	17	17	-	-
- plant and equipment	8	56	66	-	-
		73	**83**	**-**	**-**
Net foreign exchange (gains) losses		174	396	-	-

4. INCOME TAX

	Consolidated		Holding Company	
	2015	2014	2015	2014
	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	(68,012)	7,627	(46,714)	10,348
Income tax (benefit) on the loss for the year at an average of 30% (2014: 30%)	(20,404)	2,287	(14,014)	3,105
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Impairment of subsidiary advances	-	-	14,014	(3,105)
Impairment of / (Reversal) of impairment of non current assets	-	(4,502)	-	-
Utilisation of prior year losses not previously brought to account	(3,510)	(429)	-	-
Unrealised foreign exchange gains/losses	76	133	-	-
Sundry non-deductible items	(11)	174	-	-
	(23,849)	**(2,337)**	**-**	**-**
Deferred tax asset not brought to account	23,849	2,337	-	-
Income tax expense	**-**	**-**	**-**	**-**
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	6,456	14,866	-	-
Potential tax benefit @ 30% - not recognised	**1,937**	**4,460**	**-**	**-**
Other deferred tax assets not recognised				
Amounts recognised in profit and loss				
Exploration costs and impairment	204,023	121,376	-	-
Unrealised foreign exchange gains (losses)	44	160	-	-
Provision for employee entitlements	567	568	-	-
	204,634	**122,104**	**-**	**-**
Set off against deferred tax liabilities (below)	**(28,761)**	**(13,464)**	**-**	**-**
Net deferred tax assets not recognised	**175,873**	**108,640**	**-**	**-**
Potential tax benefit @ 30% - not recognised	**52,762**	**32,592**	**-**	**-**
Total deferred tax benefit not recognised	**54,699**	**37,052**	**-**	**-**
Deferred tax liabilities				
Amounts recognised in profit and loss				
Unrealised foreign exchange gains (losses)	(34)	(50)	-	-
Sundry items	(17)	(21)	-	-
Exploration costs no longer deductible	(28,710)	(13,393)	-	-
	(28,761)	**(13,464)**	**-**	**-**
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	28,761	13,464	-	-
Net deferred tax liability	**-**	**-**	**-**	**-**

The benefits for tax losses will only be obtained if:

- assessable income of a nature and of an amount sufficient to enable the benefit to be realised is derived,
- conditions of deductibility imposed by law continue to be complied with, and
- no changes in tax legislation adversely affect the ability in realising the benefit.

The tax losses are available to be carried forward for a maximum of 20 years.
There are no income tax impacts relating to other comprehensive income.

5. EARNINGS PER SHARE

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

	2015	2014
Basic earnings per share		
Weighted average number of ordinary shares on issue (000)	920,433	875,401
(Loss) / Profit attributable to ordinary equity holders of the company used to calculate basic earnings per share (US$000's)	(68,012)	7,627
Basic earnings per share (US$)	(0.0739)	0.0087
Diluted earnings per share		
Weighted average number of ordinary shares on issue (000)	920,433	875,401
Adjustments for calculation of diluted earnings per share		
- Options / Performance rights	37,265	-
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	957,698	875,401
(Loss) / Profit attributable to ordinary equity holders of the company used to calculate diluted earnings per share (US$000's)	(68,012)	7,627
Diluted earnings per share (US$)	(0.0710)	0.0087

Options and rights granted to employees are considered to be potential ordinary shares and included to the extent they are dilutive in the determination of diluted earnings per share. Options and rights were not included in 2014 as the options and rights would have been antidilutive. 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 16.

6. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Cash at bank and in hand	3,297	2,423	-	-
Short-term bank deposits	5,693	4,683	-	-
	8,990	**7,106**	**-**	**-**

a) Reconciliation to cash at the end of the year

The above figures reconcile to cash at the end of the financial year as shown in the statements of cash flows.

b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 24.

c) Contingent Liability

The Group has given a bank guarantee of US$46,712 (AU$63,937) for the leasing of property at 167 Eagle Street, Brisbane, Australia and US$101,250 (PGK300,000) as a foreign currency dealing limit.

7. RECEIVABLES

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Current				
Sundry receivables	50	41	-	-
Receivable from joint venturers*	1,606	-	-	-
Other receivable**	5,000	497	-	-
	6,656	**538**	**-**	**-**

*Represents an amount owing by Anglo American plc ("Anglo American") for cash calls relating to Highlands' management of the Star Mountains project.

**In 2014, this represents an amount owing by Nord Australex Nominees (PNG) Limited totaling US$500,000, 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%. This amount was received during the 2015 year.

**In 2015, this represents the second payment from Anglo American for the acquisition of its initial interest in the Star Mountains project. Refer notes 9 and 26.

8. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings	Plant & Equip't	Total
	US$000	US$000	US$000
CONSOLIDATED - 2015			
Cost			
Cost brought forward	232	559	791
Additions	-	12	12
Disposals	-	-	-
Cost carried forward	**232**	**571**	**803**
Depreciation			
Brought forward	113	383	496
Charge for the year	17	56	73
Disposals	-	-	-
Depreciation carried forward	**130**	**439**	**569**
Net book value at 31 December 2015	**102**	**132**	**234**
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**

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

9. EXPLORATION & EVALUATION EXPENDITURE

	Frieda US$000	Other US$000	Total US$000
Balance 1 January 2015	26,500	-	26,500
Capitalised during the year:			
- Direct holding cost	252	(19)	233
- Interest on Frieda carried funding loan	135	-	135
Sale consideration (reduction of previous exploration expenditure provision)	-	(10,000)	(10,000)
Management fee (reduction of previous exploration expenditure provision)	-	(709)	(709)
Provision of exploration costs	-	20,328	20,328
Balance 31 December 2015	**26,887**	**9,600**	**36,487**
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**

Frieda

The carrying value of the Group's interest in the Frieda River project is US$26.9 million for the period. The US$0.4 million increase represents Highlands' direct holding costs in overseeing its interest in the Frieda River project and the capitalization of interest on the Carried Funding Loan owed to Frieda River Limited, (a wholly owned subsidiary of PanAust Limited, ("PanAust"), in turn a wholly owned subsidiary of GRAM). Refer note 13.

In assessing the carrying value of the Group's interest in the Frieda River project the Directors have adopted a fair value less cost to sell valuation methodology. The valuation has been based on the transaction between PanAust and Glencore plc 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, accompanied by the requisite completed Feasibility Study.

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

Other

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

On 11 February 2015, the Group executed Joint Venture and Farm-in agreements for the Star Mountains project with a wholly owned subsidiary of Anglo American. The agreements resulted in Highlands receiving a total of US$10 million from Anglo American, in two tranches of US$5 million each, with Anglo American obtaining an undivided 51% interest in the project and associated property including tenements.

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 received in February 2016. The US$10 million is accounted for as a reduction in the Groups' previous exploration costs, 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 resulted in the Group receiving fees, which are applied to exploration expenditure, giving a reversal of prior provision for exploration costs. The Groups' expenditure to 31 December 2015 on the Star Mountains project, net of receipts is US$23 million. As a result of the transaction with Anglo American and the above accounting treatment, exploration expenditure previously provided for has been reversed and a carrying value of US$9.6 million is recognised at 31 December 2015.

10. INVESTMENT IN RAMU NICKEL MINE

	1 Jan 2015 US$000	31 Dec 2015 US$000
(i) Summarised financial information for Ramu Nickel Mine		
Current Assets	113,632	165,336
Non-current Assets	1,876,883	1,806,680
Current Liabilities	90,605	90,605
Non-current Liabilities	22,134	25,612
Net Assets	1,877,776	1,855,799
Group's share of net assets	160,738	158,856
Provisions for impairment	-	(73,856)
Investment at recoverable amount	160,738	85,000
Reconciliation to carrying amounts:		
Opening net assets 1 Jan 15		160,738
Share of associated entity's production costs		(15,550)
Share of associated entity's other comprehensive income/(loss)		(7,352)
Share of additional contribution		21,020
Provision for impairment		(73,856)
Closing net asset 31 Dec 15		**85,000**
(ii) Interest in Ramu Nickel Mine		
Revenue		18,882
Other indirect costs		(708)
Share of associated entity's production costs		(15,550)
Share of associated entity's other comprehensive income/(loss)		(7,352)
Direct holding costs		(525)
Share of associated entity's total comprehensive income/(loss)		**(5,253)**
(iii) Sale of MHP Product		
Share of associated entity's MHP Products (Wet Metric Tonnes)		12,477
Revenue from sales of MHP products		18,865
Other revenue		17
(iv) Loan to MCC Ramu Nico Limited		
Balance as at 1 Jan 2015		108,100
Further funding for cash calls		6,993
Interest accrued		5,663
Loan Repayment		(1,223)
Balance as at 31 Dec 2015		119,533
(v) Summary of nomination into the Ramu Nickel Mine		
Group’s investment in Ramu Nickel project 1 Jan 2015		160,738
Loan payable to MCC Ramu Nico Limited 1 Jan 2015		(108,100)
Group’s investment in Ramu Nickel project 31 Dec 2014		(50,000)
Working capital adjustment 1 Jan 2015		(1,972)
Reversal of impairment upon nomination into the Ramu Nickel Mine		**666**

On 1 January 2015 the Group nominated into the Ramu Nickel mine. From this point the Group commenced receiving its pro-rata share of operating surpluses and will contribute to its share of on-going capital expenditure requirements. On nomination the Group recognised a 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 Company and Group (excluding Ramu Nickel Limited) and will be repaid by Ramu Nickel Limited out of its share of operating surpluses and on-going capital expenditure requirements at the rate of 80% of this net distribution.

