



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

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13 September 2007

Interim Financial Report

The Board of Highlands Pacific Limited today released the interim financial report for the Group for the half-year ended 30 June 2007. The very disappointing results reflect the continued poor performance of the Kainantu goldmine during the period. The full financial results are attached.

The loss attributable to the Kainantu operation was USD16.2 million, but the Group also booked a non cash impairment charge of USD64.3 million. The loss on cash flow hedges and the discontinuance of hedge accounting resulted in a further non cash charge of USD32.9 million. The total loss is USD114 million.

With the new management team now in place at Kainantu, progress is being made to correct the position. Already the team has achieved substantially higher mill throughput and gold concentrate grades although the head grade remains at previous levels. Work continues on reviewing the geological model and stoping options in order to optimise production rates, while development of the incline ramp remains a focus to obtain operational and cost efficiencies.

Whilst the primary focus is firmly set on improving the performance at Kainantu, the Group is progressing the divestment of its interest in the Ramu nickel and cobalt project. It should also be noted that the Group's banks continue to support management's efforts in improving the performance at Kainantu.

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HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

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HALF-YEAR ENDED 30 JUNE 2007

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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 2007.

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)
Andrew J Berry
Ian Burvill
Rod Mitchell
Fiu Williame-Igara

I R Holzberger (former Managing Director) was a Director from the beginning of the financial year until his retirement on 18 May 2007.

J E Gooding (new Managing Director) was appointed as a Director on 21 May 2007.

RESULTS AND DIVIDENDS

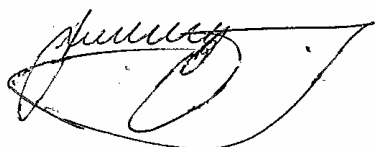
The net loss from ordinary activities after income tax by the Group for the half-year is US\$113,997,000 and includes an impairment charge on the Kainantu gold mine of US\$64,280,000; a charge of US\$18,754,000 for the discontinuance of hedge accounting and a charge for losses on cash flow hedges of US\$14,184,000. The remainder of the loss principally relates to the operations at the Kainantu gold mine.

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.



JOHN GOODING
MANAGING DIRECTOR

12 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the half-year ended 30 June 2007

	June 2007 US\$000	June 2006 US\$000
Gold sales	5,996	3,620
Realisation of hedging instruments	(2,560)	(2,585)
Other revenue	37	23
Total Operating Income	3,473	1,058
Mining costs	3,218	4,964
Processing costs	1,371	1,393
Maintenance costs	3,298	2,217
General and administrative costs	8,686	6,774
Exploration costs	13	41
Changes in inventories of work in progress / finished goods	(1,083)	(536)
Depreciation and amortisation	4,276	1,695
Net foreign exchange (gains) / losses	(144)	206
Total Operating Costs	19,635	16,754
Profit (Loss) from operations	(16,162)	(15,696)
Finance Income	316	569
Finance expense	(962)	(1,202)
Gain on sale	37	-
Impairment of non current assets	(64,280)	-
Discontinuance of hedge accounting	(18,754)	-
Gains / (losses) on cash flow hedges	(14,184)	(10,031)
Profit (Loss) before income tax	(113,989)	(26,360)
Income tax (expense) benefit	(8)	(14)
Net profit (loss)	(113,997)	(26,374)
Earnings per share		
Basic	(0.19)	(0.05)
Diluted	(0.18)	(0.05)

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 2007

	Share Capital US\$000	Fair Value & Other Reserves US\$000	Retained Earnings US\$000	Total US\$000
Half-Year ended 30 June 2007				
Balance at 1 January 2007	254,895	(34,886)	(182,866)	37,143
Net profit (loss)	-	-	(113,997)	(113,997)
Net movement of deferred gains / (losses) on cash flow hedges	-	6,524	-	6,524
Discontinuance of hedge accounting	-	18,754	-	18,754
Issue of share capital	20,000	-	-	20,000
Issue of share based payments	-	55	-	55
Costs associated with issue	(342)	-	-	(342)
Balance at 30 June 2007	274,553	(9,553)	(296,863)	(31,863)
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)
Net movement of 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

