

# INDEPENDENT AUDIT REPORT TO THE MEMBERS

For the Year Ended 31 December 1999

## SCOPE

**We have audited the financial statements and Group financial statements of Highlands Pacific Limited for the year ended 31 December 1999 as set out on pages 26 to 53. The Group financial statements comprise the consolidated accounts of the company and its subsidiaries at year's end or from time to time during the financial year.**

These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements comply with generally accepted accounting practice, which includes International Accounting Standards and Statements of Accounting Standards issued by the Papua New Guinea (PNG) Institute of Accountants, and statutory requirements in PNG so as to present a view which is consistent with our understanding of the company's and the Group's financial position, the results of their operations and their cash flows. We believe that our audit provides a reasonable basis for our opinion.

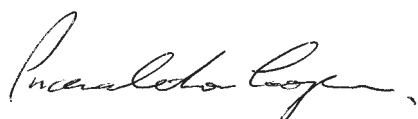
Our firm carries out other assignments on behalf of the Company in the areas of taxation and consulting advice.

## UNQUALIFIED AUDIT OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements and Group financial statements of Highlands Pacific Limited on pages 26 to 53.
  - i) comply with generally accepted accounting practice; and
  - ii) give a true and fair view of the financial position of the Company and Group as at 31 December 1999 and the results of their operations and cash flows for the year ended on that date.



**PRICEWATERHOUSECOOPERS**

by: Robert Hubbard

Registered under the Accountants Act 1996

PORT MORESBY

24 March 2000

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# PROFIT AND LOSS STATEMENTS

For the Year Ended 31 December 1999

	Notes	Consolidated		Holding Company	
		1999	1998	1999	1998
		US\$000	US\$000	US\$000	US\$000
<b>REVENUE</b>	2	1,108	3,033	-	2,491
Less operating costs	3	4,462	3,748	-	2,235
<b>PROFIT (LOSS) FROM ORDINARY ACTIVITIES</b>		(3,354)	(715)	-	256
Abnormal gain (loss) before income tax	4, 7	(21,376)	(1,974)	-	(2,199)
<b>PROFIT (LOSS) AFTER ABNORMAL ITEM BEFORE INCOME TAX</b>		(24,730)	(2,689)	-	(1,943)
Less income tax expense	5	(40)	50	-	-
<b>NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE HOLDING COMPANY</b>		(24,690)	(2,739)	-	(1,943)
Retained earnings brought forward		(3,704)	(965)	(1,304)	639
Amount available for appropriation		(28,394)	(3,704)	(1,304)	(1,304)
Dividends paid or proposed		-	-	-	-
Aggregate of amounts transferred from (to) reserves		-	-	-	-
RETAINED EARNINGS CARRIED FORWARD		(28,394)	(3,704)	(1,304)	(1,304)
<b>EARNINGS PER SHARE</b>					
Basic		US\$(0.12)	US\$(0.01)		
Diluted		US\$(0.12)	US\$(0.01)		

*These profit and loss statements are to be read in conjunction with the Notes on pages 30 to 40.*

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# BALANCE SHEETS

As at 31 December 1999

	Notes	Consolidated		Holding Company	
		1999 US\$000	1998 US\$000	1999 US\$000	1998 US\$000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	6	628	897	-	-
Exploration and evaluation expenditure	7	102,881	117,994	-	-
Investments	8	315	468	-	-
Investment in subsidiaries	9	-	-	31,186	31,190
Advance to subsidiaries	10	-	-	113,953	110,977
		<u>103,824</u>	<u>119,359</u>	<u>145,139</u>	<u>142,167</u>
<b>CURRENT ASSETS</b>					
Cash and bank balances	27	12,067	20,450	5	2,977
Trade and other debtors	11	1,439	1,623	-	-
Inventories	12	65	68	-	-
		<u>13,571</u>	<u>22,141</u>	<u>5</u>	<u>2,977</u>
<b>TOTAL ASSETS</b>		<u>117,395</u>	<u>141,500</u>	<u>145,144</u>	<u>145,144</u>
<b>NON-CURRENT LIABILITIES</b>					
Provisions	13	56	83	-	-
		<u>56</u>	<u>83</u>	<u>-</u>	<u>-</u>
<b>CURRENT LIABILITIES</b>					
Trade and other creditors	14	3,120	2,472	-	-
Provisions	13	181	179	-	-
Income tax payable		-	38	-	-
		<u>3,301</u>	<u>2,689</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>3,357</u>	<u>2,772</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>		<u>114,038</u>	<u>138,728</u>	<u>145,144</u>	<u>145,144</u>
<b>SHAREHOLDERS' EQUITY</b>					
Paid up capital	15	152,716	152,716	152,716	152,716
Reserves	16	(10,284)	(10,284)	(6,268)	(6,268)
Retained earnings		(28,394)	(3,704)	(1,304)	(1,304)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>114,038</u>	<u>138,728</u>	<u>145,144</u>	<u>145,144</u>

*These balance sheets are to be read in conjunction with the Notes on pages 30 to 40.*

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 1999

	Notes	Consolidated		Holding Company	
		1999 US\$000	1998 US\$000	1999 US\$000	1998 US\$000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Receipts from customers		10	-	-	-
Interest from investments		1,141	3,175	-	2,419
Income tax paid		-	(10)	-	-
Payments to suppliers and employees		(1,645)	(1,682)	-	-
Net cash from operating activities		(494)	1,483	-	2,419
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of fixed assets		17	18	-	-
Advance to subsidiaries		-	-	(2,972)	(32,687)
Purchase of fixed assets		(44)	(247)	-	-
Acquisition of mineral resource assets	7	(73)	-	-	-
Exploration and evaluation		(7,315)	(15,452)	-	-
Net cash used in investing activities		(7,415)	(15,681)	(2,972)	(32,687)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		-	-	-	-
Repayment of borrowings		-	-	-	-
Proceeds from share issue		-	-	-	-
Net cash used in financing activities		-	-	-	-
<b>NET INCREASE (DECREASE) IN CASH HELD</b>					
		(7,909)	(14,198)	(2,972)	(30,268)
Add cash brought forward		20,450	36,622	2,977	35,444
Effect of exchange rate change on cash		(474)	(1,974)	-	(2,199)
<b>CASH CARRIED FORWARD</b>					
		12,067	20,450	5	2,977
<b>CASH COMPRISES</b>					
Cash and bank balances		12,067	20,450	5	2,977

*These statements of cash flows are to be read in conjunction with the Notes on pages 30 to 40.*

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended 31 December 1999

### SUMMARY OF THE EFFECTS OF ACQUISITION OF ASSETS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
Total cash paid	73	-	-	-
Accrued payment of shares in Highlands Pacific Limited	1,176	-	-	-
	1,249	-	-	-
<b>Fair value of net assets acquired:</b>				
Mineral resource assets	1,249	-	-	-

