



**HIGHLANDS PACIFIC LIMITED** ARBN 078 118 653  
Incorporated in Papua New Guinea

**Registered Office**

PO Box 1486, Port Moresby NCD 121  
Papua New Guinea  
Level 1, Allotment 6, Section 58, Sir  
Hubert Murray Highway  
Boroko NCD  
Papua New Guinea

Telephone: (675) **324 1837**

Facsimile: (675) 323 2446

Website: [www.highlandspacific.com](http://www.highlandspacific.com)

**Registered Office in Australia**

GPO Box 3086, Brisbane QLD 4001  
Australia

Level 4, 167 Eagle Street

Brisbane Qld 4000

Australia

Telephone: (617) **3239 7800**

Facsimile: (617) 3221 6727

Email: [info@highlandspacific.com](mailto:info@highlandspacific.com)

31 March 2008

## Annual Financial Statements

The Board of Highlands Pacific Limited today releases the annual financial statements for the Group for the year ended 31 December 2007.

The financial statements detail a loss for the year of US\$68,000.

Included in the result is the following:

- A gain (reversal of impairment) on the Ramu Project of US\$34 million. As detailed in the announcement earlier today, the Project has moved into the development stage and the previously impaired value has been partially reversed as the value of the investment increases;
- A gain on disposal of the Kainantu Gold Mine and associated assets and Exploration Licences of US\$54 million. The mine and associated assets and Exploration Licences were sold on 12 December 2007 to Barrick Gold Corporation for USD134.5 million;
- An operating loss at the Kainantu Gold Mine for the period up to the sale of US\$22.9 million;
- A loss on closing out the cash flow hedges of US\$56.7 million; the hedges were closed out as a result of the disposal of the Kainantu Gold Mine; and
- An impairment of the Kainantu Gold Mine and associated assets of US\$64.3 million that was booked in the first half year and reversed to the extent of US\$60.3 million in the second half. The impairment in the first half year was booked due to the operational problems that were facing the mine and the growing financial liability caused by the out-of-the-money hedge contracts. The impairment was reversed in the second half of the year as a result of the sale process.

For further information contact:

**Mr John Gooding**  
Managing Director  
Highlands Pacific Ltd  
Phone: (61 7) 3239 7800

or **Mr Craig Lennon**  
Chief Financial Officer  
Highlands Pacific Ltd  
Phone: (61 7) 3239 7800

**Mr David Waterhouse**  
Waterhouse IR  
Phone: (613) 9639 9099  
Level 1, Professional Suites  
120 Collins Street  
Melbourne 3000



HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

# HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

## INCOME STATEMENT

For the Year Ended 31 December 2007

	Notes	Consolidated		Holding Company	
		2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
Finance Income	2	566	1,267	-	-
Other revenue	2	98	41	-	-
<b>Total Operating Income</b>		<b>664</b>	<b>1,308</b>	-	-
General and administrative costs		5,246	3,030	-	-
Exploration costs		136	33	-	-
Depreciation and amortisation		31	38	-	-
Net foreign exchange (gains) / losses		(140)	(1,044)	(2)	(28)
<b>Total Operating Costs</b>	3	<b>5,273</b>	<b>2,057</b>	<b>(2)</b>	<b>(28)</b>
<b>Profit (Loss) from operations</b>		<b>(4,609)</b>	<b>(749)</b>	<b>2</b>	<b>28</b>
Impairment of subsidiary advances	14	-	-	(20,250)	(9,568)
Impairment of subsidiary investments	14	-	-	-	(99,000)
Reversal of impairment of non-current assets	11	34,000	-	-	-
<b>Profit (Loss) before income tax</b>		<b>29,391</b>	<b>(749)</b>	<b>(20,248)</b>	<b>(108,540)</b>
Income tax (expense) benefit	4	(19)	(30)	-	-
<b>Profit (Loss) from continuing operations after income tax</b>		<b>29,372</b>	<b>(779)</b>	<b>(20,248)</b>	<b>(108,540)</b>
Profit (Loss) from discontinued operations after income tax	30	(29,440)	(63,003)	-	-
<b>Profit (Loss) for the period</b>		<b>(68)</b>	<b>(63,782)</b>	<b>(20,248)</b>	<b>(108,540)</b>
<b>Earnings per share</b>					
Basic & Diluted	5	US\$0.00	US\$(0.12)		

*These profit and loss statements are to be read in conjunction with the accompanying notes.*

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2007

	Notes	Share Capital US\$000	Reserves US\$000	Retained Earnings US\$000	Total US\$000
<b>CONSOLIDATED</b>					
<b>Year Ended 31 December 2007</b>					
Balance as at 1 January 2007		254,895	(34,886)	(182,866)	37,143
Net profit (loss)		-	-	(68)	(68)
Issue of Share Based Payments	28	-	572	-	572
Net movement on cash flow hedges	19	-	25,277	-	25,277
Issue of share capital	18	20,000	-	-	20,000
Costs associated with Issue	18	(342)	-	-	(342)
<b>Balance as at 31 December 2007</b>		<b>274,553</b>	<b>(9,037)</b>	<b>(182,934)</b>	<b>82,582</b>
<b>Year Ended 31 December 2006</b>					
Balance as at 1 January 2006		212,864	(49,154)	(119,084)	44,626
Net profit (loss)		-	-	(63,782)	(63,782)
Issue of Share Based Payments	28	-	72	-	72
Net movement on cash flow hedges	19	-	14,196	-	14,196
Issue of share capital	18	42,323	-	-	42,323
Costs associated with Issue	18	(292)	-	-	(292)
<b>Balance as at 31 December 2006</b>		<b>254,895</b>	<b>(34,886)</b>	<b>(182,866)</b>	<b>37,143</b>
<b>HOLDING COMPANY</b>					
<b>Year Ended 31 December 2007</b>					
Balance as at 1 January 2007		254,895	(5,614)	(249,257)	24
Net profit (loss)		-	-	(20,248)	(20,248)
Issue of Share Based Payments	28	-	572	-	572
Issue of share capital	18	20,000	-	-	20,000
Costs associated with Issue	18	(342)	-	-	(342)
<b>Balance as at 31 December 2007</b>		<b>274,553</b>	<b>(5,042)</b>	<b>(269,505)</b>	<b>6</b>
<b>Year Ended 31 December 2006</b>					
Balance as at 1 January 2006		212,864	(5,686)	(140,717)	66,461
Net profit (loss)		-	-	(108,540)	(108,540)
Issue of Share Based Payments	28	-	72	-	72
Issue of share capital	18	42,323	-	-	42,323
Costs associated with Issue	18	(292)	-	-	(292)
<b>Balance as at 31 December 2006</b>		<b>254,895</b>	<b>(5,614)</b>	<b>(249,257)</b>	<b>24</b>

*These statements of changes in equity are to be read in conjunction with the accompanying notes.*

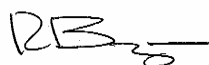
# HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

## BALANCE SHEET

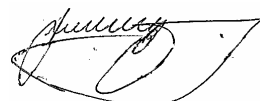
As at 31 December 2007

	Notes	Consolidated		Holding Company	
		2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	6	20,500	16,577	-	18
Inventories	7	4,308	4,309	-	-
Receivables	8	702	134	-	-
		<b>25,510</b>	<b>21,020</b>	<b>-</b>	<b>18</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	9	470	18,666	-	-
Exploration & evaluation expenditure	10	10,000	27,595	-	-
Development expenditure	11	50,000	-	-	-
Mineral properties	12	-	65,249	-	-
Investment in subsidiaries	13	-	-	9	9
Advance to subsidiaries	14	-	-	-	-
		<b>60,470</b>	<b>111,510</b>	<b>9</b>	<b>9</b>
<b>TOTAL ASSETS</b>		<b>85,980</b>	<b>132,530</b>	<b>9</b>	<b>27</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	15	3,294	7,636	-	-
Borrowings	16	-	10,000	-	-
Provisions	17	92	352	-	-
Provision for income tax		11	13	-	-
Derivative financial instruments	27 (c)	-	37,883	-	-
		<b>3,397</b>	<b>55,884</b>	<b>-</b>	<b>-</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	16	-	14,770	-	-
Provisions	17	1	1,115	-	-
Derivative financial instruments	27 (c)	-	23,618	-	-
Advances from subsidiaries	14	-	-	3	3
		<b>1</b>	<b>39,503</b>	<b>3</b>	<b>3</b>
<b>TOTAL LIABILITIES</b>		<b>3,398</b>	<b>95,387</b>	<b>3</b>	<b>3</b>
<b>NET ASSETS</b>		<b>82,582</b>	<b>37,143</b>	<b>6</b>	<b>24</b>
<b>SHAREHOLDERS' EQUITY</b>					
Contributed equity	18	274,553	254,895	274,553	254,895
Reserves	19	(9,037)	(34,886)	(5,042)	(5,614)
Retained earnings		(182,934)	(182,866)	(269,505)	(249,257)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>82,582</b>	<b>37,143</b>	<b>6</b>	<b>24</b>

