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

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

26 March 2009

Annual Financial Statements

The Board of Highlands Pacific Limited today releases the annual financial statements for the Group for the year ended 31 December 2008.

The financial statements detail a profit for the year of US$12,319,000 and cash reserves of over US$20 million (approximately AU$30).

Included in the result is the following:

- A gain (reversal of impairment) on the Frieda River Project of US$15 million. As detailed in the announcement January this year the Project has moved into the pre-feasibility stage and the previously impaired value has been partially reversed as the value of the investment increases;
- A gain on disposal of Exploration Licence 1399 of US$4 million. The Exploration Licence was part of the sale to Barrick Gold Corporation in December 2007 and was delayed due to administrative issues with the renewal and transfer process;
- A foreign exchange loss of US$3.7 million due to the depreciation in the Australian Dollar against the US Dollar. The Company holds approximately half of its cash reserves in Australian Dollars and these are revalued to US Dollars for reporting purposes; and
- Exploration and development expenditure provided against of US$2.4 million for expenditure on the Wau program and ownership costs for the Company's interest in the Ramu Nickel Cobalt project.

"The increase in the book value of the Company's interest in the Frieda River copper gold project confirms the increased confidence in the project by the Company" said John Gooding, Highlands Pacific Managing Director. He said that the Ramu and Frieda River projects are world class assets with Ramu commissioning scheduled for the end of the year, and Frieda River in full Pre-feasibility Study mode where US$36M is budgeted to be spent this year by the manager Xstrata Copper.

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
Investor Relations
Phone: (61 3) 9670 5008

Mr Brian Thornton
Farrington Group
Media Relations
Phone: (61 2) 9332 4448

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

Table of Contents

Income Statement	2
Statement of Changes in Equity	3
Balance Sheet	4
Cash Flow Statement	5-6
Notes to and forming part of the Financial Statements	7-41
Director's Declaration	42
Independent Auditor's Report to the Members	43-44

INCOME STATEMENT

For the Year Ended 31 December 2008

		Consolidated		Holding Company	
		2008	2007	2008	2007
	Notes	US$000	US$000	US$000	US$000
Finance Income	2	961	566	-	-
Other revenue	2	147	98	-	-
Total Operating Income		1,108	664	-	-
General and administrative costs		3,707	5,246	-	-
Exploration and development costs		2,356	136	-	-
Depreciation and amortisation		55	31	-	-
Net foreign exchange (gains) / losses	27(c)	3,720	(140)	-	(2)
Total Operating Costs	3	9,838	5,273	-	(2)
Profit (Loss) from operations		(8,730)	(4,609)	-	2
Impairment of subsidiary advances	15	-	-	57,228	(20,250)
Gain (loss) on sale of non-current assets	4	4,451	-	-	-
Reversal of impairment of non-current assets	11/12	15,000	34,000	-	-
Profit (Loss) before income tax		10,721	29,391	57,228	(20,248)
Income tax (expense) benefit	5	(38)	(19)	-	-
Profit (Loss) from continuing operations after income tax		10,683	29,372	57,228	(20,248)
Profit (Loss) from discontinued operations after income tax	30	1,636	(29,440)	-	-
Profit (Loss) for the period		12,319	(68)	57,228	(20,248)

Earnings per share			
Basic & Diluted	6	US$0.0189	US$0.000

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

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2008

	Notes	Share Capital US$000	Reserves US$000	Retained Earnings US$000	Total US$000
CONSOLIDATED					
Year Ended 31 December 2008					
Balance as at 1 January 2008		274,553	(9,037)	(182,934)	82,582
Net profit (loss)		-	-	12,319	12,319
Issue of Share Based Payments	28	-	162	-	162
Issue of share capital	18	200	-	-	200
Balance as at 31 December 2008		274,753	(8,875)	(170,615)	95,263
Year Ended 31 December 2007					
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)
Balance as at 31 December 2007		274,553	(9,037)	(182,934)	82,582
HOLDING COMPANY					
Year Ended 31 December 2008					
Balance as at 1 January 2008		274,553	(5,042)	(269,505)	6
Net profit (loss)		-	-	57,228	57,228
Issue of Share Based Payments	28	-	162	-	162
Issue of share capital	18	200	-	-	200
Balance as at 31 December 2008		274,753	(4,880)	(212,277)	57,596
Year Ended 31 December 2007					
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)
Balance as at 31 December 2007		274,553	(5,042)	(269,505)	6

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

BALANCE SHEET

		Consolidated		Holding Company	
		2008	2007	2008	2007
CURRENT ASSETS	Notes	US$000	US$000	US$000	US$000
Cash and cash equivalents	7	20,267	20,500	-	-
Inventories	8	-	4,308	-	-
Receivables	9	335	702	-	-
		20,602	25,510	-	-
NON-CURRENT ASSETS					
Property, plant and equipment	10	466	470	-	-
Exploration & evaluation expenditure	11	25,000	10,000	-	-
Development expenditure	12	50,000	50,000	-	-
Mineral properties	13	-	-	-	-
Investment in subsidiaries	14	-	-	-	9
Advance to subsidiaries	15	-	-	57,599	-
		75,466	60,470	57,599	9
TOTAL ASSETS		96,068	85,980	57,599	9
CURRENT LIABILITIES					
Trade and other payables	16	676	3,294	-	-
Provisions	17	85	92	-	-
Provision for income tax		40	11	-	-
		801	3,397	-	-
NON-CURRENT LIABILITIES					
Provisions	17	4	1	-	-
Advances from subsidiaries	15	-	-	3	3
		4	1	3	3
TOTAL LIABILITIES		805	3,398	3	3
NET ASSETS		95,263	82,582	57,596	6
SHAREHOLDERS' EQUITY					
Contributed equity	18	274,753	274,553	274,753	274,553
Reserves	19	(8,875)	(9,037)	(4,880)	(5,042)
Retained earnings		(170,615)	(182,934)	(212,277)	(269,505)
TOTAL SHAREHOLDERS' EQUITY		95,263	82,582	57,596	6

