

Independent Audit Report to the Members For the Year Ended 31 December 2003**Audit Opinion**

In our opinion,

- a) the financial report of Highlands Pacific Limited and subsidiaries:
- gives a true and fair view of the financial position of Highlands Pacific Limited and Highlands Pacific Limited Group at 31 December 2003, and of their performance for the year ended on that date, and
 - is presented in accordance with the Companies Act 1997, International Accounting Standards and other 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 rest of our audit report.

Scope***The financial report and directors' responsibility***

The financial report comprises the balance sheet, income statement, statement of movements in equity, statement of cash flows, and the accompanying notes to the financial statements for both Highlands Pacific Limited (the company) and Highlands Pacific Limited and subsidiaries (the group), for the year ended 31 December 2003. The group comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Companies Act 1997. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Companies Act 1997, International Accounting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the company's and the group's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We read the other information in the Annual Report to determine whether it contained any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

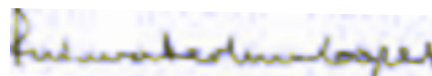
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of the Papua New Guinea Institute of Accountants and the Companies Act 1997.



PricewaterhouseCoopers
By: **Jonathan Seeto**
Registered under the Accountants Act 1996
Port Moresby
16 March 2004



Steve Snook
Brisbane

Consolidated Income Statement For the Year Ended 31 December 2003

	Notes	Consolidated		Holding Company	
		2003 US\$000	2002 US\$000	2003 US\$000	2002 US\$000
Revenue	2	619	276	-	-
Operating costs	3	1,863	(1,008)	25,739	(162,190)
Reversal of provision for exploration		-	1,063	-	-
Impairment of exploration asset	4	-	(22,726)	-	-
Settlement of claim		-	143	-	143
Profit (Loss) from Operations		2,482	(22,252)	25,739	(162,047)
Income tax (expense) benefit	6	(6)	(2)	-	-
Net Profit (Loss)		2,476	(22,254)	25,739	(162,047)
Earnings Per Share					
Basic	7	US\$0.01	US\$(0.10)		
Diluted	7	US\$0.01	US\$(0.10)		

These profit and loss statements are to be read in conjunction with the Notes on pages 30 to 42.

Statement of Changes in Shareholders' Equity For the Year Ended 31 December 2003

Consolidated	Notes	Share	Reserves	Retained	Total
		Capital US\$000	US\$000	Earnings US\$000	US\$000
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		15,555	-	-	15,555
Costs associated with Issue		(692)	-	-	(692)
Balance at 31 December 2002		168,737	(10,263)	(113,517)	44,957
Year ended 31 December 2003					
Balance at 1 January 2003		168,737	(10,263)	(113,517)	44,957
Net profit (loss)		-	-	2,476	2,476
Issue of share capital		13,815	-	-	13,815
Costs associated with Issue		(568)	-	-	(568)
Balance at 31 December 2003		181,984	(10,263)	(111,041)	60,680
Holding Company					
Year ended 31 December 2002					
Balance at 1 January 2002		153,874	(6,268)	(304)	147,302
Net profit (loss)		-	-	(162,047)	(162,047)
Issue of share capital		15,555	-	-	15,555
Costs associated with Issue		(692)	-	-	(692)
Balance at 31 December 2002		168,737	(6,268)	(162,351)	118
Year ended 31 December 2003					
Balance at 1 January 2003		168,737	(6,268)	(162,351)	118
Net profit (loss)		-	-	25,739	25,739
Issue of share capital		13,815	-	-	13,815
Costs associated with Issue		(568)	-	-	(568)
Balance at 31 December 2003		181,984	(6,268)	(136,612)	39,104

These statements of changes in shareholders' equity are to be read in conjunction with the Notes on pages 30 to 42.

Consolidated Balance Sheet As at 31 December 2003

	Notes	Consolidated		Holding Company	
		2003 US\$000	2002 US\$000	2003 US\$000	2002 US\$000
Non-current Assets					
Property, plant and equipment	8	174	185	-	-
Exploration and evaluation expenditure	9	36,417	30,074	-	-
Investment property	10	315	315	-	-
Investment in subsidiaries	11	-	-	9	13
Advance to subsidiaries	12	-	-	25,074	110
		36,906	30,574	25,083	123
Current Assets					
Cash and cash equivalents	28	26,625	15,766	14,024	2
Receivables and prepayments	13	134	229	-	-
		26,759	15,995	14,024	2
Total Assets		63,665	46,569	39,107	125
Non-current Liabilities					
Provisions	14	17	11	-	-
Advances from subsidiaries	12	-	-	3	7
		17	11	3	7
Current Liabilities					
Trade and other creditors	15	2,521	1,289	-	-
Provisions	14	447	312	-	-
		2,968	1,601	-	-
Total Liabilities		2,985	1,612	3	7
Net Assets		60,680	44,957	39,104	118
Shareholders' Equity					
Paid up capital	16	181,984	168,737	181,984	168,737
Reserves	17	(10,263)	(10,263)	(6,268)	(6,268)
Retained earnings		(111,041)	(113,517)	(136,612)	(162,351)
Total Shareholders' Equity		60,680	44,957	39,104	118