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 2007

	Notes	June 2007 US\$000	December 2006 US\$000
CURRENT ASSETS			
Cash and cash equivalents		13,483	16,577
Inventories		6,121	4,309
Receivables and prepayments		382	134
		19,986	21,020
NON-CURRENT ASSETS			
Property, plant and equipment	2	10,463	18,666
Exploration & evaluation expenditure	3	26,000	27,595
Mineral properties	4	10,000	65,249
		46,463	111,510
TOTAL ASSETS		66,449	132,530
CURRENT LIABILITIES			
Trade and other creditors		8,164	7,636
Derivative financial instruments		17,091	37,883
Borrowings		14,270	10,000
Provisions		90	365
		39,615	55,884
NON-CURRENT LIABILITIES			
Provisions		1,127	1,115
Derivative financial instruments		52,070	23,618
Borrowings		5,500	14,770
		58,697	39,503
TOTAL LIABILITIES		98,312	95,387
NET ASSETS		(31,863)	37,143
SHAREHOLDERS' EQUITY			
Paid up capital	5	274,553	254,895
Reserves		(9,553)	(34,886)
Retained earnings		(296,863)	(182,866)
TOTAL SHAREHOLDERS' EQUITY		(31,863)	37,143

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 2007

	June 2007 US\$000	June 2006 US\$000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from gold sales (net of hedge payments)	3,165	984
Receipts from other operations	37	23
Interest from investments	340	532
Income tax paid	(12)	(11)
Interest paid	(962)	(1,202)
Payments to suppliers and employees	(16,978)	(17,991)
Net cash inflow (outflow) from operating activities	(14,410)	(17,665)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	45	8
Purchase of property, plant and equipment	(156)	(850)
Exploration, evaluation & development	(3,374)	(664)
Net cash inflow (outflow) from investing activities	(3,485)	(1,506)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	20,000	42,865
Costs associated with issue	(342)	(823)
Proceeds from borrowings	-	720
Repayment of borrowings	(5,000)	(830)
Net cash inflow (outflow) from financing activities	14,658	41,932
Net increase (decrease) in cash and cash equivalents	(3,237)	22,761
Cash and cash equivalents at the beginning of the half-year	16,577	10,545
Effects of exchange rate changes on cash and cash equivalents	143	206
Cash and cash equivalents at end of the half-year	13,483	33,512

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 2007

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

	June 2007 US\$000	June 2006 US\$000
Reported Net Profit (Loss) after Taxation	(113,997)	(26,374)
Loss on cash flow hedges	14,184	10,031
Depreciation	4,276	1,695
Provision for exploration costs	5	41
Tax	8	14
Fair value of share based payments	55	-
(Profit) loss on sale of property, plant & equipment	(31)	(4)
Impairment of non current assets	64,280	-
Discontinuance of hedge accounting	18,754	-
Net (gain) loss on foreign currency balances	(143)	(206)
	<u>106,388</u>	<u>11,571</u>
Add (less) movements in working capital items:		
(Increase) decrease in debtors and prepayments	(248)	(668)
(Increase) decrease in inventories	(1,811)	(1,415)
Increase (decrease) in creditors and provisions	258	(779)
	<u>(1,801)</u>	<u>(2,862)</u>
Net Cash Flow from Operating Activities	<u>(14,410)</u>	<u>(17,665)</u>

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 in Port Moresby, Papua New Guinea.

