



ASX Release: 7 September, 2009

## Interim Financial Report Half-Year Profit US\$3.3 Million

**ASX Code:** HIG

PoMSox Code: HIG

**Shares on Issue:** 652 million

Options on Issue: 102 million

### **Directors**

Ken MacDonald, *Chairman*

John Gooding, *Managing Director*

Ian Burvill

Mike Carroll

Rod Mitchell

Fiu Williame-Igara

### *Management*

*Craig Lennon, CFO & Co.Sec*

*Larry Queen, Chief Geologist*

*Terry Smith, GM Mining & BD*

*Peter Jolly, GM Projects*

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**Website:** [www.highlandspacific.com](http://www.highlandspacific.com)

Highlands Pacific Limited has today released its interim financial report for the half-year ended 30 June 2009.

The result is a net operating profit of US\$3.3 million.

The profit is attributable in large part to the gain on the sale of exploration licence 1277 to Barrick Gold Corporation (a transaction first signed in December 2007) and the gain on the sale of surplus properties in Madang, PNG.

Comment by Highlands Pacific Managing Director Mr John Gooding: "Highlands is in a strong and sound financial position with US\$23.3 million of cash in the bank and no debt."

"Commencement of commissioning of the US\$1.4 billion Ramu nickel project is only months away and the Frieda copper gold project is progressing well through a pre-feasibility study."

"With the recent lift of base metal prices, the Company is in a great position with two emerging world class assets and a portfolio of exploration prospects."

The full financial results are attached.



## HIGHLANDS PACIFIC LIMITED AND SUBSIDIARY COMPANIES

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HALF-YEAR ENDED 30 JUNE 2009

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## **DIRECTORS' REPORT**

Your Directors present their report on the consolidated entity consisting of Highlands Pacific Limited and its subsidiaries for the half-year ended 30 June 2009.

This report should be read in conjunction with the Annual Report.

## **DIRECTORS**

The following persons were Directors of Highlands Pacific Limited during the whole of the half-year and up to the date of this report:

John Gooding (Managing Director)  
Ken MacDonald (Chairman)  
Ian Burvill  
Rod Mitchell  
Fiu Williame-Igara  
Mike Carroll

## **RESULTS AND DIVIDENDS**

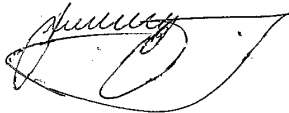
The net profit from ordinary activities after income tax by the Group for the half-year is US\$3,312,699. The result includes a profit of US\$4.296 million from the disposal of an exploration licence and surplus properties in Madang, PNG.

There is no dividend paid or recommended.

## **REVIEW OF OPERATIONS**

During the half-year the Group's principal activities were exploring for minerals and carrying out feasibility studies on prospective mineral deposits either in their own right or in joint ventures.

This report is made in accordance with a resolution of Directors.



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**JOHN GOODING**  
**MANAGING DIRECTOR**

7 September 2009

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the half-year ended 30 June 2009

	Notes	June 2009 US\$000	June 2008 US\$000
Sales revenue		-	6,625
Other revenue		15	74
<b>Total Operating Income</b>		<b>15</b>	<b>6,699</b>
Labour costs		858	1,370
Consultants and services costs		601	886
General and administration costs		421	256
Exploration costs		521	160
Changes in inventories of work in progress / finished goods		-	4,308
Depreciation and amortisation		38	19
Net foreign exchange (gains) / losses		(1,202)	(345)
<b>Total Operating Costs</b>		<b>1,237</b>	<b>6,654</b>
<b>Profit (Loss) from operations</b>		<b>(1,222)</b>	<b>45</b>
Finance Income		238	478
Gain (Loss) on sale of non-current assets	2	4,296	23
<b>Profit (Loss) before income tax</b>		<b>3,312</b>	<b>546</b>
Income tax (expense) benefit		1	(2)
<b>Net profit (loss)</b>		<b>3,313</b>	<b>544</b>
<b>Earnings per share</b>			
Basic		0.005	0.000
Diluted		0.004	0.000

