



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

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5 September 2008

## INTERIM FINANCIAL REPORT

### HALF YEAR PROFIT OF US\$0.5 MILLION ACHIEVED

The Board of Highlands Pacific Limited today released the interim financial report for the Group for the half-year ended 30 June 2008. The result for the half year is a net operating profit of US\$0.5 million. The full financial results are attached.

The profit is attributable to the finalisation of the last two gold shipments from the Kainantu gold mine and interest income, partially offset by administration and corporate costs. While the Kainantu gold mine was sold in December 2007 and thus not part of this reporting period, the final two shipments sent out prior to the sale date were not finalised until the first half of the 2008 year.

Commenting on the result, Managing Director John Gooding said, "Financially, Highlands is in a strong position, with US\$28.1 million cash in bank. As such, we are well placed to participate in and/or acquire an advanced project, especially given the difficulties of raising capital in the sector at present.

"With commissioning of the US\$1.4 billion Ramu Nickel Cobalt project anticipated by late-2009, and a US\$25 million drilling programme underway at the world class Frieda River copper gold deposit, the next 12-months will certainly be very eventful for the company."

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HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

**INDEX TO CONSOLIDATED INTERIM FINANCIAL REPORT**

HALF-YEAR ENDED 30 JUNE 2008

	Page No's
Director's Report	2
<i>Interim Financial Report</i>	
Condensed Consolidated Income Statement	3
Condensed Consolidated Statement of Changes in Equity	4
Condensed Consolidated Balance Sheet	5
Condensed Consolidated Cash Flow Statement	6 - 7
Notes to the Condensed Consolidated Financial Statements	8 - 12
Directors' Declaration	13
Independent Auditor's Review Report to the Members	14 - 15

## **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 2008.

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:

John Gooding (Managing Director)  
Ian Burvill  
Rod Mitchell  
Fiu Williame-Igara

- Robert Bryan (former Chairman) was a Director from the beginning of the financial year until his retirement on 20 May 2008.
- Andrew Berry was a Director from the beginning of the financial year until his retirement on 20 May 2008.
- Ken MacDonald (Chairman) was appointed a Director on 1 February 2008.
- Mike Carroll was appointed a Director on 1 April 2008.

## **RESULTS AND DIVIDENDS**

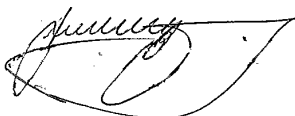
The net profit from ordinary activities after income tax by the Group for the half-year is US\$544,000. The result includes the sales revenue of US\$5.6 million from a gold shipment that was in transit as at 31 December 2007 and the finalisation of an earlier shipment for US\$1.1 million, partially offset by office and administrative costs and the cost of the shipment in transit.

There is no dividend paid or recommended.

## **REVIEW OF OPERATIONS**

During the half-year the Group's principal activities were 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.



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**JOHN GOODING  
MANAGING DIRECTOR**

5 September 2008

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the half-year ended 30 June 2008

	Notes	June 2008 US\$000	June 2007 US\$000
Sales revenue	2	6,625	5,996
Realisation of hedging instruments		-	(2,560)
Other revenue		74	37
<b>Total Operating Income</b>		<b>6,699</b>	<b>3,473</b>
Mining costs		-	3,218
Processing costs		-	1,371
Maintenance costs		-	3,298
General and administrative costs		2,512	8,686
Exploration costs		160	13
Changes in inventories of work in progress / finished goods		4,308	(1,083)
Depreciation and amortisation		19	4,276
Net foreign exchange (gains) / losses		(345)	(144)
<b>Total Operating Costs</b>		<b>6,654</b>	<b>19,635</b>
<b>Profit (Loss) from operations</b>		<b>45</b>	<b>(16,162)</b>
Finance Income		478	316
Finance expense		-	(962)
Gain on sale		23	37
Impairment of non current assets		-	(64,280)
Discontinuance of hedge accounting		-	(18,754)
Gains / (losses) on cash flow hedges		-	(14,184)
<b>Profit (Loss) before income tax</b>		<b>546</b>	<b>(113,989)</b>
Income tax (expense) benefit		(2)	(8)
<b>Net profit (loss)</b>		<b>544</b>	<b>(113,997)</b>
<b>Earnings per share</b>			
Basic		0.000	(0.192)
Diluted		0.000	(0.184)

*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 2008

	Share Capital US\$000	Fair Value & Other Reserves US\$000	Retained Earnings US\$000	Total US\$000
<b>Half-Year ended 30 June 2008</b>				
Balance at 1 January 2008	274,553	(9,037)	(182,934)	82,582
Net profit (loss)	-	-	544	544
Net movement of deferred gains / (losses) on cash flow hedges	-	-	-	-
Discontinuance of hedge accounting	-	-	-	-
Issue of share capital	200	-	-	200
Issue of share based payments	-	120	-	120
<b>Balance at 30 June 2008</b>	<b>274,753</b>	<b>(8,917)</b>	<b>(182,390)</b>	<b>83,446</b>
<b>Half-Year ended 30 June 2007</b>				
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)
<b>Balance at 30 June 2007</b>	<b>274,553</b>	<b>(9,553)</b>	<b>(296,863)</b>	<b>(31,863)</b>