The Group's investment in the Ramu Nickel mine increased to US$160.7 million which represents the Group's share of the fair value of net assets of the Ramu Nickel mine at the date of nomination. The investment in the Ramu Nickel mine at the date of nomination represented the Group's capitalised costs, after historical impairment, of US$50 million.

The carrying value of the Group's interest in the Ramu Nickel mine has been impaired by US$73.9 million to US$85 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 project, the Directors have adopted a fair value less cost to sell (FVLCS) methodology in reference to the present value of the expected future cash flows before financing from 2016 through to the end of mine life in 2031. The calculations use cash flow projections based on financial budgets covering the period from 2016 to the end of mine life in 2031.

Key assumptions

The key assumptions and estimates used in determining the FVLCS are related to commodity prices, discount rates, operating costs, exchange rates and capital expenditures.

The following key assumptions were used in impairment and fair value testing:

Assumptions	2015	Nomination 2015	2014
Nickel Price	US$4.90 – US$9.39	US$9.70 – US$10.45	US$9.70 – US$10.45
Cobalt Price (US/Lb)	US$12.58 – US$13.70	US$14.07 – US$13.53	US$14.07 – US$13.53
LOM years	15 years	16 years	16 years
Production Rate	90% - 100%	75% - 100%	75% - 100%
After tax discount rate (Real) (2015:WACC; 2014: Equity Discount Rate)	10.29%	11.30%	11.30%

Sensitivities

Management performed a sensitivity analysis on commodity price of nickel, which is the key assumption that impacts impairment calculations. While holding all other assumptions constant, a positive 10% movement in the price assumption range for nickel results in a movement in the present value of future cash flows of approximately US$21 million, while a negative 10% movement results in a reduction of US$22 million.

Holding all other assumption constant, a change in WACC to 9.5% would result in an increase in the present value of future cashflows of US$7 million and change in WACC to 11% would result in a decrease of US$3 million.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of the asset 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 ramp-up phase is continuing and for the 2015 year the operation achieved an annualized average production rate of 78%.

The US$15 million reversal of impairment in 2014 was as a result of perspectives at the time of improved production rates, better outlook for nickel prices in the medium term and a revised financing structure whereby Highlands would gain access to earlier cash flows.

11. INVESTMENTS IN SUBSIDIARIES

	% Shareholding*	Class of Share	Country of Incorp
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 2014 year.*

INVESTMENTS AT COST	Holding Company	
	2015	2014
	US$000	US$000
Investments in subsidiaries - at cost	130,186	130,186
Less: provision for diminution*	(120,641)	(112,785)
	9,545	**17,401**

**At 31 December 2015, the US$17.4m investment in Ramu Nickel Limited is fully impaired.*

12. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Advances to subsidiaries				
Advances	-	-	175,306	174,868
Less provision for write-off	-	-	(154,627)	(115,769)
	-	**-**	**20,679**	**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	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Current				
Trade creditors	206	109	-	-
Accruals and other creditors*	2,266	1,533	-	-
	2,472	**1,642**	**-**	**-**

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Non-Current				
Carried Funding Loan**	6,263	6,127	-	-
	6,263	**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 Nickel project. 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 mine commenced 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%. This amount was paid during the 2015 year.*

***The Carried Funding Loan represents the amount owing to Frieda River Limited ("FRL") (a wholly owned subsidiary of PanAust, now a wholly owned subsidiary of GRAM) as at 31 December 2015. 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 and PanAust 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$135,443 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 Borrowing Costs. This loan balance will continue to accrue interest at a rate of US$ one month LIBOR plus 2% and is repayable by Highlands out of production cash flows.*

Amounts not expected to be settled within the next 12 months

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

Current leave obligations expected to be settled after 12 months are US$168,000 (2014: US$179,800).

14. BORROWINGS

	Consolidated 2015 US$000	Consolidated 2014 US$000
Current		
Borrowings from MCC Ramu Nico Limited	2,000	-
Closing Balance	**2,000**	**-**

	Consolidated 2015 US$000	Consolidated 2014 US$000
Non-Current		
Borrowings from MCC Ramu Nico Limited	117,533	-
	117,533	**-**

These borrowings relate to the Group's interest, held in the wholly owned subsidiary Ramu Nickel Limited, in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. As part of the Joint Venture Agreement with MCC Ramu NiCo Limited, MCC Ramu NiCo Limited was responsible for development and financing of the mine. These borrowings represent the Group's 8.56% share of principal repayments (capped to a specified development threshold) and interest repayments made by MCC Ramu NiCo Limited to third party lenders on behalf of the Group, plus any accumulated interest charged by MCC Ramu Nico Limited. The borrowings are held in the Group's wholly owned subsidiary Ramu Nickel Limited and are non-recourse to the rest of the Group or Parent entity Highlands Pacific Limited. The borrowings are to be repaid out of the Group's share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating and financing cashflows generated by the Group. Refer note 10.