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

This general purpose financial report for the interim half-year reporting period ended 30 June 2007 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 continues to experience significant production difficulties at its mining operations at Kainantu and as a result incurred substantial losses in the interim period due to operating losses, impairment charge on the Kainantu assets, close out of gold forward contracts prior to 30 June 2007 and the recognition of unrealised losses on future gold forward contracts. This has resulted in a loss for the period of US\$113.9 million and a net liability position of US\$31.8 million

The Group is currently in the process of developing a new life of mine plan after which it will look at the possibility of restructuring its debt facilities and forward sales contracts to align them to the expected future gold production and sales. As highlighted in Note 9, the Banking Syndicate for the Kainantu gold mine has agreed to defer certain financing obligations to December 2007 and February 2008 and the Group has initiated the process to divest its interest in the Ramu nickel and cobalt project.

At this stage, it is not possible to forecast with any certainty the mine's production performance and the proceeds of the sale of the Ramu interest. As a result there is material uncertainty whether the Group will continue as a going concern and therefore whether the Group will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

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 2006 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.

2. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$000	Plant and Equipment US\$000	Total US\$000
30 June 2007			
Cost			
Balance at 1 January 2007	4,112	17,228	21,340
Additions	-	155	155
Disposals	(14)	(20)	(34)
Cost carried forward	4,098	17,363	21,461
Depreciation			
Balance at 1 January 2007	270	2,404	2,674
Charge for the year	168	1,160	1,328
Disposals	(14)	(7)	(21)
Impairment loss	1,367	5,650	7,017
Carried forward	1,791	9,207	10,998
Carrying amount at 30 June 2007	2,307	8,156	10,463
31 December 2006			
Cost			
Balance at 1 January 2006	4,122	16,434	20,556
Additions	-	1,267	1,267
Disposals	(10)	(473)	(483)
Cost carried forward	4,112	17,228	21,340
Depreciation			
Balance at 1 January 2006	114	1,215	1,329
Charge for the year	165	1,641	1,806
Disposals	(9)	(452)	(461)
Carried forward	270	2,404	2,674
Carrying amount at 31 December 2006	3,842	14,824	18,666

Impairment of Non Current Assets

Due to the poor operating performance of the Kainantu gold mine, an impairment charge of US\$64,280,000 was made to non current assets at 30 June 2007. The impairment is driven by the current uncertainty on the timing, grade and quantity of recoverable reserves which makes it difficult to determine for accounting purposes the recoverability of non current assets until operational issues are resolved.

3. EXPLORATION & DEVELOPMENT EXPENDITURE

	Ramu US\$000	Kainantu US\$000	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2007	16,000	1,595	10,000	-	27,595
Capitalised during the period	(8)	52	1	12	57
Less amortisation of exploration costs	-	(39)	-	-	(39)
Less provisions for exploration costs	8	-	(1)	(12)	(5)
Impairment loss	-	(1,608)	-	-	(1,608)
Balance 30 June 2007	16,000	-	10,000	-	26,000
Balance 1 January 2006	16,000	926	10,000	-	26,926
Capitalised during the period	13	741	-	45	799
Less amortisation of exploration costs	-	(72)	-	-	(72)
Less provisions for exploration costs	(13)	-	-	(45)	(58)
Balance 31 December 2006	16,000	1,595	10,000	-	27,595

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 Directors remain confident that these assets will ultimately be developed or sold.

As mentioned in Note 9 the Group has initiated the process to divest its interest in the Ramu project. The development of the Ramu project has strengthened in recent times and as such has reduced the uncertainty on the project. The Directors have retained the valuation on the Ramu project at US\$16 million, however they feel the best indication on value will be forthcoming out of the divestment process.

In the case of the Frieda project, the future timing of development cannot be predicted with any certainty. Consequently, in assessing the carrying value of the Frieda project, the Directors have considered the value by reference to the present value of the future cash flows at a risk adjusted discount rate, to be generated by the project assuming the ultimate successful development; and the potential current realisable value by reference to comparable transactions and farm-in arrangements.

Refer Note 2 Property, Plant and Equipment in relation to the Impairment loss.

