INDEPENDENT AUDIT REPORT TO THE MEMBERS For the Year Ended 31 December 2002

AUDIT OPINION

In our opinion,

(a) the financial report, set out on pages 23 to 37:

- presents a true and fair view, as required by the Companies Act 1997 in Papua New Guinea, of the financial position of Highlands Pacific Limited and the Highlands Pacific Group (defined below) as at 31 December 2002 and of their performance for the year ended on that date
- complies with generally accepted accounting practice in Papua New Guinea

(b) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(c) we have obtained all the information and explanations we have required.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

SCOPE AND SUMMARY OF OUR ROLE

The financial report – responsibility and content

The preparation of the financial report for the year ended 31 December 2002 is the responsibility of the directors of Highlands Pacific Limited. It includes the financial statements for Highlands Pacific Limited (the Company) and for the Highlands Pacific Group (the Group), which incorporates Highlands Pacific Limited and the entities it controlled during the year ended 31 December 2002.

The auditor's role and work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Companies Act 1997, and applicable financial reporting standards and other mandatory reporting requirements in Papua New Guinea, which is consistent with our understanding of the Company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:

- Selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence.
- Evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report.
- Obtaining written confirmation regarding material representations made to us in connection with the audit.
- Reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

Independence

As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Papua New Guinea Institute of Accountants and the Companies Act 1997.

In addition to our statutory audit work, we were engaged to undertake other services for the Group. These services are disclosed in note 3 to the financial statements. In our opinion, the provision of these services has not impaired our independence.

PricewaterhouseCoopers
Registered under the Accountants Act 1996
Port Moresby
20 March 2003

Consolidated Income Statement For the Year Ended 31 December 2002

	Notes	Consolidated 2002 US$000	Consolidated 2001 US$000	Holding Company 2002 US$000	Holding Company 2001 US$000
REVENUE	2	276	245	-	-
Operating costs	3	(1,008)	(2,935)	(162,190)	-
Reversal of provision for exploration	9	1,063	-	-	-
Impairment of exploration asset	4	(22,726)	(59,809)	-	-
Settlement of claim		143	1,000	143	1,000
PROFIT (LOSS) FROM OPERATIONS		(22,252)	(61,499)	(162,047)	1,000
Income tax (expense) benefit	6	(2)	(4)	-	-
NET PROFIT (LOSS)		(22,254)	(61,503)	(162,047)	1,000
EARNINGS PER SHARE					
Basic	7	US$(0.10)	US$(0.28)		
Diluted	7	US$(0.10)	US$(0.28)		

These profit and loss statements are to be read in conjunction with the Notes on pages 26 to 37.

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended 31 December 2002

	Notes	Share Capital US$000	Other Reserves US$000	Retained Earnings US$000	Total US$000
Year ended 31 December 2001					
Balance at 1 January 2001		153,874	(10,284)	(29,760)	113,830
Net profit (loss)		-	-	(61,503)	(61,503)
Foreign currency translation		-	21	-	21
Balance at 31 December 2001		153,874	(10,263)	(91,263)	52,348
Year ended 31 December 2002					
Balance at 1 January 2002		153,874	(10,263)	(91,263)	52,348
Net profit (loss)		-	-	(22,254)	(22,254)
Issue of share capital		14,863	-	-	14,863
Balance at 31 December 2002		168,737	(10,263)	(113,517)	44,957

These change in shareholders' equity statements are to be read in conjunction with the Notes on pages 26 to 37.

