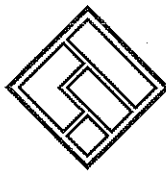


ASIC registered agent number \_\_\_\_\_  
**lodging party or agent name** HIGHLANDS PACIFIC LIMITED  
 office, level, building name or PO Box no. GPO Box 3086  
 street number & name \_\_\_\_\_  
 suburb/city BRISBANE state/territory QLD postcode 4001  
 telephone (07) 3239-7800  
 facsimile (07) 3221-6127  
 DX number \_\_\_\_\_ suburb/city \_\_\_\_\_

ASS. PROC.	REQ-A	REQ-P	



Australian Securities & Investments Commission

form **405**

**Statement to verify financial statements  
of a foreign company**

Corporations Act 2001  
601CK(1), 100(1)(d)

**Details of the foreign company**

Corporation name HIGHLANDS PACIFIC LIMITED  
 ARBN. 078 118 653  
 place of incorporation PAPUA NEW GUINEA  
 financial year ended (d/m/y) 31/12/2004  
 Annual General Meeting held (d/m/y) 26/5/2005

**registered office in Australia**

contact name (officer or employee) C. T. LEWSON  
 (If applicable - At the office of) C/- \_\_\_\_\_  
 office level 4 building name \_\_\_\_\_  
 street number & name 167 EAGLE STREET  
 suburb/city BRISBANE state/territory QLD postcode 4000  
 Does the company occupy these premises? yes  no   
 if no, name of occupier \_\_\_\_\_  
 occupier's consent (Tick box to assent to statement required by paragraph 100(1)(d).)  
 *The occupier of the premises has consented in writing to the use of the specified address as the address of the registered office of the company and has not withdrawn that consent.*

**registered office in country of origin or - if no registered office - the principal place of business in country of origin**

at the office of HIGHLANDS PACIFIC LIMITED  
 office, floor, building name 9th FLOOR PACIFIC PLACE  
 street number & name MUSGRAVE STREET  
 suburb/city PORT MORESBY state/territory \_\_\_\_\_ postcode \_\_\_\_\_  
 country PAPUA NEW GUINEA

**Details of local agent(s)** (address must be within Australia)

name (family & given names or company name) If a company give ACN. also.  
HIGHLANDS PACIFIC AUSTRALIA PTY LIMITED ACN 015 015 517  
 unit or office, floor, building name LEVEL 4  
 street number & name 167 EAGLE STREET  
 suburb/city BRISBANE state/territory QLD postcode 4000

name (family & given names or company name) If a company give ACN. also.  
 \_\_\_\_\_  
 unit or office, floor, building name \_\_\_\_\_  
 street number & name \_\_\_\_\_  
 suburb/city \_\_\_\_\_ state/territory \_\_\_\_\_ postcode \_\_\_\_\_

**Details of directors**

If the director is a person give their usual residential address.

REFER ANNEXURE  
"A" ATTACHED

name (family &amp; given names or corporation name) If a corporation give ACN or ARBN if applicable.

unit or office, floor, building name

street number &amp; name

suburb/city

state/territory

postcode

country (if not Australia)

name (family &amp; given names or corporation name) If a corporation give ACN or ARBN if applicable.

unit or office, floor, building name

street number &amp; name

suburb/city

state/territory

postcode

country (if not Australia)

name (family &amp; given names or corporation name) If a corporation give ACN or ARBN if applicable.

unit or office, floor, building name

street number &amp; name

suburb/city

state/territory

postcode

country (if not Australia)

(if insufficient space) Further details are enclosed in the annexure marked ( ) of ( ) pages.  
Annexures must conform to the requirements shown in the 'guide' to this form.**Annexures - financial statements**

(tick boxes which apply)

<input checked="" type="checkbox"/>	balance sheet made up to the end of its last financial year	annexure marked ( B ) of ( 36 ) pages
<input checked="" type="checkbox"/>	profit and loss statement for its last financial year	annexure marked ( B ) of ( 36 ) pages
<input checked="" type="checkbox"/>	cash flow statement for last financial year	annexure marked ( B ) of ( 36 ) pages
<input type="checkbox"/>	any other documents still required to be prepared by the law of the company's place of origin, annexure marked ( B ) of ( 36 ) pages give brief description of those documents (if any)	

**Signature**

- I am  a director of the foreign company  
 the secretary of the foreign company  
 the duly appointed local agent of the foreign company  
 a director or secretary of a company which has been duly appointed as local agent of the foreign company

I verify that the copies annexed to this form are true copies of the documents required to be lodged under Section 601CK(1) of the Corporations Act 2001.

print name CRAIG T. LENNON

capacity SECRETARY

print company name and ACN (if company acting as agent)

sign here

date 24/3/05

Small Business (less than 20 employees), please provide an estimate of the time taken to complete this form

**Include**

- The time actually spent reading the instructions, working on the question and obtaining the information
- The time spent by all employees in collecting and providing this information

hrs mins

# ANNEXURE A

## HIGHLANDS PACIFIC LIMITED

ARBN 078 118 653

### DETAILS OF DIRECTORS

NAMES	ADDRESSES
HOLZBERGER Ian Raymond	435 Swann Road St Lucia Qld 4067
BRYAN Robert	Broadlands Farm Lambert Road Beaudesert Qld 4285
BERRY Andrew Jefferson	37 Holly Road Burradoo NSW 2576
MITCHELL Rod	Apartment 95, Airways Hotel Jackson Parade Saraga Port Moresby Papua New Guinea
FORBES Jeffrey Ian	160 Virginia Avenue Hawthorne Qld 4171
WILLIAM-IGARA Fiu Fesaitu	Section 42, Lot 15 Baimumu Crescent Boroko NCD Papua New Guinea

This is annexure 'A' of 1 page referred to in Form 405 Statement to verify accounts of a foreign company signed by me and dated 24 March 2005.



