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Incorporated in Papua New Guinea

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12 September 2006

Highlands Pacific Group Half Year Results

- Net loss US\$ 26.4 million
- Loss included US\$ 12 million of non-cash items including US\$ 10 million unrealised gold hedge adjustment
- The Kainantu mine continues in the ramp up stage

Highlands Pacific Group ("Highlands") today announced its financial results for the Half Year ended 30 June 2006.

The net loss from ordinary activities after income tax by the Group for the half-year is US\$26.4 million. The result for the period was significantly affected due to the requirement to take into account unrealised losses of \$10.031 million which relate to the current structure of the Company's designated gold forward sales through to 31 December 2008. This treatment is in accordance with International Financial Reporting Standards.

Currently the Company is in discussions with its financiers to restructure its gold hedge book to better reflect the production profile of the Kainantu mine. It is expected that the restructuring will be completed before 31 December 2006.

Upon the successful restructuring of the hedge book these unrealised, non cash losses will be reversed out of the Company's accounts.

The remainder of the loss relates to the operations at the Highlands Pacific Limited (ASX: HIG) Kainantu gold mine as it goes through its ramp-up stage and normal company operations.

A handwritten signature in black ink, appearing to read "Ian R. Holzberger".

Ian Holzberger
Managing Director

A handwritten signature in black ink, appearing to read "Kevin Grice".

Kevin Grice
General Manager Finance



HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

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HALF-YEAR ENDED 30 JUNE 2006

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DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Highlands Pacific Limited and its subsidiaries for the half-year ended 30 June 2006.

This report should be read in conjunction with the Annual Report.

DIRECTORS

The following persons were Directors of Highlands Pacific Limited during the whole of the half-year and up to the date of this report:

Robert Bryan (Chairman)
Ian R Holzberger (Managing Director)
Andrew J Berry
Rod Mitchell
Fiu Williame-Igara

J I Forbes was a Director from the beginning of the financial year until his resignation on 3 July 2006.

RESULTS AND DIVIDENDS

The net loss from ordinary activities after income tax by the Group for the half-year is US\$26,373,580 and includes a charge for losses on cash flow hedges of USD10,031,028 due to hedge contracts being classified as not effective in accordance with International Financial Reporting Standards. The remainder of the loss principally relates to the operations at the Kainantu gold mine as it goes through its ramp-up stage.

There is no dividend paid or recommended.

REVIEW OF OPERATIONS

During the half-year the Group's principal activities were the operation of the Kainantu gold mine, exploring for minerals and carrying out feasibility studies on prospective mineral deposits either in their own right or in joint ventures.

This report is made in accordance with a resolution of Directors.



IAN R. HOLZBERGER
MANAGING DIRECTOR

10 September 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

For the half-year ended 30 June 2006

	June 2006 US\$000	June 2005 US\$000
Gold sales	3,620	-
Realisation of hedging instruments	(317)	-
Other revenue	23	9
Total Operating Income	3,326	9
Mining costs	4,964	-
Processing costs	1,393	-
Maintenance costs	2,217	-
General and administrative costs	7,976	1,440
Exploration costs	41	362
Changes in inventories of work in progress / finished goods	(536)	-
Depreciation and amortisation	1,695	13
Net foreign exchange (gains) / losses	206	(140)
Total Operating Costs	17,956	1,675
Profit (Loss) from operations	(14,630)	(1,666)
Finance Income	569	170
Close out of hedging instruments	(2,268)	-
Gains / (losses) on cash flow hedges	(10,031)	-
Profit (Loss) before income tax	(26,360)	(1,496)
Income tax (expense) benefit	(14)	(5)
Net profit (loss)	(26,374)	(1,501)
Earnings per share		
Basic	(0.05)	(0.00)
Diluted	(0.05)	(0.00)