15. PROVISIONS

	Consolidated Employee Entitlements 2015 US$000	Consolidated Employee Entitlements 2014 US$000
Opening Balance - Long service leave	305	284
Charged for the year	3	21
Closing Balance - Long service leave	**308**	**305**

	Consolidated Employee Entitlements 2015 US$000	Consolidated Employee Entitlements 2014 US$000
Analysis of total provisions:		
Current	289	262
Non-Current	19	43
	308	**305**

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

16. CONTRIBUTED EQUITY

a) Paid Up Capital – Consolidated and Holding Company

	2015 US$000	2014 US$000	2015 Shares 000's	2014 Shares 000's
Balance 1 January	303,914	299,547	918,695	853,778
Issued during the year	-	4,652	1,883	64,917
Less costs associated with issue	(1)	(285)	-	-
Balance 31 December	**303,913**	**303,914**	**920,578**	**918,695**

The total number of shares issued as at 31 December 2015 was 920,577,086 (2014: 918,694,336). In accordance with the Papua New Guinea Companies Act 1997 the Company's shares are fully paid, have no par value and there is no authorised capital level.

b) Movement in paid up capital

Date	Details	Notes	No. of Shares	Issue Price AU$	US$000
1 January 2015	Opening balance		918,694,336		303,914
28 January 2015	Exercising of zero priced employee performance rights	(i)	1,882,750	0.000	-
	Transaction costs arising on share issue above				(1)
31 December 2015	Balance		920,577,086		303,913

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

c) Share Options

The number of unissued ordinary shares under option at 31 December 2015 is nil (2014: 7,225,000).

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 9	A$0.266	15,750,000	31 March 2015	500,000	15,250,000

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 25.

The Executive Share Option Scheme has been superseded by the Highlands Pacific Performance Rights Plan.

d) Performance Rights

The number of unissued ordinary shares under performance rights at 31 December 2015 is 37,265,000 (2014: 24,370,000).

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
Tranche 1	4,510,000	31 December 2014	1,882,750	2,627,250
Tranche 1	7,330,000	31 December 2015	-	130,000
Tranche 1	12,740,000	31 December 2016	-	-
Tranche 1	12,225,000	31 December 2017	-	-
Tranche 2	5,100,000	31 December 2017	-	-

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.

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 lapsing unexercised due to performance hurdles not being met.

The rights granted during the 2013 year vest subject to completion of performance hurdles and will expire on 31 December 2015. On 4 February 2016, 7,200,000 performance rights from Tranche 1 vested and shares issued.

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 25.

17. RESERVES

	Consolidated		Holding Company	
	2015	2014	2015	2014
	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	4,162	3,871	4,162	3,871
Fair value of options and performance rights expensed	439	291	439	291
Balance carried forward	**4,601**	**4,162**	**4,601**	**4,162**
Total Reserves	**(5,149)**	**(5,588)**	**(1,667)**	**(2,106)**

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 2015 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.

18. REMUNERATION OF EMPLOYEES

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

		Group No. of Employees	
US$	**PGK**	**2015**	**2014**
36,480 - 40,128	100,000 - 109,999	-	1
43,776 - 47,424	120,000 - 129,999	1	-
47,424 - 47,788	130,000 - 130,999	1	-
51,072 - 54,720	140,000 - 149,999	2	-
62,016 - 65,664	170,000 - 179,999	-	1
80,256 - 83,904	220,000 - 229,999	-	1
83,904 - 87,552	230,000 - 239,999	1	-
87,552 - 91,200	240,000 - 249,999	-	1
109,440 - 113,088	300,000 - 309,999	1	-
127,680 - 131,328	350,000 - 359,999	1	-
131,328 - 134,976	360,000 - 369,999	-	1
175,104 - 178,752	480,000 - 489,999	-	1
200,640 - 204,288	550,000 - 559,999	-	1
204,288 - 207,936	560,000 - 569,999	1	-
229,824 - 233,472	630,000 - 639,999	1	-
291,840 - 295,488	800,000 - 809,999	1	-
295,488 - 299,136	810,000 - 819,999	1	-
306,432 - 310,080	840,000 - 849,999	-	1
331,968 - 335,616	910,000 - 919,999	1	-
350,208 - 353,856	960,000 - 969,999	-	1
481,536 - 485,184	1,320,000 - 1,329,999	1	-
514,368 - 518,016	1,410,000 - 1,419,999	-	1
758,784 - 762,432	2,080,000 - 2,089,999	1	-
Total		**14**	**10**

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

The 2014 comparatives have been converted at the current year exchange rates to arrive at the equivalent US Dollar bands.

