20 March 2018

Highlands Pacific 2017 Annual Results

Highlands Pacific Limited (ASX: HIG) achieved a net profit of $37.4 million for the financial year ended 31 December 2017, compared with a prior-year loss of $15.8 million, following a significant increase in valuation of the Company's interest in the Ramu nickel cobalt mine.

Ramu achieved record annual production of 34,666 tonnes of nickel for the year ended 31 December 2017, which was up by 55% as compared with the prior year, and cobalt production increased to 51% or 3308 tonnes. The excellent production performance coincided with a strong rebound in nickel and cobalt prices due to increased demand for battery metals. Nickel has continued to strengthen during 2018 and is now trading at more than US$13,000/t, while cobalt has surged to record levels of US$80,000/t.

The combination of increased sales volumes and rising prices enabled Ramu to achieve record earnings in the year to December 2017, with Highlands' share of Ramu's profit increasing to $3.5 million, compared with a loss of $5.6 million in the prior year.

The carrying value of Highland's interest in Ramu was consequently increased to $110 million, following an impairment reversal of US$42.9 million.

Excluding the impairment reversal, the Highland's result would have been a loss of $5.5 million, significantly reduced from a prior year loss of $15.4 million.

The underlying 2017 loss is mainly comprised of interest expense of $6.4 million associated with the Company's share of Ramu project debt, together with operating costs of $2.9 million, offset by Highlands' share of Ramu profit of $3.5 million.

Operating costs in 2017 reduced to $2.9 million, from $4.3 million in the prior year, and would have been lower, but were adversely affected by costs incurred in holding a Special Meeting of shareholders in the first half of the year to consider proposed Board changes brought about by one of Highlands' shareholders. Excluding Special Meeting costs, underlying expenses were significantly reduced, reflecting cost cutting programs undertaken during 2016 and 2017.

Highlands earned a net cash distribution of approximately $1.5 million from Ramu in 2017. Under the current Ramu joint venture funding arrangements, Highlands receives 20% of its share of cashflows attributable from the Ramu operation (less capital expenditure) in the form of a distribution. The remaining 80% is applied to reduce Highlands' share of project debt, which fell to $115.3 million at year end, from $128.9 million at December 2016. This repayment methodology has been extended for the 2018 year, and Highlands expects to receive further cash distribution from Ramu in 2018, assuming favourable production results and firm commodity prices prevail.

The Company ended 2017 with a healthy cash balance of US$6.8 million.

CEO Craig Lennon said Highlands was pleased with the excellent operating performance of the Ramu operation in 2017.

“The outlook for Ramu remains very favourable over the medium term, with ongoing advances in battery technologies and electric vehicle production likely to underpin continued strength in nickel and cobalt prices.

“While many other companies are now aspiring to become producers of battery metals in the coming years, Ramu is already one of the largest producers of cobalt in the world and has a potential mine life of more than 30 years ahead of it.

“Highlands is perfectly placed to benefit from future growth in demand for nickel and cobalt, and we have major exposure to copper and gold through our 20% interest in the giant Frieda River project, as well as our 100% ownership of the exciting Star Mountains exploration project.

“We are entering 2018 with confidence and we look forward to reporting further progress in the development of our projects in the current year,” Mr Lennon said.

For further information, please contact:
Joe Dowling, Stockwork Corporate Communications
0421 587755

ASX Code: HIG
PoMSox Code: HIG
Shares on Issue: 950 million
Performance Rights: Nil

Directors
Ron Douglas, Chairman
Craig Lennon, MD/CEO
Bart Philemon
John Wylie

Management
Sylvie Moser, CFO
Ron Gawi, GM Port Moresby

Investor and Media Enquiries to:
Joe Dowling
Stockwork Corporate
0421 587755

Website:
www.highlandspacific.com

About Highlands Pacific Limited

Highlands Pacific is a PNG incorporated and registered mining and exploration company listed on the ASX and POMSoX exchanges. Its major assets are interests in the producing Ramu nickel cobalt mine and the Frieda River copper gold project; with exploration in progress in the Star Mountains. Highlands also has exploration tenements at on Normanby Island (Sewa Bay).

Star Mountains Prospects

The Star Mountains exploration tenements are located approximately 20km north of the Ok Tedi mine, in the West Sepik Province, PNG. They lie within the highly prospective New Guinean Orogenic Belt, which hosts the Grasberg, Ok Tedi, Porgera and Hidden Valley mines, as well as the Frieda deposit.

Ramu Nickel Cobalt Mine

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

Frieda River Copper/Gold Project

The Frieda River copper gold project is located 175kms north-west of the Porgera gold mine and 75km north-east of the Ok Tedi mine. Highlands has a 20% interest in the project and Frieda River Limited (a wholly owned subsidiary of PanAust Limited which in turn is a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd.) has 80%.

HIGHLANDS PACIFIC
Diversified Mineral Resource Company

2017

Annual Report

27
Co.
Cobolt 58.933

28
Ni.
Nickel 58.693

CORPORATE DIRECTORY

Directors	Ron Douglas – Chairman Craig Lennon – Managing Director John Wylie Bartholomew Philemon	
Company Secretary	Sylvie Moser Erik Andersen	
Senior Management	Sylvie Moser – Chief Financial Officer 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 (P O Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	**Australia** Level 4 167 Eagle Street Brisbane Qld 4000 (GPO Box 3086, Brisbane Qld 4001) Australia Telephone: (617) 3239 7800 Facsimile: (617) 3221 6727
Share Registries	**Papua New Guinea** Computershare Investor Services Pty Limited C/- Highlands Pacific Limited Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (P O Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	**Australia** Computershare Investor Services Pty Limited 117 Victoria Street West End Qld 4101 Australia Freecall (Australia): 1300 552 270 Shareholder information line (outside Australia): Telephone: (61 3) 9415 4000 Facsimile: (61 7) 3237 2152 Email queries: webqueries@computershare.com.au Website: www.computershare.com
Stock Exchanges	**Papua New Guinea** Port Moresby Stock Exchange Limited POMSoX code: HIG	**Australia** (Home Exchange) Australian Stock Exchange Limited ASX code: HIG
Bankers	ANZ Banking Group (PNG) Limited	
Auditors	PricewaterhouseCoopers Level 6, PWC Haus Harbour City, Konedobu Port Moresby, NCD 121 Papua New Guinea	
Internet Communications	Website: www.highlandspacific.com Email: info@highlandspacific.com	

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CHAIRMAN'S AND MANAGING DIRECTORS REPORT

Dear Shareholder,

Highlands Pacific has entered 2018 well placed to benefit from rising global commodity prices as the Company's key asset, the Ramu Nickel/Cobalt mine in PNG, achieves record production performances.

It was pleasing to see signs of recovery in the Company's share price late in 2017, driven by the following:

- Metal prices increased significantly during 2017. The cobalt price doubled to more than US$75,000/tonne and has since moved past US$80,000/t. Nickel increased approximately 25% to around US$12,500/t and copper rose by 20% to approximately $US7,250/t.

Nickel

Source: Tradingeconomics.com / OTC

Cobalt

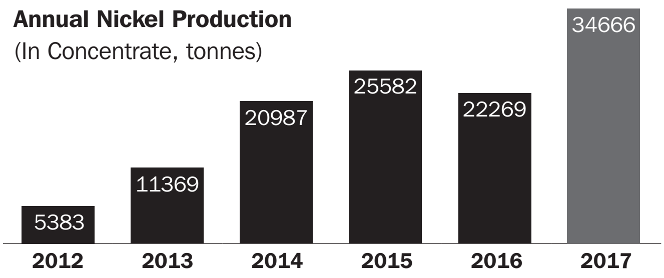
Source: Tradingeconomics.com / OTC

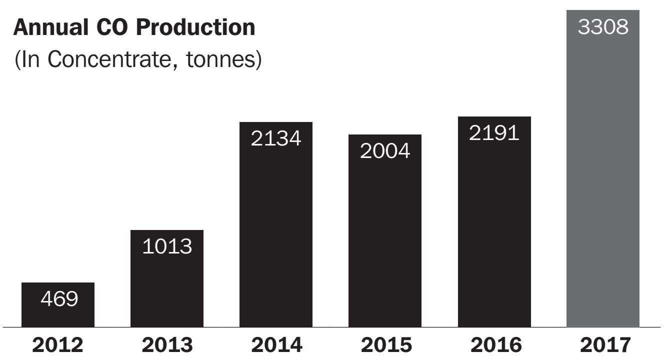
Copper

Source: Tradingeconomics.com / OTC

Economic forecasters are widely predicting continued growth in demand for these metals in battery manufacturing in coming decades, with rapid growth expected in electric vehicle production. Forecaster BIS Research has estimated that the number of electric vehicles in use will grow to approximately 10.8 million in 2026 from current numbers of approximately 2 million – a compound annual growth rate of 28% over the period. The International Energy Agency is predicting an even more rapid rate of growth, suggesting the global stock of electric vehicles could exceed 40 million by 2025. Many major car manufacturers, including Ford, Volkswagen and Volvo, already have moved aggressively towards adoption of electric power units in their vehicles and various nations have set aggressive targets for uptake of electric vehicles and reduced carbon emissions. Nickel and cobalt form key components of evolving battery technologies and their utilization in electric vehicles, as well as domestic and industrial power plants, provides an important new and expanding market for these metals which is expected to underpin continued price increases.

- The Ramu mine achieved record production during the year, leading to reduced unit costs, rising margins and significant operating cashflows. Highlands owns an 8.56% interest in the Ramu mine with rights to increase that holding to 20.55%. This provides our shareholders with major upside exposure to the forecast growth in demand for these metals, as well as a potential source of cash distributions for Highlands in 2018 and beyond. After many years of exploration, development, construction and commissioning, it is certainly gratifying for our shareholders to see Ramu finally consistently achieving production rates well above design capacity. The project remains one of the PNG mining industry's great success stories.





- At the Star Mountains Copper/Gold project, exploration drilling continued during the year, providing encouraging results and enhancing our understanding of the geology of the region. Since the end of the year, our partner Anglo American plc has withdrawn from the joint venture due to competing priorities, but this has enabled Highlands to regain a 100% interest, leaving us with full control over the future of the project. In addition, a resource has been declared at the project, confirming the region as one of the most exciting and prospective exploration areas in PNG. Using a 0.3% copper cut-off grade, the deposit is estimated to contain an Inferred Mineral Resource of 210 million tonnes grading 0.4% copper and 0.4 g/t gold, for 840,000 tonnes of contained copper and 2.9 Moz contained gold.
- The giant Frieda River Copper/Gold project continued to be refined by the project manager, with rising copper prices and potential changes to the project design enhancing the overall value of the project. The PNG government continues to regard Frieda River as a national priority and is working with the project participants to advance permitting as rapidly as possible.
- At Sewa Bay, we are continuing to work with our project partners to undertake further nickel exploration activities.

During the year, the Company also progressed a comprehensive board renewal program that commenced in late 2016 with the retirement of former managing director John Gooding. Long-serving chairman Ken MacDonald stood down in March 2017, replaced by Ron Douglas, who had joined the Board in February 2017. Mike Carroll resigned in April 2017, and was replaced by John Wylie, a nominee of the PNG Sustainable Development Program, which holds an 11% interest in the Company. And in November, Dan Wood retired from the Board, which is now comprised of four directors including former PNG Finance Minister, Bart Philemon.

Outlook

The outlook for the current year appears favourable, although volatile financial markets and the prospect of rising US interest rates are adding uncertainty to forecasts for global economic growth.

Nevertheless, the solid recovery in commodity prices that we have experienced at this stage is providing a reasonably optimistic outlook for the Company's financial position. We are delighted with the performance of the Ramu mine, with record production rates coinciding with solid improvements in commodity prices. This resulted in the project generating positive net cashflow of approximately US$170 million for the full year to December 2017, after capital expenditure of US$17 million.

As a result, a maiden distribution is expected to be received by Highlands for the 2015 to 2017 period when the audited joint venture accounts are finalised at the end of March this year. Current estimates are for a distribution in excess of US$1 million with US$20 million being applied to the working capital and development loan balances, including accrued interest.

The potential cash distribution is expected to increase in 2018, assuming commodity prices and production rates are maintained. Based on current spot prices for nickel and cobalt and continued strong production rates, Highlands would receive a distribution of approximately US$23 million in 2018, of which approximately $18 million would be applied to reducing our share of project debt. This will leave some US$5 million for working capital to enable the Company to fund further growth, while maintaining a close eye on operating efficiency, and while maintaining low levels of corporate overheads.

The Company meanwhile is continuing to look for opportunities to grow and create value for shareholders. At Star Mountains this year, we will be seeking to introduce a new partner to fund exploration drilling, as we remain confident that the project could host a significant copper porphyry deposit. At Frieda River, we will be doing what we can to maximise the value of the project for our shareholders. And at Sewa Bay, we will be exploring opportunities to progress a nickel laterite project with our Japanese partners.

PNG remains a country with an excellent long-term future. We have been operating in the country for many years. We know it well and have a deep understanding of the way the bureaucracy and business operates. The National Election was completed in the middle of 2017 and was conducted in a peaceful and democratic manner that resulted in Prime Minister Peter O'Neill winning another term as Prime Minister. We look forward to working there for many years into the future and remain confident that the country will continue to support the appropriate development of its rich endowment of mineral resources for the benefit of its people.

Finally, we commend the Company's small team of employees for their diligence and commitment during 2017 and thank our shareholders for their support and look forward to reporting further progress in the current year.

Ron Douglas
Chairman

Craig Lennon
Managing Director

RAMU NICKEL/COBALT MINE

The Ramu Nickel/Cobalt mine near Madang, on the north coast of PNG, achieved record production in 2017 and is now consistently exceeding design production capacity. The excellent results are being recorded just as nickel and cobalt prices rise strongly, enabling the operation to report strong revenues, rising margins and growing cashflows.

Highlands holds an 8.56% interest in the Ramu joint venture, which is majority owned and operated by Chinese group Metallurgical Corporation of China Limited (MCC).

The mine and associated process plant achieved total production of 89,947 tonnes of Mixed Hydroxide Product in 2017, up 56% on the prior year and containing a record 34,666 tonnes of nickel and 3308 tonnes of cobalt.

	2012	2013	2014	2015	2016	2017
Ore Processed (dry kt)	647	1,253	2,273	2,784	2,270	3,601
MHP Produced (dry t)	13,777	29,736	57,360	65,286	57,824	89,947
Contained Ni (t)	5,283	11,369	20,987	25,582	22,269	34,666
Contained Co (t)	469	1,013	2,134	2,505	2,191	3,308

The Ramu operation is one of the largest nickel and cobalt producers in Asia, and one of the largest cobalt producers in the world outside of the Democratic Republic of Congo. After many years of development, Ramu is now acknowledged as a standout success story of the PNG mining industry. The mine has a potential life of more than 30 years, making it a truly world class nickel and cobalt project, perfectly placed to meet the growing demand for these metals in the expanding battery and electric vehicle industries.

Location

The Kurumbukari nickel laterite mine is connected by a 135km pipeline to the Basamuk process plant which is 75km east of the provincial capital of Madang.

History

The deposit was first discovered in 1962. In 2000, the project was granted its Special Mining Licence and in 2005, MCC joined the joint venture and was responsible for financing and construction of the project.

Ownership

The project is a joint venture between Highlands (8.56%), the PNG Government and Landowners (6.44%) and MCC Ramu Nico Ltd (85%). MCC holds a 61% interest in MCC Ramu Nico Ltd, with the remaining 39% held by a number of other Chinese entities. Highlands' interest in the project will increase to 11.3% at no cost after internal project debt has been repaid from operating cash flow. Highlands also has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%.

Funding

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

Mining and Beneficiation Plant

The Kurumbukari nickel deposit is a low strip ratio, free digging open pit mine. Excavators mine the average 12 metre thick ore-body and load into trucks for delivery to the beneficiation plant. The plant removes the chromite and creates a consistent slurry feed for pipeline transport to the Basamuk process plant. A 135km slurry pipeline runs from the mine to Basamuk, with a drop in elevation of about 680m.

Basamuk Process Plant

The Basamuk process plant incorporates three High Pressure Acid Leach (HPAL) trains (autoclaves). For more information on Ramu review the website: **www.ramunico.com**

STAR MOUNTAINS COPPER/GOLD PROJECT

The Star Mountains exploration tenements cover 1049 sq kms and are located within the highly prospective New Guinean Orogenic Belt, which hosts the Grasberg, Ok Tedi, Porgera and Hidden Valley mines, as well as the Frieda River deposit.

The tenements are approximately 20km north east of the Ok Tedi mine and 25kms from the support town of Tabubil, in the West Sepik Province of PNG.

During 2017, the Company worked with Anglo American plc to undertake an extensive drilling campaign at various prospects. Anglo American was a partner in the project from 2015 until early 2018, when it relinquished its interest, enabling Highlands to regain full ownership.