CONSOLIDATED BALANCE SHEET As at 31 December 2002

		Consolidated		Holding Company	
		2002	2001	2002	2001
	Notes	US$000	US$000	US$000	US$000
NON-CURRENT ASSETS					
Property, plant and equipment	8	185	235	-	-
Exploration and evaluation expenditure	9	30,074	47,873	-	-
Investment property	10	315	315	-	-
Investment in subsidiaries	11	-	-	13	31,186
Advance to subsidiaries	12	-	-	110	115,115
		30,574	48,423	123	146,301
CURRENT ASSETS					
Cash and cash equivalents	28	15,766	3,547	2	1
Receivables and prepayments	13	229	1,156	-	1,000
		15,995	4,703	2	1,001
TOTAL ASSETS		46,569	53,126	125	147,302
NON-CURRENT LIABILITIES					
Provisions	14	11	20	-	-
Advances from subsidiaries	12	-	-	7	-
		11	20	7	-
CURRENT LIABILITIES					
Trade and other creditors	15	1,289	606	-	-
Provisions	14	312	152	-	-
		1,601	758	-	-
TOTAL LIABILITIES		1,612	778	7	-
NET ASSETS		44,957	52,348	118	147,302
SHAREHOLDERS' EQUITY					
Paid up capital	16	168,737	153,874	168,737	153,874
Reserves	17	(10,263)	(10,263)	(6,268)	(6,268)
Retained earnings		(113,517)	(91,263)	(162,351)	(304)
TOTAL SHAREHOLDERS' EQUITY		44,957	52,348	118	147,302

These balance sheets are to be read in conjunction with the Notes on pages 26 to 37.

Consolidated Cash Flow Statement For the Year Ended 31 December 2002

	Notes	Consolidated 2002 US$000	Consolidated 2001 US$000	Holding Company 2002 US$000	Holding Company 2001 US$000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		13	7	-	-
Interest from investments		246	276	-	-
Income tax paid		(3)	(9)	-	-
Settlement of claim		1,143	-	1,143	-
Payments to suppliers and employees		(310)	(1,022)	-	-
Net cash from (used in) operating activities		1,089	(748)	1,143	-
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		3	4	-	-
Advance to subsidiaries		-	-	(16,005)	(1)
Purchase of property, plant and equipment		(6)	(9)	-	-
Exploration and evaluation		(3,974)	(3,311)	-	-
Net cash from (used in) investing activities		(3,977)	(3,316)	(16,005)	(1)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		14,863	-	14,863	-
Net cash from (used in) financing activities		14,863	-	14,863	-
NET INCREASE (DECREASE) IN CASH HELD		11,975	(4,064)	1	(1)
Add cash brought forward		3,547	7,762	1	2
Effect of exchange rate change on cash		244	(151)	-	-
CASH CARRIED FORWARD		15,766	3,547	2	1
CASH COMPRISES					
Cash and cash equivalents		15,766	3,547	2	1

These statements of cash flows are to be read in conjunction with the Notes on pages 26 to 37.

Reconciliation of Net Profit (Loss) After Taxation to Cash Flow From Operating Activities

	Notes	Consolidated 2002 US$000	Consolidated 2001 US$000	Holding Company 2002 US$000	Holding Company 2001 US$000
Reported Net Profit (Loss) after Taxation		(22,254)	(61,503)	(162,047)	1,000
Add (less) non-cash items:					
Depreciation		55	177	-	-
Impairment of exploration & evaluation	9	22,836	61,286	-	-
Reversal of provision for write-off of exploration & evaluation	9	(1,063)	-	-	-
Provision for doubtful debts	13	19	50	131,017	-
Provision for diminution of investments	11	-	-	31,173	-
Write-off of bad debts	13	17	3	-	-
Write-off of inventory		-	38	-	-
Tax	6	2	-	-	-
(Profit) loss on sale of property, plant & equipment		(2)	-	-	-
Net (gain) loss on foreign currency balances		(244)	174	-	-
		21,620	61,728	162,190	-
Add (less) movements in working capital items:					
(Increase) decrease in debtors and prepayments		891	(896)	1,000	(1,000)
Increase (decrease) in creditors and provisions		832	(77)	-	-
		1,723	(973)	1,000	(1,000)
Net Cash Flow from Operating Activities		1,089	(748)	1,143	-

These statements are to be read in conjunction with the Notes on pages 26 to 37.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2002

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 PNG by the Accounting Standards Board ("ASB"). The ASB has adopted International Financial Reporting Standards 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.

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 as modified by those assets and liabilities that have been carried at fair value, such as investment property. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

Significant risks and uncertainties

The Group is a "development stage" company that has interests in a number of pre-development projects, the key projects being the Kainantu gold project, the lateritic nickel/cobalt Ramu project, and the Frieda River copper/gold project. There are certain risks and uncertainties associated with development stage companies, in particular the carrying value of their assets (refer Note 9 Exploration and Evaluation Expenditure).

