



16 March, 2010

2009 Financial Statements

NPAT of US \$1.1 million (2008: US\$12.3 million)

Cash at Bank US\$23 million (approximately AU\$26 million).

Highlands Pacific Limited has today released the audited financial statements for the Group for the year ended 31 December 2009.

The Company has recorded a profit of US\$1.1 million (2008: US\$12.3m) and increased its cash reserves to more than US\$23 million (2008: US\$20m). Key features of the result include:

- A gain of US\$1.3 million on disposal of surplus properties in Madang, PNG. The properties consisted of 6 residential houses and an office complex. The houses were used in recent times as accommodation for the Kainantu project which was sold in December 2007 and the office was used as the initial admin office for the Ramu project prior to the finalisation of the permanent office complex.;
- A gain of US\$3 million on disposal of Exploration Licence 1277. The Exploration Licence was part of the sale to Barrick Gold Corporation in December 2007 and was delayed due to administrative issues with the renewal and transfer process;
- A foreign exchange gain of US\$2.0 million due to the appreciation in the Australian Dollar against the US Dollar. The Company holds approximately half of its cash reserves in Australian Dollars and these are re-valued to US Dollars for reporting purposes; and
- Exploration, evaluation and development expenditure of US\$1.0 million provided for expenditure on the Wau program and ownership costs for the Company's interest in the Ramu nickel cobalt project and the Frieda copper gold project.

Highlands Pacific Managing Director Mr John Gooding said today; "Whilst the past year has caused significant financial distress to many companies, the 2009 accounts show Highlands in a robust shape. In 2009 our two major projects the Frieda copper gold project and the US\$1.4bn Ramu nickel cobalt project came firmly into view.

On the Frieda copper gold project, Highlands enjoyed a free carried interest with Xstrata investing almost US\$40 million during 2009 on exploration and pre-feasibility study work. Highlands also enjoyed a carried interest on Ramu whilst our partners, Ramu NiCo Management (MCC) Limited a subsidiary of Metallurgical Corporation of China Limited, completed the majority of construction in preparation for commissioning. With such a sound financial position, Highlands has also looked to the next generation of project opportunities and committed to sole fund an initial US\$3million exploration programme at its very promising Nong River / Tifalmin prospects close to Ok Tedi.

The year ahead promises to be an exciting time with the commissioning of Ramu, the delivery of a pre-feasibility study for Frieda in about six months time, and exploration results from Nong."



ASX Code: HIG
PoMSox Code: HIG
Shares on Issue: 662 million
Options on Issue: 93 million

Market Capitalisation **A\$180m**
Cash on Hand (31/12/09) **A\$26m**

Directors

Ken MacDonald, *Chairman*
John Gooding, *Managing Director*
Mike Carroll
Rod Mitchell
Drew Simonsen
Fiu Williame-Igara

Management

Craig Lennon, *CFO & Co.Sec*
Larry Queen, *Chief Geologist*
Terry Smith, *GM Mining & BD*
Peter Jolly, *GM Projects*

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About Highlands Pacific Limited

Highlands Pacific is listed on the ASX and PoMSox exchanges. Its major development assets include the US\$1.37bn Ramu nickel cobalt project, the Frieda River copper gold project and exploration on the highly prospective Nong River and Tifalmin licenses approximately 20km north of Ok Tedi. Highlands also holds exploration ground in the Wau/Bulolo close to the new Hidden Valley and Wafi gold projects.

Frieda Copper/Gold Project

The Frieda copper project is one of the world's largest undeveloped copper/gold resources. Frieda River is 170 kms NW of the giant Porgera gold mine. The project owners are Xstrata (76.30%), Highlands (16.95%) and OMRD (6.75%). Highlands has a free-carried interest through to completion of a bankable feasibility study (required by Jan 2012). Xstrata's spend for Frieda in 2009 was US\$38m and in 2010 will be US\$77.5m. A extended scoping study released in early 2009 indicated a 40Mtpa plant with a 27 year mine life averaging 200,000 tpa of copper metal and 260,000 ozpa of gold. The pre-feasibility study due in the third quarter of 2010 is currently considering larger throughput and production options. Subject to the project continuing to meet its project hurdles, a 12-month feasibility study would commence in 3Q 2010 with possible construction in 2012 and production in 2017.

Ramu Nickel Cobalt Project

The Ramu nickel project is located 75 km west of the provincial capital of Madang, PNG and will produce an annual output of 31,150 tonnes of nickel and 3,300 tonnes of cobalt contained in high grade concentrate over a 20 year mine life. The mineral resources at Ramu have the potential to increase the mine life by a further 15-20 years. Highlands 8.56% interest in the Ramu will increase to 11.3% at no cost after repayment of the project debt (estimated to be 8 years). From commissioning, Highlands has access to its pro-rata 8.56% share of Ramu's post-debt servicing net cash flow. Highlands also has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%. Progressive commissioning commenced late in the December quarter 2009 and is expected to continue through to June quarter 2010. Production is expected to commence in mid 2010 with a staged ramp up through the December quarter 2010



HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

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STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2009

	Notes	Consolidated		Holding Company	
		2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Finance Income	2	523	961	-	-
Other revenue	2	26	147	-	-
Total Operating Income		549	1,108	-	-
General and administrative costs		4,517	3,707	-	-
Exploration and development costs		1,041	2,356	-	-
Depreciation and amortisation		79	55	-	-
Net foreign exchange (gains) / losses	24(c)	(1,981)	3,720	-	-
Total Operating Costs	3	3,656	9,838	-	-
Loss from operations		(3,107)	(8,730)	-	-
Impairment of subsidiary advances	13	-	-	(1,589)	57,228
Gain on sale of non-current assets	4	4,280	4,451	-	-
Reversal of impairment of non-current assets	10	-	15,000	-	-
Profit (Loss) before income tax		1,173	10,721	(1,589)	57,228
Income tax expense	5	(68)	(38)	-	-
Profit (Loss) from continuing operations after income tax		1,105	10,683	(1,589)	57,228
Profit from discontinued operations after income tax	27	-	1,636	-	-
Profit (Loss) for the period		1,105	12,319	(1,589)	57,228
Other comprehensive income:					
Exchange differences on translating foreign operations	17	298	-	-	-
Other comprehensive income for the period		298	-	-	-
Total comprehensive income for the period		1,403	12,319	(1,589)	57,228
Basic earnings per share					
From continued operations	6	US\$0.0017	US\$0.0164		
From discontinued operations	6	US\$0.0000	US\$0.0025		
		<u>US\$0.0017</u>	<u>US\$0.0189</u>		
Diluted earnings per share					
From continued operations	6	US\$0.0017	US\$0.0143		
From discontinued operations	6	US\$0.0000	US\$0.0022		
		<u>US\$0.0017</u>	<u>US\$0.0165</u>		

These statements of comprehensive income are to be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 31 December 2009