The 2017 drilling campaign involved seven diamond drill holes for a total of approximately 5,620 metres, with four holes drilled at the Fune prospect, two holes at Unfin and one hole at Olgal. Assay results from the program confirmed extensive mineralised zones.

The information gained through the 2017 drilling campaign and earlier exploration was used to declare a maiden resource at the Olgal prospect in early 2018. (ASX release 20 February 2018)

Using a 0.3% copper cut-off grade, the Olgal deposit is estimated to contain 210 million tonnes grading 0.4% copper and 0.4 g/t gold, for 840,000 tonnes of contained copper and 2.9 Moz contained gold.

Olgal Inferred Mineral Resource at various copper cut-off grades

Cu cut-off grade	Mt	% Cu	g/t Au	Mt Cu	Moz Au
0.20	450	0.3	0.3	1.4	4.5
0.30	**210**	**0.4**	**0.4**	**0.84**	**2.9**
0.40	80	0.5	0.6	0.40	1.6

The resource estimate was prepared by independent consulting geologists, H&S Consultants Pty Ltd, and was based on data and assays from 23 diamond drill holes at the Olgal prospect for a total of 8,949 metres.

The holes were drilled since the mineralisation was discovered by Kennecott in 1972, with exploration efforts intensified over the past few years.

Olgal is located in the Nong River lease (EL1312), which is one of seven held by Highlands in the Star Mountains project. The other leases include Tifalmin EL1392, Mt Scorpion EL1781, Benstead EL2001, Mt Abemh EL2467, Ilam River EL2478 and Lake Louise EL2517.

In addition to the 23 holes at Olgal, 27 other holes have been drilled at other prospects within the Star Mountains tenements and mineralisation has been identified at five other prospects.

The declaration of an Inferred Mineral Resource at Olgal represents a major step forward for the project and adds considerable value to the exploration package.

Highlands is now seeking to introduce a new joint venture partner to expand the Olgal Resource and investigate other prospects.

History

Kennecott drilled five holes in the Nong River lease in 1972 and identified mineralisation around the same period they found Mt Fubilan (Ok Tedi). No further drilling was carried out in the area until 2009, when Highlands commenced a campaign initially focused on Olgal, where 14 holes were drilled, of which 12 encountered mineralisation.

In 2012, drilling moved from Olgal to nearby prospects including Futik, Pad48, Rattatat, Kum Kom and Tuk, with encouraging mineralisation was encountered in a number of holes. Highlands spent in excess of $25 million in this exploration campaign from 2009 to 2013.

In early 2015, Anglo American became a joint venture partner in the project, paying $10 million for its initial interest and spending in excess of $25 million during its time in the joint venture.

In 2015 a nine hole program was completed including six holes at Olgal and three at Kum Kom.

Another campaign was conducted in 2016/17 which involved seven holes including four holes at Fune, two at Unfin and one at Olgal.

Prospect Geology

Olgal is a copper/gold porphyry deposit hosted by a multi-stage porphyritic diorite that intrudes the Oligocene- early Miocene Darai Limestone. The contact between the diorite and limestone is typically marked by a breccia and small amounts of skarn have been observed in the Olgal area. Alteration (potassic and sericitic) and mineralisation (dominately disseminated chalcopyrite) is typical of other porphyry copper deposits in the area such as Ok Tedi and Frieda River.

Mineralisation is limited to the Olgal stock. There appears to be some degree of metal zoning in the deposit with a central zone that shows both higher grades of copper and gold. The deposit is cut off to the south and at depth by a regional thrust fault that trends roughly NW-SE.

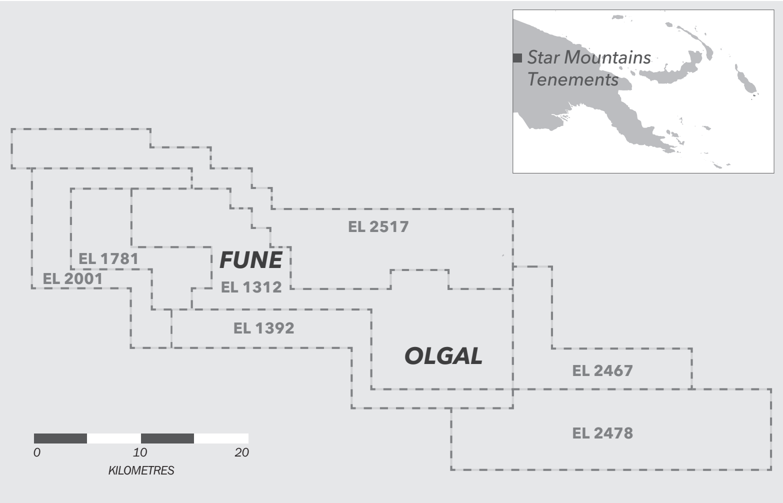
There is a minor zone of weathering near the surface where copper has been leached.

Drilling at the Star Mountains project has produced a number of exciting intercepts at various prospects over recent years including:

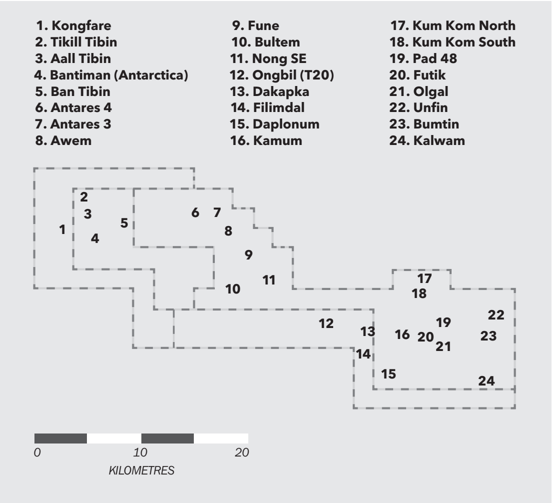
- 596m @ 0.61% Cu and 0.85g/t Au from 24m downhole (Olgal Hole 14, 2012),
- 22m @ 1.42% Cu and 0.57 g/t Au from 146m downhole (Kum Kom Hole 1, 2013)
- 68m @ 0.97% Cu and 0.37 g/t Au from 280m downhole (Kum Kom Hole 1, 2013)
- 183m @ 0.53% Cu and 0.58 g/t Au from 168m downhole (Olgal Hole 19, 2016)
- 430m @ 0.39% Cu and 0.24 g/t Au from 168m downhole (Olgal Hole 20, 2016)
- 434.9m @ 0.52% copper and 0.72 g/t gold (Including 100m @ 0.82% copper and 1.39 g/t gold from 76m downhole) (Olgal Hole 17, 2016)

For full exploration results, see the following ASX announcements:

- 23 May 2012. Star Mountains Exploration Update
- 17 January 2013. New Discovery Star Mountains
- 8 January 2015. Star Mountains Joint Venture Agreements
- 29 September 2015. Star Mountains Drilling Results
- 11 November 2015. Star Mountains Drilling Results
- 25 February 2016. Star Mountains Drilling Results
- 8 June 2017. Star Mountains Update
- 28 August 2017. Star Mountains Drilling Results
- 13 September 2017. Star Mountains Drilling Results



Star Mountains Tenements



Star Mountains Tenements with prospects

FRIEDA RIVER COPPER/GOLD PROJECT

About Frieda

The Frieda River Copper/Gold project is one of the top 10 undeveloped open pit copper deposits in the world, with a resource inventory of 13Mt of copper and 20Moz of gold.

Location

The Frieda River project is 70kms south of the Sepik River on the border of the Sanduan and East Sepik Provinces of Papua New Guinea some 500kms upriver from the coast. Highlands holds a 20% interest in the project, with the other 80% owned by Chinese state-owned company Guangdong Rising Assets Management Co. Ltd, following its acquisition of PanAust Ltd in 2015. The PNG Government has a right to acquire up to a 30% interest in the project by paying a 30% share of sunk costs at the time that it grants a Special Mining Lease. Under the joint venture agreement between Highlands and GRAM, if the Government exercises its right to acquire a 30% stake, Highlands' holding would reduce to 15% and GRAM's to 55%.

Development Concept

GRAM released a feasibility study on the project in May 2016, which proposed a large-scale, open-pit mining operation feeding ore to a conventional process plant producing an average 175,000 tonnes of copper (in concentrate) and 250,000 ounces of gold, with an initial mine life of 17 years. The Study concluded that the project would have an estimated initial pre-production capital cost of US$3.6 billion, excluding mobile mining fleet and an oil fired power generation facility. An additional US$2.3 billion would be spent over the life of the mine on development and sustaining capital. Following the release of the study, a Special Mining Lease application was submitted to the PNG government in June 2016 and an Environmental Impact Statement submitted in December 2016.

Following permitting, construction would take approximately six years.

During 2017, the project manager commenced technical studies on the potential redesign and refinement of project components aimed at improving project returns and reducing development risks. This work is expected to be completed in the second half of 2018.

The PNG Government's assessment of the mining lease application is continuing as further information is provided by the joint venture.

Frieda River sale process

Recognizing the scale and financial demands of the Frieda River project, as currently proposed by GRAM, Highlands announced in early 2017 that it was commencing a potential sale of its 20% interest in the project. The process has generated significant interest from potential buyers and is continuing, but may or may not lead to a transaction being completed.

Arbitration Proceedings

Highlands and GRAM have been in dispute since 2016 regarding their obligations under the joint venture agreement, including whether Highlands is obliged to commence funding of project expenditures. The parties have agreed to seek a final and binding arbitration before a sole arbitrator, with the first hearing scheduled for 12 March 2018. If Highlands is unsuccessful in the arbitration process, then it will consider using its right to dilute its interest in the project in lieu of making funding contributions. With the project having significant sunk costs, the rate of dilution is relatively small (approximately 1% for US$25 million of joint venture expenditure).

SEWA BAY

The Sewa Bay nickel laterite project (EL1761) is a 162 sq km exploration licence located in the western portion of Normanby Island in the D'Entrecasteaux group of islands, Milne Bay Province. A renewal application for EL 1761 was submitted during 2017.

Highlands has been conducting exploration at the tenements in conjunction with international trading house Sojitz Group and Japanese company Pacific Metals Co. Ltd. Following successful augur drilling campaigns in 2013 and 2015, a further program was undertaken in November 2016 which included an airborne laser and imagery (LIDAR) survey over the tenement area, to provide detailed topographical mapping. The survey was completed in February 2017 with the resulting imaging being used to assist in identifying further exploration targets and assist with infrastructure studies.

The 2015 campaign, which included 303 auger drill holes of new surface rock free laterite, encountered significant mineralisation and identified two main areas of mineralisation above 1% nickel covering an area of 7 sq km.

In 2018 we plan to continue to work with our partners Sojitz and Pacific Metals to advance the project, with a further drilling program and infrastructure studies being the priority work streams.

2017 MINERAL RESOURCES AND ORE STATEMENT

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

- **Frieda River Copper/Gold project**, located 70kms south of the Sepik River on the border of the Sandaun and East Sepik Provinces of Papua New Guinea some 500kms upriver from the coast.
- **Ramu Nickel/Cobalt mine**, located 75kms west of the coastal town of Madang, near the Ramu River.
- **Star Mountains Copper/Gold project**, which is located approximately 20kms north east of the Ok Tedi mine and 25kms from the support town of Tabubil, in the West Sepik Province.

Frieda River Copper/Gold Project

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

During 2016, additional resource drilling and modelling took place on the Koki and Ekwai deposits. This work resulted in the Resource for Ekwai and Koki being combined with Horse/Ivaal/Trukai (HIT) into a new Resource which is reported as the Horse/Ivaal/Trukai/Ekawai/Koki (HITEK) Resource.

Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Mineral Resource at a 0.2% Cu cut-off and constrained by a pit shell (US$4.95/lb Cu and US$ 2,175/oz Au)

	31 December 2017			31 December 2016		
Category	Tonnes (Mt)	Copper (%)	Gold (g/t)	Tonnes (Mt)	Copper (%)	Gold (g/t)
Measured	620	0.53	0.30	620	0.53	0.30
Indicated	1,240	0.44	0.22	1,240	0.44	0.22
Inferred	780	0.35	0.18	780	0.35	0.18
Total	**2,640**	**0.44**	**0.23**	**2,640**	**0.44**	**0.23**

HITEK Ore Reserve

Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Reserve at a nominal 0.21% Cu cut-off

	31 December 2017			31 December 2016		
Category	Tonnes (Mt)	Copper (%)	Gold (g/t)	Tonnes (Mt)	Copper (%)	Gold (g/t)
Proved	413	0.54	0.32	413	0.54	0.32
Probable	272	0.45	0.21	272	0.45	0.21
Total	**686**	**0.50**	**0.28**	**686**	**0.50**	**0.28**

No additional resource drilling has taken place on HITEK since 2016 so there is no change to the reported Mineral Resource or Ore Reserves tonnes or grade. Highlands Pacific is not aware of any new information or data that materially affects the information presented herein and confirms that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

Nena

During 2017 addition Resource modelling took place for the Nena deposit. This work resulted in the reporting of an oxide gold cap Mineral Resource in addition to a revision to the the sulphide copper gold Mineral Resource.

Nena sulphide Mineral Resource at a 0.3% Cu cut-off

	31 December 2017				
Category	MTonnes	Cu %	Au g/t	As %	Sb ppm
Indicated	35	2.35	0.79	2,500	160
Inferred	17	1.68	0.29	1,200	80
Total	**52**	**2.13**	**0.63**	**2,000**	**130**

Nena Gold Cap Mineral Resource 2017 at a 0.5 g/t gold cut-off, with an upper copper limit of 0.3%

	31 December 2017				
Category	MTonnes	Cu %	Au g/t	As %	Sb ppm
Indicated	11	0.07	1.35	3,000	230
Inferred	10	0.06	1.28	2,100	170
Total	**20**	**0.06**	**1.32**	**2,600**	**200**

In 2016, the Nena Mineral Resource was only reported at a 0.3% Cu cut-off.

	31 December 2016				
Category	MTonnes	Cu %	Au g/t	As %	Sb ppm
Indicated	33	2.81	0.65	0.22	153
Inferred	12	1.84	0.45	0.14	88
Total	**45**	**2.55**	**0.60**	**0.20**	**136**

The major difference between the 2016 and 2017 Nena Mineral Resource is the reporting in 2017 of the Nena oxide gold cap that was not reported in 2016. The Nena oxide gold cap has been recognized in previous geological model but until last year it was not considered a potential resource under the current envisioned project execution model.

The 2017 Nena sulphide Mineral Resource and the 2016 Nena Mineral Resource at 0.3% Cu cut-off estimate the Mineral Resource for the same portion of the Nena epithermal high-sulphidation copper-gold deposit. The tonnes and gold grades in all Resource classification categories are slightly higher in the 2017 Mineral Resource while the copper grades in all categories is slightly lower. These differences resulted in a minor change (<5%) in the contained copper but substantial increase in the contained gold due to the positive change in Resource tonnes and gold grade.

Star Mountains Project

A Mineral Resource has been estimated for the Olgal porphyry copper gold deposit, one of a number of porphyry copper gold prospects Highlands Pacific has located in the Star Mountains.

Olgal

	31 December 2017 at a 0.3% Cu cut-off		
Category	**Tonnes (Mt)**	**Copper (%)**	**Gold (g/t)**
Indicated	-	-	-
Inferred	210	0.4	0.4
Total	**210**	**0.4**	**0.4**

The 2017 Olgal Mineral Resource is a new resource. Details of the Mineral Resource are given in ***Highlands declares maiden Resource at Star Mountains*** released 20 February 2018.

Ramu Nickel-Cobalt Laterite Project

Due to operational constraints, an updated Resource and Reserve Report for the period ending 31 December 2017 was unavailable from the operator and manager, Ramu NiCo Management (MCC) Limited, in time for the release of this Annual Report. A complete update for the Ramu Nickel Cobalt Project Resource and Reserve will be released by Highlands Pacific when an update is available from Ramu NiCo Management (MCC) Limited.

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

Kurumbukari	31 December 2016		
Category	**MTonnes**	**Ni %**	**Co %**
Measured	37	0.9	0.1
Indicated	5	1.3	0.1
Inferred	2	1.2	0.1
Total	**44**	**0.96**	**0.1**

Ramu West

Category	MTonnes	Ni %	Co %
Indicated	17	0.9	0.1
Inferred	3	1.5	0.1
Total	**20**	**1.0**	**0.1**

Greater Ramu

Category	MTonnes	Ni %	Co %
Inferred	60	1.0	0.1

Global Total

	MTonnes	Ni %	Co %
Total	**124**	**1.0**	**0.1**

As far as Highlands Pacific is aware, any change to the end of 2017 in the reported Mineral Resources for the Ramu project will reflect depletion of mined areas and some remnant resource sterilized due to rehabilitation and back fill.

Ramu Reserve

The following table shows the 2016 Ramu Ore Reserve estimate.