*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 2008

	Notes	June 2008 US\$000	December 2007 US\$000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		28,125	20,500
Inventories		-	4,308
Receivables and prepayments		1,249	702
		<u>29,374</u>	<u>25,510</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	774	470
Exploration & evaluation expenditure	4	10,000	10,000
Investment in Ramu project	5	50,000	50,000
		<u>60,774</u>	<u>60,470</u>
<b>TOTAL ASSETS</b>		<u>90,148</u>	<u>85,980</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		6,576	3,294
Provisions		126	104
		<u>6,702</u>	<u>3,398</u>
<b>TOTAL LIABILITIES</b>		<u>6,702</u>	<u>3,398</u>
<b>NET ASSETS</b>		<u>83,446</u>	<u>82,582</u>
<b>SHAREHOLDERS' EQUITY</b>			
Paid up capital	6	274,753	274,553
Reserves		(8,917)	(9,037)
Retained earnings		(182,390)	(182,934)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>83,446</u>	<u>82,582</u>

*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 2008

	June 2008 US\$000	June 2007 US\$000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from gold sales (net of hedge payments)	6,625	3,165
Receipts from other operations	74	37
Interest from investments	476	340
Income tax refund (paid)	4	(12)
Interest paid	-	(962)
Payments to suppliers and employees	(3,639)	(16,978)
<b>Net cash inflow (outflow) from operating activities</b>	<b>3,540</b>	<b>(14,410)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Amount received in advance for sale of EL1399	4,000	-
Proceeds from sale of property, plant and equipment	23	45
Purchase of property, plant and equipment	(323)	(156)
Exploration, evaluation & development	(160)	(3,374)
<b>Net cash inflow (outflow) from investing activities</b>	<b>3,540</b>	<b>(3,485)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares	200	20,000
Costs associated with issue	-	(342)
Repayment of borrowings	-	(5,000)
<b>Net cash inflow (outflow) from financing activities</b>	<b>200</b>	<b>14,658</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>7,280</b>	<b>(3,237)</b>
Cash and cash equivalents at the beginning of the half-year	20,500	16,577
Effects of exchange rate changes on cash and cash equivalents	345	143
<b>Cash and cash equivalents at end of the half-year</b>	<b>28,125</b>	<b>13,483</b>

*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 2008

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

	June 2008 US\$000	June 2007 US\$000
<b>Reported Net Profit (Loss) after Taxation</b>	<b>544</b>	<b>(113,997)</b>
Loss on cash flow hedges	-	14,184
Depreciation	19	4,276
Provision for exploration costs	160	5
Tax	2	8
Fair value of share based payments	119	55
(Profit) loss on sale of property, plant & equipment	(23)	(31)
Impairment of non current assets	-	64,280
Discontinuance of hedge accounting	-	18,754
Net (gain) loss on foreign currency balances	(345)	(143)
	<u>(68)</u>	<u>101,388</u>
<b>Add (less) movements in working capital items:</b>		
(Increase) decrease in debtors and prepayments	(547)	(248)
(Increase) decrease in inventories	4,308	(1,811)
Increase (decrease) in creditors and provisions	(697)	258
	<u>3,064</u>	<u>(1,801)</u>
<b>Net Cash Flow from Operating Activities</b>	<b>3,540</b>	<b>(14,410)</b>

*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 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 2008 has been prepared in accordance with International Accounting Standard IAS 34: *Interim Financial Reporting*.

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 2007 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. SALES REVENUE**

This is represented by sales revenue of US\$5.6 million from a gold shipment that was inventory in transit as at 31 December 2007 and finalisation of an earlier shipment for US\$1.1 million which was subject to price and grade assessment at 31 December 2007. The Kainantu gold mine was sold on 12 December 2007.

### 3. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$000	Plant and Equipment US\$000	Total US\$000
<b>Consolidated - 30 June 2008</b>			
<b>Cost</b>			
Balance at 1 January 2008	629	536	1,165
Additions	-	323	323
Cost carried forward	<u>629</u>	<u>859</u>	<u>1,488</u>
<b>Depreciation</b>			
Balance at 1 January 2008	247	448	695
Charge for the year	2	17	19
Depreciation Carried forward	<u>249</u>	<u>465</u>	<u>714</u>
<b>Net Book Value at 30 June 2008</b>	<u>380</u>	<u>394</u>	<u>774</u>
<b>Consolidated - 31 December 2007</b>			
<b>Cost</b>			
Balance at 1 January 2007	4,112	17,228	21,340
Additions	3	245	248
Disposals	(3,486)	(16,937)	(20,423)
Cost carried forward	<u>629</u>	<u>536</u>	<u>1,165</u>
<b>Depreciation</b>			
Balance at 1 January 2007	270	2,404	2,674
Charge for the year	295	1,851	2,146
Impairment loss	1,367	5,650	7,017
Reversal of impairment loss	(1,241)	(4,972)	(6,213)
Disposals	(444)	(4,485)	(4,929)
Depreciation Carried forward	<u>247</u>	<u>448</u>	<u>695</u>
<b>Net Book Value at 31 December 2007</b>	<u>382</u>	<u>88</u>	<u>470</u>