	Notes	Share Capital US\$000	Reserves US\$000	Retained Earnings US\$000	Total US\$000
CONSOLIDATED					
Year Ended 31 December 2009					
Balance as at 1 January 2009		274,753	(8,875)	(170,615)	95,263
Net profit (loss)		-	-	1,105	1,105
Other comprehensive income for the year	17	-	298	-	298
Issue of share based payments	25	-	124	-	124
Issue of share capital	16	1,463	-	-	1,463
Balance as at 31 December 2009		276,216	(8,453)	(169,510)	98,253
Year Ended 31 December 2008					
Balance as at 1 January 2008		274,553	(9,037)	(182,934)	82,582
Net profit (loss)		-	-	12,319	12,319
Issue of share based payments	25	-	162	-	162
Issue of share capital	16	200	-	-	200
Balance as at 31 December 2008		274,753	(8,875)	(170,615)	95,263
HOLDING COMPANY					
Year Ended 31 December 2009					
Balance as at 1 January 2009		274,753	(4,880)	(212,277)	57,596
Net profit (loss)		-	-	(1,589)	(1,589)
Issue of share based payments	25	-	124	-	124
Issue of share capital	16	1,463	-	-	1,463
Balance as at 31 December 2009		276,216	(4,756)	(213,866)	57,594
Year Ended 31 December 2008					
Balance as at 1 January 2008		274,553	(5,042)	(269,505)	6
Net profit (loss)		-	-	57,228	57,228
Issue of share based payments	25	-	162	-	162
Issue of share capital	16	200	-	-	200
Balance as at 31 December 2008		274,753	(4,880)	(212,277)	57,596

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2009

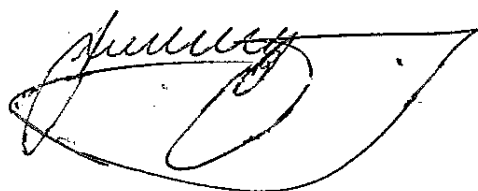
	Notes	Consolidated		Holding Company	
		2009	2008	2009	2008
		US\$000	US\$000	US\$000	US\$000
CURRENT ASSETS					
Cash and cash equivalents	7	23,689	20,267	-	-
Receivables	8	182	335	-	-
		<u>23,871</u>	<u>20,602</u>	-	-
NON-CURRENT ASSETS					
Property, plant and equipment	9	428	466	-	-
Exploration & evaluation expenditure	10	25,000	25,000	-	-
Development expenditure	11	50,000	50,000	-	-
Investment in subsidiaries	12	-	-	-	-
Advance to subsidiaries	13	-	-	57,599	57,599
		<u>75,428</u>	<u>75,466</u>	<u>57,599</u>	<u>57,599</u>
TOTAL ASSETS		<u>99,299</u>	<u>96,068</u>	<u>57,599</u>	<u>57,599</u>
CURRENT LIABILITIES					
Trade and other payables	14	823	676	2	-
Provisions	15	117	85	-	-
Provision for income tax		94	40	-	-
		<u>1,034</u>	<u>801</u>	<u>2</u>	<u>-</u>
NON-CURRENT LIABILITIES					
Provisions	15	12	4	-	-
Advances from subsidiaries	13	-	-	3	3
		<u>12</u>	<u>4</u>	<u>3</u>	<u>3</u>
TOTAL LIABILITIES		<u>1,046</u>	<u>805</u>	<u>5</u>	<u>3</u>
NET ASSETS		<u>98,253</u>	<u>95,263</u>	<u>57,594</u>	<u>57,596</u>
SHAREHOLDERS' EQUITY					
Contributed equity	16	276,216	274,753	276,216	274,753
Reserves	17	(8,453)	(8,875)	(4,756)	(4,880)
Retained earnings (losses)		(169,510)	(170,615)	(213,866)	(212,277)
TOTAL SHAREHOLDERS' EQUITY		<u>98,253</u>	<u>95,263</u>	<u>57,594</u>	<u>57,596</u>

For, and on behalf of, the board



Ken MacDonald
Chairman

15 March 2010



John E. Gooding
Managing Director

These statements of financial position are to be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2009

	Notes	Consolidated		Holding Company	
		2009	2008	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES		US\$000	US\$000	US\$000	US\$000
Receipt from gold sales (net of hedge payments)		-	6,625	-	-
Receipt from other operations		26	148	-	-
Interest from investments		550	831	-	-
Income tax paid		(14)	(9)	-	-
Payments to suppliers and employees		(3,780)	(6,343)	2	-
Net cash used in operating activities		(3,218)	1,252	2	-
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		1,338	816	-	-
Proceeds from sale of exploration licences		3,000	4,000	-	-
Advance from (to) subsidiaries		-	-	(1,465)	(200)
Purchase of property, plant and equipment		(101)	(384)	-	-
Exploration, evaluation and development		(1,041)	(2,387)	-	-
Net cash used in investing activities		3,196	2,045	(1,465)	(200)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		1,484	200	1,484	200
Costs associated with Issue		(21)	-	(21)	-
Net cash from financing activities		1,463	200	1,463	200
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,441	3,497	-	-
Add cash brought forward		20,267	20,500	-	-
Effect of exchange rate change on cash and cash equivalents		1,981	(3,730)	-	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD		23,689	20,267	-	-
CASH COMPRISES					
Cash and cash equivalents	7	23,689	20,267	-	-

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

STATEMENTS OF CASH FLOWS (Continued)

For the Year Ended 31 December 2009

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

	Notes	Consolidated		Holding Company	
		2009	2008	2009	2008
		US\$000	US\$000	US\$000	US\$000
Reported Net Profit (Loss) after Taxation		1,105	12,319	(1,589)	57,228
<i>Add (less) non-cash items:</i>					
Depreciation and amortisation		79	55	-	-
Provision for exploration, evaluation and development costs		1,041	2,356	-	-
Impairment of subsidiary advances		-	-	1,589	(57,228)
Net (gain) on write-off of payable		-	(300)	-	-
Income tax expense		68	38	-	-
Fair value of share based payments		124	161	-	-
(Profit) loss on sale of property, plant & equipment		(4,280)	(4,451)	-	-
Reversal of impairment of non-current assets		-	(15,000)	-	-
Net (gain) loss on foreign currency balances		(1,981)	3,730	-	-
		(4,949)	(13,411)	1,589	(57,228)
<i>Add (less) movements in working capital items:</i>					
(Increase) decrease in debtors and prepayments		155	616	-	-
(Increase) decrease in inventories		-	4,308	-	-
Increase (decrease) in creditors and provisions		471	(2,580)	2	-
		626	2,344	2	-
Net Cash Flow from Operating Activities		(3,218)	1,252	2	-

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 11 March 2010. The Company has the power to amend and revise the financial report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are presented in accordance with the Papua New Guinea Companies Act 1997, and comply with applicable financial reporting standards and other mandatory professional reporting requirements approved for use in PNG by the Accounting Standards Board ("ASB"). These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which have been adopted by the ASB as the applicable financial reporting framework.

The preparation of financial statements in accordance with IFRSs requires a use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in policy note 1(s).

Historical cost convention

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Highlands Pacific Limited ("Company") as at 31 December 2009 and the results of all subsidiaries for the year then ended. Highlands Pacific Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

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

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

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

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

Joint ventures - Jointly controlled assets

Where there is joint control in a joint venture the proportionate interests in the assets, liabilities and expenses of the joint venture activity are incorporated in the financial statements under the appropriate headings. Where there is no joint control the interest is accounted for on an investment basis until such time as joint control exists. Details of the joint ventures are set out in note 19.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Group operates predominately in the exploration, evaluation and development industry in Papua New Guinea.

(d) Foreign currency translation

Functional and presentation currency

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

Transaction and balances

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

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

Group companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholders' equity.

(e) Revenue recognition

Sales of concentrate are recognised as revenue only when there has been a passing of title and risk to the customer, and:

- (i) the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the Group;
- (ii) the quantity and quality (grade) of the product can be determined with reasonable accuracy;
- (iii) the product has been dispatched to the customer and is no longer under the physical control of the Group (or property in the product has earlier passed to the customer);
- (iv) the selling price can be measured reliably;
- (v) it is probable that the economic benefits associated with the transaction will flow to the Group; and
- (vi) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales revenue represents the gross proceeds receivable from the customer.