Kurumbukari	31 December 2016			
Category	**MTonnes**	**Ni %**	**Co %**	**Rocks+2mm MTonnes**
Proved	29	0.9	0.1	-
Probable	6	1.3	0.1	9
Total	**35**	**1.0**	**0.1**	**9**

Ramu West

Category	MTonnes	Ni %	Co %	Rocks+2mm MTonnes
Proved	-	-	-	-
Probable	14	0.9	0.1	-
Total	**14**	**0.9**	**0.1**	**-**

Grand Total

	MTonnes	Ni %	Co %	Rocks+2mm MTonnes
Total	**51**	**1.0**	**0.1**	**9**

The 2016 Ramu Ore Reserve was estimated from part of the Mineral Resource, reported above, in a study to estimate reserves conducted by China ENFI Engineering Corporation. The 2016 Ore Reserve was based on the Kurumbukari mine plan and modifying factors based on information about the operations in 2016. The 2016 cut-off grade was approximately 0.58% Nickel equivalent (including cobalt metal credits).

As far as Highlands Pacific is aware, any change to the end of 2017 in the reported Ore Reserves for the Ramu project will reflect depletion of mined areas and some remnant resource sterilized due to rehabilitation and back fill in addition to any adjustment that reflect the changing mining methods and changes in long term commodity prices.

Ramu 2017 Production

In 2017 Ramu Nickel Management Limited reported production of **3.6** MT of laterite grading **1.09**% nickel and **0.11**% cobalt from the Kurumbukari Mine to the Basamuk refinery.

Notes

Frieda River Copper Gold Project

The summary of the HITEK Mineral Resources and the Ore Reserves as at 31 December 2017 should be read in conjunction with the comprehensive report 2016 Mineral Resources and Ore Reserves statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 24 March 2017.

The summary of the Nena Mineral Resources as at 31 December 2017 should be read in conjunction with the comprehensive report Nena Mineral Resources statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 27 November 2017.

Star Mountains Copper Gold Project

The summary of the Olgal Mineral Resources as at 31 December 2017 should be read in conjunction with the report Olgal Mineral Resources statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 20 February 2018.

Ramu Nickel Cobalt Project

The summary of the Ramu Mineral Resources and the Ore Reserves as at 31 December 2016 should be read in conjunction with the comprehensive report 2016 Mineral Resources and Ore Reserves statement that was lodged by Highlands Pacific Limited with the Australian Stock Exchange on 11 July 2017.

Highlands Pacific Confirms

The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves.

The Mineral Resources and Ore Reserve estimates are reported on a 100% ownership basis. Highlands Pacific has a 20% beneficial ownership in the Frieda River Copper/Gold project and an 8.56% beneficial ownership in the Ramu Nickel-Cobalt Laterite Mine.

The tonnes and grades are stated to a number of significant figures that reflects the confidence of the estimate. Each number is rounded individually so the tables may show apparent inconsistencies between the sum of the rounded components and the corresponding rounded total.

The Frieda River HITEK Ore Reserve is estimated using prices of US$3.30/lb copper and US$1,455/oz gold. The 2016 Ramu Ore Reserve was estimated using prices of US$17,045/t nickel and US$25,412/t cobalt.

Corporate Governance Reserves and Resources Calculations

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

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

The Company will report any future Ore Reserves and Mineral Resources in accordance with the 2012 JORC Code.

Competent Persons Statement

The database information used for the HITEK Mineral Resource estimates was compiled and verified as suitable for this estimate by Mr. Shaun Versace. Details contained in this Annual Report that pertain to the HITEK Mineral Resource Estimates are based upon, and fairly represent, information and supporting documentation compiled by Mr. Versace. Mr. Versace is a full-time employee of PanAust Limited (a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd) and a Member of The Australasian Institute of Mining and Metallurgy. Mr. Versace 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Versace consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Details contained in this Annual Report that pertain to the Nena Resource Estimate are based upon, and fairly represent, information and supporting documentation compiled by Mr. Versace. Mr. Versace consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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

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

The information in this report that relates to Ramu Ore Reserves is based upon information compiled by Mr. Chao An Deng, who is a Deputy Chief Engineer of China ENFI Engineering Corporation and a Fellow of the Australasian Institute of Mining and Metallurgy. Mr. Chao An Deng is a full-time employee of China ENFI Engineering Corporation and has sufficient experience relevant to the style of mineralization and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)'. Mr. Chao An Deng consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The database information used for the Olgal resource estimate was compiled and verified as suitable for this estimate by Mr. Lawrence Queen. Details contained in this Report that pertain to the Olgal Resource Estimates are based upon, and fairly represent, information and supporting documentation compiled by Mr. Arnold van der Heyden. Mr. van der Heyden is a full-time employee of H&S Consultants Pty Ltd and a Member of The Australasian Institute of Mining and Metallurgy. Mr. Queen is a contractor for Highlands Pacific and a Member of The Australasian Institute of Mining and Metallurgy. Both Mr. Queen and Mr. van der Heyden have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Queen and Mr. van der Heyden consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Details contained in this Annual Report that pertain to exploration results are based upon, and fairly represent, information and supporting documentation compiled by Mr. Queen. Mr. Queen consents to the inclusion in this report of the matters based upon the information in the form and context in which it appears.

BOARD OF DIRECTORS

Ron Douglas

Chairman Independent Non-Executive Director

Appointed: 7 February 2017

Ron Douglas is an engineer by training and has more than 30 years' experience in senior management in the mining industry. This includes five years as Executive General Manager Projects and Studies at Newcrest Mining (during which time he was involved in the development of Hidden Valley, Lihir Expansion and the Wafi/Golpu development in Papua New Guinea), and three years as Global Head of Projects and Technology at Orica. Mr. Douglas also is a former CEO of Australian Solomons Gold, and former Managing Director for Anglesey Aluminium Metal Ltd (Rio Tinto). Mr. Douglas is currently employed as Executive Vice President Global Project Delivery at Ausenco, based in Brisbane.

Mr. Douglas is a member of the Nomination Committe and Remuneration Committee.

Craig Lennon

Managing Director

Appointed:1 December 2016

BBus (Acctg), CA, GDip AppFin (Finsia)

Craig Lennon is the Managing Director and Chief Executive Officer of Highlands Pacific Limited. Prior to this appointment, Mr. Lennon served as Chief Financial Officer at Highlands for 9 years and has been with the company for over 15 years. Preceding Highlands, he had worked for companies in Australia and United Kingdom in industries including manufacturing, construction, retail, hospitality and mining. Mr. Lennon has a Graduate Diploma in Applied Corporate Governance with the Chartered Secretaries Australia and a Graduate Diploma in Applied Finance with FINSIA and is a member of the Australian Institute of Company Directors.

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

Bartholomew Philemon

Independent, Non-executive Director

Appointed: 21 September 2012

Bartholomew Philemon brings to the Board extensive experience in government affairs and economic development issues at the national and pacific regional levels having served with great distinction as member for the Lae Open seat from 1992 until 2012. Mr. Philemon is currently a Director of the Bank of Papua New Guinea (August 2013 to June 2016) and a Director of Oil Search Limited (November 2012 to September 2016), and has, among many appointments, been Chairman of Air Niugini, and has held a number of Ministerial posts in PNG Governments including Minister of Foreign Affairs and Minister for Finance and Treasury.

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

John Wylie

Non-Independent, Non-executive Director

Appointed: 19 April 2017

John Wylie holds a Masters degree in economics from Cambridge University as well as degrees in business administration from Yale University and applied finance from Macquarie University.

Mr. Wylie has been Chief Executive Officer of the PNG SDP since 2016, and in his long career he has also worked as Assistant Secretary of the Australian Department of Prime Minster and Cabinet, Chairman of PNG Forest Products and Founder and Managing Director of Inglewood Farms. Mr. Wylie also spent 17 years as a senior Management Consultant with major exposure to the mining industry.

Mr. Wylie is the Audit Committee Chairman and is a member of the Nomination Committee and Remuneration Committee.

CORPORATE GOVERNANCE

This statement has been approved by the Board of the Company. The statement has been prepared as at 15 March 2018 with reference to the 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

The Board of Highlands Pacific is fully committed to the principle of best practice in corporate governance. The Company can ensure transparency and fair dealings with all stakeholders. Highlands takes an integrated approach to corporate governance to comply with the regulatory obligations associated with the two principal stock exchange listings in PNG and Australia.

In compiling this report, the Directors have referred to the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' 3rd edition.

The Highlands Pacific Board has adopted the principles and recommendations and complies with them all except as identified below, at: 1.5, 1.7, 2.1, 2.4, 4.1, 7.1 and 8.1.

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 Charter;
Dealing in the Company's Securities by Directors and Employee Disclosure;
Shareholder Communication;
Diversity and Inclusion Policy;
Environmental Policy; and
Occupational Health and Safety Policy.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1

A listed entity should disclose:

(a) the respective roles and responsibilities of its Board and management; and
(b) those matters expressly reserved to the Board and those delegated to management

The Board of Directors has been charged by shareholders with overseeing the affairs of the Company to ensure that they are conducted appropriately and in the interests of all shareholders. The Board defines the strategic goals and objectives of the Group, as well as broad issues of policy and establishes an appropriate framework of Corporate Governance within which the Board members and management must operate. The Board has also taken responsibility for establishing control and accountability systems/processes and for monitoring senior executive performance and implementation of strategy.

The Board is responsible for:

- reviewing and determining the Company's strategic direction;
- review and approve budgets and forecasts and set goals;
- appointment and remuneration of the Managing Director/Chief Executive Officer;
- review financial performance;
- approve acquisition and disposal of assets;
- review risk management and compliance;
- oversee the integrity of the Company's control and accountability systems;
- oversee the Company's processes for making timely and balanced disclosure;
- reporting to shareholders;
- compliance with all applicable laws and regulations; and
- monitoring the effectiveness of the Company's governance practices.

The day to day running and administration of the Company is currently overseen by the Managing Director and the Company Secretary in conjunction with the Board. Where appropriate, consultants may be engaged to undertake specific projects or assignments consistent with the objectives and policies as set down by the Board.

Recommendation 1.2

A listed entity should:

(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and
(b) provide security holders with all material information in its possession relevant to a decision whether or not to elect or re-elect a Director.

The Company undertakes appropriate checks before it appoints a person or, puts forward to shareholders a new candidate for election, as a Director. These checks include references as to the person's character, experience and education. The Company does not propose to check criminal records or the bankruptcy history for potential new Board members however, if deemed necessary or applicable in the future, may consider such checks.

The Company includes all material information in its possession relevant to a decision whether or not to elect or re-elect a Director in the relevant Notice of Meeting. Information relating to each of the Directors is also provided on the Company's website.

Recommendation 1.3

A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.

The Company has written agreements with each Director and senior executive, which sets out the terms and conditions of their appointment including their obligations and responsibilities and their duties. Directors are not appointed for a fixed term, but are, excluding the Managing Director, subject to re-election by shareholders at least every three years, in accordance with the

Constitution of the Company. It is a policy of the Company that any Director over 72 years of age submits themselves 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.

A Director appointed to fill a casual vacancy or as an addition to the Board, only holds office until the next general meeting of shareholders and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director) must retire at each Annual General Meeting of shareholders.

Recommendation 1.4

The Company Secretary of a listed entity should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

The Company Secretary is appointed on the basis that they will be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

Directors have access to the Company Secretary who is appointed by the Board. The Company Secretary reports to the Chairman, in particular to matters relating to the corporate governance.

Recommendation 1.5

A listed entity should:

(a) have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;

(b) disclose that policy or a summary of it; and

(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and either:

  (1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined 'senior executive' for the purposes); or

  (2) if the entity is a 'relevant employer' under the Workplace Gender Equality Act, the entity's most recent 'Gender Equality Indicators', as defined in and published under the Act.

Given the small size of the Company and the status of the Company's projects, the Directors believe that it is not appropriate at this stage to set measurable objectives in relation to diversity beyond those included in the Diversity and Inclusion Policy. Notwithstanding this, the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds in such a manner that best adds to overall shareholder value and which reflects the values, principles and spirit of the Diversity and Inclusion Policy.

The Company considers that diversity refers to all the characteristics that make individuals different from each other. It includes characteristics or factors such as religion, race, ethnicity, language, gender, sexual orientation, disability, age or any other area of potential difference.

At 31 December 2017

Gender diversity report	Total positions	Held by women	% held by women
Board	3	-	-
Senior executive	3	1	33%
Other employees	3.5	1.5	60%
Total organisation	9.5	2.5	26%

Recommendation 1.6

A listed entity should:

(a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and

(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board has adopted a yearly, self-evaluation process to measure its own performance and the performance of its committees. The nomination committee is responsible for periodically assessing the skill set currently represented on the Board – the nomination committee charter is located on the Company's website at: http://www.highlandspacific.com/pdf/Nomination-Committee-Charter.pdf.

The Board Charter is located on the Company's website at: http://www.highlandspacific.com/pdf/Board-Charter.pdf. During the reporting period, the Company has undertaken an evaluation of the performance of the Board, and its committees, however, not for individual Directors.

The Board believes that this approach is appropriate given its size and the nature of the Company's operations.

Recommendation 1.7

A listed entity should:

(a) have and disclose a process for periodically evaluating the performance of its senior executives; and

(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Chairman reviews the performance of the Managing Director annually which is assessed against key performance indicators (KPIs) set by the Board Remuneration Committee and takes into account achievement and performance towards the Company's objectives and (where appropriate) performance benchmarks and the achievement of individual performance objectives.

The Managing Director reviews the performance of the senior executives annually, against agreed KPIs, taking into account achievement and performance towards the Company's objectives and individual performance objectives.

The Board also recognises the need for flexibility in defining performance objectives which must reflect the current status of the Company (as an exploration company) and the respective stages of its projects.

No formal performance evaluation of the Managing Director and senior executives was undertaken in respect of the reporting period 31 December 2017.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1

The Board of a listed entity should:

(a) have a nomination committee which:

(1) has at least three members, a majority of whom are independent Directors;

and

(2) is chaired by an independent Director;

and disclose

(3) the charter of the committee;

(4) the members of the committee; and

(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;

or

(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Company has established a nomination committee which operates under the guideline of a charter. The charter of the nomination committee is disclosed on the Company's website, at: http://www.highlandspacific.com/pdf/Nomination-Committee-Charter.pdf.

The committee has three members and is chaired by an independent Director. Due to the size of the Company and the composition of the Board, the majority of the committee members are not independent. The Chairman, Mr. R Douglas, a non-executive, independent Director, Mr. C Lennon, the executive Director (CEO) and Mr. J Wylie, a non-executive non-independent Director. The details of the members of the committee and their attendance at the committee meetings are disclosed in the Directors' Report section of the 2017 Annual Report.

At each annual general meeting, the following Directors retire:

i. one third of Directors (excluding the Managing Director);

ii. Directors appointed by the Board to fill a casual vacancy or otherwise; and

iii. Directors who have held office for more than three years since the last general meeting at which they were elected.

Recommendation 2.2

A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

The Company evaluates the mix of skills and experience annually, although, diversity is recognised by the Board, given the size of the Company and the nature of its projects, is not the focus. At the end of the reporting period, the Board comprised of four Directors from diverse backgrounds with a range of skills, attributes and experience.

The following table demonstrates the skills and experience of the Directors across a spectrum that are considered relevant to the Company. Biographical information on each Director is contained in the 2017 Annual Report and on the Company's website.

Skills and Experience	No. of Director
Geology and Exploration - Understanding JORC reporting requirements and what it means - Understanding significance of exploration results - Experience with understanding geotechnical issues (e.g. dams/mine stability)	1
Mining operation - Understanding the stages in the life of a mine: [prospecting, exploration, development, exploitation and reclamation]	1
Financial acumen - Financial literacy - Understanding the requirements of financial reporting for public listed companies - Accounting, finance or business qualification	4
Governance and Legal - Experience in the governance of listed organisations - Membership of governance bodies and organisations - Understanding of financing transactions - Shareholder rights	2
Mergers and Acquisitions - Transactions within the resource sector (e.g. mergers, acquisitions, Joint Ventures, IPOs etc)	2
Fund raising - Understanding the requirements of fund raising in a public listed company	1

Recommendation 2.3

A listed entity should disclose:

(a) the names of the Directors considered by the Board to be independent Directors;

(b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 (of ASX Corporate Governance Principles and Recommendations) but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and

(c) the length of service of each Director.

In the opinion of the Board, to qualify as being 'independent', a Director must be independent of management and free of any business or other relationship which could materially interfere or could reasonably be perceived to interfere materially with the Director's independent exercise of their judgement.

Mr. B Philemon, was appointed as a non-executive Director on 21 September 2012 and is considered by the Board to be an independent Director, having regard to the factors set out above. Mr. B Philemon holds less than 5% of the share capital of the Company at the end of the reporting period.