As at 31 December 2008

For, and on behalf of, the board

Ken MacDonald
Chairman

John E Gooding
Managing Director

26 March 2008

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

CASH FLOW STATEMENT

From the Year Ended 31 December 2008

		Consolidated		Holding Company	
		2008	2007	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES	Notes	US$000	US$000	US$000	US$000
Receipt from gold sales (net of hedge payments)		6,625	13,556	-	-
Receipt from other operations		148	98		
Interest from investments		831	590	-	-
Income tax paid		(9)	(15)	-	-
Interest paid		-	(1,873)	-	-
Payments to suppliers and employees		(6,343)	(36,669)	-	-
Net cash used in operating activities		1,252	(24,313)	-	-
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		816	16,580	-	-
Proceeds from sale of exploration and mineral properties		4,000	117,970	-	-
Advance from (to) subsidiaries		-	-	(200)	(19,674)
Purchase of property, plant and equipment		(384)	(266)	-	-
Exploration, evaluation, development and mineral properties		(2,387)	(7,704)	-	-
Net cash used in investing activities		2,045	126,580	(200)	(19,674)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		200	20,000	200	20,000
Costs associated with Issue		-	(342)	-	(342)
Repayment of forward gold sales contracts		-	(92,951)	-	-
Repayment of borrowings		-	(24,770)	-	-
Net cash from financing activities		200	(98,063)	200	19,658
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,497	4,204	-	(16)
Add cash brought forward		20,500	16,577	-	18
Effect of exchange rate change on cash and cash equivalents		(3,730)	(281)	-	(2)
CASH AND CASH EQUIVALENTS CARRIED FORWARD		20,267	20,500	-	-
CASH COMPRISES					
Cash and cash equivalents	7	20,267	20,500	-	-

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

CASH FLOW STATEMENT (Continued)

From the Year Ended 31 December 2008

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

		Consolidated		Holding Company	
		2008	2007	2008	2007
	Notes	US$000	US$000	US$000	US$000
Reported Net Profit (Loss) after Taxation		12,319	(68)	57,228	(20,248)
Add (less) non-cash items:					
Loss on cash flow hedges		-	56,727	-	-
Depreciation and amortisation		55	5,872	-	-
Provision for exploration and development costs		2,356	136	-	-
Provision for doubtful debts		-	-	(57,228)	20,250
Write off of creditor		(300)	-	-	-
Tax		38	19	-	-
Fair value of share based payments		161	572	-	-
(Profit) loss on sale of property, plant & equipment		(4,451)	(54,127)	-	-
Impairment of non-current assets		-	64,280	-	-
Reversal of impairment of non-current assets		(15,000)	(94,305)	-	-
Net (gain) loss on foreign currency balances		3,730	281		(2)
		(13,411)	(20,545)	(57,228)	20,248
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		616	(818)	-	-
(Increase) decrease in inventories		4,308	1	-	-
Increase (decrease) in creditors and provisions		(2,580)	(2,883)	-	-
		2,344	(3,700)	-	-
Net Cash Flow from Operating Activities		1,252	(24,313)	-	-

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 18 March 2009. 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(t).

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

(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 2008 and the results of all subsidiaries for the year then ended. Highlands Pacific Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

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

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

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

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

Joint ventures - Jointly controlled assets
Where there is joint control in a joint venture the proportionate interests in the assets, liabilities and expenses of the joint venture activity are incorporated in the financial statements under the appropriate headings. Where there is no joint control the interest is accounted for on an investment basis until such time as joint control exists. Details of the joint ventures are set out in note 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. The Group operates predominately in the exploration and development industry in Papua New Guinea.

(d) Foreign currency translation

Functional and presentation currency

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

Transaction and balances

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

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

Group companies

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

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

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 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.

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) 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.

(l) Property, Plant and Equipment

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

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

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

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

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

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

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

(m) Exploration, evaluation and development expenditure

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

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

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

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

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

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

(n) Impairment of long life assets

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

(o) 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.

(p) Provisions

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

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

(q) Employee benefits

Wages and salaries, annual leave and sick leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Retirement benefit obligations

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

Share-based payments

Share–based compensation benefits are provided to employees via the Executive Option Scheme. 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, are transferred to share capital and the proceeds received, net of any directly attributable transactions costs, and are credited to share capital.

(r) 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.

(s) 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.

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.

(t) Critical accounting judgements, estimates and assumptions

Judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Carrying value of exploration, evaluation and development expenditure
The Group tests annually whether the carrying value of long life assets; such as investments in exploration and evaluation expenditure, development expenditure, and property, plant and equipment; have suffered any impairment. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, operating costs, capital costs and production rates. The impairment testing for the current year has been based on – in the case of the Ramu project, a discount rate of 10%, proved and probable reserves, long term nickel prices of US$7.00/lb and cobalt prices of US$24.00/lb, and operating costs consistent with these price assumptions; in the case of the Frieda project, a discount rate of 12%, long term copper prices of US$2.00/lb and gold prices of US$700/oz, estimated future capital requirements, and operating costs consistent with these price assumptions.