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

	Notes	Consolidated		Holding Company	
		1999	1998	1999	1998
		US\$000	US\$000	US\$000	US\$000
<b>Reported Net Profit (Loss) after Taxation</b>		(24,690)	(2,739)	-	(1,943)
Add (less) non-cash items:					
Depreciation		307	356	-	-
Provision for write-off of exploration & evaluation	4, 7	21,640	2,000	-	-
Provision for diminution of investment	8	153	-	-	-
Provision for write-off of subsidiary debtors		-	-	-	1,767
Provision for doubtful debts	11	1,000	-	-	-
Write-off of bad debts	11	545	-	-	-
Net (gain)/loss on foreign currency balances		832	1,974	-	2,199
		24,477	4,330	-	3,966
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		(863)	650	-	396
Increase (decrease) in creditors and provisions		584	(698)	-	-
Increase (decrease) in inventories		(2)	(60)	-	-
		(281)	(108)	-	396
<b>Net Cash Flow from Operating Activities</b>		(494)	1,483	-	2,419

These statements are to be read in conjunction with the Notes on pages 30 to 40.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the Year Ended 31 December 1999

**1. STATEMENT OF ACCOUNTING POLICIES**

The Company is incorporated in Papua New Guinea.

These 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 Papua New Guinea by the Accounting Standards Board ("ASB"). The ASB has adopted International Accounting Standards and interpretations issued by the Standing Interpretations Committee as the applicable financial reporting framework.

The Group financial statements comprise the consolidated financial statements of the Company and its subsidiaries as set out in Note 9.

**(a) GENERAL ACCOUNTING POLICIES**

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

The accounts have been prepared using the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

**(b) PARTICULAR ACCOUNTING POLICIES**

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

**(i) Principles of Consolidation**

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

Subsidiaries include all companies in which the holding company holds more than 50% of the issued share capital, or controls more than 50% of the voting power, or controls the composition of the Board of Directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

All transactions between Group companies are eliminated in full on consolidation.

**(ii) Foreign Currency Translation**

As the Company's investment process is based on US dollars and the majority of its fixed asset purchases and costs and likely future revenue streams are in US dollars or currencies related to US dollars, the Company's Directors, have adopted the US dollar as the Company's functional and management reporting currency.

Foreign currency transactions and non-monetary assets and liabilities are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising from trading transactions or overseas borrowings are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the profit and loss account except where monetary liabilities are identified as a hedge against a foreign operation. Gains and losses in relation to the purchase of fixed assets and capitalised exploration expenditure are capitalised as part of the cost of the asset.

The Company's Kina amounts are translated from US dollars at the rate prevailing at 31 December 1999 of PGK 1.00 = \$0.3700 (1998: PGK 1.00 = \$0.4670).

**(iii) Investments**

Investments are stated at lower of cost or net realisable value.

**(iv) Joint Ventures**

The Group's method for accounting for an interest in a joint venture is the proportional consolidation method whereby it recognises in the respective classification categories the amount of:

- (a) the Group's share in each of the individual assets employed in the joint venture;
- (b) liabilities incurred in relation to the joint venture including the Group's share of liabilities for which it is severally liable; and
- (c) the Group's share of income and expenses relating to the joint venture.

**(v) Property, Plant and Equipment**

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

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of property, plant and equipment is greater than its recoverable amount, the asset is revalued to its recoverable amount.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the Year Ended 31 December 1999

**(vi) Exploration and Evaluation Expenditure**

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

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

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

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

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

**(vii) Depreciation**

Depreciation is charged on a straight line basis so as to write off the cost or valuation of the fixed assets to their residual value over the expected useful lives. The estimated economic lives are as follows:

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

**(viii) Inventories**

Inventories are stated at the lower of cost and net realisable value.

**(ix) Taxation**

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss account is matched with the accounting profit (after allowing for permanent differences). Any future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being assured beyond reasonable doubt. Any Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at current rates.

**(x) Components of Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash.

**(xi) Employee Entitlements**

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

**(xii) Provisions**

A provision is recognised when there is a present obligation to transfer economic benefits as a result of past events. The amount provided is the best estimate of the expenditure that would be required to settle the obligation that existed at the balance sheet date.

**(xiii) Year 2000 Compliance**

All costs relating to the modification of computer software for year 2000 compatibility are charged to expenses as incurred. The acquisition of computer and other business equipment to ensure year 2000 compliance is accounted for in accordance with note 1 (b) (v).

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

## 2. REVENUE

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
Other income	10	71	-	-
Interest income	1,098	2,962	-	2,491
	1,108	3,033	-	2,491

## 3. ANALYSIS OF EXPENSES

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
<b>(a) Operating costs</b>				
Cost of sales	37	63	-	-
Exploration and administration costs	4,425	3,685	-	2,235
Total operating costs	4,462	3,748	-	2,235

### Operating costs are stated after charging:

Auditors' remuneration				
- audit	26	18	-	-
- other services	56	88	-	-
- other auditors of controlled entities	30	26	-	-
Depreciation – owned assets	307	356	-	-
Loss on foreign currency balances	832	-	-	-
Provision for diminution value of investment	153	-	-	-
Provision for exploration expenditure	264	2,000	-	-
Write-off of loans	545	-	-	-
Provision for write-off of loans to subsidiary	-	-	-	1,767
Provision for doubtful debts	1,000	-	-	-
Donations	6	8	-	-

## 4. ABNORMAL ITEMS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
Unrealised foreign exchange gain (loss)	-	(1,974)	-	(2,199)
Provision for exploration expenditure	(21,376)	-	-	-
Less applicable income tax	-	-	-	-
Abnormal item after income tax	(21,376)	(1,974)	-	(2,199)

A provision has been made against the carrying value of the Frieda Copper/Gold Project reducing it by US\$21.4 million to US\$21 million. The provision is to reflect the probable delay to the development of the Frieda Project following the withdrawal of Cyprus Amax PNG Holdings Inc and the reduction in copper and gold prices since the acquisition of Frieda River from Placer Pacific in 1997. Cyprus Amax's withdrawal was due to the merger between Phelps Dodge and its parent, Cyprus Climax Metals Company.