*The above condensed consolidated income statement should be read in conjunction with the accompanying notes.*

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 30 June 2009

	Share Capital US\$000	Fair Value & Other Reserves US\$000	Retained Earnings US\$000	Total US\$000
<b>Half-Year ended 30 June 2009</b>				
Balance at 1 January 2009	274,753	(8,875)	(170,615)	95,263
Net profit (loss)	-		3,313	3,313
Issue of share based payments	-	67	-	67
<b>Balance at 30 June 2009</b>	<b>274,753</b>	<b>(8,808)</b>	<b>(167,302)</b>	<b>98,643</b>
<b>Half-Year ended 30 June 2008</b>				
Balance at 1 January 2008	274,553	(9,037)	(182,934)	82,582
Net profit (loss)	-	-	544	544
Issue of share capital	200	-	-	200
Issue of share based payments	-	120	-	120
<b>Balance at 30 June 2008</b>	<b>274,753</b>	<b>(8,917)</b>	<b>(182,390)</b>	<b>83,446</b>

*The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2009

	Notes	June 2009 US\$000	December 2008 US\$000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		23,348	20,267
Receivables and prepayments		468	335
		<b>23,816</b>	<b>20,602</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	392	466
Exploration & evaluation expenditure	4	25,000	25,000
Investment in Ramu project	5	50,000	50,000
		<b>75,392</b>	<b>75,466</b>
<b>TOTAL ASSETS</b>		<b>99,208</b>	<b>96,068</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		426	676
Provisions		102	85
Provision for income tax		30	40
		<b>558</b>	<b>801</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		7	4
		<b>7</b>	<b>4</b>
<b>TOTAL LIABILITIES</b>		<b>565</b>	<b>805</b>
<b>NET ASSETS</b>		<b>98,643</b>	<b>95,263</b>
<b>SHAREHOLDERS' EQUITY</b>			
Paid up capital	6	274,753	274,753
Reserves		(8,808)	(8,875)
Retained earnings		(167,302)	(170,615)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>98,643</b>	<b>95,263</b>

*The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.*

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the half-year ended 30 June 2009

	June 2009 US\$000	June 2008 US\$000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from gold sales (net of hedge payments)	-	6,625
Receipts from other operations	17	74
Interest from investments	285	476
Income tax refund (paid)	(10)	4
Exploration, evaluation & development	(521)	(160)
Payments to suppliers and employees	(1,926)	(3,639)
<b>Net cash inflow (outflow) from operating activities</b>	<b>(2,155)</b>	<b>3,380</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of exploration license	3,000	4,000
Proceeds from sale of property, plant and equipment	1,050	23
Purchase of property, plant and equipment	(16)	(323)
<b>Net cash inflow (outflow) from investing activities</b>	<b>4,034</b>	<b>3,700</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares	-	200
<b>Net cash inflow (outflow) from financing activities</b>	<b>-</b>	<b>200</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,879</b>	<b>7,280</b>
Cash and cash equivalents at the beginning of the half-year	20,267	20,500
Effects of exchange rate changes on cash and cash equivalents	1,202	345
<b>Cash and cash equivalents at end of the half-year</b>	<b>23,348</b>	<b>28,125</b>

*The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.*

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (continued)

For the half-year ended 30 June 2009

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

	June 2009 US\$000	June 2008 US\$000
<b>Reported Net Profit (Loss) after Taxation</b>	<b>3,313</b>	<b>544</b>
<b>Add (less) non-cash items:</b>		
Depreciation	38	19
Provision for income tax	(1)	2
Fair value of share based payments	67	119
(Profit) loss on sale of property, plant & equipment	(4,296)	(23)
Net (gain) loss on foreign currency balances	(1,202)	(345)
	<u>(5,394)</u>	<u>(228)</u>
<b>Add (less) movements in working capital items:</b>		
(Increase) decrease in debtors and prepayments	168	(547)
(Increase) decrease in inventories	-	4,308
Increase (decrease) in creditors and provisions	(242)	(697)
	<u>(74)</u>	<u>3,064</u>
<b>Net Cash Flow from Operating Activities</b>	<b>(2,155)</b>	<b>3,380</b>