C T LENNON - Company Secretary

24 March 2005

# ANNEXURE B

## HIGHLANDS PACIFIC LIMITED

ARBN 078 118 653

This is annexure 'B' of 36 pages referred to in Form 405 Statement to verify accounts of a foreign company signed by me and dated 24 March 2005.



-----  
**C T Lennon - Company Secretary**

24 March 2004

## INDEPENDENT AUDIT REPORT TO THE MEMBERS

For the Year Ended 31 December 2004

### **Audit opinion**

In our opinion,

- a) the financial report of Highlands Pacific Limited and subsidiaries:
  - gives a true and fair view of the financial position of Highlands Pacific Limited and Highlands Pacific Limited Group at 31 December 2004, and of their performance for the year ended on that date, and
  - is presented in accordance with the Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea
- b) proper accounting records have been kept by the company as far as appears from our examination of those records; and
- c) we have obtained all the information and explanations we have required.

This opinion must be read in conjunction with the rest of our audit report.

### **Scope**

#### ***The financial report and directors' responsibility***

The financial report comprises the balance sheet, income statement, statement of movements in equity, statement of cash flows, and the accompanying notes to the financial statements for both Highlands Pacific Limited (the company) and Highlands Pacific Limited and subsidiaries (the group), for the year ended 31 December 2004. The group comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Companies Act 1997. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### ***Audit approach***

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Companies Act 1997, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the company's and the group's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We read the other information in the Annual Report to determine whether it contained any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

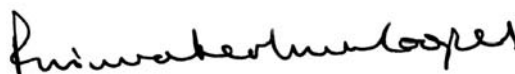
### ***Independence***

In conducting our audit, we followed applicable independence requirements of the Papua New Guinea Institute of Accountants and the Companies Act 1997.



PricewaterhouseCoopers  
By: **Stephen Beach**

Registered under the Accountants Act 1996  
Port Moresby  
Date 24 March 2005



**Steve Snook**  
Brisbane

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**INCOME STATEMENT**

For the Year Ended 31 December 2004

	Notes	Consolidated		Holding Company	
		2004	2003	2004	2003
		US\$000	US\$000	US\$000	US\$000
Operating Income	2	26	30	-	-
Operating costs	3	(3,710)	1,863	(2,168)	25,739
<b>PROFIT (LOSS) FROM OPERATIONS</b>		(3,684)	1,893	(2,168)	25,739
Finance income	2	1,144	589	-	-
<b>OPERATING PROFIT (LOSS) BEFORE INCOME TAX</b>		(2,540)	2,482	(2,168)	25,739
Income tax (expense) benefit	5	(7)	(6)	-	-
<b>NET PROFIT (LOSS)</b>		(2,547)	2,476	(2,168)	25,739
<b>EARNINGS PER SHARE</b>					
Basic	6	US\$(0.01)	US\$0.01		
Diluted	6	US\$(0.01)	US\$0.01		

*These profit and loss statements are to be read in conjunction with the Notes on pages 10 to 36.*

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Year Ended 31 December 2004

<b>Consolidated</b>	<b>Notes</b>	<b>Share Capital US\$000</b>	<b>Reserves US\$000</b>	<b>Retained Earnings US\$000</b>	<b>Total US\$000</b>
<b>Year ended 31 December 2004</b>					
Balance at 1 January 2004		181,984	(10,263)	(111,041)	60,680
Net profit (loss)		-	-	(2,547)	(2,547)
Deferred gains (losses) on cash flow hedges	30(d)	-	(21,096)	-	(21,096)
Issue of share capital	17	12,348	-	-	12,348
Costs associated with Issue	17	(587)	-	-	(587)
Balance at 31 December 2004		193,745	(31,359)	(113,588)	48,798
<b>Year ended 31 December 2003</b>					
Balance at 1 January 2003		168,737	(10,263)	(113,517)	44,957
Net profit (loss)		-	-	2,476	2,476
Issue of share capital	17	13,815	-	-	13,815
Costs associated with Issue	17	(568)	-	-	(568)
Balance at 31 December 2003		181,984	(10,263)	(111,041)	60,680

*These statements of changes in shareholders' equity are to be read in conjunction with the Notes on pages 10 to 36.*