(u) New accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2008 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

IRFS 2 – Share-based Payment
Summary – Amendment relating to vesting conditions and cancellations
Application date of standard – 1 January 2009
Impact on Consolidated Entity's financial report – The Consolidated Entity has share-based payment transactions that may be affected by these amendments. The Consolidated Entity has yet to determine the extent of the impact, if any.
Application date for the Consolidated Entry – 1 January 2009

IFRS 3 – Business Combinations
Summary – Comprehensive revision on applying the acquisition method
Application date of standard – 1 July 2009
Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.
Application date for the Consolidated Entry – 1 July 2009

IRFS 7 - Financial Instruments: Disclosures
Summary – Amendments for disclosure of eligible hedged items
Application date of standard – 1 July 2009
Impact on Consolidated Entity's financial report - IFRS 7 is a disclosure standard so will have no direct impact on the amounts disclosed in the Consolidated Entity's financial statements.
Application date for the Consolidated Entry – 1 July 2009

IAS1 – Presentation of Financial Statements
Summary – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation
Application date of standard – 1 January 2009
Impact on Consolidated Entity's financial report – At present the Consolidated Entity has no puttable financial instruments as defined under IAS 32 therefore the amendment would have no impact for the Consolidated Entity as at 31 December 2008.
Application date for the Consolidated Entry – 1 January 2009

IAS27 – Consolidated and Separate Financial Statements
Summary – Consequential amendments arising from amendments to IFRS 3
Application date of standard – 1 July 2009
Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.
Application date for the Consolidated Entry – 1 July 2009

IAS28 – Investments in Associates
Summary – Consequential amendments arising from amendments to IFRS 3
Application date of standard – 1 July 2009
Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.
Application date for the Consolidated Entry – 1 July 2009

IAS31 – Interests in Joint Ventures
Summary – Consequential amendments arising from amendments to IFRS 3
Application date of standard – 1 July 2009
Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.
Application date for the Consolidated Entry – 1 July 2009

Amendments to IFRS - Various
Summary – Improvements to International Financial Reporting Standards
Application date of standard – 1 January 2009
Impact on Consolidated Entity's financial report – The Consolidated Entity has not yet determined the extent of the impact of these amendments, if any.
Application date for the Consolidated Entry – 1 January 2009

IAS 32 – Financial Instruments: Presentations – Not applicable.

IAS 39 – Financial Instruments: Recognition and Measurement - Not applicable

IFRIC 15 – Agreements for the construction of real estate - Not applicable

IFRIC 16 – Hedges of a net investment in a foreign operation - Not applicable

IFRIC 17 – Guidance on distributions of non-cash items to owners - Not applicable

(v) Rounding

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

2. REVENUE

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Finance Income				
Interest income	961	566	-	-
Other Income				
Rental income	147	98	-	-

3. EXPENSES

		Consolidated		Holding Company	
		2008	2007	2008	2007
	Notes	US$000	US$000	US$000	US$000
Total operating costs		9,838	5,273	-	(2)
Operating costs are stated after charging:					
Salaries and employee benefits		1,892	2,946	-	-
Office costs		450	415	-	-
Consultants costs		414	430	-	-
Non-executive Director fees and benefits		351	206	-	-
Corporate affairs and public relations costs		112	174	-	-
Company secretarial and public listing costs		160	188	-	-
Travel and accomodation costs		151	204	-	-
Auditors' remuneration					
- audit		94	108	-	-
- other services		83	98	-	-
Depreciation					
- land and buildings		11	5	-	-
- plant and equipment		44	26	-	-
Exploration and development costs	11/12	2,356	136	-	-
Net foreign exchange (gains) losses	27(c)	3,720	(140)	-	(2)

The average number of people employed by the Group during the year was 30 (2007: 463). The Holding Company does not have any direct employees.

4. GAIN (LOSS) ON SALE OF NON-CURRENT ASSETS

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Total Gain/(loss) on sale of non-current assets	4,451	-	-	-
Gain/(loss) on sale of non-current assets include:				
Exploration licences	3,968	-	-	-
Other non-current assets	483	-	-	-

5. INCOME TAX

	Consolidated		Holding Company	
	2008	2007	2008	2007
Reconciliation of income tax expense to prima facie tax expense	US$000	US$000	US$000	US$000
Profit (Loss) from continuing operations before tax	10,721	29,391	57,228	(20,248)
Profit (Loss) from discontinuing operations before tax	1,636	(29,440)	-	-
Loss before income tax expense for the year	12,357	(49)	57,228	(20,248)
Income tax benefit on the loss for the year at an average of 30% (2007: 30%)	3,707	(15)	17,168	(6,074)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Provision for doubtful debts	-	-	(17,168)	6,074
Reversal of Impairment	(4,500)	(10,200)	-	-
Capital gain on disposal	(1,223)	(16,228)	-	-
Sundry items	248	167	-	-
	(1,769)	(26,276)	-	-
Deferred tax asset not brought to account	1,807	26,295	-	-
Income tax expense	38	19	-	-
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	148,871	145,231	-	-
Potential tax benefit @ 30%	44,661	43,569	-	-
Other deferred tax assets not recognised				
Amounts recognised in profit and loss				
Exploration costs	66,205	80,087	-	-
Unrealised foreign exchange gains (losses)	172	172	172	172
Provision for employee entitlements	(170)	180	-	-
Sundry items	-	-	-	-
	66,207	80,439	172	172
Potential tax benefit @ 30%	19,862	24,132	52	52
Deferred tax liabilities not recognised				
Amounts recognised in profit and loss				
Unrealised foreign exchange gains (losses)	161	1,793	-	-
Sundry items	72	48	-	-
	233	1,841	-	-
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	(233)	(1,841)	-	-
Net deferred tax liability	-	-	-	-

The benefits for tax losses will only be obtained if:

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

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

6. 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	2008	2007
Net profit (loss) attributable to shareholders (US$000)	12,319	(68)
Weighted average number of ordinary shares on issue (000)	651,724	634,967
Basic earnings per share (US$)	0.0189	0.00
Diluted earnings per share		
Weighted average number of ordinary shares on issue (000)	651,724	634,967
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	748,705	696,793
Diluted earnings per share (US$)	0.0165	0.00

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(c).

7. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Cash at bank and in hand	2,827	20,443	-	-
Short-term bank deposits	17,440	57	-	-
	20,267	20,500	-	-

a) Reconciliation to cash at the end of the year

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

b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 27(c).

8. INVENTORIES

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Concentrate in transit	-	4,308	-	-
	-	4,308	-	-

9. RECEIVABLES

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Current				
Other receivables *	835	702	-	-
Less: Provision for doubtful debts **	(500)	-	-	-
	335	702	-	-

* An amount owing by Nord Australex Nominees (PNG) Limited ("Nord") totaling US$500K is receivable when the Ramu project commences production.

** A provision for US$500K was raised in 1999 against this tranche.

In the 2007 year the amount owing and the provision were netted off due to the uncertainty and was disclosed as a contingent asset.

10. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings US$000	Plant & Equip't US$000	Total US$000
CONSOLIDATED - 2008			
Cost			
Cost brought forward	629	536	1,165
Additions	219	165	384
Disposals	(341)	(408)	(749)
Cost carried forward	507	293	800
Depreciation			
Brought forward	247	448	695
Charge for the year	11	44	55
Disposals	(20)	(396)	(416)
Depreciation carried forward	238	96	334
Net book value at 31 December 2008	269	197	466
CONSOLIDATED - 2007			
Cost			
Cost brought forward	4,112	17,228	21,340
Additions	3	245	248
Disposals	(3,486)	(16,937)	(20,423)
Cost carried forward	629	536	1,165
Depreciation			
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
Net book value at 31 December 2007	382	88	470

11. EXPLORATION & EVALUATION EXPENDITURE

	Ramu US$000	Kainantu US$000	Frieda US$000	Other US$000	Total US$000
Balance 1 January 2008	-	-	10,000	-	10,000
Capitalised during the year	-	-	15	1,269	1,284
Less provisions for exploration costs	-	-	(15)	(1,237)	(1,252)
Reversal of impairment loss	-	-	15,000	-	15,000
Less disposal of exploration costs	-	-	-	(32)	(32)
Balance 31 December 2008	-	-	25,000	-	25,000
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)
Balance 31 December 2007	-	-	10,000	-	10,000

The carrying value of the Group's interest in the Frieda project has been increased during the year due to the confidence in the project progressing towards development increasing. During the 2008 year an extended scoping study was completed and the manager / operator, who is required to complete a feasibility study on the project by January 2012 or relinquish their share in the project back to the Group, announced that they would be advancing the project to an 18 month pre-feasibility study. If the project passed the hurdles during this stage it would then progress to a feasibility study.

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 weighted average cost of capital of 12% to be generated by the asset assuming its ultimate successful development and potential current realisable value by reference to comparable transactions and farm-in arrangements. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for copper of US$2.00/lb and gold US$700/oz. Sensitivities have been applied to all critical assumptions with the resulting range of values comparing favorable with the carrying value.

As the Group is free carried up to the completion of the feasibility study by the operator / manager by January 2012 this has also been taken into consideration. The project manager has expended US$40 million to date and has budgeted expenditure of US$36 million for the 2009 year, the Group's share being fully funded by the operator / manager and it is expected that this level of expenditure would continue for the pre-feasibility study and then increase further during the feasibility study. It is expected that as the project continues to advance towards development that the carrying value will be increased further.

The Group's expenditure to date on the Frieda project is approximately US$42 million which means the Group is still holding an impairment charge of approximately US$17 million on the project.

12. DEVELOPMENT EXPENDITURE

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Ramu				
Balance brought forward	50,000	-	-	-
Capitalised during the year	1,104	-	-	-
Less provisions for development costs	(1,104)			
Transferred from Exploaration & Evaluation Expenditure	-	16,000	-	-
Reversal of impairment of non-current assets	-	34,000	-	-
Balance carried forward	50,000	50,000	-	-

The amount capitalised during the year represents the net movement of a payment made to Eastern Pacific Mines Limited and a receipt from Nord Australex Nominees (PNG) Limited. The trigger for these transactions was the availability of debt and equity funding for the Ramu project. These transactions were disclosed as a contingent asset and contingent liability in previous years.

The carrying value of the Group's interest in the Ramu project has been maintained at US$50 million. Early in the 2008 year the project announced that debt financing was completed and that the project was fully funded and construction officially started. The operator / manager maintains committed to the target of construction being completed by the end of the 2009 year with commissioning to commence immediately thereafter.

In assessing the carrying value of the Ramu project, the Directors have considered the value by reference to the present value of the future cash flows at a risk adjusted equity discount rate of 10% to be generated by the asset assuming its ultimate successful development and potential current realisable value by reference to comparable transactions and farm-in arrangements. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for nickel of US$7.00/lb and cobalt US$24.00/lb. Sensitivities have been applied to all critical assumptions with the resulting range of values comparing favorable with the carrying value. A 10% movement in the price assumptions for nickel results in a movement in the present value of future cash flows of US$17 million while for cobalt it results in a movement of US$6 million.

The recent economic downturn has been considered in arriving at a valuation for the project, however the assumptions used in the financial model in the past and currently, in regards to commodity prices, has always been based on long term pricing. Therefore the recent downward movement in pricing has not resulted in the project being impaired (reduced in value). The project operator and manager remains committed to the development of the project and given the joint venture partners consist of major nickel / cobalt consumers in China the project will have significant advantages throughout operations.

The Group's expenditure to date on the Ramu project is approximately US$90 million which means the Group is still holding an impairment charge of approximately US$40 million on the project.

