

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

INDEPENDENT AUDIT REPORT TO THE MEMBERS

For the Year Ended 31 December 2000

SCOPE

We have audited the financial statements and Group financial statements of Highlands Pacific Limited ("Highlands Pacific" or the "Company") for the year ended 31 December 2000 as set out on pages 25 to 54. 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 on pages 25 to 54.
 - 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 2000 and the results of their operations and cash flows for the year ended on that date.

**PRICEWATERHOUSECOOPERS**

Port Moresby 27 March 2001

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

PROFIT AND LOSS STATEMENTS

For the Year Ended 31 December 2000

	Notes	Consolidated		Holding Company	
		2000 US\$000	1999 US\$000	2000 US\$000	1999 US\$000
REVENUE	2	682	1,108	-	-
Less operating costs	3	2,041	4,462	-	-
PROFIT (LOSS) FROM ORDINARY ACTIVITIES		(1,359)	(3,354)	-	-
Abnormal gain (loss) before income tax	4	-	(21,376)	-	-
PROFIT (LOSS) AFTER ABNORMAL ITEM BEFORE INCOME TAX		(1,359)	(24,730)	-	-
Less income tax expense / (benefit)	6	7	(40)	-	-
NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE HOLDING COMPANY		(1,366)	(24,690)	-	-
Retained earnings brought forward		(28,394)	(3,704)	(1,304)	(1,304)
RETAINED EARNINGS CARRIED FORWARD		(29,760)	(28,394)	(1,304)	(1,304)
EARNINGS PER SHARE					
Basic	7	US\$(0.01)	US\$(0.12)		
Diluted	7	US\$(0.01)	US\$(0.12)		

These profit and loss statements are to be read in conjunction with the Notes on pages 29 to 40.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended 31 December 2000

	Notes	Share Capital	Other Reserves	Retained Earnings	Total
		US\$000	US\$000	US\$000	US\$000
Year ended 31 December 1999					
Balance at 1 January 1999		152,716	(10,284)	(3,704)	138,728
Net profit / (loss)		-	-	(24,690)	(24,690)
Balance at 31 December 1999		152,716	(10,284)	(28,394)	114,038
Year ended 31 December 2000					
Balance at 1 January 2000		152,716	(10,284)	(28,394)	114,038
Net profit / (loss)		-	-	(1,366)	(1,366)
Issue of share capital	17	1,158	-	-	1,158
Balance at 31 December 2000		153,874	(10,284)	(29,760)	113,830

These change in shareholders' equity statements are to be read in conjunction with the Notes on pages 29 to 40.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

BALANCE SHEETS

For the Year Ended 31 December 2000

	Notes	Consolidated		Holding Company	
		2000 US\$000	1999 US\$000	2000 US\$000	1999 US\$000
NON-CURRENT ASSETS					
Property, plant and equipment	8	404	628	-	-
Exploration and evaluation expenditure	9	106,071	102,881	-	-
Investments	10	315	315	-	-
Investment in subsidiaries	11	-	-	31,186	31,186
Advance to subsidiaries	12	-	-	115,114	113,953
		<u>106,790</u>	<u>103,824</u>	<u>146,300</u>	<u>145,139</u>
CURRENT ASSETS					
Cash and bank balances	29	7,762	12,067	2	5
Trade and other debtors	13	297	1,439	-	-
Inventories	14	38	65	-	-
		<u>8,097</u>	<u>13,571</u>	<u>2</u>	<u>5</u>
TOTAL ASSETS		<u>114,887</u>	<u>117,395</u>	<u>146,302</u>	<u>145,144</u>
NON-CURRENT LIABILITIES					
Provisions	15	51	56	-	-
		<u>51</u>	<u>56</u>	<u>-</u>	<u>-</u>
CURRENT LIABILITIES					
Trade and other creditors	16	821	3,120	-	-
Provisions	15	185	181	-	-
		<u>1,006</u>	<u>3,301</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>1,057</u>	<u>3,357</u>	<u>-</u>	<u>-</u>
NET ASSETS		<u>113,830</u>	<u>114,038</u>	<u>146,302</u>	<u>145,144</u>
SHAREHOLDERS' EQUITY					
Paid up capital	17	153,874	152,716	153,874	152,716
Reserves	18	(10,284)	(10,284)	(6,268)	(6,268)
Retained earnings		(29,760)	(28,394)	(1,304)	(1,304)
TOTAL SHAREHOLDERS' EQUITY		<u>113,830</u>	<u>114,038</u>	<u>146,302</u>	<u>145,144</u>

These balance sheets are to be read in conjunction with the Notes on pages 29 to 40.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES
STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2000

	Notes	Consolidated		Holding Company	
		2000 US\$000	1999 US\$000	2000 US\$000	1999 US\$000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		42	10	-	-
Interest from investments		674	1,141	-	-
Income tax paid		(2)	-	-	-
Payments to suppliers and employees		(1,094)	(1,645)	-	-
Net cash from operating activities		(380)	(494)	-	-
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of fixed assets		5	17	-	-
Advance to subsidiaries		-	-	(3)	(2,972)
Purchase of fixed assets		(3)	(44)	-	-
Payment for mineral resource assets		-	(73)	-	-
Exploration and evaluation		(3,619)	(7,315)	-	-
Net cash used in investing activities		(3,617)	(7,415)	(3)	(2,972)
NET INCREASE (DECREASE) IN CASH HELD					
		(3,997)	(7,909)	(3)	(2,972)
Add cash brought forward		12,067	20,450	5	2,977
Effect of exchange rate change on cash		(308)	(474)	-	-
CASH CARRIED FORWARD					
		7,762	12,067	2	5
CASH COMPRISES					
Cash and bank balances		7,762	12,067	2	5