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Year Ended 31 December 2004

<b>Holding Company</b>	<b>Notes</b>	<b>Share Capital US\$000</b>	<b>Reserves US\$000</b>	<b>Retained Earnings US\$000</b>	<b>Total US\$000</b>
<b>Year ended 31 December 2004</b>					
Balance at 1 January 2004		181,984	(6,268)	(136,612)	39,104
Net profit (loss)		-	-	(2,168)	(2,168)
Issue of share capital	17	12,348	-	-	12,348
Costs associated with Issue	17	(587)	-	-	(587)
Balance at 31 December 2004		193,745	(6,268)	(138,780)	48,697
<b>Year ended 31 December 2003</b>					
Balance at 1 January 2003		168,737	(6,268)	(162,351)	118
Net profit (loss)		-	-	25,739	25,739
Issue of share capital	17	13,815	-	-	13,815
Costs associated with Issue	17	(568)	-	-	(568)
Balance at 31 December 2003		181,984	(6,268)	(136,612)	39,104

*These statements of changes in shareholders' equity are to be read in conjunction with the Notes on pages 10 to 36.*

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**BALANCE SHEET**

As at 31 December 2004

	Notes	Consolidated		Holding Company	
		2004	2003	2004	2003
<b>NON-CURRENT ASSETS</b>		US\$000	US\$000	US\$000	US\$000
Property, plant and equipment	7	170	174	-	-
Exploration, evaluation & development expenditure	8	69,722	36,417	-	-
Investment property	9	315	315	-	-
Investment in subsidiaries	10	-	-	34,009	9
Advance to subsidiaries	11	-	-	14,686	25,074
		<u>70,207</u>	<u>36,906</u>	<u>48,695</u>	<u>25,083</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	12	14,310	26,625	5	14,024
Receivables and prepayments	13	139	134	-	-
		<u>14,449</u>	<u>26,759</u>	<u>5</u>	<u>14,024</u>
<b>TOTAL ASSETS</b>		<u>84,656</u>	<u>63,665</u>	<u>48,700</u>	<u>39,107</u>

*These balance sheets are to be read in conjunction with the Notes on pages 10 to 36.*

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**BALANCE SHEET (continued)**

As at 31 December 2004

	Notes	Consolidated		Holding Company	
		2004	2003	2004	2003
		US\$000	US\$000	US\$000	US\$000
<b>NON-CURRENT LIABILITIES</b>					
Provisions	14	445	17	-	-
Derivative financial instruments	30	21,096	-	-	-
Borrowings	16	6,960	-	-	-
Advances from subsidiaries	11	-	-	3	3
		28,501	17	3	3
<b>CURRENT LIABILITIES</b>					
Trade and other creditors	15	6,794	2,521	-	-
Provisions	14	563	447	-	-
		7,357	2,968	-	-
<b>TOTAL LIABILITIES</b>		35,858	2,985	3	3
<b>NET ASSETS</b>		48,798	60,680	48,697	39,104
<b>SHAREHOLDERS' EQUITY</b>					
Paid up capital	17	193,745	181,984	193,745	181,984
Reserves	18	(31,359)	(10,263)	(6,268)	(6,268)
Retained earnings		(113,588)	(111,041)	(138,780)	(136,612)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		48,798	60,680	48,697	39,104

*These balance sheets are to be read in conjunction with the Notes on pages 10 to 36.*

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**CASH FLOW STATEMENT**

For the Year Ended 31 December 2004

	Notes	Consolidated		Holding Company	
		2004	2003	2004	2003
		US\$000	US\$000	US\$000	US\$000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Cash gained from operations		26	30	-	-
Interest from investments		1,151	575	-	-
Income tax paid		(12)	(1)	-	-
Payments to suppliers and employees		2,847	432	-	-
Net cash from (used in) operating activities		4,012	1,036	-	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		1	4	-	-
Investment in subsidiaries		-	-	(34,000)	-
Advance to subsidiaries		-	-	7,811	569
Purchase of property, plant and equipment	7	(25)	(26)	-	-
Exploration, evaluation & development	8	(33,807)	(6,666)	-	-
Net cash from (used in) investing activities		(33,832)	(6,688)	(26,189)	569
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of ordinary shares	17	12,348	13,815	12,348	13,815
Costs associated with Issue	17	(587)	(568)	(587)	(568)
Proceeds from borrowings	16	6,960	-	-	-
Net cash from (used in) financing activities		18,721	13,247	11,761	13,247
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		(11,099)	7,595	(14,428)	13,816
Add cash brought forward		26,625	15,766	14,024	2
Effect of exchange rate change on cash		(1,216)	3,264	409	206
<b>CASH CARRIED FORWARD</b>		14,310	26,625	5	14,024
<b>CASH COMPRISES</b>					
Cash and cash equivalents	12	14,310	26,625	5	14,024

*These statements of cash flows are to be read in conjunction with the Notes on pages 10 to 36.*

**CASH FLOW STATEMENT (Continued)**

For the Year Ended 31 December 2004

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

	Notes	Consolidated		Holding Company	
		2004	2003	2004	2003
		US\$000	US\$000	US\$000	US\$000
<b>Reported Net Profit (Loss) after Taxation</b>		(2,547)	2,476	(2,168)	25,739
Add (less) non-cash items:					
Depreciation	7	29	37	-	-
Provision for exploration costs	8	502	323	-	-
Provision for doubtful debts	13	-	-	1,759	(25,537)
Provision for diminution of investments	10	-	-	-	4
Tax	5	7	6	-	-
(Profit) loss on sale of property, plant & equipment		(1)	(4)	-	-
Net (gain) loss on foreign currency balances		1,216	(3,264)	409	(206)
		1,753	(2,902)	2,168	(25,739)
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		(5)	94	-	-
Increase (decrease) in creditors and provisions		4,811	1,368	-	-
		4,806	1,462	-	-
<b>Net Cash Flow from Operating Activities</b>		4,012	1,036	-	-

*These statements are to be read in conjunction with the Notes on pages 10 to 36.*

## STATEMENT OF ACCOUNTING POLICIES

Highlands Pacific Limited (the Company) and its subsidiaries (together the Group) carry out exploration and development activities in the mining industry. All of the Group's 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.

