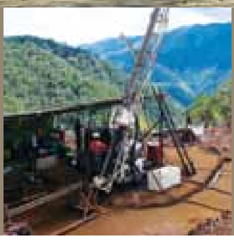
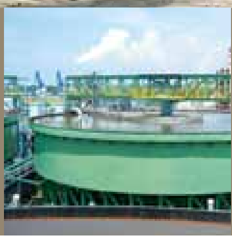
HIGHLANDS PACIFIC



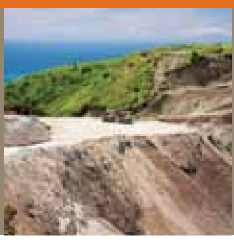


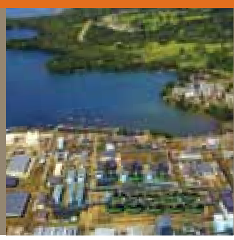
HIGHLANDS PACIFIC
Diversified Mineral Resource Company

Annual Report 2011

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 development assets include the US$1.5b Ramu nickel cobalt mine, the Frieda River copper gold project and exploration on the highly prospective Star Mountains (Nong River and Tifalmin) licenses approximately 20kms north of the Ok Tedi Mine. Highlands also holds exploration ground in the Wau/Bulolo region close to the new Hidden Valley and Wafi gold projects.



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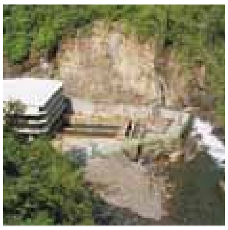
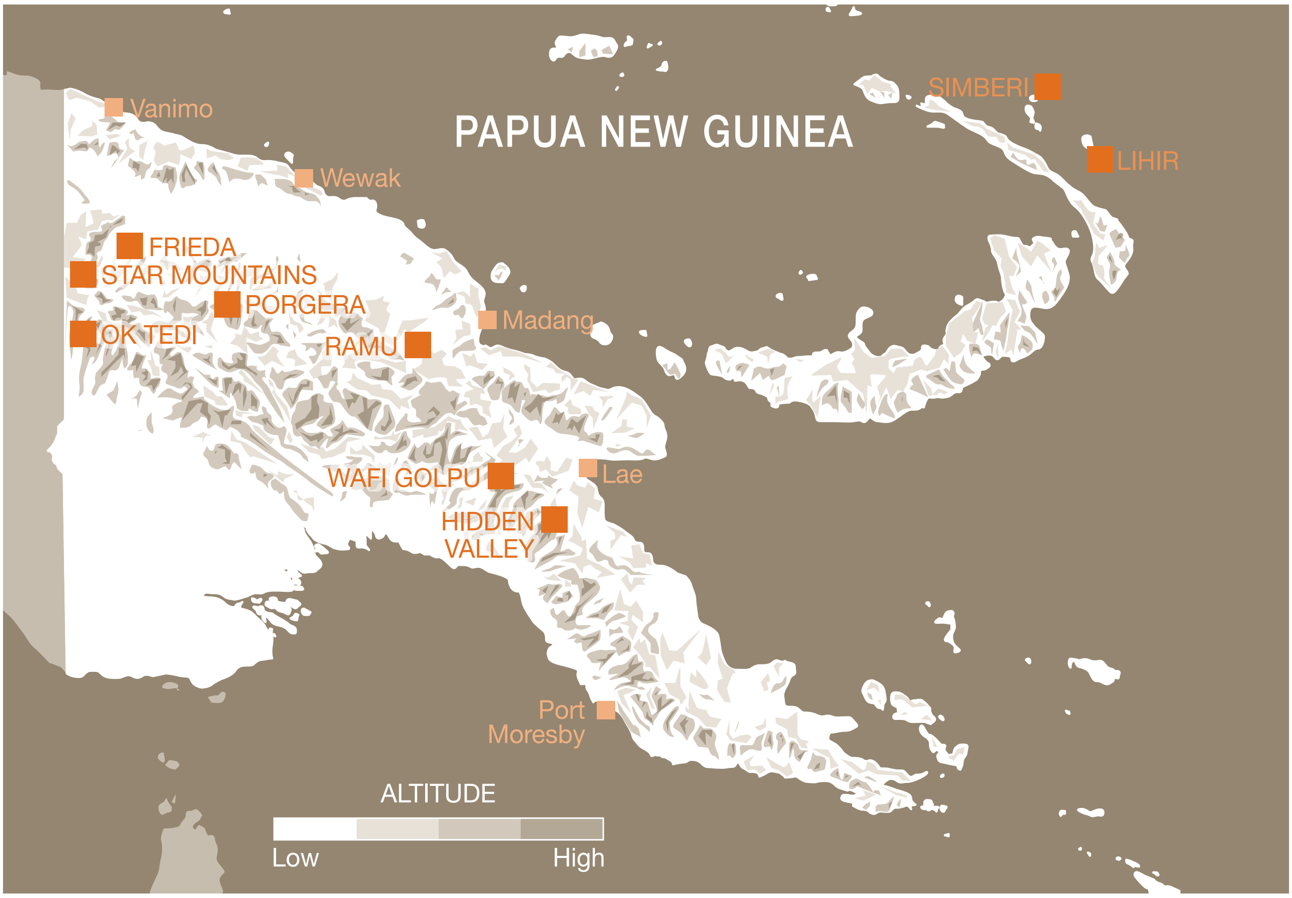




Ramu Nickel-Cobalt Mine

The Ramu nickel cobalt mine is located 75kms west of the provincial capital of Madang, PNG and will produce an annual output of 31,150 tonnes of nickel and 3,300 tonnes of cobalt contained in high grade concentrate over a 20 year mine life.

The mineral resources at Ramu have the potential to increase the mine life by a further 15-20 years.

Highlands 8.56% interest in the Ramu Mine will increase to 11.3% at no cost after repayment of the project debt (estimated to be 2018).

Highlands also has an option to acquire an additional 9.25%, at fair market value, which could increase its interest to 20.55%.

Frieda River Copper-Gold Project

The Frieda River Copper-Gold Project is one of Asia-Pacific's largest undeveloped copper gold resources. The Frieda River Copper-Gold Project is 175kms north-west of the giant Porgera gold mine and 75kms north-east of the Ok Tedi mine.

The project owners are Xstrata Copper (81.82% and manager) and Highlands (18.18%). Xstrata Copper has spent close to US$270m on exploration and study work to date. The pre-feasibility study released in November 2010 indicated a 60Mtpa throughput for the first eight years with output averaging 246,000tpa of copper and 379,000ozpa of gold.

The multi-decade life mine will have an average throughput of 50Mtpa.

Star Mountains Copper-Gold Exploration

Star Mountains licenses, which include Nong River EL1312 and Tifalmin EL1392, are located approximately 20kms north of the Ok Tedi Mine.

These prospects lie within the highly prospective New Guinean Orogenic Belt, home to deposits like Grasberg, Ok Tedi, Frieda, Porgera and Hidden Valley.

A drilling program is underway with some significant copper gold intersections reported.

In 2011, seven holes were drilled on the Olgal Prospect. In 2012, two drill rigs will test a number of prospects within 25kms of Ok Tedi.

Chairman's and Managing Director's Report

Highlands Pacific shareholders who have followed the company for a number of years, will be relieved and heartened that after 15 years of studies, various approvals, three years of construction and two years of legal delays, the US$1.5b Ramu nickel cobalt mine commenced commissioning in late 2011.

This world class asset is now in production and nearing first sales in coming months.

This will mark first cash flow for the project, an opportunity to showcase this asset, and allow for the training and employment of a new generation of Papua New Guinea mining, operational, processing, commercial and technical specialists. The broader social contribution of one of the largest projects in PNG can now begin.

The past year also saw the continued emergence of a potential new copper province for Highlands Pacific with the early exploration success at the Company's Star Mountains project. Exploration activity as measured by holes in the ground was less than the company would have liked due to the logistic challenges of this remote location. However, a new exploration base and logistics camp has been created at Tifalmin from which two drill rigs will test a number of new prospects during 2012.

The Frieda River Copper-Gold Project also reached a critical stage with a resource upgrade in September 2011 followed by a decision in November 2011 by the joint venture partners to extend, by 11 months, the deadline for a feasibility study on this world scale asset.

This extra time will allow the partners (Highlands 18.18%, Xstrata Copper 81.82%) to review new power alternatives given the massive investment in PNG of emerging gas/LNG projects. In January 2012, Xstrata Copper exercised its option to include the high-grade Nena deposit in the Frieda River joint venture and in February 2012 a maiden resource was released on the Ekwai deposit combined with an update on the Koki deposit. This lifts the valuable metal inventory in this project to 13Mt of copper, 20Moz of gold and 49Moz of silver. By way of comparison this is more than double all the copper extracted from PNG's 100% owned Ok Tedi mine which has been the economic backbone of the country for 25 years but is now in its declining years.

Safety Performance: Safety performance at Ramu was sadly marred by the death of one Chinese construction worker from a heart attack which was attributed to a pre-existing medical condition, which was exacerbated by the environmental conditions experienced in the working area at the time. At the Frieda River Copper-Gold Project and the Star Mountains Project no Lost Time injuries were recorded. Highlands is committed to the safety of its employees and contractors.

Community Contribution: Highlands has a long and proud history of working closely with landowners and the local community to bring about favourable outcomes for all parties. During the year we released our corporate brochure outlining our approach to community relationships during exploration activities. Using this brochure we also undertook an awareness campaign at our Star Mountains project to explain our approach to community relations. We also produced a brochure in English and Tok Pisin answering frequently asked questions by the Tifalmin landowners, which has been very well received.

The corner stone of Highlands' success in community relations over the years has been open and transparent communication with all stakeholders. We have dedicated fulltime professionals working with the communities in the field to understand their concerns and work towards positive outcomes. Also, as a service to the community, we support improving health and education outcomes and always seek to hire where possible, local labour. We promote the development of commerce, by sourcing of local fruits and vegetables to supply our exploration teams.

In addition to our own community relations activities we work closely with our joint venture partners at Ramu and Frieda River to support their community relationship activities. Highlands has previously been very active with both these projects and still enjoys a very good relationship with the communities and takes a keen interest in continuing to achieve positive outcomes. In the case of Ramu we have committed funding to assist in the holding of community stakeholder meetings and also participate in all key meetings.

Financial Performance

The net loss of US$16.6m for the year largely represents an investment in the Company's assets, namely the Star Mountains project. It is hoped that with success here this will in the future be reflected in a valuable asset being carried on our books, like that of Ramu and Frieda. The carrying values of Ramu and Frieda remain as in previous years which highlights their continued progression.

Commodity Markets: Commodity markets are still predicted to remain volatile for the coming year ahead although all of our key metal resources including copper, nickel, cobalt and gold are predicted to remain at levels equal to or above those of 2011. The fundamentals of base metals remain strong into the foreseeable future as the large emerging economies of China and India continue to require large quantities of copper and nickel to sustain infrastructure and housing growth. The recovery of the US economy over time will no doubt further strengthen demand and prices.

Year Ahead Objectives

The company's project objectives for the next 12 months are clear:

Ramu: Safe and steady commissioning and production ramp-up with the sale of concentrates and the emergence of project cash flow. Highlands and its partners believe Ramu to be among the most scrutinised and modern nickel cobalt mines currently being commissioned in the world.




Frieda: Investigation of natural gas powered generation alternatives as a potentially faster and cheaper option to the $1b hydroelectric scheme, and the subsequent impacts on infrastructure and the project as a whole. Completion of the bankable feasibility study by December 2012.

Star Mountains: the drilling of a number of deep (+500 metres) holes at each of the remaining nine targets in the Tifalmin intrusive region to ensure that target priorities are confirmed while making the best use of the infrastructure that we have constructed and installed at the nearby village and airstrip of Tifalmin.

Valuing our Employees

Highlands is committed to the wellbeing of our employees and believes that a competent and stable workforce is a necessary path to success. Along with providing opportunities for personal growth and satisfaction through further education and training, Highlands also encourages initiative and effective communication throughout the company.

Investor Recognition

Based on the project objectives as stated above, a key aim of the management team in 2012 is to ensure the equity markets recognise the Company's inherent value in its world class projects.

Significant legal delays and public misunderstanding and misinformation about Ramu have been a hindrance to the Company's share price in recent years.

Your Directors believe each of its projects (Ramu, Frieda and Star Mountains) as standalone assets have far more potential and worth than the Company's market capitalisation would otherwise suggest.

As we commence 2012, the Company has A$15m in cash and no debt and the Company's A20¢ share price translates to a market capitalisation of A$130m and enterprise value of A$115m, and yet the company has:

- no financial exposure to the Ramu mine and we await the first modest share of its cash flow. Highland's historical investment in Ramu is US$95m and its conservative book value is US$50m.
- no financial cash commitment this year to Frieda with the company continuing to be carried through the Feasibility Study and beyond, up to the lodgement of a Special Mining License. Highlands is fortunate to have had Xstrata manage almost US$270m of exploration and study work on the project to date. This free carry to January 2012 has 'saved' Highlands approximately US$50m in the past five years.
- The value of Highland's metal inventory share in Frieda of 2.3Mt copper implies an enterprise value of A2¢/lb, ignoring the gold inventory of 3.6Moz. This in your Director's opinion is less than many other copper project valuations and in some ways also overlooks the fact that over 58% of the contained copper and gold is in the Measured and Indicated Resource categories.
- At Star Mountains the company is budgeting on an US$8-10m exploration programme in 2012. This moderate spend can deliver valuable outcomes given the company is looking for 200-400Mt deposits not 2b tonne deposits like Frieda or Ok Tedi. Such spend will have lifted Highlands sole-funded spend in the past three years on Star Mountains to over US$20m. And should Xstrata Copper in the future elect to become a joint venture partner in Star Mountains post delivery of a pre-feasibility study by Highlands, it will need to repay or reimburse Highlands US$60m based on the work by Highlands to date.

Outlook

Ramu is at an important early stage of its long life. It would be prudent to suggest that like most mines it may have its share of teething problems. If it does we hope shareholders and the community of PNG will provide it with an opportunity to realise it's full potential over the more than 20 year life that it has just in reserves at present.

We look forward to 2012 with optimism while cognisant that commodity cycles and project fortunes wax and wane given the uncertain economic environment in Europe and North America.

However, we also fully appreciate that copper and gold prices in particular seem to have reached new higher levels and that Highlands' portfolio in PNG is unique.

Ramu, Frieda, and Star Mountains are very valuable to PNG and for these reasons are likely to be well supported by governments, but also scrutinised by regulators. The very important long term contribution each asset can make in the context of PNG's local, provincial and national development will be highly valuable in a country that embraces its mining potential while creating shareholder value.

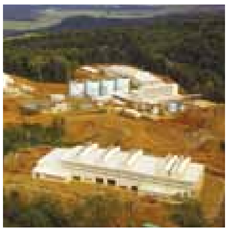
Ken MacDonald and John Gooding
30 March 2012

Ramu Nickel-Cobalt Mine

Basamuk Process Plant

Location: The Kurumbukari nickel and cobalt laterite mine is connected by a 135kms pipeline from the Kurumbukari plateau, near the Ramu River, to the Basamuk process plant which is 75kms west of the provincial capital of Madang Province, PNG along the Rai Coast of the Vitiaz Basin.






History

First discovered in 1962 by a succession of companies, Highlands Gold Limited assumed the management of the current joint venture in 1992. An intensive period of geological exploration and engineering culminated in the prefeasibility study in 1996, which indicated technical and commercial viability. Thereafter the Ramu Nickel Joint Venture was established to prepare the bankable feasibility study for the project. The project was granted its Special Mining License in 2000 and in 2005 Metallurgical Corporation of China Limited (formerly China Metallurgical Construction (Group) Corporation) joined the joint venture and has been responsible for financing and construction of the mine.

Production

The three autoclaves at the Basamuk process plant will have a combined annual production of 31,150 tonnes of nickel and 3,300 tonnes of cobalt contained in a high grade concentrate when in full operation.

Ownership

Highlands has an 8.56% interest in the project which will increase to 11.3% at no cost after internal project debt has been repaid from operating cash flow (estimated to be 2018). Highlands also has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%.

Local companies of the Independent State of Papua New Guinea and landowners own 6.44%. MCC jointly owns 85% equity in the mine with Jien Nickel Industry Co. Ltd., Jinchuan Group Ltd. and Jiuquan Iron and Steel (Group) Co. Ltd.

Operatorship

The project's operator and majority owner is Hong Kong and Shanghai listed Metallurgical Corporation of China Limited (MCC). MCC is a multi-asset multi-disciplinary company, well known for its strength in scientific research, industrial engineering practice and international trading.

Free Carry

The Ramu mine debt funding is non-recourse to Highlands with Highlands' equity interest free carried. From commencement of production, Highlands is able to have access to its pro-rata 8.56% share of Ramu's post-debt servicing net cash flow.