For, and on behalf of, the board



**Robert Bryan**  
Chairman



**John E Gooding**  
Managing Director

28 March 2008

*These balance sheets are to be read in conjunction with the accompanying notes.*

# HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

## CASH FLOW STATEMENT

From the Year Ended 31 December 2007

	Notes	Consolidated		Holding Company	
		2007	2006	2007	2006
		US\$000	US\$000	US\$000	US\$000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Receipt from gold sales (net of hedge payments)		13,556	5,928	-	-
Receipt from other operations		98	41	-	-
Interest from investments		590	1,254	-	-
Income tax paid		(15)	(28)	-	-
Interest paid		(1,873)	(2,400)	-	-
Payments to suppliers and employees		(36,669)	(33,325)	-	-
<b>Net cash used in operating activities</b>		<b>(24,313)</b>	<b>(28,530)</b>	<b>-</b>	<b>-</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		16,580	24	-	-
Proceeds from sale of exploration and mineral properties		117,970	-	-	-
Investment in subsidiaries		-	-	-	(35,000)
Advance from (to) subsidiaries		-	-	(19,674)	(6,990)
Purchase of property, plant and equipment		(266)	(1,267)	-	-
Exploration, evaluation, development and mineral properties		(7,704)	(2,650)	-	-
<b>Net cash used in investing activities</b>		<b>126,580</b>	<b>(3,893)</b>	<b>(19,674)</b>	<b>(41,990)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of ordinary shares		20,000	42,323	20,000	42,323
Costs associated with Issue		(342)	(292)	(342)	(292)
Repayment of forward gold sales contracts		(92,951)	-	-	-
Repayment of borrowings		(24,770)	(5,830)	-	-
Proceeds from borrowings		-	720	-	-
<b>Net cash from financing activities</b>		<b>(98,063)</b>	<b>36,921</b>	<b>19,658</b>	<b>42,031</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
		<b>4,204</b>	<b>4,498</b>	<b>(16)</b>	<b>41</b>
Add cash brought forward		16,577	10,545	18	5
Effect of exchange rate change on cash and cash equivalents		(281)	1,534	(2)	(28)
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>		<b>20,500</b>	<b>16,577</b>	<b>-</b>	<b>18</b>
<b>CASH COMPRISES</b>					
Cash and cash equivalents	6	20,500	16,577	-	18

*These statements of cash flows are to be read in conjunction with the accompanying notes.*

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**CASH FLOW STATEMENT (Continued)**

From the Year Ended 31 December 2007

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

	Notes	Consolidated		Holding Company	
		2007	2006	2007	2006
		US\$000	US\$000	US\$000	US\$000
<b>Reported Net Profit (Loss) after Taxation</b>		<b>(68)</b>	<b>(63,782)</b>	<b>(20,248)</b>	<b>(108,540)</b>
<i>Add (less) non-cash items:</i>					
Loss on cash flow hedges		56,727	36,224	-	-
Depreciation and amortisation		5,872	5,247	-	-
Provision for exploration costs		136	33	-	-
Provision for doubtful debts		-	-	20,250	9,568
Provision for diminution of investments		-	-	-	99,000
Tax		19	30	-	-
Fair value of share based payments		572	72	-	-
(Profit) loss on sale of property, plant & equipment		(54,127)	-	-	-
Impairment of non-current assets		64,280	-	-	-
Reversal of impairment of non-current assets		(94,305)	-	-	-
Net (gain) loss on foreign currency balances		281	(1,534)	(2)	(28)
		<b>(20,545)</b>	<b>40,072</b>	<b>20,248</b>	<b>108,540</b>
<i>Add (less) movements in working capital items:</i>					
(Increase) decrease in debtors and prepayments		(818)	(18)	-	-
(Increase) decrease in inventories		1	(2,644)	-	-
Increase (decrease) in creditors and provisions		(2,883)	(2,158)	-	-
		<b>(3,700)</b>	<b>(4,820)</b>	<b>-</b>	<b>-</b>
<b>Net Cash Flow from Operating Activities</b>		<b>(24,313)</b>	<b>(28,530)</b>	<b>-</b>	<b>-</b>

*These statements of cash flows are to be read in conjunction with the accompanying notes.*

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Highlands Pacific Limited (the Company) and its subsidiaries (together the Group) carry out exploration, development and mining 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 28 March 2008. The Company has the power to amend and revise the financial report.

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (a) Basis of preparation

These financial statements are presented in accordance with the Papua New Guinea Companies Act 1997, and comply with applicable financial reporting standards and other mandatory professional reporting requirements approved for use in PNG by the Accounting Standards Board ("ASB"). These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which have been adopted by the ASB as the applicable financial reporting framework.

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

##### *Historical cost convention*

These financial statements have been prepared on an historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit and loss are measured at fair value; and
- available-for-sale financial assets are measured at fair value.

The methods used to measure fair value are discussed further in accounting policy note 1(l).

##### (b) Principals of consolidation

###### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Highlands Pacific Limited ("Company") as at 31 December 2007 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.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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

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

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

### *Joint venture - Jointly controlled assets*

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 22.

### **(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. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

### **(d) Foreign currency translation**

#### *Functional and presentation currency*

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

#### *Transaction and balances*

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

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

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### *Group companies*

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholders' equity.

### **(e) Revenue recognition**

Sales of gold concentrate are recognised as revenue only when there has been a passing of title and risk to the customer, and:

- (i) the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the Group;
- (ii) the quantity and quality (grade) of the product can be determined with reasonable accuracy;
- (iii) the product has been dispatched to the customer and is no longer under the physical control of the Group (or property in the product has earlier passed to the customer);
- (iv) the selling price can be measured reliably;
- (v) it is probable that the economic benefits associated with the transaction will flow to the Group; and
- (vi) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales revenue represents the gross proceeds receivable from the customer.

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 national 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.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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

### (h) Cash and cash equivalents

For cash flow statement presentation purposes, 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) Inventories

Stores, production work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (j) 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.

### (k) Derivatives

The Group has been exposed to the changes in commodity prices from its activities carried out at the Kainantu gold project. The Group entered into forward sales contracts to hedge commodity price risk. Derivative financial instruments were not held for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates the derivatives as hedges of cash flows of highly probable forecast transactions (cash flow hedges).

On the date a derivative contract is entered into, the contract is designated as a hedge against specific future production.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast production that is hedged takes place). The gain or loss relating to the effective portion of forward sales contracts is recognised in the income statement within 'sales'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

In assessing the fair value of non-traded derivatives, the Group obtains a valuation from an independent external party.

If derivative instruments do not qualify for hedge accounting changes in the fair value are recognised immediately in the income statement and are include in other income or other expenses.

### **(l) Fair value estimation**

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

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

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

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

### **(m) 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 assets carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount paragraph below.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. Where revalued 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 calculation is dependent on whether the property, plant and equipment relates to the Kainantu gold project or general corporate operations.

Of the property, plant and equipment relating to the Kainantu gold project, approximately 90% was depreciated based on the units-of-production method, using total tonnage of ore crushed as a determinant. The remaining useful life of mine assets was approximately 4 to 5 years. Those assets depreciated on a straight line basis were done so predominantly as follows:

Buildings	3 – 5 years
Plant and Equipment	2 – 5 years
Motor Vehicles	3 – 5 years

The depreciation on property, plant and equipment relating to general operations is calculated on a straight line basis to write off the cost or revalued 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.

### (n) Exploration, evaluation and development expenditure

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

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

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

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

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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

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

### (o) Impairment of long life assets

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

### (p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

### (q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment or restructuring of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as deferred financing costs and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specific in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

### (r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### (s) 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.

#### *Restoration, rehabilitation and environmental expenditure*

A provision is raised for anticipated expenditure to be made on restoration and rehabilitation to be undertaken after mine closure. These costs include the costs of dismantling and demolition of the process plant infrastructure, the closure of all mine openings and the remediation of disturbed areas and removal of any residual material.

The provision is only raised in respect of damage incurred up to balance date. The amount of any provision recognised is the full amount that has been estimated based on current costs to be required to settle present obligations, discounted using a pre-tax discount rate of 8%.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provision, including those resulting from new disturbances, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within capital expenditure. These costs are then depreciated over the lives of the assets to which they relate.

As a result of the disposal of the mine, the provision has been unwound through the income statement in the calculation of the profit on sale of the mine.