PGK1.00 = US$0.3648

19. INTERESTS IN OTHER ENTITIES

At 31 December 2015 joint venture interests comprised:

	Interest	Nature of Interest	Activity
Ramu Nickel joint venture (Note 1 below)	8.56%	Associate	Production
Frieda River joint venture (Notes 2 & 4 below)	20%	Cost	Exploration & Evaluation
Nong River joint venture (Notes 3 & 4 below)	49%	Cost	Exploration & Evaluation

1. Ramu: the Group's 8.56% interest increases to 11.30% at no cost to the Group after the debt for the financing of the project has been repaid. At this time the Group also has the option to purchase an additional 9.25% interest at market value, which if exercised would take the Group's interest to 20.55%. Refer note 10.
2. Frieda River: as a result of the completion of the acquisition by PanAust from Glencore of Frieda River Limited, PanAust now has an 80% interest in the Frieda River Joint Venture with Highlands having the remaining 20%. During the 2015 year PanAust were taken over by GRAM. Refer note 9.
3. Star Mountains: on 11 February 2015 the Group executed Joint Venture and Farm-in agreements for the Star Mountains project with a wholly owned subsidiary of Anglo American. The agreements result in Highlands receiving a total of US$10 million from Anglo American in two tranches of US$5 million. The first tranche of 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. Refer note 9.
4. The joint ventures as stated are subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development in that country.

20. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Parent entity

The parent entity within the Group is Highlands Pacific Limited.

b) Subsidiaries

Interests in subsidiaries are set out in note 11.

c) Key management personnel

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

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

d) Key management personnel compensation

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Short-term employee benefits*	2,545	2,706	-	-
Share based payments	398	265	-	-
	2,943	**2,971**	**-**	**-**

**Key management personnel includes director's remuneration.*

Details of the 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:

2015 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	91	-	-	9	-	100
J Gooding, Managing Director	451	284	-	27	156	918
D Wood, Non-Executive Director	46	-	-	4	-	50
M Carroll, Non-Executive Director	46	-	-	4	-	50
B Philemon, Non-Executive Director	46	-	-	4	-	50
Total	**680**	**284**	**-**	**48**	**156**	**1,168**

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**

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 25.

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.

2015 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	15,225,000	5,100,000	(680,000)	(7,595,000)	12,050,000	2,600,000
Other key management personnel of the Group						
C Lennon	6,345,000	3,200,000	(425,000)	(1,575,000)	7,545,000	1,625,000
L Queen	2,940,000	1,300,000	(170,000)	(1,030,000)	3,040,000	650,000
P Jolly	3,743,000	2,250,000	(297,500)	(402,500)	5,293,000	1,138,000
R Gawi	1,608,000	975,000	(127,500)	(172,500)	2,283,000	488,000
L Nand	-	2,250,000	-	-	2,250,000	-

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)	(950,000)	6,345,000	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

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.

2015 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	-	200,000	1,000,000
M Carroll	304,307	-	-	304,307
D Wood	100,000	-	1,000,000	1,100,000
J Gooding	3,520,215	680,000	-	4,200,215
B Philemon	1,028	-	-	1,028
Other Key Management Personnel of the Group				
C Lennon	640,000	425,000	-	1,065,000
L Queen	350,000	170,000	-	520,000
P Jolly	2,030,000	297,500	-	2,327,500
R Gawi	100,000	127,500	-	227,500
L Nand	-	-	-	-

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

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	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Advances to / from subsidiaries				
Beginning of the year	-	-	174,868	170,208
Movements during the year	-	-	438	4,660
End of year	**-**	**-**	**175,306**	**174,868**

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

(h) Transactions with related parties

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
The following transactions occurred with related parties				
Fees from associate	709	-	-	-
Management fees to subsidiaries	-	-	15,000	15,000

21. SEGMENT REPORTING

a) Description of Segments

Management considers the business from a project classification perspective and has identified four reportable segments - Exploration/ Evaluation, Frieda, Ramu and Corporate. Corporate consists of all other business activities performed at the offices held in both PNG and Brisbane.

b) Reportable Segment Results

The segment information provided to management for the reportable segments for the year ended 31 December 2015 is as follows:

	Exploration / Evaluation	Frieda	Ramu	Corporate	Group
	US$000	US$000	US$000	US$000	US$000
2015					
Segment revenue	-	-	-	80	80
Segment result	20,328	-	(84,106)	(4,234)	(68,012)
Income tax (expense) benefit	-	-	-	-	-
Net Profit / (Loss)	20,328	-	(84,106)	(4,234)	(68,012)
Segment assets	14,600	26,887	85,000	10,880	137,367
Impairment of assets	-	-	(73,856)	-	(73,856)
Segment liabilities	(1,105)	(6,319)	(119,693)	(1,459)	(128,576)
Acquisition of segment assets	-	-	-	12	12
Segment depreciation and amortisation	-	-	-	73	73
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	50,000	7,939	84,439
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