Interest income is recognised on a time proportion basis using the effective interest rate method.

(f) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (refer note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of six months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(i) Receivables

Other receivables are recognised at original amount receivable less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(j) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short-term nature.

(k) Property, Plant and Equipment

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

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

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

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

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

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

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

(l) Exploration, evaluation and development expenditure

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

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

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

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

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

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

(m) Impairment of long life assets

Property, plant and equipment and other non-current assets, including investments in mine development joint ventures and exploration joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or a previous impairment needs to be reversed. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount and an impairment reversal is recognised for the amount which the carrying amount of the assets is below the recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(o) Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. The discount rate used to determine

the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(p) Employee benefits

Wages and salaries, annual leave and sick leave

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

Long service leave

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

Retirement benefit obligations

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

Share-based payments

Share-based compensation benefits are provided to employees via the Executive Option Scheme. Information relating to this scheme is set out in note 25.

The fair value of the options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at a grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model or Monte Carlo simulations that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(q) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown as equity as a deduction, net of tax, from the proceeds.

(r) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding the costs of servicing equity holders other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Critical accounting judgements, estimates and assumptions

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

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

Carrying value of exploration, evaluation and development expenditure

The Group tests annually whether the carrying value of long life assets, such as investments in exploration and evaluation expenditure, development expenditure, and property, plant and equipment, have suffered any impairment. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, operating costs, capital costs and production rates. The impairment testing for the current year has been based on – in the case of the Ramu project, a discount rate of 10%, proved and probable reserves, long term nickel prices of US\$7.00/lb and cobalt prices of US\$22.00/lb, and operating costs consistent with these price assumptions; in the case of the Frieda project, a discount rate of 12%, long term copper prices of US\$2.20/lb and gold prices of US\$800/oz, estimated future capital requirements, and operating costs consistent with these price assumptions.

(t) **New accounting standards**

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2009 period. The Consolidated Entity's assessment of the impact of these new standards and interpretations on the financial report is set out below.

IFRS 2 – Share-based Payment

Summary – Amendment relating to group cash settled share-based payments

Application date of standard – 1 January 2010

Impact on Consolidated Entity's financial report – The Consolidated Entity has share-based payment transactions that may be affected by these amendments. The Consolidated Entity has yet to determine the extent of the impact, if any.

Application date for the Consolidated Entity – 1 January 2010

IFRS 3 – Business Combinations

Summary – Comprehensive revision on applying the acquisition method

Application date of standard – 1 July 2009

Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.

Application date for the Consolidated Entity – 1 January 2010

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Summary – Amendments for disclosure in respect of non-current assets classified as held for sale or discontinued operations

Application date of standard – 1 January 2010

Impact on Consolidated Entity's financial report – IFRS 5 is a disclosure standard so will have no direct impact on the amounts disclosed in the Consolidated Entity's financial statements.

Application date for the Consolidated Entity – 1 January 2010

IFRS 7 - Financial Instruments: Disclosures

Summary – Amendments for disclosure of eligible hedged items

Application date of standard – 1 July 2009

Impact on Consolidated Entity's financial report – IFRS 7 is a disclosure standard so will have no direct impact on the amounts disclosed in the Consolidated Entity's financial statements.

Application date for the Consolidated Entity – 1 January 2010

IFRS 9 - Financial Instruments

Summary – Amendments for classification and measurement of financial assets only

Application date of standard – 1 January 2013

Impact on Consolidated Entity's financial report – IFRS 9 is a measurement standard so will have no direct impact on the amounts disclosed in the Consolidated Entity's financial statements.

Application date for the Consolidated Entity – 1 January 2013

IAS27 – Consolidated and Separate Financial Statements

Summary – Consequential amendments arising from amendments to IFRS 3

Application date of standard – 1 July 2009

Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.

Application date for the Consolidated Entity – 1 January 2010

IAS28 – Investments in Associates

Summary – Consequential amendments arising from amendments to IFRS 3

Application date of standard – 1 July 2009

Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.

Application date for the Consolidated Entity – 1 January 2010

IAS31 – Interests in Joint Ventures

Summary – Consequential amendments arising from amendments to IFRS 3

Application date of standard – 1 July 2009

Impact on Consolidated Entity's financial report – This amendment will impact the accounting for future business combinations effected after adoption of the revised accounting standard.

Application date for the Consolidated Entity – 1 January 2010

Amendments to IFRS - Various

Summary – Improvements to International Financial Reporting Standards

Application date of standard – 1 July 2010

Impact on Consolidated Entity's financial report – The Consolidated Entity has not yet determined the extent of the impact of these amendments, if any.

Application date for the Consolidated Entity – 1 July 2010

(u) Rounding

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

2. REVENUE

	Consolidated		Holding Company	
	2009	2008	2009	2008
	US\$000	US\$000	US\$000	US\$000
Finance Income				
Interest income	523	961	-	-
Other Income				
Rental income	13	147	-	-
Other Income	13	-	-	-
	26	147	-	-

3. EXPENSES

	Notes	Consolidated		Holding Company	
		2009	2008	2009	2008
		US\$000	US\$000	US\$000	US\$000
Total operating costs		3,656	9,838	-	-
Operating costs are stated after charging:					
Salaries and employee benefits		2,092	1,892	-	-
Office costs		770	450	-	-
Consultants costs		717	414	-	-
Non-executive Director fees and benefits		302	351	-	-
Corporate affairs and public relations costs		159	112	-	-
Company secretarial and public listing costs		226	160	-	-
Travel and accommodation costs		108	151	-	-
Auditors' remuneration					
- audit		51	94	-	-
- other services		92	83	-	-
Depreciation					
- land and buildings		19	11	-	-
- plant and equipment		60	44	-	-
Exploration and development costs	10/11	1,041	2,356	-	-
Net foreign exchange (gains) losses		(1,981)	3,720	-	-

The average number of people employed by the Group during the year was 18 (2008: 30). The Holding Company does not have any direct employees.

4. GAIN ON SALE OF NON-CURRENT ASSETS

	Consolidated		Holding Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Total gain on sale of non-current assets	4,280	4,451	-	-
Gain on sale of non-current assets include:				
Exploration licences	3,000	3,968	-	-
Other non-current assets	1,280	483	-	-

2009

Exploration licence EL1277 was transferred and funds of US\$3 million were received from Barrick Gold Corporation in April 2009 as per the sale conditions signed with Barrick in December 2007. In May 2009 six surplus properties in Madang, PNG, with a net book value of US\$51,000 were sold and settled for PGK3 million (US\$1.014million) and in June 2009 a surplus office complex in Madang, PNG which was full written down, was sold for PGK1.067 million (US\$319,000) with settlement taking place on the 28th July 2009.

2008

Exploration licence EL1399 was transferred and funds of US\$4 million (book value of US\$32,000) were received from Barrick. An apartment located in Port Moresby, PNG which was surplus to the Group's requirements was also disposed of during the 2008 year.