13. MINERAL PROPERTIES

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Kainantu				
Balance brought forward	-	61,789	-	-
Capitalised during the year	-	2,802	-	-
Amortisation	-	(3,331)	-	-
Impairment loss	-	(52,038)	-	-
Reversal of impairment loss	-	49,270	-	-
Disposal of mineral properties	-	(58,492)		
Balance carried forward	-	-	-	-
Deferred finance costs				
Balance brought forward	-	3,460	-	-
Capitalised during the year	-	513	-	-
Amortisation	-	(356)	-	-
Impairment loss	-	(3,617)	-	-
Reversal of impairment loss	-	3,273	-	-
Write off of financing costs	-	(3,273)	-	-
Balance carried forward	-	-	-	-
Total	-	-	-	-

The Kainantu gold project was sold in December 2007.

14. 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	
	2008	2007
	US$000	US$000
Investments in subsidiaries - at cost	130,186	130,186
Less provision for diminution	(130,186)	(130,177)
	-	9

15. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Advances to subsidiaries				
Advances	-	-	142,933	142,562
Less provision for write-off	-	-	(85,334)	(142,562)
	-	-	57,599	-
Advances from subsidiaries				
Advances	-	-	3	3

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

16. TRADE AND OTHER CREDITORS

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Trade creditors	132	244	-	-
Other creditors	138	1,830	-	-
Accruals	406	1,220	-	-
	676	3,294	-	-

17. PROVISIONS

	Employee Entitlements	Employee Entitlements
	US$000	US$000
	2008	2007
Opening Balance	93	365
Charged for the year	25	189
Foreign exchange impact	(28)	(23)
Utilised / paid during year	(1)	(438)
Closing Balance	89	93

	2008	2007
Analysis of total provisions:	US$000	US$000
Current	85	92
Non-Current	4	1
	89	93

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

18. SHARE CAPITAL

a) Paid Up Capital – Consolidated and Holding Company

	2008 US$000	2007 US$000	2008 Shares 000's	2007 Shares 000's
Balance 1 January	274,553	254,895	650,822	564,770
Issued during the year	200	20,000	1,580	86,052
Less costs associated with issue	-	(342)	-	-
Balance 31 December	274,753	274,553	652,402	650,822

The total number of shares issued as at 31 December 2008 was 652,402,148 (2007: 650,821,941). 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 2007	Opening Balance		564,770,123		254,895
6 March 2007	Issue of shares	(i)	82,715,518	0.30	19,225
3 May 2007	Issue of shares	(i)	3,336,300	0.30	775
	Transaction costs arising on share issues above				(342)
31 December 2007	Balance		650,821,941		274,553
5 June 2008	Issue of shares	(ii)	1,580,207	0.14	200
31 December 2008	Balance		652,402,148		274,753

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

(ii) Payment for settlement with respect to Kainantu Gold Mine Royalty Agreement with Nippon Mining & Metals Co. Ltd.

c) Share Options

The number of unissued ordinary shares under option at 31 December 2008 is 98,160,391 (2007: 93,851,641).

Options issued to the banking syndicate financing the Kainantu gold project

	Exercise price	No. of options issued	Expiry date	Exercised during current year
Tranche 1	A$0.54	11,144,483	31 December 2009	-
Tranche 2	A$0.20	21,000,000	21 August 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

	Exercise price	No. of options issued	Expiry date	Exercised during current year
Tranche 1	A$0.50	10,756,477	4 May 2010	-
Tranche 2	A$0.55	10,756,477	4 May 2010	-
Tranche 3	A$0.60	10,756,477	4 May 2010	-
Tranche 4	A$0.65	10,756,477	4 May 2010	-

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

	Exercise price	No. of options issued	Expiry date	Exercised during current year
Tranche 1	A$0.4300	100,000	30 June 2009	-
Tranche 2	A$0.4230	1,000,000	31 July 2010	-
Tranche 3a	A$0.1750	2,500,000	19 July 2010	-
Tranche 3b	A$0.1750	200,000	31 July 2011	-
Tranche 3c	A$0.1546	10,000,000	21 May 2010	-
Tranche 4	A$0.1750	3,800,000	12 December 2010	-
Tranche 5	A$0.3000	3,390,000	28 February 2013	-
Tranche 6	A$0.1300	2,000,000	19 July 2010	-

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

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

19. RESERVES

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Foreign Currency Translation Reserve				
Balance brought forward	(10,263)	(10,263)	(6,268)	(6,268)
Movement for the year	-	-	-	-
Balance carried forward	(10,263)	(10,263)	(6,268)	(6,268)
Hedging Reserve				
Balance brought forward	-	(25,277)	-	-
Transferred to income statement	-	25,277	-	-
Balance carried forward	-	-	-	-
Share-based Payments Reserve				
Balance brought forward	1,226	654	1,226	654
Fair value of options expensed	162	572	162	572
Balance carried forward	1,388	1,226	1,388	1,226
	(8,875)	(9,037)	(4,880)	(5,042)

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.

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 2008	2007
37,280 - 41,008	100,000 - 109,999	-	-
41,008 - 44,736	110,000 - 119,999	-	1
44,736 - 48,464	120,000 - 129,999	1	3
48,464 - 52,192	130,000 - 139,999	-	1
52,192 - 55,920	140,000 - 149,999	-	-
55,920 - 59,648	150,000 - 159,999	-	1
59,648 - 63,376	160,000 - 169,999	-	1
63,376 - 67,104	170,000 - 179,999	1	3
67,104 - 70,832	180,000 - 189,999	-	2
70,832 - 74,560	190,000 - 199,999	-	2
74,560 - 78,288	200,000 - 209,999	-	1
78,288 - 82,016	210,000 - 219,999	-	1
82,016 - 85,744	220,000 - 229,999	-	1
89,472 - 93,200	240,000 - 249,999	-	1
108,112 - 111,840	290,000 - 299,999	1	-
119,296 - 123,024	320,000 - 329,999	-	-
134,208 - 137,936	360,000 - 369,999	1	-
137,936 - 141,664	370,000 - 379,999	-	-
149,120 - 152,848	400,000 - 409,999	-	-
175,216 - 178,944	470,000 - 479,999	-	1
164,112 - 182,672	480,000 - 489,999	-	-
186,400 - 190,128	500,000 - 509,999	-	1
193,856 - 197,584	520,000 - 529,999	1	-
231,136 - 234,864	620,000 - 629,999	-	-
238,592 - 242,320	640,000 - 649,999	-	2
242,320 - 246,048	650,000 - 659,999	-	1
246,048 - 249,776	660,000 - 669,999	-	1
253,504 - 257,232	680,000 - 689,999	-	1
275,872 - 279,600	740,000 - 749,999	1	-
328,064 - 331,792	880,000 - 889,999	-	1
331,792 - 334,800	890,000 - 899,999	-	1
421,264 - 424,992	1,130,000 - 1,139,999	-	1
Total		6	28