These consolidated financial statements have been approved by the Board of Directors on 21 March 2005.

These financial statements are presented in accordance with the Papua New Guinea Companies Act (1997) and comply with International Financial Reporting Standards and other generally accepted accounting practise in Papua New Guinea.

The Group financial statements comprise the consolidated financial statements of the Company and its subsidiaries as set out in Note 10.

### GENERAL ACCOUNTING POLICIES

The fundamental accounting assumptions recognised as appropriate for the measurement and reporting of results, cash flows and the financial position have been followed in the preparation of these financial statements.

The accounts have been prepared using the historical cost convention as modified by those assets and liabilities that have been carried at fair value, such as investment property. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

#### **Significant risks and uncertainties**

The Group is a "development stage" company that has interests in a development stage project, being the Kainantu gold project, and a number of pre-development stage projects, being the lateritic nickel-cobalt Ramu project and the Frieda River copper gold project. There are certain risks and uncertainties associated with development stage companies, in particular the carrying value of their assets (refer note 9 Exploration, Evaluation & Development Expenditure).

The preparation of the financial statements in accordance with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. The most significant estimate relates to the carrying value and recoverability of the Group's long-lived assets. Actual results could differ from those estimates and may affect amounts reported in future periods. The directors and management believe that the estimates are reasonable.

## **PARTICULAR ACCOUNTING POLICIES**

The following particular accounting policies, which significantly affect the measurement of profit and loss and financial position, have been applied:

### **(a) Group accounting**

The consolidated financial statements are prepared from the financial statements of Highlands Pacific Limited and its subsidiaries as at the balance date.

#### *(i) Subsidiaries*

Subsidiaries, which are those entities (including Special Purpose Entities) in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated, unrealised losses are also eliminated unless cost cannot be recovered.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

#### *(ii) Joint venture*

The Group's interest in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

### **(b) Foreign currency translation**

#### *(i) Functional currency*

The Board has determined that the primary economic environment in which the Company operates is determined by the US dollar, as the Company'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. Accordingly, the Company has adopted the US dollar as its functional and presentation currency.

*(ii) 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 of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

*(iii) Group companies*

Income statements and cash flows of foreign entities are translated into the Group's functional currency at the average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from translation of the net investment in foreign entities are taken to shareholder's equity.

**(c) Accounting for derivative financial instruments and hedging activities**

The consolidated entity is exposed to changes in commodity prices from its activities. The consolidated entity enters into forward sales contracts to hedge commodity risk. Derivative financial instruments are 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. On the date a derivative contract is entered into, the contract is designated as a hedge against specific future production. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged.

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

Changes in the fair value of derivatives that are designated against future production, qualify as cash flow hedges, and are deemed highly effective, are recognised in equity. Amounts deferred in equity are transferred to the income statement and classified as revenue in the same periods during which the hedged sales affect the income statement.

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.

**(d) Non-Current Assets**

*(i) Investment property*

Investment property, principally includes an apartment held in Port Moresby. The investment property is treated as a long-term investment and is carried at fair value as determined by the Board. Changes in fair values are recorded in the income statement in accordance with IAS 40 and are included in other operating income.

*(ii) Property, Plant and Equipment*

The cost of purchased fixed assets 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.

The recoverable amount of an asset is the higher of its net selling price or value in use.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

Depreciation 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.

### *(iii) 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:

- (i) the expenditure is expected to be recouped through successful development and exploration, or alternatively, sale of the area; or
- (ii) 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.

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.

*(iv) Impairment of long lived assets*

Property, plant and equipment and other non-current assets, including mineral properties are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its 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.

**(e) Taxation**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**(g) 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

*(i) Employee leave entitlement*

The amounts expected to be paid to employees for their pro-rata entitlement to long service and annual leave are accrued annually at current pay rates having regard to period of service and statutory obligations.

(iii) *Restoration, rehabilitation and environmental expenditure*

In accordance with the standards 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%.

A corresponding asset, which represents future economic benefits, is raised and subsequently will be amortised over production.

**(h) Borrowings**

Borrowings are recognised initially 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 value is recognised in the income statement over the period of the borrowings using the effective interest method.

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.

**(i) Employee benefits**

The Group contributes to a defined contribution plan 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.

**(j) Share capital**

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new shares, other than in the connection with business combination, are shown as a deduction, net of tax, from the proceeds.