4. MINERAL PROPERTIES

	2007 US\$000	2006 US\$000
Kainantu		
<i>Mine Properties</i>		
Balance brought forward	61,789	-
Transferred from development expenditure	-	62,693
Capitalised during the period	2,802	1,746
Impairment loss	(52,038)	-
Charge for the period	(2,553)	(2,650)
Balance carried forward	10,000	61,789
<i>Deferred Financing Costs</i>		
Balance brought forward	3,460	-
Transferred from development expenditure	-	3,840
Capitalised during the period	513	339
Charge of the period	(3,617)	(719)
Balance carried forward	-	3,460
Total	10,000	65,249

Refer Note 2 Property, Plant and Equipment in relation to the Impairment loss.

5. SHARE CAPITAL

	June 2007 US\$000	December 2006 US\$000	June 2007 Shares 000's	December 2006 Shares 000's
(a) Paid Up Capital				
Balance brought forward	254,895	212,864	564,770	478,725
Issued during the period	20,000	42,323	86,052	86,045
Less costs associated with issue	(342)	(292)	-	-
Balance carried forward	274,553	254,895	650,822	564,770

The total number of shares issued as at 30 June 2007 was 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.

6. 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.

7. FINANCIAL INSTRUMENTS

As at 30 June 2007 the hedge book amounted to 240,000 ounces of flat forward gold sales as shown in the following summary:

	Forward Sales			June 2007	Average Committed Price
	December 2006	Delivered	Restructured		
2007	160,000	(10,000)	(120,461)	29,539	US\$ 400
2008	90,000	-	(19,846)	70,154	US\$ 400
2009	-	-	70,154	70,154	US\$ 400
2010	-	-	70,153	70,153	US\$ 400
	<u>250,000</u>	<u>(10,000)</u>	<u>-</u>	<u>240,000</u>	

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

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

9. EVENTS OCCURRING AFTER BALANCE DATE

On 23 July 2007 the Group advised that ABN AMRO had been commissioned to assist with the divestment of the company's interest in the Ramu nickel and cobalt project. The project is carried in the books at USD16 million. The divestment process is expected to be completed before the end of the year.

On 1 August 2007 the Group announced that the Banking Syndicate for the Kainantu gold mine had agreed to defer the following financing obligations:

- Loan repayments due in August 2007 and November 2007 of USD2.5 million each to December 2007 and February 2008; and
- Forward gold sales contracts of 12,000 ounces due on 30 September 2007 and 17,539 ounces due on 31 December 2007 to 29 February 2008.

The actual rolling of the September and December forward gold sales contracts will take place during the month of September, however the revised forward gold sales contracts are summarised in the table below:

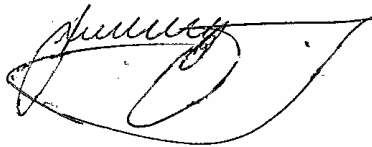
	Ounces	Average Committed Price
2007	-	-
2008	99,693	US\$ 400
2009	70,154	US\$ 400
2010	70,153	US\$ 400
	<u>240,000</u>	

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 3 to 15 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 2007 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
 - (j) 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.



JOHN GOODING
MANAGING DIRECTOR

12 September 2007

INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of Highlands Pacific Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Highlands Pacific Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Highlands Pacific Limited Group (the consolidated entity). The consolidated entity comprises both Highlands Pacific Limited the company and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with International Financial Reporting Standards (including the Interpretations of the International Financial Reporting Interpretations Committee) and the Australian Stock Exchange (ASX) Listing Rules. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the ASX Listing Rules including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the ASX Listing Rules. As the auditor of Highlands Pacific Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with International Standards of Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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.

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

Independence

In conducting our review, we have complied with the independence requirements of the ASX Listing Rules and the PNG Companies Act 1997.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Highlands Pacific Limited is not in accordance with the ASX) Listing Rules including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material uncertainty regarding continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters disclosed in note 1 there is significant uncertainty whether the Group will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



PricewaterhouseCoopers



Robert Hubbard
Partner

Brisbane
September 2007