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

The 2007 comparatives have been converted at the current year exchange rates to arrive at the equivalent US$ bands.

PGK1.00 = US$0.3728

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:

2008 Year

Name & Position	Cash Remuneration & Fees	Short-term Incentives	Non-monetary Benefits	Superannuation	Share-based Payments (Long-term Incentives)	Total
	US$000		US$000	US$000		US$000
R Bryan, *Chairman*	72	-	-	6	-	78
K MacDonald, *Chairman*	76	-	-	7	-	83
J Gooding, *Managing Director*	409	113	-	43	142	707
A Berry, *Non-Executive Director*	36	-	-	3	-	39
R Mitchell, *Non-Executive Director*	67	-	-	6	-	73
I Burvill, *Non-Executive Director*	67	-	-	6	-	73
M Carroll, *Non-Executive Director*	37	-	-	3	-	40
F Williame-Igara, *Non-Executive Director*	67	-	-	6	-	73
Total	831	113	-	80	142	1,166

2007 Year

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

- 2008 Directors Fees are significantly higher than 2007 Directors Fees for Mr M Mitchell, Mr I Burvill and Ms F Williame-Igara due to Directors Fees being suspended from 1 September 2007 to 31 December 2007 and back paid in the 2008 year along with their superannuation payments.
- Mr R Mitchell received fees personally from 1 January 2008, prior to this date fees were paid to "National Superannuation Fund Limited".
- Mr A Berry resigned as a Director on 20 May 2008.
- Mr R Bryan resigned as Chairman on 20 May 2008.
- Mr K MacDonald was appointed as a director on 1 February 2008 and as Chairman on 20 May 2008 .
- Mr M Carroll was appointed as a Director on 1 April 2008.
- 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.

22. JOINT VENTURES

At 31 December 2008 joint venture interests comprised:

	Percentage Interest	Activity
Ramu joint venture (Note 1 below)	8.56	Development
Frieda River joint venture (Notes 2 & 3 below)	16.9	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 nomination MCC will fund the Group's share of the project operating costs and financing costs. Given at this point in the project the Group does not have joint control the interest is treated as an investment and not under joint venture accounting.

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 76.3% interest in the Greater Frieda area with Highlands having a 16.9% 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 76.3% and Highlands decrease to 16.9%. Under this agreement where XFRL is earning its interest it must complete a feasibility study by January 2012. If it fails to complete the feasibility study by this date then its interest in the project will revert wholly back to the Group. As part of the agreement XFRL will fund the Group's share of expenditure up to the completion of the feasibility study. Based on this arrangement the Group does not have joint control and the interest is treated as an investment and not under joint venture accounting.

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 14.

(c) Key management personnel

Refer to note 20 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:

Name	*Position*
C Lennon	Chief Financial Officer (from 1 January to 31 December 2008)
L Queen	Chief Geologist (from 1 January to 31 December 2008)
P Jolly	General Manager Projects (from 1 June 2008 to 31 December 2008)

Mr Lennon was also key management person during the 2007 year.

(d) Key management personnel compensation

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Short-term employee benefits	124	1,152	-	-
Share based payments	35	122	-	-
	159	1,274	-	-

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.

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.

2008 Year

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Highlands Pacific Limited						
J Gooding	10,000,000	2,000,000	-	-	12,000,000	-
Other key management personnel of the Group						
C Lennon	2,337,500	600,000	-	(87,500)	2,850,000	-
L Queen	700,000	400,000	-	-	1,100,000	-
P Jolly	-	2,000,000	-	-	2,000,000	-

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
Directors of Highlands Pacific Limited						
I Holzberger	350,000	-	-	-	350,000	350,000
J Gooding	-	10,000,000	-	-	10,000,000	-
Other key management personnel of the Group						
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

Mr Larry Queen was appointed Chief Geologist on 1 January 2008 and therefore is not disclosed in the 2007 year.
Mr Peter Jolly joined Highlands Pacific Group on 1 June 2008 and therefore is not disclosed in the 2007 year.
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 David Whittle resigned from the Group on 11 December 2007, therefore his balance at the end of the year relates to this date.

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.

2008 Year

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
R Bryan	708,050	-	-	708,050
A Berry	167,860	-	-	167,860
K MacDonald	-	-	600,048	600,048
M Carroll	-	-	304,307	304,307
J Gooding	-	-	547,963	547,963
C Lennon	-	-	148,000	148,000
L Queen	-	-	7,491	7,491
P Jolly	-	-	88,000	88,000

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
Directors of Highlands Pacific Limited				
R Bryan	708,050	-	-	708,050
A Berry	167,860	-	-	167,860
I Holzberger	78,500	-	-	78,500

Mr A Berry retired as a Director on 20 May 2008, therefore his balance at the end of the year relates to this date.
Mr R Bryan retired as a Director on 20 May 2008, therefore his balance at the end of the year relates to this date.
Mr Ian Holzberger retired as Managing Director on 18 May 2007, therefore his balance at the end of the 2007 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 also leased five executive houses to Highlands Kainantu Limited at commercial rates during the 2006 and 2007 years. These leases were novated to the purchaser of the Kainantu gold project as part of the sale of the project at the end of 2007.