**(k) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. 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.

**(l) Rounding**

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

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**2. REVENUE**

	Consolidated		Holding Company	
	2004 US\$000	2003 US\$000	2004 US\$000	2003 US\$000
<b>Operating Income</b>				
Other income	26	30	-	-
<b>Finance Income</b>				
Interest income	1,144	589	-	-

**3. ANALYSIS OF EXPENSES**

	Consolidated		Holding Company	
	2004 US\$000	2003 US\$000	2004 US\$000	2003 US\$000
<b>Operating costs</b>				
Administration costs	3,710	(1,863)	2,168	(25,739)
Total operating costs	3,710	(1,863)	2,168	(25,739)

**Operating costs are stated after charging:**

Auditors' remuneration				
- audit	38	43	-	-
- other services	38	39	-	-
Depreciation – owned assets	29	37	-	-
Profit on disposal of fixed assets	(1)	(4)	-	-
Net (gain) loss on foreign currency balances	1,216	(3,264)	409	(206)
Provision for exploration costs	502	323	-	-
Provision for doubtful debts (refer note 12)	-	-	1,759	(25,537)
Provision for diminution of investments	-	-	-	4
Staff costs (refer Note 4)	1,247	1,372	-	-

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

### 4. STAFF COSTS

	Consolidated		Holding Company	
	2004 US\$000	2003 US\$000	2004 US\$000	2003 US\$000
Wages and salaries	1,055	1,128	-	-
Other benefits	192	244	-	-
	1,247	1,372	-	-

The average number of people employed by the Group during the year was 88 (2003: 28). The Holding Company does not have any direct employees. The average number of casual employees was 108 (2003: 65).

### 5. INCOME TAX

	Consolidated		Holding Company	
	2004 US\$000	2003 US\$000	2004 US\$000	2003 US\$000
The income tax has been calculated as follows:				
Profit (loss) for the year	(2,540)	2,476	(2,168)	25,739
Income tax (benefit) on the profit (loss) for the year at an average of 30% (2003: 30%)	(762)	745	(650)	7,722
Income not subject to tax (predominantly unrealised exchange gains)	-	(989)	-	-
Expense not deductible for tax purposes (predominantly unrealised exchange losses)	398	38	-	-
	(364)	(206)	(650)	7,722
Future income tax benefit not brought to account	371	212	650	(7,722)
Income tax expense (benefit)	7	6	-	-
(Over) Under provision prior year	-	-	-	-
Income tax expense this year	7	6	-	-
Income tax expense (benefit)	7	6	-	-

#### Tax Losses

The Group has not recognised the future tax benefits attributable to tax losses, allowable capital expenditure and allowable exploration expenditure. The Directors estimate that the potential future income tax benefit at 31 December 2004 in respect of tax losses not brought to account is approximately US\$4,157,891 (2003: US\$3,431,020). This benefit 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 is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. The diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	<b>2004</b>	<b>2003</b>
Net profit (loss) attributable to shareholders (US\$000)	(2,547)	2,476
Weighted average number of ordinary shares on issue (000)	414,866	329,621
Basic earnings per share (US\$)	(0.01)	0.01
Weighted average number of ordinary shares on issue (000)	414,866	329,621
Adjusted for options	8,568	(479)
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	423,434	329,142
Diluted earnings per share (US\$)	(0.01)	0.01

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**7. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and Buildings</b>	<b>Plant and Equipment</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Consolidated</b>			
<b>2004</b>			
<b>Cost</b>			
Cost brought forward	168	1,306	1,474
Additions	-	25	25
Disposals	-	(21)	(21)
Cost carried forward	168	1,310	1,478
<b>Depreciation</b>			
Brought forward	94	1,206	1,300
Charge for the year	10	19	29
Disposals	-	(21)	(21)
Carried forward	104	1,204	1,308
<b>Net book value at 31 December 2004</b>	<b>64</b>	<b>106</b>	<b>170</b>

**Consolidated**

**2003**

**Cost**

Cost brought forward	167	1,295	1,462
Additions	1	25	26
Disposals	-	(14)	(14)
Cost carried forward	168	1,306	1,474

**Depreciation**

Brought forward	84	1,193	1,277
Charge for the year	10	27	37
Disposals	-	(14)	(14)
Carried forward	94	1,206	1,300
<b>Net book value at 31 December 2003</b>	<b>74</b>	<b>100</b>	<b>174</b>

**8. EXPLORATION,  
EVALUATION &  
DEVELOPMENT  
EXPENDITURE**

	<b>Ramu</b>	<b>Kainantu</b>	<b>Frieda</b>	<b>Other</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Exploration &amp; Evaluation</b>					
Balance 1 January 2004	16,000	10,417	10,000	-	36,417
Capitalised during the year	480	-	-	22	502
Transferred to development	-	(10,417)	-	-	(10,417)
Less provision for exploration costs	(480)	-	-	(22)	(502)
Balance 31 December 2004	16,000	-	10,000	-	26,000
<b>Development</b>					
Balance 1 January 2004	-	-	-	-	-
Transferred from exploration & evaluation	-	10,417	-	-	10,417
Capitalised during the year	-	31,055	-	-	31,055
Deferred financing costs	-	2,250	-	-	2,250
Balance 31 December 2004	-	43,722	-	-	43,722
<b>Total</b>	16,000	43,722	10,000	-	69,722

The realisation of the carrying value of the group's interest in the Ramu and Frieda projects is dependent upon either the successful development or sale of these assets. The future development of the projects are dependent upon Highlands Pacific securing either sufficient funding from equity, debt or other sources of funding or securing appropriate joint venture partners. The directors remain confident that these assets will ultimately be developed, however the future timing of their development cannot be predicted with any certainty. Consequently, in assessing the carrying value of the Ramu and Frieda projects, the directors have considered their 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.