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

		Consolidated		Holding Company	
		2015	2014	2015	2014
	Notes	US$000	US$000	US$000	US$000
Reported Net Profit (Loss) after Taxation		**(68,012)**	**7,627**	**(46,714)**	**10,348**
Add (less) non-cash and non-operating items:					
Depreciation and amortisation	8	73	83	-	-
Exploration, evaluation and development costs		-	2,787	-	-
Reversal of provision for exploration costs		(20,328)	-	-	-
Impairment of non-current assets		73,190	(15,007)	-	-
Impairment of subsidiary advances		-	-	38,858	4,659
Share of operating loss of equity accounted investments		5,253	-	-	-
Fair value of share based payments		439	291	-	-
Impairment of investment in subsidiaries /(reversal) of impairment		-	-	7,856	(15,007)
Net (gain) loss on foreign currency balances	3	174	396	-	-
Interest expense		5,663	-	-	-
		64,464	**(11,450)**	**46,714**	**(10,348)**
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		(15)	-	-	-
Increase (decrease) in creditors and provisions		(1,016)	142	-	-
		(1,031)	**142**	**-**	**-**
Net Cash Flow from Operating Activities		**(4,579)**	**(3,680)**	**-**	**-**

23. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	102	152	-	-
One to two years	34	175	-	-
Two to five years	-	-	-	-
	136	**327**	**-**	**-**

24. FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and commodity price risk). The Group's overall risk management program seeks to minimise the potential adverse effects arising from financial risks on the Group's financial performance. The Group may use a range of derivative financial instruments to manage risk exposure although at balance date there were no derivative instruments being used to manage financial risk exposure.

Risk management is carried out by the Managing Director and Chief Financial Officer under policies approved by the Board of Directors through the Audit Committee. Management identify, quantify, evaluate and where considered prudent, manage financial risks in accordance with established written policies.

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 long term credit rating of the banks and financial institutions in which funds are deposited at 31 December 2015 are B+ and AA-.

The carrying amounts of the Group's financial assets represent the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2015	**2014**
	US$000	**US$000**
Cash and cash equivalents	8,990	7,106
Other receivables	6,656	538
	15,646	**7,644**

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

	2015		2014	
	Gross	**Impairment**	**Gross**	**Impairment**
	US$000	**US$000**	**US$000**	**US$000**
Not past due				
6 months or less	6,656	-	41	-
6 to 12 months	-	-	497	-
	6,656	**-**	**538**	**-**

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 2015				
Non-derivative financial liabilities				
Trade and other creditors	8,735	2,472	-	6,263
Borrowings	119,533	-	2,000	117,533
	128,268	**2,472**	**2,000**	**123,796**

	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**

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$174,056 as shown in the Statements of Comprehensive Income and note 3. This has resulted from the movement in the Australian Dollar to the US Dollar.

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

	Consolidated		Holding Company	
	2015	2014	2015	2014
	AU$000	AU$000	AU$000	AU$000
Cash and cash equivalents	3,349	4,541	-	-
Other receivables	16	15	-	-
Trade and other creditors	(2,427)	(1,430)	-	-
	938	**3,126**	**-**	**-**

	Consolidated		Holding Company	
	2015	2014	2015	2014
	PGK$000	PGK$000	PGK$000	PGK$000
Cash and cash equivalents	532	595	-	-
Other receivables	84	57	-	-
Trade and other creditors	(1,492)	(520)	-	-
	(876)	**132**	**-**	**-**

The following significant exchange rates applied during the year:	Average Rate		Reporting Date Spot Rate	
	2015	2014	2015	2014
	US$000	US$000	US$000	US$000
AUD	0.7584	0.9090	0.7306	0.8202
PGK	0.3648	0.4088	0.3375	0.3855

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$38,970 (2014: US$256,670).

Interest rate risk

The Group's interest rate risk arises as a result of cash deposits and from long term borrowings.

Cash deposits, which in turn earn interest income, are subject to the movement of interest rates and the Group does not enter into long-term deposits.

The Group does have US$4,061,748 on deposit at rates ranging between 0.35% and 0.54% (2014: US$2,038,105 ranging from 0.45% and 0.50%). It also has AU$2,101,647 on deposit at rates ranging between 2.18% and 2.85% (2014: AU$3,099,421 ranging from 2.70% and 3.35%). There is no PGK on deposit at December 2015 (2014: 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$639,000 (2014: US$79,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

The variable rate of the Group's long-term borrowings ranges between 5.05% and 5.95%.

The Group does not account for any fixed rate financial 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 is exposed to commodity price risk. This arises from the sale of nickel and cobalt that is priced on, or benchmarked to, open market exchanges. The products are sold by MCC Ramu Nico Limited as sales agent on behalf of the Group at prevailing market prices such as the London Metal Exchange (LME) and Metal Bulletin(MB). The products, predominantly nickel and cobalt, are provisionally priced, that is the selling price is determined preceding the month of shipment followed by an adjustment using the average price of the month of shipment after delivery to the customers. As at 31 December 2015, all products have been shipped and the pricing processes have been completed. Therefore contracts for the physical delivery of commodities are carried in the balance sheet at their realised prices. Derivative commodity contracts may be used to align realised prices to manage risk exposure although at balance date there were no derivative commodity contracts being used.

d) Capital Management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can 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 2015, the Group's strategy was unchanged from 2014 and is reviewed by the Board.

e) Fair value

The carrying amounts of cash, short term receivables and short term payable due to their short term nature are a reasonable approximation of fair value due to their short term nature. The fair values of borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is close to current market rates.