### (t) 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.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### *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. Information relating to this scheme is set out in note 28.

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

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

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

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transactions costs, and are credited to share capital.

### **(u) Contributed equity**

Ordinary shares are classified as equity.

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

### **(v) 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 and 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.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### *Diluted earnings per share*

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

### **(w) 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

#### *(i) Carrying value of exploration, evaluation and development expenditure and mineral properties*

The Group tests annually whether the carrying value of long life assets; such as exploration and evaluation expenditure, development expenditure, and property, plant and equipment; have suffered any impairment. The recoverable amounts of cash-generating units, such as the recently disposed Kainantu gold project, have first been determined on a value-in-use calculation. Should this indicate impairment, an assessment of fair value less costs to sell is made. The recoverable amounts of non operating projects, such as Ramu and Frieda River, have been determined using a discounted net present value of forecasted cash flow streams. These calculations require the use of assumptions.

#### *(ii) Derivative financial instruments (applicable to comparative year only)*

The Group continually calculates the fair value of derivative financial instruments at each reporting date. This fair value calculation is performed independently to the Group by the counter parties to the derivative financial instruments. In the designation process (refer note 1) the Group is required to makes assumptions on the status of highly probable forecasted transactions. Refer note 27 (c) for details of these assumptions and the potential impact of changes to the assumptions.

### **(x) New accounting standards**

Since 1 January 2007 the Group has adopted the following Standards and Interpretations, for annual periods beginning on or after 1 January 2007. The following outlines the new standards adopted by the company and the impact of the standard on the Consolidated Entity's financial report.

#### *IRFS 7 - Financial Instruments: Disclosures*

*Summary – New standard replacing the disclosure requirements*

*Application date of standard – 1 January 2007*

*Impact on Consolidated Entity's financial report - IFRS 7 is a disclosure standard so has no director impact on the measurement and recognition criteria relating to amounts included in the Consolidated Entity's financial statements, but does result in changes to the financial instrument disclosures included in the Consolidated Entity's annual report.*

*Application date for the Consolidated Entry – 1 January 2007*

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### *IFRS 8 - Operating Segments*

*Summary – New standard*

*Application date of standard – 1 January 2009*

*Impact on Consolidated Entity's financial report - IFRS 8 is a disclosure standard so has no direct impact on the measurement and recognition criteria relating to amounts included in the Consolidated Entity's financial statements, but does result in changes to the segment reporting disclosures included in the Consolidated Entity's financial report. (Refer to Note 24)*

*Application date for the Consolidated Entry – 1 January 2007*

### *IAS1 – Presentation of Financial Statements*

*Summary – Added disclosures about an entity's capital and changed the presentation and format of financial statements*

*Application date of standard – 1 January 2007*

*Impact on Consolidated Entity's financial report - IAS 1 is a disclosure standard so has no direct impact on the measurement and recognition criteria relating to amounts included in the Group's financial statements, but may result in changes to capital disclosures included in the Group's annual report and presentation and format of financial statements.*

*Application date for the Consolidated Entry – 1 January 2007*

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2007 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

*IAS23 – Borrowing Costs – consistent with the Group's existing accounting policy.*

*IFRIC11 – IFRS 2 - Treasury Share Transactions - Not applicable*

*IFRIC 12 – Service Concession Arrangements - Not applicable*

*IFRIC 13 – Customer Loyalty Programmes - Not applicable*

*IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - Not applicable*

### **(y) Rounding**

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

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 2. REVENUE

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Operating Income</b>				
Rental income	98	41	-	-
<b>Finance Income</b>				
Interest income	566	1,267	-	-

### 3. EXPENSES

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Total operating costs</b>	5,273	1,858	20,248	108,540
<b>Operating costs are stated after charging:</b>				
Salaries and employee benefits	2,946	1,568	-	-
Office costs	415	480	-	-
Consultants costs	430	261	-	-
Non-executive Director fees and benefits	206	274	-	-
Corporate affairs and public relations costs	174	216	-	-
Company secretarial and public listing costs	188	137	-	-
Travel and accommodation costs	204	204	-	-
Auditors' remuneration				
- audit	108	144	-	-
- other services	98	40	-	-
Depreciation				
- land and buildings	5	8	-	-
- plant and equipment	26	30	-	-
Exploration costs	136	33	-	-
Net foreign exchange (gains) losses	(140)	(1,044)	(2)	(28)

The average number of people employed by the Group during the year was 463 (2006: 451). The Holding Company does not have any direct employees.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 4. INCOME TAX

	Consolidated		Holding Company	
	2007	2006	2007	2006
<b>Reconciliation of income tax expense to prima facie tax expense</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Profit (Loss) from continuing operations before tax	29,391	(749)	-	-
Loss from discontinuing operations before tax	(29,440)	(63,003)	(20,248)	(108,540)
Loss before income tax expense for the year	<u>(49)</u>	<u>(63,752)</u>	<u>(20,248)</u>	<u>(108,540)</u>
Income tax benefit on the loss for the year at an average of 30% (2005: 30%)	(15)	(19,125)	(6,074)	(32,562)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Provision for doubtful debts	-	-	6,074	2,870
Reversal of Impairment	(10,200)	-	-	-
Capital gain on disposal	(16,228)	-	-	-
Provision for diminution of investments	-	-	-	29,700
Sundry items	167	96	-	-
	<u>(26,276)</u>	<u>(19,029)</u>	<u>-</u>	<u>8</u>
Deferred tax asset not brought to account	26,295	19,059	-	(8)
<b>Income tax expense</b>	<b><u>19</u></b>	<b><u>30</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Tax Losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	145,231	30,116	-	-
<b>Potential tax benefit @ 30%</b>	<b>43,569</b>	<b>9,035</b>	<b>-</b>	<b>-</b>
<b>Other deferred tax assets not recognised</b>				
<i>Amounts recognised in profit and loss</i>				
Exploration costs	80,087	129,845	-	-
Amorisation and depreciation	-	5,215	-	-
Loss on cash flow hedges	-	61,501	-	-
Unrealised foreign exchange gains (losses)	172	173	172	173
Provision for employee entitlements	180	508	-	-
Sundry items	-	198	-	-
	<u>80,439</u>	<u>197,440</u>	<u>172</u>	<u>173</u>
<b>Potential tax benefit @ 30%</b>	<b>24,132</b>	<b>59,232</b>	<b>52</b>	<b>52</b>
<b>Deferred tax liabilities not recognised</b>				
<i>Amounts recognised in profit and loss</i>				
Unrealised foreign exchange gains (losses)	1,793	1,455	-	-
Sundry items	48	30	-	-
	<u>1,841</u>	<u>1,485</u>	<u>-</u>	<u>-</u>
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	(1,841)	(1,485)	-	-
<b>Net deferred tax liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 5. EARNINGS PER SHARE

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

Earnings per share	2007	2006
Net profit (loss) attributable to shareholders (US\$000)	(68)	(63,782)
Weighted average number of ordinary shares on issue (000)	634,967	543,845
Basic earnings per share (US\$)	0.00	(0.12)
<b>Diluted earnings per share</b>		
Weighted average number of ordinary shares on issue (000)	634,967	543,845
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	696,793	559,141
Diluted earnings per share (US\$)	0.00	(0.12)

Options granted to employees are considered to be potential ordinary shares and have been included to the extent they are dilutive in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to options are set out in note 18.

### 6. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2007	2006	2007	2006
	US\$000	US\$000	US\$000	US\$000
Cash at bank and in hand	20,443	1,811	-	18
Short-term bank deposits	57	14,766	-	-
	<b>20,500</b>	<b>16,577</b>	<b>-</b>	<b>18</b>

### 7. INVENTORIES

	Consolidated		Holding Company	
	2007	2006	2007	2006
	US\$000	US\$000	US\$000	US\$000
Stores	-	3,112	-	-
Production work in progress	-	395	-	-
Concentrate in transit	4,308	802	-	-
	<b>4,308</b>	<b>4,309</b>	<b>-</b>	<b>-</b>

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 8. RECEIVABLES

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Non-Current</b>				
Other receivables	-	1,000	-	-
Less: Provision for doubtful debts	-	(1,000)	-	-
<b>Current</b>				
Other receivables	702	134	-	-
Less: Provision for doubtful debts	-	-	-	-
	<b>702</b>	<b>134</b>	<b>-</b>	<b>-</b>