In addition, the preparation of the financial statements in accordance with International Accounting Standards, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. The most significant estimate relates to the carrying value and recoverability of the Group's long-lived assets. Actual results could differ from those estimates and may affect amounts reported in future periods. The directors and management believe that the estimates are reasonable.

Particular Accounting Policies

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

(a) Group accounting

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

(i) Subsidiaries

Subsidiaries, which are those entities (including Special Purpose Entities) in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) Joint venture

The Group's interest in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

Notes to and forming part of the financial statements

For the Year Ended 31 December 2002

(b) Foreign currency translation

(i) Measurement currency

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.

(ii) Transaction and balances

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

(iii) Group companies

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at the average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December.

(c) Non-Current Assets

(i) Investment property

Investment property, principally includes an apartment held for the long-term. Investment property is treated as a long-term investment and is carried at fair value. Changes in fair values are recorded in the income statement in accordance with IAS 40 and are included in other operating income.

(ii) 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 net selling price or value in use.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

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

Depreciation is calculated on a straight line basis to write off the cost or revalued amount of each asset to their residual value over their estimated useful lives as follows:

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2002

(iii) 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.

(iv) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including mineral properties are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(d) Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(e) Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(f) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow or resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Employee leave entitlement

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.

(g) Share capital

Incremental external costs directly attributable to the issue of new shares, other than in the connection with business combination, are shown as a deduction, net of tax, from the proceeds.

(h) Rounding

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

Notes to and forming part of the financial statements

For the Year Ended 31 December 2002

2. Revenue

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Other income	13	7	-	-
Interest income	263	238	-	-
	276	245	-	-

3. Analysis of Expenses

	Consolidated		Holding Company	
	2002	2001	2002	2001
Operating costs	US$000	US$000	US$000	US$000
Exploration and administration costs	1,008	2,935	162,190	-
Total operating costs	1,008	2,935	162,190	-
Operating costs are stated after charging:				
Auditors' remuneration				
- audit	27	19	-	-
- other services	29	19	-	-
Depreciation – owned assets	55	177	-	-
Gain on foreign currency balances	(244)	174	-	-
Provision for exploration expenditure	110	1,477	-	-
Write-off of bad debts	17	3	-	-
Provision for doubtful debts	19	49	131,017	-
Provision for diminution of investments	-	-	31,173	-
Donations	-	1	-	-
Staff costs (refer Note 5)	1,223	1,663	-	-

A portion of operating costs were capitalised during the year as Exploration & Evaluation expenditure.

4. Impairment of Exploration Asset

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Impairment of exploration expenditure *	(22,726)	(59,809)	-	-

* Provisions have been made against the carrying value of both the Ramu nickel project and the Frieda River copper/gold project reducing them to US$16 million and US$10 million, respectively.

During the 2001 year a provision was also made against the carrying value of the Ramu nickel project reducing it by US$59.8 million to US$26.9 million. At that time the carrying value represented expenditure on the project incurred by the Group.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2002

5. STAFF COSTS

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Wages and salaries	988	1,386	-	-
Other benefits	235	277	-	-
	1,223	1,663	-	-

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 24 (2001: 39). The Holding Company does not have any direct employees. The average number of daily paid casual employees was 73 (2001: 42).

6. INCOME TAX

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
The income tax has been calculated as follows:				
Profit (loss) for the year	(22,252)	(61,499)	(162,047)	-
Income tax (benefit) on the profit (loss) for the year at an average of 30% (2001: 30%)	(9,617)	(18,441)	(48,614)	-
Tax effect of permanent differences	2,094	(160)	-	-
	(7,523)	(18,601)	(48,614)	-
Future income tax benefit not brought to account	7,521	18,605	48,614	-
Income tax expense (benefit)	2	4	-	-
(Over) Under provision prior year	-	-	-	-
Income tax expense this year	2	4	-	-
Income tax expense (benefit)	2	4	-	-

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 2002 in respect of tax losses not brought to account is approximately US$2,996,201 (2001: US$2,656,128). 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;
- No changes in tax legislation adversely affect the ability in realising the benefit; and
- The tax losses are carried forward for a maximum of 20 years.