*The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.*

## 1. STATEMENT OF ACCOUNTING POLICIES

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

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

This general purpose financial report for the interim half-year reporting period ended 30 June 2009 has been prepared in accordance with International Accounting Standard IAS 34: *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2008 and any public announcements made by Highlands Pacific Limited during the interim reporting period in accordance with the continuous disclosure requirements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

## 2. GAIN (LOSS) ON SALE OF NON-CURRENT ASSETS

	June 2009 US\$000	June 2008 US\$000
Exploration licences	3,000	-
Other non-current assets	1,296	23
	<u>4,296</u>	<u>23</u>

Exploration licence EL1277 was transferred and funds of US\$3 million were received from Barrick Gold Corporation in April 2009 as per the sale conditions signed with Barrick in December 2007.

In May 2009 six surplus properties in Madang, PNG, with a net book value of US\$51K were sold and settled for Kina 3 million (US\$1.050million) and in June 2009 a surplus office complex in Madang, PNG was sold for Kina 1.067 million (US\$335,000) with settlement taking place 28<sup>th</sup> July 2009.

### 3. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings US\$000	Plant and Equipment US\$000	Total US\$000
<b>Consolidated - 30 June 2009</b>			
<b>Cost</b>			
Balance at 1 January 2009	506	292	798
Additions	-	16	16
Disposals	(270)	-	(270)
Cost carried forward	<u>236</u>	<u>308</u>	<u>544</u>
<b>Depreciation</b>			
Balance at 1 January 2009	238	95	333
Charge for the year	10	28	38
Disposal	(219)	-	(219)
Depreciation Carried forward	<u>29</u>	<u>123</u>	<u>152</u>
<b>Net Book Value at 30 June 2009</b>	<u>207</u>	<u>185</u>	<u>392</u>

#### 4. EXPLORATION & EVALUATION EXPENDITURE

	Frieda US\$000	Other US\$000	Total US\$000
Balance 1 January 2009	25,000	-	25,000
Capitalised during the period	15	321	336
Less provisions for exploration costs	(15)	(321)	(336)
<b>Balance 30 June 2009</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>

The carrying value of the Group's interest in the Frieda project was increased at the end of the 2008 year. This increase was the result of the confidence in the project progressing towards development escalating.

During the 2008 year an extended scoping study was completed and the manager / operator announced that they would be advancing the project to an 18 month pre-feasibility study. If the project passes set hurdles during this stage it is expected to then progress to a feasibility study. The manager / operator is required to complete a feasibility study on the project by January 2012 or relinquish it's share in the project back to Highlands.

In assessing the carrying value of the Frieda project, the Directors have considered the present value of the future cash flows to be generated by the asset assuming its ultimate successful development, discounted by a weighted average cost of capital of 12%. They have also considered the potential current realisable value by reference to comparable transactions and farm-in arrangements.

Critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for copper of US\$2.00/lb and gold US\$700/oz. Sensitivities have been applied to all critical assumptions with the resulting range of values comparing favorably with the carrying value.

As the Group is free carried up to the completion of the feasibility study by the operator / manager by January 2012 this has also been taken into consideration. The project manager has expended almost US\$60 million to June 2009 and has budgeted expenditure of a further US\$18 million for the remainder of the 2009 year. The Group's share of this expenditure is being fully funded by the operator / manager. It is expected that the level of expenditure will continue for the pre-feasibility study throughout the first half of the 2010 year and then increase further during the feasibility study to be completed during 2010 / 2011.

It is anticipated that as the project continues to advance towards development that the carrying value will be increased further. The Group's expenditure to date on the Frieda project is approximately US\$42 million which means the Group is still holding an impairment charge of approximately US\$17 million on the project.

## 5. INVESTMENT IN RAMU PROJECT

	Consolidated 30 June 2009 US\$000
<b>Ramu</b>	
Balance brought forward	50,000
Capitalised during the period	185
Less provisions for exploration costs	(185)
<b>Balance carried forward</b>	<b>50,000</b>

The carrying value of the Group's interest in the Ramu project is US\$50 million.