### 9. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings US\$000	Plant & Equip't US\$000	Total US\$000
<b>CONSOLIDATED - 2007</b>			
<b>Cost</b>			
Cost brought forward	4,112	17,228	21,340
Additions	3	245	248
Disposals	(3,486)	(16,937)	(20,423)
<b>Cost carried forward</b>	<b>629</b>	<b>536</b>	<b>1,165</b>
<b>Depreciation</b>			
Brought forward	270	2,404	2,674
Charge for the year	295	1,851	2,146
Impairment loss	1,367	5,650	7,017
Reversal of impairment loss	(1,241)	(4,972)	(6,213)
Disposals	(444)	(4,485)	(4,929)
Depreciation carried forward	247	448	695
<b>Net book value at 31 December 2007</b>	<b>382</b>	<b>88</b>	<b>470</b>
<b>CONSOLIDATED - 2006</b>			
<b>Cost</b>			
Cost brought forward	4,122	16,434	20,556
Additions	-	1,267	1,267
Disposals	(10)	(473)	(483)
<b>Cost carried forward</b>	<b>4,112</b>	<b>17,228</b>	<b>21,340</b>
<b>Depreciation</b>			
Brought forward	114	1,215	1,329
Charge for the year	165	1,641	1,806
Disposals	(9)	(452)	(461)
Depreciation carried forward	270	2,404	2,674
<b>Net book value at 31 December 2006</b>	<b>3,842</b>	<b>14,824</b>	<b>18,666</b>

#### *Impairment on Non-Current Asset*

Due to the poor operating performance of the Kainantu gold mine, an impairment charge of US\$64,280,000 was made to non-current assets at 30 June 2007. The impairment was driven by the uncertainty at the time on the grade and quantity of recoverable reserves which made it difficult to determine for accounting purposes the recoverability of non-current assets until operation issues were resolved. This impairment was, for the most part reversed due to the value received when it was decided to dispose of the mine and surrounding exploration licences.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

10. EXPLORATION & EVALUATION EXPENDITURE

	Ramu US\$000	Kainantu US\$000	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2007	16,000	1,595	10,000	-	27,595
Capitalised during the year	40	111	8	88	247
Less amortisation of exploration costs	-	(39)	-	-	(39)
Less transfer to development expenditure	(16,000)	-	-	-	(16,000)
Less provisions for exploration costs	(40)	-	(8)	(88)	(136)
Impairment loss	-	(1,608)	-	-	(1,608)
Reversal of impairment loss	-	1,549	-	-	1,549
Less disposal of exploration costs	-	(1,608)	-	-	(1,608)
<b>Balance 31 December 2007</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>10,000</b>
Balance 1 January 2006	16,000	926	10,000	-	26,926
Capitalised during the year	13	741	-	45	799
Less amortisation of exploration costs	-	(72)	-	-	(72)
Less provisions for exploration costs	(13)	-	-	(45)	(58)
<b>Balance 31 December 2006</b>	<b>16,000</b>	<b>1,595</b>	<b>10,000</b>	<b>-</b>	<b>27,595</b>

The realisation of the carrying value of the Group's interest in the Frieda project is dependent upon either the successful development or sale of the asset. The future development of the project is dependent upon Highlands Pacific and / or its joint venture partners securing sufficient funding from equity, debt or other sources of funding. The Directors remain confident that the asset will ultimately be developed – it is projected that the project will commence a feasibility study in 2009 with construction commencing in 2012 and production in 2016, assuming hurdles are met. In assessing the carrying value of the Frieda project, the Directors have considered the value by reference to the present value of the future cash flows, at a risk adjusted discount rate, to be generated by these assets assuming their ultimate successful development and their potential current realisable value by reference to comparable transactions and farm-in arrangements.

Refer Note 9 Property, Plant and Equipment in relation to the impairment loss and subsequent reversal.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 11. DEVELOPMENT EXPENDITURE

	Consolidated		Holding Company	
	2007	2006	2007	2006
	US\$000	US\$000	US\$000	US\$000
<b>Ramu</b>				
Balance brought forward	-	-	-	-
Capitalised during the year	-	-	-	-
Transferred from Exploration & Evaluation Expenditure	16,000	-	-	-
Reversal of impairment of non-current assets	34,000	-	-	-
<b>Balance carried forward</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

The carrying value of the Group's interest in the Ramu projects has been increased during the year due to the project commencing development in 2007. Official financing for the project is expected in the first half of 2008 when construction will officially commence and commissioning of the project is expected in late 2009. In assessing the carrying value of the Ramu project, the Directors have considered their value by reference to the present value of the future cash flows, at a risk adjusted equity discount rate (20%), to be generated by these assets assuming their ultimate successful development and their potential current realisable value by reference to comparable transactions and farm-in arrangements. It is expected that as the project continues to pass hurdles through development that the carrying value will be increased further.

### 12. MINERAL PROPERTIES

	Consolidated		Holding Company	
	2007	2006	2007	2006
	US\$000	US\$000	US\$000	US\$000
<b>Kainantu</b>				
Balance brought forward	61,789	-	-	-
Transferred from development	-	62,693	-	-
Capitalised during the year	2,802	1,746	-	-
Amortisation	(3,331)	(2,650)	-	-
Impairment loss	(52,038)	-	-	-
Reversal of impairment loss	49,270	-	-	-
Disposal of mineral properties	(58,492)	-	-	-
<b>Balance carried forward</b>	<b>-</b>	<b>61,789</b>	<b>-</b>	<b>-</b>
 <i>Deferred finance costs</i>				
Balance brought forward	3,460	-	-	-
Transferred from development	-	3,840	-	-
Capitalised during the year	513	339	-	-
Amortisation	(356)	(719)	-	-
Impairment loss	(3,617)	-	-	-
Reversal of impairment loss	3,273	-	-	-
Write off of financing costs	(3,273)	-	-	-
<b>Balance carried forward</b>	<b>-</b>	<b>3,460</b>	<b>-</b>	<b>-</b>
 <b>Total</b>	<b>-</b>	<b>65,249</b>	<b>-</b>	<b>-</b>

The Kainantu gold project was sold in December 2007.

Refer Note 9 Property, Plant and Equipment in relation to the impairment loss and subsequent reversal.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 13. INVESTMENTS IN SUBSIDIARIES

	% Shareholding	Country of Incorp
Ramu Nickel Limited	100	PNG
Highlands Frieda Limited	100	PNG
Highlands Pacific Resources Limited	100	PNG
Highlands Pacific Indonesia Limited'	100	PNG
PT Haigol Sumber Daya Servis	100	Indonesia
PT Miwah Tambang Emas	90	Indonesia
PT Tripa Tambang Nusa	90	Indonesia
Highlands Pacific Australia Pty Limited	100	Australia
Highlands Pacific Services Limited	100	PNG
Astrolabe Limited	100	PNG
Highlands Kainantu Limited	100	PNG

### INVESTMENTS AT COST

	Holding Company	
	2007 US\$000	2006 US\$000
Investments in subsidiaries - at cost	130,186	130,186
Less provision for diminution	(130,177)	(130,177)
	9	9

### 14. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Advances to subsidiaries</b>				
Advances	-	-	177,573	157,323
Less provision for write-off	-	-	(177,573)	(157,323)
	-	-	-	-
<b>Advances from subsidiaries</b>				
Advances	-	-	3	3
	-	-	3	3

The advances within in the Group are interest free with no set repayment terms.

### 15. TRADE AND OTHER CREDITORS

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
Trade creditors	244	1,395	-	-
Other creditors	1,830	3,580	-	-
Accruals	1,220	2,661	-	-
	3,294	7,636	-	-

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 16. BORROWINGS

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Non-Current</b>				
Bank borrowings	-	14,770	-	-
<b>Current</b>				
Bank borrowings	-	10,000	-	-
	<b>-</b>	<b>24,770</b>	<b>-</b>	<b>-</b>

The bank borrowings were repaid as a result of the sale of the Kainantu gold project in December 2007. The bank borrowings were limited recourse with a fixed and floating charge over the assets of Highlands Kainantu Limited and the shares of Highlands Kainantu Limited, guaranteed by Highlands Pacific Limited until completion.