25. SHARE-BASED PAYMENTS

a) Executive Option Scheme

The Executive Option Scheme has been superseded and replaced with the Performance Rights Plan.

b) Performance Rights Plan

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 a end of year
17/05/12	31/12/14	31/12/14	0.0000	4,510,000	-	(1,882,750)	(2,627,250)	-	-
16/05/13	31/12/15	31/12/15	0.0000	7,200,000	-	-	-	7,200,000	-
22/05/14	31/12/16	31/12/16	0.0000	12,740,000	-	-	-	12,740,000	-
10/04/15	31/12/16	31/12/17	0.0000	-	12,225,000	-	-	12,225,000	-
21/05/15	31/12/16	31/12/17	0.0000	-	5,100,000	-	-	5,100,000	-

Fair Value of performance rights granted

Grant Date	16th May 2013	22nd May 2014	10th April 2015	21st May 2015
Share price at grant date	AU$0.077	AU$0.06	AU$0.094	AU$0.115
Fair value at grant date	AU$337,180	AU$515,970	AU$920,543	AU$486,540
Expected volatility of Company's shares	60%	70%	65%	65%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.50%	2.80%	1.80%	2.00%
Expected vesting period	31st Dec 2015	31st Dec 2016	31st Dec 2017	31st Dec 2017

The performance rights are subject to performance hurdles which if met automatically convert into fully paid ordinary shares.

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 2015	December 2014
	US$000	US$000
Options issued under Executive Option Scheme and performance rights issued under the Performance Rights Plan	439	291
Total	**439**	**291**

26. EVENTS OCCURRING AFTER BALANCE DATE

In accordance with the Joint-Venture and Farm-In agreements signed on 11 February 2015, Highlands Pacific received the second US$5 million payment from Anglo American on 11 February 2016, for the acquisition of its initial interest in the Star Mountains project.

27. SUPPLEMENTARY INFORMATION

In accordance with Accounting Standards Board Directive 2 (ASBD 2) and the Investment Promotion Authority approval to prepare and lodge US dollar financial statements, the Company discloses the following information in PNG Kina terms:

	Consolidated		Holding Company	
	2015	2014	2015	2014
	PGK000	PGK000	PGK000	PGK000
Revenue	219	313	-	-
Net (Loss) Profit after tax	(186,436)	18,657	(128,054)	25,313
Total Assets	407,013	219,038	89,553	198,444
Total Liabilities	380,966	20,947	9	8
Net Assets	26,047	198,091	89,544	198,436

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2015 of PGK1.00 = US$0.3375 (2014 year PGK1.00 = US$0. 3855) while income and expense items are translated at the average rate for the year PGK1.00 = US$0.3648 (2014 year PGK1.00 = US$0. 4088).

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 2015 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

John E Gooding
Managing Director

22 March 2016

Stock exchange information

For the year ended 31 December 2015

The shareholder information set out below was applicable as at 29 February 2016.

SPREAD OF SECURITY HOLDERS

a) Analysis of numbers of shareholders by size of holding:

Category of Holdings	Number of Shareholders
1 - 1,000	1,269
1,001 - 5,000	1,498
5,001 - 10,000	961
10,001 - 100,000	3,157
100,001 and over	658
Total Shareholders	**7,543**

b) There were 3,355 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AUD0.055 cents.

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

Category of Holdings	Number of Holders
1 - 1,000	-
1,001 - 5,000	-
5,001 - 10,000	-
10,001 - 100,000	-
100,001 and 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	9,450,000	31.76%

LARGEST TWENTY SHAREHOLDERS

Name	No of Ordinary shares held	% of Total
PANAUST SPV2 PTE LTD	128,865,980	13.89
HKBA NOMINEES LIMITED	120,267,608	12.96
CITICORP NOMINEES PTY LIMITED	99,980,863	10.78
URION HOLDINGS (MALTA) LTD	48,371,246	5.21
INDEPENDENT PUBLIC BUSINESS CORPORATION OF PAPUA NEW GUINEA	30,158,821	3.25
ZERO NOMINEES PTY LTD	27,146,234	2.93
DR THOMAS JOHN BERESFORD GROUP	18,334,086	1.98
MINERAL RESOURCES DEVELOPEMENT COMPANY PTY LTD	13,849,426	1.49
UBS NOMINEES PTY LTD	11,700,000	1.26
JP MORGAN NOMINEES AUSTRALIA LIMITED	9,790,410	1.06
INKESE PTY LTD	7,250,000	0.78
CARRINGTON LAND PTY LTD	7,000,000	0.75
MR JOHN EDWIN GOODING	6,352,252	0.68
CABLETIME PTY LTD <THE INGODWE A/C>	5,000,000	0.54
MRS LISA JANE HAMANN	5,000,000	0.54
MR JAY HUGES + MRS LINDA HUGHES <INKESE SUPER A/C>	5,000,000	0.54
MR JIHAD MALAEB	4,550,001	0.49
CBD PLAZA (AUS) PTY LTD	4,512,312	0.49
CAPITAL NOMINEES LIMITED	4,301,064	0.46
MR CHATCHAI YENBAMROONG	3,400,000	0.37
Total	**560,830,303**	**60.45**