These statements of cash flows are to be read in conjunction with the Notes on pages 29 to 40.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

STATEMENT OF CASH FLOWS (Continued)

For the Year Ended 31 December 2000

SUMMARY OF THE EFFECTS OF ACQUISITION OF ASSETS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Total cash paid	-	73	-	-
Accrued payment of shares in Highlands Pacific	-	1,176	-	-
	-	1,249	-	-
Fair value of net assets acquired:				
Mineral resource assets	-	1,249	-	-

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

	Notes	Consolidated		Holding Company	
		2000	1999	2000	1999
		US\$000	US\$000	US\$000	US\$000
Reported Net Profit (Loss) after Taxation		(1,359)	(24,690)	-	-
Add (less) non-cash items:					
Depreciation		227	307	-	-
Provision for write-off of exploration & evaluation	9	390	21,640	-	-
Provision for diminution of investments	10	-	153	-	-
Provision for doubtful debts	13	-	1,000	-	-
Write-off of bad debts	13	57	545	-	-
Net (gain)/loss on foreign currency balances		304	832	-	-
		978	24,477	-	-
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		1,108	(863)	-	-
Increase (decrease) in creditors and provisions		(1,134)	584	-	-
(Increase) decrease in inventories		27	(2)	-	-
		1	(281)	-	-
Net Cash Flow from Operating Activities		(380)	(494)	-	-

These statements are to be read in conjunction with the Notes on pages 29 to 40.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

I. 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 PNG 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 11.

(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 accounts are translated from US dollars at the rate prevailing at 31 December 2000 of PGK 1.00 = \$0.3270 (1999: PGK 1.00 = \$0.3700).

(iii) Investments

Investments are stated at cost less any provision for diminution in 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.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

(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 higher of its value in use or net selling price.

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

(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 or 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.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

2. REVENUE

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Other income	42	10	-	-
Interest income	640	1,098	-	-
	682	1,108	-	-

3. ANALYSIS OF EXPENSES

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
(a) Operating costs				
Cost of sales	36	37	-	-
Exploration and administration costs	2,005	4,425	-	-
Total operating costs	2,041	4,462	-	-

Operating costs are stated after charging:

Auditors' remuneration				
- audit	24	26	-	-
- other services	42	56	-	-
- other auditors of controlled entities	-	30	-	-
Depreciation – owned assets	227	307	-	-
Loss on foreign currency balances	304	832	-	-
Provision for diminution in value of investment	-	153	-	-
Provision for exploration expenditure	390	264	-	-
Write-off of loans	-	545	-	-
Write-off of bad debts	57	-	-	-
Provision for doubtful debts	-	1,000	-	-
Donations	1	6	-	-
Staff costs (refer Note 5)	2,020	3,075	-	-

4. ABNORMAL ITEMS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Provision for exploration expenditure	-	(21,376)	-	-
Less applicable income tax	-	-	-	-
Abnormal item after income tax	-	(21,376)	-	-

During the 1999 year a provision was made against the carrying value of the Frieda River project reducing it by US\$21.4 million to US\$21 million.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

5. STAFF COSTS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Wages and salaries	1,590	2,424	-	-
Other benefits	430	651	-	-
	<u>2,020</u>	<u>3,075</u>	-	-

A proportion of staff costs were capitalised during the year as Exploration & Evaluation expenditure.

The average number of people employed by the Group during the year was 50 (1999: 119). The Holding Company does not have any direct employees. The average number of daily paid employees was 34 (1999: 69). During the year an operational change resulted in the transfer of Ramu project employees from the Group to the Ramu joint venture, thus reducing the cost and numbers employed by the Group.

6. INCOME TAX

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
The income tax has been calculated as follows:				
Profit (loss) for the year	(1,359)	(24,730)	-	(1)
Income tax (benefit) on the profit (loss) for the year at an average of 26% (1999: 34%)	<u>(348)</u>	<u>(8,526)</u>	-	-
Tax effect of permanent differences	125	238	-	-
	<u>(223)</u>	<u>(8,288)</u>	-	-
Future income tax benefit not brought to account	228	8,288	-	-
Income tax expense / (benefit)	<u>5</u>	-	-	-
(Over) Under provision prior year	2	(40)	-	-
Income tax expense this year	<u>5</u>	-	-	-
Income tax expense / (benefit)	<u>7</u>	<u>(40)</u>	-	-

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 2000 in respect of tax losses not brought to account is approximately US\$1,643,631 (1999: US\$1,272,737). 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.

7. EARNINGS PER SHARE

	2000	1999
Net profit / (loss) attributable to shareholders (US\$000)	(1,366)	(24,690)
Weighted average number of ordinary shares in issue (000)	215,572	210,000
Basic earnings per share (US\$)	(0.01)	(0.12)
Net profit / (loss) used to determine diluted earnings per share (US\$000)	(1,366)	(24,690)
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	218,397	212,825
Diluted earnings per share (US\$)	(0.01)	(0.12)