### 17. PROVISIONS

	Rehabilitation	Employee Entitlements	Total
	US\$000	US\$000	US\$000
Balance 1 January 2007	1,102	365	1,467
Charged for the year	-	189	189
Foreign exchange impact	-	(23)	(23)
Unused amounts reversed	(1,102)	-	(1,102)
Utilised / paid during year	-	(438)	(438)
<b>Balance 31 December 2007</b>	<b>-</b>	<b>93</b>	<b>93</b>
		<b>2007</b>	<b>2006</b>
Analysis of total provisions:		US\$000	US\$000
Current		92	352
Non-Current		1	1,115
		<b>93</b>	<b>1,467</b>

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

The provision for restoration, rehabilitation and environmental costs was reversed as a result of the sale of the Kainantu gold project. Refer to note 1(s) for details on the provision for restoration, rehabilitation and environmental expenditure.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

18. SHARE CAPITAL

a) Paid Up Capital – Consolidated and Holding Company

	2007 US\$000	2006 US\$000	2007 Shares 000's	2006 Shares 000's
Balance 1 January	254,895	212,864	564,770	478,725
Issued during the year	20,000	42,323	86,052	86,045
Less costs associated with issue	(342)	(292)	-	-
<b>Balance 31 December</b>	<b>274,553</b>	<b>254,895</b>	<b>650,822</b>	<b>564,770</b>

The total number of shares issued as at 31 December 2007 was 650,821,941 (2006: 564,770,123). 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 2006	Opening Balance		478,725,053		212,864
3 February 2006	Exercise of options	(i)	500,000	0.54	200
	Issue of shares	(ii)	1,307,190	0.54	746
14 March 2006	Share Placement	(iii)	62,000,000	0.67	30,601
8 May 2006	Exercise of options	(i)	2,000,000	0.54	792
12 May 2006	Share Purchase Plan	(iv)	20,237,880	0.67	9,984
	Transaction costs arising on share issues				(292)
31 December 2006	Balance		<u>564,770,123</u>		<u>254,895</u>
6 March 2007	Issue of shares	(v)	82,715,518	0.30	19,225
3 May 2007	Issue of shares	(v)	3,336,300	0.30	775
	Transaction costs arising on share issues above				(342)
31 December 2007	Balance		<u>650,821,941</u>		<u>274,553</u>

(i) Exercise of options issued to Kainantu banking syndicate.

(ii) Fee relating to the Engineering, Procurement, Construction and Management contract for the process plant at the Kainantu gold project. The share price was set at the 20 day volume weighted average price.

(iii) Share placement to domestic and international institutions and sophisticated investors. The share price was set at the 20 day volume weighted average price.

(iv) Share Purchase Plan to existing shareholders on the same terms and conditions as the Share Placement on 14 March 2006.

(v) Share placement to Resource Capital Fund IV L.P. as approved by shareholders at a special shareholders meeting in 20 March 2007.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### c) Share Options

The number of unissued ordinary shares under option at 31 December 2007 is 93,851,641 (2006: 15,375,733).

#### *Options issued to the banking syndicate financing the Kainantu gold project*

	Issued	Exercised during year
Outstanding at the end of the year		
Exercise Price	A\$0.54	A\$0.54
Number of Options	11,144,483	-
Expiry Date	31 Dec 2009	31 Dec 2009
Exercise Price	A\$0.20	A\$0.20
Number of Options	21,000,000	-
Expiry Date	21 Aug 2010	21 Aug 2010

The options issued to the banking syndicate were approved at the 2004 and 2005 annual general meetings and the exercise date subsequently changed from 31 December 2007 to 31 December 2009 by shareholders at a special shareholder meeting in 2007.

#### *Options issued to investors as part of share placement in February 2007*

	Issued	Exercised during year
Outstanding at the end of the year		
Exercise Price	A\$0.50	A\$0.50
Number of Options	10,756,477	-
Expiry Date	4 May 2010	4 May 2010
Exercise Price	A\$0.55	A\$0.55
Number of Options	10,756,477	-
Expiry Date	4 May 2010	4 May 2010
Exercise Price	A\$0.60	A\$0.60
Number of Options	10,756,477	-
Expiry Date	4 May 2010	4 May 2010
Exercise Price	A\$0.65	A\$0.65
Number of Options	10,756,477	-
Expiry Date	4 May 2010	4 May 2010

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

	Issued	Exercised during year
Outstanding at the end of the year		
Exercise Price	A\$0.37	A\$0.37
Number of Options	843,750	Nil
Exercise Price	A\$0.43	A\$0.43
Number of Options	137,500	Nil
Exercise Price	A\$0.423	A\$0.423
Number of Options	1,000,000	Nil
Exercise Price	A\$0.175	A\$0.175
Number of Options	2,700,000	Nil
Exercise Price	A\$0.1546	A\$0.1546
Number of Options	10,000,000	Nil
Exercise Price	A\$0.175	A\$0.175
Number of Options	3,800,000	Nil

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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

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

### 19. RESERVES

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<b>Foreign Currency Translation Reserve</b>				
Balance brought forward	(10,263)	(10,263)	(6,268)	(6,268)
Movement for the year	-	-	-	-
<b>Balance carried forward</b>	<b>(10,263)</b>	<b>(10,263)</b>	<b>(6,268)</b>	<b>(6,268)</b>
<b>Hedging Reserve</b>				
Balance brought forward	(25,277)	(39,473)	-	-
Transferred to income statement	25,277	14,196	-	-
Deferred loss on cash flow hedges	-	-	-	-
<b>Balance carried forward</b>	<b>-</b>	<b>(25,277)</b>	<b>-</b>	<b>-</b>
<b>Share-based Payments Reserve</b>				
Balance brought forward	654	582	654	582
Fair value of options expensed	572	72	572	72
<b>Balance carried forward</b>	<b>1,226</b>	<b>654</b>	<b>1,226</b>	<b>654</b>
	<b>(9,037)</b>	<b>(34,886)</b>	<b>(5,042)</b>	<b>(5,614)</b>

#### Nature and purpose of reserves

##### *Foreign Currency Translation Reserve*

Exchange difference arising on translation of the Groups functional currency from the Papua New Guinean Kina to US Dollar resulted in a foreign currency translation reserve. The reserve will have no further movement.

##### *Hedging Reserve*

The hedging reserve was used to record gains or losses on a hedging instrument in a cash flow hedge that were recognised directly in equity.

##### *Share-based Payments Reserve*

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

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**20. REMUNERATION OF EMPLOYEES**

The number of employees (not including Directors), whose remuneration and benefits exceeded K100,000 fall within the following bands:

US\$	Kina	Group No. of Employees	
		2007	2006
34,190 - 37,608	100,000 - 109,999	-	16
37,609 - 41,027	110,000 - 119,999	1	-
41,028 - 44,446	120,000 - 129,999	3	-
44,447 - 47,865	130,000 - 139,999	1	-
47,866 - 51,284	140,000 - 149,999	-	4
51,285 - 54,703	150,000 - 159,999	1	1
54,704 - 58,122	160,000 - 169,999	1	2
58,123 - 61,541	170,000 - 179,999	3	-
61,542 - 64,960	180,000 - 189,999	2	-
64,961 - 68,379	190,000 - 199,999	2	7
68,380 - 71,798	200,000 - 209,999	1	-
71,799 - 75,217	210,000 - 219,999	1	2
75,218 - 78,636	220,000 - 229,999	1	-
82,056 - 85,474	240,000 - 249,999	1	-
105,989 - 109,407	310,000 - 319,999	-	2
109,408 - 112,826	320,000 - 329,999	-	2
116,246 - 126,502	360,000 - 369,999	-	1
126,503 - 129,921	370,000 - 379,999	-	1
136,760 - 140,178	400,000 - 409,999	-	-
160,693 - 164,111	470,000 - 479,999	1	-
164,112 - 167,530	480,000 - 489,999	-	2
170,950 - 174,368	500,000 - 509,999	1	-
205,140 - 208,558	600,000 - 609,999	-	1
211,978 - 215,396	620,000 - 629,999	-	1
218,816 - 222,234	640,000 - 649,999	2	-
222,235 - 225,653	650,000 - 659,999	1	-
225,654 - 229,072	660,000 - 669,999	1	-
232,492 - 235,910	680,000 - 689,999	1	-
263,263 - 266,681	770,000 - 779,999	-	1
300,872 - 304,290	880,000 - 889,999	1	-
304,291 - 307,709	890,000 - 899,999	1	-
386,347 - 389,765	1,130,000 - 1,139,999	1	-
<b>Total</b>		<b>28</b>	<b>43</b>

The remuneration includes costs to the Group of accommodation in PNG and other like benefits provided to employees.

The 2006 comparatives have been converted at the current year exchange rates to arrive at the equivalent US\$ bands.