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 30 June 2006

	Share Capital US\$000	Fair Value & Other Reserves US\$000	Retained Earnings US\$000	Total US\$000
Half-Year ended 30 June 2006				
Balance at 1 January 2006	212,864	(49,154)	(119,084)	44,626
Net profit (loss)	-	-	(26,374)	(26,374)
Deferred gains / (losses) on cash flow hedges	-	(11,592)	-	(11,592)
Issue of share capital	42,865	-	-	42,865
Costs associated with issue	(823)	-	-	(823)
Balance at 30 June 2006	254,906	(60,746)	(145,458)	48,702
Half-Year ended 30 June 2005				
Balance at 1 January 2005	193,745	(31,359)	(113,588)	48,798
Net profit (loss)	-	-	(1,501)	(1,501)
Adjustment for issue of Share Based Payments	-	-	(109)	(109)
Deferred gains / (losses) on cash flow hedges	-	4,537	-	4,537
Issue of share capital	18,826	-	-	18,826
Costs associated with issue	(560)	-	-	(560)
Balance as at 30 June 2005	212,011	(26,822)	(115,198)	69,991

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Notes	June 2006 US\$000	December 2005 US\$000
NON-CURRENT ASSETS			
Property, plant and equipment	2	19,450	19,227
Exploration & evaluation expenditure	3	27,546	26,926
Development expenditure	4	-	66,533
Mineral properties	5	63,893	-
		110,889	112,686
CURRENT ASSETS			
Cash and cash equivalents		33,512	10,545
Inventories		3,689	1,665
Receivables and prepayments		782	116
		37,983	12,326
TOTAL ASSETS		148,872	125,012
NON-CURRENT LIABILITIES			
Provisions		899	898
Derivative financial instruments		26,875	28,086
Borrowings		19,770	24,880
		47,544	53,864
CURRENT LIABILITIES			
Trade and other creditors		8,096	9,790
Derivative financial instruments		34,221	11,387
Borrowings		10,000	5,000
Provisions		309	345
		52,626	26,522
TOTAL LIABILITIES		100,170	80,386
NET ASSETS		48,702	44,626
SHAREHOLDERS' EQUITY			
Paid up capital		254,906	212,864
Reserves		(60,746)	(49,154)
Retained earnings		(145,458)	(119,084)
TOTAL SHAREHOLDERS' EQUITY		48,702	44,626

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the half-year ended 30 June 2006

	June 2006 US\$000	June 2005 US\$000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from gold sales	2,970	-
Settlement of hedge instruments related to gold sales	(317)	-
Receipts from other operations	23	9
Interest from investments	532	185
Income tax paid	(11)	(2)
Interest paid	(1,202)	-
Payments to suppliers and employees	(17,991)	(2,951)
Net cash inflow (outflow) from operating activities	(15,996)	(2,759)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	8	-
Purchase of property, plant and equipment	(850)	(11)
Exploration, evaluation & development	(664)	(19,058)
Net cash inflow (outflow) from investing activities	(1,506)	(19,069)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	42,865	18,826
Costs associated with issue	(823)	(560)
Close out of hedging instruments	(1,669)	-
Proceeds from borrowings	720	13,920
Repayment of borrowings	(830)	-
Net cash inflow (outflow) from financing activities	40,263	32,186
Net increase (decrease) in cash and cash equivalents	22,761	10,358
Cash and cash equivalents at the beginning of the half-year	10,545	14,310
Effects of exchange rate changes on cash and cash equivalents	206	(139)
Cash and cash equivalents at end of the half-year	33,512	24,529

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
(continued)

For the half-year ended 30 June 2006

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

	June 2006 US\$000	June 2005 US\$000
Reported Net Profit (Loss) after Taxation	(26,374)	(1,501)
Loss on cash flow hedges	10,031	-
Depreciation	1,695	13
Provision for exploration costs	41	362
Tax	14	5
Fair value of share based payments	-	70
(Profit) loss on sale of property, plant & equipment	(4)	-
Net (gain) loss on foreign currency balances	(206)	140
Close out of hedging instruments	1,669	-
	<u>13,240</u>	<u>590</u>
Add (less) movements in working capital items:		
(Increase) decrease in debtors and prepayments	(668)	(1,551)
(Increase) decrease in inventories	(1,415)	-
Increase (decrease) in creditors and provisions	(779)	(297)
	<u>(2,862)</u>	<u>(1,848)</u>
Net Cash Flow from Operating Activities	(15,996)	(2,759)

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

1. STATEMENT OF ACCOUNTING POLICIES

Highlands Pacific Limited and its subsidiaries (together the Group) carry out mining, exploration and development activities. All of the Group's activities are carried out in Papua New Guinea, where the Company is incorporated and domiciled. The registered office is at Level 9, Pacific Place, Musgrave Street, Port Moresby, Papua New Guinea.