5. INCOME TAX

	Consolidated		Holding Company	
	2009	2008	2009	2008
Reconciliation of income tax expense to prima facie tax expense	US\$000	US\$000	US\$000	US\$000
Profit (Loss) from continuing operations before tax	1,173	10,721	(1,589)	57,228
Profit from discontinuing operations before tax	-	1,636	-	-
Profit (Loss) before income tax expense for the year	1,173	12,357	(1,589)	57,228
Income tax benefit on the loss for the year at an average of 30% (2008: 30%)	352	3,707	(477)	17,168
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Provision for doubtful debts	-	-	477	(17,168)
Reversal of Impairment	-	(4,500)	-	-
Capital gain on disposal	(1,219)	(1,223)	-	-
Sundry items	34	248	-	-
	(833)	(1,769)	-	-
Deferred tax asset not brought to account	901	1,807	-	-
Income tax expense	68	38	-	-
Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	149,313	148,871	-	-
Potential tax benefit @ 30%	44,794	44,661	-	-
Other deferred tax assets not recognised				
<i>Amounts recognised in profit and loss</i>				
Exploration costs	66,387	66,205	-	-
Unrealised foreign exchange gains (losses)	172	172	172	172
Provision for employee entitlements	288	(170)	-	-
	66,847	66,207	172	172
Set off against deferred tax liabilities (below)	(1,891)	233	-	-
Net deferred tax assets not recognised	64,955	66,440	172	172
Potential tax benefit @ 30%	19,487	19,932	52	52
Deferred tax liabilities				
<i>Amounts recognised in profit and loss</i>				
Unrealised foreign exchange gains (losses)	(1,789)	161	-	-
Sundry items	(102)	72	-	-
	(1,891)	233	-	-
Set-off deferred tax assets associated with carried forward losses and other deferred tax assets not recognised	1,891	(233)	-	-
Net deferred tax liability	-	-	-	-

The benefits for tax losses will only be obtained if:

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

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

6. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. The diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Basic earnings per share	2009	2008
Weighted average number of ordinary shares on issue (000)	654,627	651,724
Profit attributable to ordinary equity holders of the company used to calculate basic earnings per share		
- From continuing operations	1,105	10,683
Basic earnings per share (US\$)	0.0017	0.0164
- From discontinuing operations	-	1,636
Basic earnings per share (US\$)	0.0000	0.0025
Diluted earnings per share		
Weighted average number of ordinary shares on issue (000)	654,627	651,724
Adjustments for calculation of diluted earnings per share		
- Options	3,965	96,981
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	658,592	748,705
Profit attributable to ordinary equity holders of the company used to calculate diluted earnings per share		
- From continuing operations	1,105	10,683
Basic earnings per share (US\$)	0.0017	0.0143
- From discontinuing operations	-	1,636
Basic earnings per share (US\$)	0.0000	0.0022

Options granted to employees are considered to be potential ordinary shares and have been included to the extent they are dilutive in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to options are set out in note 16(c).

7. CASH AND CASH EQUIVALENTS

	Consolidated		Holding Company	
	2009	2008	2009	2008
	US\$000	US\$000	US\$000	US\$000
Cash at bank and in hand	1,147	2,827	-	-
Short-term bank deposits	22,542	17,440	-	-
	23,689	20,267	-	-

a) Reconciliation to cash at the end of the year

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

b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 24(c).

8. RECEIVABLES

	Consolidated		Holding Company	
	2009	2008	2009	2008
	US\$000	US\$000	US\$000	US\$000
Current				
Other receivables *	682	835	-	-
Less: Impairment **	(500)	(500)	-	-
	182	335	-	-

For further information on the impairment of other receivables refer note 24(a).

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

** An impairment for US\$500K was raised in 1999 against this tranche.

9. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings US\$000	Plant & Equip't US\$000	Total US\$000
CONSOLIDATED - 2009			
Cost			
Cost brought forward	507	293	800
Additions	-	101	101
Disposals	(287)	(59)	(346)
Cost carried forward	220	335	555
Depreciation			
Brought forward	238	96	334
Charge for the year	19	60	79
Disposals	(232)	(54)	(286)
Depreciation carried forward	25	102	127
Net book value at 31 December 2009	195	233	428
CONSOLIDATED - 2008			
Cost			
Cost brought forward	629	536	1,165
Additions	219	165	384
Disposals	(341)	(408)	(749)
Cost carried forward	507	293	800
Depreciation			
Brought forward	247	448	695
Charge for the year	11	44	55
Disposals	(20)	(396)	(416)
Depreciation carried forward	238	96	334
Net book value at 31 December 2008	269	197	466

There is no property, plant and equipment held by the Company.

10. EXPLORATION & EVALUATION EXPENDITURE

	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2009	25,000	-	25,000
Capitalised during the year	54	512	566
Less provisions for exploration costs	(54)	(512)	(566)
Balance 31 December 2009	25,000	-	25,000
Balance 1 January 2008	10,000	-	10,000
Capitalised during the year	15	1,269	1,284
Less provisions for exploration costs	(15)	(1,237)	(1,252)
Reversal of impairment loss	15,000	-	15,000
Less disposal of exploration costs	-	(32)	(32)
Balance 31 December 2008	25,000	-	25,000

The carrying value of the Group's interest in the Frieda project has been maintained at US\$25 million as the project is progressing through its pre feasibility study.

During the 2008 year an extended scoping study was completed and the manager / operator, who is required to complete a bankable feasibility study on the project by January 2012 or relinquish their share in the project back to the Group, announced in early 2009 that they would be advancing the project to an 18 month pre-feasibility study. If the project passed the hurdles during this stage it would then progress to a feasibility study. It was due to this increase in confidence in the project progressing towards development that led to the reversal of the impairment during the 2008 year by US\$15 million.

In assessing the carrying value of the Frieda project, the Directors have considered the value by reference to the present value of the future cash flows at a weighted average cost of capital of 12% to be generated by the asset assuming its ultimate successful development and potential current realisable value by reference to comparable transactions and farm-in arrangements. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for copper of US\$2.20/lb and gold US\$800/oz. Sensitivities have been applied to all critical assumptions with the resulting range of values comparing favorable with the carrying value.

As the Group is free carried up to the completion of the bankable feasibility study by the operator / manager by January 2012 this has also been taken into consideration. The project manager has expended US\$80 million to date and has budgeted expenditure of US\$78 million for the 2010 year, the Group's share being fully funded by the operator / manager and it is expected that this level of expenditure would increase further during the bankable feasibility study. It is expected that as the project continues to advance towards development that the carrying value will be assessed further.

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

11. DEVELOPMENT EXPENDITURE

	Consolidated		Holding Company	
	2009	2008	2009	2008
	US\$000	US\$000	US\$000	US\$000
Ramu				
Balance brought forward	50,000	50,000	-	-
Capitalised during the year	475	1,104	-	-
Less provisions for development costs	(475)	(1,104)	-	-
Balance carried forward	50,000	50,000	-	-

The amount capitalised during the year represents holding costs in relation to Highlands' investment in the Ramu project.

The carrying value of the Group's interest in the Ramu project has been maintained at US\$50 million. Early in the 2008 year the project announced that debt financing was completed and that the project was fully funded and construction officially started. Construction has continued through 2009 with commissioning commencing late in 2009 and this will continue through the 2010 year when production will commence.

In assessing the carrying value of the Ramu project, the Directors have considered the value by reference to the present value of the future cash flows at a risk adjusted equity discount rate of 10% to be generated by the asset assuming its ultimate successful development and potential current realisable value by reference to comparable transactions and farm-in arrangements. Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for nickel of US\$7.00/lb and cobalt US\$22.00/lb. Sensitivities have been applied to all critical assumptions with the resulting range of values comparing favorable with the carrying value. A 10% movement in the price assumptions for nickel results in a movement in the present value of future cash flows of US\$25 million while for cobalt it results in a movement of US\$7 million.

