



12 Sept 2018

Highlands Pacific Half-Year results

A strong operating performance at the Ramu Nickel and Cobalt mine has enabled Highlands Pacific Ltd (ASX:HIG) to report a net profit of US\$36.1 million for the six months to June 2018, up from US\$1.5 million for the prior corresponding half year.

The Company holds an 8.56% interest in the Ramu project, which generated earnings of US\$9.2 million for Highlands for the six months to June 2018, compared with US\$1.05 million in the previous June half.

Ramu recorded an excellent operational result, producing 17,370 tonnes of nickel and 1,644 tonnes of cobalt in the half year at the project level (100%), which was well above plant design capacity and slightly up from 16,956 tonnes of nickel and 1,624 tonnes of cobalt in the prior corresponding six months.

Ramu earnings also benefited from higher commodity prices, with nickel rising 35% to an average of US\$13,548/t in the half, and cobalt rising 85% to an average of US\$88,461. This led to a 57% increase in Highlands share of revenue at Ramu to US\$25.7 million.

Operating expenses at Ramu meanwhile remained under tight control, leading to reduced unit costs and significantly higher margins with increasing commodity prices. This in turn was a major factor for the reversal of the previous impairment of the carrying value of US\$31.4 million.

Highlands made repayments related to the Ramu project debt of US\$3.4 million during the half year, and after accrued interest of US\$3.0 million the total loan balance at June 30 was US\$114.9 million. This debt is expected to be fully repaid following the completion of a cobalt and nickel streaming transaction with Canadian battery metals company Cobalt27 Capital Corp, which was announced in May, 2018.

Under the terms of the streaming agreement, Cobalt27 will pay Highlands an upfront deposit of US\$113 million to secure an entitlement to 55% of Highlands' share of cobalt production and 27.5% of Highlands' share of nickel production from Ramu for the life of the project. Cobalt 27 also will make additional payments to Highlands of US\$1.00/lb of nickel and US\$4.00/lb of cobalt it becomes entitled to under the streaming agreement. Highlands intends to use the deposit to fully repay loans outstanding that relate to Ramu, which will trigger an automatic increase in Highlands' interest in the Ramu project from 8.56% to 11.3%.

Highlands is continuing to work with its joint venture partners in the Ramu project and Cobalt27 to complete the transaction.



Another highlight of Highlands' half year result was the reduction in operating costs, which fell by 7% to US\$1.52 million, despite a significant increase in foreign exchange losses. Excluding foreign exchange and depreciation and amortisation, operating costs declined by 34% to US\$1.2 million.

Highlands ended the first half of 2018 with a cash balance of US\$16.3 million which provides a solid cash buffer to sustain the business as progress is made in enhancing the project suite.

The strong cash position was largely due to a capital raising of approximately A\$15 million completed in May 2018 through the issue of 142.5 million shares to Cobalt 27 at a price of A\$10.5 cents per share. As a result, Cobalt27 is now Highlands' largest shareholder with a 13.04% interest.

The Company continued to advance its other projects during the half year.

At the exciting Star Mountains project, a maiden Mineral Resource was declared at the Olgal prospect in March, confirming the region as one of the most exciting and prospective exploration areas in PNG. Using a 0.3% copper cut-off grade, the deposit is estimated to contain 210 million tonnes grading 0.4% copper, for 840,000 tonnes of contained copper and 2.9 Moz contained gold. Highlands regained 100% ownership of the Star Mountains tenements in February following the withdrawal of Anglo American plc from the project. Highlands is seeking to identify a new joint venture partner to advance exploration efforts.

At the Frieda River project, in which Highlands holds a 20% interest, the manager and 80% owner of the project, PanAust Ltd (wholly owned by Guangdong Rising Asset Management Co), is currently finalising significant changes to the proposed development plan and feasibility study. PanAust has advised that it expects to complete the feasibility study and associated Environmental Impact Statement by the December quarter 2018, prior to lodging amendments to the 2016 Special Mining Lease application and associated permits.

Highlands Managing Director Craig Lennon said he was delighted with the strong result achieved for the six months to June 2018.

"Highlands is continuing to make excellent progress. The Cobalt27 transaction, announced in May, is a milestone for the Company, enabling us to eliminate debt, bring forward cashflows and increase our holding in the Ramu project as it is continuing to deliver excellent operating results.