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Plant and Equipment	Total
	US\$000	US\$000	US\$000
Consolidated 2000			
Cost or valuation			
Cost brought forward	179	1,295	1,474
Additions	-	3	3
Disposals	-	(5)	(5)
Cost carried forward	179	1,293	1,472
Depreciation			
Brought forward	63	783	846
Charge for the year	12	215	227
Disposals	-	(5)	(5)
Carried forward	75	993	1,068
Net book value at 31 December 2000	104	300	404
Consolidated 1999			
Cost or valuation			
Cost brought forward	179	1,306	1,485
Additions	-	54	54
Disposals	-	(65)	(65)
Cost carried forward	179	1,295	1,474
Depreciation			
Brought forward	39	549	588
Charge for the year	24	283	307
Disposals	-	(49)	(49)
Carried forward	63	783	846
Net book value at 31 December 1999	116	512	628

9. EXPLORATION & EVALUATION EXPENDITURE

	Ramu	Frieda	Other	Total
	US\$000	US\$000	US\$000	US\$000
Balance brought forward	81,881	21,000	-	102,881
Capitalised during the year	3,190	199	191	3,580
Less provision for write-off during the year	-	(199)	(191)	(390)
Balance carried forward	85,071	21,000	-	106,071

10. INVESTMENTS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Balance brought forward	315	468	-	-
Less provision for diminution	-	153	-	-
Balance carried forward	315	315	-	-

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

11. INVESTMENTS IN SUBSIDIARIES

	Percentage Shareholding	Country of Incorporation
Ramu Nickel Limited	100	PNG
Highlands Frieda Limited	100	PNG
Highlands Pacific Resources 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
Highlands Pacific Exploration Limited	100	PNG

INVESTMENTS AT COST

	Holding Company	
	2000	1999
	US\$000	US\$000
Balance brought forward	31,186	31,190
Less subsidiary liquidated during the year	-	4
Investments in subsidiaries - at cost	31,186	31,186

Two wholly owned subsidiaries, PNG Analytical Laboratories Limited and Pacrim Limited, were deregistered during the year.

12. ADVANCES TO SUBSIDIARIES

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Advances	-	-	118,690	117,529
Less provision for write-off	-	-	3,576	3,576
	-	-	115,114	113,953

13. TRADE AND OTHER DEBTORS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Trade debtors	3	10	-	-
Other debtors and prepayments *	1,294	2,429	-	-
Less: Provision for doubtful debts **	1,000	1,000	-	-
	297	1,439	-	-

* Other debtors and prepayments includes amounts owing by Nord Australex Nominees (PNG) Limited ("Nord") totalling US\$1.00 million (1999: US\$1.25 million).

This balance is receivable 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 was raised in 1999 against these two tranches.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

14. INVENTORIES

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Spares and consumables	38	65	-	-
	38	65	-	-

15. PROVISIONS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Non-Current				
Employee entitlements	51	56	-	-
Current				
Income tax	5	-	-	-
Employee entitlements	180	181	-	-
	236	237	-	-

16. TRADE AND OTHER CREDITORS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Trade creditors	639	2,441	-	-
Other creditors and accruals	182	679	-	-
	821	3,120	-	-

17. SHARE CAPITAL

	2000	1999
	US\$000	US\$000
(a) Paid Up Capital		
216,959,732 (1999: 210,000,025) ordinary shares	153,874	152,716

On 13 March 2000 the Company issued 6,959,707 ordinary shares at approximately US\$0.17 to Eastern Pacific Mines Limited as consideration for the purchase of a 10% interest in the Ramu Joint Venture.

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.

Outstanding at the end of the quarter	Tranche A	Tranche B	Tranche C
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

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

18. RESERVES

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Foreign Currency Translation Reserve				
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)

19. 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 2000
	36,130 – 39,743	100,000 – 109,999	-
	39,744 – 43,356	110,000 – 119,999	-
	43,357 – 46,969	120,000 – 129,999	-
	46,970 – 50,582	130,000 – 139,999	1
	50,583 – 54,195	140,000 – 149,999	-
	54,196 – 57,808	150,000 – 159,999	1
	57,809 – 61,421	160,000 – 169,999	1
	61,422 – 65,034	180,000 – 189,999	-
	65,035 – 68,647	190,000 – 199,999	1
	68,648 – 72,260	200,000 – 209,999	3
	72,261 – 75,873	210,000 – 219,999	1
	75,874 – 79,486	220,000 – 229,999	1
	79,487 – 83,099	230,000 – 239,999	-
	83,100 – 86,712	240,000 – 249,999	-
	86,713 – 90,325	250,000 – 259,999	2
	90,326 – 93,938	260,000 – 269,999	-
	119,229 – 122,842	330,000 – 339,999	1
	137,294 – 140,907	380,000 – 389,999	1
	151,746 – 155,359	420,000 – 429,999	1
	Total		14

The remuneration includes costs to the Group of accommodation in PNG 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 strengthening of the Kina against the Australian dollar during the year resulted in a decrease in the equivalent Kina rates.

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

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

20. REMUNERATION OF DIRECTORS

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

	Group and Holding Company	
	2000	1999
	US\$000	US\$000
Robert Bryan	90	90
Ian R Holzberger	231	256
Gerea Aopi - Retired effective 7 May 1999	-	16
Andrew J Berry	45	45
David Copland - Retired effective 7 May 1999	-	16
Henry T Fabila, MBE – Resigned effective 4 July 2000	23	45
Jimmy Maladina – Resigned effective 3 May 2000	15	29
Dr Moseley A Moramoro, OBE – Appointed 29 May 2000	27	-
Rod Mitchell – Appointed 27 February 2001	-	-
	<hr/>	<hr/>
	431	497

21. 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 ("NPF") for citizen employees. Total employer contributions were US\$154,007.