Mr. C Lennon, Managing Director, was appointed on 1 December 2016. Mr. C Lennon holds less than 5% of the share capital of the Company at the end of the reporting period. By virtue of his position as an executive Director, Mr. Lennon is not considered by the Board to be an independent Director for the purpose of ASX Recommendation.

Mr. R Douglas, Chairman, was appointed as a non-executive Director on 7 February 2017 and is considered by the Board to be an independent Director, having regard to the factors set out above.

Mr. J Wylie, was appointed as a non-executive Director on 19 April 2017 and is not considered by the Board to be an independent Director, due to his position as Chief Executive Officer of PNGSDP a substantial shareholder of the Company who hold 11.44% of the share capital of the Company at the end of the reporting period.

Recommendation 2.4

A majority of the Board of a listed entity should be independent Directors.

Two of the four Board members are independent Directors.

The Company recognises a high performing and effective Board is essential for the proper governance of a listed entity. The Board will consider appointing independent Director(s) in the future, when the Company is of sufficient size and having regard to the scale and nature of its activities. In the meantime, the Company believes that given the size and scale of its operations, non-compliance by the Company with this recommendation will not be detrimental to the Company or its Shareholders.

Recommendation 2.5

The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO.

Mr. Ron Douglas is the Chairman of the Board and is an independent Director.

Recommendation 2.6

A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

The Company provides new Directors with an induction package including copies of its relevant policies and procedures.

Each Director has the right to request Company assistance with any special professional development opportunities which they think would be of assistance in undertaking their duty as a Director.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

Recommendation 3.1

A listed entity should:

(a) have a code of conduct for its Directors, senior executives and employees; and

(b) disclose that code or a summary of it.

The Board has approved a Code of Conduct ('Code') which applies to all Directors, executives and employees without exception. In summary, the Code provides guidelines for the standards of behaviour required by Directors, executives and employees:

- act honestly, with integrity and high ethical standards;
- use due care and diligence in fulfilling their duties;
- not make improper use of information acquired in their position;
- exercise independent judgement and actions;
- not allow personal interests, or those of associates, to conflict with the interests of the Company; and
- comply at all times with both the spirit and the letter of the law, as well as, policies of the Company.

The Code of Conduct is located on the company's website at: www.highlandspacific.com/pdf/Code-of-Conduct-2012.pdf.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Recommendation 4.1

The Board of a listed entity should:

(a) have an audit committee which:

  (1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and

(2) is chaired by an independent Director, who is not the chair of the Board, and disclose:
(3) the charter of the committee;
(4) the relevant qualifications and experience of the members of the committee; and
(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Company has established an Audit Committee which is comprised of Mr. John Wylie and Mr. Bartholomew Philemon.

Mr. John Wylie is the Chairman of the Audit Committee and is not considered independent for the purpose of ASX Recommendations, as he is the CEO of PNGSDP, a substantial shareholder of the Company. Mr. Wylie is not the Chairman of the Board. Mr. Philemon is considered to be an independent Director.

The Board will consider appointing an Independent Director in the future, when the Company is of sufficient size and having regard to the scale and nature of its activities.

The Company's external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

Details relating to the relevant qualifications and experience of the members of the committee and the number of times the committee met throughout the reporting period and the individual attendances of the members at those meetings are set out on an Annual Basis in the Director's Report contained in the Company's 2017 Annual Report which is released to the market and posted on the Company's website at: http://www.highlandspacific.com/financial-reports.

Recommendation 4.2

The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Board has received a declaration in the form set out in Recommendation 4.2 from the Chief Executive Officer and Chief Financial Officer in relation to the financial statements for the reporting period.

Recommendation 4.3

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Company's external auditor attends the AGM and is available to answer questions from shareholders relating to the conduct of the audit.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1

A listed entity should:

(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and

(b) disclose that policy or a summary of it.

The Board is committed to keeping its shareholders, and the market, fully informed of major developments having an impact on the Company.

Currently the Chairman, the CEO and the Company Secretary are charged with the responsibility to ensure compliance with ASX Listing Rule disclosure requirements. The Board has approved a Disclosure and Shareholder Communication Policy which is reproduced on the Company's website at: http://www.highlandspacific.com/pdf/Disclosure.pdf. The Board is responsible for scrutinising events and information to determine whether disclosure is required in order to maintain market integrity.

The Company Secretary is responsible for communications with the ASX.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

Recommendation 6.1

A listed entity should provide information about itself and its governance to investors via its website.

The Company recognises the right of shareholders to be informed of matters, in addition to those prescribed by law, which affect their investments in the Company.

Information about the Company's Shareholder Communication can be accessed at: http://www.highlandspacific.com/pdf/Shareholder-Communication.pdf, along with the Company's charters and other policies and procedures.

The Company's website provides a description of the Group's projects and all material announcements released to the ASX.

It is the Company's communication policy to communicate with shareholders and other stakeholders in a regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

Recommendation 6.3

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Board encourages active participation by shareholders at each Annual General Meeting of the Company.

The Disclosure and Shareholder Communication policy the Company has in place details that all shareholders are encouraged to participate at meetings of security holders. The Company permits shareholders to cast their proxies prior to a General Meeting if they are unable to attend the meeting. At any General Meeting, shareholders are encouraged to ask questions of the Board of Directors in relation to the matters to be considered at such meeting and where appropriate relating to the operation of the Company.

Recommendation 6.4

A listed entity should give security holders the option to receive communication from, and send communications to, the entity and its security registry electronically.

The Company provides security holders the option to receive communication from and send communication to, the entity and its security registry electronically.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1

The Board of a listed entity should:

(a) have a committee or committees to oversee risk, each of which:
  (1) has at least three members, a majority of whom are independent Directors;
  (2) is chaired by an independent Director' and disclose
  (3) the charter of the committee;
  (4) the members of the committee; and
  (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;
  or
(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

The Board of the Company has not established a specific committee to oversee risk, however is provided with regular reporting in respect of operations and the financial condition of the Group aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

The Audit Committee assists the Board in its risk management role by reviewing the financial and reporting aspects of the group's risk management and control practices.

Recommendation 7.2

The Board or a committee of the Board should:

(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
(b) disclose, in relation to each reporting period, whether such a review has taken place.

Due to the size of the Company, the implementation of the risk management and internal control system to manage the Company's material business risks rests with the CEO and the Company Secretary/CFO.

The Board regularly monitors the operational and financial performance of the Company. The Board also receives and reviews advice on operational and financial risk to assist with developing the necessary strategies, in conjunction with management, to mitigate those risks.

Recommendation 7.3

A listed entity should disclose:

(a) if it has an internal audit function, how the function is structured and what role it performs; or
(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

In light of the nature and extent of the Company's operation and activities, the Company has not established an internal audit function.

The Board regularly reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks.

The Board is provided with regular reporting on the management of operations and the financial condition of the Company, aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

Recommendation 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The Company recognises its corporate responsibility to all stakeholders and the continual need for sustainable, harmonious operations. The Company promotes best practice in terms of community development, environmental protection and safety management in all its operations.

The projects that the Company holds an interest in, (either 100% or through a joint venture arrangement) are at the exploration and mining stages and accordingly the Company recognises the need to correctly manage the expectations of local communities with respect to risks and rewards. In this regard the Company continually assesses the needs of the local communities where it operates and aims to respond where appropriate to their desires and expectations within available resources.

The Company is also conscious of its responsibility in relation to the environment and strives to achieve minimal impact as far as possible in its work areas, in the projects that the Company itself explores. The Company seeks to ensure that any disturbance of land which may arise as a result of sampling or drilling is carried out in full cooperation with the local people and authorities and with minimal impact on the environment.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1

The Board of a listed entity should:

(a) have a remuneration committee which:

(1) has at least three members, a majority of whom are independent Directors; and

(2) is chaired by an independent Director,

and disclose:

(3) the charter of the committee;

(4) the members of the committee; and

(5) as at the end of each reporting period and the individual attendances of the members at those meetings; or

(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Company does have a remuneration committee which is charged with assessing the performance of senior management in conjunction with the Managing Director, (senior executives undergo 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). The review is documented and reported to the remuneration committee.

The remuneration committee makes recommendation to the Board of the Managing Director's aggregate compensation and determines the remuneration for non-executive Directors subject to the Director's aggregate compensation not exceeding the maximum annual sum approved by shareholders.

The charter of the remuneration committee can be found at: http://www.highlandspacific.com/pdf/Remuneration-Committee-Charter.pdf.

The remuneration committee, is comprised of two members, Mr. R Douglas (chairman) is an independent, non-executive Director and Mr. J Wylie is a non-executive but not considered by the Board to be an independent Director for the purpose of ASX Recommendation 8.1.

The Board will consider appointing an Independent Director in the future, when the Company is of sufficient size and having regard to the scale and nature of its activities.

The Directors' Report to Shareholders details the member's attendance and frequency of the remuneration committee meetings held during the year.

Recommendation 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.

The Directors' Report to Shareholders details the structure of fees and payments made to non-executive Directors and the Managing Director and are further detailed in this Annual Report. The aggregate remuneration of non-executive Directors is approved by shareholders. Individual Director's remuneration is determined by the Board within the approved aggregate total. As at the date of this report, all non-executive Directors are entitled to remuneration of A$50,000 per annum (plus statutory superannuation where applicable) inclusive of Committee responsibilities. The Chairman receives remuneration of A$100,000 (plus statutory superannuation). No retirement benefits are payable to non-executive Directors.

Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and

(b) disclose that policy or a summary of it.

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 regarding their ability to deal in the Company's securities.

The policy can be found on the Company's website at: http://www.highlandspacific.com/pdf/Dealing-in-the-Companys-Securities-by-Directors-and-Employees.pdf

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 2017 (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 or part of the financial year and up to the date of this Report:

Ken MacDonald	Resigned 28 March 2017
Ron Douglas	Appointed director 7 February 2017 and Chairman 28 March 2017
Craig Lennon	Managing Director
Bart Philemon	
John Wylie	Appointed 19 April 2017
Mike Carroll	Resigned 19 April 2017
Dan Wood	Retired 24 November 2017

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 2017 and the numbers of meetings attended by each Director were:

	Scheduled Directors' Meetings		Non-scheduled Directors' Meetings		Audit Committee Meetings	
	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended
K. MacDonald	2	2	4	4	-	-
R. Douglas	5	5	8	8	-	-
C. Lennon	6	6	8	8	-	-
M. Carroll	2	2	4	4	2	2
D. Wood	6	6	8	6	7	6
B. Philemon	6	6	8	8	7	7
J. Wylie	4	4	3	3	5	4

	Remuneration Committee Meetings		Nomination Committee Meetings	
	No. Eligible to Attend	No. Attended	No. Eligible to Attend	No. Attended
K. MacDonald	3	3	2	2
R. Douglas	1	1	2	2
C. Lennon	-	-	2	2
M. Carroll	3	3	2	2
D. Wood	4	4	-	-
B. Philemon	-	-	-	-
J. Wylie	1	1	1	1

Directors' Shareholdings and Interests

Details of Directors' related direct and indirect shareholdings and interests in the equity of the Company, as at 31 December 2017, are as follows:

Director and position	Interest held by director in shares in Highlands	Interest held by director in performance rights in Highlands
C Lennon, Managing Director	3,550,000	3,200,000
B Philemon, Non-Executive Director	1,028	-

Company Secretary

The Group has two Company Secretary roles:

- Ms Sylvie Moser, the operational Company Secretary looking after day to day requirements including Company announcements and meetings of the Board. Ms. Moser is also the Chief Financial Officer and has held these roles from 1 December 2016; and
- Mr. Erik Andersen, Papua New Guinea ('PNG') resident Company Secretary as required by the Investment Promotions Authority in PNG. Mr. Anderson is a Partner with Gadens Lawyers in PNG.

Principal Activities

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

Review of Operations

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

A net profit after tax of US$37.4m is reported by the Group for the year. The profit includes the following items:

- reversal of impairment of non-current assets of US$42.9m;
- share of operating profit of the Ramu project of US$3.5m;
- reversal of provision of exploration costs US$0.3m;
- net foreign exchange gain US$0.2m; offset by
- general and administrative expenditure of US$3.1m; and
- interest expense on the borrowings associated with the investment in the Ramu project of US$6.4m.

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 2017.

Significant Changes in State of Affairs

The Group's net assets increased by US$38m from negative US$6.3m to positive US$31.5m. This movement can be summarised as follows:

- increase in receivables of US$0.1m
- increase in exploration and evaluation of US$0.8m
- decrease in borrowings of US$13.5m;
- increase in the investment, net of impairment, in Ramu of US$28m; offset by
- increase in trade and other payables of US$0.9m; and
- decrease in cash of US$3.7m.

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

Likely Developments and Expected Results of Operations

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

Environmental Regulation

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

Insurance and Indemnification of Directors And Officers

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

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

(b) costs incurred by that person in settling or defending any claim or proceeding relating to any such liability, not being criminal liability or liability in respect of a breach of the duty to act in good faith and in the bests interests of the Company.

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

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

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

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

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

Non-audit Services

The Company may decide to employ the Auditor on assignments additional to their statutory audit duties where the Auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the Auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are disclosed in the Financial Statements in note 3.

The Audit Committee has developed a policy to ensure that the independence of the Group's auditor is not impaired in providing non-audit services to the Group so that both the Group and the external auditor can comply with relevant auditor independence rules which apply in the jurisdictions in which the Group operates.

Donations

In accordance with Company policy no donations were made to any political parties or for political purposes.

Remuneration Report

Principles used to determine the nature and amount of remuneration

Non-Executive Directors

Non-Executive Directors, including the Chairman, are paid fixed fees for their services to the Group. The fees paid reflect the demands which are made on, and the responsibilities of, the Directors and they are reviewed annually by the Board. The Board also seeks the advice of independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market.

The remuneration inclusive of superannuation (currently 9.5%) as a total to Non-Executive Directors is approved by the shareholders. The current limit is US$600,000 p.a. and was approved by shareholders on 16 May 2013. The current remuneration for non-executive directors, other than the Chairman is AU$50,000 p.a. plus a 9.5% superannuation contribution. The current remuneration for the Chairman is AU$100,000 p.a. plus a 9.5% superannuation contribution.

In order to maintain impartiality and independence, Non-Executives Directors do not receive performance related remuneration and are not entitled to participate in the Group's Performance Rights Plan.

Managing Director

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

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

The Board takes the view that employee incentive schemes are important elements of remuneration which provide tangible incentives to employees to improve the Group's performance in both the short term and the longer term. In turn, this improved performance benefits shareholders. The STI Plan is a short-term incentive program, based on both Group and individual employee performance-related measures. The LTI Plan compliments the STI Plan with measures that further drive long term performance with Highlands. There was no LTI grant in 2017, STI payments for 2017 year are yet to be determined.

Short Term Incentive Plan

The STI Plan is designed to help drive performance within the Group by providing a vehicle for rewarding the Managing Director and executive and senior management. The performance measures are a combination of Group and individual measures chosen to directly align the individual's reward to the Group's strategy, performance and resultant shareholder value. The amount of the entitlement is based on a percentage range of each employee's fixed remuneration. The total potential STI available is set at a level so as to provide sufficient incentive for individuals to achieve and exceed targets and objectives.

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 and is at the recommendation of the Company's remuneration advisors. All equity-based remuneration is 'at-risk' and will lapse or be forfeited, if the prescribed performance conditions are not met by the Group. There was no LTI grant for the 2017 year.

The Board wants to ensure that the remuneration of Highlands' executives is in line with the market and that there is an effective incentive for the executives to improve Highlands' performance and the value of investments of the shareholders. The Board has sought external advice in making its determination, both, in the form of equity incentive and the quantum, in conjunction with the overall remuneration package offered to employees and the Managing Director.

The granting of Performance Rights to the Managing Director, in the opinion of the Board could be regarded as giving of a financial benefit to a related party of the Company, therefore, shareholder approval is required under ASX Listing Rule 10.14 before any issue of securities, such as Performance Rights can be made.

Performance Conditions

The Performance Rights will only vest once the Board advises that the Performance Rights Offer Performance Conditions have been satisfied. The Performance Conditions are set out below:

1. Highlands Total Shareholder Return ('TSR') matching a Peer Group as recommended by independent external consultants over a 3-calendar year period to the end of 2020, rights would be vested as to 50% if performance is at the 50th percentile, and 100% if performance is at or exceeds the top quartile performance for that period. (TSR will be measured by an independent third party over the performance period of 1 January 2018 to 31 December 2020).