"Longer term, the outlook for battery metals, including cobalt, nickel and copper remains very favourable and Highlands is well positioned to benefit from growth in demand for electric vehicles, which will continue to underpin commodity prices," he said.

**For further information, please contact:
Joe Dowling, Stockwork Corporate - 0421 587 755**



ASX Code: HIG

POMSoX Code: HIG

Shares on Issue: 1,093 million

Performance Rights: Nil

Directors

Ron Douglas, Chairman

Craig Lennon, MD/CEO

Bart Philemon

Anthony Milewski

Management

Sylvie Moser, CFO/Co. Secretary

Ron Gawi, GM Port Moresby

Investor and Media Enquiries to:

Joe Dowling,

Stockwork Corporate

0421 587 755

Website:

www.highlandspacific.com

About Highlands Pacific Limited

Highlands Pacific is a PNG incorporated and registered mining and exploration company listed on the ASX and POMSoX. Its major assets are interests in the producing Ramu nickel cobalt mine and the Frieda River copper gold project; with exploration in progress in the Star Mountains. Highlands also has exploration tenements at on Normanby Island (Sewa Bay).

Ramu Nickel Cobalt Mine

The producing Ramu nickel cobalt mine is located 75km west of the provincial capital of Madang, PNG. Highlands holds an 8.56% interest in the Ramu project, however this will increase to 11.3% at no cost to Highlands once Highlands' share of Ramu project debt is repaid to the project manager and joint venture partner Metallurgical Corporation of China (MCC). Highlands recently announced plans to repay the debt to MCC following finalization of a streaming transaction with Cobalt27. Highlands also has an option to acquire an additional 9.25% interest in Ramu at fair market value, which could increase the company's interest in the mine to 20.55% if the option were exercised.

Star Mountains Prospects

The Star Mountains exploration tenements are located approximately 20km north of the Ok Tedi mine, in the West Sepik Province, PNG. They lie within the highly prospective New Guinean Orogenic Belt, which hosts the Grasberg, Ok Tedi, Porgera and Hidden Valley mines, as well as the Frieda deposit.

Frieda River Copper/Gold Project

The Frieda River copper gold project is located 175km north-west of the Porgera gold mine and 75km north-east of the Ok Tedi mine. Highlands has a 20% interest in the project and Frieda River Limited (a wholly owned subsidiary of PanAust Limited which in turn is a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd.) has 80%.



**HIGHLANDS
PACIFIC**

Diversified Mineral Resource Company

CONSOLIDATED INTERIM
FINANCIAL REPORT

2018

HALF-YEAR ENDED 30 JUNE 2018

27

Co.

Cobalt 58.933

28

Ni.

Nickel 58.693

CORPORATE DIRECTORY

Directors
Ron Douglas – Chairman
Craig Lennon – Managing Director
John Wylie – resigned 18 July 2018
Bartholomew Philemon
Anthony Milewski – appointed 4 June 2018

Company Secretary
Sylvie Moser
Erik Andersen

Senior Management
Sylvie Moser – Chief Financial Officer
Ron Gawi – General Manager PNG

Country of Incorporation
Papua New Guinea

Registered Offices	Papua New Guinea (Address for Service) Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (P O Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	Australia Level 4 167 Eagle Street Brisbane Qld 4000 (GPO Box 3086, Brisbane Qld 4001) Australia Telephone: (617) 3239 7800 Facsimile: (617) 3221 6727
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Share Registries	Papua New Guinea Computershare Investor Services Pty Limited C/- Highlands Pacific Limited Level 1, Allotment 6, Section 58 Sir Hubert Murray Highway Boroko NCD (P O Box 1486) Port Moresby, NCD 121 Papua New Guinea Telephone: (675) 323 5966 Facsimile: (675) 323 5990	Australia Computershare Investor Services Pty Limited 117 Victoria Street West End Qld 4101 Australia Freecall (Australia): 1300 552 270 Shareholder information line (outside Australia): Telephone: (61 3) 9415 4000 Facsimile: (61 7) 3237 2152 Email queries: webqueries@computershare.com.au Website: www.computershare.com
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Stock Exchanges	Papua New Guinea Port Moresby Stock Exchange Limited POMSoX code: HIG	Australia (Home Exchange) Australian Stock Exchange Limited ASX code: HIG
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Bankers
ANZ Banking Group (PNG) Limited

Auditors
PricewaterhouseCoopers
Level 6, PWC Haus
Harbour City, Konedobu
Port Moresby, NCD 121
Papua New Guinea

Internet Communications
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DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Highlands Pacific Limited and its subsidiaries (the "Group") for the half-year ended 30 June 2018.