PGK1.00 = US\$0.3419

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 21. REMUNERATION OF DIRECTORS

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

#### 2007 Year

Name & Position	Cash Remuneration & Fees	Short-term Incentives	Non-monetary Benefits	Super- annuation	Share-based Payments (Long- term Incentives)	Total
	US\$000		US\$000	US\$000		US\$000
R Bryan, <i>Chairman</i>	67	-	-	6	-	73
I Holzberger, <i>Managing Director</i>	650	-	-	512	-	1,162
J Gooding, <i>Managing Director</i>	241	361	-	22	39	663
A Berry, <i>Non-Executive Director</i>	33	-	-	3	-	36
R Mitchell, <i>Non-Executive Director</i>	33	-	-	3	-	36
I Burvill, <i>Non-Executive Director</i>	23	-	-	2	-	25
F Williams-Igara, <i>Non-Executive Director</i>	33	-	-	3	-	36
<b>Total</b>	<b>1,080</b>	<b>361</b>	<b>-</b>	<b>551</b>	<b>39</b>	<b>2,031</b>

#### 2006 Year

Name & Position	Cash Remuneration & Fees	Non-monetary Benefits	Super- annuation	Share-based Payments	Total
	US\$000	US\$000	US\$000		US\$000
R Bryan, <i>Chairman</i>	100	-	9	-	109
I Holzberger, <i>Managing Director</i>	275	22	30	-	327
A Berry, <i>Non-Executive Director</i>	50	-	5	-	55
R Mitchell, <i>Non-Executive Director</i>	50	-	5	-	55
F Williams-Igara, <i>Non-Executive Director</i>	50	-	5	-	55
J Forbes, <i>Executive Director</i>	196	9	10	-	215
<b>Total</b>	<b>721</b>	<b>31</b>	<b>64</b>	<b>-</b>	<b>816</b>

- Mr I Holzberger resigned as Managing Director on 18 May 2007. The amount disclosed in the 2007 year includes the payment of leave entitlements and a termination benefit.
- Mr J Gooding was appointed as Managing Director on 21 May 2007.
- Mr I Burvill was appointed as a Director on 6 March 2007.
- US\$50,000 cash remuneration for Mr Mitchell is paid directly to the "National Superannuation Fund Limited".
- Mr J Forbes resigned as a Director on 3 July 2006. The remuneration paid to Mr Forbes was for his position as Chief Financial Officer and as an Executive Director. The amount includes the payment of leave entitlements on resignation.
- The Chairman and Non-Executive Directors suspended their Directors Fees for 1 September 2007 to 31 December 2007. These fees were back paid in the 2008 year.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 22. JOINT VENTURES

At 31 December 2007 joint venture interests comprised:

	Percentage Interest	Activity
Ramu joint venture (Note 1 below)	8.56	Development
Frieda River joint venture (Notes 2 & 3 below)	88	Exploration & Evaluation

1. During the 2005 year the Group's interest in the Ramu joint venture decreased from 68.5% to 8.56%. This reduction was the result of the agreement signed between the previous Ramu joint venture parties and China Metallurgical Construction (Group) Corporation (MCC) whereby MCC is responsible for the construction of the project with no recourse to the other joint venture parties. The Group's 8.56% interest increases to 11.30% at no cost to the Group after the debt for the financing of the project has been repaid. At this time the Group also has the option to purchase an additional 9.25% interest at market value, which if exercised would take the Group's interest to 20.55%. The Group must give notice to MCC during the Mine Development and Operating Phase as to when it will participate in the project. At the time of notice the Group will then receive its share of revenue and be responsible for its share of operating costs and financing costs. Up until this point MCC will fund the Group's share of the project operating costs and financing costs.
2. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development in that country.
3. Xstrata Frieda River Limited "XFRL" (a subsidiary of Xstrata Plc.) has a 73.7% interest in the Greater Frieda area with Highlands having a 16.4% interest in the same. XFRL are yet to exercise an option they have over the Nena deposit, contained in the Frieda River joint venture and therefore Highland's interest remains at 88%. On exercise of the option on Nena, Xstrata will increase to 73.7% and Highlands decrease to 16.4%.

The following amounts represent the Group's share of assets, liabilities, sales and results for the Ramu and Frieda River joint ventures that are included in the consolidated balance sheet and profit and loss statements:

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
Current assets	-	-	-	-
Non-current assets	60,000	26,000	-	-
	<b>60,000</b>	<b>26,000</b>	<b>-</b>	<b>-</b>
Current liabilities	-	-	-	-
Non-current liabilities	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Assets	-	-	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 23. RELATED PARTY TRANSACTIONS

### (a) Parent entity

The parent entity within the Group is Highlands Pacific Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 13.

### (c) Key management personnel

Refer to note 21 for details regarding directors. Other key management personnel, those that had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the year are as follows:

<i>Name</i>	<i>Position</i>
G De Ross	General Manager Technical Services (from 1 January to 31 July 2007)
K Grice	Chief Financial Officer (from 1 January to 28 February 2007)
C Lennon	Chief Financial Officer (from 1 March to 31 December 2007)
R Guest	General Manager Kainantu (from 1 January to 15 May 2007)
D Whittle	General Manager Kainantu (from 30 July to 12 December 2007)

Messrs De Ross, Grice and Guest were also key management persons during the 2006 year.

### (d) Key management personnel compensation

	Consolidated		Holding Company	
	2007	2006	2007	2006
	US\$000	US\$000	US\$000	US\$000
Short-term employee benefits	1,152	498	-	-
Share based payments	122	25	-	-
	<b>1,274</b>	<b>523</b>	<b>-</b>	<b>-</b>

Directors' remuneration is disclosed in note 21.

### (e) Equity instrument disclosures relating to key management personnel

*Options provided as remuneration and shares issued on exercise of such options*

Details of share-based payments are disclosed in note 28.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### *Option holdings*

The number of options 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.

#### 2007 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
<b>Directors of Highlands Pacific Limited</b>						
I Holzberger	350,000	-	-	-	350,000	350,000
J Gooding	-	10,000,000	-	-	10,000,000	-
<b>Other key management personnel of the Group</b>						
G De Ross	400,000	-	-	-	400,000	400,000
R Guest	375,000	-	-	(300,000)	75,000	75,000
D Whittle	-	5,600,000	-	(4,000,000)	1,600,000	1,600,000
C Lennon	387,500	2,000,000	-	(50,000)	2,337,500	337,500

#### 2006 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
<b>Directors of Highlands Pacific Limited</b>						
I Holzberger	750,000	-	-	(400,000)	350,000	350,000
J Forbes	475,000	-	-	(100,000)	375,000	375,000
<b>Other key management personnel of the Group</b>						
G De Ross	150,000	300,000	-	(50,000)	400,000	100,000
R Guest	325,000	300,000	-	(250,000)	375,000	75,000

Mr Ian R Holzberger retired as Managing Director on 18 May 2007, therefore his balance at the end of the year relates to this date.

Mr Greg De Ross resigned from the Group on 31 July 2007, therefore his balance at the end of the year relates to this date.

Mr Rob Guest resigned from the Group on 15 May 2007, therefore his balance at the end of the year relates to this date.

Mr Jeffrey Forbes resigned as a Director on 3 July 2006, therefore his balance in the 2006 year at the end of the year relates to this date.

Mr Craig Lennon was appointed Chief Financial Officer on 1 March 2007 and therefore is not disclosed in the 2006 year.

### *Share holdings*

The number of shares in the Company held during the financial year by each director and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the year as compensation.

#### 2007 Year

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Highlands Pacific Limited</b>				
R Bryan	708,050	-	-	708,050
A Berry	167,860	-	-	167,860
I Holzberger	78,500	-	-	78,500

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

2006 Year

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Highlands Pacific Limited</b>				
R Bryan	693,130	-	14,920	708,050
A Berry	152,940	-	14,920	167,860
I Holzberger	71,040	-	7,460	78,500
J Forbes	112,080	-	14,920	127,000

No other key management personnel of the Group held shares.

Mr Ian Holzberger retired as Managing Director on 18 May 2007, therefore his balance at the end of the year relates to this date.

Mr Jeffrey Forbes resigned as a Director on 3 July 2006, therefore his balance in the 2006 year at the end of the year relates to this date.

### (f) Loans to key management personnel

There are no loans between directors or other key management personnel and any of the Group companies.

### (g) Other transactions with key management personnel

Mr R Mitchell is the Chief Executive Officer of the National Superannuation Fund Limited, which is a major shareholder in the Company and manages a retirement plan in which the Company participates. National Superannuation Fund Limited is also leased five executive houses to Highlands Kainantu Limited at commercial rates during the 2006 and 2007 years. These leases have been novated to the purchaser of the Kainantu gold project as part of the sale of the project.