Summary of Short Term Incentive Plan

What is the Short-Term Incentive Plan ('STI')?	An incentive plan under which eligible employees are granted a cash amount which is based on a percentage range of each employee's fixed remuneration (determined according to seniority and ability to influence the performance of the Group) and assessed according to performance against a combination of Group and individual measures.
When was the 2017 STI grant paid to eligible employees?	The 2017 STI grant payment remains outstanding as at 31 December 2017.
Why does the Board consider the STI Plan an appropriate incentive?	A STI Plan is a globally recognised form of reward for management, aimed at ensuring focus and alignment with Group objectives and strategy.
In what circumstances are STI entitlements forfeited?	Where an employee is either dismissed for cause, resigns from employment, or is guilty of fraud, prior to conclusion of the performance period, the STI amount will be forfeited upon cessation of employment.
What happens to STI entitlements upon a change of control in the Group?	Upon a change of control event, the Board must determine the extent, if any, to which early vesting on a full or a pro-rated basis is the appropriate outcome in all the circumstances.
What is the relationship between Group performance and allocation of STI?	Overall performance is calculated as Group performance together with the personal performance adjusted for the appropriate weighting for the individual employee and then multiplied by the maximum STI percentage available.
What is the period over which Group performance is assessed?	The assessment period is 1 January to 31 December financial year preceding the grant date of the STI.

Summary of Long Term Incentive Plan

What is the Long Term Incentive ('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, assessed over a three-year period from the date of grant of the related performance rights.
What are the key features of the LTI?	• Performance rights (zero priced options); • Eligible employees include Executive Director, Key Management Personnel and senior employees but not Non-Executive Directors; • Annual offers; • Allocation based on a LTI remuneration dollar value with LTI dollar value to be a prescribed percentage of fixed remuneration; • Internal and external performance measures; • Three-year period; • Fair value expensed over the vesting period; and • Plan limited to 5% of issued capital.

Summary continued next page

In what circumstances are LTI entitlements forfeited?	The LTI amount will be forfeited upon cessation of employment prior to conclusion of the performance period in circumstances where the employee is either dismissed for cause, resigns from employment, or is guilty of fraud.
When do the Performance Rights vest?	Performance rights vest (i.e may be exercised) three years after the date of grant, provided performance conditions are met.
What is the period over which Group performance is assessed?	The assessment period is the three years commencing on 1 January in the year the grant is issued.
How are shares provided to participants under the LTI?	Once the performance rights have vested shares are issued by the Company to eligible LTI participants as new capital.
Why did the Board choose the above performance hurdles?	The Board determined that, at the current stage of the Group's development and having regard to its inability to fully control progress at Frieda River, Star Mountains and Ramu in the immediate future, it was most appropriate to align long term incentives fully with the relative performance of the Group's share price, as the best and fairest available measure of Group performance.
Is the benefit of participation in the LTI affected by changes in the share price?	Yes, employees in the LTI will be affected in the same way as all 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 same 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 25 of the Financial Statements, including the inputs in order to calculate the fair value.

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

Details of Directors' remuneration

The Directors' remuneration is detailed in note 20 of the Financial Statements.

Details of service agreements with Directors

As detailed in the Corporate Governance Report which is included in this Annual Report and can be found at www.highlandspacific.com, one-third of the Directors are to retire at each Annual General Meeting and no Director may be in office for more than three years without standing for re-election.

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

Managing Director Service Agreements

The Managing Director, Mr. Craig Lennon, has an employment agreement for an ongoing term with a fixed annual remuneration of AU$450,000 for the financial year 2017. Mr. Lennon's fixed annual remuneration remains this level for the financial year 2018. The notice period Mr. Lennon has to give the company is 3 months, while the notice period the Group must give is 12 months or a termination payment of 100% of the fixed annual remuneration amount.

Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability appropriate to an organisation such as Highlands Pacific Limited, the Directors support and have adhered to principles of sound corporate governance. The Company's Corporate Governance Statement, prepared in accordance with the 3rd Edition of the Corporate Governance Principles and Recommendation of the ASX Corporate Governance Council, is contained in this Annual Report and can be found on the Highlands Pacific Limited website at http://www.highlandspacific.com/corporate.

Signed this 20 March 2018 in accordance with a resolution of the Directors.

For and on behalf of the Board

Ron Douglas
Chairman

Craig Lennon
Managing Director

FINANCIAL STATEMENTS

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2017

		Consolidated		Holding Company	
		2017	2016	2017	2016
	Notes	US$000	US$000	US$000	US$000
Finance Income		109	90	-	-
Other income		-	5	-	-
Total Income	2	**109**	**95**	**-**	**-**
Restructure and redundancy costs		-	1,031	-	-
General and administrative costs		3,106	3,006	-	-
Exploration and development costs		-	-	-	-
Depreciation and amortisation		61	66	-	-
Net foreign exchange (gain)/losses		(220)	194	-	-
Total Operating Costs	3	**2,947**	**4,297**	**-**	**-**
Net operating costs		**(2,838)**	**(4,202)**	**-**	**-**
Interest expense	10	(6,433)	(6,265)	-	-
Reversal of provision of exploration costs	9	358	576	-	-
Reversal of/(impairment of) subsidiary advances	12	-	-	258	(310)
Reversal of/(impairment of) non-current assets	10	42,877	(390)	-	-
Share of operating profit/(loss) of equity accounted investments	10	3,473	(5,554)	-	-
Profit/(Loss) from operation before income tax		**37,437**	**(15,835)**	**258**	**(310)**
Income tax expense	4	-	-	-	-
Profit/(Loss) for the year		**37,437**	**(15,835)**	**258**	**(310)**
Other comprehensive income for the year		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**37,437**	**(15,835)**	**258**	**(310)**
Basic earnings per share	5	US$0.040	US($0.017)		
Diluted earnings per share	5	US$0.039	US($0.017)		

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 2017

	Notes	Share Capital US$000	Reserves US$000	Retained Earnings US$000	Total US$000
CONSOLIDATED					
Year Ended 31 December 2017					
Balance as at 1 January 2017		303,911	(4,382)	(305,808)	(6,279)
Profit for the year		-	-	37,437	37,437
Transactions with owners in their capacity as owners					
Share-based payments	25	-	394	-	394
Issue of share capital	16	(5)	-	-	(5)
Balance as at 31 December 2017		**303,906**	**(3,988)**	**(268,371)**	**31,547**
Year Ended 31 December 2016					
Balance as at 1 January 2016		303,913	(5,149)	(289,973)	8,791
Loss for the year		-	-	(15,835)	(15,835)
Transactions with owners in their capacity as owners					
Share-based payments	25	-	767	-	767
Issue of share capital	16	(2)	-	-	(2)
Balance as at 31 December 2016		**303,911**	**(4,382)**	**(305,808)**	**(6,279)**
HOLDING COMPANY					
Year Ended 31 December 2017					
Balance as at 1 January 2017		303,911	(900)	(272,335)	30,676
Profit for the year		-	-	258	258
Transactions with owners in their capacity as owners					
Share-based payments	25	-	394	-	394
Issue of share capital	16	(5)	-	-	(5)
Balance as at 31 December 2017		**303,906**	**(506)**	**(272,077)**	**31,323**
Year Ended 31 December 2016					
Balance as at 1 January 2016		303,913	(1,667)	(272,025)	30,221
Loss for the year		-	-	(310)	(310)
Transactions with owners in their capacity as owners					
Share-based payments	25	-	767	-	767
Issue of share capital	16	(2)	-	-	(2)
Balance as at 31 December 2016		**303,911**	**(900)**	**(272,335)**	**30,676**

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

STATEMENTS OF FINANCIAL POSITION

For the Year Ended 31 December 2017

		Consolidated		Holding Company	
		2017	2016	2017	2016
	Notes	US$000	US$000	US$000	US$000
CURRENT ASSETS					
Cash and cash equivalents	6	6,816	10,526	-	-
Receivables	7	1,598	1,444	-	-
		8,414	**11,970**	**-**	**-**
NON-CURRENT ASSETS					
Property, plant and equipment	8	124	184	-	-
Exploration and evaluation expenditure	9	37,948	37,100	-	-
Investment in Ramu Nickel mine	10	110,000	82,000	-	-
Investment in subsidiaries	11	-	-	9,545	9,545
Advances to subsidiaries	12	-	-	21,781	21,134
		148,072	**119,284**	**31,326**	**30,679**
TOTAL ASSETS		**156,486**	**131,254**	**31,326**	**30,679**
CURRENT LIABILITIES					
Trade and other payables	13	2,871	2,005	-	-
Borrowings	14	9,270	4,381	-	-
Provisions	15	177	122	-	-
		12,318	**6,508**	**-**	**-**
NON-CURRENT LIABILITIES					
Advances from subsidiaries	12	-	-	3	3
Borrowings	14	112,611	131,001	-	-
Provisions	15	9	24	-	-
		112,620	**131,025**	**3**	**3**
TOTAL LIABILITIES		**124,938**	**137,533**	**3**	**3**
NET ASSETS/(LIABILITIES)		**31,547**	**(6,279)**	**31,323**	**30,676**
EQUITY					
Share Capital	16	303,906	303,911	303,906	303,911
Reserves	17	(3,988)	(4,382)	(506)	(900)
Retained losses		(268,371)	(305,808)	(272,077)	(272,335)
TOTAL EQUITY		**31,547**	**(6,279)**	**31,323**	**30,676**

For, and on behalf of, the Board

Ron Douglas
Chairman
20 March 2018

Craig Lennon
Managing Director

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

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2017

		Consolidated		Holding Company	
		2017	2016	2017	2016
	Notes	US$000	US$000	US$000	US$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from other operations		-	5	-	-
Interest from investments		110	84	-	-
Income tax (paid)/refunded		(1)	3	-	-
Payments to suppliers and employees		(2,714)	(4,214)	-	-
Net cash used in operating activities	22	**(2,605)**	**(4,122)**	-	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Advance from subsidiaries		-	-	5	2
Receipt from recovery of exploration costs		446	5,615	-	-
Contribution from joint venture partners		8,867	9,316	-	-
Purchase of property, plant and equipment	8	(2)	(16)	-	-
Exploration, evaluation and development		(10,631)	(9,061)	-	-
Net cash (used in)/from investing activities		**(1,320)**	**5,854**	**5**	**2**
CASH FLOWS FROM A FINANCING ACTIVITY					
Costs associated with issue	16	(5)	(2)	(5)	(2)
Net cash used in a financing activity		**(5)**	**(2)**	**(5)**	**(2)**
NET (DECREASE)/INCREASE IN CASH AND					
CASH EQUIVALENTS		**(3,930)**	**1,730**	**-**	**-**
Add cash brought forward		10,526	8,990	-	-
Effect of exchange rate changes on cash and cash equivalents		220	(194)	-	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD		**6,816**	**10,526**	**-**	**-**
CASH COMPRISES					
Cash and cash equivalents	6	**6,816**	**10,526**	**-**	**-**

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

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 2018. The Company has the power to amend and revise the financial report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are presented in accordance with the Papua New Guinea Companies Act 1997 and comply with International Financial Reporting Standards ('IFRS') and other generally accepted accounting practice in PNG. These financial statements have been prepared on an historical cost basis. The methods used to measure fair value are discussed further in accounting policy note 1(j).

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

The Group has a total operating cash outflow of US$2.6 million for the year ended 31 December 2017 (2016: US$4.1 million) and a net asset position of positive US$31.5 million (2016: negative US$6.3 million). Cash held at bank as at 31 December 2017 was US$6.8 million (2016: US$10.5 million).

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

Frieda River Limited, (a wholly owned subsidiary of PanAust Limited, which is in turn a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd) (from hereon, collectively referred to as 'GRAM') is responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programs up to the date of lodgement of the Special Mining Lease ('SML') application accompanied by the requisite completed feasibility study. PanAust Limited, on behalf of the Frieda River Joint Venture, submitted a SML application to the PNG Mineral Resources Authority ('MRA') on 24 June 2016. This lodgement satisfied a condition of the key Exploration License (EL58) that an application for a SML in respect of the Frieda River project be made on or before 30 June 2016.

The Group remains of the view that the feasibility study requires further work to achieve the required standard obligated by the Joint Venture Agreement ('EDMOA'), in particular, in relation to the Integrated Storage Facility ('ISF'). Refer note 9.

The parties are in dispute regarding their obligations under the joint venture agreement, including whether the Group is obliged to commence funding of project expenditures. The parties have agreed to seek a final and binding arbitration before a sole arbitrator.

The Group's borrowings of US$122 million include US$115 million for the Group's interest in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. These borrowings are held in the Group's wholly owned subsidiary Ramu Nickel Limited and are non-recourse to the Group or Parent entity Highlands Pacific Limited and are to be repaid out of the Group's share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating or financing cashflows generated by the remainder of the Group. The Group's borrowings in the Frieda River Limited project of US$7 million relate to the Carried Funding Loan.

At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 31 December 2017. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern. Refer note 14.

Standards, amendments and interpretations effective in the year ended 31 December 2017

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2017.

- Amendments to IAS 7 'Statement of Cash Flows' on disclosure initiative. These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IAS12 'Income Taxes' on recognition of deferred tax assets for unrealised losses. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- Annual improvements 2014 – 2016 – IFRS 12. This amendment clarifies that the disclosure requirements of IFRS 12 are applicable to interests in entities classified as held for sale except for summarised financial information.

(b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Highlands Pacific Limited as at 31 December 2017 and the results of all subsidiaries for the year then ended. Highlands Pacific Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

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

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

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

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

ii) Joint Ventures

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

iii) Associates

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

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

iv) Equity Method of Accounting

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

(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 ('US$'), which is the Group's functional and presentation currency.

The Board has determined that the primary economic environment in which the Group operates is determined by the US dollar, as the Group's investment process is based on US dollars and the majority of its likely future revenue streams are in US dollars or currencies related to US dollars.

Transaction and balances

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

Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in the foreign currency translation reserve within 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 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(h) Cash and cash equivalents

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

(i) Receivables

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

(j) Fair value estimation

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

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

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

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

(k) Property, Plant and Equipment

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

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

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

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

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

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

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

(l) Exploration and evaluation expenditure

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

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

When an area of interest is abandoned, any expenditure carried forward in respect to that area is written off, firstly against any existing provision for that expenditure with any remaining balance being charged to earnings. Upon commencement of development, accumulated expenditure is transferred from exploration and evaluation expenditure and is carried forward with development expenditure until the commencement of mining operations, at which time the expenditure is transferred to mining properties and property, plant and equipment.

(m) Impairment of long life assets

Property, plant and equipment and other non-current assets, including investments in mine development and exploration are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or a previous impairment needs to be reversed. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount and an impairment reversal is recognised for the amount by which the carrying amount of the asset is below the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(n) Trade and other payables

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

(o) Provisions

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

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

(p) Employee benefits

Wages and salaries, annual leave and sick leave

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

Long service leave

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

Retirement benefit obligations

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

Share-based payments

Share–based compensation benefits are provided to employees via the Executive Option Scheme and the Performance Rights Plan. Information relating to these are set out in note 25.

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

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

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

(q) Contributed equity

Ordinary shares are classified as equity.

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

(r) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

(s) Critical accounting judgements, estimates and assumptions

Judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances. The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

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

The Group, on each reporting date, tests whether there are indications that the carrying value of long life assets, such as investments in exploration and evaluation expenditure, development expenditure, and property, plant and equipment, have suffered any impairment. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, operating costs, capital costs and production rates. The impairment testing for the current year for the Group's interest in the Ramu Nickel mine, has been based on a real discount rate of 12.48%, proved and probable reserves, long term nickel prices of US$7.89/lb and cobalt prices of US$21.35/lb, and operating costs consistent with operator plans and historical data.

(t) New accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2017 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018). This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- IFRS 9, 'Financial Instruments' (effective 1 January 2018) replaces the guidance in IAS 39 with a standard that is less complex, and principles based. The new standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within OCI; this change can be adopted early without adopting IFRS 9. IFRS 9's new impairment model is a move away from IAS 39's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment losses is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed. The entity does not expect IFRS 9 to have a significant impact on current financial instrument classification and measurement practise.
- IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018) is a converged standard from the IASB and FASB on revenue recognition and replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

  The entity will have to adopt a new 5-step process for the recognition of revenue:

  - identify contracts with customers;
  - identify the separate performance obligations;
  - determine the transaction price of the contract;
  - allocate the transaction price to each of the separate performance obligations; and
  - recognise the revenue as each performance obligation is satisfied.

  The entity does not expect IFRS 15 to have a significant impact on current revenue recognition practise.
- IFRS 16, 'Leases' (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The timing of expense recognition will also be brought forward although the impact on reported profit is not expected to be significant.
- Annual improvements 2014 – 2016 makes minor changes to IFRS 1 and IAS 28 (effective 1 January 2018).
- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective 1 January 2018) addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made.
- IFRIC 23, 'Uncertainty over income tax treatments' (effective 1 January 2019) clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes' are applied where there is uncertainty over income tax positions. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
- Annual improvements 2015 – 2017 makes minor changes to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective 1 January 2019).