The deferred financing costs relate to the establishment of the USD31 million limited recourse project finance facility.

## 9. INVESTMENT PROPERTY

There has been no change in the fair value of the investment property. The investment property is treated as a long term investment and is carried at fair value as determined by the Board.

<b>10. INVESTMENTS IN SUBSIDIARIES</b>	<b>Percentage Shareholding</b>	<b>Country of Incorporation</b>
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

\* The Company has entered into an agreement whereby it will sell a 5% interest in Highlands Kainantu Limited to the Kainantu mine area Landowners. At balance date, Highlands Pacific Limited continued to own 100% of the interest.

<b>INVESTMENTS AT COST</b>	<b>Holding Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>US\$000</b>	<b>US\$000</b>
Investments in subsidiaries – at cost	65,186	31,186
Less provision for diminution	(31,177)	(31,177)
	34,009	9

During the year Highlands Pacific Limited purchased 34,000 Redeemable Preference Shares in Highlands Kainantu Limited with a face value of USD1,000 per share.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**11. SUBSIDIARY ADVANCES**

	Consolidated		Holding Company	
	2004	2003	2004	2003
	US\$000	US\$000	US\$000	US\$000
<b>Advances to subsidiaries</b>				
Advances	-	-	125,501	134,130
Less provision for write-off	-	-	110,815	109,056
	-	-	14,686	25,074
		-		
<b>Advances from subsidiaries</b>				
Advances	-	-	3	3

- The balance of Advances to subsidiaries by the Holding Company is to Highlands Kainantu Limited.
- The advances are interest free with no set repayment terms.

**12. CASH AND CASH EQUIVALENTS**

	Consolidated		Holding Company	
	2004	2003	2004	2003
	US\$000	US\$000	US\$000	US\$000
Cash at bank and in hand	3,336	14,316	5	14,024
Short-term bank deposits	10,974	12,309	-	-
	14,310	26,625	5	14,024

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**13. RECEIVABLES AND PREPAYMENTS**

	Consolidated		Holding Company	
	2004	2003	2004	2003
	US\$000	US\$000	US\$000	US\$000
<b>Non-Current</b>				
Other receivables and prepayments	1,000*	1,000*	-	-
Less: Provision for doubtful debts	(1,000)**	(1,000)**	-	-
<b>Current</b>				
Other receivables and prepayments	139	134	-	-
Less: Provision for doubtful debts	-	-	-	-
	<u>139</u>	<u>134</u>	<u>-</u>	<u>-</u>

\*Non-current other receivables and prepayments include the following:

Amounts owing by Nord Australex Nominees (PNG) Limited ("Nord") totaling US\$1.00 million (2003: US\$1.00 million).

This balance is receivable as follows:

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

\*\* A provision for US\$1 million was raised in 1999 against these two tranches.

**14. PROVISIONS**

	Rehabilitation US\$000	Consolidated		Total US\$000
		Employee Entitlements US\$000	Income Tax US\$000	
		<b>Balance 1 January 2004</b>	-	
Charged to Income Statement	-	169	7	176
Foreign exchange impact	-	16	-	16
Additional provisions recognised	434	-	-	434
Utilised / paid during year	-	(70)	(12)	(82)
<b>Balance 31 December 2004</b>	<u>434</u>	<u>575</u>	<u>(1)</u>	<u>1,008</u>

	2004 US\$000	2003 US\$000
Analysis of total provisions:		
Current	563	447
Non-current	445	17
	<u>1,008</u>	<u>464</u>

**15. TRADE AND OTHER CREDITORS**

	Consolidated		Holding Company	
	2004	2003	2004	2003
	US\$000	US\$000	US\$000	US\$000
Trade creditors	6,383	2,260	-	-
Other creditors and accruals	411	261	-	-
	<u>6,794</u>	<u>2,521</u>	<u>-</u>	<u>-</u>

**16. BORROWINGS**

	Consolidated		Holding Company	
	2004	2003	2004	2003
	US\$000	US\$000	US\$000	US\$000
Bank borrowings	6,960	-	-	-
	<u>6,960</u>	<u>-</u>	<u>-</u>	<u>-</u>

The bank borrowings are 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.

The above borrowings are to repaid between 1 and 2 years.

The effective interest rates at the balance sheet date was 6.62%, including political risk insurance.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**17. SHARE CAPITAL**

	<b>Consolidated</b>			
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>Shares</b>	<b>Shares</b>
<b>(a) Paid Up Capital</b>			<b>000's</b>	<b>000's</b>
Balance 1 January	181,984	168,737	377,753	328,542
Issued during the year	12,348	13,815	41,795	49,211
Less costs associated with issue	(587)	(568)	-	-
Balance 31 December	193,745	181,984	419,548	377,753

The total number of shares issued as at 31 December 2004 was 419,547,523 (2003: 377,752,846). 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) Share Options**

The number of unissued ordinary shares under option at 31 December 2004 is 10,372,243 (2003: 600,000).