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 half-year, or part there-of and up to the date of this report:

<hr/>	
Craig Lennon (Managing Director)	
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Ron Douglas (Chairman)	
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Bartholomew Philemon	
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John Wylie	resigned 18 July 2018
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Anthony Milewski	appointed 4 June 2018
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Results And Dividends

A strong operating performance at the Ramu Nickel mine has enabled Highlands Pacific to report a net profit of US\$36.1 million for the six months to June 2018, up from US\$1.5 million for the prior corresponding half year.

The result includes the following items:

- an operating profit of US\$9.2 million for the Group's interest in the Ramu Nickel mine;
- reversal of impairment of the carrying value of the Group's investment in the Ramu Nickel mine by US\$31.4 million – (due to increase in commodity prices, and maintenance of continued low operating costs and higher profitability); partially offset by
- labour and administration costs US\$1.2 million;
- FX loss US\$0.3 million; and
- interest charge of US\$3 million on non-recourse borrowings relating to the Group's interest in the Ramu Nickel mine.

Ramu project (100%) recorded an excellent operational result producing 17,370 tonnes of nickel and 1,644 tonnes of cobalt in the half year, which was well above plant design capacity and up from 16,956 tonnes of nickel and 1,624 tonnes of cobalt in the prior corresponding six months of 2017.

Ramu earnings also benefited from higher commodity prices, with nickel rising 35% to an average of US\$13,548/t in the half, and cobalt rising 85% to an average of US\$88,461. This led to a 57% increase in Highlands' share of revenue at Ramu to US\$25.7 million for the half year.

Operating expenses at Ramu meanwhile remained under tight control, leading to reduced unit costs and significantly higher margins.

Highlands made repayments related to the Ramu project debt of US\$3.4 million during the half year, and after accrued interest of US\$3 million the total loan balance at June 30 was US\$114.9 million. This debt is expected to be fully repaid following the completion of a cobalt and nickel streaming transaction with Canadian battery metals company Cobalt 27 Capital Corp ("Cobalt 27"), which was announced in May, 2018.

Under the terms of the streaming agreement, Cobalt 27 will pay

Highlands an upfront deposit of US\$113 million to secure an entitlement to 55% of Highlands' share of cobalt production and 27.5% of Highlands' share of nickel production from Ramu for the life of the project. Cobalt 27 also will make additional payments to Highlands of US\$1.00/lb of nickel and US\$4.00/lb of cobalt it becomes entitled to under the streaming agreement. Highlands intends to use the deposit to fully repay loans outstanding that relate to Ramu, which will trigger an automatic increase in Highlands' interest in the Ramu project from 8.56% to 11.3%.

Highlands is continuing to work with its joint venture partners in the Ramu project and Cobalt 27 to complete the transaction.

Highlands ended the first half of 2018 with a cash balance of US\$16.3 million which provides a solid cash buffer to sustain the business as progress is made in enhancing the project suite.

The strong cash position was largely due to a capital raising of approximately A\$15 million completed in May through the issue of 142.5 million shares to Cobalt 27 at a price of A\$10.5 cents per share. As a result, Cobalt 27 is now Highland's largest shareholder with a 13.04% interest.

There is no dividend paid or recommended.

Review of Operations

The Group's principal activities were exploration and evaluation of mineral activities and the operation of mines, either in its own right or in joint ventures, in Papua New Guinea.

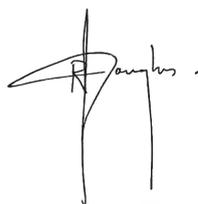
The Ramu Nickel mine continued to achieve excellent production results, with a strong mining performance at the Kurumbukari mine and increased plant throughput at the Basamuk process plant near Madang.