### (h) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<i>Superannuation contributions</i>				
Contributions to superannuation funds on behalf of employees	277	238	-	-

### (i) Advances to / from related entities

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
<i>Advances to / from subsidiaries</i>				
Beginning of the year	-	-	157,320	115,200
Movements during the year	-	-	20,250	42,120
End of year	-	-	177,570	157,320

Refer note 14 for provisions raised against these advances to subsidiaries.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

24. SEGMENT REPORTING

a) Primary Reporting (Business Segments)

Consolidated	Discontinued Operation US\$000	Exploration / Development US\$000	Unallocated US\$000	Group US\$000
<b>2007</b>				
Segment revenue	13,557	-	98	13,655
Segment result	(29,440)	33,864	(4,473)	(49)
Income tax (expense) benefit	-	-	(19)	(19)
Net Loss	(29,440)	33,864	(4,492)	(68)
Segment assets	-	60,000	25,980	85,980
Segment liabilities	-	-	(3,397)	(3,397)
Acquisition of segment assets	3,563	247	-	3,810
Segment depreciation and amortisation	5,841	-	31	5,872
<b>2006</b>				
Segment revenue	5,928	-	41	5,969
Segment result	(63,003)	(33)	(716)	(63,752)
Income tax (expense) benefit	-	-	(30)	(30)
Net Loss	(63,003)	(33)	(746)	(63,782)
Segment assets	87,732	27,595	17,203	132,530
Segment liabilities	(93,295)	-	(2,092)	(95,387)
Acquisition of segment assets	3,347	799	-	4,146
Segment depreciation and amortisation	5,140	72	35	5,247

b) Secondary Reporting (Geographic Segments)

Consolidated	Papua New Guinea		Japan		Australia		Total	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
Segment Sales Revenue	98	41	13,557	5,928	-	-	13,655	5,969
Segment Assets	65,010	117,187	-	-	20,970	15,343	85,980	132,530
Acquisition of Segment Assets	3,810	4,146	-	-	-	-	3,810	4,146
Segment Liabilities	(3,293)	(6,950)	-	(2,000)	(104)	(86,437)	(3,397)	(95,387)

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 25. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	58	854	-	-
One to two years	3	783	-	-
Two to five years	-	608	-	-
	<b>61</b>	<b>2,245</b>	<b>-</b>	<b>-</b>

### 26. CONTINGENT ASSETS AND LIABILITIES

#### *Contingent Asset*

Amounts owing by Nord Australex Nominees (PNG) ("Nord") Limited totalling US\$1 million receivable as follows:

- US\$500,000 – when debt and equity funding is available for the development of the Ramu project; and
- US\$500,000 – when the Ramu project commences production.

The amounts have been previously fully provided for in the accounts and are now classified as contingent due to the capacity of Nord to meet its obligation.

As part of the sale to Barrick Gold Corporation in December 2007, two exploration licences as at 31 December 2007 were yet to be transferred. It is expected that these two exploration licences will be transferred in the 2008 year and when this occurs the Group will receive an additional US\$7 million.

#### *Contingent Liability*

During 1999, Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu joint venture. The following contingent liabilities arose as a result of the acquisition:

- When debt and equity funding is available for the development of the Ramu project, the payment of the Kina equivalent of US\$73,033 plus A\$1.5 million which may be satisfied by payment in Kina (cash) on or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the ASX over the proceeding ten (10) days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
- When the Ramu project commences commercial production, the payment of the Kina equivalent of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment mentioned above.

There are no other material matters pending which, in the opinion of the Directors, could give rise to any liabilities which should be disclosed as contingent liabilities.

### 27. 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

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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, derivative financial instruments and deposits with banks and financial institutions; as well as credit exposure to customers, including outstanding committed transactions.

In relation to banks and financial institutions only the major Australian banking institutions and international institutions with high credit ratings are used for the depositing of surplus funds.

The carrying amount 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	
	2007	2006
	US\$000	US\$000
Cash and cash equivalents	20,500	16,577
Other receivables	702	134
	<u>21,202</u>	<u>16,711</u>

Derivative counterparties are limited to high-credit-quality financial institutions. The Group closed out all its forward gold sale contracts during the 2007 year, however at the end of the 2006 year the Group was disclosing a total (current and non current) liability of US\$61.5 million.

On the credit risk associated with customers, the Group was party to an off-take agreement while it was operating the Kainantu gold project. This project has since been sold, however there are some trailing gold sales still to be finalised. The counter party was a large multinational corporation and the Board of Directors do not believe there is a credit risk from this agreement due to the credit worthiness of the corporation involved. The off-take agreement details that transfer of ownership does not occur until arrival at the port of destination, therefore there are no amounts presented in the financial statements as at balance date (2007 or 2006) as a trade receivable which this relates to. The financial statements do disclose an amount of US\$4,308,000 (2006: US\$802,000) which represents the value of finished product in transit. The payment for the finished product in transit was received in February 2008 and therefore the credit risk associated with customers has diminished going forward.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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

	2007		2006	
	Gross US\$000	Impairment US\$000	Gross US\$000	Impairment US\$000
Not past due	702	-	134	-
More than a year	1,000	1,000	1,000	1,000
	<b>1,702</b>	<b>1,000</b>	<b>1,134</b>	<b>1,000</b>

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

### (b) Liquidity risk

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

The following are the contractual maturities of financial liabilities:

Consolidated 31 December 2007	Total US\$000	6 mths or		
		less US\$000	6 - 12 mths US\$000	1 - 2 years US\$000
<b>Non-derivative financial liabilities</b>				
Trade and other creditors	3,293	3,293	-	-
	<b>3,293</b>	<b>3,293</b>	<b>-</b>	<b>-</b>

Consolidated 31 December 2006	Total US\$000	6 mths or		
		less US\$000	6 - 12 mths US\$000	1 - 2 years US\$000
<b>Non-derivative financial liabilities</b>				
Trade and other creditors	7,636	7,636	-	-
Bank borrowings	24,770	5,000	5,000	14,770
<b>Derivative financial liabilities</b>				
Forward contracts	61,501	25,876	12,007	23,618
	<b>93,907</b>	<b>38,512</b>	<b>17,007</b>	<b>38,388</b>

Trade and other creditors exclude derivative instruments (shown separately) that will be settled on a gross basis. The derivative amounts disclosed in the above tables are contractual undiscounted cash flows. The periods in which the cash flows associated with derivatives, all of which are cash flow hedges, were expected to impact profit or loss in the same periods as detailed in the above tables; however due to the sale of the Kainantu gold project all forward gold sale contracts were closed out during the 2007 year.

### (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.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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

	Consolidated		Holding Company	
	2007	2006	2007	2006
	AU\$000	AU\$000	AU\$000	AU\$000
Cash and cash equivalents	1,067	7,233	-	-
Other receivables	549	-	-	-
Trade and other creditors	(524)	(556)	-	-
	<b>1,092</b>	<b>6,677</b>	<b>-</b>	<b>-</b>

	Consolidated		Holding Company	
	2007	2006	2007	2006
	PGK\$000	PGK\$000	PGK\$000	PGK\$000
Cash and cash equivalents	491	(807)	-	-
Other receivables	258	311	-	-
Trade and other creditors	(2,556)	(10,350)	-	-
	<b>(1,807)</b>	<b>(10,846)</b>	<b>-</b>	<b>-</b>

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2007	2006	2007	2006
	US\$000	US\$000	US\$000	US\$000
AUD	0.8307	0.7495	0.8723	0.7855
PGK	0.3419	0.3512	0.3600	0.3570

A 10% strengthening / weakening of the Australian dollar and the Papua New Guinea Kina, with all other variables constant, would have affected before tax profit and equity by US\$31,000 (2006: US\$910,000).

### *Interest rate risk*

The Group's interest rate risk arises as a result of bank borrowings and cash deposits. The bank borrowings have been repaid during the 2007 year as a result of the sale of the Kainantu gold project. Cash deposits, which in turn earn interest income, are subject to the movement of interest rates and the Group does not enter into long-term deposits.

At the reporting date the Group had no borrowings exposed to interest rate risk (2006: US\$24,770,000 at an effective interest rate of 9.65%). The Group also had US\$17,000,000 on deposit at an effective rate of 4.83% (2006: US\$9,596,000 at an effective rate of 5.18% and AU\$5,252,000 at an effective rate of 6.14%).

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\$170,000 (2006: US\$99,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### *Commodity price risk*

The Group was exposed to gold price risk up to the date of sale of the Kainantu gold project. The Group did use derivative instruments (forward sales contracts) up to the date of sale.

	Consolidated 2007 US\$000	Consolidated 2006 US\$000
<b>Current Liabilities</b>		
Forward contracts	-	37,883
<b>Non-current Liabilities</b>		
Forward contracts	-	23,618
<b>Shareholders equity - fair value and other reserves</b>		
Deferred hedging gains (losses)	-	(25,277)
	-	(25,277)

The estimates net amount of gains / (losses) contained in the fair value and other reserves, which are expected to be reclassified to earnings within the next 12 months, is as follows:

Forward contracts	-	(9,483)
	-	(9,483)

A change of 10% (plus 10% / minus 10%) in the gold price would have impacted the forward sales contracts by approximately US\$15 million in the 2006 year. The analysis assumes that all other variables remain constant.

These agreements were entered into with financial institutions in relation to future sales of gold for the Kainantu gold project. The purpose of these transactions was to protect the level of income in future years. It is not Group policy to engage in speculative hedging activities. These agreements were closed out as a result of the sale of the Kainantu gold project.