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

## 5. INCOME TAX

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
The income tax has been calculated as follows:				
Profit (loss) for the year	(24,730)	(2,689)	(1)	(1,943)
Income tax (benefit) on the profit (loss) for the year at an average of 34% (1998: 25%)	(8,526)	(652)	-	(486)
Tax effect of permanent differences	238	397	-	486
	(8,288)	(255)	-	-
Future income tax benefit not brought to account	8,288	305	-	-
Income tax expense	-	50	-	-
(Over) Under provision prior year	(40)	12	-	-
Income tax expense this year	-	38	-	-
Income tax expense	(40)	50	-	-

### Tax Losses

The Group has not recognised the future tax benefits attributable to tax losses. The Directors estimate that the potential future income tax benefit at 31 December 1999 in respect of tax losses not brought to account is approximately US\$1,272,737 (1998: US\$1,660,751). This benefit will only be obtained if:

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

## 6. PROPERTY, PLANT AND EQUIPMENT

	<b>Land and Buildings</b>	<b>Plant and Equipment</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Consolidated 1999</b>			
<b>Cost or valuation</b>			
Cost brought forward	179	1,306	1,485
Additions	-	54	54
Disposals	-	(65)	(65)
Cost carried forward	179	1,295	1,474
<b>Depreciation</b>			
Brought forward	39	549	588
Charge for the year	24	283	307
Disposals	-	(49)	(49)
Carried forward	63	783	846
<b>Net book value at 31 December 1999</b>	<b>116</b>	<b>512</b>	<b>628</b>
<b>Consolidated 1998</b>			
<b>Cost or valuation</b>			
Cost brought forward	179	1,107	1,286
Additions	-	247	247
Disposals	-	(48)	(48)
Cost carried forward	179	1,306	1,485
<b>Depreciation</b>			
Brought forward	12	267	279
Charge for the year	27	329	356
Disposals	-	(47)	(47)
Carried forward	39	549	588
<b>Net book value at 31 December 1998</b>	<b>140</b>	<b>757</b>	<b>897</b>

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

## 7. EXPLORATION & EVALUATION EXPENDITURE

	<b>Ramu</b>	<b>Frieda</b>	<b>Other</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Balance brought forward	75,644	42,350	-	117,994
Capitalised during the year	4,988	26	264	5,278
Acquired during the year *	1,249	-	-	1,249
Less provision for write-off during the year	-	21,376	264	21,640
Balance carried forward	<u>81,881</u>	<u>21,000</u>	<u>-</u>	<u>102,881</u>

\* Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited, dated 26 October 1999, to purchase Eastern's 10% interest in the Ramu Nickel Joint Venture. At execution of the agreement, US\$73,033 was paid in cash. Highlands Pacific will acquire Eastern's interest through a series of three structured payments as follows:

- The issue of 6,959,707 ordinary shares in Highlands Pacific worth A\$1.9 million in March 2000.
- When debt and equity funding is available for the development of the Ramu Project, US\$73,033 plus A\$1.5 million which may be satisfied by payment in cash or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the Australian Stock Exchange over the proceeding ten days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
- When the Ramu Project commences production, the payment of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment in 2 above.

## 8. INVESTMENTS

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Balance brought forward	468	468	-	-
Acquired during the year	-	-	-	-
Less provision for diminution	153	-	-	-
Balance carried forward	<u>315</u>	<u>468</u>	<u>-</u>	<u>-</u>

The diminution in investment reflects the reduction in the US dollar value of real property in Port Moresby due to exchange rate fluctuations.

## 9. INVESTMENTS IN SUBSIDIARIES

	<b>Percentage Shareholding</b>	<b>Country of Incorporation</b>
Ramu Nickel Limited	100	PNG
Highlands Frieda Limited	100	PNG
Highlands Pacific Resources Limited	100	PNG
Pacrim Limited	100	PNG
Highlands Pacific Indonesia Limited	100	PNG
PT Haigol Sumber Daya Servis	100	Indonesia
PT Miwah Tambang Emas	90	Indonesia
PT Tripa Tambang Nusa	90	Indonesia
Highlands Pacific Australia Pty Limited	100	Australia
Highlands Pacific Services Limited	100	PNG
Astrolabe Limited	100	PNG
PNG Analytical Laboratories Ltd	100	PNG
Highlands Pacific Exploration Limited	100	PNG

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

## 9. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

### INVESTMENTS AT COST

	<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>
	<b>US\$000</b>	<b>US\$000</b>
Balance brought forward	31,190	31,190
Less subsidiary liquidated during the year	4	-
Investments in subsidiaries - at cost	31,186	31,190

## 10. ADVANCES TO SUBSIDIARIES

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Advances	-	-	117,529	114,553
Less provision for write-off	-	-	3,576	3,576
	-	-	113,953	110,977

## 11. TRADE AND OTHER DEBTORS

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Trade debtors	10	15	-	-
Other debtors and prepayments *	2,429	1,608	-	-
Less: Provision for doubtful debts **	1,000	-	-	-
	1,439	1,623	-	-

\* Other debtors and prepayments includes amounts owing by Nord Pacific totalling US\$1.25 million.

As part of the agreement between Orogen Minerals Limited ("Orogen") and Nord Australex Nominees (PNG) Limited ("Nord") for Orogen to purchase Nord's 31.5% interest in the Ramu Joint Venture, Highlands Pacific has agreed to release Nord's interest in the Ramu Project from all claims (and therefore make it available for sale to Orogen). The total owing by Nord was US\$1,795,000. Highlands Pacific has written-off US\$545,000 and will recover US\$1.25 million in three tranches. The first tranche of US\$250,000 was received in March 2000.

The remaining two tranches will be paid as follows:

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

\*\* A provision for US\$1 million has been raised against the second and third tranches to be paid by Nord as detailed above.

## 12. INVENTORIES

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Spares and consumables	65	68	-	-
	65	68	-	-

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

### 13. PROVISIONS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
<b>Non-Current</b>				
Employee entitlements	56	83	-	-
<b>Current</b>				
Employee entitlements	181	179	-	-
	237	262	-	-

### 14. TRADE AND OTHER CREDITORS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
Trade creditors	2,441	1,445	-	-
Other creditors and accruals	679	1,027	-	-
	3,120	2,472	-	-

Trade creditors includes an allowance for an A\$1.9 million payment to Eastern Pacific Mines to purchase a 10% interest in the Ramu Joint Venture. This debt was satisfied by the issue of shares in March 2000. Refer Note 7 for details.

### 15. SHARE CAPITAL

	1999	1998
	US\$000	US\$000
<b>(a) Paid Up Capital</b>		
210,000,025 ordinary shares	152,716	152,716

In accordance with the changes to the Papua New Guinea Companies Act (1997), there is no par value on shares issued.

#### (b) Share Options

The number of unissued ordinary shares under these options at 31 December 1999 is 2,825,000.