(h) Transactions with related parties

The following transactions occurred with related parties:

	2008 US$000	2007 US$000	2008 US$000	2007 US$000
Superannuation contributions				
Contributions to superannuation funds on behalf of employees	124	277	-	-

(i) Advances to / from related entities

	Consolidated		Holding Company	
	2008 US$000	2007 US$000	2008 US$000	2007 US$000
Advances to / from subsidiaries				
Beginning of the year	-	-	142,562	122,312
Movements during the year	-	-	371	20,250
End of year	-	-	142,933	142,562

Refer note 15 for provisions raised against these advances to subsidiaries.

24. SEGMENT REPORTING

a) Primary Reporting (Business Segments)

Consolidated

	Discontinued Operation US$000	Exploration / Development US$000	Unallocated US$000	Group US$000
2008				
Segment revenue	2,317	-	148	2,465
Segment result	1,636	13,820	(3,099)	12,357
Income tax (expense) benefit	-	-	(38)	(38)
Net Profit / (Loss)	1,636	13,820	(3,137)	12,319
Segment assets	-	75,000	21,068	96,068
Segment liabilities	-	-	(801)	(801)
Acquisition of segment assets	-	2,388	384	2,772
Segment depreciation and amortisation	-	-	55	55
2007				
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) Secondary Reporting (Geographic Segments)

Consolidated

	Papua New Guinea		Japan		Australia		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Segment Sales Revenue	148	98	2,317	13,557	-	-	2,465	13,655
Segment Assets	75,023	65,010	-	-	21,045	20,970	96,068	85,980
Acquisition of Segment Assets	2,388	3,810	-	-	384	-	2,772	3,810
Segment Liabilities	(676)	(3,293)	-	-	(125)	(104)	(801)	(3,397)

25. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	179	58	-	-
One to two years	161	3	-	-
Two to five years	59	-	-	-
	399	61	-	-

26. CONTINGENT ASSETS AND LIABILITIES

Contingent Asset

As part of the sale to Barrick Gold Corporation in December 2007, one exploration licence as at 31 December 2008 is yet to be transferred. The transfer is expected to take place in the first half of 2009 year and when this occurs the Group will receive an additional US$3 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 liability remains as a result of the acquisition:

- 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 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.

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 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	
	2008	2007
	US$000	US$000
Cash and cash equivalents	20,267	20,500
Other receivables	335	702
	20,602	21,202

On the credit risk associated with customers, the Group in 2007 was party to an off-take agreement while it was operating the Kainantu gold project. This project has since been sold.

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

	2008		2007	
	Gross	Impairment	Gross	Impairment
	US$000	US$000	US$000	US$000
Not past due	335	-	702	-
More than a year	500	500	1,000	1,000
	835	500	1,702	1,000

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 2008	Total	6 mths or less	6 - 12 mths	1 - 2 years
	US$000	US$000	US$000	US$000
Non-derivative financial liabilities				
Trade and other creditors	676	676	-	-
	676	676	-	-

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

(c) Market risk

Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group is exposed to currency risk on purchases and cash deposits that are denominated in non US dollars. As a result of this exposure, during the 2008 year the Group incurred an expense of US$3,720,000 as shown in the Income Statement and note 3. This has been as a result of the weakening of the Australian dollar to the US dollar.

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

	Consolidated		Holding Company	
	2008	2007	2008	2007
	AU$000	AU$000	AU$000	AU$000
Cash and cash equivalents	12,576	1,067	-	-
Other receivables	13	549	-	-
Trade and other creditors	(93)	(524)	-	-
	12,496	1,092	-	-

	Consolidated		Holding Company	
	2008	2007	2008	2007
	PGK$000	PGK$000	PGK$000	PGK$000
Cash and cash equivalents	(12)	491	-	-
Other receivables	333	258	-	-
Trade and other creditors	(180)	(2,556)	-	-
	141	(1,807)	-	-

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
AUD	0.8698	0.8307	0.6928	0.8723
PGK	0.3728	0.3419	0.3735	0.3600

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$871,000 (2007: US$31,000).

Interest rate risk

The Group's interest rate risk arises as a result of bank borrowings and cash deposits. The bank borrowings were 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. The Group does have US$9,000,000 on deposit at rates of 3.22% (US$5mil), 0.80% (US$2mil) and 1.12% (US$2mil) (2007: US$17,000,000 at an effective rate of 4.83%). It also has AU$12,175,000 on deposit at rates of 3.25% (AU$3.84mil), 6.14% (AU$5mil) and 7.95% (AU$3.2mil).

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$171,000 (2007: US$170,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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

Commodity price risk

The Group was not exposed to commodity pricing risks during 2008 or 2007.

(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.

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 Executive Share Option Scheme.