7. EARNINGS PER SHARE

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

	2002	2001
Net profit (loss) attributable to shareholders (US$000)	(22,254)	(61,503)
Weighted average number of ordinary shares in issue (000)	230,336	216,367
Basic earnings per share (US$)	(0.10)	(0.28)
Net profit (loss) used to determine diluted earnings per share (US$000)	(22,254)	(61,503)
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	231,833	219,703
Diluted earnings per share (US$)	(0.10)	(0.28)

Notes to and forming part of the financial statements

For the Year Ended 31 December 2002

8. Property, Plant and Equipment

	Land and Buildings US$000	Plant and Equipment US$000	Total US$000
Consolidated 2002			
Cost			
Cost brought forward	167	1,295	1,462
Additions	-	6	6
Disposals	-	(6)	(6)
Cost carried forward	167	1,295	1,462
Depreciation			
Brought forward	74	1,153	1,227
Charge for the year	10	45	55
Disposals	-	(5)	(5)
Carried forward	84	1,193	1,277
Net book value at 31 December 2002	83	102	185
Consolidated 2001			
Cost			
Cost brought forward	179	1,293	1,472
Additions	-	9	9
Disposals	(12)	(7)	(19)
Cost carried forward	167	1,295	1,462
Depreciation			
Brought forward	75	993	1,068
Charge for the year	11	166	177
Disposals	(12)	(6)	(18)
Carried forward	74	1,153	1,227
Net book value at 31 December 2001	93	142	235

9. Exploration and Evaluation Expenditure

	Ramu US$000	Kainantu US$000	Frieda US$000	Other US$000	Total US$000
Balance brought forward	26,873	-	21,000	-	47,873
Capitalised during the year	853	3,011	19	91	3,974
Provision reversed during the year	-	1,063	-	-	1,063
Less impairment charge	(11,726)	-	(11,019)	(91)	(22,836)
Balance carried forward	16,000	4,074	10,000	-	30,074

The realisation of the carrying value of the groups interest in the Ramu and Frieda projects is dependent upon the successful development or sale of these assets. The future development of the projects is dependent upon Highlands Pacific securing sufficient funding from equity, debt or other sources of funding and securing appropriate joint venture partners. The directors remain confident that these assets will ultimately be developed, however the future timing of their development cannot be predicted with any certainty. Consequently, in assessing the carrying value of the Ramu and Frieda capitalised exploration and evaluation expenditure, the directors have considered their value by reference to the present value of the future cashflows, at a risk adjusted discount rate, to be generated by these assets assuming their ultimate successful development and their potential current realisable value by reference to comparable transactions and farm in arrangements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2002

10. INVESTMENT PROPERTY

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Balance brought forward	315	315	-	-
Fair value gains (losses)	-	-	-	-
Balance carried forward	315	315	-	-

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 Kainantu Limited	100	PNG

INVESTMENTS AT COST

	Holding Company	
	2002	2001
	US$000	US$000
Investments in subsidiaries - at cost	31,186	31,186
Less provision for diminution	31,173	-
	13	-

12. SUBSIDIARY ADVANCES

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Advances to subsidiaries				
Advances	-	-	131,127	118,691
Less provision for write-off	-	-	131,017	3,576
	-	-	110	115,115
Advances from subsidiaries				
Advances	-	-	7	-

Notes to and forming part of the financial statements

For the Year Ended 31 December 2002

13. Receivables and Prepayments

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Non-Current				
Other receivables and prepayments	1,000*	-	-	-
Less: Provision for doubtful debts	1,000**	-	-	-
Current				
Other receivables and prepayments	229	2,156*	1,000	-
Less: Provision for doubtful debts	-	1,000**	-	-
	229	1,156	-	1,000

*Non-current other receivables and prepayments include the following:
Amounts owing by Nord Australex Nominees (PNG) Limited ("Nord") totaling US$1.00 million (2001: US$1.00 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.