22. JOINT VENTURES

At 31 December 2000 joint venture interests comprised :

	Highlands Pacific's Percentage Interest (%)	Activity
Ramu joint venture (Note 1)	68.5	Exploration & Evaluation
Frieda River joint venture (Note 1)	87.9	Exploration & Evaluation
Kainantu joint venture (Note 1 & 2)	65	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 major 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.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

22. JOINT VENTURES (Continued)

The following amounts represent the Group's share of assets, liabilities, sales and result that are included in the consolidated balance sheet and profit and loss statements:

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Current assets	260	-	-	-
Non-current assets	72,445	70,950	-	-
	72,705	70,950	-	-
Current liabilities	248	-	-	-
Non-current liabilities	-	-	-	-
	248	-	-	-
Net Assets	72,457	70,950	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	-	-	-	-

The 1999 comparative figures have been restated in order to be consistent with the current year's calculation method for taking up interests in joint ventures.

23. RELATED PARTY TRANSACTIONS

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

- Mr H T Fabila MBE was 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 was Managing Director of the NPF which is a major shareholder in the Company and manages a retirement plan in which the Company participates.
- Mr J Maladina was Chairman of the NPF that is a major shareholder in the Company and manages a retirement plan in which the Company participates. He was also a Director of Crocodile Catering Limited which provided services to the Group at normal commercial rates.
- Dr M A Moramoro OBE is a Director of Westpac Bank (PNG) Limited which provided services to the Group at normal commercial rates. In addition, Dr Moramoro is a Trustee on the Board of Trustees of the NPF which is a major shareholder in the Company and which manages a retirement plan in which the Company participates.

There are no other material related party transactions.

24. SEGMENT REPORTING**a) Business Segments**

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

b) Geographic Segments

During the year Group exploration activities were carried out predominantly in PNG.

25. CAPITAL COMMITMENTS

The Holding Company and the Group have no commitments for future capital expenditure at 31 December 2000.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

26. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	US\$000	US\$000	US\$000	US\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	90	119	-	-
One to two years	16	93	-	-
Two to five years	14	9	-	-
	<u>120</u>	<u>221</u>	<u>-</u>	<u>-</u>

27. CONTINGENT LIABILITIES

- The following contingent liability 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.
 - 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 Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu joint venture. The following contingent liabilities arose as a result of the acquisition:
 - When debt and equity funding is available for the development of the Ramu project, the payment of the Kina equivalent of US\$73,033 plus A\$1.5 million which may be satisfied by payment in Kina (cash) on or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the ASX over the proceeding ten (10) days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
 - When the Ramu project commences commercial production, the payment of the Kina equivalent of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment mentioned above.
- 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, Orogen required from Highlands Pacific agreement that if a major joint venture participant 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. The agreement specifies that Orogen can only exercise this option during a 30 day period commencing 11 March 2002. 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.

28. EVENTS OCCURRING AFTER BALANCE DATE

The Independent State of Papua New Guinea (State) has a right to purchase a 30% contributing equity in any major mineral development within PNG. During July 2000 the State advised the Ramu joint venturers that it intends to exercise its right to purchase a 30% interest in the Ramu project. The acquisition price will be 30% of the accumulated exploration expenditure incurred on the project to the date of issue of the Special Mining Lease.

During March 2001, the State and the Ramu joint venture agreed that the accumulated exploration expenditure incurred on the project amounts to US\$ 41.9 million. This agreement triggers the 120 day period during which Orogen can exercise its option to acquire the majority (25%) of the State's interest in the Ramu project.

Any payment to Highlands Pacific in respect to its share of the State's acquisition price is contingent on Orogen exercising its option.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

29. 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 7 and 90 days and receive interest at rates between 4% to 21%. 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 PNG 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.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

KINA FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

For PNG statutory purposes Kina financial statements have been prepared and are translated from US dollars at the rate prevailing at 31 December 2000 of PGK 1.00 = \$0.3270 (1999: PGK1.00 = \$0.3700). Movements in the share capital account are accounted for as a capital reserve.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

PROFIT AND LOSS STATEMENTS

For the Year Ended 31 December 2000

	Notes	Consolidated		Holding Company	
		2000 K'000	1999 K'000	2000 K'000	1999 K'000
REVENUE	2	2,086	2,995	-	-
Less operating costs	3	6,242	12,059	-	-
PROFIT (LOSS) FROM ORDINARY ACTIVITIES		(4,156)	(9,064)	-	-
Abnormal gain (loss) before income tax	4	-	(57,773)	-	-
PROFIT (LOSS) AFTER ABNORMAL ITEM BEFORE INCOME TAX		(4,156)	(66,837)	-	-
Less income tax expense / (benefit)	6	21	(108)	-	-
NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS OF THE HOLDING COMPANY		(4,177)	(66,729)	-	-
Retained earnings brought forward		(74,293)	(7,564)	(3,036)	(3,036)
RETAINED EARNINGS CARRIED FORWARD		(78,470)	(74,293)	(3,036)	(3,036)
EARNINGS PER SHARE					
Basic	7	K(0.02)	K(0.32)		
Diluted	7	K(0.02)	K(0.32)		

These profit and loss statements are to be read in conjunction with the Notes on pages 29 to 40 and 46 to 54.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended 31 December 2000