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

This general purpose financial report for the interim half-year reporting period ended 30 June 2006 has been prepared in accordance with International Accounting Standard IAS 34: Interim Financial Reporting.

This interim financial report has been prepared on a going concern basis. The Group has experienced a delayed start up to its mining operations at Kainantu. As a result the Group has incurred substantial losses in the interim period due to operating losses, close out of gold forward contracts prior to 30 June 2006 and the recognition of unrealised losses on future gold forward contracts for the six month period to 31 December 2006 greater than the forecast sales for that period. The Group is currently in the process of developing a new life of mine plan and restructuring its debt facilities and forward sales contracts to align them to the expectations of future gold production and sales. Whilst there is inherent uncertainty concerning this restructure, the directors consider it is likely that these debt facilities and forward sale contracts will be restructured to a basis consistent with the new life of mine plan. Consequently, the interim financial report has been prepared on a going concern basis and no adjustment has been made to the carrying values of the assets and liabilities disclosed in the balance sheet.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2005 and any public announcements made by Highlands Pacific Limited during the interim reporting period in accordance with the continuous disclosure requirements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period with the exception of those stated below.

(a) Inventories (new policy)

Inventories of ore and concentrate are physically measured or estimated and valued at the lower of cost and net realisable value. Net realisable value is the amount estimated to be obtained from the sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

2. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$000	Plant and Equipment US\$000	Total US\$000
30 June 2006			
Cost			
Balance at 1 January 2006	4,122	16,434	20,556
Additions	-	850	850
Disposals	-	(7)	(7)
Cost carried forward	<u>4,122</u>	<u>17,277</u>	<u>21,399</u>
Depreciation			
Balance at 1 January 2006	114	1,215	1,329
Charge for the year	24	600	624
Disposals	-	(4)	(4)
Carried forward	<u>138</u>	<u>1,811</u>	<u>1,949</u>
Carrying amount at 30 June 2006	<u><u>3,984</u></u>	<u><u>15,466</u></u>	<u><u>19,450</u></u>
31 December 2005			
Cost			
Balance at 1 January 2005	168	1,310	1,478
Additions	-	71	71
Transfer from Investment Property	315	-	315
Transfer from Development	3,639	15,064	18,703
Disposals	-	(11)	(11)
Cost carried forward	<u>4,122</u>	<u>16,434</u>	<u>20,556</u>
Depreciation			
Balance at 1 January 2005	104	1,204	1,308
Charge for the year	10	22	32
Disposals	-	(11)	(11)
Carried forward	<u>114</u>	<u>1,215</u>	<u>1,329</u>
Carrying amount at 31 December 2005	<u><u>4,008</u></u>	<u><u>15,219</u></u>	<u><u>19,227</u></u>

3. EXPLORATION & DEVELOPMENT EXPENDITURE

	Ramu US\$000	Kainantu US\$000	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2006	16,000	926	10,000	-	26,926
Capitalised during the period	19	620	-	22	661
Less provisions for exploration costs	(19)	-	-	(22)	(41)
Balance 30 June 2006	16,000	1,546	10,000	-	27,546
Balance 1 January 2005	16,000	-	10,000	-	26,000
Capitalised during the period	889	926	34	67	1,916
Less provisions for exploration costs	(889)	-	(34)	(67)	(990)
Balance 31 December 2005	16,000	926	10,000	-	26,926

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 and/or its joint venture partners securing sufficient funding from equity, debt or other sources of funding. 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.

4. DEVELOPMENT EXPENDITURE

	2006 US\$000	2005 US\$000
Kainantu		
Balance brought forward	62,693	41,472
Capitalised during the period	-	39,924
Transferred to property, plant & equipment	-	(18,703)
Transferred to mineral properties	(62,693)	-
Balance carried forward	-	62,693
<i>Deferred Financing Costs</i>		
Balance brought forward	3,840	2,250
Capitalised during the period	-	1,590
Transferred to mineral properties	(3,840)	-
Balance carried forward	-	3,840
Total	-	66,533

The Kainantu gold project commenced production in early 2006 and all development costs were transferred to Mineral Properties.