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

12. INVESTMENTS IN SUBSIDIARIES

	% Shareholding *	Class of Share	Country of Incorp
Ramu Nickel Limited	100	Ordinary	PNG
Highlands Frieda Limited	100	Ordinary	PNG
Highlands Pacific Resources Limited	100	Ordinary	PNG
Highlands Pacific Indonesia Limited [†]	100	Ordinary	PNG
Highlands Pacific Australia Pty Limited	100	Ordinary	Australia
Highlands Pacific Services Limited	100	Ordinary	PNG
Astrolabe Limited	100	Ordinary /	PNG
Highlands Kainantu Limited	100	Preference	PNG

* No change from the 2008 year.

INVESTMENTS AT COST

	Holding Company	
	2009 US\$000	2008 US\$000
Investments in subsidiaries - at cost	130,186	130,186
Less provision for diminution	(130,186)	(130,186)
	-	-

13. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Advances to subsidiaries				
Advances	-	-	144,522	142,933
Less provision for write-off	-	-	(86,923)	(85,334)
	-	-	57,599	57,599
Advances from subsidiaries				
Advances	-	-	3	3

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

14. TRADE AND OTHER CREDITORS

	Consolidated		Holding Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Trade creditors	99	132	-	-
Other creditors	587	138	-	-
Accruals	137	406	2	-
	823	676	2	-

Amounts not expected to be settled within the next 12 months

Other creditors include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months.

15. PROVISIONS

	Employee Entitlements US\$000	Employee Entitlements US\$000
	2009	2008
Opening Balance	89	93
Charged for the year	15	25
Foreign exchange impact	25	(28)
Utilised / paid during year	-	(1)
Closing Balance	129	89

	2009 US\$000	2008 US\$000
Analysis of total provisions:		
Current	117	85
Non-Current	12	4
	129	89

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

16. CONTRIBUTED EQUITY

a) Paid Up Capital – Consolidated and Holding Company

	2009 US\$000	2008 US\$000	2009 Shares 000's	2008 Shares 000's
Balance 1 January	274,753	274,553	652,402	650,822
Issued during the year	1,484	200	9,010	1,580
Less costs associated with issue	(21)	-	-	-
Balance 31 December	276,216	274,753	661,412	652,402

The total number of shares issued as at 31 December 2009 was 661,412,148 (2008: 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.

b) **Movement in paid up capital**

Date	Details	Notes	No. of Shares	Issue Price	
				AU\$	US\$000
1 January 2008	Opening Balance		650,821,941		274,553
5 June 2008	Issue of shares	(i)	1,580,207	0.14	200
31 December 2008	Balance		<u>652,402,148</u>		<u>274,753</u>
13 October 2009	Exercise of employee options	(iii)	175,000	0.078	12
14 October 2009	Exercise of employee options	(iii)	100,000	0.078	7
15 October 2009	Exercise of employee options	(iii)	325,000	0.078	22
26 October 2009	Exercise of banking facility options	(ii)	3,500,000	0.200	603
3 November 2009	Exercise of employee options	(iii)	200,000	0.175	30
9 November 2009	Exercise of banking facility options	(ii)	3,500,000	0.200	635
20 November 2009	Exercise of employee options	(iii)	400,000	0.175	63
11 December 2009	Exercise of employee options	(iii)	400,000	0.175	64
11 December 2009	Exercise of employee options	(iii)	60,000	0.078	4
14 December 2009	Exercise of employee options	(iii)	300,000	0.135	37
16 December 2009	Exercise of employee options	(iii)	50,000	0.135	7
	Transaction costs arising on share issues above				(21)
31 December 2009	Balance		<u>661,412,148</u>		<u>276,216</u>

- (i) Payment for settlement with respect to Kainantu Gold Mine Royalty Agreement with Nippon Mining & Metals Co. Ltd.
- (ii) Exercising of options issued to RMB International (Dublin) Limited as part of the banking syndicate to finance the Kainantu Gold Project. The options vested on issue and are exercisable anytime up to the expiry date and convert into one ordinary share.
- (iii) Exercising of options issued to Employees where when exercised convert into one ordinary share.

c) **Share Options**

The number of unissued ordinary shares under option at 31 December 2009 is 82,265,908 (2008: 98,160,391).

Options issued to the banking syndicate financing the Kainantu gold project

Tranche	Exercise price	No. of options		Expiry date	Exercised during current year
		issued			
Tranche 2	A\$0.20	21,000,000		21 August 2010	7,000,000

The options vested on issue and are exercisable anytime up to the expiry date

Options issued to investors as part of share placement in February 2007

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

The options vested on issue and are exercisable anytime up to the expiry date

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

	Exercise price	No. of options issued	Expiry date	Exercised during current year
Tranche 2	A\$0.4350	1,000,000	31 July 2010	-
Tranche 3a	A\$0.1750	2,500,000	19 July 2010	-
Tranche 3b	A\$0.1750	200,000	31 July 2011	-
Tranche 3c	A\$0.1546	10,000,000	21 May 2010	-
Tranche 4	A\$0.1750	3,800,000	12 December 2010	1,000,000
Tranche 5	A\$0.1350	3,390,000	28 February 2013	350,000
Tranche 6	A\$0.1300	2,000,000	19 July 2010	-
Tranche 7	A\$0.0780	3,360,000	29 January 2014	660,000
Tranche 8	A\$0.1170	1,000,000	26 June 2012	-

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

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

Information relating to the Highland Pacific Limited Executive Option Scheme, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is further set out in note 25.

17. RESERVES

	Consolidated		Holding Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Foreign Currency Translation Reserve				
Balance brought forward	(10,263)	(10,263)	(6,268)	(6,268)
Movement for the year	298	-	-	-
Balance carried forward	(9,965)	(10,263)	(6,268)	(6,268)
Share-based Payments Reserve				
Balance brought forward	1,388	1,226	1,388	1,226
Fair value of options expensed	124	162	124	162
Balance carried forward	1,512	1,388	1,512	1,388
	(8,453)	(8,875)	(4,756)	(4,880)

Nature and purpose of reserves

Foreign Currency Translation Reserve

Exchange difference arising on translation of the Groups functional currency from the Papua New Guinean Kina to US Dollar resulted in a foreign currency translation reserve in previous years.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency (US Dollar) are translated on consolidation and any exchange differences arising from the translation of any net investment in foreign entities are taken to the foreign currency translation reserve.

Share-based Payments Reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

18. REMUNERATION OF EMPLOYEES

The number of employees (not including Directors), whose remuneration and benefits exceeded PGK100,000 fall within the following bands:

US\$	PGK	Group No. of Employees	
		2009	2008
43,896 - 47,553	120,000 - 129,999	-	1
62,186 - 65,844	170,000 - 179,999	1	1
106,082 - 109,740	290,000 - 299,999	-	1
128,230 - 131,688	350,000 - 359,999	1	1
149,978 - 153,636	410,000 - 419,999	1	-
182,900 - 186,557	500,000 - 509,999	-	1
267,034 - 270,692	730,000 - 739,999	1	1
310,930 - 314,588	850,000 - 859,999	1	-
475,540 - 479,198	1,300,000 - 1,309,999	1	-
Total		6	6

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

The 2008 comparatives have been converted at the current year exchange rates to arrive at the equivalent US Dollar bands.