	Notes	Share Capital K'000	Other Reserves K'000	Retained Earnings K'000	Total K'000
Year ended 31 December 1999					
Balance at 1 January 1999		212,106	92,520	(7,564)	297,062
Net profit / (loss)		-	-	(66,729)	(66,729)
Foreign currency translation		-	77,879	-	77,879
Balance at 31 December 1999		212,106	170,399	(74,293)	308,212
Year ended 31 December 2000					
Balance at 1 January 2000		212,106	170,399	(74,293)	308,212
Net profit / (loss)		-	-	(4,177)	(4,177)
Foreign currency translation		-	40,527	-	40,527
Issue of share capital	17	3,541	-	-	3,541
Balance at 31 December 2000		215,647	210,926	(78,470)	348,103

These change in shareholders' equity statements are to be read in conjunction with the Notes on pages 29 to 40 and 46 to 54.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

BALANCE SHEETS

For the Year Ended 31 December 2000

	Notes	Consolidated		Holding Company	
		2000 K'000	1999 K'000	2000 K'000	1999 K'000
NON-CURRENT ASSETS					
Property, plant and equipment	8	1,236	1,697	-	-
Exploration and evaluation expenditure	9	324,376	278,057	-	-
Investments	10	963	851	-	-
Investment in subsidiaries	11	-	-	95,370	84,286
Advance to subsidiaries	12	-	-	352,031	307,981
		<u>326,575</u>	<u>280,605</u>	<u>447,401</u>	<u>392,267</u>
CURRENT ASSETS					
Cash and bank balances		23,737	32,614	6	14
Trade and other debtors	13	908	3,889	-	-
Inventories	14	116	176	-	-
		<u>24,761</u>	<u>36,679</u>	<u>6</u>	<u>14</u>
TOTAL ASSETS		<u>351,336</u>	<u>317,284</u>	<u>447,407</u>	<u>392,281</u>
NON-CURRENT LIABILITIES					
Provisions	15	156	151	-	-
		<u>156</u>	<u>151</u>	<u>-</u>	<u>-</u>
CURRENT LIABILITIES					
Trade and other creditors	16	2,511	8,432	-	-
Provisions	15	566	489	-	-
		<u>3,077</u>	<u>8,921</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>3,233</u>	<u>9,072</u>	<u>-</u>	<u>-</u>
NET ASSETS		<u>348,103</u>	<u>308,212</u>	<u>447,407</u>	<u>392,281</u>
SHAREHOLDERS' EQUITY					
Paid up capital	17	215,647	212,106	215,647	212,106
Reserves	18	210,926	170,399	234,796	183,211
Retained earnings		(78,470)	(74,293)	(3,036)	(3,036)
TOTAL SHAREHOLDERS' EQUITY		<u>348,103</u>	<u>308,212</u>	<u>447,407</u>	<u>392,281</u>

These balance sheets are to be read in conjunction with the Notes on pages 29 to 40 and 46 to 54.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES
STATEMENTS OF CASHFLOWS

For the Year Ended 31 December 2000

	Consolidated		Holding Company	
	2000 K'000	1999 K'000	2000 K'000	1999 K'000
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts from customers	128	27	-	-
Interest from investments	2,061	3,084	-	-
Income tax paid	(6)	-	-	-
Payments to suppliers and employees	(3,346)	(4,446)	-	-
Net cash from operating activities	(1,163)	(1,335)	-	-
CASH FLOW FROM INVESTING ACTIVITIES				
Proceeds from sale of fixed assets	15	46	-	-
Advance to subsidiaries	-	-	(9)	(8,032)
Purchase of fixed assets	(9)	(119)	-	-
Payment for mineral resource assets	-	(197)	-	-
Exploration and evaluation	(11,067)	(19,770)	-	-
Net cash used in investing activities	(11,061)	(20,040)	(9)	(8,032)
NET INCREASE (DECREASE) IN CASH HELD	(12,224)	(21,375)	(9)	(8,032)
Add cash brought forward	32,614	43,790	14	6,375
Effect of exchange rate change on cash	3,347	10,199	1	1,671
CASH CARRIED FORWARD	23,737	32,614	6	14
CASH COMPRISES				
Cash and bank balances	23,737	32,614	6	14

These statements of cash flows are to be read in conjunction with the Notes on pages 29 to 40 and 46 to 54.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

STATEMENTS OF CASHFLOWS (Continued)

For the Year Ended 31 December 2000

SUMMARY OF THE EFFECTS OF ACQUISITION OF ASSETS

	Consolidated	
	2000	1999
	K'000	K'000
Total cash paid	-	197
Accrued payment of shares in Highlands Pacific Limited	-	3,178
	-	<u>3,375</u>
Fair value of net assets acquired:		
Mineral resource assets	-	<u>3,375</u>

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

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
Reported Net Profit (Loss) after Taxation	(4,156)	(66,730)	-	-
Add (less) non-cash items				
Depreciation	694	830	-	-
Provision for write-off of exploration & evaluation	9	1,193	58,486	-
Provision for diminution of investment	10	-	414	-
Provision for write-off of subsidiary debtors	-	-	-	-
Provision for doubtful debts	13	-	2,703	-
Write-off bad debts	13	174	1,473	-
Net gain on foreign currency balances	930	2,249	-	-
	<u>2,991</u>	<u>66,155</u>	-	-
Add (less) movements in working capital items:				
(Increase) decrease in debtors and prepayments	3,388	(2,332)	-	-
Increase (decrease) in creditors and provisions	(3,468)	1,577	-	-
(Increase) decrease in inventories	82	(5)	-	-
	<u>2</u>	<u>(760)</u>	-	-
Net Cash Flow from Operating Activities	<u>(1,163)</u>	<u>(1,335)</u>	-	-

These statements are to be read in conjunction with the Notes on pages 29 to 40 and 46 to 54.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

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 PNG statutory purposes Kina financial statements have been prepared and are translated from US Dollars at the rate prevailing at 31 December 2000 of PGK 1.00 = \$0.3270 (1999: PGK1.00 = \$0.3700).