14. Provisions

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Non-Current				
Employee entitlements	11	20	-	-
Current				
Income tax	-	-	-	-
Employee entitlements	312	152	-	-
	323	172	-	-

15. Trade and Other Creditors

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Trade creditors	1,078	510	-	-
Other creditors and accruals	211	96	-	-
	1,289	606	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2002

16. SHARE CAPITAL

	2002 US$000	2001 US$000
(a) Paid Up Capital	US$000	US$000
328,542,320 (2001: 216,959,732) ordinary shares	168,737	153,874

(b) Share Options

The number of unissued ordinary shares under these options at 31 December 2002 is 600,000.

Outstanding at the end of the period	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)	A$1.30	A$1.69	A$2.20
Exercise Price	A$1.00	A$1.00	A$1.00
Number of Options	70,000	140,000	140,000
Expiry Date	24 February 2004	25 February 2004	26 February 2004
Number of Options	50,000	100,000	100,000
Expiry Date	7 May 2004	10 May 2004	11 May 2004

17. RESERVES

	Consolidated		Holding Company	
	2002 US$000	2001 US$000	2002 US$000	2001 US$000
Foreign Currency Translation Reserve				
Balance brought forward	(10,263)	(10,284)	(6,268)	(6,268)
Inter group transfer of fixed assets	-	21	-	-
Balance carried forward	(10,263)	(10,263)	(6,268)	(6,268)

18. 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 2002
25,590 – 28,149	100,000 – 109,999	-
46,062 – 48,621	180,000 – 189,999	1
48,621 – 51,180	190,000 – 199,999	1
53,739 – 56,298	210,000 – 219,999	1
74,211 – 76,770	290,000 – 299,999	1
89,565 – 92,124	350,000 – 359,999	1
104,919 – 107,478	410,000 – 419,999	1
117,714 – 120,273	460,000 – 469,999	1
148,422 – 150,981	580,000 – 589,999	1
	Total	8

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.

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

Notes to and forming part of the financial statements

For the Year Ended 31 December 2002

19. Remuneration of Directors

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

	Group and Holding Company	
	2002	2001
	US$000	US$000
Robert Bryan	72	85
Ian R Holzberger	216	205
Andrew J Berry	36	43
Moseley A Moramoro, OBE	36	43
Rod Mitchell *	36	32
	396	408

*Remuneration is paid directly to the National Superannuation Fund ("NASFUND" formerly known as the National Provident Fund of Papua New Guinea ("NPF")).

20. Retirement Benefits

The Group participates in two retirement benefit funds. There is a cash accumulation plan for senior staff and the second is the NASFUND for citizen employees. Total employer contributions were US$89,679 (2001: US$119,684).

21. Joint Ventures

At 31 December 2002 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)	88.0	Exploration & Evaluation
Kainantu joint venture (Note 1)	100.0	Exploration & Evaluation
Contracts of Work: Woyla River and Tripa	90.0	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.

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	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Current assets	25	15	-	-
Non-current assets	26,000	47,873	-	-
	26,025	47,888	-	-
Current liabilities	86	122	-	-
Non-current liabilities	-	-	-	-
	86	122	-	-
Net Assets	25,939	47,766	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2002

22. RELATED PARTY TRANSACTIONS

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

- Mr R Mitchell is the Chief Executive Officer of the NASFUND which is a major shareholder in the Company and manages a retirement plan in which the Company participates.
- Dr M A Moramoro 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 NASFUND 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.

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 2002.

25. OPERATING LEASE OBLIGATIONS

	Consolidated		Holding Company	
	2002	2001	2002	2001
	US$000	US$000	US$000	US$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	67	51	-	-
One to two years	63	14	-	-
Two to five years	35	11	-	-
	165	76	-	-

26. CONTINGENT LIABILITIES

1. 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.
2. 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.
3. During 2001, Nippon Mining & Metals Co. Ltd ("Nippon") withdrew from the Joint Venture Agreement with Highlands Pacific in relation to the Kainantu project. As a result of this withdrawal the following contingent liability arose:
   - When the Kainantu project commences commercial production Highlands Pacific will pay Nippon the sum of US$2,000,000.

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 2002

27. Events Occurring After Balance Date

On 30 January 2003 the Federal Court proceedings brought by Highlands Pacific against Orogen Minerals Limited and others was settled. Parties to proceeding agreed to release each other from all claims and counter claims and not proceed with the action in the Federal Court and waive their rights under the Ramu Put Option Agreement. Under the agreement reached between the parties, no payments were made by either of the parties to any of the other parties.