*Options issued to the banking syndicate financing the Kainantu Gold project*

Outstanding at the end of the year	Issued	Exercised
Exercise Price	A\$0.54	A\$0.54
Number of Options	7,572,243	Nil
Expiry Date	31 Dec 07	31 Dec 07

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

Outstanding at the end of the year	Issued	Exercised
Exercise Price	A\$0.37	A\$0.37
Number of Options	2,800,000	Nil

The options issued to the banking syndicate were approved at the 2004 annual general meeting. These options are exercisable any time up to 31 December 2007.

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.

IRFS 2 Share Based Payments has been deferred until the 1 January 2005 and the Company has elected not to adopt this standard early.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**18. RESERVES**

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Foreign Currency Translation Reserve</b>				
Balance brought forward	(10,263)	(10,263)	(6,268)	(6,268)
Inter group transfer of fixed assets	-	-	-	-
Balance carried forward	(10,263)	(10,263)	(6,268)	(6,268)
<b>Hedging Reserve</b>				
Balance brought forward	-	-	-	-
Deferred loss on cash flow hedges	(21,096)	-	-	-
Balance carried forward	(21,096)	-	-	-
	(31,359)	(10,263)	(6,268)	(6,268)

## 19. 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 Number of Employees	
		2004	2003
30,960 – 34,056	100,000 – 109,999	1	-
34,057 – 37,152	110,000 – 119,999	1	-
37,153 – 40,248	120,000 – 129,999	1	-
40,249 – 43,344	130,000 – 139,999	1	-
43,345 – 46,440	140,000 – 149,999	2	-
46,441 – 49,536	150,000 – 159,999	2	-
49,537 – 52,632	160,000 – 169,999	1	-
65,016 – 68,112	210,000 – 219,999	1	1
68,113 – 71,208	220,000 – 229,999	1	1
74,304 – 77,400	240,000 – 249,999	1	1
77,400 – 80,496	250,000 – 259,999	1	-
86,688 – 89,784	280,000 – 289,999	-	1
92,880 – 95,976	300,000 – 309,999	2	-
142,416 – 145,512	460,000 – 469,999	-	2
154,800 – 157,896	500,000 – 509,999	1	-
160,992 – 164,088	520,000 – 539,999	-	1
195,048 – 198,144	630,000 – 639,999	1	-
204,336 – 207,432	660,000 – 669,000	-	1
213,624 – 216,720	690,000 – 699,999	1	-
	<b>Total</b>	<b>18</b>	<b>8</b>

The remuneration includes costs to the Group of accommodation in PNG and other like benefits provided to employees. The majority of the base salary rates included on the above table are contracted in Australian dollars.

The 2003 comparatives have been converted at the current year exchange rates to arrive at the equivalent USD bands.

## 20. REMUNERATION OF DIRECTORS

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

	<b>Group and Holding Company</b>	
	<b>2004 US\$000</b>	<b>2003 US\$000</b>
Robert Bryan	100	90
Ian R Holzberger	311	271
Andrew J Berry	50	45
Moseley A Moramoro, OBE (deceased November 2004)	45	45
Rod Mitchell *	50	45
	556	496

\*Remuneration is paid directly to the "NASFUND".

## 21. RETIREMENT BENEFITS

The Group participates in two retirement benefit funds. There is a cash accumulation plan for senior staff and the second is the NASFUND for citizen employees. Total employer contributions were US\$144,831 (2003: US\$108,319). Both the cash accumulation plan and the NASFUND are defined contribution plans.

## 22. JOINT VENTURES

At 31 December 2004 joint venture interests comprised :

	<b>Highlands Pacific's Percentage Interest</b>	<b>Activity</b>
Ramu joint venture (Note 1)	68.5	Exploration & Evaluation
Frieda River joint venture (Note 1)	88.0	Exploration & Evaluation
Contracts of Work: Woyla River and Tripa	90	Exploration & Evaluation

1. 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.

The following amounts represent the Group's share of assets, liabilities, sales and result that are included in the consolidated balance sheet and profit and loss statements:

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Current assets	7	7	-	-
Non-current assets	26,000	26,000	-	-
	26,007	26,007	-	-
Current liabilities	121	106	-	-
Non-current liabilities	-	-	-	-
	121	106	-	-
Net Assets	25,886	25,901	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	-	-	-	-

## 23. RELATED PARTY TRANSACTIONS

Particulars of material contracts involving Directors' interests entered into during the year, or still subsisting at the end of that year, are as follows:

- Mr R Mitchell is the Chief Executive Officer of the NASFUND, which is a major shareholder in the Company and manages a retirement plan in which the Company participates.
- The late Dr M A Moramoro was a Director of Westpac Bank (PNG) Limited which provided services to the Group at normal commercial rates. In addition, Dr Moramoro was a Trustee on the Board of Trustees of the NASFUND which is a major shareholder in the Company and which manages a retirement plan in which the Company participates.

There are no other material related party transactions.