These balance sheets are to be read in conjunction with the Notes on pages 30 to 42.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2003

	Consolidated		Holding Company	
	2003	2002	2003	2002
Notes	US\$000	US\$000	US\$000	US\$000
Cash Flow from Operating Activities				
Receipts from customers	30	13	-	-
Interest from investments	575	246	-	-
Income tax paid	(1)	(3)	-	-
Settlement of claim	-	1,143	-	1,143
Payments to suppliers and employees	432	(310)	-	-
Net cash from (used in) operating activities	1,036	1,089	-	1,143
Cash Flow from Investing Activities				
Proceeds from sale of property, plant and equipment	4	3	-	-
Advance to subsidiaries	-	-	569	(16,005)
Purchase of property, plant and equipment	(26)	(6)	-	-
Exploration and evaluation	(6,666)	(3,974)	-	-
Net cash from (used in) investing activities	(6,688)	(3,977)	569	(16,005)
Cash Flow from Financing Activities				
Proceeds from issue of ordinary shares	13,815	14,863	13,815	14,863
Costs associated with Issue	(568)	-	(568)	-
Net cash from (used in) financing activities	13,247	14,863	13,247	14,863
Net Increase (Decrease) in Cash Held	7,595	11,975	13,816	1
Add cash brought forward	15,766	3,547	2	1
Effect of exchange rate change on cash	3,264	244	206	-
Cash Carried Forward	26,625	15,766	14,024	2
Cash Comprises				
Cash and cash equivalents	26,625	15,766	14,024	2

These statements of cash flows are to be read in conjunction with the Notes on pages 30 to 42.

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

	Consolidated		Holding Company	
	2003	2002	2003	2002
Notes	US\$000	US\$000	US\$000	US\$000
Reported Net Profit (Loss) after Taxation	2,476	(22,254)	25,739	(162,047)
Add (less) non-cash items:				
Depreciation	37	55	-	-
Provision for exploration costs	9	323	-	-
Impairment of exploration & evaluation	-	22,836	-	-
Reversal of provision for write-off of exploration & evaluation	9	(1,063)	-	-
Provision for doubtful debts	13	-	(25,537)	131,017
Provision for diminution of investments	11	-	4	31,173
Write-off of bad debts	13	-	-	-
Tax	6	6	-	-
(Profit) loss on sale of property, plant & equipment	-	(2)	-	-
Net (gain) loss on foreign currency balances	-	(244)	(206)	-
	(2,902)	21,620	(25,739)	162,190
Add (less) movements in working capital items:				
(Increase) decrease in debtors and prepayments	94	891	-	1,000
Increase (decrease) in creditors and provisions	1,368	832	-	-
	1,462	1,723	-	1,000
Net Cash Flow from Operating Activities	1,036	1,089	-	1,143

These statements are to be read in conjunction with the Notes on pages 30 to 42.

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

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 a development stage companies, in particular the carrying value of their assets (refer note 9 Exploration & Evaluation Expenditure).

The preparation of the financial statements in accordance with International Financial Reporting 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 2003

(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. Exchange differences arising from translation of the net investment in foreign entities are taken to shareholder's equity.

(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 as determined by the Board. 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 2003

(iii) Exploration, Evaluation and Development Expenditure

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

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

- (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 of 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.

(i) 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 2003

2. Revenue

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Other income	30	13	-	-
Interest income	589	263	-	-
	619	276	-	-

3. Analysis of Expenses

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Operating costs				
Exploration and administration costs	(1,863)	1,008	(25,739)	162,190
Total operating costs	(1,863)	1,008	(25,739)	162,190
Operating costs are stated after charging:				
Auditors' remuneration				
- audit	43	27	-	-
- other services	39	29	-	-
Depreciation – owned assets	37	55	-	-
Net gain on foreign currency balances	(3,264)	(244)	(206)	-
Provision for exploration expenditure	323	110	-	-
Write-off of bad debts	-	17	-	-
Provision for doubtful debts (refer Note 12)	-	19	(25,537)	131,017
Provision for diminution of investments	-	-	4	31,173
Staff costs (refer Note 5)	1,372	1,223	-	-

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

4. Impairment of Exploration Asset

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Impairment of exploration expenditure *	-	(22,726)	-	-

* Provisions have been made against the carrying value of both the Ramu nickel project and the Frieda River copper/gold project being expenditure incurred in the 2003 year. Their value has been retained at US\$16 million and US\$10 million, respectively.