Share of Production

Based on its current 8.56% share of Ramu, Highlands' share of production is 2,666tpa of nickel and 282tpa of cobalt, rising to 3,520tpa of nickel and 373tpa of cobalt when equity increases to 11.3%. The company has the right to market its own share of the product.

Commissioning and Ramp-up

In December 2011, PNG's Chief Inspector of Mines gave 'load commissioning approval' to allow the mine to commence operation.

The Ramu project was substantially built by 2010, and during 2011 various aspects of the beneficiation plant at the mine and the Basamuk plant, including the autoclaves, were tested with hot water.

The Basamuk process plant incorporates three High Pressure Acid Leach (HPAL) trains (autoclaves). The first and third HPAL trains have been tested and commissioned with hot water. HPAL #3 will be the first to be commissioned with ore, with HPAL #1 to follow. Acid has been purchased for the initial operations with the purpose built acid plant to be commissioned with HPAL #2 later in 2012. In preparation for process plant operations the Kurumbukari mine's beneficiation and de-agglomeration plants (removing oversized and chromite material) have been tested with both water and ore. The 135kms slurry pipeline from Kurumbukari to Basamuk has also been commissioned.

First product has already been produced in early 2012. Based on advice from the project operator, Ramu NiCo Ltd, Highlands expects commissioning and ramp-up to progress over 18 months, with full production expected by mid 2013.

Legal Actions

On 22nd December 2011, PNG's highest court, The Supreme Court, refused to grant a permanent injunction to stop the mine or to overturn the decision of the National Court in Madang which had also declined to grant a permanent injunction on the DSTP system of the mine.

The decision brings to a close nearly two years of legal delay, claims and manoeuvres by parties to prevent construction, commissioning and operation of the project and in particular the Deep Sea Tailings Placement system which had been approved by the PNG Government when the project was granted its Special Mining License in 2000.

Landowner Consent

Contrary to some media reporting, the Ramu project enjoys a high level of support from local landowners, all levels of the PNG Government and also the Chinese Government. For PNG, Ramu is the first modern processing facility of the country's resource endowment for many years.

Media reporting has tended to focus on alleged dissatisfaction by people in the greater Ramu, Madang, and Rai Coast areas. Given its operations in the hills of Kurumbukari, across 135kms of inland pipeline and the process plant at Basamuk, the project is involved with a diverse and often culturally distinct landowner base.

Ramu Nickel-Cobalt Mine (continued)

At various times in the past 50 years since Ramu's discovery, a range of anthropological, genealogy and landowner studies have been undertaken. As far back as 1972, government patrol officers carried out a land investigation so that compensation could be paid to the landowners. In 1993 and 1995, Highlands Gold Limited commissioned a number of landowner studies and further studies were prepared in the 1990s in the lead up to a range of binding agreements which form the Special Mining License granted in 2000.

It is because of such diversity that four traditional landowner associations were formed:

- Kurumbukari Landowners Association;
- Inland Pipeline Landowners Association;
- Coastal Pipeline Landowners Association; and
- Basamuk Landowners Association.

These landowner groups have waited for many years for Ramu to be developed, and for a range of community services to be provided. With Ramu now in production, community and social investment will begin although there have been various spin off business and employment opportunities that have been successfully implemented during construction.

Environment and Ramu Deep Sea Tailings

The Ramu Environmental Plan (EP) was first approved in March 2000 by the Minister for Environment and Conservation and then gained formal and final environmental permit approval in November 2007 for the construction and operating phases.

International experts selected the disposal of tailings into the 1500 metres deep sea canyons as the most appropriate and safe method of disposal. This is because the area has among the highest rainfalls in the region, and therefore land based tailing storage could be

Kurambakari Mine site




disturbed in a highly active volcanic and high-rainfall region while impinging on agriculture or landholders customary land.

An important distinction between Ramu and a number of other mines in PNG is that at the Kurumbukari mine minimal waste rock is envisaged. Due to the free-dig, low-strip, minimal-waste nature of the Kurumbukari ore body, the topsoil at the mine is stored for rehabilitation and re-vegetation.

At the Basamuk process plant, 5Mtpa of tailings will be produced. Before discharge, the tailings are neutralized to a pH of 8.2 (similar to sea water) reduced to sea water temperature and do not contain any reactive chemicals (such as cyanide or acid).

Having been beneficiated at Kurumbukari and then processed at Basamuk the ore has had metals such as chromite, nickel, cobalt, and magnesium extracted from it. What remains is similar to a crushed, low-metal content, iron-ore bearing mud.

The tailings discharge point is 500 metres off shore and 150 metres below sea level. At 150 metres sunlight barely penetrates the sea. This is beneath what local and commercial fisherman would use, and is well below 'upwelling depth' mixing levels where plumes could occur.

The acid-neutralised, low-metal tailings are similar to the 80Mt of naturally occurring sediments that flow into the Vitiaz Basin every year. Ramu represents about 6% of the annual river discharge into the high-rainfall Vitiaz Basin region.

Mining

Due to the flat lying shallow nature of the ore-body, the mine will be developed as a low strip ratio, free digging open pit operation. Face shovels and backhoe configured excavators loading articulated all wheel drive trucks will be used to mine the average 12 metres thick ore-body. Trial mining, using the methods described above, was successfully undertaken in 2009. The mining operation will be undertaken in four stages: (i) land clearing; (ii) overburden removal; (iii) ore mining; and (iv) rehabilitation.

This sequencing has been designed to take into account the varying geography, ore lithologies, geotechnical characteristics and the environmental objectives.

Beneficiation Plant

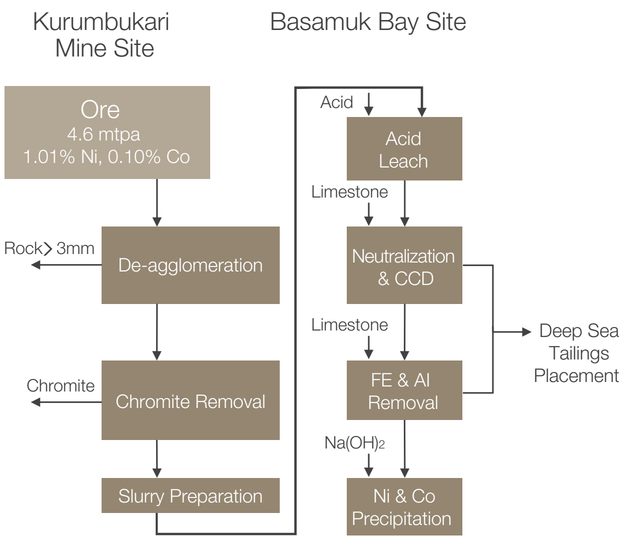
The beneficiation plant will treat run of mine ore to produce a fully de-agglomerated, correctly sized and consistent slurry density feed for overland pipeline transportation to the process plant. The plant will comprise two distinct sections: the de-agglomeration and the chromite removal/slurry preparations plants. The plant is designed to treat 4.6Mtpa of dry ore at a 40-60% moisture content to provide 3.3Mtpa (dry) of feed to the process plant having metal contents of typically 1.04% nickel and 0.11% cobalt.

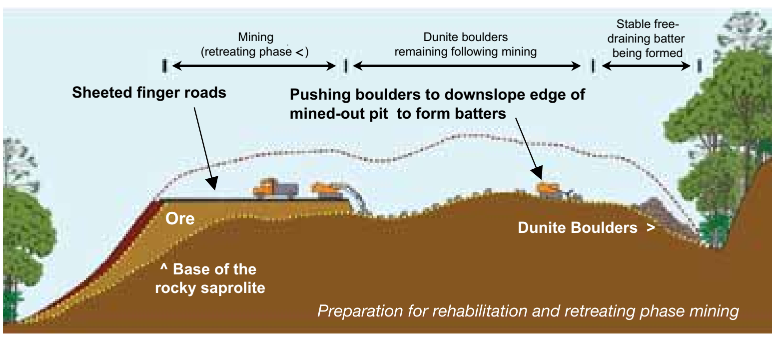
Slurry Pipeline

The slurry pipeline runs from the beneficiation plant at Kurumbukari mine site to the process plant at Basamuk, a total distance of approximately 135kms, with a drop in elevation of about 680 metres. The majority of the pipeline has been buried. A single pumping station is situated at the head of the pipeline located at the beneficiation plant and a monitoring and control system has been installed.

Process Plant

The purpose of the process plant will be to produce a high grade, high purity mixed nickel and cobalt hydroxide product to be exported for smelting and refining. This will be achieved through a number of unit processes. The following table summarises the unit processes and briefly describes their purposes. The process plant will treat 3.2 to 3.4Mtpa of ore and produce a hydroxide product containing 31,150 tonnes per annum of nickel and 3,300 tonnes per annum of cobalt. The average recovery of nickel and cobalt in the process plant is estimated to be 89% and 88% respectively.





Ramu Nickel-Cobalt Mine (continued)

Resource/Reserves

Resource

The Ramu resource is estimated at 143Mt at 1.01% nickel (Ni) and 0.10% cobalt (Co). The resource report is shown in the Table below:

Mineral Resources (excluding +2mm internal rocky material)			
Resource	Mt	Ni%	Co%
Measured	42.4	0.93	0.11
Indicated	29.8	1.07	0.11
Inferred	71.0	1.04	0.10
Total	**143.2**	**1.01**	**0.10**

Notes:

1. No upper cut off used. Maximum grade (lithology composite) is 3.44% Ni and 0.91% Co.
2. Lower cut off of 0.5% Ni used to define the down-hole limit of the overburden.
3. The lower boundary of the rocky saprolite is determined by either the first 1.5 metres boulder intersected or a 3 metres intersection of greater than 50% of the volume of the intercept being rock.
4. 1,139 HQ and NG diamond drill holes totalling 22,363 metres, with an average depth of 19.6 metres per hole.
5. Most drilling on a nominal 100 metres by 100 metres grid, with select areas closed down to 25 metres by 25 metres to establish geostatistical variability.
6. 22,145 drill samples were assayed for Ni, Co and Mg. Selected samples and composites were analysed for Mn, Al, Si, Fe and Cr.
7. Bulk density measurement from 1,550 drill core samples and 12 insitu tests.
8. Face sampling and mapping from two trial mining pits.
9. 60 line kms of ground penetrating radar (GPR) survey to map the depth profile of the laterite development between drill holes.
10. In addition to the -2mm material, the Ramu laterite contains 90Mt of oversize grading 0.44% Ni and 0.01% Co. This material is easy to remove by simple screening.
11. The information in this report that relates to Kurumbukari 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 mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Queen consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

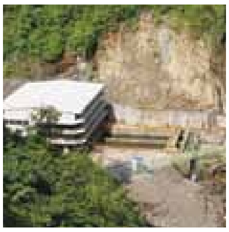
Ore Reserves

An ore reserve was designated from part of the mineral resource, reported above, during the feasibility study and has subsequently been reviewed and confirmed by SRK Consulting.

Category	Mt	Ni%	Co%
Proved	39.7	0.88	0.10
Probable	36.0	0.94	0.09
Total	**75.7**	**0.91**	**0.10**

The information in this report that relates to Ore Reserves is based on information compiled by Dr Brian White, who is a Member of The Australasian Institute of Mining and Metallurgy. Dr White is employed by Brian White Mining Services and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr White consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

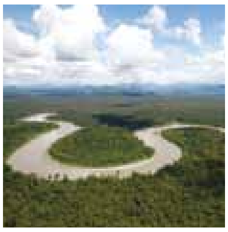
The ore reserve calculation includes low-grade rocks and rock fragments, which are present at the base of the ore body. These rocks and rock fragments, which are considered as internal waste, along with chromite will be removed at the mine site in the beneficiation plant. The resulting autoclave feed grade will be 1.01% nickel and 0.11% cobalt.


Ramu Mine - Basamuk Process Plant

Frieda River Copper-Gold Project

Location: The Frieda River Copper-Gold 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.




Resource

Approx 13Mt copper, 20Moz of gold and 49Moz of silver in six currently defined deposits – Nena, Koki, Ekwai Horse/Ivaal/Trukai ("HIT"). They form one of the world's largest undeveloped copper and gold deposits.

Owners

The project partners are Xstrata Copper (Xstrata) (81.82%) and Highlands (18.18%). In January 2012 Xstrata elected to exercise an option to include the high grade Nena deposit into the Frieda joint venture.

Xstrata has earned their 72% interest in the project on 23 January 2012, with the remaining 9.82% contingent on delivery of the Feasibility Study and review of alternative power and development options by December 2012.

Project Studies

An 18 month Prefeasibility Study was delivered in October 2010. In November 2011 the Feasibility Study was extended to December 2012 to allow more time to assess alternative power and development scenarios.

Project Scale

The Prefeasibility Study released in October 2010 outlined a multi-decade project with 60Mtpa throughput for the first eight years (50Mtpa life-of-mine) with output averaging 246,000tpa of copper and 379,000ozpa of gold, in the first 8 years.

Study Spend

Since its involvement in the project, Xstrata has spent approximately US$270m on exploration drilling, community consultation and project study work. Xstrata's project spend in 2010 was US$79.3m and US$104m in 2011.

Free Carry

Since the development of a joint venture agreement with Noranda in January 2002, Highlands has been free carried until January 2012. In November 2011, Xstrata and Highlands reached agreement whereby Highlands share of expenditure post January 2012 to the lodgement of a Special Mining License application will be carried by way of a carried funding loan arrangement to be repaid when the project is in production.

Highlands Pacific Share

Based on the 13Mt of copper, 20Moz of gold and 49Moz of silver currently defined in the Frieda district, Highlands 18.18% share is 2.3Mt (5.2b pounds) of copper, 3.6Moz of gold and 8.9Moz of silver.

Energy Options

A key feature of the Frieda River Project Prefeasibility Study was an approx $1b 210 megawatt hydroelectric scheme. This proposed scheme would operate for many decades and provide cheap energy, once the initial capital investment was made, however its impact on the local region and landowners was recognised as being significant.

In the past 5 years and in particular the past 2 years, PNG's significant oil and gas resources have come to the attention of world energy companies. A number of liquid natural gas (LNG) projects are now being developed.

With this in mind, Xstrata and Highlands announced in November 2011 that they would extend the Frieda Feasibility Study by 11 months to December 2012 to assess a range of power alternatives for the Frieda River Project.

Resource Definition

The Frieda River district is a copper gold porphyry cluster of currently six JORC-defined deposits in a district of 60kms^2. The main deposits are within a radius of 6kms of the main Horse, Ivaal, and Trukai deposits. Exploration and geotechnical drilling ceased in 2011 after more than 139,000 metres of resource drilling. At its peak of exploration activity, 11 drill rigs and 400 people were on site.

In September 2011 a resource upgrade was announced for the Horse, Ivaal Trukai deposits. Using a cut-off grade of 0.20% copper, the HIT deposit is estimated to contain 2,090Mt of copper mineralisation at a grade of 0.45% copper, 0.22 g/t gold and 0.70 g/t silver. This equates to 9.4Mt (20.7b pounds) of contained copper, 14.8Moz of gold and 49Moz of silver.

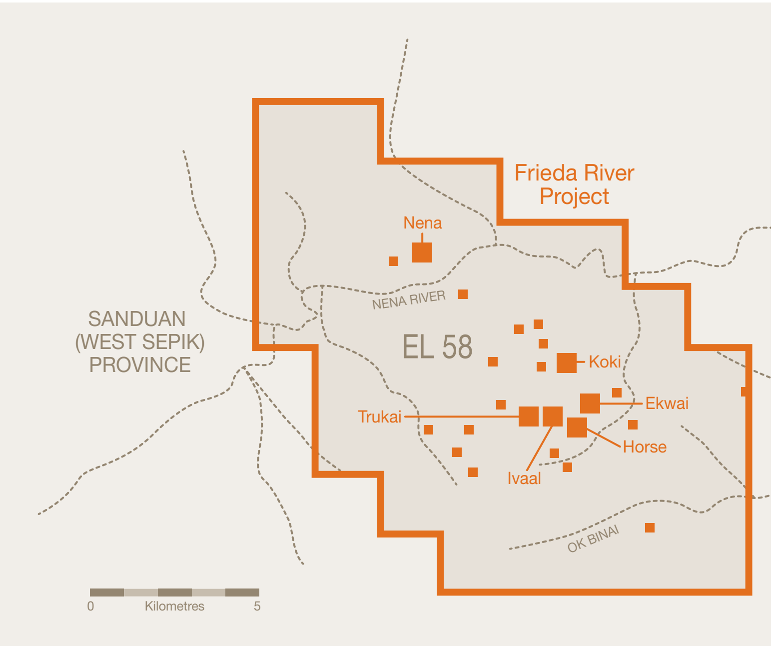
Frieda River base camp

Frieda River Copper-Gold Project (continued)

In January 2012, Xstrata elected to exercise an option to bring into the Xstrata/Highlands joint venture the nearby high grade Nena deposit (51MT @ 2.43% copper).