PGK1.00 = US\$0.3658

19. JOINT VENTURES

At 31 December 2009 joint venture interests comprised:

	Percentage Interest	Activity
Ramu joint venture (Note 1 below)	8.56	Development
Frieda River joint venture (Notes 2 & 3 below)	16.95	Exploration & Evaluation
Nong River joint venture (Notes 2 & 4 below)	100	Exploration & Evaluation

1. During the 2005 year the Group's interest in the Ramu joint venture decreased from 68.5% to 8.56%. This reduction was the result of the agreement signed between the previous Ramu joint venture parties and China Metallurgical Construction (Group) Corporation (MCC) whereby MCC is responsible for the construction of the project with no recourse to the other joint venture parties. The Group's 8.56% interest increases to 11.30% at no cost to the Group after the debt for the financing of the project has been repaid. At this time the Group also has the option to purchase an additional 9.25% interest at market value, which if exercised would take the Group's interest to 20.55%. The Group must give notice to MCC during the Mine Development and Operating Phase as to when it will participate in the project. At the time of notice the Group will then receive its share of revenue and be responsible for its share of operating costs and financing costs. Up until nomination MCC will fund the Group's share of the project operating costs and financing costs. Given at this point in the project the Group does not have joint control the interest is treated as an investment and not under joint venture accounting.
2. That the joint venture arrangements as stated are subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development in that country.
3. Xstrata Frieda River Limited "XFRL" (a subsidiary of Xstrata Plc.) has a 76.30% interest in the Greater Frieda area with Highlands having a 16.95% interest in the same. XFRL are yet to exercise an option they have over the Nena deposit, contained in the Frieda River joint venture and therefore Highland's interest remains at 93.25%. On exercise of the option on Nena, Xstrata will increase to 76.30% and Highlands decrease to 16.95%. Under this agreement where XFRL is earning its interest it must complete a bankable feasibility study by January 2012. If it fails to complete the bankable feasibility study by this date then its interest in the project will revert wholly back to the Group. As part of the agreement XFRL will fund the Group's share of expenditure up to the completion of the bankable feasibility study. Based on this arrangement the Group does not have joint control and the interest is treated as an investment and not under joint venture accounting.
4. The Group has a joint venture with XFRL where they have the ability to earn a 72% interest in the joint venture by producing a bankable feasibility study by the year 2019. During the 2009 year the Group exercised its right to sole fund its own exploration program and retain 100% of the joint venture in the absence of an XFRL exploration program. XFRL has the right to reclaim its 72% interest by paying the Group three (3) times the exploration expenditure incurred by the Group at the time the Group presents a pre feasibility study. There are no time deadlines on when the Group must produce a pre feasibility study to XFRL.

20. RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is Highlands Pacific Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 12.

(c) Key management personnel

Other than the directors who are included as key management personnel, those that also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the year are as follows:

<i>Name</i>	<i>Position</i>
C Lennon	Chief Financial Officer
L Queen	Chief Geologist
P Jolly	General Manager Projects
T Smith	General Manager Mining (from 22 June 2009 to 31 December 2009)

(d) Key management personnel compensation

	Consolidated		Holding Company	
	2009	2008	2009	2008
	US\$000	US\$000	US\$000	US\$000
Short-term employee benefits	2,283	1,630	-	-
Share based payments	117	155	-	-
	2,400	1,785	-	-

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

2009 Year

Name & Position	Cash	Short-term	Non-monetary	Superannuation	Share-based	Total
	Remuneration & Fees	Incentives	Benefits		Payments (Long-term Incentives)	
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
K MacDonald, <i>Chairman</i>	93	-	-	9	-	102
J Gooding, <i>Managing Director</i>	365	363	-	43	90	861
R Mitchell, <i>Non-Executive Director</i>	46	-	-	4	-	50
I Burvill, <i>Non-Executive Director</i>	46	-	-	4	-	50
M Carroll, <i>Non-Executive Director</i>	46	-	-	4	-	50
F Williame-Igara, <i>Non-Executive Director</i>	46	-	-	4	-	50
Total	642	363	-	68	90	1,163

- Directors fees are paid in AUD.
- 2008 Directors fees are significantly higher than 2009 Directors fees for Mr R Mitchell, Mr I Burvill and Ms F Williame-Igara due to Directors fees being suspended from 1 September 2007 to 31 December 2007 and back paid in the 2008 year along with their superannuation payments.
- Mr I Burvill resigned as a Director on 31 December 2009.

2008 Year

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

- Mr A Berry resigned as a Director on 20 May 2008.
- Mr R Bryan resigned as Chairman on 20 May 2008.
- Mr K MacDonald was appointed as a director on 1 February 2008 and as Chairman on 20 May 2008 .
- Mr M Carroll was appointed as a Director on 1 April 2008.

(e) Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options

Details of share-based payments are disclosed in note 25.

Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director and other key management personnel of the Group, including their personally related parties, are set out below.

2009 Year

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Highlands Pacific Limited						
J Gooding	12,000,000	2,000,000	(325,000)	-	13,675,000	8,675,000
Other key management personnel of the Group						
C Lennon	2,850,000	600,000	(175,000)	-	3,275,000	2,275,000
L Queen	1,100,000	300,000	-	-	1,400,000	1,150,000
P Jolly	2,000,000	300,000	-	-	2,300,000	1,300,000
T Smith	-	1,000,000	-	-	1,000,000	150,000

2008 Year

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

Mr Terrance Smith joined Highlands Pacific Group on 22 June 2009 and therefore is not disclosed in the 2008 year.

Share holdings

The number of shares in the Company held during the financial year by each director and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the year as compensation.

2009 Year

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Highlands Pacific Limited				
K MacDonald	600,048	-	-	600,048
M Carroll	304,307	-	-	304,307
J Gooding	547,963	325,000	(100,000)	772,963
Other Key Management Personnel of the Group				
C Lennon	148,000	175,000	(58,000)	265,000
L Queen	7,491	-	(7,491)	-
P Jolly	88,000	-	-	88,000

2008 Year

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

Mr A Berry retired as a Director on 20 May 2008, therefore his balance at the end of the year relates to this date.

Mr R Bryan retired as a Director on 20 May 2008, therefore his balance at the end of the year relates to this date.

(f) Loans to key management personnel

There are no loans between directors or other key management personnel and any of the Group companies.

(g) Other transactions with key management personnel

Mr R Mitchell is the Chief Executive Officer of the National Superannuation Fund Limited, which is a major shareholder in the Company (63,371,246 shares, 9.58% holding) and manages a retirement plan in which the Company participates within normal commercial terms.

(h) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Holding Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
<i>Superannuation contributions</i>				
Contributions to superannuation funds on behalf of employees	11	124	-	-

(i) Advances to / from related entities

	Consolidated		Holding Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
<i>Advances to / from subsidiaries</i>				
Beginning of the year	-	-	142,933	142,562
Movements during the year	-	-	1,589	371
End of year	-	-	144,522	142,933

Refer note 13 for provisions raised against these advances to subsidiaries.

21. SEGMENT REPORTING

a) **Description of Segments**

Management considers the business from a project classification perspective and has identified four reportable segments - Exploration/Evaluation, Frieda, Ramu and Corporate. Exploration/Evaluation, Frieda and Ramu consist of projects that are currently under Exploration/Evaluation or Development stages of their lives. Corporate consists of all other business activities performed at the offices held in both PNG and Brisbane.

b) **Reportable Segment Results**

The segment information provided to management for the reportable segments for the year ended 31 December 2009 is as follows:

Consolidated	Exploration / Evaluation US\$000	Frieda US\$000	Ramu US\$000	Corporate US\$000	Group US\$000
2009					
Segment revenue	-	-	-	549	549
Segment result	(512)	(54)	(475)	2,215	1,174
Income tax (expense) benefit	-	-	-	(68)	(68)
Net Profit / (Loss)	(512)	(54)	(475)	2,146	1,105
Segment assets	-	25,000	50,000	24,299	99,299
Segment liabilities	(1)	(22)	-	(1,023)	(1,046)
Acquisition of segment assets	512	54	475	101	1,142
Segment depreciation and amortisation	-	-	-	79	79
2008					
Segment revenue	-	-	-	2,465	2,465
Segment result	(71)	14,985	(1,104)	(1,453)	12,357
Income tax (expense) benefit	-	-	-	(38)	(38)
Net Profit/ (Loss)	(71)	14,985	(1,104)	(1,491)	12,319
Segment assets	-	25,000	50,000	21,068	96,068
Segment liabilities	-	-	-	(801)	(801)
Acquisition of segment assets	1,269	15	1,104	384	2,772
Segment depreciation and amortisation	-	-	-	55	55

22. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2009	2008	2009	2008
	US\$000	US\$000	US\$000	US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	232	179	-	-
One to two years	73	161	-	-
Two to five years	3	59	-	-
	308	399	-	-

23. CONTINGENT LIABILITIES

Contingent Liability

During 1999, Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu joint venture. The following contingent liability remains as a result of the acquisition:

- When the Ramu project commences commercial production, the payment of the PGK equivalent of AU\$0.25m (US\$0.22m) plus AU\$1.25m (US\$1.12m) which may be satisfied by payment in PGK (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.