For a full understanding of the accounting policies used in these financial statements refer pages 29 to 40.

2. REVENUE

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
Other income	129	27	-	-
Interest income	1,957	2,968	-	-
	2,086	2,995	-	-

3. ANALYSIS OF EXPENSE

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
(a) Operating costs				
Cost of sales	110	100	-	-
Exploration and Administration Costs	6,132	11,959	-	-
Total operating costs	6,242	12,059	-	-

Operating costs are stated after charging:

Auditors' remuneration				
- audit	73	70	-	-
- other services	128	151	-	-
- other auditors of controlled entities	-	81	-	-
Depreciation – owned assets	694	830	-	-
Loss on foreign currency balances	930	2,249	-	-
Provision for diminution in value of investment	-	414	-	-
Provision for exploration expenditure	1,193	714	-	-
Write-off loans	-	1,473	-	-
Write-off of bad debts	174	-	-	-
Provision for doubtful debts	-	2,703	-	-
Donations	3	16	-	-
Staff costs (refer Note 5)	6,177	8,311	-	-

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

4. ABNORMAL ITEMS

	Consolidated		Holding Company	
	2000 K'000	1999 K'000	2000 K'000	1999 K'000
Provision for exploration expenditure	-	(57,773)	-	-
Less applicable income tax	-	-	-	-
Abnormal item after income tax	-	(57,773)	-	-

5. STAFF COSTS

	Consolidated		Holding Company	
	2000 K'000	1999 K'000	2000 K'000	1999 K'000
Wages and salaries	4,862	6,551	-	-
Other benefits	1,315	1,760	-	-
	6,177	8,311	-	-

A proportion of staff costs were capitalised during the year as Exploration & Evaluation expenditure.

The average number of people employed by the Group during the year was 50 (1999: 119). The Holding Company does not have any direct employees. The average number of daily paid employees was 34 (1999: 69). During the year an operational change resulted in the transfer of Ramu project employees from the Group to the Ramu joint venture, thus reducing the cost and numbers employed by the Group.

6. INCOME TAX

	Consolidated		Holding Company	
	2000 K'000	1999 K'000	2000 K'000	1999 K'000
The income tax has been calculated as follows:				
Profit (loss) for the year	(4,156)	(66,837)	-	(3)
Income tax (benefit) on the profit (loss) for the year at an average of 26% (1999: 34%)	(1,064)	(23,043)	-	-
Tax effect of permanent differences	382	646	-	-
	(682)	(22,397)	-	-
Future income tax benefit not brought to account	697	22,397	-	-
Income tax expense / (benefit)	15	-	-	-
Under provision prior year	6	(108)	-	-
Income tax expense this year	15	-	-	-
Income tax expense / (benefit)	21	(108)	-	-

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 2000 in respect of tax losses not brought to account is approximately K5.0 million (1999: K3.4 million). 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.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

7. EARNINGS PER SHARE

	2000	1999
Net profit / (loss) attributable to shareholders (K000)	(4,177)	(66,729)
Weighted average number of ordinary shares in issue (000)	215,572	210,000
Basic earnings per share (K)	(0.02)	(0.32)
Net profit / (loss) used to determine diluted earnings per share (K000)	(4,177)	(66,729)
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	218,397	212,825
Diluted earnings per share (K)	(0.02)	(0.32)

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings K'000	Plant and Equipment K'000	Total K'000
Consolidated 2000			
Cost			
Cost brought forward	548	3,960	4,508
Additions	-	9	9
Disposals	-	(15)	(15)
Cost carried forward	548	3,954	4,502
Depreciation			
Brought forward	193	2,394	2,587
Charge for the year	37	657	694
Disposals	-	(15)	(15)
Carried forward	230	3,036	3,266
Net book value at 31 December 2000	318	918	1,236
Consolidated 1999			
Cost			
Cost brought forward	484	3,530	4,014
Additions	-	146	146
Disposals	-	(176)	(176)
Cost carried forward	484	3,500	3,984
Depreciation			
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

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

9. EXPLORATION & EVALUATION EXPENDITURE

	Ramu K'000	Frieda K'000	Other K'000	Total K'000
Balance brought forward	250,401	64,220	-	314,621
Capitalised during the year	9,755	609	584	10,948
Less provision for write-off during the year	-	(609)	(584)	(1,193)
Balance carried forward	260,156	64,220	-	324,376

10. INVESTMENTS

	Consolidated		Holding Company	
	2000 K'000	1999 K'000	2000 K'000	1999 K'000
Balance brought forward	963	1,265	-	-
Less provision for diminution	-	414	-	-
Balance carried forward	963	851	-	-

11. INVESTMENTS IN SUBSIDIARIES**INVESTMENTS AT COST**

	Holding Company	
	2000 K'000	1999 K'000
Balance brought forward	95,370	84,297
Less subsidiary liquidated during the year	-	11
Investments in subsidiaries - at cost	95,370	84,286

12. ADVANCES TO SUBSIDIARIES

	Consolidated		Holding Company	
	2000 K'000	1999 K'000	2000 K'000	1999 K'000
Advances	-	-	362,967	317,646
Less provision for write-off	-	-	(10,936)	(9,665)
	-	-	352,031	307,981

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

13. TRADE AND OTHER DEBTORS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
Trade debtors	9	27	-	-
Other debtors and prepayments *	3,957	6,565	-	-
Less: Provision for doubtful debts **	3,058	2,703	-	-
	908	3,889	-	-

* Other debtors and prepayments include amounts owing by Nord Pacific totalling K3.06 million (1999: K3.38million)
This balance is receivable as follows:

- K1,529,000 - When debt and equity funding is available for the development of the Ramu project.
- K1,529,000 - When the Ramu project commences production.