In February 2012, Highlands announced an updated resource for the Koki deposit and a maiden resource for the Ekwai deposit which are both within 1-2kms of the HIT pit.

As at March 2012, the district inventory for the Frieda JV stood at 2.8Bt containing 13Mt of copper and 20Moz of gold.



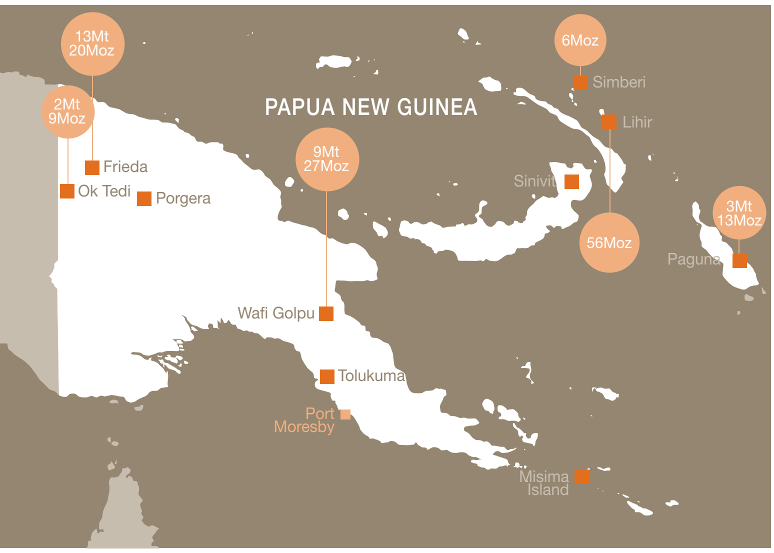


Table 1: Horse-Ivaal-Trukai Mineral Resources at 0.2% Cu cut off as at 25th August 2011

Category	MT	Cu (%)	Au (g/t)	Ag (g/t)
Measured	780	0.51	0.28	0.79
Indicated	410	0.44	0.20	0.72
Inferred	900	0.4	0.2	0.7
Total	**2090**	**0.45**	**0.22**	**0.70**

Table 1 Notes: The Mineral Resources are constrained by topography and an economic pit calculated with Measured, Indicated and Inferred resources. Numbers may not be exact as they are rounded for tabulation.

Competent Person: The information in the report that relates to Mineral Resources presented in Table 1 is based on information compiled by Mr Raúl Roco, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Roco is a full-time employee of the Xstrata Copper entity. Mr Roco has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the estimation of Mineral Resources to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Roco consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Table 2: Koki and Ekwai Mineral Resources at 0.2% Cu cut off as at 1st February 2012

Deposit	Category	MT	Cu (%)	Au (g/t)	Cu k Tonnes	Au Koz
Koki	Inferred	450	0.37	0.25	1,660	3,700
Ekwai	Inferred	170	0.38	0.23	660	1,300
Total		**620**	**0.37**	**0.25**	**2,320**	**4,900**

Table 2 Notes: The Koki deposit has been intersected by 30 drill holes on a nominal 150 metre x 250 metre grid, producing 3,626 four metre composited data points with copper and gold values. The Ekwai deposit has been intersected by 31 drill holes on a nominal 100 metre x 100 metre grid, with 1,385 four metre composited data points with copper and gold values. The drill holes used in this estimate were drilled as part of several different drill campaigns between 1971 and 2007. Bulk density measurements are not available for these deposits so an average bulk density of 2.57t/m^3 was used for both deposits. No top cut was applied to the copper or gold assays and the data was modelled unconstrained. Grade estimation was done by Ordinary




Kriging using a single domain for each deposit. Maximum search distance was 162.5 metres and each block was informed by a minimum of eight composite samples.

Competent Person: The database information used for the Koki and Ekwai resource estimate was complied and verified as suitable for this estimate by Lawrence Queen. The Mineral Resource Estimate information for Koki and Ekwai is based on information compiled by Simon Tear. Mr. Tear is a full-time employee of Hellman and Schofield 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Queen and Mr Tear consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Table 3: Nena Mineral Resources at 0.5% Cu cut off as at 30th September 2008

Category	MT	Cu (%)	Au (g/t)	As (%)	Sb ppm
Indicated	37	2.67	0.63	0.21	143
Inferred	14	1.80	0.42	0.13	86
Total	**51**	**2.43**	**0.57**	**0.19**	**127**

Table 3 Notes: (i) Copper resource lower cut off grade 0.5% copper. (ii) Mineral Resources stated herein are based on the 'Nena 2008 Conceptual Stage Resource Model'. (iii) These figures are constrained by topography; no economic pit has been applied to constrain the estimate. Numbers have been rounded for tabulation.

Competent Person: The information in the report that relates to Mineral Resources presented in Table 3 is based on information compiled by Mr Raúl Roco, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Roco is a full-time employee of an Xstrata Copper entity. Mr Roco has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the estimation of Mineral Resources to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Roco consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Copper Prices – Averaged US$7,115/t past 5 years

Frieda River Copper-Gold Project (continued)

Value of Frieda insitu Resource - 2011 Metal Prices		
	USD 2011	Equals
12Mt Copper	$3.75/lb $8,400/t	US$100b
20Moz Gold	$1,670/oz	US$33b
50Moz Silver	$US38/oz	US$2b
	Total	**US$135b**

Value of Frieda insitu Resource - 5 year average		
	USD 2011	Equals
12Mt Copper	$3.23/lb $7,115/t	US$85b
20Moz Gold	$990/oz	US$20b
50Moz Silver	$US25/oz	US$1b
	Total	**US$106b**

Value of Frieda Production per annum @ 60Mtpa Based on 2011 average metal prices		
	USD 2011	Equals
246,000tpa Copper	$3.75/lb $8,400/t	US$2,060m
379,000ozpa Gold	$1670/oz	US$630m
	Total	**US$2,690m**

Value of Frieda Production per annum @ 60Mtpa Based on past five year metal price average		
	USD 2011	Equals
246,000tpa Copper	$3.23/lb $7,115/t	US$1,750m
379,000ozpa Gold	$990/oz	US$375m
	Total	**US$2,125m**

Community and Sustainability

The Frieda River Copper-Gold Project is committed to the highest standards of sustainable development, and it understands that in order to have a successful and valuable partnership with the communities in which the project operates it must balance social, environmental and economic considerations in how it manages the business.

The project fully complies with Papua New Guinea's laws and regulations. In addition, the project operates in accordance with Xstrata's Sustainable Development Framework and aspires to achieve the highest international standards.

The Frieda River Copper-Gold Project, through the operator and manager Xstrata Frieda River Limited produces an annual Sustainability Report outlining the economic, social and environmental performance of the project. This report is available on Highlands' website and www.friedariver.com.

The project medical team provides professional medical services to employees, contractors and consultants at the project. These services include regular education sessions to promote a healthy workforce, the provision of individual health consulting, the treatment of tropical illnesses, and treatment of low-consequence (first aid) injuries and minor illness. A comprehensive medical service is also provided to communities in The Frieda River Copper-Gold Project area as part of the project's commitment to achieve improved health outcomes in the region.

The corporate social responsibility programs run by the project develop partnerships in the areas of health, education, social and community development, entrepreneurship and art and culture. These partnerships contribute to the communities' sustainable development and local capacity building.

The project maintains active, transparent and culturally appropriate engagement with our local communities and other stakeholders to establish mutually beneficial relationships, and works with the provincial administrations to align the project's development plans with those of the provinces relating to provision of social projects and infrastructure.

The Environmental Impact Statement (EIS) for the project is currently being completed. This will identify the potential environmental and social impacts of the proposed mining operation and detail control and mitigation strategies that will guide development of the environmental management and sustainable development plans.

Review of Prefeasibility Study

The completion of the Frieda River Prefeasibility Study at the end of 2010 by Xstrata Copper was a major achievement and the outcome of the study resulted in the project advancing to the feasibility stage.

The Execution model carried forward from the Prefeasibility Study into the Feasibility Study originally contained the following key items:

- An open pit operation is situated at the HIT porphyry deposit;
- Mining rate up to 140Mtpa to enable ore mining at a rate up to 60Mtpa
- Ore crushed and conveyed (3.4km) from the pit rim to the plant site
- All waste crushed and conveyed (5.7km) to a subaqueous storage system (Ok Binai valley)
- A two line concentrator (2 x 12.2m SAG mills feeding 2 x 7.9m ball mills) is constructed and concentrate is exported by pipeline to a Sepik river port at Kubkain. Concentrate will then be barged via the Sepik to a silo ship in the Bismarck sea
- HIT ore-body is mined at a 60Mtpa rate for the first 8 years in softer ore then reverting to a 50Mtpa LOM average rate for the remainder of mine life in harder ore with a LOM strip ratio of 0.96
- Concentrate pipeline 74kms long to filter plant on the Sepik River
- 3000t barges used to transport concentrate via the Sepik River to a silo ship in the Bismarck sea
- Copper concentrate production is approximately 600ktpa for the first 8 years then decreasing to an average of 450ktpa for the balance of 20 years of mine life
- Copper grades in concentrate average 28%
- Hydroelectric power is generated on site (160Mw); using an 111m high rock fill geomembrane dam with a 514m long crest
- Waste rock and tailings is stored in a subaqueous mode adjacent to the treatment plant in a dammed valley upstream of the Hydro dam
- A road is built parallel to the concentrate pipeline to a port on the Sepik river at Kubkain. This road and the Sepik river are used to supply the project both in construction and operational modes
- Construction commencing in 2013 using the Sepik River as the main construction supply route
- Production commencing in 2017 and the
- Project delivering 4.39Mt copper metal and 6.4Moz of gold in concentrate.

Review of Feasibility Study Extension

As detailed above the Feasibility Study which commenced at the end of 2010, was extended in November 2011 to December 2012 to allow more time to assess alternative power and development scenarios. As part of this extension the following areas are being reviewed:

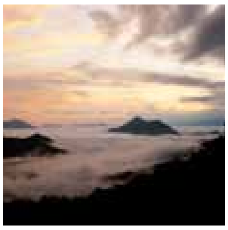
- Waste rock and tailings disposal – waste classification, waste rock and tailings dam construction and waste placement;
- Power generation;
- Certain infrastructure that was specifically designed due to the hydroelectric dam being constructed;
- Concentrate grade review; and
- Resulting economic and financial modelling.

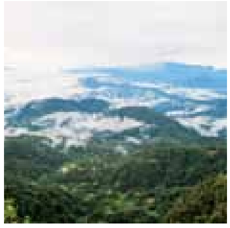
During 2012 an exploration program will be undertaken that will focus on the area between HIT and the high grade Nena deposit. This program will focus on surface geophysical and geochemical work.

Community Health Survey

Star Mountains Copper-Gold Exploration

Location: The Star Mountains refers to a mountain range in far west PNG near the border with Indonesia. The focus of drilling in 2011, the Olgal prospect, is at an elevation of approximately 2100 metres above sea level and is approx 20kms north of the Ok Tedi copper mine.





History

The area was first explored by Kennecott Copper in the early 1970s. Kennecott went on to discover the Ok Tedi deposit and the Star Mountains region lay largely unexplored until Highlands recommenced a drilling program in 2010.

Ownership

Exploration and study work on the Star Mountains leases is currently sole funded by Highlands Pacific. The Tifalmin lease (EL 1392) is 100% owned by Highlands while the Nong River lease (EL 1312) is subject to a joint venture agreement with Xstrata where they have the ability to earn a 72% interest in the joint venture by producing a Bankable Feasibility Study by 2019. Xstrata has the right to reclaim a 72% interest by paying Highlands three times the exploration expenditure incurred by Highlands at the time Highlands presents a Prefeasibility Study. There are no deadlines by which Highlands must produce a Prefeasibility Study. To date Highlands has spent approximately US$13m on the Star Mountains.

Based on the US$13m spent to date, Xstrata would need to pay Highlands approximately US$40m to earn back in now if a Prefeasibility Study was presented by Highlands.

2011 Focus

In 2010, Highlands drilled five holes for 1185 metres at the Olgal prospect. In 2011 a further seven holes for 2857 metres were drilled and a logistics camp for drilling support was created with the aim of accelerating activity across a range of prospects.

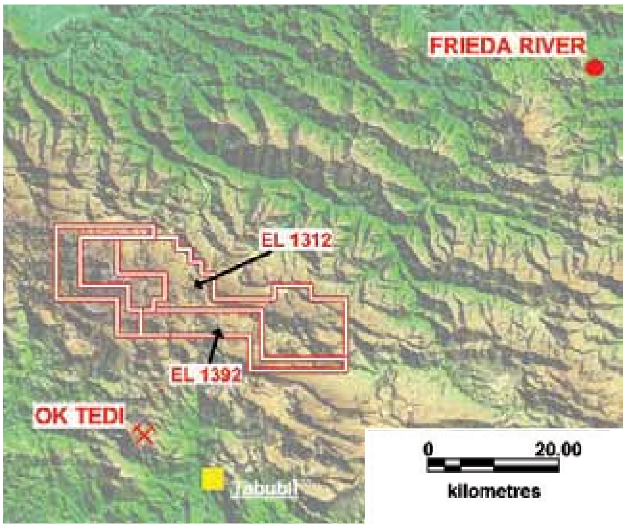
Discoveries

Of the 12 holes drilled to date into Olgal, the majority encountered broad interestions of copper and gold mineralisation. Many were from the surface including the first two holes with 474 metres @ 0.42% Cu and 0.24 g/t gold, and 210 metres @ 0.50% Cu and 0.37 g/t gold.

2012 Objectives

- **Test new prospects:** Exploration in 2012 will test a number of prospects with at least two diamond drill rigs in the field. In February 2012 drilling commenced on the Futik prospect.
- **Identify a Resource:** Undertake sufficient drilling to identify a copper-porphyry deposit or deposits of approximately 200-400 million tonnes, sufficient to advance a concept study as a precursor to a prefeasibility study.
- **Concept Study:** Outline a conveyor route, the transport logistics and potential development synergies with Ok Tedi.
- **Advance Discussions:** Further the company's preliminary discussions with the PNG Government and Ok Tedi Mining Ltd on the potential for future partnership and development options.

Star Mountains Copper-Gold Exploration (continued)



PNG's Orogenic Belt

Papua New Guinea is home to a range of copper and gold projects which straddle the spine of the country.

Projects such as Ok Tedi, Frieda River, Hidden Valley, Porgera, Mt Kare and emerging projects like Wafi Golpu have underpinned the region's economic development.

Ok Tedi

Mt Fubilan is the host orebody that feeds the Ok Tedi mine and process plant. Ok Tedi is 100% owned by the People of PNG (through indirect ownership of PNG Sustainability Development Program Limited and the PNG Government itself).

After almost 26 years of production the mine which employs more than 2000 people (95% are Papua New Guinean) faces the challenges of either undertaking a major wall cut back, seeking to develop underground deposits, or closure.

In 2007, Ok Tedi's export earnings accounted for 32% of PNG's total export earnings. 52% of it's profits are invested on behalf of the people of the Star Mountains, the Western Province and Papua New Guinea

In calendar year 2011, Ok Tedi processed 19.4Mt of ore at a grade of 0.78% Cu and 0.91 g/t Au. This saw it produce 553,000 tonnes of concentrate containing 130,000 tonnes of copper (down 22% on 2010) and 417,000 ounces of gold (down 13% on 2010).

Ok Tedi's 'Mine Life Extension' proposal is subject to PNG Government approval. Under the plan, rather than close in 2013, mining would continue to 2022 with two underground mines and one open pit mine. This would see an estimated 90Mt of ore processed over a nine year period. This is approximately half the mine's current processing capacity.

Star Mountain Concept Study

Highlands Pacific has retained resource evaluation experts and engineer consulting groups for the purpose of preliminary desk top work on the Star Mountains opportunity.