### (d) **Currency Control**

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

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 28. SHARE-BASED PAYMENTS

#### (a) Executive Option Scheme

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

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

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

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

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

Grant date	Hurdle / vesting date	Exercise Price (AU\$)	Balance start of year	Granted during year	Exercised during year	Expired during year	Balance at end of year	Exercisable at end of year
6/08/2004	1/10/2004	0.37	200,000	-	-	200,000	-	-
6/08/2004	31/12/2004	0.37	50,000	-	-	50,000	-	-
6/08/2004	30/03/2005	0.37	300,000	-	-	-	300,000	300,000
6/08/2004	25/05/2005	0.37	100,000	-	-	-	100,000	100,000
6/08/2004	31/10/2005	0.37	50,000	-	-	-	50,000	50,000
6/08/2004	31/12/2005	0.37	393,750	-	-	-	393,750	393,750
20/05/2005	31/12/2005	0.43	37,500	-	-	-	37,500	137,500
20/05/2005	30/06/2006	0.43	100,000	-	-	-	100,000	137,500
7/08/2006	31/07/2007	0.423	2,000,000	-	-	1,000,000	1,000,000	1,000,000
21/05/2007	21/05/2007	0.1546	-	1,500,000	-	-	1,500,000	-
21/05/2007	21/05/2008	0.1546	-	3,500,000	-	-	3,500,000	-
21/05/2007	21/05/2009	0.1546	-	5,000,000	-	-	5,000,000	-
19/07/2007	19/07/2007	0.175	-	1,625,000	-	1,250,000	375,000	-
19/07/2007	19/07/2008	0.175	-	4,125,000	-	3,250,000	875,000	-
19/07/2007	19/07/2009	0.175	-	5,750,000	-	4,500,000	1,250,000	-
27/08/2007	31/07/2008	0.175	-	700,000	-	500,000	200,000	-
10/12/2007	12/12/2007	0.175	-	3,800,000	-	-	3,800,000	-
			<b>3,231,250</b>	<b>26,000,000</b>		<b>10,750,000</b>	<b>18,481,250</b>	<b>2,118,750</b>
Weighted average exercise price (AUD)			0.41	0.17		0.20	0.19	0.40

The options issued on 21 May 2007 and 19 July 2007 have two hurdles – one being time driven and the other being share price driven. The share price hurdle is a 10 day volume weighted average price of AU\$0.25; AU\$0.35 and AU\$0.50 for the three tranches. These options have an exercise period of three years from the issue date.

The weighted average remaining contractual life of options outstanding at the end of the period was 3.4 years. No options were exercised during the year.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### *Fair value of options granted*

There were four issues in total during the year summarised as follows:

	(a)	(b)	(c)	(d)
Fair value at grant date	AU\$0.05	AU\$0.03	AU\$0.05	AU\$0.06
Exercise Price	AU\$0.1546	AU\$0.175	AU\$0.175	AU\$0.175
Grant Date	21st May 2007	19th July 2007	27th August 2007	10th December 2007
Share price at grant date	AU\$0.16	AU\$0.18	AU\$0.14	AU\$0.16
Expected volatility of Company's shares	50%	50%	50%	50%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	6.20%	6.30%	6.20%	6.60%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

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

### **(b) Equity Option Issue**

On 12 February 2007, the Group arranged a share placement raising US\$20 million. As part of the placement approximately 43 million options were also issued – the options being approved by shareholders on 20 March 2007 at a special shareholder meeting.

The options were granted for no consideration and carry no dividend or voting rights. When exercisable, each option is convertible into one fully paid ordinary share. The exercise prices of the options are as follows:

No. of Options	Exercise Price
10,756,477	AU\$0.50
10,756,477	AU\$0.55
10,756,477	AU\$0.60
10,756,477	AU\$0.65

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### (c) Cost arising from share-based payment transactions

Total cost from share-based payment transactions recognised during the period as part of a share based payment was as follows:

	December 2007 US\$000	December 2006 US\$000
Options issued under Executive Option Scheme	322	72
Options issued to Financiers	250	-
<b>Total</b>	<b>572</b>	<b>72</b>

### 29. EVENTS OCCURRING AFTER BALANCE DATE

No events have occurred since balance date.

### 30. DISCONTINUED OPERATION

In December 2007 the Group sold its Kainantu gold project including plant and equipment. The segment was not a discontinued operation or classified as held for sale as at 31 December 2006 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. The proceeds from the sale of the Kainantu gold project and surrounding exploration licences totalled US\$134.5 million paid in cash. As a result of the sale the Group repaid the project loan and closed out the forward gold sales contracts.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

Losses attributable to the discontinued operation were as follows:

	2007 US\$000	2006 US\$000
<b>Financial performance of discontinued operation</b>		
Gold concentrate sales	16,117	10,724
Realisation of hedging instruments	(2,560)	(4,796)
Mining costs	(8,524)	(7,050)
Processing costs	(3,034)	(3,160)
Maintenance costs	(6,311)	(4,862)
General and administrative costs	(13,488)	(11,708)
Changes in inventories or work in progress / finished goods	3,110	1,198
Depreciation and amortisation	(5,841)	(5,215)
Interest expense	(1,873)	(2,400)
Net foreign exchange (gains) / losses	(421)	490
<b>Profit (Loss) before income tax</b>	<b>(22,825)</b>	<b>(26,779)</b>
Income tax expense	-	-
<b>Profit (Loss) after income tax</b>	<b>(22,825)</b>	<b>(26,779)</b>
Impairment of non current assets	(64,280)	-
Reversal of impairment of non current assets	60,305	-
Gain on sale of discontinued operation	54,087	-
Gains / losses on cash flow hedges	(56,727)	(36,224)
Income tax on gain on sale of discontinued operation	-	-
<b>Profit (Loss) from discontinued operation</b>	<b>(29,440)</b>	<b>(63,003)</b>
<b>Cash flows from discontinued operation</b>		
Net cash from operating activities	(18,918)	(27,711)
Net cash from investing activities	126,686	(3,861)
Net cash from financing activities	(117,721)	(5,110)
<b>Net cash from (used in) discontinued operation</b>	<b>(9,953)</b>	<b>(36,682)</b>
<b>Carrying amounts of assets sold as at 12 December 2007 (2007 column) and 31 December 2006</b>		
	2007 US\$000	2006 US\$000
Property, plant and equipment	15,494	18,174
Exploration, development and mineral properties	60,771	66,844
Inventories (stores)	4,148	3,111
<b>Net assets</b>	<b>80,413</b>	<b>88,129</b>
<b>Details of sale</b>		
Consideration received	134,500	
Carrying amount of net assets sold	(80,413)	
	<b>54,087</b>	

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 31. 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	
	2007 K000	2006 K000	2007 K000	2006 K000
Revenue	1,942	3,724	-	-
Net Profit (Loss) after tax	(199)	(181,612)	(59,221)	(15,729)
Total Assets	239,499	371,232	25	76
Total Liabilities	9,184	267,190	8	8
Net Assets	230,315	104,042	17	68

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2007 of PGK1.00 = \$0.3590 (2006 year PGK1.00 = 0.3570) while income and expense items are translated at the average rate for the year PGK1.00 = \$0.3419 (2006 year PGK1.00 = \$0.3512).



## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

### INDEPENDENT AUDIT REPORT TO THE MEMBERS

For the Year Ended 31 December 2007

#### **Independent auditor's report to the shareholders of Highlands Pacific Limited**

#### **Report on the financial statements and consolidated financial statements**

We have audited the accompanying financial statements of Highlands Pacific Limited (the 'Company') and the consolidated financial statements of the Company and its subsidiaries (the 'Group') which comprise the balance sheets as at 31 December 2007 and the income statements, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### ***Directors' responsibility for the financial statements***

The directors are responsible for the preparation and fair presentation of these financial statements and consolidated financial statements in accordance with International Financial Reporting Standards, other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the directors, as well as evaluating the overall presentation of the financial statements.

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

***Auditors' opinion on the financial statements***

In our opinion, the accompanying financial statements of the Company and the consolidated financial statements of the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2007, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997.

**Report on other legal and regulatory requirements**

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

- i) in our opinion proper accounting records have been kept by the Company and the Group, so far as appears from our examination of those records;
- ii) we have obtained all the information and explanations we have required; and
- iii) in conducting our audit we followed applicable independence requirements of CPA Papua New Guinea.



**PricewaterhouseCoopers**



**Stephen Beach**  
Partner  
Chartered Accountants  
Registered under the Accountants Act 1996  
Lae



**Robert Hubbard**  
Partner  
Chartered Accountants  
Registered Company Auditor  
Brisbane

28 March 2008