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

(u) Rounding

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

2. REVENUE

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Finance Income				
Interest income	109	90	-	-
Other Income				
Rental income	-	5	-	-

3. EXPENSES

		Consolidated		Holding Company	
		2017	2016	2017	2016
	Notes	US$000	US$000	US$000	US$000
Total operating costs		2,947	4,297	-	-
Operating costs are stated after charging / (crediting):					
Restructure and redundancy costs		-	1,031	-	-
General and administrative costs					
- salaries and employee benefits		1,282	1,709	-	-
- office costs		678	644	-	-
- consultants costs		238	122	-	-
- non-executive Director fees and benefits		206	219	-	-
- corporate affairs and public relations costs		368	38	-	-
- company secretarial and public listing costs		176	104	-	-
- travel and accommodation costs		24	32	-	-
- audit		102	103	-	-
- other services		32	35	-	-
		3,106	3,006	-	-
Depreciation					
- land and buildings	8	17	17	-	-
- plant and equipment	8	44	49	-	-
		61	66	-	-
Net foreign exchange (gains)/losses		(220)	194	-	-

4. INCOME TAX

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Reconciliation of income tax expense to prima facie tax expense				
Profit / (loss) before income tax expense for the year	37,437	(15,835)	258	(310)
Income tax expense/(benefit) on the profit/(loss) for the year at an average of 30% (2016: 30%)	11,231	(4,751)	77	(93)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Impairment of subsidiary advances	-	-	(77)	93
Non-deductible interest	1,930	1,880	-	-
Utilisation of prior year losses not previously brought to account	(5)	(811)	-	-
Unrealised foreign exchange gains/losses	(73)	46	-	-
Sundry non-deductible items	141	275	-	-
	13,224	**(3,361)**	**-**	**-**
Deferred tax asset not brought to account	(13,224)	3,361	-	-
Income tax expense	**-**	**-**	**-**	**-**
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	1,735	1,256	-	-
Potential tax benefit @ 30% - not recognised	**521**	**377**	**-**	**-**
Other deferred tax assets not recognised				
Amounts recognised in profit and loss				
Exploration costs and impairment	80,596	137,699	-	-
Unrealised foreign exchange gains	18	9	-	-
Provision for employee entitlements	40	302	-	-
	80,654	**138,010**	**-**	**-**
Set off against deferred tax liabilities (below)	(42)	(28)	-	-
Net deferred tax assets not recognised	**80,612**	**137,982**	**-**	**-**
Potential tax benefit @ 30% - not recognised	**24,184**	**41,395**	**-**	**-**
Total deferred tax benefit not recognised	**24,705**	**41,772**	**-**	**-**
Deferred tax liabilities				
Amounts recognised in profit and loss				
Provision for unearned income	(16)	-	-	-
Unrealised foreign exchange losses	(1)	(2)	-	-
Sundry items	(25)	(26)	-	-
Exploration costs	-	-	-	-
	(42)	**(28)**	**-**	**-**
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	42	28	**-**	**-**
Net deferred tax liability	**-**	**-**	**-**	**-**

The benefits for tax losses will only be obtained if:

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

The tax losses are available to be carried forward for a maximum of 20 years.

There are no income tax impacts relating to other comprehensive income.

5. EARNINGS PER SHARE

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

	2017	2016
Basic earnings per share		
Weighted average number of ordinary shares on issue ('000)	935,604	927,089
Profit/(Loss) attributable to ordinary equity holders of the company used to calculate basic earnings per share (US$000's)	37,437	(15,835)
Basic earnings per share (US$)	0.400	(0.0171)
Diluted earnings per share		
Weighted average number of ordinary shares on issue ('000)	935,604	927,089
Adjustments for calculation of diluted earnings per share		
- Options / Performance rights	17,325	-
Weighted average number of ordinary shares for diluted earnings per share on issue ('000)	952,929	927,089
Profit/(Loss) attributable to ordinary equity holders of the company used to calculate diluted earnings per share (US$000's)	37,437	(15,835)
Diluted earnings per share (US$)	0.0393	(0.0171)

Options and rights granted to employees are considered to be potential ordinary shares and included to the extent they are dilutive in the determination of diluted earnings per share. The options and rights have not been included in the determination of basic earnings per share. Details relating to options and rights are set out in note 16.

6. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Cash at bank and in hand	1,570	4,408	-	-
Short-term bank deposits	5,246	6,118	-	-
	6,816	**10,526**	**-**	**-**

a) Reconciliation to cash at the end of the year

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

b) Interest rate risk exposure

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

c) Contingent Liability

The Group has given a bank guarantee of US$49,871 (AU$63,937) for the leasing of property at 167 Eagle Street, Brisbane, Australia.

7. RECEIVABLES

	Consolidated		Holding Company	
	2017	**2016**	**2017**	**2016**
Current	**US$000**	**US$000**	**US$000**	**US$000**
Sundry receivables	64	58	-	-
Receivable from joint venturers*	1,534	1,386	-	-
	1,598	**1,444**	**-**	**-**

*Represents an amount owing by MCC Ramu NiCo Limited relating to Highlands' share of the cash distribution from the Ramu Nickel mine. This also includes an amount owing by Sojitz Group ('Sojitz') for cash call relating to Highlands' management of the Sewa Bay project. In 2016, this represents an amount owing by MCC Ramu Nico Limited relating to Highlands' share of the MHP sales of the Ramu Nickel mine.

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Plant and Equipment	Total
	US$000	**US$000**	**US$000**
CONSOLIDATED - 2017			
Cost			
Cost brought forward	240	571	811
Additions	2	-	2
Cost carried forward	**242**	**571**	**813**
Depreciation			
Brought forward	147	482	628
Charge for the year	17	44	61
Depreciation carried forward	**164**	**526**	**689**
Net book value at 31 December 2017	**79**	**45**	**124**
CONSOLIDATED - 2016			
Cost			
Cost brought forward	232	571	803
Additions	8	7	15
Written off	-	(7)	(7)
Cost carried forward	**240**	**571**	**811**
Depreciation			
Brought forward	130	439	569
Charge for the year	17	49	66
Written off	-	(7)	(7)
Depreciation carried forward	**147**	**482**	**628**
Net book value at 31 December 2016	**94**	**89**	**183**

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 2017	27,500	9,600	37,100
Capitalised during the year:			
- Direct holding cost	647	88	735
- Interest on Frieda carried funding loan	201	-	201
Management fee (reduction of previous exploration expenditure provision)	-	(446)	(446)
Provision of exploration costs	-	358	358
Balance 31 December 2017	**28,348**	**9,600**	**37,948**
Balance 1 January 2016	26,887	9,600	36,487
Capitalised during the year:			
- Direct holding cost	455	39	494
- Interest on Frieda carried funding loan	158	-	158
Management fee (reduction of previous exploration expenditure provision)	-	(615)	(615)
Provision of exploration costs	-	576	576
Balance 31 December 2016	**27,500**	**9,600**	**37,100**

Frieda

The carrying value of the Group's interest in the Frieda River project is US$28.3 million at 31 December 2017. The US$0.8 million increase represents Highlands' direct holding costs in overseeing its interest in the Frieda River project and the capitalization of interest on the Carried Funding Loan owed to Frieda River Limited (FRL), (a wholly owned subsidiary of PanAust Limited, which is in turn a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd) ('GRAM'). Refer note 14.

In assessing the carrying value of the Group's interest in the Frieda River project the Directors have adopted a fair value less cost to sell valuation methodology. The valuation has been based on the transaction between PanAust Limited and Glencore plc previously announced to the market, together with the additional activities and expenditure undertaken by FRL.

FRL is responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programs up to the date of lodgement of the Special Mining Lease ('SML') application accompanied by the requisite completed feasibility study. PanAust Limited, on behalf of the Frieda River Joint Venture, submitted a SML application to the PNG Mineral Resources Authority ('MRA') on 24 June 2016. This lodgement satisfied a condition of the key Exploration License (EL58) that an application for a SML in respect of the Frieda River project be made on or before 30 June 2016.

The Group remains of the view that the feasibility study requires further work to achieve the required standard obligated by the Joint Venture Agreement ('EDMOA'), in particular, in relation to the Integrated Storage Facility ('ISF').

The parties are in dispute regarding their obligations under the joint venture agreement, including whether Highlands is obliged to commence funding of project expenditures. The parties have agreed to seek a final and binding arbitration before a sole arbitrator. Reference is made to the Group's ASX Announcement dated 14 July 2017.

The Group's expenditure to date on the Frieda River project is US$47.4 million.

Other

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

On 11 February 2015, the Group executed Joint Venture and Farm-in agreements for the Star Mountains project with a wholly owned subsidiary of Anglo American. The agreements resulted in Highlands receiving a total of US$10 million from Anglo American, in two tranches of US$5 million each, with Anglo American obtaining an undivided 51% interest in the project and associated property including tenements. As a result of the transaction with Anglo American a carrying value of US$9.6 million was recognised during the 2015 year. The Star Mountains project results in the Group receiving management fees, which are applied to previous exploration expenditure, giving a reversal of prior provisions for exploration costs.

Management of the Star Mountains project was transferred to Anglo American in July 2017 (reference is made to the Group's ASX Announcement dated 19 July 2017). Anglo American withdrew from the Star Mountains Joint Venture in early 2018 (reference is made to the Group's ASX Announcement dated 8 February 2018), the Group has regained 100% of the Star Mountain tenements. Refer note 26.

The Groups' expenditure to 31 December 2017 on the Star Mountains project, net of receipt of management fees and payments from Anglo American, is US$17 million.

10. INVESTMENT IN RAMU NICKEL MINE

	31 Dec 2017	31 Dec 2016
	US$000	US$000
(i) Summarised financial information for Ramu Nickel Mine		
Current Assets	92,764	151,884
Non-current Assets	1,666,726	1,764,717
Current Liabilities	73,796	61,343
Non-current Liabilities	34,187	29,952
Net Assets	1,651,507	1,825,306
Group's share of net assets	141,369	156,246
Provisions for impairment	(31,369)	(74,246)
Investment at recoverable amount	110,000	82,000
Reconciliation to carrying amounts:		
Opening net assets	82,000	85,000
Share of associated entity's production costs	(19,857)	(15,796)
Share of associated entity's other comprehensive loss	(10,127)	(5,978)
Share of additional contribution	15,107	19,164
Reversal of/(provision for) impairment	42,877	(390)
Closing net asset	**110,000**	**82,000**
(ii) Interest in Ramu Nickel Mine		
Revenue	35,586	17,806
Other indirect costs	(2,001)	(1,419)
Share of associated entity's production costs	(19,857)	(15,796)
Share of associated entity's other comprehensive loss	(10,127)	(5,978)
Direct holding costs	(128)	(167)
Share of associated entity's total comprehensive income/(loss)	**3,473**	**(5,554)**
(iii) Sale of MHP Product		
Share of associated entity's MHP Products (Wet Metric Tonnes)	21,094	14,221
Revenue from sales of MHP products	35,585	17,804
Other revenue	1	2
(iv) Loan to MCC Ramu Nico Limited		
Opening balance	128,962	119,533
(Repayment of) further funding for cash calls	(8,231)	2,059
Sales commission payable to MCC Ramu Nico Limited	772	702
Interest accrued	6,433	6,265
Loan repayment	(12,676)	-
Additional drawdown	-	403
Closing balance	**115,260**	**128,962**

On nomination, the Group recognised a loan balance owing to MCC Ramu NiCo Limited for its 8.56% share of capped development costs plus accumulated interest for monies paid by MCC Ramu NiCo Limited to lenders on behalf of the Group up to 1 January 2015. These borrowings are non-recourse to the Company and the Group (excluding Ramu Nickel Limited) and will be repaid by Ramu Nickel Limited out of its share of operating surpluses less ongoing capital expenditure requirements at the current agreed rate of 80% of this net distribution. This repayment methodology has been extended for another year until 31 December 2018.

The carrying value of the Group's interest in the Ramu Nickel mine has been increased to US$110 million.

This is mainly driven by the recovery of commodity prices in the short to medium term which is partially offset by the increase in operating costs. In assessing the carrying value of its interest in the Ramu Nickel mine, the Directors have adopted a value in use ('VIU') methodology as to the present value of the expected future cash flows before financing from 2018 through to 2031. The calculations use cash flow projections based on financial budgets covering the period from 2018 to 2031.

Key assumptions

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

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

Assumptions	2017	2016
Nickel Price	US$5.26 – US$7.89	US$5.07 – US$8.27
Cobalt Price (US/Lb)	US$21.35 – US$29.55	US$13.41 – US$14.03
LOM years	14 years	14 years
Production Rate	100%	100%
After tax discount rate (Real)	12.48%	11.57%

(Nb. Prices above are nominal.)

Sensitivities

Management performed a sensitivity analysis on the commodity price of nickel, which is the key assumption that impacts impairment calculations. While holding all other assumptions constant, a positive 10% movement in the price assumptions range for nickel results in a movement in the present value of future cash flows of approximately US$14 million, while a negative 10% movement results in a reduction of US$13 million.

Holding all other assumption constant, a change in WACC to 12% would result in an increase in the present value of future cashflows of US$3 million and change in WACC to 13% would result in a decrease of US$3 million.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of the asset relatively modest changes in one or more assumptions could require a material adjustment (negative or positive) to the carrying value of the related non-current asset within the next reporting period. The inter-relationships of the significant assumptions upon which estimated future cashflows are based are such that it is impracticable to disclose the extent of the possible effects of changes in all key assumptions in isolation.

11. INVESTMENTS IN SUBSIDIARIES

	% Shareholding *	Class of Share	Country of Incorp
Ramu Nickel Limited	100	Ordinary	PNG
Highlands Frieda Limited	100	Ordinary	PNG
Highlands Pacific Resources Limited	100	Ordinary	PNG
Highlands Pacific Australia Pty Limited	100	Ordinary	Australia
Highlands Pacific Services Limited	100	Ordinary	PNG

*No change from the 2016 year.

	Holding Company	
	2017	**2016**
INVESTMENTS AT COST	**US$000**	**US$000**
Investments in subsidiaries - at cost	130,186	130,186
Less: provision for diminution	(120,641)	(120,641)
	9,545	**9,545**

12. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Advances to subsidiaries				
Advances	-	-	176,460	176,071
Less provision for write-off	-	-	(154,679)	(154,937)
	-	**-**	**21,781**	**21,134**
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	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Trade creditors	47	377	-	-
Payable to joint ventures*	2,255	-	-	-
Accruals and other creditors**	569	1,628	-	-
	2,871	**2,005**	-	-

*Represents US$1.8 million prepayments received from customers relating to Highlands' share of MHP sales of the Ramu Nickel mine, it also includes US$463,590 owing to Anglo American plc ('Anglo American') for cash call relating to the Star Mountain project.

**Other creditors include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. Current leave obligations expected to be settled after 12 months are US$41,603 (2016: US$37,573).

14. BORROWINGS

	Consolidated	
	2017	2016
	US$000	US$000
Current		
Loan from MCC Ramu NiCo Limited**	9,270	4,381
Closing Balance	**9,270**	**4,381**
Non-Current		
Loan from FRL*	6,621	6,420
Loan from MCC Ramu NiCo Limited**	105,990	124,581
	112,611	**131,001**

*The Carried Funding Loan represents the amount owing to FRL (a wholly owned subsidiary of PanAust Limited, which is in turn a wholly owned subsidiary of GRAM) as at 31 December 2017. This loan is as a result of FRL carrying the Group's share of expenditure on the Frieda project from 23 January 2012 up until 25 August 2014, the date on which former joint venture partner Glencore divested its interest. The Carried Funding Loan has been classified as a financial liability in accordance with IAS32 Financial Instruments - Presentation and measured at amortised cost. Interest on the loan of US$200,687 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 Borrowing Costs. This loan balance will continue to accrue interest at a rate of 'US$ one month LIBOR' plus 2% and is repayable by Highlands out of production cash flows.

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

**The amount classified as current represents that portion of the loan expected to become repayable within 12 months of year end.

15. PROVISIONS

	Consolidated	
	Employee Entitlements	Employee Entitlements
	2017	2016
	US$000	US$000
Opening Balance - long service leave	146	308
Charged for the year	40	(162)
Closing Balance - long service leave	**186**	**146**
Analysis of total provisions:		
Current	177	122
Non-Current	9	24
	186	**146**

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

16. CONTRIBUTED EQUITY

a) Paid Up Capital – Consolidated and Holding Company

	Consolidated		Holding Company	
	2017	2016	2017	2016
			Shares	Shares
	US$000	US$000	000's	000's
Balance 1 January	303,911	303,913	927,778	920,578
Issued during the year	-	-	8,138	7,200
Less costs associated with issue	(5)	(2)	-	-
Balance 31 December	**303,906**	**303,911**	**935,916**	**927,778**

The total number of shares issued as at 31 December 2017 was 935,915,836 (2016: 927,777,086). In accordance with the Papua New Guinea Companies Act 1997 the Company's shares are fully paid, have no par value and there is no authorised capital level.

b) Movement in paid up capital

Date	Details	Notes	No. of Shares	Issue Price AU$	US$000
1 January 2017	Opening balance		927,777,086		303,911
3 January 2017	Exercising of zero priced employee performance rights	(i)	5,508,750	0.000	-
6 February 2017	Exercising of zero priced employee performance rights	(i)	2,630,000	0.000	-
	Transaction costs arising on share issue above				(5)
31 December 2017	Balance		935,915,836		303,906

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

c) Performance Rights

The number of unissued ordinary shares under performance rights at 31 December 2017 is 17,325,000 (2016: 30,065,000).