In February 2018, Anglo American plc ("Anglo American") withdrew from the Star Mountains exploration joint venture and relinquished its 15% holding in the project, resulting in Highlands regaining 100% of the Star Mountains tenements. At the Star Mountains Olgal prospect, a maiden JORC Mineral Resource was declared totalling 210 million tonnes at 0.4% Cu and 0.4 g/t Au for 840,000 tonnes of contained copper and 2.9 Moz of gold. Refer ASX announcement 20 February 2018.

At the Frieda River project, the Company's joint venture partner, PanAust Ltd (a wholly owned subsidiary of Guangdong Rising Asset Management Co. Ltd. ("GRAM")) is continuing to liaise with PNG authorities regarding permitting. Highlands and PanAust are continuing arbitration proceedings regarding funding obligations for the Frieda River project. Refer ASX announcement 10th April 2018.

The Company appointed Mr Anthony Milewski to the board on completion of the share placement to Cobalt 27 in May 2018, and subsequent to the half year-end, Mr John Wylie resigned from the Board.

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



Ron Douglas
Chairman
12 September 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 30 June 2018

		June 2018	June 2017
	Notes	US\$000	US\$000
Finance income		44	55
Total operating income		44	55
Labour costs		632	701
Consultants and services costs		228	645
General and administration costs		329	446
Depreciation and amortisation	3	23	31
Net foreign exchange losses / (gain)		308	(190)
Total operating costs		1,520	1,633
Net operating costs		(1,476)	(1,578)
Interest expense	5	(3,027)	(3,299)
Reversal of / (provision for) exploration costs	4	(23)	299
Reversal of impairment of non-current assets	5	31,369	4,986
Share of operating profit of equity accounted investments	5	9,244	1,049
Profit from operations before income tax		36,087	1,457
Income tax (expense) benefit		-	-
Profit for the period		36,087	1,457
Other comprehensive income for the period		-	-
Total comprehensive income for the period		36,087	1,457
Basic earnings per share			
From continued operations		US\$0.0371	US\$0.002
Diluted earnings per share			
From continued operations		US\$0.0371	US\$0.002

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 30 June 2018

	Contributed Equity	Fair Value & Other Reserves	Accumulated Losses	Total
	US\$000	US\$000	US\$000	US\$000
Half-Year ended 30 June 2018				
Balance at 1 January 2018	303,906	(3,988)	(268,371)	31,547
Net comprehensive income	-	-	36,087	36,087
Transaction with owners in their capacity as owners				
Issue of share capital	11,100	-	-	11,100
Balance at 30 June 2018	315,006	(3,988)	(232,284)	78,734
Half-Year ended 30 June 2017				
Balance at 1 January 2017	303,911	(4,382)	(305,808)	(6,279)
Net comprehensive income	-	-	1,457	1,457
Transaction with owners in their capacity as owners				
Issue of share based payments	-	205	-	205
Issue of share capital	(5)	-	-	(5)
Balance at 30 June 2017	303,906	(4,177)	(304,351)	(4,622)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		June 2018	Dec 2017	June 2017
	Notes	US\$000	US\$000	US\$000
CURRENT ASSETS				
Cash and cash equivalents		16,305	6,816	7,953
Receivables	2	4,631	1,598	4,661
		20,936	8,414	12,614
NON-CURRENT ASSETS				
Property, plant and equipment	3	103	124	155
Exploration and evaluation expenditure	4	38,400	37,948	37,510
Investment in Ramu Nickel mine	5	142,011	110,000	82,000
		180,514	148,072	119,665
TOTAL ASSETS		201,450	156,486	132,279
CURRENT LIABILITIES				
Trade and other payables	6	764	2,871	1,810
Borrowings	7	8,939	9,270	7,923
Provisions		300	177	134
		10,003	12,318	9,867
NON-CURRENT LIABILITIES				
Borrowings	7	112,696	112,611	127,004
Provisions		17	9	30
		112,713	112,620	127,034
TOTAL LIABILITIES		122,716	124,938	136,901
NET ASSETS / (LIABILITIES)		78,734	31,547	(4,622)
SHAREHOLDERS' EQUITY				
Contributed equity	8	315,006	303,906	303,906
Reserves		(3,988)	(3,988)	(4,177)
Accumulated losses		(232,284)	(268,371)	(304,351)
TOTAL EQUITY		78,734	31,547	(4,622)