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

5. Staff Costs

	Consolidated		Holding Company	
	2003 US\$000	2002 US\$000	2003 US\$000	2002 US\$000
Wages and salaries	1,128	988	-	-
Other benefits	244	235	-	-
	1,372	1,223	-	-

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 28 (2002: 24). The Holding Company does not have any direct employees. The average number of casual employees was 65 (2002: 73).

6. Income Tax

The income tax has been calculated as follows:

	Consolidated		Holding Company	
	2003 US\$000	2002 US\$000	2003 US\$000	2002 US\$000
Profit (loss) for the year	2,476	(22,252)	25,739	(162,047)
Income tax (benefit) on the profit (loss) for the year at an average of 30% (2002: 30%)	745	(9,617)	7,722	(48,614)
Income not subject to tax (predominantly unrealised exchange gains)	(989)	(36)	-	-
Expense not deductible for tax purposes	38	2,130	-	-
	(206)	(7,523)	7,722	(48,614)
Future income tax benefit not brought to account	212	7,521	(7,722)	48,614
Income tax expense (benefit)	6	2	-	-
(Over) Under provision prior year	-	-	-	-
Income tax expense this year	6	2	-	-
Income tax expense (benefit)	6	2	-	-

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 2003 in respect of tax losses not brought to account is approximately US\$3,431,020 (2002: US\$2,996,201). 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.

The tax losses are available to be 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.

	2003	2002
Net profit (loss) attributable to shareholders (US\$000)	2,476	(22,254)
Weighted average number of ordinary shares in issue (000)	329,621	230,336
Basic earnings per share (US\$)	0.01	(0.10)
Net profit (loss) used to determine diluted earnings per share (US\$000)	2,476	(22,254)
Weighted average number of ordinary shares for diluted earnings per share on issue (000)	329,142	231,833
Diluted earnings per share (US\$)	0.01	(0.10)

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

8. Property, Plant and Equipment

	Land and Buildings US\$000	Plant and Equipment US\$000	Total US\$000
Consolidated 2003			
Cost			
Cost brought forward	167	1,295	1,462
Additions	1	25	26
Disposals	-	(14)	(14)
Cost carried forward	168	1,306	1,474
Depreciation			
Brought forward	84	1,193	1,277
Charge for the year	10	27	37
Disposals	-	(14)	(14)
Carried forward	94	1,206	1,300
Net book value at 31 December 2003	74	100	174
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

9. Exploration and Evaluation Expenditure

	Ramu US\$000	Kainantu US\$000	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2003	16,000	4,074	10,000	-	30,074
Capitalised during the year	630	6,343	30	(337)	6,666
Less provision for exploration costs	(630)	-	(30)	337	(323)
Balance 31 December 2003	16,000	10,417	10,000	-	36,417

The realisation of the carrying value of the groups interest in the Ramu and Frieda projects is dependent upon either the successful development or sale of these assets (refer to Note 27). The future development of the projects is dependent upon Highlands Pacific securing either sufficient funding from equity, debt or other sources of funding or 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. While the nickel & copper prices strengthened during 2003, the directors decided to retain the values for the previous year.

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

10. Investment Property

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Balance 1 January 2003	315	315	-	-
Fair value gains (losses)	-	-	-	-
Balance 31 December 2003	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

* The Company has entered into an agreement whereby it will sell a 5% interest in Highlands Kainantu Limited to the Kainantu mine area Landowners. At balance date, Highlands Pacific Limited continued to own 100% of the interest.

Investments at Cost

	Holding Company	
	2003	2002
	US\$000	US\$000
Investments in subsidiaries - at cost	31,186	31,186
Less provision for diminution	31,177	31,173
	9	13

12. Subsidiary Advances

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Advances to subsidiaries				
Advances	-	-	134,130	131,127
Less provision for write-off	-	-	109,056	131,017
	-	-	25,074*	110
Advances from subsidiaries				
Advances	-	-	3	7

* The balance of Advances to subsidiaries by the Holding Company is to Highlands Kainantu Limited. Previously all loans made by the Holding Company were provided against in accordance with Accounting Standards, however this does not apply to Highlands Kainantu Limited due to it having sufficient asset backing, being the Kainantu gold project which the Company has a reasonable expectation will be developed.