Performance Rights issued under the Highlands Pacific Performance Rights Plan

	No. of performance rights issued	Vesting date / Expiry Date	Exercised during current and previous years	Expired during current and previous years
Tranche 1	12,740,000	31 December 2016	8,138,750	4,601,250
Tranche 1, 2	17,325,000	31 December 2017	-	-

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

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

On 3 January 2017, 5,508,750 and on 6 February 2017, 2,630,000 performance rights from Tranche 1 vested and shares were issued, with the balance lapsing unexercised due to performance hurdles not being met.

The rights granted during the 2015 year vest subject to completion of performance hurdles and expired on 31 December 2017. On 22 January 2018, 14,287,500 performance rights from Tranche 1 and 2 vested and shares were issued, with the balance lapsing unexercised due to performance hurdles not being met.

Information relating to the Highlands Pacific Performance Rights Plan, including details of performance rights issued, exercised or lapsed during the financial year and performance rights outstanding at the end of the financial year, is further set out in note 25.

17. RESERVES

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Foreign Currency Translation Reserve				
Balance brought forward	(9,750)	(9,750)	(6,268)	(6,268)
Movement for the year	-	-	-	-
Balance carried forward	**(9,750)**	**(9,750)**	**(6,268)**	**(6,268)**
Share-based Payments Reserve				
Balance brought forward	5,368	4,601	5,368	4,601
Fair value of options and performance rights expensed	394	767	394	767
Balance carried forward	**5,762**	**5,368**	**5,762**	**5,368**
Total Reserves	**(3,988)**	**(4,382)**	**(506)**	**(900)**

Nature and purpose of reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve relates to exchange differences which arose on the previous change in the Group's functional currency from Papua New Guinean Kina to US Dollar.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (US Dollar) are translated on consolidation and any exchange differences arising from the translation of any net investment in foreign entities are taken to the foreign currency translation reserve. There were no exchange differences in 2017 as no entity has a different functional currency; US Dollar is the functional and presentation currency of all the Group entities.

Share-based Payments Reserve

The share-based payments reserve is used to recognise the fair value of performance rights issued.

18. REMUNERATION OF EMPLOYEES

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

		Group No. of Employees	
US$	**PGK**	**2017**	**2016**
34,540 - 37,680	110,000 - 119,999	-	1
43,960 - 47,100	140,000 - 149,999	-	2
65,940 - 69,080	210,000 - 219,999	-	1
69,080 - 72,220	220,000 - 229,999	-	1
72,220 - 75,360	230,000 - 239,999	1	-
87,920 - 91,060	280,000 - 289,999	1	-
97,340 - 100,480	310,000 - 319,999	1	-
100,480 - 103,620	320,000 - 329,999	-	1
122,460 - 125,600	390,000 - 399,999	-	1
131,880 - 135,020	420,000 - 429,999	-	1
138,160 - 141,300	440,000 - 449,999	-	1
194,680 - 197,820	620,000 - 629,999	-	1
213,520 - 216,660	680,000 - 689,999	1	-
232,360 - 235,500	740,000 - 749,999	1	-
251,200 - 254,340	800,000 - 809,999	-	1
310,860 - 314,000	990,000 - 999,999	-	1
342,260 - 345,400	1,090,000 - 1,099,999	-	1
Total		**5**	**13**

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

The 2017 comparatives have been converted at the current year exchange rates to arrive at the equivalent US Dollar bands.

PGK1.00 = US$0.3140.

19. INTERESTS IN OTHER ENTITIES

At 31 December 2017

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

1. Ramu: the Group's 8.56% interest increases to 11.30% at no cost to the Group after the debt for the financing of the project has been repaid. At this time the Group also has the option to purchase an additional 9.25% interest at market value, which if exercised would take the Group's interest to 20.55%. Refer note 10.
2. Frieda River: GRAM has an 80% interest in the Frieda River Joint Venture with Highlands having the remaining 20%. Refer note 9.
3. Star Mountains: on 11 February 2015 the Group executed Joint Venture and Farm-in agreements for the Star Mountains project with a wholly owned subsidiary of Anglo American. The agreements result in Highlands receiving a total of US$10 million from Anglo American in two tranches of US$5 million. The first tranche was received upon signing of the agreements on 11 February 2015, with the second US$5 million being received on 11 February 2016. Anglo American can earn an 80% interest in the joint venture – 51% by spending US$25 million on exploration over four years and declaring a 43-101/JORC compliant inferred resource of 3 million tonnes of contained copper-equivalent by 11 February 2020 and a further 29% by completing and funding a Bankable Feasibility Study ('BFS') by 11 February 2030. Anglo American will also provide Highlands with up to US$150 million in project development funding as a deferred free-carry following the completion of the BFS. Management of the Star Mountains project was transferred to Anglo American in July 2017 (reference is made to the Group's ASX Announcement dated 19 July 2017). Anglo American withdrew from the Star Mountains Joint Venture in early 2018 (reference is made to the Group's ASX Announcement dated 8 February 2018), the Group has regained 100% of the Star Mountain tenements.
4. The joint ventures as stated are subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development in that country.

20. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Parent entity

The parent entity within the Group is Highlands Pacific Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 11.

(c) Key management personnel

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

Name	Position
S Moser	Chief Financial Officer
L Nand	General Manager Exploration (ceased employment on 15 September 2017)
R Gawi	General Manager Port Moresby

(d) Key management personnel compensation

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Short-term employee benefits*	1,129	2,495	-	-
Share based payments	167	706	-	-
	1,296	**3,201**	**-**	**-**

*Key management personnel includes director's remuneration.

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

2017 Year	Cash Remuneration and Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
Name and Position	US$000	US$000	US$000	US$000	US$000	US$000
K MacDonald, *Chairman**	18	-	-	2	-	20
R Douglas, *Chairman**	63	-	-	6	-	69
C Lennon, *Managing Director*	363	-	-	22	86	471
D Wood, *Non-Executive Director**	34	-	-	3	-	37
M Carroll, *Non-Executive Director**	12	-	-	1	-	13
J Wylie, *Non-Executive Director**	25	-	-	2	-	27
B Philemon, Non-Executive Director	37	-	-	3	-	40
Total	**552**	**-**	**-**	**39**	**86**	**677**

2016 Year	Cash Remuneration and Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
Name and Position	US$000	US$000	US$000	US$000	US$000	US$000
K MacDonald, *Chairman*	78	-	-	7	-	85
J Gooding, *Managing Director***	971	-	-	39	328	1,338
C Lennon, *Managing Director***	31	-	-	-	-	31
D Wood, *Non-Executive Director*	39	-	-	4	-	43
M Carroll, *Non-Executive Director*	39	-	-	4	-	43
B Philemon, *Non-Executive Director*	39	-	-	4	-	43
Total	**1,197**	**-**	**-**	**58**	**328**	**1,583**

*Ken McDonald ceased as Chairman on 28 March 2017 and Ron Douglas was appointed as Chairman from 28 March 2017. Mike Carroll ceased as director on 19 April 2017 and John Wylie was appointed as director from 19 April 2017. John Wylie's director's fees were paid to PNG SDP. Dan Wood ceased as director on 24 November 2017.

**John Gooding ceased employment on 30 November 2016 (his 2016 cash remuneration includes US$555,000 in termination payment and US$328,000 in share-based payments) and Craig Lennon was appointed as Managing Director from 1 December 2016.

(e) Equity instrument disclosures relating to key management personnel

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

Details of share-based payments are disclosed in note 25.

Performance Rights holdings

The number of 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.

2017 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*	9,450,000	-	(3,262,500)	(1,087,500)	5,100,000	5,100,000
C Lennon*	5,920,000	-	(1,360,000)	(1,360,000)	3,200,000	3,200,000
Other key management personnel of the Group						
S Moser*	1,795,000	-	(410,000)	(410,000)	975,000	975,000
L Queen*	2,390,000	-	(817,500)	(272,500)	1,300,000	1,300,000
P Jolly*	4,155,000	-	(1,428,750)	(476,250)	2,250,000	2,250,000
R Gawi	1,795,000	-	(410,000)	(410,000)	975,000	975,000
L Nand	2,250,000	-	-	-	2,250,000	2,250,000

2016 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*	12,050,000	-	(2,600,000)	-	9,450,000	4,350,000
C Lennon*	7,545,000	-	(1,625,000)	-	5,920,000	2,720,000
Other key management personnel of the Group						
S Moser*	2,283,000	-	(488,000)	-	1,795,000	820,000
L Queen*	3,040,000	-	(650,000)	-	2,390,000	1,090,000
P Jolly*	5,293,000	-	(1,138,000)	-	4,155,000	1,905,000
R Gawi	2,283,000	-	(488,000)	-	1,795,000	820,000
L Nand	2,250,000	-	-	-	2,250,000	-

*John Gooding ceased employment on 30 November 2016 and Craig Lennon was appointed as Managing Director from 1 December 2016. Sylvie Moser was appointed as Chief Financial Officer from 1 December 2016. L Queen and P Jolly ceased employment on 1 October 2016.

Shareholdings

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.

2017 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*	1,000,000	-	-	1,000,000
C Lennon	2,190,000	1,360,000	.	3,550,000
D Wood*	1,100,000	-	-	1,100,000
M Carroll*	304,307	-	-	304,307
B Philemon	1,028	-	-	1,028
Other Key Management Personnel of the Group				
S Moser	80,500	410,000	(390,500)	100,000
R Gawi	715,500	410,000	-	1,125,500

* Ken McDonald ceased as Chairman on 28 March 2017 and Ron Douglas was appointed as Chairman from 28 March 2017. Mike Carroll ceased as director on 19 April 2017 and John Wylie was appointed as director from 19 April 2017. John Wylie's director's fees were paid to PNG SDP. Dan Wood ceased as director on 24 November 2017.

2016 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	1,000,000	-	-	1,000,000
M Carroll	304,307	-	-	304,307
D Wood	1,100,000	-	-	1,100,000
J Gooding	4,200,215	2,600,000	-	6,800,215
B Philemon	1,028	-	-	1,028
C Lennon	1,065,000	1,625,000	(500,000)	2,190,000
Other Key Management Personnel of the Group				
S Moser	142,500	488,000	(550,000)	80,500
L Queen	520,000	650,000	-	1,170,000
P Jolly	2,327,500	1,138,000	-	3,465,500
R Gawi	227,500	488,000	-	715,500

(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	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Advances to / from subsidiaries				
Beginning of the year	-	-	176,071	175,306
Movement during the year	-	-	390	765
End of year	**-**	**-**	**176,461**	**176,071**

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

(h) Transactions with related parties

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
The following transactions occurred with related parties				
Fees from associate	446	615	-	-
Management fees to subsidiaries	-	-	-	-

21. SEGMENT REPORTING

a) Description of Segments

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

b) Reportable Segment Results

The segment information provided to management for the reportable segments for the year ended 31 December 2017 is as follows:

Consolidated	Exploration / Evaluation*	Frieda	Ramu	Corporate	Group
	US$000	US$000	US$000	US$000	US$000
2017					
Segment revenue	-	-	-	109	109
Segment result	358	-	39,917	(2,838)	37,437
Net Profit/(Loss)	358	-	39,917	(2,838)	37,437
Segment assets	9,600	28,348	110,000	8,538	156,486
Reversal of/ impairment of assets	-	-	42,877	-	42,877
Segment liabilities	(738)	(6,641)	(117,114)	(445)	(124,938)
Acquisition of segment assets	-	-	-	2	2
Segment depreciation and amortisation	-	-	-	61	61
2016					
Segment revenue	-	-	-	95	95
Segment result	576	-	(12,209)	(4,202)	(15,835)
Net Profit/(Loss)	576	-	(12,209)	(4,202)	(15,835)
Segment assets	9,600	27,499	82,000	12,155	131,254
Impairment of assets	-	-	(390)	-	(390)
Segment liabilities	(1,290)	(6,432)	(129,022)	(789)	(137,533)
Acquisition of segment assets	-	-	-	16	16
Segment depreciation and amortisation	-	-	-	66	66

*Excluding Frieda

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

		Consolidated		Holding Company	
		2017	2016	2017	2016
	Notes	US$000	US$000	US$000	US$000
Reported Net Profit/(Loss) after Taxation		**37,437**	**(15,835)**	**258**	**(310)**
Add/(less) non-cash and non-operating items:					
Depreciation and amortisation	8	61	66	-	-
Exploration, evaluation and development costs				-	-
Reversal of provision for exploration costs		(358)	(576)	-	-
(Reversal of)/impairment of non-current assets		(42,877)	390	-	-
(Reversal of)/impairment of subsidiary advances		-	-	(258)	310
Share of operating (profit)/loss of equity accounted investments		(3,473)	5,554	-	-
Fair value of share based payments		394	767	-	-
Impairment of investment in subsidiaries/(reversal) of impairment		-	-	-	-
Net (gain)/loss on foreign currency balances	3	(220)	194	-	-
Interest expense		6,433	6,265	-	-
		(40,040)	**12,660**	**(258)**	**310**
Add/(less) movements in working capital items:					
(Increase)/decrease in debtors and prepayments		(6)	(8)	-	-
Increase/(decrease) in creditors and provisions		4	(939)	-	-
		(2)	**(947)**	**-**	**-**
Net Cash Flow from Operating Activities		**(2,605)**	**(4,122)**	**-**	**-**

23. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	116	111	-	-
One to two years	118	111	-	-
Two to five years	180	243	-	-
	414	**465**	**-**	**-**

24. FINANCIAL RISK MANAGEMENT

Overview

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

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

a) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding committed transactions.

In relation to banks and financial institutions only the major Australian banking institutions and international institutions are used for the depositing of surplus funds. The long term credit rating of the banks and financial institutions in which funds are deposited at 31 December 2017 are B+ and AA-.

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

	Carrying Amount	
	2017	**2016**
	US$000	**US$000**
Cash and cash equivalents	6,816	10,526
Other receivables	1,598	1,444
	8,414	**11,970**

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

	2017		2016	
	Gross	**Impairment**	**Gross**	**Impairment**
	US$000	**US$000**	**US$000**	**US$000**
Not past due				
6 months or less	1,598	-	1,444	-
6 to 12 months	-	-	-	-
	1,598	**-**	**1,444**	**-**

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

(b) Liquidity risk

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

The following are the contractual maturities of financial liabilities:

	Total	**6 months or less**	**6 - 12 months**	**>1 years**
	US$000	**US$000**	**US$000**	**US$000**
Consolidated 31 December 2017				
Non-derivative financial liabilities				
Trade and other creditors	2,871	2,871	-	-
Borrowings	121,881	-	9,270	112,611
	124,752	**2,871**	**9,270**	**112,611**
Consolidated 31 December 2016				
Non-derivative financial liabilities				
Trade and other creditors	2,005	2,005	-	-
Borrowings	135,382	-	4,381	131,001
	137,387	**2,005**	**4,381**	**131,001**

(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 2017 year the Group incurred a gain of US$219,863 as shown in the Statements of Comprehensive Income and note 3. This has resulted from the movement in the Australian Dollar to the US Dollar.

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

	Consolidated		Holding Company	
	2017	2016	2017	2016
	AU$000	AU$000	AU$000	AU$000
Cash and cash equivalents	4,481	4,693	-	-
Other receivables	16	17	-	-
Trade and other creditors	(307)	(1,491)	-	-
	4,190	**3,219**	**-**	**-**

	Consolidated		Holding Company	
	2017	2016	2017	2016
	PGK$000	PGK$000	PGK$000	PGK$000
Cash and cash equivalents	832	911	-	-
Other receivables	130	107	-	-
Trade and other creditors	(488)	(1,196)	-	-
	474	**(178)**	**-**	**-**

The following significant exchange rates applied during the year:	Average Rate		Reporting Date Spot Rate	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
AUD	0.7644	0.7426	0.7800	0.7236
PGK	0.3140	0.3209	0.3095	0.3150

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$341,470 (2016: US$227,350).

Interest rate risk

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

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

The Group does have US$2,043,800 on deposit at rate 1.58% (2016: US$3,047,606 ranging from 0.8% and 0.88%). It also has AU$4,105,444 on deposit at rates ranging between 2.10% and 2.26% (2016: AU$4,103,619 ranging from 1.74% and 2.39%). There is no PGK on deposit at December 2017 (2016: 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$87,000 (2016: US$98,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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

A change of 100 basis points (plus 1% / minus 1%) in interest rates on long-term borrowings would have affected equity and profit and loss by US$1.1 million (2016: US$900,000).