5. MINERAL PROPERTIES

	2006 US\$000	2005 US\$000
Kainantu		
<i>Mine Properties</i>		
Balance brought forward	-	-
Transferred from development expenditure	61,802	-
Adjustment to prior capitalised amount	(1,569)	-
Charge for the period	(303)	-
Balance carried forward	59,930	-
<i>Rehabilitation</i>		
Balance brought forward	-	-
Transferred from development expenditure	891	-
Charge for the period	-	-
Balance carried forward	891	-
<i>Deferred Financing Costs</i>		
Balance brought forward	-	-
Transferred from development expenditure	3,840	-
Charge of the period	(768)	-
Balance carried forward	3,072	-
Total	63,893	-

6. SHARE CAPITAL

	June 2006 US\$000	December 2005 US\$000	June 2006 Shares 000's	December 2005 Shares 000's
(a) Paid Up Capital				
Balance brought forward	212,864	193,745	478,725	419,548
Issued during the period	42,865	19,676	86,045	59,177
Less costs associated with issue	(823)	(557)	-	-
Balance carried forward	254,906	212,864	564,770	478,725

The total number of shares issued as at 30 June 2006 was 564,770,123. In accordance with the Papua New Guinea Companies Act 1997 the Company's shares are fully paid, have no par value and there is no authorised capital level.

7. 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. NASFUND has constructed five executive houses that Highlands Kainantu Limited is leasing from NASFUND at commercial rates.

There are no other material related party transactions.

8. SEGMENT REPORTING

a) Business Segments

During the half-year Group mining, exploration and development activities were carried out in the mining industry.

b) Geographic Segments

During the half-year Group mining, exploration and development activities were carried out in Papua New Guinea.

9. FINANCIAL INSTRUMENTS

As at 30 June 2006 the hedge book amounted to 261,000 ounces of flat forward gold sales as shown in the following summary:

	Forward Sales			June 2006	Average Committed Price
	December 2005	Delivered	Closed Out		
2006	89,700	2,000	12,000	75,700	US\$ 405
2007	95,300	-	-	95,300	US\$ 406
2008	90,000	-	-	90,000	US\$ 404
	275,000	2,000	12,000	261,000	

10. CONTINGENT LIABILITIES

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) 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 preceding ten (10) days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
- When the Ramu project commences commercial production, the payment of the Kina equivalent of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment mentioned above.

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

11. EVENTS OCCURRING AFTER BALANCE DATE

There have been no events occurring after balance date.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 3 to 14 are in accordance with:
 - (i) International Financial Reporting Standard IAS34: Interim Financial Reporting and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
 - (jj) are in accordance with the Companies Act 1997 of Papua New Guinea; and
- (b) there are reasonable grounds to believe that Highlands Pacific Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.



IAN R. HOLZBERGER
MANAGING DIRECTOR

10 September 2006

Independent review report to the directors of Highlands Pacific Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim financial report of Highlands Pacific Limited and subsidiary companies is not presented:

- so as to give a true and fair view of the group's state of affairs as at 30 June 2006 and its results and cash flows for the half-year then ended; and
- in accordance with International Financial Reporting Standard IAS 34: Interim Financial Reporting, and other generally accepted accounting practice in Papua New Guinea and the requirements of the Listing Rules of the Australian Stock Exchange Limited.

Scope and summary of our role

The financial report and directors responsibility

The financial report comprises the condensed balance sheet, condensed profit and loss statement and condensed statement of cash flows for the Highlands Pacific Limited Group (the group), for the half year ended 30 June 2006. 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 PNG 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.

The auditor's role and work

We conducted an independent review of the financial report in order for the Company to lodge the financial report with the ASX. Our role was to conduct the review in accordance with International Standards on Auditing ISA 910 applicable to review engagements. Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

This review was performed in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly a view in accordance with International Financial Reporting Standard IAS34: Interim Financial Reporting, other generally accepted accounting practices in Papua New Guinea, and ASX Listing Rules relating to half yearly financial reports which is consistent with our understanding of the Group's financial position, and its performance as represented by the results of its operations and cash flows. The review procedures performed were limited primarily to:

- inquiries of Company personnel of certain internal controls, transactions and individual items
- analytical procedures applied to financial data.

We read the other information published with the half year financial 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 review was not designed to provide assurance on internal controls.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

Independence

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



PricewaterhouseCoopers



Robert Hubbard
Partner

Brisbane
10 September 2006