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

13. Receivables and Prepayments

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Non-Current				
Other receivables and prepayments	1,000*	1,000*	-	-
Less: Provision for doubtful debts	1,000**	1,000**	-	-
Current				
Other receivables and prepayments	134	229	-	-
Less: Provision for doubtful debts	-	-	-	-
	134	229	-	-

* Non-current other receivables and prepayments include the following:

Amounts owing by Nord Australer Nominees (PNG) Limited ("Nord") totalling US\$1.00 million (2002: 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		
	Employee Entitlements	Income Tax	Total
	US\$000	US\$000	US\$000
Balance 1 January 2003	323	-	323
Charged to Income Statement	128	6	134
Foreign exchange impact	104	-	104
Utilised / paid during year	(95)	(2)	(97)
Balance 31 December 2003	460	4	464
Analysis of total provisions:			
Current			447
Non-current			17

15. Trade and Other Creditors

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Trade creditors	2,260	1,078	-	-
Other creditors and accruals	261	211	-	-
	2,521	1,289	-	-

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

16. Share Capital

(a) Paid Up Capital

Balance 1 January
Issued during the year
Balance 31 December

	2003 000's	2002 000's
Balance 1 January	328,542	216,960
Issued during the year	49,211	111,582
Balance 31 December	377,753	328,542

The total shares issued as at 31 December 2003 was 377,752,846 (2002: 328,542,320). There is no par value to these shares, par value was abolished in Papua New Guinea and Highlands Pacific is a company registered in Papua New Guinea.

(b) Share Options

The number of unissued ordinary shares under these options at 31 December 2003 is 600,000. There has been no change to the number of options outstanding during the year.

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

Foreign Currency Translation Reserve

Balance brought forward
Inter group transfer of fixed assets
Balance carried forward

	Consolidated		Holding Company	
	2003 US\$000	2002 US\$000	2003 US\$000	2002 US\$000
Balance brought forward	(10,263)	(10,263)	(6,268)	(6,268)
Inter group transfer of fixed assets	-	-	-	-
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 2003
28,150 – 30,965	100,000 – 109,999	-
59,115 – 61,930	210,000 – 219,999	1
61,930 – 64,745	220,000 – 229,999	1
67,560 – 70,375	240,000 – 249,999	1
78,820 – 81,635	280,000 – 289,999	1
129,490 – 132,305	460,000 – 469,999	2
146,380 – 149,195	520,000 – 529,999	1
185,790 – 188,605	660,000 – 669,999	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 2003

19. Remuneration of Directors

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

Robert Bryan
 Ian R Holzberger
 Andrew J Berry
 Moseley A Moramoro, OBE
 Rod Mitchell*

Group and Holding Company	
2003	2002
US\$000	US\$000
90	72
271	216
45	36
45	36
45	36
496	396

*Remuneration is paid directly to the "NASFUND".

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\$108,319 (2002: US\$89,679). Both the cash accumulation plan and the NASFUND are defined contribution plans.

21. Joint Ventures

At 31 December 2003 joint venture interests comprised:

Ramu joint venture (Note 1)
 Frieda River joint venture (Note 1)
 Contracts of Work: Woyla River and Tripa

Highlands Pacific's Percentage Interest	Activity
68.5	Exploration & Evaluation
88.0	Exploration & Evaluation
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	
	2003 US\$000	2002 US\$000	2003 US\$000	2002 US\$000
Current assets	7	25	-	-
Non-current assets	26,000	26,000	-	-
	26,007	26,025	-	-
Current liabilities	106	86	-	-
Non-current liabilities	-	-	-	-
	106	86	-	-
Net Assets	25,901	25,939	-	-
Revenues	-	-	-	-
Expenses	-	-	-	-
Net profit before tax	-	-	-	-

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

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 2003.

25. Operating Lease Obligations

Obligations payable after balance date on non-cancellable operating leases are as follows:

Within one year
One to two years
Two to five years

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Within one year	85	67	-	-
One to two years	38	63	-	-
Two to five years	9	35	-	-
	132	165	-	-

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

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 preceding ten (10) days. The satisfaction of the payment by cash or by the issue of shares is at Highlands Pacific's election.
 - When the Ramu project commences commercial production, the payment of the Kina equivalent of A\$0.25m plus A\$1.25m which may be satisfied in the same manner as the A\$1.5 million payment mentioned above.
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.

27. Events Occurring After Balance Date

On the 9th February the Company announced that it had completed its Share Purchase Plan which resulted in 41.8 million shares being issued and raised AUD15 million net of costs. The funds will be used for the development of the Kainantu gold project.