Refer note 26 for events that have occurred after balance date in relation to the above matter.

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.

24. FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and commodity price risk). The Group's overall risk management program seeks to minimise the potential adverse effects arising from financial risks on the Group's financial performance. The Group may use a range of derivative financial instruments to manage risk exposure although at balance date there were no derivative instruments being used to manage financial risk exposure.

Risk management is carried out by the Managing Director and Chief Financial Officer under policies approved by the Board of Directors through the Audit Committee. Management identify, quantify, evaluate and where considered prudent, manage financial risks in accordance with established written policies.

(a) **Credit risk**

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding committed transactions.

In relation to banks and financial institutions only the major Australian banking institutions and international institutions with high credit ratings are used for the depositing of surplus funds.

The carrying amount of the Group's financial assets represent the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2009	2008
	US\$000	US\$000
Cash and cash equivalents	23,689	20,267
Other receivables	181	335
	<u>23,870</u>	<u>20,602</u>

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

	2009		2008	
	Gross US\$000	Impairment US\$000	Gross US\$000	Impairment US\$000
Not past due	181	-	335	-
More than a year	500	500	500	500
	<u>681</u>	<u>500</u>	<u>835</u>	<u>500</u>

The Group believes that no impairment is necessary in respect of other receivables not past due date as balances are monitored on a regular basis with the result that exposure to bad debts is insignificant.

(b) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to settle debts as and when they become due.

The following are the contractual maturities of financial liabilities:

Consolidated 31 December 2009	Total	6mths or less	6 - 12 mths	1 - years
	US\$000	US\$000	US\$000	US\$000
Non-derivative financial liabilities				
Trade and other creditors	823	823	-	-
	<u>823</u>	<u>823</u>	-	-
Consolidated 31 December 2008	Total	6mths or less	6 - 12 mths	1 - years
	US\$000	US\$000	US\$000	US\$000
Non-derivative financial liabilities				
Trade and other creditors	676	676	-	-
	<u>676</u>	<u>676</u>	-	-

(c) **Market risk**

Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group is exposed to currency risk on purchases and cash deposits that are denominated in non US Dollars. As a result of this exposure, during the 2009 year the Group received a gain of US\$1,981,000 as shown in the Income Statement and note 3. This has been as a result of the strengthening of the Australian Dollar to the US Dollar.

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

	Consolidated		Holding Company	
	2009	2008	2009	2008
	AU\$000	AU\$000	AU\$000	AU\$000
Cash and cash equivalents	13,153	12,576	-	-
Other receivables	145	13	-	-
Trade and other creditors	(656)	(93)	-	-
	12,642	12,496	-	-

	Consolidated		Holding Company	
	2009	2008	2009	2008
	PGK\$000	PGK\$000	PGK\$000	PGK\$000
Cash and cash equivalents	1,650	(12)	-	-
Other receivables	154	333	-	-
Trade and other creditors	(123)	(180)	7	-
	1,681	141	7	-

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2009	2008	2009	2008
	US\$000	US\$000	US\$000	US\$000
AUD	0.772	0.8698	0.8969	0.6928
PGK	0.3658	0.3728	0.3690	0.3735

A 10% strengthening / weakening of the Australian dollar and the Papua New Guinea Kina, with all other variables constant, would have affected before tax profit and equity by US\$1,196,000 (2008: US\$871,000).

Interest rate risk

The Group's interest rate risk arises as a result of bank borrowings and cash deposits. Cash deposits, which in turn earn interest income, are subject to the movement of interest rates and the Group does not enter into long-term deposits.

At the reporting date the Group had no borrowings exposed to interest rate risk. The Group does have US\$10,500,000 on deposit at rates ranging between 0.19% and 0.43% (2008: US\$9,000,000 ranging from 0.80% to 3.22%). It also has AU\$12,800,000 on deposit at rates ranging between 4.25% and 4.91% (2008: AU\$12,040,000 ranging from 3.25% to 7.95%). There is also PGK1,300,000 on deposit at a rate of 4.00% (2008: nil).

A change of 100 basis points (plus 1% / minus 1%) in interest rates on variable rate instruments would have affected equity and profit and loss by US\$37,000 (2008: US\$171,000). The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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

Commodity price risk

The Group was not exposed to commodity pricing risks during 2009 or 2008.

(d) Currency Control

The Papua New Guinea Central Banking (Foreign Exchange and Gold) Regulations generally require PNG companies to hold all cash reserves in Kina unless authority is given by the Bank of Papua New Guinea to hold funds off shore. Prior approval of the Bank of Papua New Guinea is required to convert funds from Kina into other currencies. The Group has permission to hold funds off shore.

(e) Capital Management

The group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may issue new shares, return capital to shareholders, or sell assets to provide cash and or reduce debt levels if applicable.

The group will also give consideration whether the payment of dividends is appropriate and at what levels.

Consistently with others in the industry at a similar stage, the group and parent entity monitor capital on the basis of cash requirements for exploration, development and administrative purposes offset by current cash balances and likely operating inflows. Other factors that will be considered are credit and equity market conditions and expectations from the investment community.

During 2009, the group's strategy was unchanged from 2008 and is reviewed by the Board.

25. SHARE-BASED PAYMENTS

(a) Executive Option Scheme

Employee options have been issued to senior employees and the Managing Director under the terms of their employment contracts and in accordance with the Executive Share Option Scheme.