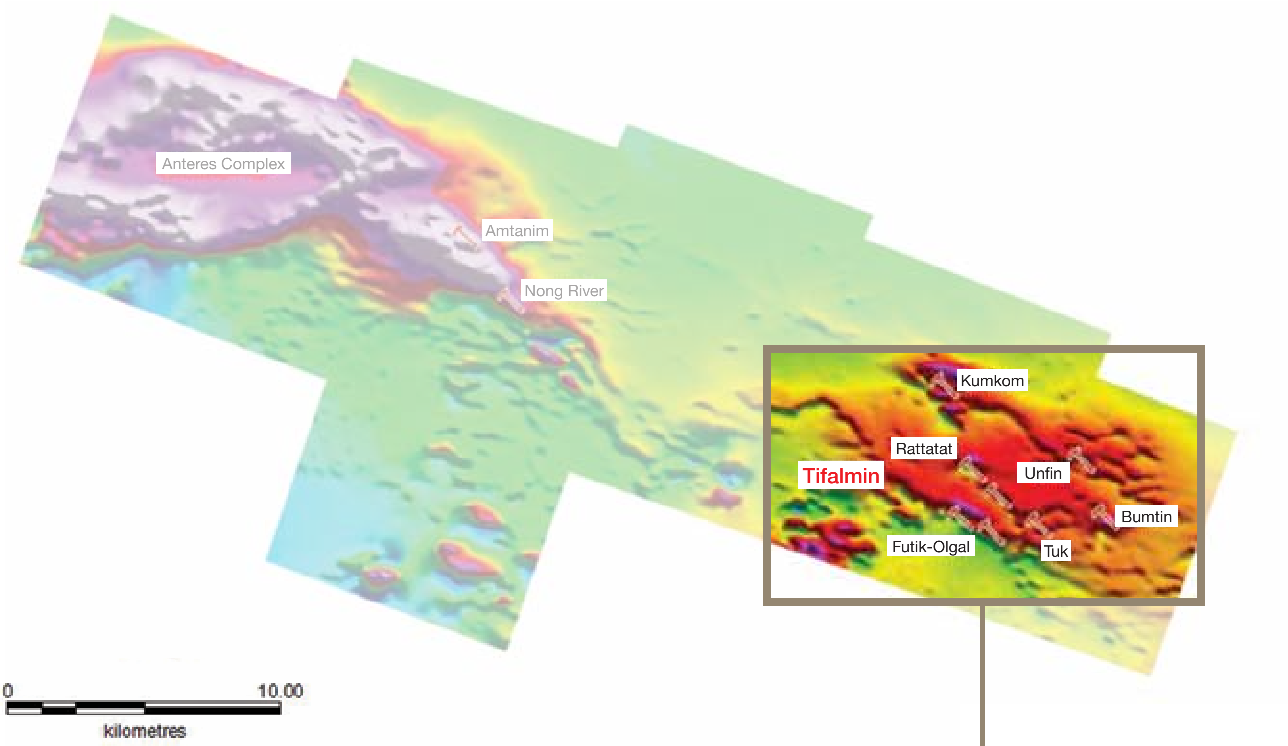
A preliminary route for a 20kms conveyor system has been selected, and during 2012 Highlands will further advance its review and studies on the economics of delivering sorted, crushed, primary ore to Ok Tedi.

SIGNIFICANT RESULTS - Intersepts greater than 0.2% copper (Cu)						
Hole	**North**	**East**	**Level**	**Azimuth**	**Dip**	**Total Depth (m)**
001OLG10	539659	9439981	2286	360	-60	302.9
002OLG10	539659	9439975	2286	180	-60	500.6
003OLG10	539045	9440158	2210	360	-60	162.9
004OLG10	539044	9440154	2210	180	-60	112.7
005OLG10	539426	9440283	2246	360	-60	110.7
006OLG10	539426	9440279	2246	180	-60	337.0
007OLG11	539745	9439700	2221	180	-60	341.7
008OLG11	539937	9440112	2121	180	-60	500.1
009OLG11	539937	9440116	2121	0	-60	321.6
010OLG11	539509	9440028	2187	360	-60	353.5

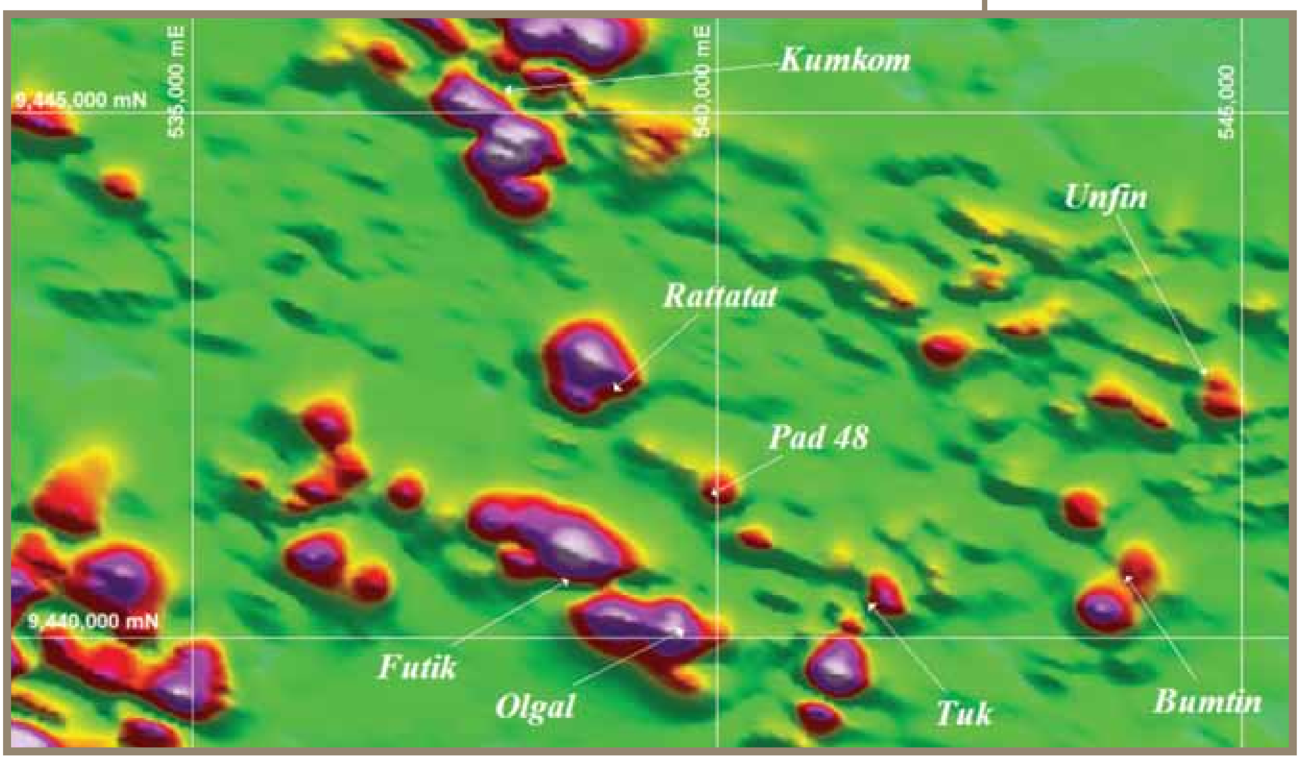



SIGNIFICANT RESULTS - Intersepts greater than 0.2% copper (Cu) (continued)						
Hole	From	To	Downhole Interval (m)	Cu (%)	Au (g/t)	Core Recovery %
001OLG10	15	226	210	0.50	0.37	88
	240	252	12	0.56	0.81	97
Including (@ 0.5%)	15	78	63	0.78	0.42	77
	242	252	10	0.61	0.90	97
002OLG10	26	500	474	0.42	0.24	74
Including (@ 0.5%)	26	64	38	1.01	0.36	75
	330	382	52	0.58	0.34	47
003OLG10	2	6	4	0.27	0.23	75
	36	42	8	0.21	0.19	74
	46	50	4	0.69	1.25	50
	64	72	8	0.23	0.22	42
006OLG10	290	337	47	0.39	0.38	78
008OGL10	22	36	14	0.26	0.04	100
	122	126	4	0.23	0.13	70
	140	152	12	0.32	0.16	45
	170	174	4	0.21	0.07	85
	180	230	50	0.25	0.12	51
	242	254	12	0.32	0.20	81
	266	270	4	0.25	0.14	43
	274	278	4	0.23	0.13	100
	292	308	16	0.34	0.30	51
	320	324	4	0.24	0.15	63
	332	334	2	0.27	0.11	40
	340	342	2	0.22	0.07	20
	344	500.1	156.1	0.36	0.31	82
Including (@ 0.5%)	242	244	2	0.67	0.38	75
	302	304	2	0.72	0.69	80
	356	358	2	0.59	0.36	50
	388	390	2	0.55	0.57	90
	398	402	4	0.54	0.48	68
	462	468	6	0.55	0.48	100
	482	484	2	0.51	0.46	80
009OLG11	20	24	4	0.24	0.18	90
	28	66	38	0.26	0.18	100
	82	116	34	0.43	0.62	90
	136	168	32	0.22	0.09	93
	200	202	2	0.21	0.14	100
Including (@ 0.5%)	100	102	2	0.57	0.82	98
	110	116	6	0.70	1.22	91
010OGL10	38	82	44	0.24	0.11	90
	138	144	6	0.33	0.25	75
	154	234	80	0.26	0.20	81
Including (@ 0.5%)	210	216	6	0.68	0.46	100
007OLG10	41	42	1	0.21	0.11	92
	86	90	4	0.25	0.38	100

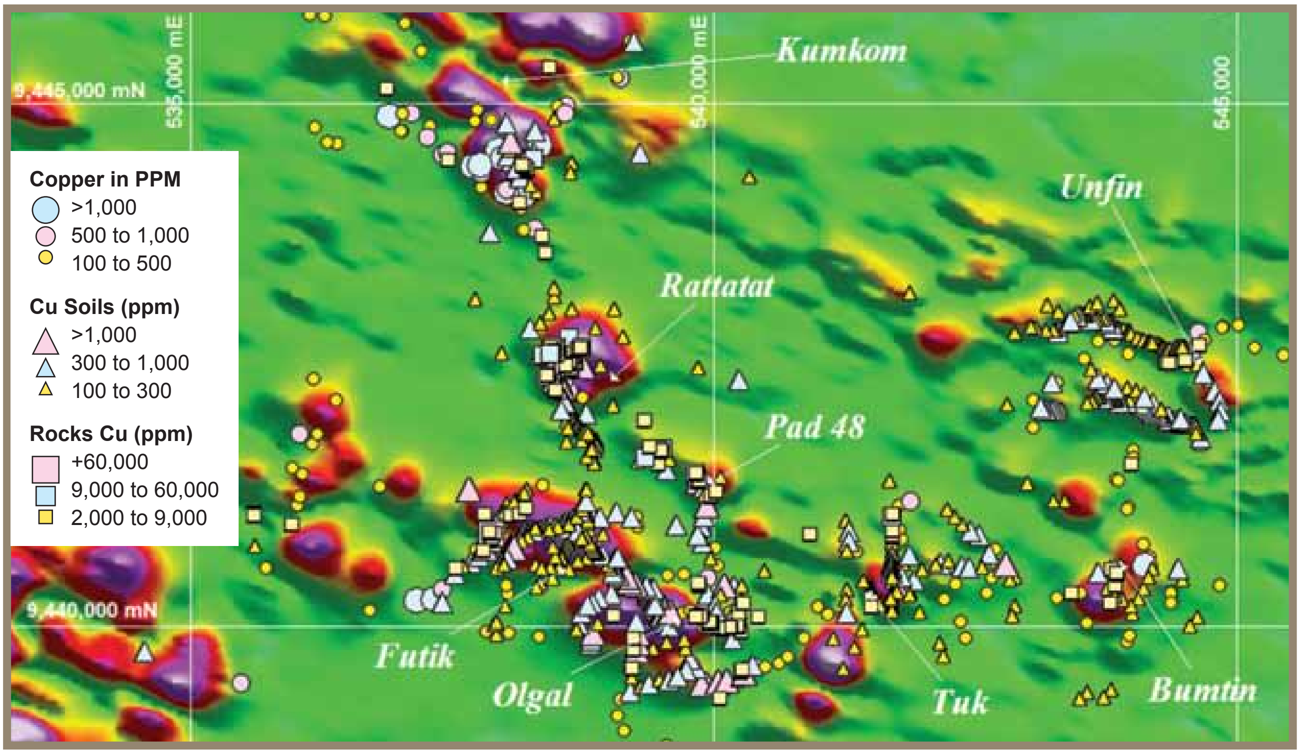
Star Mountains Copper-Gold Exploration (continued)



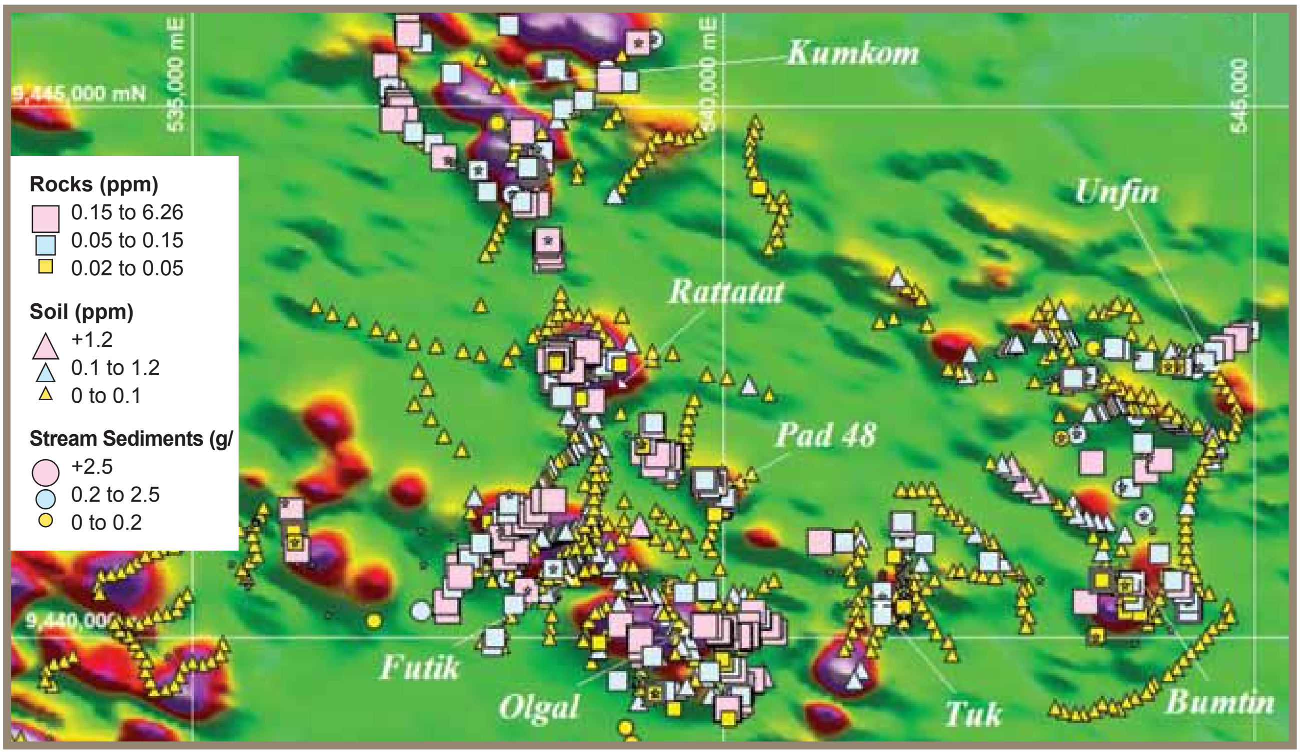
Star Mountain Magnetics Reduced to Pole



Magnetics 1st vertical derivative RTP Tifalmin District



Tifalmin Stream Sediment, Soils and Rock Chips Copper



Tifalmin Stream Sediment, Soils and Rock Chips Gold

Exploration

EL 1340 (Kobiak)

Exploration License 1340 is 100% owned by Highlands and the license covers the western portion of Wau-Bulolo Graben, a structural corridor that hosts some of the most significant goldfields in PNG. The Wau-Bulolo goldfield has historical production of some 4m ounces of alluvial gold and is host to three deposits discovered in the 1980s which together contain in excess of 6m ounces of gold in low grade stockwork style mineralisation. Significant mineral deposits in the area include:

- Hamata gold Deposit, 6.8Mt @ 2.4 g/t Au
- Keremenge gold deposits, 22.1Mt @ 2.5 g/t Au
- Hidden Valley gold deposit, 96Mt @ 1.6 g/t Au
- Wafi gold deposit, 100Mt @ 1.9 g/t Au and
- Golpu porphyry copper deposit, 500Mt @ 1.0% Cu and 0.54 g/t Au.

The license covers two known prospects that show potential to host high-grade mineable targets.

Yangalemu

The Yangalemu prospect is located on a hilltop adjacent to the Wau-Bulolo road. Discovered in 1994 during the course of a stream-sediment sampling program carried out by Highlands Gold Limited, the prospect today is marked by numerous pits dug by local artisanal miners chasing outcrops of narrow (~1 metre) high-grade gold veins. The veins cut volcanic rocks and porphyry similar to the host rocks for the Edie Creek, Wau and Hidden Valley deposits.

Since discovery, Highlands has drilled 15 diamond holes in the area to test continuation of the veins at depth and vein spacing. The drilling results have shown the veins continue at depth but, in the area so far tested, the vein density is insufficient for an economic deposit.

Highlands is currently carrying out a district scale assessment of the geology, geophysics and structure of the Wau area in order to assess the potential of untested drill targets in the Yangalemu area.