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 is exposed to commodity price risk. This arises from the sale of nickel and cobalt that is priced on, or benchmarked to, open market exchanges. The products are sold by MCC Ramu Nico Limited as sales agent on behalf of the Group at prevailing market prices such as the London Metal Exchange (LME) and Metal Bulletin (MB). The products, predominantly nickel and cobalt, are provisionally priced, that is the selling price is determined preceding the month of shipment followed by an adjustment using the average price of the month of shipment after delivery to the customers. As at 31 December 2017, contracts for the physical delivery of commodities are carried in the balance sheet at their realised prices. Derivative commodity contracts may be used to align realised prices to manage risk exposure although at balance date there were no derivative commodity contracts being used.

(d) Capital Management

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

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

Consistent 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 2017, the Group's strategy was unchanged from 2016 and is reviewed by the Board.

(e) Fair value

The carrying amounts of cash, short term receivables and short term payables are a reasonable approximation of fair value due to their short term nature.

The fair values of borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is close to current market rates.

25. SHARE-BASED PAYMENTS

(a) Performance Rights Plan

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

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

Grant date	Hurdle / vesting date	Expiry date	Exercise Price (AU$)	Balance start of year	Granted during year	Exercised during year	Expired during current / prior year	Balance at end of year	Exercisable at end of year
22/05/14	31/12/16	31/12/16	0.0000	12,740,000	-	(8,138,750)	(4,601,250)	-	-
10/04/15	31/12/17	31/12/17	0.0000	12,225,000	-	-	-	12,225,000	12,225,000
21/05/15	31/12/17	31/12/17	0.0000	5,100,000	-	-	-	5,100,000	5,100,000

Fair Value of performance rights granted

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

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

(b) Cost arising from share-based payment transactions

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

	December 2017	December 2016
	US$000	US$000
Options issued under Executive Option Scheme and performance rights issued under the Performance Rights Plan	394	767
Total	**394**	**767**

26. EVENTS OCCURRING AFTER BALANCE DATE

Anglo American withdrew from the Star Mountains Joint Venture in early 2018 (reference is made to the Group's ASX Announcement dated 8 February 2018), the Group has regained 100% of the Star Mountain tenements. The Group will be seeking to introduce a new partner to fund exploration drilling going forward.

27. SUPPLEMENTARY INFORMATION

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

	Consolidated		Holding Company	
	2017	**2016**	**2017**	**2016**
	PGK000	**PGK000**	**PGK000**	**PGK000**
Revenue	347	296	-	-
Net (Loss)/Profit after tax	119,226	(49,346)	822	(966)
Total Assets	505,609	416,679	101,215	97,394
Total Liabilities	403,677	436,613	10	10
Net Assets	101,929	(19,934)	101,205	97,384

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2016 of PGK1.00 = US$0.3095 (2016-year PGK1.00 = US$0.3150) while income and expense items are translated at the average rate for the year PGK1.00 = US$0.3140 (2016 year PGK1.00 = US$0.3209).

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 2017 and performance of the Company and the Consolidated Entity for the year ended on that date; and are in accordance with the Papua New Guinea Companies Act 1997.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

Ron Douglas
Chairman
20 March 2018

Craig Lennon
Managing Director

Independent Auditor's Report

to the shareholders of Highlands Pacific Limited

Report on the audit of the financial statements of the Company and the Group

Our opinion

We have audited the financial statements of Highlands Pacific Limited (the Company), which comprise the statements of financial position as at 31 December 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2017 or from time to time during the financial year.

In our opinion, the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and their financial performance and cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

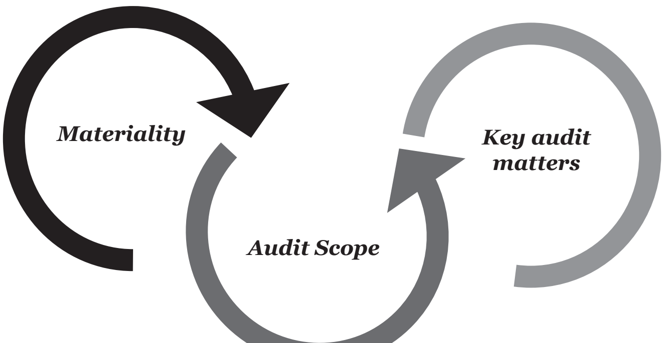
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the area of taxation compliance and advice. The provision of these other services has not impaired our independence as auditor of the Company and the Group.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Company and the Group, their accounting processes and controls and the industries in which they operate.



Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit of the Group we used overall group materiality of US$1,560,000 which represents 1% of the Group's total assets. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole. • We chose Group total assets because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark. • We selected 1% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds.	• We (PwC Papua New Guinea) conducted audit work over all the subsidiaries which comprise the Group consolidation. • All subsidiaries of the Group are incorporated and operating in Papua New Guinea and audited by PwC Papua New Guinea with the exception of one subsidiary incorporated in Australia. • Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: - Assessment of the carrying value of the investment in the Ramu Nickel mine - Exploration and evaluation expenditure impairment indicator assessment - Assessment of future cashflows • These matters are further described in the *Key audit matters* section of our report.

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PwC Haus, Level 6, Harbour City, Konedobu
PO Box 484, Port Moresby, Papua New Guinea
T: (675) 321 1500 / (675) 305 3100, F: (675) 321 1428, www.pwc.com.pg

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report.

Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	*How our audit addressed the key matter*
Assessment of the carrying value of the investment in the Ramu Nickel mine of US$110 million and associated impairment reversal of US$42.9 million *(Refer to note 10 of the financial statements)* With changes from a year ago in a number of assumptions used to determine the carrying value of the Group's investment in the Ramu Nickel mine, including long term forecast pricing for nickel and cobalt, the Group has performed an impairment assessment of its carrying value and recognised a partial reversal of previous impairment charges. To assess the carrying value of the investment, the Group has prepared a calculation of the value of the investment based on the net present value of the expected future cash flows before financing costs. The net present value of the expected future cashflows and the reversal of impairment charge calculated by the Group are US$110 million and US$42.9 million respectively. The key assumptions used in the financial model include long term nickel and cobalt pricing, budgeted operating costs, mine production profile based on the current reserves and resources estimate and the discount rate, as well as the time frames in which the revenues and expenses will occur. Given the investment in the Ramu Nickel mine has previously been impaired, the carrying value assessment is sensitive to changes in all key assumptions in the financial model. Our audit focused on the assessment of the reversal of impairment and carrying value recognised as both are significant for the Group because of the significant judgements around the key assumptions used in assessing the carrying value of the asset and the sensitivity of the carrying value to changes in these key assumptions.	We have considered and tested the financial model prepared and used by the Group to support the carrying value of the Ramu Nickel mine investment and the reversal of impairment recognised at year end. We compared the financial model with the previous year's model and found it was consistently structured and consistent with the basis of preparation required by International Financial Reporting Standards. Together with our valuation expert we reviewed the methodology adopted in the financial model. We benchmarked the long term nickel and cobalt price assumptions used in the financial model against external forecasts, and the discount rates with our expectation based on the overall estimated Weighted Average Cost of Capital (WACC) for the Group and the specific risks associated with the estimated cashflows from the asset. We performed sensitivity analysis on assumptions used in the financial model. We determined that the calculations were more sensitive to assumptions for nickel and cobalt pricing and discount rates and focused our testing on these assumptions.
Exploration and evaluation expenditure of US$37.9 million impairment indicator assessment *(Refer to note 9 of the financial statements)* Our audit focused on the Group's assessment for indicators of impairment of the carrying value of the exploration and evaluation expenditure asset, because this is one of the significant assets of the Group. The asset includes capitalised expenditure in relation to two areas of exploration interests which are at varying degrees of advancement. We considered this a key audit matter because there are significant judgements involved in considering the existence of indicators of impairment, including consideration of any factors arising that would impact the status or value of each project. If there are indicators of impairment an assessment of the recoverable values of the exploration projects would be required.	We considered the directors' assessment of the existence of potential indicators of impairment. Our procedures included: - Reading the exploration licence terms and conditions for the respective projects. - Examining exploration budgets for 2018 and reading minutes to understand the nature of ongoing activities in each area of interest. - Considering the impact of changes in external forecast gold and copper prices. - Comparing the current carrying value of the projects to historical transactions used to support the carrying value of the capitalised costs and considering if there were any factors subsequent to these transactions that were an indicator of impairment. - Evaluating the disclosures made in note 9, including those regarding the basis for the carrying value of the projects, in light of the requirements of International Financial Reporting Standards.

Key audit matter	*How our audit addressed the key matter*
Assessment of future cashflows *(Refer to note 1 of the financial statements)* The Group had a total operating cash outflow of US$2.6 million for the 2017 year and a net current liability position of US$3.9 million at 31 December 2017. The financial statements continue to be prepared on a going concern basis as the Group expects to have sufficient working capital to carry out its stated objectives for at least 12 months from the balance date of the financial statements. The Group has prepared cash flow projections which include a number of assumptions and judgements, including estimates of expenditure on projects and administrative expenses, and these projections are used to support the sufficiency of working capital. The most significant cash outflows are general and administrative costs. The projections have been prepared on the basis that the Ramu Nickel Limited loan facility is non recourse to the other entities in the Group and only repayable by Ramu Nickel Limited out of its share of operating surpluses from the Ramu Nickel project.	We assessed the appropriateness of the going concern basis of accounting by evaluating and testing the cash flow projections prepared by the Group. Our procedures included: - Assessing the design of the Group's cash flow projection model for the year ending 31 December 2018 and its consistency with our understanding of the Group's activities. - Comparing the approved 2018 expenditure budget by area of interest for exploration and evaluation activity with the cash flow projection inputs. - Comparing forecast administration expenses with actual levels of expenditure for the 2017 year. - Assessing the Group's consideration of cashflows associated with the Ramu Nickel investment. - Reviewing legal correspondence received by the Group in relation to the non recourse nature of the Ramu Nickel Limited loan facility. - Considering the implications on the Group's cash flow projections of potential outcomes of the arbitration process in respect of the Frieda River project disclosed in note 9 to the financial statements - Considering the implications on the Group's cashflow projections of the withdrawal of the joint venture partner from the Star Mountains project subsequent to year end.

Information other than the financial statements and auditor's report

The directors are responsible for the annual report which includes other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the company for the preparation of financial statements that give a true and fair view in accordance with ISAs and other 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 are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2017:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Who we report to

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Christopher Hansor
Partner

Registered under the
Accountants Act 1996

Port Moresby
20 March 2018

STOCK EXCHANGE INFORMATION

For the Year Ended 31 December 2017

The shareholder information set out below was applicable as at 9 March 2018.

SPREAD OF SECURITY HOLDERS

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

Category of Holdings	Number of shareholders
1 – 1,000	1,277
1,001 – 5,000	1,446
5,001 – 10,000	903
10,001 – 100,000	2,887
100,001 and above	662
Total Shareholders	**7,175**

b) There were 2, 940 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AUD0.081 cents.

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

Category of Holdings	Number of Holders
1 – 1,000	-
1,001 – 5,000	-
5,001 – 10,000	-
10,001 – 100,000	-
100,001 and above	-
Total Holders	**-**

LARGEST TWENTY SHAREHOLDERS

The names of the largest twenty shareholders are listed below:

Name	No. of Ordinary Shares Held	% of Total
PANAUST SPV2 PTE LTD	128,865,980	13.56
HKBA NOMINEES LIMITED	126,655,652	13.33
CITICORP NOMINEES PTY LIMITED	81,962,543	8.63
URION HOLDINGS (MALTA) LTD	48,371,246	5.09
INDEPENDENT PUBLIC BUSINESS CORPORATION OF PAPUA NEW GUINEA	30,158,821	3.17
DR THOMAS JOHN BERESFORD GROUP	18,334,086	1.93
ZERO NOMINEES PTY LTD	15,185,815	1.60
MINERAL RESOURCES DEVELOPEMENT COMPANY PTY LTD	13,849,426	1.46
UBS NOMINEES PTY LTD	11,700,000	1.23
INKESE PTY LTD	10,750,000	1.13
NATIONAL NOMINEES LIMITED <DB A/C>	10,200,000	1.07
MR JOHN EDWIN GOODING	8,798,697	0.93
J P MORGAN NOMINEES AUSTRALIA LIMITED	8,626,537	0.91
MR JIHAD MALAEB	7,050,000	0.74
CARRINGTON LAND PTY LTD	7,000,000	0.74
MR CRAIG THOMAS LENNON	6,660,000	0.70
CABLETIME PTY LTD <THE INGODWE A/C>	6,000,000	0.63
ROOKHARP INVESTMENTS PTY LIMITED	5,681,359	0.60
MRS LISA JANE HAMANN	5,245,647	0.55
MR JAY HUGHES + MRS LINDA HUGHES <INKESE SUPER A/C>	5,200,000	0.55
Total	**556,295,809**	**58.54**

SUBSTANTIAL SHAREHOLDERS

Name	No. of Ordinary Shares Held	% of Total
PANAUST SPV2 PTE LTD	128,865,980	13.56
HKBA NOMINEES LIMITED	126,655,652	13.33
CITICORP NOMINEES PTY LIMITED	81,962,543	8.63
URION HOLDINGS (MALTA) LTD	48,371,246	5.09

VOTING RIGHTS

The voting rights attaching to ordinary shares are:

- on a show of hands, every member present, in person or by proxy, shall have one vote; and
- upon a poll, each share shall have one vote.

JURISDICTION

The Company is incorporated in PNG and is not subject to Chapter 6 of the Australian Corporations Law dealing with the acquisition of shares (including substantial shareholdings and takeovers). The acquisition of securities in PNG is governed by the Takeovers Code 1998 and the Securities Act 1997.

LIST OF MINING TENEMENTS

as at 31 December 2017

Tenement Reference	Beneficial Interest at Commencement of Period	Beneficial Interest at End of Period	Location – Province
Exploration (Highlands Pacific Resources Limited)			
EL 1761	100% - Note 1	100% - Note 1	Milne Bay Province
Star Mountains (Highlands Pacific Resources Limited)			
ELs 1312, 1392, 1781, 2001, 2467, 2478 and 2571	49% - Note 1	49% - Note 1	Sandaun Province
Frieda River Project (Highlands Frieda Limited)			
ELs 0058, 1895 and 1956	20% - Notes 1, 4	20% - Notes 1, 4	Sandaun Province
ELs 1212, 1746 and 1957	20% - Notes 1, 4	20% - Notes 1, 4	Sandaun & East Sepik Province
ELs 1743, 1744, 1745, and 1896	20% - Notes 1, 4	20% - Notes 1, 4	East Sepik Province
SML 9	20% - Notes 1, 4, 5	20% - Notes 1, 4, 5	Sandaun Province
ML 157	20% - Notes 1, 4, 5	20% - Notes 1, 4, 5	Sandaun Province
LMPs 94, 95	20% - Notes 1, 4, 5	20% - Notes 1, 4, 5	Sandaun Province
LMPs 96, 97, 98	20% - Notes 1, 4, 5	20% - Notes 1, 4, 5	East Sepik Province
MEs 87, 88	20% - Notes 1, 4, 5	20% - Notes 1, 4, 5	Sandaun Province
MEs 89, 90	20% - Notes 1, 4, 5	20% - Notes 1, 4, 5	East Sepik Province
Ramu Project (Ramu Nickel Limited)			
SML 8	8.56%	8.56%	Madang Province
ML 149	8.56%	8.56%	Madang Province
LMPs 42, 43, 44, 45, 46, 47, 48 and 49	8.56%	8.56%	Madang Province
MEs 75, 76, 77, 78 and 79	8.56%	8.56%	Madang Province
ELs 193 and 2376 (previously 1178)	8.56%	8.56%	Madang Province

Mining Tenements acquired or disposed of during the year – nil.

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

Beneficial percentage interests in farm-in or farm-out agreements acquired or disposed of during the year – nil.

Notes

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country by paying its pro-rata share of historical sunk costs and future developments costs.
2. Definitions:
   EL - Exploration Licence
   ELA - Exploration Licence Application
   SML - Special Mining Lease
   ML - Mining Lease
   LMP - Lease for Mining Purpose
   ME - Mining Easements
3. On 11 February 2015, Highlands executed Joint Venture and Farm-in agreements with a wholly-owned subsidiary of Anglo American Plc. Under the agreements, Anglo American can earn up to an 80% interest in the joint venture by achieving certain milestones.
4. The terms of an agreement between PanAust and Highlands provide that should the Government of PNG elect to take up its right under PNG Law to 30% of the project, PanAust will sell down the first 20% of its joint venture interest and thereafter the parties will sell down in equal amounts. Under a scenario where the Government of PNG elects to take up its maximum 30% of the project, the respective joint venture interests would be PanAust 55%, the Government of PNG 30% and Highlands 15%.
5. Under application with Papua New Guinea Mineral Resources Authority.

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