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

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

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

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

Grant date	Hurdle / vesting date	Expiry date	Exercise Price (AUS)	Balance start of year	Granted during year	Exercised during year	Expired during year	Balance at end of year	Vested and exercisable at end of year
20/05/2005	30/06/2006	30/06/2009	0.4350	100,000	-	-	(100,000)	-	-
7/08/2006	31/07/2007	31/07/2010	0.4350	1,000,000	-	-	-	1,000,000	1,000,000
21/05/2007	21/05/2007	21/05/2010	0.1546	1,500,000	-	-	-	1,500,000	1,500,000
21/05/2007	21/05/2008	21/05/2010	0.1546	3,500,000	-	-	-	3,500,000	3,500,000
21/05/2007	21/05/2009	21/05/2010	0.1546	5,000,000	-	-	-	5,000,000	-
19/07/2007	19/07/2007	19/07/2010	0.1750	375,000	-	-	-	375,000	375,000
19/07/2007	19/07/2008	19/07/2010	0.1750	875,000	-	-	-	875,000	875,000
19/07/2007	19/07/2009	19/07/2010	0.1750	1,250,000	-	-	-	1,250,000	-
27/08/2007	31/07/2008	31/07/2011	0.1750	200,000	-	-	-	200,000	200,000
10/12/2007	12/12/2007	12/12/2010	0.1750	3,800,000	-	(1,000,000)	-	2,800,000	2,800,000
28/02/2008	28/02/2011	28/02/2013	0.1350	2,000,000	-	-	-	2,000,000	2,000,000
4/06/2008	4/06/2008	28/02/2013	0.1350	1,390,000	-	(350,000)	-	1,040,000	1,040,000
4/06/2008	4/06/2008	4/06/2011	0.1300	250,000	-	-	-	250,000	250,000
4/06/2008	4/06/2009	4/06/2011	0.1300	750,000	-	-	-	750,000	750,000
4/06/2008	4/06/2010	4/06/2011	0.1300	1,000,000	-	-	-	1,000,000	-
5/02/2009	29/01/2012	29/01/2014	(a) 0.0780	-	3,360,000	(660,000)	-	2,700,000	2,700,000
26/06/2009	26/06/2009	26/06/2012	(b) 0.1170	-	150,000	-	-	150,000	150,000
26/06/2009	26/06/2010	26/06/2012	(c) 0.1170	-	350,000	-	-	350,000	-
26/06/2009	26/06/2011	26/06/2012	(d) 0.1170	-	500,000	-	-	500,000	-
				22,990,000	4,360,000	(2,010,000)	(100,000)	25,240,000	17,140,000
Weighted average exercise price (AUD)				0.17	0.09	0.14	0.44	0.16	0.16

The options are subject to share price hurdles, which must be met by the hurdle/vesting date above. Once the share price hurdle is met, the options are exercisable up to the expiry date.

The options issued on 5 February 2009 have a share price hurdle. The share price hurdle is a 10 day volume weighted average price of AU\$.156. These options have an exercise period of five years from the issue date.

The options issued on 26 June 2009 have two hurdles – one being time driven and the other being share price driven. The share price hurdle is a 10 day volume weighted average price of AU\$.234; AU\$.351 (and 1 year) and AU\$.468 (and 2 years) for the three tranches. These options have an exercise period of three years from the issue date.

The weighted average remaining contractual life of options outstanding at the end of the period was 1.54 years.

Fair value of options granted

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

	(a)	(b)	(c)	(d)
Fair value at grant date	AU\$0.041	AU\$0.0320	AU\$0.0023	AU\$0.0069
Exercise Price	AU\$0.078	AU\$0.117	AU\$0.117	AU\$0.117
Grant Date	5th February 2009	26th June 2009	26th June 2009	26th June 2009
Share price at grant date	AU\$0.10	AU\$0.115	AU\$0.115	AU\$0.115
Expected volatility of Company's shares	50%	50%	50%	50%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	4.35%	4.65%	5.00%	5.30%
Expected vesting period	28th February 2011	3rd April 2011	4th June 2010	6th January 2011

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The fair value at grant date is independently determined using a combination of a Black-Scholes option pricing model and Monte Carlo simulations, that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(b) Cost arising from share-based payment transactions

Total cost from share-based payment transactions recognised during the period as part of a share based payment was as follows:

	December 2009 US\$000	December 2008 US\$000
Options issued under Executive Option Scheme	124	162
Total	124	162

26. EVENTS OCCURRING AFTER BALANCE DATE

On the 1st February 2010, the Group signed an agreement with Eastern Pacific Mines Limited ("Eastern") (refer note 23) which amended the terms of the payment due to Eastern to the following:

Amount	Due
PGK 500,000	12/02/2010
PGK 500,000	19/04/2010
PGK 500,000	15/09/2010
Balance to a total of AU\$1.0mil	commercial production

27. DISCONTINUED OPERATION

In December 2007 the Group sold its Kainantu gold project including plant and equipment. The proceeds from the sale of the Kainantu gold project and surrounding exploration licences totalled US\$134.5 million paid in cash. As a result of the sale the Group repaid the project loan and closed out the forward gold sales contracts. There were some transactions which carried over into the 2008 year and therefore they have been disclosed in the discontinued operation note.

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

	2009 US\$000	2008 US\$000
Financial performance of discontinued operation		
Gold concentrate sales	-	2,317
General and administrative costs	-	(669)
Net foreign exchange losses	-	(12)
Profit (Loss) before income tax	-	1,636
Income tax expense	-	-
Profit (Loss) after income tax	-	1,636
Profit (Loss) from discontinued operation	-	1,636
Cash flows from discontinued operation		
Net cash from operating activities	-	4,031
Net cash from investing activities	-	-
Net cash from financing activities	-	-
Net cash from (used in) discontinued operation	-	4,031

28. SUPPLEMENTARY INFORMATION

In accordance with Accounting Standards Board Directive 2 (ASBD 2) and the Investment Promotion Authority approval to prepare and lodge US dollar financial statements, the Company discloses the following information in PNG Kina terms:

	Consolidated		Holding Company	
	2009 PGK000	2008 PGK000	2009 PGK000	2008 PGK000
Revenue	1,501	2,975	-	-
Net Profit (Loss) after tax	3,021	33,045	(4,344)	153,518
Total Assets	269,103	257,210	156,095	154,214
Total Liabilities	2,832	2,155	16	8
Net Assets	266,271	255,055	156,079	154,206

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2009 of PGK1.00 = US\$0.3690 (2008 year PGK1.00 = US\$0.3735) while income and expense items are translated at the average rate for the year PGK1.00 = US\$0.3658 (2008 year PGK1.00 = US\$0.3728).

DIRECTORS' DECLARATION

In the opinion of the Directors:

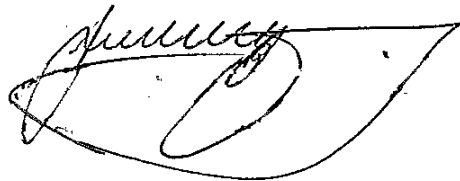
1. The financial statements and notes of the Company and of the Consolidated Entity:
 - a. comply with International Financial Reporting Standards and other mandatory professional reporting requirements; and,
 - b. give a true and fair view, in all material respects, of the financial position as at 31 December 2009 and performance of the Company and the Consolidated Entity for the year ended on that date; and are in accordance with the Papua New Guinea Companies Act 1997.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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



Ken MacDonald
Chairman



John Gooding
Managing Director

15 March 2010

Independent auditor's report to the shareholders of Highlands Pacific Limited

Report on the financial statements

We have audited the accompanying financial statements of Highlands Pacific Limited (the company), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, and other explanatory notes for both Highlands Pacific Limited and the Highlands Pacific Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with Generally Accepted Accounting Standards in Papua New Guinea and the Companies Act 1997. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Highlands Pacific Limited (continued)

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

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

Auditor's opinion

In our opinion the financial statements of Highlands Pacific Limited is in accordance with the Companies Act 1997, including giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and complying with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.

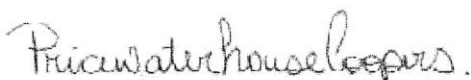
Report on other legal and regulatory requirements

The Papua New Guinea Companies Act 1997 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- a) in our opinion proper accounting records have been kept by the company, so far as appears from our examination of those records;
- b) we have obtained all the information and explanations we have required; and
- c) in conducting our audit we followed applicable independence requirements of Certified Practising Accountants Papua New Guinea.

Other Matters

This report, including the opinion, has been prepared for and only for the company's shareholders as a body in accordance with the PNG Companies Act 1997 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers



By: Jonathan Seeto
Partner
Registered under the Accountants Act 1996
Port Moresby
15 March 2010



By: Jon Roberts
Engagement Leader