Hole	From (m)	To (m)	Interval (m)	Au (g/t)
YD001	50	52	2	1.17
YD002	27	29	2	2.24
	79.5	83	3.5	6.86
	110	112	2	10.10
	184	186	2	4.22
	205	207	2	9.71
YD003	28	30	2	15.70
YD007	18	20	2	8.71
	28	30	2	5.73
008YD08	6.2	8.5	2.3	2.5
	102	104	2	3.31
	147	148	1	1.82
	196	197	1	9.31
009YD08	0	2	2	17.7
	42.6	44.2	1.6	2.1
	99	100	1	2.47
	183	184	1	1.28
010YD08	114	116	2	1.80
012YD08	31	33	2	3.10
013YD08	71.5	72	0.5	1.31
	77	79	2	3.36
	89	90	1	1.07
	124	125	1	1.3
	126	127	1	11
015YD09	23	24	1	3.45
	44	45	1	4.32

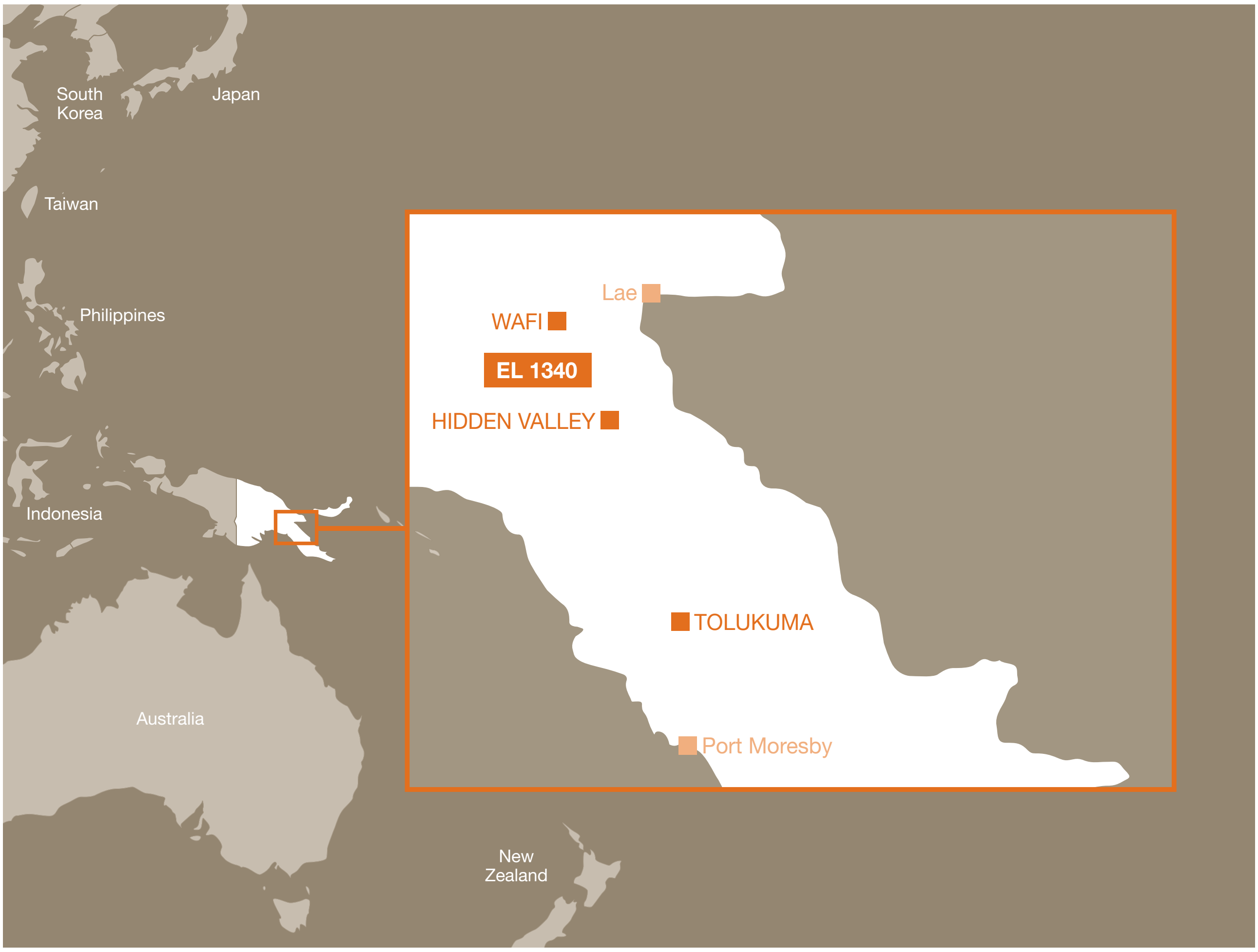
Kobiak

Highlands Gold Limited discovered the Kobiak prospect in 1993. Gold grades up to 15 g/t over 1m have been obtained in samples from outcrops. The mineralised lodes occur in a complex structural association with the Escarpment Shear which trends from the Wau Pit through the Ribroaster Mine to the Kobiak prospect. In 1995, three diamond drill holes (527.8m in total) were drilled to test targets identified by trenching and soil sampling. No significant mineralisation was encountered in any of these holes. The 1995 program targeted the Escarpment Fault but mapping and sampling in 2005 demonstrated that the main mineralisation trends at right angles to the Escarpment Fault Zone. Local mining of the outcrops shows high-grade zones continue for more than 1km toward the historical Miawat Mine. Encouraging results from this work include;

From trench: 65m @ 7.7 g/t Au and 35m @ 13.4 g/t Au with visible gold grains in vein quartz.

Further sampling and mapping in 2006 suggested that many of the surface exposures might not be in situ. Landform observations suggest that several large landslips dissect the prospect. Sampling suggests the Kobiak mineralisation occurs largely as free gold in narrow quartz veinlets. To date, sample repeatability has been a problem. Potential target would be a structurally controlled epithermal mineralisation.

Disclaimer: The information in the report to which this statement is attached that relates to Exploration Results 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 the company and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Queen consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



Board of Directors

Ken MacDonald
Chairman | Independent, Non-Executive Director

Appointed: 1 February 2008

John Gooding
Managing Director

Appointed: 21 May 2007

Drew Simonsen
Independent, Non-Executive Director

Appointed: 01 January 2010

Ken MacDonald has over 35 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 currently the Deputy Chairman of QIC, and Deputy Chancellor of Bond University Limited.

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

John Gooding is the Managing Director and Chief Executive Officer of Highlands Pacific Limited. He is a Mining Engineer with over 35 years experience in the resources industry. He has held executive management positions with Normandy Mining, MIM, Xstrata, Ok Tedi Mining and Roche Mining. He has extensive experience in gold and base metal mining (both open-cut and underground) through the management and operation of mines in Australia, and internationally. He holds a Mine Managers Certificate (Qld, NSW and NT) and is a Fellow of the Institute of Engineers and the Australasian Institute of Mining and Metallurgy. Mr Gooding is a Board Member of the PNG Chamber of Mines and Energy and a Non-Executive Director of Hillgrove Resources Limited.

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

Drew Simonsen has over 30 years of investment banking, banking and advisory experience, firstly with Bank of America in Sydney, San Francisco and Hong Kong, and subsequently with Westpac Banking Corporation in Sydney and Melbourne. In his banking career prior to Hillgrove, he was involved with many resource and infrastructure related project financings and advisory roles, including those involving export and import lines of credit from multi-lateral agencies to support major projects in developing countries, including PNG. He has a degree in mining engineering, and also a Diploma of GeoScience (Mineral Economics). Prior to Mr Simonsen's banking career, he worked in engineering and operational roles with CRA Ltd (now Rio Tinto) in Broken Hill, NSW. Mr Simonsen has a special affinity for PNG, having previously lived there.

Mr Simonsen is the Managing Director and Chief Executive Officer of Hillgrove Resources Ltd.

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

Dan Wood
Independent,
Non-Executive Director

Appointed: 28 May 2010

Dan Wood is an exploration geologist with a long and distinguished record in the mining industry. He retired from mineral exploration in late 2008 after 24 years with BHP and almost 18 years with Newcrest Mining Limited, exploring for a range of mineral resources in Australia, SE Asia/ SW Pacific and the Americas. During his career he was associated with coal, gold, gold-copper and copper-molybdenum discoveries in Australia, Indonesia and Peru. Mr Wood joined Newcrest Mining at its formation in 1990 and from the mid-1990s, as Executive General Manager Exploration, led its highly successful exploration team, which was judged by the Metals Economics Group of Canada to have been the world's most successful gold explorer, 1992-2005. Mr Wood has extensive experience and an International reputation in mineral exploration and discovery, and was jointly awarded the Joe Harms Medal by the Geological Society of Australia for discovering the Cadia gold-copper deposits in NSW.

Mr Wood is an Advisory Board member of the WH Bryan Mining and Geology Research Centre at the University of Queensland, where he is also an Adjunct Professor, and a Fellow of the Society of Economic Geologists in the USA, which has appointed him as its Distinguished Lecturer for 2012.

Mike Carroll
Independent,
Non-Executive Director

Appointed: 1 April 2008

Mike Carroll is a Fellow of Certified Practising Accountants with over 35 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 a member of the Board's Audit Committee (Chair), Remuneration Committee and Nomination Committee.

Fiu Williame-Igara
Independent,
Non-Executive Director

Appointed: 24 March 2005

Fiu Williame-Igara brings to the Highlands Board extensive experience in government affairs, economic and social development issues at the national, pacific regional and international levels. Ms Williame-Igara is currently providing advisory support to a number of key Government agencies. Prior to this, Ms Williame-Igara held senior management roles in the Departments of Finance, Planning and Treasury in Papua New Guinea managing relationships, development programs and financing both from bilateral sources and financial development institutions. She also served with the Pacific Forum Secretariat in Fiji. Ms Williame-Igara holds a Masters in Public Policy from the Sydney University and is a member of the PNG Institute of Directors, PNG Business Council and Transparency International (PNG).

Ms Williame-Igara 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 principles 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 "Principles of Good Corporate Governance and Recommendations", 2nd edition.

The Highlands Pacific Board has adopted the principles and recommendations and complies with them all.

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;
- Securities Trading Policy;
- Disclosure;
- Shareholder communications; and
- Diversity and Inclusion Policy.

Board of Directors

Role and 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 Independent 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 Board currently comprises six Directors including five 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.

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.

Independence of Directors

The Board recognise all Directors must act in the best interests of the Company and its shareholders as a 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 role of the Audit Committee is documented in a charter approved by the Board and covers the following:

- ensure that effective measures are in place to describe, communicate and implement the standards of integrity required by the Company of its Directors, managers and employees in relation to financial control and financial reporting;
- satisfy itself that effective systems of accounting and internal control are established and maintained to manage financial risk;
- satisfy itself as regards the integrity and prudence of management internal and financial control systems, including the review of policies and procedures;
- ensure the Board is aware of any matters that might have a material impact on the financial condition or affairs of the Company;
- review and assess the adequacy of management reporting to the Board;
- review the quarterly, half-yearly and annual financial statements and other information released to the public;
- recommend to the Board the appointment of the internal and external auditors. The appointment of external auditors is to be reviewed every five years and the lead audit partner must be rotated every five years;
- review the efficiency and effectiveness of the internal and external auditors in relation to their respective accountabilities;
- ensure that there has been no unjustified restrictions or limitations imposed on the auditors from within the Company;
- ensure that the scope of the audits (internal and external) is adequate;
- 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 D Simonsen (BE Geoscience GAICD); and Ms F Williame-Igara (BA MPP); all of whom are Independent Non-Executive Directors. There were seven meetings held during the year and all members attended meetings they were eligible to attend with the exception of Mr D Simonsen who missed one meeting.

Remuneration Committee

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

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

The Remuneration Committee 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 Simonsen and Mr M Carroll all of whom are Independent Non-Executive Directors. 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; and
  - 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 meets once a year or more frequently if required in special circumstances. The Committee may obtain advice from external consultants if required.

An assessment of the performance of the Board members and the Board structure did take place subsequent to the completion of the reporting year.

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

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 Ms F Williame-Igara.

Risk Oversight and Management

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

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

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

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

The risk management system will require the completion of a risk register for corporate and other appropriate areas which is reviewed bi-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.

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.




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

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 licenses 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 yet to set measurable objectives due to the current size of its workforce. The company's priority is to employ nationals wherever possible and to promote and give opportunities to 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 2011 (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, Drew Simonsen, Fiu Williame-Igara, Dan Wood 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 2011 and the numbers of meetings attended by each Director were:

	Director's Meetings		Audit Committee Meetings	
	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended
K MacDonald	10	10	-	-
J Gooding	10	10	-	-
M Carroll	10	10	7	7
D Simonsen	10	9	7	6
F Williame-Igara	10	10	7	7
D Wood	10	9	-	-

	Remuneration Committee Meetings		Nomination Committee Meetings	
	No. Eligible to Attend	No. Eligible to Attend	No. Eligible to Attend	No. Attended
K MacDonald	3	3	2	2
J Gooding	-	-	2	2
M Carroll	3	3	2	2
D Simonsen	3	3	-	-
F Williame-Igara	-	-	-	-
D Wood	-	-	-	-




Directors' Shareholdings and Interests

Details of Directors' related direct and indirect shareholdings and interests in the equity of the Company, as at the date of this Report, are as follows:

Director and position	Interest held by director in shares in Highlands	Interest held by director in options and performance rights in Highlands
K MacDonald Chairman	600,000	-
J Gooding Managing Director	3,260,215	14,835,000
M Carroll Non-Executive Director	304,307	-
D Simonsen Non-Executive Director	60,000	-
F Williame-Igara Non-Executive Director	-	-
D Wood Non-Executive Director	100,000	-

Company Secretary

The Group has two Company Secretaries:

- 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; and
- 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.

Principal Activities

During the year, the Group's principal activities were the exploration and evaluation of minerals activities and development 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$16.6m is reported by the Group for the year. The loss includes the following items:

- exploration and development expenditure of US$10.6m; and
- general and administration expenditure of US$6.3m; offset by
- interest revenue of US$0.4m

The 2010 profit was the result of the impairment reversal on the Company's interest in The Frieda River Copper-Gold Project.

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 2011.

Significant Changes in State of Affairs

The Group's net assets decreased by US$15.7m from US$113.6m to US$97.8m. This movement can be summarised as follows:

- increase in creditors, accruals and provisions of US$2.0m; and
- decrease in cash of US$14.3m;
- decrease in other receivables of US$0.1m; offset by
- increase of exploration and evaluation expenditure of US$0.7m.

The ordinary share capital increase of US$130,000 was the result of the exercise of options by employees.

Matters Subsequent to the End of the Financial Year

On 23 January 2012, Xstrata Copper exercised its option over the Nena copper/gold deposit in Papua New Guinea paying Highlands US$10.8m and as a result the deposit now forms part of the Frieda River Joint Venture.

Likely Developments and Expected Results of Operations

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

Environmental Regulation

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

Insurance And Indemnification of Directors And Officers

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

(a) any liability to any person (other than the Company or a Company related to it) for any act or omission in that person's capacity as a Director or officer; and

(b) costs incurred by that person in settling or defending any claim or proceeding relating to any such liability, not being criminal liability or liability in respect of a breach of the duty to act in good faith and in the 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%) as a total to Non-Executive Directors is approved by the shareholders. The current limit is US$500,000 p.a. and was approved by shareholders on 8 May 1998. The current remuneration for Non-Executive Directors, excluding the Chairman, comprises AU$60,000 p.a. plus a 9% superannuation contribution. The current remuneration for the Chairman is AU$120,000 p.a. plus a 9% superannuation contribution.

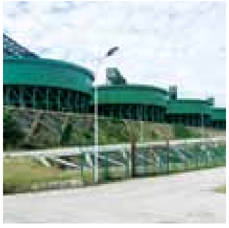
In order to maintain impartiality and independence, Non-Executive Directors do not receive performance related remuneration and are not entitled to participate in the Group's Performance Rights Plan (previously Executive Share Option Scheme).

Managing Director

Managing Director 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 2011 to 31 December 2011 performance period were made in February 2012. 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 selected 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 2011 the Board determined that the STI offered for the 1 January 2011 to 31 December 2011 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 (2011 year)	
What is the 2011 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 is the 2011 STI grant paid to eligible employees?	The STI amount will be paid to each employee in February 2012, following assessment of performance against the applicable measures during the 2011 performance period.
Who participates in the 2011 STI?	The Managing Director, Key Management Personnel and selected management.
Why does the Board consider the 2011 STI an appropriate incentive?	A STI is a globally recognised form of reward for management, aimed at ensuring focus and alignment with Group objectives and strategy.
In what circumstances are the 2011 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 2011 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, over a three year vesting period ending 31 December 2013, were:

- a successful debt and equity raising for our share of the development of The Frieda River Copper-Gold Project;
- the development of a JORC resource outside of the Frieda and Ramu projects; and
- matching the Total Shareholder Return for the S&P/ASX Small Resources Index.

Each LTI measure was chosen by the Board as it is a key driver of Group performance.