	Tranche A	Tranche B	Tranche C
Outstanding at the end of the quarter			
Percentage of Options in each Tranche	20%	40%	40%
Non-exercise Period following date of issue	1 year	2 years	3 years
Share Price Performance Hurdle (30% per annum)	\$A1.30	\$A1.69	\$A2.20
Exercise Price	\$A1.00	\$A1.00	\$A1.00
Number of Options	420,000	840,000	840,000
Expiry Date	5 June 2002	6 June 2002	10 June 2002
Number of Options	70,000	140,000	140,000
Expiry Date	24 February 2004	25 February 2004	26 February 2004
Number of Options	75,000	150,000	150,000
Expiry Date	7 May 2004	10 May 2004	11 May 2004

### 16. RESERVES

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
<b>Foreign Currency Translation Reserve</b>				
Balance brought forward	(10,284)	(10,284)	(6,268)	(6,268)
Movements during period	-	-	-	-
Balance carried forward	(10,284)	(10,284)	(6,268)	(6,268)

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

## 17. REMUNERATION OF EMPLOYEES

The number of employees (not including Directors) whose remuneration and benefits exceeded K100,000 fall within the following bands:

US\$	Kina	Group and Holding Company Number of Employees 1999
38,920 – 42,812	100,000 – 109,999	-
42,813 – 46,704	110,000 – 119,999	1
46,705 – 50,596	120,000 – 129,999	1
50,597 – 54,488	130,000 – 139,999	-
54,489 – 58,380	140,000 – 149,999	2
58,381 – 62,272	150,000 – 159,999	1
62,273 – 66,164	160,000 – 169,999	-
70,056 – 73,948	180,000 – 189,999	1
73,949 – 77,840	190,000 – 199,999	-
77,841 – 81,732	200,000 – 209,999	1
81,733 – 85,624	210,000 – 219,999	1
85,625 – 89,516	220,000 – 229,999	1
89,517 – 93,408	230,000 – 239,999	2
93,409 – 97,300	240,000 – 249,999	2
97,301 – 101,192	250,000 – 259,999	-
101,193 – 105,084	260,000 – 269,999	2
108,976 – 112,868	280,000 – 289,999	-
112,869 – 116,760	290,000 – 299,999	1
132,328 – 136,220	340,000 – 349,999	1
151,788 – 155,680	390,000 – 399,999	2
167,356 – 171,248	430,000 – 439,999	1
Total		20

The remuneration includes costs to the Group of accommodation in Papua New Guinea and other like benefits provided to employees. Remuneration also includes redundancy payments to a number of employees.

The majority of the base salary rates included on the above table are contracted in Australian dollars. The weakening of the Kina during the year has resulted in an increase in the equivalent Kina rates.

This Note is required by the Papua New Guinea Companies Act (1997).

## 18. REMUNERATION OF DIRECTORS

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

	Group and Holding Company	
	1999 US\$000	1998 US\$000
Robert Bryan	90	66
Ian R Holzberger	256	229
Gerea Aopi - Retired effective 7 May 1999	16	48
Andrew J Berry – Appointed 17 August 1998	45	19
Louis A Clinton - Retired effective 1 July 1998	-	50
David Copland - Retired effective 7 May 1999	16	48
Henry T Fabila, MBE – Appointed 1 January 1999	45	-
Jimmy Maladina – Appointed 7 May 1999	29	-

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

## 19. JOINT VENTURES

At 31 December 1999 joint venture interests comprised :

	<b>Highlands Pacific's Percentage Interest (%)</b>	<b>Activity</b>
Ramu Joint Venture (Note 1 & 4)	68.5	Exploration & Evaluation
Frieda River Joint Venture (Note 1 & 5)	87.9	Exploration & Evaluation
Kainantu Joint Venture (Note 1 & 2)	100	Exploration & Evaluation
Highlands Pacific / Cyprus Amax Exploration Joint Venture (Note 1 & 5)	100	Exploration & Evaluation
Contracts of Work: Woyla River and Tripa (Note 3)	90	Exploration & Evaluation

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country.
2. Subject to the right of Nippon Mining and Metals Co. Ltd. to acquire up to 50% of Highlands Pacific's interest.
3. Subject to the right of PT North Mining Indonesia to acquire up to 70% of Highlands Pacific's interest.
4. Subject to Ministerial approval of the transfer of Eastern Pacific Mines Limited's 10% interest in the Ramu Joint Venture to Highlands Pacific. Ministerial approval occurred on 11 January 2000.
5. Subject to Cyprus Amax PNG Holdings Inc.'s withdrawal that was advised to Highlands Pacific on 1 December 1999 and became effective on 29 February 2000.

The Group's interests in joint ventures comprised :

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Current assets	332	-	-	-
Non-current assets	126,428	117,994	-	-
	126,760	117,994	-	-
Current liabilities	798	465	-	-
Non-current liabilities	-	-	-	-
	798	465	-	-
Net Assets	125,962	117,529	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	-	-	-	-

## 20. CONTRACTS

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

- Mr H T Fabila MBE is a Director of Bank of South Pacific Limited, Steamships Trading Company Limited and Crocodile Catering Limited which provided services to the Group at normal commercial rates. In addition, Mr Fabila is Managing Director of the National Provident Fund of Papua New Guinea which is a major shareholder in the Company and manages a retirement plan in which the Company participates.
- Mr J Maladina is Chairman of the National Provident Fund of Papua New Guinea that is a major shareholder in the Company and manages a retirement plan in which the Company participates. He is also a director of Crocodile Catering Limited which provided services to the Group at normal commercial rates.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

### 21. SEGMENT REPORTING

#### a) Business Segments

During the year Group exploration activities were carried on predominantly in the mining industry.

#### b) Geographic Segments

During the year Group exploration activities were carried on predominantly in Papua New Guinea.

### 22. CAPITAL COMMITMENTS

The Holding Company and the Group have no commitments for future capital expenditure at 31 December 1999.

### 23. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	US\$000	US\$000	US\$000	US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	119	157	-	-
One to two years	93	111	-	-
Two to five years	9	185	-	-
	<u>221</u>	<u>453</u>	<u>-</u>	<u>-</u>

### 24. CONTINGENT LIABILITIES

- The following contingent liabilities arose as a result of the acquisition of the portfolio of mineral resource assets from the Highlands Gold Limited group of companies ("HGL") during 1997.
  - The Company has agreed to indemnify HGL in relation to costs relating to legal proceedings against Dyno Wesfarmers Limited to recover damages for interruption to business resulting from an explosion on 2 August 1994 at an explosives manufacturing facility operated by Dyno Wesfarmers at the Porgera gold mine in Papua New Guinea. The Company is entitled to any proceeds of that litigation.
  - Highlands Pacific has agreed to indemnify HGL against any claims for taxation (including any penalties) as a consequence of the execution of the transaction documents relating to the acquisition of such assets. HGL will take responsible action (at the direction and sole cost of Highlands Pacific) to contest any such claims for taxation.
- During 1999, Highlands Pacific entered into an agreement with Eastern to purchase Eastern's 10% interest in the Ramu Joint Venture. The following contingent liabilities arose as a result of the acquisition:
  - When debt and equity funding is available for the development of the Ramu Project, the payment of the Kina equivalent of US\$73,033 plus A\$1.5 million which may be satisfied by payment in Kina (cash) on or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the ASX over the preceding ten (10) days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
  - When the Ramu Project commences commercial production, the payment of the Kina equivalent of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment mentioned above.
- As part of the Orogen and Nord purchase and sale agreement for Orogen to purchase Nord's 31.5% interest in the Ramu Joint Venture (Refer Note 25), Orogen required from Highlands Pacific agreement that if a major joint venture partner has not been identified within two years of the date of the agreement, Highlands Pacific, at Orogen's option, will acquire this 31.5% interest in the Project at its sunk cost of US\$5.25million plus Joint Venture contributions. Highlands Pacific has not been required to offer any security in relation to this "put option" by Orogen.