** A provision was raised in 1999 against these two tranches.

14. INVENTORIES

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
Spares and consumables	116	176	-	-
	116	176	-	-

15. PROVISIONS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
Non-Current				
Employee entitlements	156	151	-	-
Current				
Income tax	15	-	-	-
Employee entitlements	551	489	-	-
	722	640	-	-

16. TRADE AND OTHER CREDITORS

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
Trade creditors	1,954	6,597	-	-
Other creditors and accruals	557	1,835	-	-
	2,511	8,432	-	-

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

17. SHARE CAPITAL

	2000	1999
	K'000	K'000
a) Issued and Paid Up Capital		
216,959,732 ordinary shares (1999: 210,000,025)	215,647	212,106

On 13 March 2000 the Company issued 6,959,707 ordinary shares at approx. K0.51 to Eastern Pacific Mines Limited as consideration for the purchase of a 10% interest in the Ramu Joint Venture.

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

18. RESERVES

	Consolidated		Holding Company	
	2000	1999	2000	1999
	K'000	K'000	K'000	K'000
Foreign Currency Translation Reserve				
Balance brought forward	170,399	92,520	183,211	101,731
Movements during period	39,897	77,879	51,585	81,480
Balance carried forward	210,296	170,399	234,796	183,211

19. REMUNERATION OF DIRECTORS

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

	Group and Holding Company	
	2000	1999
	K'000	K'000
Robert Bryan	275	243
Ian R Holzberger	706	692
Gerea Aopi – Retired effective 7 May 1999	-	43
Andrew J Berry	138	122
David Copland – Retired effective 7 May 1999	-	43
Henry T Fabila, MBE – Resigned effective 4 July 2000	70	122
Jimmy Maladina – Resigned effective 3 May 2000	46	78
Dr Moseley A Moramoro, OBE – Appointed 29 May 2000	83	-
Rod Mitchell – Appointed 27 February 2001	-	-
	1,318	1,343

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

20. 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 2000
36,130 – 39,743	100,000 – 109,999	-
39,744 – 43,356	110,000 – 119,999	-
43,357 – 46,969	120,000 – 129,999	-
46,970 – 50,582	130,000 – 139,999	1
50,583 – 54,195	140,000 – 149,999	-
54,196 – 57,808	150,000 – 159,999	1
57,809 – 61,421	160,000 – 169,999	1
61,422 – 65,034	180,000 – 189,999	-
65,035 – 68,647	190,000 – 199,999	1
68,648 – 72,260	200,000 – 209,999	3
72,261 – 75,873	210,000 – 219,999	1
75,874 – 79,486	220,000 – 229,999	1
79,487 – 83,099	230,000 – 239,999	-
83,100 – 86,712	240,000 – 249,999	-
86,713 – 90,325	250,000 – 259,999	2
90,326 – 93,938	260,000 – 269,999	-
119,229 – 122,842	330,000 – 339,999	1
137,294 – 140,907	380,000 – 389,999	1
151,746 – 155,359	420,000 – 429,999	1
Total		14

The remuneration includes costs to the Group of accommodation in PNG 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 strengthening of the Kina during the year has resulted in a decrease in the equivalent Kina rates.

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

21. RETIREMENT BENEFITS

The Group participates in two retirement benefit funds. There is a cash accumulation plan for senior staff and the second is the NPF for citizen employees. Total employer contributions were K470,969.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

22. JOINT VENTURES

At 31 December 2000 joint venture interests comprised :

	Percentage Interest (%)	Activity
Ramu joint venture (Note 1)	68.5	Exploration & Evaluation
Frieda River joint venture (Note 1)	87.9	Exploration & Evaluation
Kainantu joint venture (Note 1 & 2)	65	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 major 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.

The Group's interests in joint ventures comprised:

	Consolidated		Holding Company	
	2000 US\$000	1999 US\$000	2000 US\$000	1999 US\$000
Current assets	795	-	-	-
Non-current assets	221,544	191,757	-	-
	222,339	191,757	-	-
Current liabilities	758	-	-	-
Non-current liabilities	-	-	-	-
	758	-	-	-
Net Assets	221,581	191,757	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	-	-	-	-

The 1999 comparative figures have been restated in order to be consistent with the current years calculation method for taking up interests in joint ventures.

23. SEGMENT REPORTING**(a) Business Segments**

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

(b) Geographic Segments

During the year Group exploration activities were carried out predominantly in PNG.

24. CAPITAL COMMITMENTS

The holding Company and the Group have no commitments for future capital expenditure at 31 December 2000.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2000

25. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2000 K'000	1999 K'000	2000 K'000	1999 K'000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	275	322	-	-
One to two years	49	251	-	-
Two to five years	43	24	-	-
	<u>367</u>	<u>597</u>	<u>-</u>	<u>-</u>

26. CONTINGENT LIABILITIES

- The following contingent liability 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.
 - 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 Pacific Mines Limited ("Eastern") to purchase Eastern's 10% interest in the Ramu joint venture. The following contingent liabilities arose as a result of the acquisition:
 - When debt and equity funding is available for the development of the Ramu project, the payment of the Kina equivalent of K223,343 plus A\$1.5 million which may be satisfied by payment in Kina (cash) on or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the ASX over the proceeding ten (10) days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
 - When the Ramu project commences commercial production, the payment of the Kina equivalent of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment mentioned above.
- 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, Orogen required from Highlands Pacific agreement that if a major joint venture participant 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 K16.1million plus joint venture contributions. The agreement specifies that Orogen can only exercise this option during a 30 day period commencing 11 March 2002. 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.