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 Managing Director, Key Management Personnel and selected 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. The 2011 grant did have interim allocations for year one and year two.
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 participates 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 considers that these performance measures are key factors which impact on the share price and which drive the value of the Group over the long term.
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 23 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 issued during the year.

Name and Position	Grant Date	Rights Granted	Rights Exercised	Rights Lapsed	Rights Vested
John Gooding Managing Director	20 May 2011	1,200,000	40,000	Nil	40,000

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

Details of Directors' remuneration

The Directors' remuneration is detailed in note 19 of the Financial Statements.

Details of service agreements with Directors

As detailed in the Corporate Governance section of the Annual Report, one-third of the Directors (rounded up to a whole number) are to retire at each Annual General Meeting and no Director may be in office for more than three years without standing for re-election.

There are no service agreements with the Directors for the provision of services to the Company outside of their role as a Director.

Managing Directors Service Agreement

The Managing Director, Mr John Gooding, has an open employment agreement (i.e. no fixed term or renewal period) with a fixed remuneration of AU$600,000 for the 2011 year. The notice period Mr Gooding has to give the company is 1 month while the notice period the Group must give is 1 month while the termination payment to Mr Gooding is 1 year.

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 15 March 2012 in accordance with a resolution of the Directors.

For, and on behalf of, the board

Ken MacDonald
Chairman

15 March 2012

John E Gooding
Managing Director

Financial Statements

Sepik River

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 statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, and other explanatory notes for both the Company and the Consolidated entity. The Consolidated Entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with Generally Accepted Accounting Practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These auditing standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.

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

Auditor's opinion

In our opinion the financial statements of Highlands Pacific Limited are in accordance with the Companies Act 1997, including giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 December 2011 and of their performance for the year ended on that date; and complying with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

1. in our opinion proper accounting records have been kept by the Company, so far as appears from our examination of those records;
2. we have obtained all the information and explanations we have required; and
3. in conducting our audit we followed applicable independence requirements of Certified Practising Accountants Papua New Guinea.

Other matters

This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with the Companies Act 1997 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

PricewaterhouseCoopers

By: Brett Entwistle
Partner
Registered under the
Accountants Act 1996

Grant E Burns
Engagement Leader

Port Moresby
15 March 2012

Statements of Comprehensive Income

For the Year Ended 31 December 2011

		Consolidated		Holding Company	
		2011	2010	2011	2010
	Notes	US$000	US$000	US$000	US$000
Finance Income	2	429	653	-	-
Other revenue	2	34	12	-	-
Total Operating Income		**463**	**665**	**-**	**-**
General and administrative costs		6,261	5,326	-	-
Exploration and development costs		10,610	4,297	-	-
Depreciation and amortisation		89	80	-	-
Net foreign exchange (gains) / losses	22	80	(1,163)	-	-
Total Operating Costs	**3**	**17,040**	**8,540**	**-**	**-**
Loss from operations		**(16,577)**	**(7,875)**	**-**	**-**
Reversal of Impairment/(impairment) of subsidiary advances	12	-	-	(936)	4,971
Reversal of impairment of non-current assets	9/11	-	18,130	21,314	-
Profit (Loss) before income tax		**(16,577)**	**10,255**	**20,378**	**4,971**
Income tax expense	4	-	-	-	-
Profit (Loss) for the period		**(16,577)**	**10,255**	**20,378**	**4,971**
Other comprehensive income:					
Exchange differences on translating					
foreign operations - (net of tax)	16	(101)	316	-	-
Other comprehensive income for the period		**(101)**	**316**	**-**	**-**
Total comprehensive income for the period		**(16,678)**	**10,571**	**20,378**	**4,971**
Basic earnings per share	5	US($0.024)	US$0.015		
Diluted earnings per share	5	US($0.024)	US$0.015		

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 2011

	Notes	Share Capital US$000	Reserves US$000	Retained Earnings US$000	Total US$000
Consolidated					
Year Ended 31 December 2011					
Balance as at 1 January 2011		280,046	(7,177)	(159,255)	113,614
Net profit (loss)		-	-	(16,577)	(16,577)
Other comprehensive income for the year	16	-	(101)	-	(101)
Issue of share based payments	23	-	806	-	806
Issue of share capital	15	130	-	-	130
Balance as at 31 December 2011		**280,176**	**(6,472)**	**(175,832)**	**97,872**
Year Ended 31 December 2010					
Balance as at 1 January 2010		276,216	(8,453)	(169,510)	98,253
Net profit (loss)		-	-	10,255	10,255
Other comprehensive income for the year	16	-	316	-	316
Issue of share based payments	23	-	960	-	960
Issue of share capital	15	3,830	-	-	3,830
Balance as at 31 December 2010		**280,046**	**(7,177)**	**(159,255)**	**113,614**
Holding Company					
Year Ended 31 December 2011					
Balance as at 1 January 2011		280,046	(3,796)	(208,895)	67,355
Net profit (loss)		-	-	20,378	20,378
Issue of share based payments	23	-	806	-	806
Issue of share capital	15	130	-	-	130
Balance as at 31 December 2011		**280,176**	**(2,990)**	**(188,517)**	**88,669**
Year Ended 31 December 2010					
Balance as at 1 January 2010		276,216	(4,756)	(213,866)	57,594
Net profit (loss)		-	-	4,971	4,971
Issue of share based payments	23	-	960	-	960
Issue of share capital	15	3,830	-	-	3,830
Balance as at 31 December 2010		**280,046**	**(3,796)**	**(208,895)**	**67,355**

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

Statements of Financial Position

As at 31 December 2011

		Consolidated		Holding Company	
		2011	2010	2011	2010
	Notes	US$000	US$000	US$000	US$000
Current Assets					
Cash and cash equivalents	6	6,576	20,887	-	-
Receivables	7	50	194	-	-
		6,626	**21,081**	**-**	**-**
Non-current Assets					
Receivables	7	464	451	-	-
Property, plant and equipment	8	318	384	-	-
Exploration and evaluation expenditure	9	43,817	43,130	-	-
Development expenditure	10	50,000	50,000	-	-
Investment in subsidiaries	11	-	-	21,314	-
Advance to subsidiaries	12	-	-	67,358	67,358
		94,599	**93,965**	**88,672**	**67,358**
Total Assets		**101,225**	**115,046**	**88,672**	**67,358**
Current Liabilities					
Trade and other payables	13	2,897	926	-	-
Provisions	14	194	148	-	-
Provision for income tax		-	(6)	-	-
		3,091	**1,068**	**-**	**-**
Non-current Liabilities					
Advances from subsidiaries	12	-	-	3	3
Trade and other payables	13	206	337	-	-
Provisions	14	56	28	-	-
		262	**364**	**3**	**3**
Total Liabilities		**3,353**	**1,432**	**3**	**3**
Net Assets		**97,872**	**113,614**	**88,669**	**67,355**
Shareholders' Equity					
Contributed equity	15	280,176	280,046	280,176	280,046
Reserves	16	(6,472)	(7,177)	(2,990)	(3,796)
Retained earnings (losses)		(175,832)	(159,255)	(188,517)	(208,895)
Total Shareholders' Equity		**97,872**	**113,614**	**88,669**	**67,355**

For, and on behalf of, the board

Ken MacDonald
Chairman

John E Gooding
Managing Director

15 March 2012

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 2011

		Consolidated		Holding Company	
		2011	2010	2011	2010
	Notes	US$000	US$000	US$000	US$000
Cash Flow from Operating Activities					
Receipt from other operations		34	11	-	-
Interest from investments		543	622	-	-
Income tax refund / (paid)		7	(101)	-	-
Payments to suppliers and employees		(4,892)	(4,100)	-	-
Net cash used in operating activities		**(4,308)**	**(3,568)**	**-**	**-**
Cash Flow from Investing Activities					
Advance from (to) subsidiaries		-	-	(130)	(3,796)
Purchase of property, plant and equipment		(23)	(36)	-	-
Exploration, evaluation and development		(10,030)	(4,297)	-	-
Net cash used in investing activities		**(10,053)**	**(4,333)**	**(130)**	**(3,796)**
Cash Flow from Financing Activities					
Proceeds from issue of ordinary shares		132	3,864	132	3,830
Costs associated with Issue		(2)	(34)	(2)	(34)
Net cash from financing activities		**130**	**3,830**	**130**	**3,796**
Net Increase (Decrease) in Cash and Cash Equivalents		**(14,231)**	**(4,071)**	**-**	**-**
Add cash brought forward		20,887	23,689	-	-
Effect of exchange rate change on cash and cash equivalents		(80)	1,269	-	-
Cash and Cash Equivalents Carried Forward		**6,576**	**20,887**	**-**	**-**
Cash Comprises					
Cash and cash equivalents	6	**6,576**	**20,887**	**-**	**-**

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

Statements of Cash Flows (continued)

For the Year Ended 31 December 2011

Reconciliation of Net Profit (Loss) after Taxation to Cash Flow from Operating Activities

		Consolidated		Holding Company	
		2011	2010	2011	2010
	Notes	US$000	US$000	US$000	US$000
Reported Net Profit (Loss) after Taxation		**(16,577)**	**10,255**	**20,378**	**4,971**
Add (less) non-cash and non-operating items:					
Depreciation and amortisation		89	80	-	-
Provision for exploration, evaluation and development costs		10,610	4,297	-	-
Reversal of impairment/(impairment) of subsidiary advances		-	-	936	(4,971)
Fair value of share based payments		806	960	-	-
Reversal of impairment		-	(18,130)	(21,314)	-
Reversal of provision for external debtor		-	(451)	-	-
Net (gain) loss on foreign currency balances		80	(1,269)	-	-
		11,585	**(14,513)**	**(20,378)**	**(4,971)**
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		131	(12)	-	-
Increase (decrease) in creditors and provisions		553	702	-	-
		684	**690**	-	-
Net Cash Flow from Operating Activities		**(4,308)**	**(3,568)**	**-**	**-**

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 2011

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 15 March 2012. 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 applicable financial reporting standards and other mandatory professional reporting requirements approved for use in PNG by the Accounting Standards Board ("ASB"). These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which have been adopted by the ASB as the applicable financial reporting framework.

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

Historical cost convention

These financial statements have been prepared on an historical cost basis except for available-for-sale financial assets which are measured at fair value. The methods used to measure fair value are discussed further in accounting policy note 1(j).

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Highlands Pacific Limited ("Company") as at 31 December 2011 and the results of all subsidiaries for the year then ended. Highlands Pacific Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

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

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

Investments in subsidiaries are accounted for at cost in the individual financial statements of Highlands Pacific Limited.

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

Joint ventures - Jointly controlled assets

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

(c) Segment reporting

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

(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 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 income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

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 as a separate component of equity.

(e) Revenue recognition

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

(f) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (refer note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement 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 provision 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 paragraph below.

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

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

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

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

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

(l) Exploration, evaluation and development expenditure

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

Cumulative exploration and evaluation expenditure for each area of interest is provided against unless:

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

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

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

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

(m) Impairment of long life assets

Property, plant and equipment and other non-current assets, including investments in mine development joint ventures and exploration joint ventures 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 net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level 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 are unsecured and are usually paid within 60 days of recognition.

(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 or 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.

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 23.

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

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, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, 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.

The fair value of the options 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 that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options 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 over page.

Carrying value of exploration, evaluation and development expenditure

The Group tests annually whether the carrying value of long life assets, such as investments in exploration and evaluation expenditure, development expenditure, and property, plant and equipment, have suffered any impairment. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, operating costs, capital costs and production rates. The impairment testing for the current year has been based on – in the case of the Ramu project, a real discount rate of 10%, proved and probable reserves, long term nickel prices of US$9.00/lb and cobalt prices of US$13.50/lb, and operating costs consistent with these price assumptions; in the case of The Frieda River Copper-Gold Project, given the feasibility study work is currently in progress a real discount rate of 10%, long term copper prices of US$2.60/lb and gold prices of US$1,100/oz has been applied to the pre-feasibility capital and operating cost assumptions.

(t) New accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2011 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

IFRS 9 - Financial Instruments

Summary – Amendments for classification and measurement of financial assets only

Application date of standard – 1 January 2013

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

Application date for the Consolidated Entity – 1 January 2013

IAS19 – Employee benefits

Amended in June 2011 and does not impact on the company

IFRS 10 – Consolidated financial statements (effective 1 January 2013)

IFRS 12 – Disclosure of interest in other entities (effective 1 January 2013)

IFRS 13 – Fair value measurement (effective 1 January 2012).

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

(u) Rounding

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

2. Revenue

	Consolidated		Holding Company	
	2011	**2010**	**2011**	**2010**
	US$000	US$000	US$000	US$000
Finance Income				
Interest income	429	653	-	-
Other Income				
Rental income	23	11	-	-
Other Income	11	1	-	-
	34	**12**	**-**	**-**

3. Expenses

		Consolidated		Holding Company	
		2011	2010	2011	2010
	Notes	US$000	US$000	US$000	US$000
Total operating costs		**17,040**	**8,540**	**-**	**-**
Operating costs are stated after charging / (crediting):					
Salaries and employee benefits		3,276	3,155	-	-
Office costs		1,313	1,072	-	-
Consultants costs		232	122	-	-
Non-executive Director fees and benefits		413	350	-	-
Corporate affairs and public relations costs		190	162	-	-
Company secretarial and public listing costs		339	256	-	-
Travel and accommodation costs		190	94	-	-
Auditors' remuneration					
- audit*		144	75	-	-
- other services		164	40	-	-
Depreciation					
- land and buildings	8	18	17	-	-
- plant and equipment	8	71	63	-	-
Exploration and development costs	9/10	10,610	4,297	-	-
Net foreign exchange (gains) losses	22	80	(1,163)	-	-

**Includes current year end fee of $80k, the half-year fee of $26k and payment in part of the 2010 year end fee.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

4. Income Tax

	Consolidated		Holding Company	
	2011	2010	2011	2010
Reconciliation of income tax expense to prima facie tax expense	US$000	US$000	US$000	US$000
Profit before income tax expense for the year	(16,577)	10,255	20,378	4,971
Income tax benefit on the loss for the year at an average of 30% (2010:30%)	(4,973)	3,077	6,113	1,491
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Provision for doubtful debts	-	-	281	(1,491)
Reversal of Impairment	-	(5,4 39)	(6,394)	-
Unrealised foreign exchange gains/losses	33	-	-	-
Sundry items	60	(29)	-	-
	(4,880)	**(2,392)**	**-**	**-**
Deferred tax asset not brought to account	4,880	2,392	-	-
Income tax expense	**-**	**-**	**-**	**-**
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	21,975	20,859	-	-
Potential tax benefit @ 30% - not recognised	**6,593**	**6,258**	**-**	**-**
Other deferred tax assets not recognised				
Amounts recognised in profit and loss				
Exploration costs	59,039	48,325	-	-
Unrealised foreign exchange gains (losses)	172	172	172	172
Provision for employee entitlements	541	373	-	-
	59,752	**48,870**	**172**	**172**
Set off against deferred tax liabilities (below)	(10,663)	(7,223)	-	-
Net deferred tax assets not recognised	**49,089**	**41,647**	**172**	**172**
Potential tax benefit @ 30% - not recognised	**14,727**	**12,494**	**52**	**52**
Total deferred tax benefit not recognised	**21,319**	**18,752**	**52**	**52**
Deferred tax liabilities				
Amounts recognised in profit and loss				
Unrealised foreign exchange gains (losses)	(53)	(2,270)	-	-
Sundry items	-	(132)		
Exploration costs	(10,610)	(4,821)	-	-
	(10,663)	**(7,223)**	**-**	**-**
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	10,663	7,223	-	-
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 are 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 are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Basic earnings per share	2011	2010
Weighted average number of ordinary shares on issue (000)	686,064	671,635
(Loss) / Profit attributable to ordinary equity holders of the company used to		
calculate basic earnings per share (US$000's)	(16,577)	10,255
Basic earnings per share (US$)	(0.0242)	0.0153
Diluted earnings per share		
Weighted average number of ordinary shares on issue (000)	686,064	671,635
Adjustments for calculation of diluted earnings per share		
- Options*	-	5,498
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	686,064	677,133
(Loss) / Profit attributable to ordinary equity holders of the company used to		
calculate diluted earnings per share (US$000's)	(16,577)	10,255
Diluted earnings per share (US$)	(0.0242)	0.0153

**Options and rights were not included in 2011 as the group had a loss after tax and as such these options would have been antidilutive.*

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

6. Cash and Cash Equivalents

	Consolidated		Holding Company	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Cash at bank and in hand	1,701	1,138	-	-
Short-term bank deposits	4,875	16,733	-	-
Bank deposits	-	3,016	-	-
	6,576	**20,887**	**-**	**-**

(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 22.

(c) Contingent Liability

The Group has given a bank guarantee of AU$71,511 for the leasing of property at 167 Eagle Street, Brisbane, Australia and PGK400,000 Kina for exploration and mining leases to the Department of Mining in PNG and PGK300,000 Kina as a foreign currency dealing limit.