#### 4. EXPLORATION & EVALUATION EXPENDITURE

	Ramu US\$000	Kainantu US\$000	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2008	-	-	10,000	-	10,000
Capitalised during the period	-	-	-	160	160
Less provisions for exploration costs	-	-	-	(160)	(160)
<b>Balance 30 June 2008</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>10,000</b>
Balance 1 January 2007	16,000	1,595	10,000	-	27,595
Capitalised during the period	40	111	8	88	247
Less amortisation of exploration costs	-	(39)	-	-	(39)
Less transfer to development expenditure	(16,000)	-	-	-	(16,000)
Less provisions for exploration costs	(40)	-	(8)	(88)	(136)
Impairment loss	-	(1,608)	-	-	(1,608)
Reversal of impairment loss	-	1,549	-	-	1,549
Less disposal of exploration costs	-	(1,608)	-	-	(1,608)
<b>Balance 31 December 2007</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>10,000</b>

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

## 5. INVESTMENT IN RAMU PROJECT

	Consolidated	
	2008 US\$000	2007 US\$000
<b>Ramu</b>		
Balance brought forward	50,000	-
Transferred from Exploration & Evaluation Expenditure	-	16,000
Reversal of impairment of non-current assets	-	34,000
<b>Balance carried forward</b>	<b>50,000</b>	<b>50,000</b>

The carrying value of the Group's interest in the Ramu project was increased during the 2007 year due to the project commencing development in 2007. Official financing for the project was announced in July 2008 and commissioning of the project is expected in late 2009. In assessing the carrying value of the Ramu project, the Directors have considered its value by reference to the present value of the future cash flows, at a risk adjusted equity discount rate (20%), to be generated by these assets assuming their ultimate successful development and their potential current realisable value by reference to comparable transactions and farm-in arrangements.

## 6. SHARE CAPITAL

(a) Paid Up Capital	June 2008 US\$000	December 2007 US\$000	June 2008 Shares 000's	December 2007 Shares 000's
	Balance brought forward	274,553	254,895	650,822
Issued during the period	200	20,000	1,580	86,052
Less costs associated with issue	-	(342)	-	-
<b>Balance carried forward</b>	<b>274,753</b>	<b>274,553</b>	<b>652,402</b>	<b>650,822</b>

The total number of shares issued as at 30 June 2008 was 652,402,148. 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. SUBSEQUENT EVENTS

### *Kainantu Sale – Barrick Gold Corporation*

As part of the Kainantu sale to Barrick Gold Corporation in December 2007, two exploration licences were yet to be transferred as at 30 June 2008.

In May 2008 Highlands received US\$4 million from Barrick Gold Corporation (“Barrick”) which was for EL 1399. When this money was received the executed documents had not been received from the PNG Department of Mines and therefore the amount is carried in the accounts as a liability and the cash is being held by Highlands as proceeds in advance. In August 2008 the transfer of EL 1399 was executed. A profit of US\$4 million will be recognised in the second half of the year on the sale of EL 1399.

It is also expected that the second licence, EL 1277, will be transferred in the second half of the 2008 year and when this occurs the Group will receive an additional US\$3 million.

### *Ramu Financial Close*

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

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

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.

In July 2008 it was announced that financing for the US\$1.37 billion Ramu nickel cobalt project had been completed. As a result of the achievement of financial close, in August 2008 Highlands received US\$500,000 from OilSearch Limited (on behalf of Orogen Minerals Ramu Limited – Nord Australex Nominees (PNG) Limited) and paid AU\$1.5 million (~US\$1.33 million) to Eastern Pacific Mines Limited.

### *Bayview Apartment*

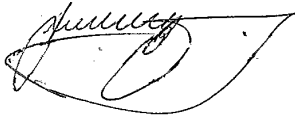
In July 2008 an apartment in Port Moresby PNG, carried in the accounts at USD315,000 has since been sold for Kina 1.8 million (~US\$696,000). Settlement is expected to occur in September 2008.

## DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 3 to 13 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 2008 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.



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**JOHN GOODING  
MANAGING DIRECTOR**

5 September 2008

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 2008, 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 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 the International Financial Reporting Standards (including the Interpretations of the International Financial Reporting Interpretations Committee) and the Australian Securities 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 International Standard on Review Engagements ISRE 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 2008 and its performance for the half-year ended on that date; and complying with International Accounting Standard IAS 34 *Interim Financial Reporting* and the ASX Listing Rules. As the auditor of Highlands Pacific Limited, ISRE 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 on 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.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

**Review Report (continued)**

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 CPA Papua New Guinea and the 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 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard IAS 34 *Interim Financial Reporting*.



PricewaterhouseCoopers



Stephen Beach  
Partner

Lae  
5 September 2008