## 24. SEGMENT REPORTING

### a) Business Segments

During the year Group exploration and development activities were carried out predominantly in the mining industry.

### b) Geographic Segments

During the year Group exploration activities were carried out predominantly in PNG.

## 25. COMMITMENTS FOR EXPENDITURE

	Consolidated	
	2004	2003
Capital commitments	US\$000	US\$000
Commitments for the expenditure on the Kainantu Gold Mine Development not recognised as liabilities, payable:		
Within one year	2,155	-

## 26. MAJOR CONTRACTS

Highlands Kainantu Limited, a wholly owned subsidiary of Highlands Pacific Limited, has entered into a number of major contracts in relation to the development of the Kainantu Gold Mine. The contracts include the construction of a road and tailings dam (both almost completed), an EPCM contract for the process plant, a contract for the provision of mining equipment and technical services, an offtake contract and hedging contracts.

**27. OPERATING LEASE OBLIGATIONS**

	Consolidated		Holding Company	
	2004	2003	2004	2003
	US\$000	US\$000	US\$000	US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	153	85	-	-
One to two years	111	38	-	-
Two to five years	128	9	-	-
	<u>392</u>	<u>132</u>	<u>-</u>	<u>-</u>

**28. CONTINGENT LIABILITIES**

1. The following contingent liability arose as a result of the acquisition of the portfolio of mineral resource assets from the Highlands Gold Limited group of companies ("HGL") during 1997:
  - Highlands Pacific has agreed to indemnify HGL against any claims for taxation (including any penalties) as a consequence of the execution of the transaction documents relating to the acquisition of such assets. HGL will take responsible action (at the direction and sole cost of Highlands Pacific) to contest any such claims for taxation.
  
2. 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.
  
3. During 2001, Nippon Mining & Metals Co. Ltd (Nippon) withdrew from the Joint Venture Agreement with Highlands Pacific in relation to the Kainantu project. As a result of this withdrawal the following contingent liability arose:
  - When the Kainantu project commences commercial production Highlands Pacific will pay Nippon the sum of US\$2,000,000.

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.

## **29. EVENTS OCCURRING AFTER BALANCE DATE**

There have been no events occurring after balance date.

## **30. FINANCIAL INSTRUMENTS**

### **(a) Activities and Management Policies**

#### **(i) Currency risk**

The Group undertakes transactions denominated in a range of currencies from time to time and, resulting from these activities, exposures in those currencies arise. Though there are no specific hedging activities to mitigate any currency risk, this exposure is monitored by management on an ongoing basis.

The Company provides loans to other members of the Group. These loans are effectively denominated in US dollars consistent with the functional currency of the Group.

#### **(ii) Credit risk**

The Group has entered into an offtake agreement with a large multinational corporation for the sale of product from the Kainantu gold project. The Board of Directors do not believe there is a credit risk from this agreement due to the credit worthiness of the corporation involved.

#### **(iii) Liquidity risk**

The Group engages in prudent liquidity risk management by maintaining sufficient cash and cash equivalents.

#### **(iv) Interest rate risk**

While the Group has interest-bearing deposits as at the balance sheet date, these funds are predominantly committed to the development of the Kainantu gold project and hence the Group does not rely on any interest revenue from these deposits.

### **(b) Fair Values**

The carrying values of the assets and liabilities are not significantly different to their fair values.

The cash and bank balances include bank term deposits, which generally mature within 7 and 180 days and receive interest at rates between 0.89% to 5.25%. The interest rate achieved depends on the currency on deposit.

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### (c) 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.

### (d) Derivative financial instruments

	<b>Consolidated 2004</b>	<b>Consolidated 2003</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Non-current Liabilities</b>		
Forward contracts	21,096	-
	21,096	-
<b>Shareholders equity - fair value and other reserves</b>		
Deferred hedging gains (losses)	(21,096)	-
	(21,096)	-
<p>The estimated 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:</p>		
Forward contracts	(1,770)	-
	(1,770)	-

A series of agreements have been entered into with financial institutions in relation to future sales of gold for the Kainantu Gold project. The purpose of these transactions is to protect the level of income in future years. It is not Company policy to engage in speculative hedging activities.

## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

As at 31 December 2004 the hedge book amounted to 275,000 ounces of flat forward gold sales as shown in the following summary

	<b>Forward Sales</b>	
	<b>Ounces</b>	<b>Average Committed Price</b>
2005	33,000	US\$403
2006	79,000	US\$403
2007	78,000	US\$403
2008	85,000	US\$403

Forward sales are transactions against which the Group will be obliged to deliver when they fall due. The price therefore represents a fixed and guaranteed amount of revenue.

### 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:

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>K000</b>	<b>K000</b>	<b>K000</b>	<b>K000</b>
Revenue	3,779	2,199	-	-
Net Profit (Loss) after tax	8,227	8,796	(7,003)	91,435
Total Assets	254,222	212,217	146,246	130,357
Total Liabilities	107,682	9,950	9	10
Net Assets	146,540	202,267	146,237	130,347

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2004 of PGK1.00 = \$0.3330 (2003 year PGK1.00 = 0.3000) while income and expense items are translated at the average rate for the year PGK1.00 = \$0.3096 (2002 year PGK1.00 = \$0.2815).