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the Year Ended 31 December 1999

**25. EVENTS OCCURRING AFTER BALANCE DATE**

During March 2000, the Minister for Mining approved the assignment of the 31.5% interest in the Ramu Nickel Joint Venture from Nord to Orogen. This Ministerial Approval lead to:

- The receipt of US\$250,000 from Nord (see Note 11) and
- Orogen Minerals Limited becoming a joint venturer in the Ramu Joint Venture holding 31.5%. Highlands Pacific holds the remaining 68.5%.

In March 2000, Highlands Pacific issued 6,959,707 ordinary shares to Eastern in accordance with the Purchase and Sale Agreement, dated 26 October 1999 (refer Note 7).

On 1 December 1999, Cyprus Amax PNG Holdings Inc. advised that it was withdrawing from the Frieda River Joint Venture and the Highlands Pacific / Cyprus Amax Exploration Joint Venture. This withdrawal became effective on 29 February 2000.

**26. EMPLOYEES**

The average number of people employed by the Group during the year was 119. The Holding Company does not have any direct employees. The average number of daily paid employees was 69.

**27. FINANCIAL INSTRUMENTS****(a) Activities and Management Policies****(i) Currency risk**

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

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

**(ii) Credit risk**

In the normal course of its business the Group incurs credit risk from trade debtors and financial institutions. There are no significant concentrations of credit risk.

**(b) Fair Values**

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

The cash and bank balances include bank term deposits, which generally mature within 30 and 180 days and receive interest at rates between 4% to 24%. The interest rate achieved depends on the currency on deposit.

**(c) Currency Control**


The Papua New Guinea Central Banking (Foreign Exchange and Gold) Regulations generally require Papua New Guinea companies to hold all cash reserves in Kina. Prior approval of the Bank of Papua New Guinea is required to convert funds from Kina into other currencies.

**28. RETIREMENT BENEFITS**

The Group participates in two retirement benefit funds. There is a cash accumulation plan for senior staff and the second is the National Provident Fund of Papua New Guinea for citizen employees. Total employer contributions were US\$230,838.

# KINA FINANCIAL STATEMENTS

For the Year Ended 31 December 1999



For Papua New Guinea statutory purposes Kina financial statements have been prepared and are translated from US dollars at the rate prevailing at 31 December 1999 of PGK 1.00 = \$0.3700 (1998: PGK1.00 = \$0.4670). Movements in the share capital account are accounted for as a capital reserve.

FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**PROFIT AND LOSS STATEMENTS**

For the Year Ended 31 December 1999

	Notes	Consolidated		Holding Company	
		1999 K'000	1998 K'000	1999 K'000	1998 K'000
<b>REVENUE</b>	2	2,995	6,495	-	5,334
Less operating costs	3	12,059	8,026	-	4,786
<b>PROFIT (LOSS) FROM ORDINARY ACTIVITIES</b>		(9,064)	(1,531)	-	548
Abnormal gain (loss) before income tax	4	(57,773)	(4,227)	-	(4,709)
<b>PROFIT (LOSS) AFTER ABNORMAL ITEM BEFORE INCOME TAX</b>		(66,837)	(5,758)	-	(4,161)
Less income tax expense	5	(108)	107	-	-
<b>NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE HOLDING COMPANY</b>		(66,729)	(5,865)	-	(4,161)
Retained earnings brought forward		(7,564)	(1,699)	(3,036)	1,125
Amount available for appropriation		(74,293)	(7,564)	(3,036)	(3,036)
Dividends paid or proposed		-	-	-	-
Aggregate of amounts transferred from (to) reserves		-	-	-	-
<b>RETAINED EARNINGS CARRIED FORWARD</b>		(74,293)	(7,564)	(3,036)	(3,036)
<b>EARNINGS PER SHARE</b>					
Basic		K\$(0.32)	K\$(0.01)		
Diluted		K\$(0.32)	K\$(0.01)		

These profit and loss statements are to be read in conjunction with the Notes on pages 30 to 40 and 46 to 53.

FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

**BALANCE SHEETS**

For the Year Ended 31 December 1999

	Notes	Consolidated		Holding Company	
		1999 K'000	1998 K'000	1999 K'000	1998 K'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	6	1,697	1,921	-	-
Exploration and evaluation expenditure	7	278,057	252,664	-	-
Investments	8	851	1,002	-	-
Investment in subsidiaries	9	-	-	84,286	66,788
Advance to subsidiaries	10	-	-	307,981	237,638
		<u>280,605</u>	<u>255,587</u>	<u>392,267</u>	<u>304,426</u>
<b>CURRENT ASSETS</b>					
Cash and bank balances		32,614	43,790	14	6,375
Trade and other debtors	11	3,889	3,475	-	-
Inventories	12	176	146	-	-
		<u>36,679</u>	<u>47,411</u>	<u>14</u>	<u>6,375</u>
<b>TOTAL ASSETS</b>		<u>317,284</u>	<u>302,998</u>	<u>392,281</u>	<u>310,801</u>
<b>NON-CURRENT LIABILITIES</b>					
Provisions	13	151	178	-	-
		<u>151</u>	<u>178</u>	<u>-</u>	<u>-</u>
<b>CURRENT LIABILITIES</b>					
Trade and other creditors	14	8,432	5,294	-	-
Provisions	13	489	383	-	-
Income tax payable		-	81	-	-
		<u>8,921</u>	<u>5,758</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>9,072</u>	<u>5,936</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>		<u>308,212</u>	<u>297,062</u>	<u>392,281</u>	<u>310,801</u>
<b>SHAREHOLDERS' EQUITY</b>					
Paid up capital	15	212,106	212,106	212,106	212,106
Reserves	16	170,399	92,520	183,211	101,731
Retained earnings		(74,293)	(7,564)	(3,036)	(3,036)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>308,212</u>	<u>297,062</u>	<u>392,281</u>	<u>310,801</u>

These balance sheets are to be read in conjunction with the Notes on pages 30 to 40 and 46 to 53.

FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 1999

	Consolidated		Holding Company	
	1999 K'000	1998 K'000	1999 K'000	1998 K'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Receipts from customers	27	-	-	-
Interest from investments	3,084	6,799	-	5,180
Income tax paid	-	(21)	-	-
Payments to suppliers and employees	(4,446)	(3,602)	-	-
Net cash from operating activities	(1,335)	3,176	-	5,180
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of fixed assets	46	39	-	-
Advance to subsidiaries	-	-	(8,032)	(69,994)
Purchase of fixed assets	(119)	(529)	-	-
Acquisition of mineral resource assets	(197)	-	-	-
Exploration and evaluation	(19,770)	(33,088)	-	-
Net cash used in investing activities	(20,040)	(33,578)	(8,032)	(69,994)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	-	-	-	-
Repayment of borrowings	-	-	-	-
Proceeds from share issue	-	-	-	-
Costs of share issue	-	-	-	-
Net cash used in financing activities	-	-	-	-
<b>NET INCREASE (DECREASE) IN CASH HELD</b>				
	(21,375)	(30,402)	(8,032)	(64,814)
Add cash brought forward	43,790	64,475	6,375	62,401
Effect of exchange rate change on cash	10,199	9,717	1,671	8,788
<b>CASH CARRIED FORWARD</b>				
	32,614	43,790	14	6,375
<b>CASH COMPRISES</b>				
Cash and bank balances	32,614	43,790	14	6,375

These statements of cash flows are to be read in conjunction with the Notes on pages 30 to 40 and 46 to 53.

FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended 31 December 1999

**SUMMARY OF THE EFFECTS OF ACQUISITION OF ASSETS**

	<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>
Total cash paid	197	-
Accrued payment of shares in Highlands Pacific Limited	3,178	-
	<u>3,375</u>	<u>-</u>
<b>Fair value of net assets acquired:</b>		
Mineral resource assets	<u>3,375</u>	<u>-</u>

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

	<b>Notes</b>	<b>Consolidated</b>		<b>Holding Company</b>	
		<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
		<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
<b>Reported Net Profit (Loss) after Taxation</b>		<u>(66,730)</u>	<u>(5,865)</u>	<u>-</u>	<u>(4,161)</u>
Add (less) non-cash items					
Depreciation		830	762	-	-
Provision for write-off of exploration & evaluation	4, 7	58,486	4,283	-	-
Provision for diminution of investment	8	414	-	-	-
Provision for write-off of subsidiary debtors		-	-	-	3,784
Provision for doubtful debts	11	2,703	-	-	-
Write-off bad debts	11	1,473	-	-	-
Net gain on foreign currency balances		2,249	4,227	-	4,709
		<u>66,155</u>	<u>9,272</u>	<u>-</u>	<u>8,493</u>
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		(2,332)	1,392	-	848
Increase (decrease) in creditors and provisions		1,577	(1,495)	-	-
Increase (decrease) in inventories		(5)	(128)	-	-
		<u>(760)</u>	<u>(231)</u>	<u>-</u>	<u>848</u>
<b>Net Cash Flow from Operating Activities</b>		<u>(1,335)</u>	<u>3,176</u>	<u>-</u>	<u>5,180</u>

These statements are to be read in conjunction with the Notes on pages 30 to 40 and 46 to 53.

FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

1. STATEMENT OF ACCOUNTING POLICIES

As the Company's decision process is based on US dollars and the majority of its fixed asset purchases and costs are in US dollars or currencies related to US dollars, the Company's Directors have adopted the US dollar as the Company's functional and management reporting currency.

For Papua New Guinea statutory purposes Kina financial statements have been prepared and are translated from US Dollars at the rate prevailing at 31 December 1999 of PGK 1.00 = \$0.3700 (1998: PGK1.00 = \$0.4670).

For a full understanding of the accounting policies used in these financial statements refer pages 30 to 40.

2. REVENUE

	Consolidated		Holding Company	
	1999	1998	1999	1998
	K'000	K'000	K'000	K'000
Other income	27	152	-	-
Interest income	2,968	6,343	-	5,334
	2,995	6,495	-	5,334

3. ANALYSIS OF EXPENSES

	Consolidated		Holding Company	
	1999	1998	1999	1998
	K'000	K'000	K'000	K'000
<b>(a) Operating costs</b>				
Cost of sales	100	135	-	-
Exploration and Administration Costs	11,959	7,891	-	4,786
Total operating costs	12,059	8,026	-	4,786

**Operating costs are stated after charging:**

Auditors' remuneration				
- audit	70	39	-	-
- other services	151	188	-	-
- other auditors of controlled entities	81	56	-	-
Depreciation – owned assets	830	762	-	-
Loss on foreign currency balances	2,249	-	-	-
Provision for diminution value of investment	414	-	-	-
Provision for exploration expenditure	714	4,283	-	-
Write-off loans	1,473	-	-	-
Provision for write-off of loans to subsidiary	-	-	-	3,784
Provision for doubtful debts	2,703	-	-	-
Donations	16	17	-	-

4. ABNORMAL ITEMS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	K'000	K'000	K'000	K'000
Unrealised foreign exchange gain (loss)	-	(4,227)	-	(4,709)
Provision for exploration expenditure	(57,773)	-	-	-
Less applicable income tax	-	-	-	-
Abnormal item after income tax	(57,773)	(4,227)	-	(4,709)

A provision has been made against the carrying value of Frieda Copper/Gold Project reducing it by K57.7 million to K56.7 million. The provision is to reflect the probable delay to the development of the Frieda Project following the withdrawal of Cyprus Amax PNG Holdings Inc and the reduction in copper and gold prices since the acquisition of Frieda River from Placer Pacific in 1997. Cyprus Amax's withdrawal was due to the merger between Phelps Dodge and its parent, Cyprus Climax Metals Company.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the Year Ended 31 December 1999

**5. INCOME TAX**

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
The income tax has been calculated as follows:				
Profit (loss) for the year	(66,837)	(5,758)	(3)	(4,161)
Income tax (benefit) on the profit (loss) for the year at an average of 34% (1998: 25%)	(23,043)	(1,396)	-	(1,041)
Tax effect of permanent differences	646	850	-	1,041
	(22,397)	(546)	-	-
Future income tax benefit not brought to account	22,397	653	-	-
Income tax expense	-	107	-	-
Under provision prior year	(108)	26	-	-
Income tax expense this year	-	81	-	-
Income tax expense	(108)	107	-	-

**Tax Losses**

The Group has not recognised the future tax benefits attributable to tax losses. The Directors estimate that the potential future income tax benefit at 31 December 1999 in respect of tax losses not brought to account is approximately K3.4million ( 1998: K4.5million). This benefit will only be obtained if :