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

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

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

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

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	30/03/2005	0.3700	300,000	-	-	300,000	-	-
6/08/2004	25/05/2005	0.3700	100,000	-	-	100,000	-	-
6/08/2004	31/10/2005	0.3700	50,000	-	-	50,000	-	-
20/05/2005	31/12/2005	0.4300	37,500	-	-	37,500	-	-
20/05/2005	30/06/2006	0.4300	100,000	-	-	-	100,000	100,000
7/08/2006	31/07/2007	0.4230	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	0.1750	375,000	-	-	-	375,000	-
19/07/2007	19/07/2008	0.1750	875,000	-	-	-	875,000	-
19/07/2007	19/07/2009	0.1750	1,250,000	-	-	-	1,250,000	-
27/08/2007	31/07/2008	0.1750	200,000	-	-	-	200,000	200,000
10/12/2007	12/12/2007	0.1750	3,800,000	-	-	-	3,800,000	3,800,000
28/02/2008	28/02/2011	0.1350	-	2,000,000	-	-	2,000,000	-
4/06/2008	4/06/2008	0.1350	-	1,390,000	-	-	1,390,000	-
4/06/2008	4/06/2008	0.2500	-	250,000	-	-	250,000	-
4/06/2008	4/06/2009	0.3500	-	750,000	-	-	750,000	-
4/06/2008	4/06/2010	0.5000	-	1,000,000	-	-	1,000,000	-
			18,087,500	5,390,000	-	487,500	22,990,000	5,100,000
Weighted average exercise price (AUD)			0.19	0.34		0.37	0.18	0.23

The options issued on 28 February 2008 have two hurdles – one being time driven and the other being share price driven. The share price hurdle is two times the 10 day volume weighted average price at the time of issue or AU$.30 (whichever is the higher). 1,390,000 of the options issued on 4 June 2008 have the same hurdles as above. The remaining 2,000,000 have a share price hurdle of 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 five years from the issue date.

The weighted average remaining contractual life of options outstanding at the end of the period was 2.00 years. No options were exercised during the year.

Fair value of options granted

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

	(a)	(b)	(c)
Fair value at grant date	AU$0.039	AU$0.0395	AU$0.0395
Exercise Price	AU$0.135	AU$0.135	AU$0.13
Grant Date	28th February 2008	4th June 2008	4th June 2008
Share price at grant date	AU$0.125	AU$0.125	AU$0.125
Expected volatility of Company's shares	50%	50%	50%
Expected dividend yield	0%	0%	0%
Risk-free interest rate	6.45%	6.70%	6.70%

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) 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 2008 US$000	December 2007 US$000
Options issued under Executive Option Scheme	162	322
Options issued to Financiers	-	250
Total	162	572

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 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. There were some transactions which carried over into the 2008 year and therefore they have been disclosed in the discontinued operation note.

Profit / (Losses) attributable to the discontinued operation were as follows:

	2008 US$000	2007 US$000
Financial performance of discontinued operation		
Gold concentrate sales	2,317	16,117
Realisation of hedging instruments	-	(2,560)
Mining costs	-	(8,524)
Processing costs	-	(3,034)
Maintenance costs	-	(6,311)
General and administrative costs	(669)	(13,488)
Changes in inventories or work in progress / finished goods	-	3,110
Depreciation and amortisation	-	(5,841)
Interest expense	-	(1,873)
Net foreign exchange (gains) / losses	(12)	(421)
Profit (Loss) before income tax	1,636	(22,825)
Income tax expense	-	-
Profit (Loss) after income tax	1,636	(22,825)
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)
Income tax on gain on sale of discontinued operation	-	-
Profit (Loss) from discontinued operation	1,636	(29,440)
Cash flows from discontinued operation		
Net cash from operating activities	4,031	(18,918)
Net cash from investing activities	-	126,686
Net cash from financing activities	-	(117,721)
Net cash from (used in) discontinued operation	4,031	(9,953)

Carrying amounts of assets sold as at 12 December 2007

	2007 US$000
Property, plant and equipment	15,494
Exploration, development and mineral properties	60,771
Inventories (stores)	4,148
Net assets	80,413
Details of sale	
Consideration received	134,500
Carrying amount of net assets sold	(80,413)
	54,087

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	
	2008	2007	2008	2007
	K000	K000	K000	K000
Revenue	2,975	1,942	-	-
Net Profit (Loss) after tax	33,045	(199)	(153,518)	(59,221)
Total Assets	257,210	239,499	154,214	25
Total Liabilities	2,155	9,184	8	8
Net Assets	255,055	230,315	154,206	17

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2008 of PGK1.00 = $0.3735 (2007 year PGK1.00 = 0. 3590) while income and expense items are translated at the average rate for the year PGK1.00 = $0.3728 (2007 year PGK1.00 = $0. 3419).

DIRECTORS' DECLARATION

In the opinion of the Directors:

1. The financial statements and notes of the Company and of the Consolidated Entity:

   a. comply with International Financial Reporting Standards and other mandatory professional reporting requirements; and,

   b. give a true and fair view, in all material respects, of the financial position as at 31 December 2008 and performance of the Company and the Consolidated Entity for the year ended on that date; and are in accordance with the Papua New Guinea Companies Act 1997.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

Ken MacDonald Chairman	John Gooding Managing Director

26 March 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

ANZ Haus
Central Avenue
PO Box 451
LAE
PAPUA NEW GUINEA
Telephone (675) 472 2644
Facsimile (675) 472 6270
www.pwc.com.pg

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 report of Highlands Pacific Limited (the company), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Highlands Pacific Limited and the Highlands Pacific Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards (including the Interpretations of the International Financial Reporting Interpretations Committee), other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is 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 the financial report based on our audit. We conducted our audit in accordance with International Standard on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. .

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

PRICEWATERHOUSECOOPERS

Review Report (continued)

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the CPA Papua New Guinea and the Companies Act 1997.

Auditor's opinion on the financial report

In our opinion,

(a) the financial report of Highlands Pacific Limited is in accordance with the Papua New Guinea Companies Act 1997, including:

   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

   (i) complying with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.

Report on other legal and regulatory requirements

The Papua New Guinea Companies Act 1997 requires that 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 consolidated entity, so far as appears from our examination of those records;

(ii) we have obtained all the information and explanations we required.

Pricewaterhouse Coopers

PricewaterhouseCoopers

Stephen Beach
Partner
Registered under the Accountants Act 1996

Lae
26 March 2009