On the 10th February the Group entered into a Heads of Agreement with the Chinese Metallurgical Construction (Group) Corporation (MCC), a company domiciled in the People's Republic of China, and Mineral Resources Development Company Limited (MRDC), a company owned by the PNG government, to advance the development of the Ramu nickel project. This agreement is subject to a full joint venture agreement being negotiated and agreed by all parties. Currently MRDC owns 31.5% of the project with Highlands Pacific owning 68.5%.

The Heads of Agreement states that MCC will acquire an initial interest of 85% in the project with the remaining 15% being held by the Landowners 2.5% and the balance of 12.5% split between Highlands Pacific & MRDC in accordance with their current interest. Highlands Pacific, MRDC & the Landowners will be provided a "free-carry" to the commencement of commercial production by MCC who will also provide 100% of the finance for the project development. Upon MCC recovering the cost of development from its 85% interest, MCC will transfer a further 5%, free of charge, to Highlands Pacific, MRDC and the Landowners to be shared pro-rata in accordance with their interest in the project. At this time, Highlands Pacific, MRDC and the Landowners will also have right to buy back up to a further combined 15% interest in the project at market value.

MCC will undertake the construction of and be the operator of the project and will have the right to purchase 100% of the production of the project on an arms length basis.

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 December 2003

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 64 days and receive interest at rates between 0.85% 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. Supplementary Information

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

	Consolidated		Holding Company	
	2003	2002	2003	2002
	US\$000	US\$000	US\$000	US\$000
Revenue	2,199	1,079	-	-
Net Profit (Loss)	8,796	(86,964)	91,435	(633,243)
Total Assets	212,217	187,174	130,357	502
Total Liabilities	9,950	6,479	10	28
Net Assets	202,267	180,695	130,347	474

Asset and liability balances are translated from US dollars at the rate prevailing at 31 December 2003 of PGK1.00 = \$0.3000 (2002 year PGK1.00 = 0.2488) while income and expense items are translated at the average rate for the year PGK1.00 = \$0.2815 (2002 year PGK1.00 = \$0.2559).

Stock Exchange Information

For the Year Ended 31 December 2003

The shareholder information set out below was applicable as at 10 March 2004.

Spread of Security Holders

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

Category of Holdings	Number of Shareholders
1 - 1,000	4,253
1,001 - 5,000	3,011
5,001 - 10,000	2,390
10,001 - 50,000	4,689
50,001 - 100,000	446
100,001 and over	286
Total Shareholders	15,075

b) *There were 4,384 shareholders holding less than a marketable parcel of ordinary shares based on a market price of AUD0.4800 cents.*

Largest Twenty Shareholders

The names of the largest twenty shareholders are listed below:

Name	No. of Ordinary Shares held	% of Total
NASFUND	32,771,996	7.81
Finance Pacific Equities Ltd	23,218,821	5.53
Dr Thomas John Beresford Group	20,437,369	4.87
Public Officers Superannuation Fund	15,407,922	3.67
Mineral Resources Development Company Pty Limited	13,849,426	3.30
J P Morgan Nominees Australia Limited	11,024,337	2.63
Quinambo Nominees Pty Limited	10,526,316	2.51
Westpac Custodian Nominees Limited	9,562,289	2.28
Equity Trustees Limited	9,496,316	2.26
National Nominees Limited	8,682,183	2.07
ANZ Nominees Limited	7,110,075	1.69
Guina Developments Pty Ltd	7,000,000	1.67
Queensland Investment Corporation	6,259,500	1.49
Citicorp Nominees Pty Limited	4,287,649	1.02
Government Superannuation Office <State Super Fund A/c>	2,287,425	0.55
Pacific Re Limited	2,054,390	0.49
Danari Holdings Pty Ltd	1,995,990	0.48
Eastern Pacific Mines Limited	1,648,073	0.39
BB Nominees Pty Ltd	1,319,140	0.31
Comsec Nominees Pty Limited	1,122,112	0.27
Total	190,061,329	45.30

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
NASFUND	32,771,996	7.81
Finance Pacific Equities Ltd	23,218,821	5.53

Stock Exchange Information

For the Year Ended 31 December 2003

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 2003

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, 1049 and ELA 1336	100% Note 1
ML 150	95%
LMP 78	95%
MEs 80, 81	95%
Frieda River project	
EL 58, 1212 and ELA 1339	88.0% Note 1
Exploration	
ELs 1024, 1312 and ELAs 1340, 1341	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 licenses.
2. Definitions
 - EL - Exploration Licence
 - ELA - Exploration Licence Application
 - SML - Special Mining Lease
 - ML - Mining Lease
 - LMP - Lease for Mining Purposes
 - ME - Mining Easement