28. 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. 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 63 days and receive interest at rates between 1% to 7%. 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 unless authority is given by the Bank of Papua New Guinea to hold funds off shore. Prior approval of the Bank of Papua New Guinea is required to convert funds from Kina into other currencies.

29. Kina Equivalent Disclosure

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

	Consolidated		Holding Company	
	2002	2001	2002	2001
	K000	K000	K000	K000
Revenue	1,079	827	-	-
Net Profit (Loss)	(86,964)	(207,570)	(633,243)	3,375
Total Assets	187,174	204,331	502	566,546
Total Liabilities	6,479	2,992	28	-
Net Assets	180,695	201,339	474	566,546

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2002 of PGK1.00 = $0.2488 (2001 year PGK1.00 = 0.2600) while income and expense items are translated at the average rate for the year PGK1.00 = $0.2559 (2001 year PGK1.00 = $0.2963).

STOCK EXCHANGE INFORMATION

For the Year Ended 31 December 2002

The shareholder information set out below was applicable as at 14 March 2003.

SPREAD OF SECURITY HOLDERS

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

Category of Holdings	Number of Shareholders
1 - 1,000	5,170
1,001 - 5,000	3,353
5,001 - 10,000	1,619
10,001 - 50,000	4,002
50,001 - 100,000	307
100,001 and over	194
Total Shareholders	14,645

b) There were 1,852 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AUD0.2700 cents.

LARGEST TWENTY SHAREHOLDERS

The names of the largest twenty shareholders are listed below:

Name	No. of Ordinary Shares held	% of Total
National Provident Fund Board	30,666,733	9.33
Finance Pacific Equities Ltd	23,218,821	7.07
270 King Street Pty Ltd (Group)	20,019,089	6.09
Public Officers Superannuation Fund	15,407,922	4.69
Mineral Resources Development Company Pty Limited	13,849,426	4.22
National Nominees Limited	12,747,991	3.88
Citicorp Nominees Pty Limited CFS W/Sale GBL Res Fund A/c	7,700,538	2.34
Dynamic Supplies Investments Pty Ltd	4,769,149	1.45
ANZ Nominees Limited	3,112,495	0.95
Investment Corporation of Papua New Guinea	2,761,107	0.84
Brislan Nominees Pty Ltd	2,500,000	0.76
Citicorp Nominees Pty Limited	2,273,686	0.69
Pacific Re Limited	2,054,390	0.63
Danari Holdings Pty Ltd	2,000,000	0.61
Eastern Pacific Mines Limited	1,638,933	0.50
Woodross Nominees Pty Ltd	1,453,812	0.44
Neilstock Nominees Pty Ltd	1,218,171	0.37
Melpa Properties Pty Limited	1,030,300	0.31
Commonwealth Custodial Services Limited	1,000,000	0.30
Mr John Hopkins	1,000,000	0.30
Total	150,422,563	45.77

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	9.33
Finance Pacific Equities Ltd	23,218,821	7.07
270 King Street Pty Ltd (Group)	20,019,089	6.09

Stock Exchange Information

For the Year Ended 31 December 2002

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 2002

Tenement Reference	Interest at end of Period
Ramu project	
SML 8	68.5% Note 1
ML 149	68.5%
LMPs 42, 43, 44, 45, 46, 47, 48 and 49	68.5%
MEs 75, 76, 77, 78 and 79	68.5%
Els 193, 1178	68.5% Note 1
Kainantu project	
ELs 470, 693 and 1049	100% Note 1
ML 150	100% Note 1
LMP 78	100% Note 1
MEs 80, 81	100% Note 1
Frieda River project	
EL 58	
EL 1212	88.0% Note 1
Exploration	
Els 880, 997, 1023, 1024, 1277 and ELA 1312	100% Note 1
Indonesia	
Woyla River Contract of Work / Tripa Contract of Work	90%

Notes

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development occurring within the boundary of the respective licence areas.

2. Definitions
   - EL - Exploration Licence
   - ELA - Exploration Licence Application
   - SML - Special Mining Lease
   - ML - Mining Lease
   - LMP - Lease for Mining Purposes
   - ME - Mining Easement