7. Receivables

	Consolidated		Holding Company	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Current				
Other receivables	50	194	-	-
	50	**194**	**-**	**-**
Non-Current				
Other receivables *	464	451	-	-
	464	**451**	**-**	**-**

For further information on the impairment of other receivables refer note 22.

* Represents an amount owing by Nord Australex Nominees (PNG) Limited ("Nord") totalling US$500,000, which is receivable when the Ramu project commences production and has been discounted back from the expected due date to the balance date by the Long Term Bond rate of 3.83%.

8. Property, Plant and Equipment

	Land and Buildings	Plant and Equip't	Total
	US$000	US$000	US$000
Consolidated - 2011			
Cost			
Cost brought forward	220	371	591
Additions	1	22	23
Transfer	11	(11)	-
Disposals	-	(26)	(26)
Cost carried forward	**232**	**356**	**588**
Depreciation			
Brought forward	42	165	207
Charge for the year	18	71	89
Disposals	-	(26)	(26)
Depreciation carried forward	**60**	**210**	**270**
Net book value at 31 December 2011	**172**	**146**	**318**
Consolidated - 2010			
Cost			
Cost brought forward	220	335	555
Additions	-	36	36
Disposals	-	-	-
Cost carried forward	**220**	**371**	**591**
Depreciation			
Brought forward	25	102	127
Charge for the year	17	63	80
Disposals	-	-	-
Depreciation carried forward	**42**	**165**	**207**
Net book value at 31 December 2010	**178**	**206**	**384**

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

9. Exploration and Evaluation Expenditure

	Frieda	Other	Total
	US$000	US$000	US$000
Balance 1 January 2011	43,130	-	43,130
Capitalised during the year	687	10,238	10,925
Less provisions for exploration costs	-	(10,238)	(10,238)
Reversal of impairment loss	-	-	-
Balance 31 December 2011	**43,817**	**-**	**43,817**
Balance 1 January 2010	25,000	-	25,000
Capitalised during the year	226	2,888	3,114
Less provisions for exploration costs	(226)	(2,888)	(3,114)
Reversal of impairment loss	18,130	-	18,130
Balance 31 December 2010	**43,130**	**-**	**43,130**

The carrying value of the Group's interest in The Frieda River Copper-Gold Project has increased by US$687,000 to US$43.8m which represents Highlands direct holding costs in relation to overseeing its interest in the Frieda joint venture.

During the year The Frieda River Copper-Gold Project continued along its development path with further resources increases announced in September 2011 and February 2012. The project is currently in the feasibility study stage, having completed an 18 month pre-feasibility study in November 2010. The feasibility study deadline was extended in November 2011 from January 2012 to December 2012 in order to allow for a number of potential power options to be considered which only presented themselves late in the study timeframe.

Highlands has been free-carried by its joint venture partner on its share of project expenditure up until January 2012, however from January until the lodgment of a Special Mining Lease it will be carried by a carried funding loan arrangement to be repaid during production.

In assessing the carrying value of The Frieda River Copper-Gold Project, the Directors have considered the value of the resource inventory, which continues to grow, with reference to a range of multiples applied by the market. They have also taken into consideration that up until January 2012 the operator / manager had expended over US$260m on drilling and studies with Highlands share being free-carried. The value by reference to the present value of the expected future cash flows, at a real discount rate of 10%, to be generated by the asset, assuming its ultimate successful development; and potential current realisable value by reference to comparable transactions and farm-in arrangements has also been considered. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for copper of US$2.60/lb and gold US$1,100/oz.

The Group's expenditure to date on The Frieda River Copper-Gold Project is US$44m which means the Group is carrying the value of the project at the maximum level allowed.

As noted in note 24, on 23 January 2012 Xstrata Copper exercised its option over the Nena copper/gold deposit in Papua New Guinea paying Highlands US$10.8m and as a result the deposit now forms part of the Frieda River joint venture. This has resulted in a reduction in the carrying value of the interest in The Frieda River Copper-Gold Project by US$10.8m subsequent to year end.

10. Development Expenditure

	Consolidated		Holding Company	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Ramu				
Balance brought forward	50,000	50,000	-	-
Capitalised during the year	372	1,183	-	-
Less provisions for development costs	(372)	(1,183)	-	-
Balance carried forward	**50,000**	**50,000**	**-**	**-**

The carrying value of the Group's interest in the Ramu project has been maintained at US$50m. The amount capitalised during the year, and ultimately provided against, represents Highlands direct holding costs in relation overseeing its investment in the Ramu project.

The bulk of construction on the project commenced in the 2008 year and continued through to the end of 2010 year. The project undertook commissioning, where possible, in the 2010 and 2011 years however, an injunction preventing the operation of the Deep Sea Tailings Placement system since March 2010 has prevented the project operating fully. This injunction and associated legal appeals was finally removed in December 2011 and the project now has no legal impediments to commencing production.

In assessing the carrying value of the Ramu project, the Directors have considered the value by reference to the present value of the expected future cash flows at a risk adjusted equity real discount rate of 10% to be generated by the asset assuming its ultimate successful development. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for nickel of US$9.00/lb and cobalt US$13.50/lb. A 10% movement in the price assumptions for nickel results in a movement in the present value of future cash flows of US$20m.

The Group's expenditure to date on the Ramu project is approximately US$95m which means the Group is still holding an impairment charge of approximately US$45m on the project.

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 Indonesia Limited	100	Ordinary	PNG
Highlands Pacific Australia Pty Limited	100	Ordinary	Australia
Highlands Pacific Services Limited	100	Ordinary	PNG
Astrolabe Limited	100	Ordinary	PNG
Highlands Kainantu Limited	100	Ordinary / Preference	PNG

*No change from the 2010 year, with the exception of the Highlands Solomon Islands Ltd subsidiary which was deregistered on 22 November 2011.

Investments at Cost

	Holding Company	
	2011	2010
	US$000	US$000
Investments in subsidiaries - at cost	130,186	130,186
Less provision for diminution*	(108,872)	(130,186)
	21,314	**-**

During the year $21,314k of previous impairment of Ramu Nickel Limited and Highlands Frieda Limited was reversed resulting in the Holding Company investment equaling the carrying value of the projects.

12. Subsidiary Advances

	Consolidated		Holding Company	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Advances to subsidiaries				
Advances	-	-	150,244	149,308
Less provision for write-off	-	-	(82,886)	(81,950)
	-	**-**	**67,358**	**67,358**
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	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Current				
Trade creditors	268	182	-	-
Other creditors	2,629	744	-	-
	2,897	**926**	**-**	**-**
Non-Current				
Other creditors	206	337	-	-
	206	**337**	**-**	**-**

During 1999, Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu joint venture. The terms of payment due to Eastern under this agreement were varied by a further agreement executed on the 1st February 2010 reducing the total amount payable from AU$1.5m to AU$1.0m. During 2010 PGK1.7m was paid to Eastern with the balance of AUS$206,000 (US$227,000) to be paid to Eastern when the Ramu project commences commercial production. This amount has been booked as a non-current other creditor during the 2011 year and discounted from the estimated date of payment to the balance date using the Long Term Bond rate of 3.83%.

Amounts not expected to be settled within the next 12 months

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

14. Provisions

Consolidated	Employee Entitlements	Employee Entitlements
	2011	2012
	US$000	US$000
Opening Balance	176	129
Charged for the year	27	15
Foreign exchange impact	47	31
Closing Balance	**250**	**176**

	2011	2010
	US$000	US$000
Analysis of total provisions:		
Current	194	148
Non-Current	56	28
	250	**176**

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

15. Contributed Equity

(a) Paid Up Capital – Consolidated and Holding Company

	2011	2010	2011	2010
	US$000	US$000	Shares	Shares
			000's	000's
Balance 1 January	280,046	276,216	685,582	661,412
Issued during the year	132	3,864	500	24,170
Less costs associated with issue	(2)	(34)	-	-
Balance 31 December	**280,176**	**280,046**	**686,082**	**685,582**

The total number of shares issued as at 31 December 2011 was 686,082,148 (2010: 685,582,148). 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 2010	Opening balance		661,412,148		276,216
13 January 2010	Exercise of employee options	(i)	100,000	0.175	16
21 January 2010	Exercise of employee options	(i)	100,000	0.175	16
18 February 2010	Exercise of employee options	(i)	50,000	0.175	8
30 March 2010	Exercise of employee options	(i)	50,000	0.175	7
14 April 2010	Exercise of employee options	(i)	300,000	0.175	52
14 April 2010	Exercise of employee options	(i)	1,000,000	0.13	129
14 April 2010	Exercise of employee options	(i)	300,000	0.078	23
21 April 2010	Exercise of employee options	(i)	1,300,000	0.1546	188
25 May 2010	Exercise of employee options	(i)	3,500,000	0.1546	501
14 July 2010	Exercise of employee options	(i)	230,000	0.175	38
20 July 2010	Exercise of employee options	(i)	720,000	0.175	103
24 August 2010	Exercise of banking facility options	(ii)	14,000,000	0.20	2,367
20 September 2010	Exercise of employee options	(i)	50,000	0.175	8
18 October 2010	Exercise of employee options	(i)	75,000	0.175	12
20 October 2010	Exercise of employee options	(i)	20,000	0.175	3
28 October 2010	Exercise of employee options	(i)	1,800,000	0.175	295
12 November 2010	Exercise of employee options	(i)	400,000	0.175	68
30 November 2010	Exercise of employee options	(i)	55,000	0.175	9
8 December 2010	Exercise of employee options	(i)	120,000	0.175	21
	Transaction costs arising on share issues above				(34)
31 December 2010	**Balance**		**685,582,148**		**280,046**
2 February 2011	Exercise of employee options	(i)	500,000	0.266	132
	Transaction costs arising on share issues above				(2)
31 December 2011	**Balance**		**686,082,148**		**280,176**

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

(ii) Exercising of options issued to The Royal Bank of Scotland N.V. (formerly ABN AMRO Bank NV and Societe Generale Australia Branch) as part of the banking syndicate to finance the Kainantu Gold Project. The options vested on issue and are exercisable anytime up to the expiry date and convert into one ordinary share.

(c) Share Options

The number of unissued ordinary shares under option at 31 December 2011 is 21,390,000 (2010: 21,890,000).

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

	Exercise price	No. of options issued	Expiry date	Exercised during current and previous years
Tranche 5	A$0.135	3,390,000	28 February 2013	350,000
Tranche 7	A$0.078	3,360,000	29 January 2014	960,000
Tranche 8	A$0.117	1,000,000	26 June 2012	-
Tranche 9	A$0.266	15,450,000	31 March 2015	500,000

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 Highland 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 23.

(d) Performance Rights

The number of unissued ordinary shares under performance rights at 31 December 2011 is 3,630,000 (2010: Nil)

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
Tranches 1, 2 and 3	3,630,000	31 December 2013	-

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 2011 year were granted in 3 tranches allowing for an allocation of rights to vest on 31 December 2011 and 31 December 2012 with the balance vesting and expiring on 31 December 2013.

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 23.

16. Reserves

	Consolidated		Holding Company	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Foreign Currency Translation Reserve				
Balance brought forward	(9,649)	(9,965)	(6,268)	(6,268)
Movement for the year	(101)	316	-	-
Balance carried forward	**(9,750)**	**(9,649)**	**(6,268)**	**(6,268)**
Share-based Payments Reserve				
Balance brought forward	2,472	1,512	2,472	1,512
Fair value of options expensed	806	960	806	960
Balance carried forward	**3,278**	**2,472**	**3,278**	**2,472**
	(6,472)	**(7,177)**	**(2,990)**	**(3,796)**

Nature and purpose of reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve relates to exchange differences which arose on the previous translation of 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.

Share-based Payments Reserve

The share-based payments reserve is used to recognise the fair value of options and performance rights issued but not exercised.

17. Remuneration of Employees

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

US$	PGK	Group No. of Employees	
		2011	2010
46,233 - 50,436	110,000 - 119,999	1	-
67,248 - 71,450	160,000 - 169,999	-	1
71,451 - 75,653	170,000 - 179,999	-	1
79,857 - 84,059	190,000 - 199,999	1	-
96,669 - 100,871	230,000 - 239,999	1	1
201,744 - 205,946	480,000 - 489,999	1	-
323,631 - 327,833	770,000 - 779,999	-	1
344,646 - 348,848	820,000 - 829,999	1	-
361,451 - 365,660	860,000 - 869,999	-	2
458,127 - 462,329	1,090,000 - 1,099,999	2	-
512,766 - 516,968	1,220,000 - 1,229,999	-	1
542,187 - 546,389	1,290,000 - 1,299,999	1	-
Total		**8**	**7**

The remuneration includes costs to the Group of superannuation and other like benefits provided to employees.
The 2011 comparatives have been converted at the current year exchange rates to arrive at the equivalent US Dollar bands.

PGK1.00 = US$0.4203

18. Joint Ventures

At 31 December 2011 joint venture interests comprised:

	Percentage Interest	Activity
Ramu joint venture (Note 1 below)	8.56	Development
Frieda River joint venture (Notes 2 and 3 below)	18.18	Exploration and Evaluation
Nong River joint venture (Notes 2 and 4 below)	100	Exploration and Evaluation

1. Ramu: During the 2005 year the Group's interest in the Ramu joint venture decreased from 68.5% to 8.56%. This reduction was the result of the agreement signed between the previous Ramu joint venture parties and China Metallurgical Construction (Group) Corporation (MCC) whereby MCC is responsible for construction of the project with no recourse to the other joint venture parties. The Group's 8.56% interest increases to 11.30% at no cost to the Group after the debt for the financing of the project has been repaid. At this time the Group also has the option to purchase an additional 9.25% interest at market value, which if exercised would take the Group's interest to 20.55%. The Group must give notice to MCC during the Mine Development and Operating Phase as to when it will participate in the project. At the time of notice the Group will then receive its share of revenue and be responsible for its share of operating costs and financing costs. Up until nomination MCC will fund the Group's share of the project operating costs and financing costs. Given at this point in the project the Group does not have joint control the interest is treated as development expenditure or intangible and not under joint venture accounting.
2. The joint venture arrangements as stated are subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development in that country.
3. Frieda River: Xstrata Frieda River Limited "XFRL" (a subsidiary of Xstrata Plc.) has an 81.82% (2010: 81.82%) interest in the Frieda River joint venture with Highlands having an 18.18% (2010: 18.18%) interest in the same. In November 2011 the joint venture partners agreed to extend the deadline for the feasibility study from January 2012 to December 2012. As part of this change XFRL was taken to have earned a 72% interest in the joint venture with the remaining 9.82% to get to the total 81.82% contingent on completing the feasibility study by December 2012. Highlands remained free-carried by XFRL up to January 2012, however from January until the lodgment of a Special Mining Lease Highlands will be carried by a carried funding loan arrangement to be repaid during production. On 23 January 2012 XFRL exercised an option it had over the Nena deposit to bring it into the Frieda River joint venture.
4. Nong River: The Group has a joint venture, Nong River joint venture, with XFRL where they have the ability to earn a 72% interest in the joint venture by producing a bankable feasibility study by the year 2019. During the 2009 year the Group exercised its right to sole fund its own exploration program and retain 100% of the joint venture in the absence of an XFRL exploration program. XFRL has the right to reclaim its 72% interest by paying the Group three (3) times the exploration expenditure incurred by the Group at the time the Group presents a pre feasibility study. There are no time deadlines on when the Group must produce a pre feasibility study to XFRL.

19. Related Party Transactions

(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
T Smith	General Manager Mining and Business Development
R Gawi	General Manager Port Moresby

(d) Key management personnel compensation

	Consolidated		Holding Company	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Short-term employee benefits	2,353	2,331	-	-
Share based payments	300	552	-	-
	2,653	**2,883**	**-**	**-**

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

2011 Year

Name and Position	Cash Remuneration and Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
	US$000	US$000	US$000	US$000	US$000	US$000
K MacDonald Chairman	124	-	-	11	-	135
J Gooding Managing Director	572	259	-	51	500	1,382
D Simonsen Non-Executive Director	62	-	-	6	-	68
D Wood Non-Executive Director	62	-	-	6	-	68
M Carroll Non-Executive Director	62	-	-	6	-	68
F Williame-Igara Non-Executive Director	62	-	-	6	-	68
Total	**944**	**259**	**-**	**86**	**500**	**1,789**

2010 Year

Name and Position	Cash Remuneration and Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
	US$000	US$000	US$000	US$000	US$000	US$000
K MacDonald Chairman	109	-	-	10	-	119
J Gooding Managing Director	463	342	-	51	328	1,184
R Mitchell Non-Executive Director	23	-	-	5	-	28
D Simonsen Non-Executive Director	55	-	-	5	-	60
D Wood Non-Executive Director	33	-	-	3	-	36
M Carroll Non-Executive Director	55	-	-	5	-	60
F Williame-Igara Non-Executive Director	55	-	-	5	-	60
Total	**793**	**342**	**-**	**84**	**328**	**1,546**

- Director's fees are paid in AUD.
- Mr D Wood was appointed a director on 1 June 2010.
- Mr R Mitchell resigned as a Director on 28 May 2010.
- Mr D Simonsen was appointed a director on 1 January 2010.