Early in the 2008 year the project announced that debt financing was completed and that the project was fully funded with construction officially starting. The operator / manager remains committed to the target timeline of construction being completed by the end of the 2009 year with commissioning to commence immediately thereafter.

In assessing the carrying value of the Ramu project, the Directors have considered the present value of the future cash flows to be generated by the asset assuming its ultimate successful development, discounted by a risk adjusted equity discount rate of 10%. They have also considered potential current realisable value by reference to comparable transactions and farm-in arrangements.

Other critical assumptions used in arriving at the present value of the future cash flows include long term commodity prices for nickel of US\$7.00/lb and cobalt US\$24.00/lb. Sensitivities have been applied to all critical assumptions with the resulting range of values comparing favorably with the carrying value. A 10% movement in the price assumptions for nickel results in a movement in the present value of future cash flows of US\$25 million while for cobalt it results in a movement of US\$7 million.

The recent economic downturn in late 2008 and early 2009, which has improved, has been considered in arriving at a valuation for the project. However the assumptions used in the financial model in the past and currently, in regards to commodity prices, have always been based on long term pricing.

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

## 6. SHARE CAPITAL

	June 2009 US\$000	December 2008 US\$000	June 2009 Shares 000's	December 2008 Shares 000's
Paid Up Capital				
Balance brought forward	274,753	274,553	652,402	650,822
Issued during the period	-	200	-	1,580
<b>Balance carried forward</b>	<b>274,753</b>	<b>274,753</b>	<b>652,402</b>	<b>652,402</b>

The total number of shares issued as at 30 June 2009 was 652,402,148. In accordance with the Papua New Guinea Companies Act 1997 the Company's shares are fully paid, have no par value and there is no authorised capital level.

## 7. CONTINGENT ASSETS AND LIABILITIES

### *Contingent Liability*

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

- When the Ramu project commences commercial production, the payment of the Kina equivalent of A\$0.25m plus A\$1.25m which may be satisfied by payment in Kina (cash) or by an issue of Highlands Pacific's shares at a price determined by the average trading price of Highlands Pacific's shares on the 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.

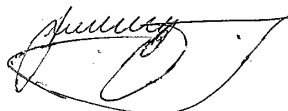
There are no other material matters pending which, in the opinion of the Directors, could give rise to any liabilities which should be disclosed as contingent liabilities.

## DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 3 to 12 are in accordance with:
  - (i) International Financial Reporting Standard IAS34: *Interim Financial Reporting* and other mandatory professional reporting requirements; and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Highlands Pacific Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.



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**JOHN GOODING**  
**MANAGING DIRECTOR**

7 September 2009

INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of Highlands Pacific Limited

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Highlands Pacific Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the for the Highlands Pacific Limited Group (the consolidated entity). The consolidated entity comprises both Highlands Pacific Limited (the company) and the entities it controlled during that half-year

*Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the International Financial Reporting Standards (including the Interpretations of the International Financial Reporting Interpretations Committee) and the Australian Securities Exchange (ASX) Listing Rules. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the ASX Listing Rules including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and its performance for the half-year ended on that date; and complying with International Accounting Standard IAS 34 *Interim Financial Reporting* and the ASX Listing Rules. As the auditor of Highlands Pacific Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Review Report (continued)**

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

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

*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of the Company for the half-year ended 30 June 2009 included on Highland Pacific Limited's web site. The company's directors are responsible for the integrity of the web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*Independence*

In conducting our review, we have complied with the independence requirements of the CPA Papua New Guinea and the Companies Act 1997.

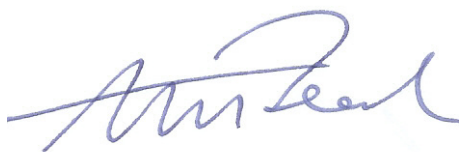
*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Highlands Pacific Limited is not in accordance with the ASX Listing Rules including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard IAS 34 *Interim Financial Reporting*.



PricewaterhouseCoopers



Stephen Beach  
Partner

Lae  
7 September 2009