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	13.89
HKBA NOMINEES LIMITED	120,267,608	12.96
CITICORP NOMINEES PTY LIMITED	99,980,863	10.78
URION HOLDINGS (MALTA) LTD	48,371,246	5.21

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 2015

Tenement Reference	Beneficial Interest at End of Period	Beneficial Interest at Commencement of Period	Location - Province
Exploration (Highlands Pacific Resources Limited)			
EL 1761	100% Note 1	100% Note 1	Milne Bay Province
EL 2131	Nil	100% Note 1	
Star Mountains (Highlands Pacific Resources Limited)			
ELs 1312, 1392, 1781 and 2001	49% Note 1, 3	100% Note 1, 3	Sanduan Province
Frieda River Project (Highlands Frieda Limited)			
ELs 0058, 1895 and 1956	20% Note 1, 4	20% Note 1, 4	Sanduan Province
ELs 1212, 1746 and 1957	20% Note 1, 4	20% Note 1, 4	Sanduan & East Sepik Province
ELs 1743, 1744, 1745, 1896	20% Note 1, 4	20% Note 1, 4	East Sepik Province
Ramu Project (Ramu Nickel Limited)			
SML 8	8.56%	8.56%	Madang Province
ML 149	8.56%	8.56%	Madang Province
LMPs 42, 43, 44, 45, 46, 47, 48 and 49	8.56%	8.56%	Madang Province
MEs 75, 76, 77, 78 and 79	8.56%	8.56%	Madang Province
ELs 193 and 2376 (previously 1178)	8.56%	8.56%	Madang Province

Mining Tenements acquired or disposed of during the year – EL 2131 was relinquished during the year.

Beneficial percentage interests held in farm-in or farm-out agreements – all the tenements for the Frieda River project, the Ramu project and Star Mountains project are held in joint venture. The percentage detailed in the table above indicated the percentage held by Highlands.

Beneficial percentage interests in farm-in or farm-out agreements acquired or disposed of during the year – all the tenements for the Star Mountains project are part of a joint venture agreement with Anglo American which was executed on 11 February 2015 (refer note 3 below).

Notes

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country by paying its pro-rata share of historical sunk costs and future development costs.

2. Definitions

   EL - Exploration Licence
   ELA - Exploration Licence Application
   SML - Special Mining Lease
   ML - Mining Lease
   LMP - Lease for Mining Purposes
   ME - Mining Easement

3. On 11 February 2015 Highlands executed Joint Venture and Farm-in agreements with a wholly owned subsidiary of Anglo American. Under the agreements Anglo American can earn up to an 80% interest in the joint venture by achieving certain milestones.

4. The terms of an agreement between PanAust and Highlands provide that should the Government of PNG elect to take up its right under PNG Law to 30% of the project, PanAust will sell down the first 20% of its joint venture interest and thereafter the parties will sell down in equal amounts. Under a scenario where the Government of PNG elects to take up its maximum 30% of the project, the respective joint venture interests would be PanAust 55%, the Government of PNG 30% and Highlands 15%.

Corporate Directory

Directors	Kenneth MacDonald - *Chairman* John Gooding - *Managing Director* Michael Carroll Dan Wood Bartholomew Philemon	
Company Secretary	Craig Lennon Erik Andersen	
Senior Management	Craig Lennon – Chief Financial Officer Lawrence Queen – Chief Geologist Peter Jolly – General Manager Projects Ron Gawi – General Manager PNG Joe Dowling – General Manager Investor Relations	
Country of Incorporation	Papua New Guinea	
Registered Offices	**Papua New Guinea** *(Address for Service)* Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (PO Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	**Australia** Level 4 167 Eagle Street Brisbane Qld 4000 (GPO Box 3086, Brisbane Qld 4001) Australia Telephone: (617) 3239 7800 Facsimile: (617) 3221 6727
Share Registries	**Papua New Guinea** Computershare Investor Services Pty Limited C/- Highlands Pacific Limited Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (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 *(Home Exchange)* Australian Stock Exchange Limited ASX code: **HIG**
Bankers	ANZ Banking Group (PNG) Limited	
Auditors	**PricewaterhouseCoopers** Level 6, PwC Haus Harbour City, Konedobu Port Moresby, NCD 121 Papua New Guinea	
Internet Communications	**Website:** www.highlandspacific.com **Email:** info@highlandspacific.com	

HIGHLANDS PACIFIC

Diversified Mineral Resource Company

Australia

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