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

**6. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and Buildings</b>	<b>Plant and Equipment</b>	<b>Total</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
<b>Consolidated 1999</b>			
<b>Cost or valuation</b>			
Cost brought forward	484	3,530	4,014
Additions	-	146	146
Disposals	-	(176)	(176)
Cost carried forward	484	3,500	3,984
<b>Depreciation</b>			
Brought forward	105	1,484	1,589
Charge for the year	65	765	830
Disposals	-	(132)	(132)
Carried forward	170	2,117	2,287
Net book value at 31 December 1999	314	1,383	1,697
<b>Consolidated 1998</b>			
<b>Cost or valuation</b>			
Cost brought forward	383	2,370	2,753
Additions	-	529	529
Disposals	-	(103)	(103)
Cost carried forward	383	2,796	3,179
<b>Depreciation</b>			
Brought forward	26	572	598
Charge for the year	57	704	761
Disposals	-	(101)	(101)
Carried forward	83	1,175	1,258
Net book value at 31 December 1998	300	1,621	1,921

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For the Year Ended 31 December 1999

**7. EXPLORATION & EVALUATION EXPENDITURE**

	<b>Ramu</b>	<b>Frieda</b>	<b>Other</b>	<b>Total</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Balance brought forward	204,443	114,459	-	318,902
Capitalised during the year	13,481	70	714	14,265
Acquired during the year *	3,376	-	-	3,376
Less provision for write-off during the year	-	57,772	714	58,486
Balance carried forward	<u>221,300</u>	<u>56,757</u>	<u>-</u>	<u>278,057</u>

\* Highlands Pacific entered into an agreement with Eastern Pacific Mines Limited, dated 26 October 1999, to purchase Eastern's 10% interest in the Ramu Nickel Joint Venture. At execution of the agreement, K197,386 was paid in cash. Highlands Pacific will acquire Eastern's interest through a series of three structured payments as follows:

- The issue of 6,959,707 ordinary shares in Highlands Pacific worth A\$1.9 million in March 2000.
- When debt and equity funding is available for the development of the Ramu Project, K197,386 plus A\$1.5 million which may be satisfied by payment in cash or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the Australian Stock Exchange over the proceeding ten days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
- When the Ramu Project commences production, the payment of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment in 2 above.

**8. INVESTMENTS**

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Balance brought forward	1,265	1,002	-	-
Acquired during the year	-	-	-	-
Less provision for diminution	414	-	-	-
Balance carried forward	<u>851</u>	<u>1,002</u>	<u>-</u>	<u>-</u>

The diminution in investment reflects the reduction in the US dollar value of real property in Port Moresby due to exchange rate fluctuations.

**9. INVESTMENTS IN SUBSIDIARIES**

	<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>
<b>INVESTMENTS AT COST</b>		
Balance brought forward	84,297	66,788
Less subsidiary liquidated during the year	11	-
Investments in subsidiaries – at cost	<u>84,286</u>	<u>66,788</u>

**10. ADVANCES TO SUBSIDIARIES**

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Advances	-	-	317,646	245,295
Less provision for write-off	-	-	(9,665)	(7,657)
	<u>-</u>	<u>-</u>	<u>307,981</u>	<u>237,638</u>

FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

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11. TRADE AND OTHER DEBTORS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	K'000	K'000	K'000	K'000
Trade debtors	27	32	-	-
Other debtors and prepayments *	6,565	3,443	-	-
Less: Provision for doubtful debts **	2,703	-	-	-
	<u>3,889</u>	<u>3,475</u>	-	-

\* Other debtors and prepayments includes amounts owing by Nord Pacific totalling K3.38million.

As part of the agreement between Orogen Minerals Limited ("Orogen") and Nord Australex Nominees (PNG) Limited ("Nord") for Orogen to purchase Nord's 31.5% interest in the Ramu Joint Venture, Highlands Pacific has agreed to release Nord's interest in the Ramu Project from all claims (and therefore make it available for sale to Orogen). The total owing by Nord was K4,851,351. Highlands Pacific has written-off K1,472,973 and will recover K3.4 million in three tranches. The first tranche of K675,675 was received in March 2000.

The remaining two tranches are to be paid as follows:

- K1,351,351 - When debt and equity funding is available for the development of the Ramu Project.
- K1,351,351 - When the Ramu Project commences production.

\*\* A provision for K2.7 million has been raised against the second and third tranches to be paid by Nord as detailed above.

12. INVENTORIES

	Consolidated		Holding Company	
	1999	1998	1999	1998
	K'000	K'000	K'000	K'000
Spares and consumables	176	146	-	-
	<u>176</u>	<u>146</u>	-	-

13. PROVISIONS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	K'000	K'000	K'000	K'000
<b>Non-Current</b>				
Employee entitlements	151	178	-	-
<b>Current</b>				
Employee entitlements	489	383	-	-
	<u>640</u>	<u>561</u>	-	-

14. TRADE AND OTHER CREDITORS

	Consolidated		Holding Company	
	1999	1998	1999	1998
	K'000	K'000	K'000	K'000
Trade creditors	6,597	3,095	-	-
Other creditors and accruals	1,835	2,199	-	-
	<u>8,432</u>	<u>5,294</u>	-	-

Trade creditors includes an allowance for an A\$1.9 million payment to Eastern Pacific Mines to purchase a 10% interest in the Ramu Joint Venture. This debt was satisfied by the issue of shares in March 2000.

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**15. SHARE CAPITAL**

	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>
<b>(a) Issued and Paid Up Capital</b>		
210,000,025 ordinary shares	212,106	212,106

*In accordance with the changes to the Papua New Guinea Companies Act (1997), there is no par value on shares issued.*

**16. RESERVES**

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
<b>Foreign Currency Translation Reserve</b>				
Balance brought forward	92,520	38,654	101,731	45,724
Movements during period	77,879	53,866	81,480	56,007
Balance carried forward	170,399	92,520	183,211	101,731

**17. REMUNERATION OF DIRECTORS**

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

	<b>Group and Holding Company</b>	
	<b>1999</b>	<b>1998</b>
	<b>K\$000</b>	<b>K\$000</b>
Robert Bryan	243	141
Ian R Holzberger	692	490
Gerea Aopi – Retired effective 7 May 1999	43	103
Andrew J Berry – Appointed 17 August 1998	122	41
Louis A Clinton – Retired effective 1 July 1998	-	107
David Copland – Retired effective 7 May 1999	43	103
Henry T Fabila, MBE - Appointed 1 January 1999	122	-
Jimmy Maladina – Appointed 7 May 1999	78	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the Year Ended 31 December 1999

**18. REMUNERATION OF EMPLOYEES**

The number of employees (not including Directors) whose remuneration, including benefits, was within the specified bands as follows:

US\$	Kina	Group and Holding Company Number of Employees 1999
38,920 – 42,812	100,000 – 109,999	-
42,813 – 46,704	110,000 – 119,999	1
46,705 – 50,596	120,000 – 129,999	1
50,597 – 54,488	130,000 – 139,999	-
54,489 – 58,380	140,000 – 149,999	2
58,381 – 62,272	150,000 – 159,999	1
62,273 – 66,164	160,000 – 169,999	-
70,056 – 73,948	180,000 – 189,999	1
73,949 – 77,840	190,000 – 199,999	-
77,841 – 81,732	200,000 – 209,999	1
81,733 – 85,624	210,000 – 219,999	1
85,625 – 89,516	220,000 – 229,999	1
89,517 – 93,408	230,000 – 239,999	2
93,409 – 97,300	240,000 – 249,999	2
97,301 – 101,192	250,000 – 259,999	-
101,193 – 105,084	260,000 – 269,999	2
108,976 – 112,868	280,000 – 289,999	-
112,869 – 116,760	290,000 – 299,999	1
132,328 – 136,220	340,000 – 349,999	1
151,788 – 155,680	390,000 – 399,999	2
167,356 – 171,248	430,000 – 439,999	1
Total		20

The remuneration includes costs to the Group of accommodation in Papua New Guinea and other like benefits provided to employees. Remuneration also includes redundancy payments to a number of employees.

The majority of the base salary rates included on the above table are contracted in Australian dollars. The weakening of the Kina during the year has resulted in an increase in the equivalent Kina rates.

This note is required by the Papua New Guinea Companies Act (1997).

**19. JOINT VENTURES**

At 31 December 1999 joint venture interests comprised :

	Percentage Interest (%)	Activity
Ramu Joint Venture (Note 1,3)	68.5	Exploration & Evaluation
Frieda River Joint Venture (Note 1,2)	87.9	Exploration & Evaluation
Kainantu Joint Venture (Note 1 & 2)	100	Exploration & Evaluation
Highlands Pacific / Cyprus Amax Exploration Joint Venture (Note 1 & 5)	100	Exploration & Evaluation
Contracts of Work: Woyla River and Tripa (Note 3)	90	Exploration & Evaluation

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country.
2. Subject to the right of Nippon Mining and Metals Co. Ltd. to acquire up to 50% of Highlands Pacific's interest.
3. Subject to the right of PT North Mining Indonesia to acquire up to 70% of Highlands Pacific's interest.
4. Subject to Ministerial approval of the transfer of Eastern Pacific Mines Limited's 10% interest in the Ramu Joint Venture to Highlands Pacific. Ministerial approval occurred on 11 January 2000.
5. Subject to Cyprus Amax PNG Holdings Inc.'s withdrawal that was advised to Highlands Pacific on 1 December 1999 and became effective on 29 February 2000.

## FINANCIAL INFORMATION

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 1999

### 19. JOINT VENTURES (CONTINUED)

The Group's interests in joint ventures comprised :

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Current assets	897	-	-	-
Non-current assets	341,697	252,664	-	-
	<u>342,594</u>	<u>252,664</u>	-	-
Current liabilities	2,157	996	-	-
Non-current liabilities	-	-	-	-
	<u>2,157</u>	<u>996</u>	-	-
Net Assets	<u>340,437</u>	<u>251,668</u>	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 20. SEGMENT REPORTING

#### a) Business Segments

During the year Group exploration activities were carried on predominantly in the mining industry.

#### b) Geographic Segments

During the year Group exploration activities were carried on predominantly in Papua New Guinea.

### 21. CAPITAL COMMITMENTS

The holding company and the Group have no commitments for future capital expenditure at 31 December 1999.

### 22. OPERATING LEASE OBLIGATIONS

	<b>Consolidated</b>		<b>Holding Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	322	336	-	-
One to two years	251	238	-	-
Two to five years	24	396	-	-
	<u>597</u>	<u>970</u>	<u>-</u>	<u>-</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the Year Ended 31 December 1999

**23. CONTINGENT LIABILITIES**

1. The following contingent liabilities arose as a result of the acquisition of the portfolio of mineral resource assets from the Highlands Gold Limited group of companies ("HGL") during 1997.
  - The Company has agreed to indemnify HGL in relation to costs relating to legal proceedings against Dyno Wesfarmers Limited to recover damages for interruption to business resulting from an explosion on 2 August 1994 at an explosives manufacturing facility operated by Dyno Wesfarmers at the Porgera gold mine in Papua New Guinea. The Company is entitled to any proceeds of that litigation.
  - Highlands Pacific has agreed to indemnify HGL against any claims for taxation (including any penalties) as a consequence of the execution of the transaction documents relating to the acquisition of such assets. HGL will take responsible action (at the direction and sole cost of Highlands Pacific) to contest any such claims for taxation.
2. During 1999, Highlands Pacific entered into an agreement with Eastern to purchase Eastern's 10% interest in the Ramu Joint Venture. The following contingent liabilities arose as a result of the acquisition:
  - When debt and equity funding is available for the development of the Ramu Project, the payment of K197,386 plus A\$1.5 million which may be satisfied by payment in Kina (cash) on or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the ASX over the preceding ten (10) days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
  - When the Ramu Project commences commercial production, the payment of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment mentioned above.
3. As part of the Orogen and Nord purchase and sale agreement for Orogen to purchase Nord's 31.5% interest in the Ramu Joint Venture (Refer Note 24), Orogen required from Highlands Pacific agreement that if a major joint venture partner has not been identified within two years of the date of the agreement, Highlands Pacific, at Orogen's option, will acquire this 31.5% interest in the Project at its sunk cost of K14.2million plus Joint Venture contributions. Highlands Pacific has not been required to offer any security in relation to this "put option" by Orogen.

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. EVENTS OCCURRING AFTER BALANCE DATE**

During March 2000, the Minister for Mining approved the assignment of the 31.5% interest in the Ramu Nickel Joint Venture from Nord to Orogen. This Ministerial Approval lead to:

- The receipt of K675,675 from Nord (see Note 11) and
- Orogen Minerals Limited becoming a joint venturer in the Ramu Joint Venture holding 31.5%. Highlands Pacific holds the remaining 68.5%.

In March 2000, Highlands Pacific issued 6,959,707 ordinary shares to Eastern in accordance with the Purchase and Sale Agreement, dated 26 October 1999 (refer Note 7).

On 1 December 1999, Cyprus Amax PNG Holdings Inc. advised that it was withdrawing from the Frieda River Joint Venture and the Highlands Pacific / Cyprus Amax Exploration Joint Venture. This withdrawal became effective on 29 February 2000.

**25. EMPLOYEES**

The average number of people employed by the group during the year was 119. The holding company does not have any direct employees. The average number of daily paid employees was 69.

**26. RETIREMENT BENEFITS**

The Group participates in two retirement benefit funds. There is a cash accumulation plan for senior staff and the second is the National Provident Fund of Papua New Guinea for citizen employees. Total employer contributions were K623,886.