(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 23.

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.

2011 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	13,675,000	1,200,000	-	-	14,875,000	8,675,000
Other key management personnel of the Group						
C Lennon	3,025,000	700,000	-	-	3,725,000	2,025,000
L Queen	1,700,000	400,000	-	-	2,100,000	1,200,000
P Jolly	1,000,000	400,000	(500,000)	-	900,000	-
T Smith	2,000,000	400,000	-	-	2,400,000	1,000,000
R Gawi	-	400,000	-	-	400,000	-

2010 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	13,675,000	10,000,000	(4,800,000)	(5,200,000)	13,675,000	8,675,000
Other key management personnel of the Group						
C Lennon	3,275,000	2,000,000	(1,000,000)	(1,250,000)	3,025,000	2,025,000
L Queen	1,400,000	1,000,000	(250,000)	(450,000)	1,700,000	1,200,000
P Jolly	2,300,000	1,000,000	(1,300,000)	(1,000,000)	1,000,000	500,000
T Smith	1,000,000	1,000,000	-	-	2,000,000	1,000,000

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.

2011 Year

Name	Balance at the start of the year	Received during the year on the exercise of options and performance rights	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
K MacDonald	600,000	-	-	600,000
M Carroll	304,307	-	-	304,307
D Simonsen	60,000	-	-	60,000
D Wood	-	-	100,000	100,000
J Gooding	3,947,963	-	(727,748)	3,220,215
Other Key Management Personnel of the Group				
C Lennon	865,000	-	-	865,000
L Queen	250,000	-	-	250,000
P Jolly	1,430,000	500,000	-	1,930,000

2010 Year

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
K MacDonald	600,000	-	-	600,000
M Carroll	304,307	-	-	304,307
D Simonsen	-	-	60,000	60,000
J Gooding	772,963	4,800,000	(1,625,000)	3,947,963
Other Key Management Personnel of the Group				
C Lennon	265,000	1,000,000	(400,000)	865,000
L Queen	-	250,000	-	250,000
P Jolly	88,000	1,300,000	42,000	1,430,000

(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	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Advances to / from subsidiaries				
Beginning of the year	-	-	149,308	146,896
Movements during the year	-	-	936	2,412
End of year	**-**	**-**	**150,244**	**149,308**

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

20. Segment Reporting

(a) Description of Segments

Management considers the business from a project classification perspective and has identified four reportable segments — Exploration/Evaluation, Frieda, Ramu and Corporate. Exploration/Evaluation, Frieda and Ramu consist of projects that are currently under Exploration/Evaluation or Development stages of their lives. Corporate consists of all other business activities performed at the offices held in both PNG and Brisbane.

(b) Reportable Segment Results

The segment information provided to management for the reportable segments for the year ended 31 December 2011 is as follows:

	Exploration / Evaluation	Frieda	Ramu	Corporate	Group
	US$000	US$000	US$000	US$000	US$000
2011					
Segment revenue	-	-	-	463	463
Segment result	(10,238)	-	(372)	(5,967)	(16,577)
Income tax (expense) benefit	-	-	-	-	-
Net Profit / (Loss)	(10,238)	-	(372)	(5,967)	(16,577)
Segment assets	-	43,817	50,000	7,408	101,225
Reversal of impairment	-	-	-	-	-
Segment liabilities	(1,268)	-	(206)	(1,878)	(3,352)
Acquisition of segment assets	10,238	687	372	23	11,320
Segment depreciation and amortisation	-	-	-	89	89
2010					
Segment revenue	-	-	-	665	665
Segment result	(2,888)	17,904	(1,183)	(3,578)	10,255
Income tax (expense) benefit	-	-	-	-	-
Net Profit / (Loss)	(2,888)	17,904	(1,183)	(3,578)	10,255
Segment assets	-	43,130	50,000	21,916	115,046
Reversal of impairment	-	18,130	-	-	18,130
Segment liabilities	-	(1)	(337)	(1,094)	(1,432)
Acquisition of segment assets	2,888	226	1,183	36	4,333
Segment depreciation and amortisation	-	-	-	80	80

21. Operating Lease Obligations

	Consolidated		Holding Company	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	282	236	-	-
One to two years	397	198	-	-
Two to five years	-	263	-	-
	679	**697**	**-**	**-**

22. 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 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	
	2011	2010
	US$000	US$000
Cash and cash equivalents	6,576	20,887
Other receivables	514	645
	7,090	**21,532**

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

	2011		2010	
	Gross	Impairment	Gross	Impairment
Not past due	US$000	US$000	US$000	US$000
Less than one year	50	-	194	-
More than a year	464	-	451	-
	514	**-**	**645**	**-**

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:

Consolidated 31 December 2011	Total	6mths or less	6 - 12mths	>1 - years
	US$000	US$000	US$000	US$000
Non-derivative financial liabilities				
Trade and other creditors	3,103	2,897	-	206
	3,103	**2,897**	**-**	**206**

Consolidated 31 December 2011	Total	6mths or less	6 - 12mths	>1 - years
	US$000	US$000	US$000	US$000
Non-derivative financial liabilities				
Trade and other creditors	1,263	926	-	337
	1,263	**926**	**-**	**337**

(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 2011 year the Group received a loss of US$80,304 as shown in the Income Statement and note 3. This has resulted from the strengthening 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	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Cash and cash equivalents	2,441	10,268	-	-
Other receivables	14	124	-	-
Trade and other creditors	(1,739)	(90)	-	-
	716	**10,301**	**-**	**-**

	Consolidated		Holding Company	
	2011	2010	2011	2010
	PGK$000	PGK$000	PGK$000	PGK$000
Cash and cash equivalents	667	352	-	-
Other receivables	-	-	-	-
Trade and other creditors	(892)	(84)	-	-
	(225)	**268**	**-**	**-**

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
AUD	1.0389	0.9121	1.0156	1.0163
PGK	0.4203	0.3681	0.4665	0.3785

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$62,000 (2010: US$1,057,000).

Interest rate risk

The Group's interest rate risk arises as a result of bank borrowings and cash deposits. Cash deposits, which in turn earn interest income, are subject to the movement of interest rates and the Group does not enter into long-term deposits.

At the reporting date the Group had no borrowings exposed to interest rate risk. The Group does have US$3,532,000 on deposit at rates ranging between 0.48% and 0.61% (2010: US$10,055,000 ranging from 0.29% and 0.75%). It also has AU$1,219,000 on deposit at rates ranging between 4.56% and 5.76% (2010: AU$9,438,000 ranging from 4.89% and 6.28%). There is no PGK on deposit at December 2011 (2010: 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$2,510 (2010: US$41,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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

Commodity price risk

The Group was not exposed to commodity pricing risks during 2011 or 2010 in respect to revenue other than the impact of commodity prices on project valuations. Refer to details in notes 9 and 10.

(d) Currency Control

The Papua New Guinea Central Banking (Foreign Exchange and Gold) Regulations generally require PNG companies to hold all cash reserves in Kina unless authority is given by the Bank of Papua New Guinea to hold funds off shore. Prior approval of the Bank of Papua New Guinea is required to convert funds from Kina into other currencies. The Group has permission to hold funds off shore.

(e) 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 2011, the group's strategy was unchanged from 2010 and is reviewed by the Board.

23. Share-Based Payments

(a) Executive Option Scheme

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

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

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

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

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

2011 Year

Grant date	Hurdle / vesting date	Expiry Date	Exercise Price (AU$)	Balance start of year	Granted during year	Exercised during year	Expired during year	Balance at end of year	Exercisable at end of year
28/2/08	28/2/11	28/2/13	0.1350	2,000,000	-	-	-	2,000,000	2,000,000
4/6/08	4/6/08	28/2/13	0.1350	1,040,000	-	-	-	1,040,000	1,040,000
5/2/09	29/1/12	29/1/14	0.0780	2,400,000	-	-	-	2,400,000	2,400,000
26/6/09	26/6/09	26/6/12	0.1170	150,000	-	-	-	150,000	150,000
26/6/09	26/6/10	26/6/12	0.1170	350,000	-	-	-	350,000	350,000
26/6/09	26/6/11	26/6/12	0.1170	500,000	-	-	-	500,000	-
21/4/10	31/3/13	31/3/15	0.2660	5,450,000	-	(500,000)	-	4,950,000	2,225,000
20/5/10	31/3/13	31/3/15	0.2660	10,000,000	-	-	-	10,000,000	5,000,000
				21,890,000	**-**	**(500,000)**	**-**	**21,390,000**	**13,165,000**
Weighted average exercise price (AUD)				**0.22**	**-**	**0.27**	**-**	**0.22**	**0.20**

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

500,000 options issued on 26 June 2009 have not yet vested due to the hurdle price of AU$0.468 not being reached. 2,725,0000 options issued on 21 April 2010 and 5,000,000 options issued on 20 May 2010 have not yet vested due to the hurdle price of AU$0.50 not being reached.

The weighted average remaining contractual life of options outstanding at the end of the period was 2.69 years.

There were no options granted during the year.

(b) Performance Rights issues

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

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

2011 Year

Grant date	Hurdle / vesting date	Expiry Date	Exercise Price (AU$)	Balance start of year	Granted during year	Exercised during year	Expired during year	Balance at end of year	Exercisable at end of year
19/5/11	31/12/11-31/12/13	31/12/13	0.0000	-	3,630,000	-	-	3,630,000	-

Fair Value of performance rights granted

Grant Date	19th May 2011
Share price at grant date	AU$0.35
Expected volatility of Company's shares	55%
Expected dividend yield	0%
Risk-free interest rate	5.00%
Expected vesting period	31st Dec 2011 - 31st Dec 2013

The performance rights are subject to performance hurdles which if met automatically convert into fully paid ordinary shares. The performance rights issued on 19 May 2011 have not yet vested due to performance hurdles not being met. The rights granted during the 2011 year were granted in 3 tranches allowing for an allocation of rights to vest on 31 December 2011 and 31 December 2012 with the balance vesting and expiring on 31 December 2013.

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 period as part of a share based payment was as follows:

	December 2011	December 2010
	US$000	US$000
Options issued under Executive Option Scheme	806	960
Total	**806**	**960**

24. Events Occurring After Balance Date

On 23 January 2012, Xstrata Copper exercised its option over the Nena copper/gold deposit in Papua New Guinea paying Highlands US$10.8m and as a result the deposit now forms part of the Frieda River joint venture.

25. 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	
	2011	2010	2011	2010
	US$000	US$000	US$000	US$000
Revenue	1,101	1,807	-	-
Net (Loss) Profit after tax	(39,440)	27,859	48,484	(2,676)
Total Assets	216,988	303,952	190,079	160,356
Total Liabilities	7,185	3,783	-	-
Net Assets	209,800	300,169	190,073	160,356

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2011 of PGK1.00 = US$0.4665 (2010 year PGK1.00 = US$0. 3785) while income and expense items are translated at the average rate for the year PGK1.00 = US$0.4203 (2010 year PGK1.00 = US$0. 3681).

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 2011 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.

For, and on behalf of, the board

Ken MacDonald
Chairman

John E Gooding
Managing Director

15 March 2012

Stock Exchange Information

For the Year Ended 31 December 2011

The shareholder information set out below was applicable as at 19 March 2012.

Spread of Security Holders

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

Category of Holdings	Number of Shareholders
1 - 1,000	1,281
1,001 - 5,000	1,591
5,001 - 10,000	1,102
10,001 - 100,000	4,097
100,001 and over	692
Total Shareholders	8,793

b) There were 2,119 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AU$0.20.

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	3
100,001 and over	7
Total Holders	10

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

Name of Holder	Number Held	Percentage of Holding
John Edwin Gooding	14,875,000	59.45%

Largest Twenty Shareholders

The names of the largest twenty shareholders are listed below:

Name	No. of Ordinary shares held	% of Total
HKBA NOMINEES LIMITED	60,241,023	8.78
NATIONAL PROVIDENT FUND BOARD	48,371,246	7.05
NATIONAL NOMINEES LIMITED	43,196,455	6.30
INDEPENDENT PUBLIC BUSINESS CORPORATION OF PAPUA NEW GUINEA	30,158,821	4.40
JP MORGAN NOMINEES AUSTRALIA LIMITED	27,117,222	3.95
DR THOMAS JOHN BERESFORD GROUP	18,334,086	2.67
MINERAL RESOURCES DEVELOPEMENT COMPANY PTY LTD	13,849,426	2.02
J P MORGAN NOMINEES AUSTRALIA LIMITED	12,879,499	1.88
BOND STREET CUSTODIANS LIMITED	9,000,000	1.31
UBS NOMINEES PTY LTD	7,384,641	1.08
LUJETA PTY LTD	7,000,000	1.02
CARRINGTON LAND PTY LTD	6,399,181	0.93
CITICORP NOMINEES PTY LIMITED	4,170,085	0.61
ESCOR INVESTMENTS PTY LTD	3,750,000	0.55
CREDIT RISK MANAGEMENT SERVICES PTY LTD	3,200,000	0.47
ASIA PACIFIC COMMUNICATIONS LIMITED	2,961,123	0.43
MR JOHN EDWIN GOODING	2,812,252	0.41
CAPITAL NOMINEES LIMITED	2,779,869	0.41
HARBURG NOMINEES PTY LTD	2,700,000	0.39
CHAN CONSOLIDATED LIMITED	2,538,877	0.37
Total	308,843,806	45.03

Stock Exchange Information (continued)

For the Year Ended 31 December 2011

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
HKBA NOMINEES LIMITED	60,241,023	8.78
NATIONAL PROVIDENT FUND BOARD	48,371,246	7.05
NATIONAL NOMINEES LIMITED	43,196,455	6.30

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

Tenement Reference	Beneficial Interest at Commencement of Period	Beneficial Interest at End of Period
Exploration (Highlands Pacific Resources Limited)		
EL 1340	100% Note 1	100% Note 1
EL 1312	100% Note 1, 3	100% Note 1, 3
EL 1392	100% Note 1	100% Note 1
ELA's 1761, 1781, 1880 and 2000	100% Note 1	100% Note 1
Frieda River Project (Highlands Frieda Limited)		
ELs 0058, 1212, 1744, 1745 and 1746	16.95% Note 1, 2	18.18% Note 1, 2,
Ramu Project (Ramu Nickel Limited)		
SML 8	8.56%	8.56%
ML 149	8.56%	8.56%
LMPs 42, 43, 44, 45, 46, 47, 48 and 49	8.56%	8.56%
MEs 75, 76, 77, 78 and 79	8.56%	8.56%
ELs 193 and 1178	8.56%	8.56%

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.
2. Highlands Pacific retains a 100% interest in the Nena deposit (part of EL 0058), which is subject to an Option Agreement with Xstrata Frieda River Limited.
3. Xstrata Frieda River Limited has the right to claw back 72%.
4. Definitions
   EL - Exploration License
   ELA - Exploration License Application
   SML - Special Mining Lease
   ML - Mining Lease
   LMP - Lease for Mining Purposes
   ME - Mining Easement

Corporate Directory

Directors	**Kenneth MacDonald** *Chairman* **John Gooding** *Managing Director* **Michael Carroll** **Drew Simonsen** **Fiu Williame-Igara** **Dan Wood**	
Company Secretary	**Craig Lennon** **Erik Andersen**	
Senior Management	**Craig Lennon** *Chief Financial Officer* **Lawrence Queen** *Chief Geologist* **Peter Jolly** *General Manager Projects* **Terry Smith** *General Manager Mining & Business Development* **Ron Gawi** *General Manager PNG*	
Country of Incorporation	Papua New Guinea	
Registered Offices	**Papua New Guinea** *(Address for Service)* Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (PO Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	**Australia** Level 4 167 Eagle Street Brisbane Qld 4000 (GPO Box 3086, Brisbane Qld 4001) Australia Telephone: (617) 3239 7800 Facsimile: (617) 3221 6727
Share Registries	**Papua New Guinea** Computershare Investor Services Pty Limited C/- Kina Securities Limited Level 2, Deloitte Tower Douglas Street (PO Box 1141, Port Moresby, NCD 121, PNG) Port Moresby Papua New Guinea Telephone: (675) 308 3888 Facsimile: (675) 308 3899	**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: (613) 9415 4000 Facsimile: (617) 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)* The Australian Securities Exchange Limited ASX code: HIG SEATS abbreviation: Highlands
Bankers	**ANZ Banking Group (PNG) Limited**	
Auditors	**PricewaterhouseCoopers** Level 6, Credit House Cuthbertson Street Port Moresby, NCD 121 Papua New Guinea	
Internet Communications	**Website:** www.highlandspacific.com **Email:** info@highlandspacific.com	

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