27. EVENTS OCCURRING AFTER BALANCE DATE

The Independent State of Papua New Guinea (State) has a right to purchase a 30% contributing equity in any major mineral development within PNG. During July 2000 the State advised the Ramu joint venturers that it intends to exercise its right to purchase a 30% interest in the Ramu project. The acquisition price will be 30% of the accumulated exploration expenditure incurred on the project to the date of issue of the Special Mining Lease.

During March 2001, the State and the Ramu joint venture agreed on accumulated exploration expenditure incurred on the project as a basis for calculating the State's purchase price of a 30% interest in the Ramu project. This agreement triggers the 120 day period during which Orogen can exercise its option to acquire the majority (25%) of the State's interest in the Ramu project.

Accumulated exploration expenditure on the Ramu project has been agreed at USD41.9 million. However any payment to Highlands Pacific is contingent on Orogen exercising its option.

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

STOCK EXCHANGE INFORMATION

For the Year Ended 31 December 2000

The shareholder information set out below was applicable as at 16 March 2001.

SPREAD OF SECURITY HOLDERS

a) Analysis of numbers of shareholders by size of holding:

Category of Holdings	Number of Shareholders
1 - 1,000	6,682
1,001 - 5,000	2,438
5,001 - 10,000	891
10,001 - 100,000	1,341
100,001 and over	141
Total Shareholders	11,493

b) There were 8,865 shareholders holding less than a marketable parcel of ordinary shares based on a market price of Aust 10.5 cents.

LARGEST TWENTY SHAREHOLDERS

The names of the largest twenty shareholders of each class of shares are listed below:

Name	No. of Ordinary Shares held	% of Total
National Provident Fund Board of Trustees	30,666,733	14.13
Finance Pacific Equities Ltd	23,218,821	10.70
Public Officers Superannuation Fund Board	15,407,922	7.10
Mineral Resources Development Company Limited	13,829,426	6.37
Dr Thomas John Beresford	10,384,442	4.78
Rexowa Pty Ltd	8,920,504	4.11
Eastern Pacific Mines Limited	6,668,666	3.07
Rubicon Nominees Pty Ltd	5,763,680	2.66
Dynamic Supplies Pty Ltd	5,045,841	2.33
Investment Corporation of Papua New Guinea	3,061,107	1.41
Pacific Re Limited	2,054,390	0.95
QBE Insurance (PNG) Limited	1,132,078	0.52
Mr Robert James Wilson	1,100,000	0.51
Melpa Properties Pty Limited	1,030,300	0.47
Mineral Resource Development Corporation	1,000,000	0.46
Blicere Pty Ltd	900,000	0.41
Wilshare Management Pty Ltd	856,380	0.39
Mrs Pamela Jean Wilson	800,000	0.37
Neilstock Nominees Pty Ltd	771,577	0.36
Powers Pty Ltd	729,400	0.35
Total	133,341,267	61.46%

HIGHLANDS PACIFIC LIMITED AND SUBSIDIARIES

STOCK EXCHANGE INFORMATION

For the Year Ended 31 December 2000

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders (holding in excess of 5% of the Company's issued ordinary capital), as registered in the Company's share register, are set out below:

Name	No. of Ordinary Shares held	% of Total
National Provident Fund Board of Trustees	30,666,733	14.13
Finance Pacific Equities Ltd	23,218,821	10.70
Dr Thomas J Beresford Group	19,304,946	8.90
Public Officers Superannuation Fund Board	15,407,922	7.10
Mineral Resources Development Company Limited	13,829,426	6.37

VOTING RIGHTS

The voting rights attaching to ordinary shares are: on a show of hands, every member present, in person or by proxy, shall have one vote; and upon a poll, each share shall have one vote.

JURISDICTION

The Company is incorporated in PNG and is not subject to Chapter 6 of the Australian Corporations Law dealing with the acquisition of shares (including substantial shareholdings and takeovers). The acquisition of securities in PNG is governed by the Takeovers Code 1998 and the Securities Act 1997.

LIST OF MINING TENEMENTS

as at 31 December 2000

Tenement Reference	Interest	Notes
PAPUA NEW GUINEA		
Exploration Licences (EL), Exploration Licence Applications (ELA), Special Mining Lease (SML), Mining Lease (ML), Lease for Mining Purposes (LMP), Mining Easement (ME)		
Ramu project		
ELs 193, 1178 and 1247 and ELA 1302	68.5%	1
SML 8; ML 149; LMPs 42, 43, 44, 45, 46, 47, 48 and 49; MEs 75, 76, 77, 78 and 79		
Kainantu project		
ELs 470, 693 and 1049	65%	1, 2
Freida River project		
ELs 58, 1212, 944, 945, 1211 and 1244	87.9%	1
Other Exploration		
ELs 880, 997, 1023, 1024, 1051, 1073, 1210, 1261, 1269, 1280 and ELAs 1277, 1278 and 1283	100%	1
INDONESIA		
Woyla River Contract of Work / Tripa Contract of Work	90%	3

Notes

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.