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 30 June 2018

	June 2018	June 2017
	US\$000	US\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest from investments	54	53
Income tax paid	-	(1)
Payments to suppliers and employees	(1,240)	(1,583)
Net cash used in operating activities	(1,186)	(1,531)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration, evaluation and development	(695)	(6,265)
Contributions from joint venture partners	16	4,699
Payment to joint venture partner	(574)	-
Receipts from joint ventures	1,138	-
Receipt from recovery of exploration costs	-	341
Purchase of property, plant and equipment	(2)	(2)
Net cash from / (used in) investing activities	(117)	(1,227)
CASH FLOWS FROM FINANCING ACTIVITIES		
Costs associated with issue of ordinary shares	(165)	(5)
Proceeds from issue of ordinary shares	11,265	-
Net cash from / (used in) financing activities	11,100	(5)
Net increase / (decrease) in cash and cash equivalents	9,797	(2,763)
Cash and cash equivalents at the beginning of the half-year	6,816	10,526
Effects of exchange rate changes on cash and cash equivalents	(308)	190
Cash and cash equivalents at end of the half-year	16,305	7,953

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the half-year ended 30 June 2018

RECONCILIATION OF NET PROFIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

	June 2018	June 2017
	US\$000	US\$000
Reported net profit after taxation	36,087	1,457
Add / (less) non-cash items:		
Depreciation	23	31
Provision for / (provision for) exploration costs	23	(299)
Fair value of share-based payments	-	205
Effects of exchange rate changes on cash and cash equivalents	308	(190)
Reversal of impairment for non-current assets	(31,369)	(4,986)
Share of operating profit on equity accounted investments	(9,244)	(1,049)
Interest expense	3,027	3,299
	(37,232)	(2,989)
Add / (less) movements in working capital items:		
Decrease / (increase) in debtors and prepayments	8	(2)
(Decrease) / increase in creditors and provisions	(49)	3
	(41)	1
Net Cash used in Operating Activities	(1,186)	(1,531)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

Highlands Pacific Limited (the “Company”) and its subsidiaries (together the “Group”) invest in and carry out exploration, evaluation and development activities in the resource industry. All of the Group’s current 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 Stock Exchange and the Port Moresby Stock Exchange.

The condensed consolidated interim financial report for the half-year reporting period ended 30 June 2018 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 2017 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.

The Group’s borrowings of US\$122 million include US\$115 million for the Group’s interest in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. These borrowings are held in the Group’s wholly owned subsidiary, Ramu Nickel Limited, and are non-recourse to the Group or Parent entity, Highlands Pacific Limited, and are to be repaid out of the Group’s share of operating surpluses from the Ramu Nickel mine (sales revenue less operating costs and on-going capital expenditure) rather than operating or financing cashflows generated by the remainder of the Group. Refer notes 5 and 7.

2. RECEIVABLES

	June 2018	Dec 2017
	US\$000	US\$000
Current		
Sundry receivables	45	64
Receivable from joint venturers – cash distribution*	724	1,534
Receivable from joint venturers – sales receivable**	3,862	-
	4,631	1,598

*Represents an amount owing by MCC Ramu NiCo Limited relating to Highlands’ share of cash distribution from the Ramu Nickel mine.

**Highlands’ share of MCC Ramu NiCo Limited sales receivable at 30 June 2018.

3. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Plant and Equipment	Total
	US\$000	US\$000	US\$000
Consolidated - 30 June 2018 Costs			
Balance at 1 January 2018	243	571	814
Additions	-	2	2
Balance at 30 June 2018	243	573	816
Depreciation			
Balance at 1 January 2018	164	526	690
Charge for the half-year	9	14	23
Balance at 30 June 2018	173	540	713
Net book value at 30 June 2018	70	33	103

4. EXPLORATION AND EVALUATION EXPENDITURE

	Frieda	Others	Total
	US\$000	US\$000	US\$000
Balance 1 January 2018	28,348	9,600	37,948
Capitalised during the period			
Direct holding cost	330	23	353
Interest on Frieda carried funding loan	122	-	122
Provision for exploration costs	-	(23)	(23)
Balance 30 June 2018	28,800	9,600	38,400

Frieda

The carrying value of the Group's interest in the Frieda River project is US\$28.8 million at 30 June 2018. The US\$0.5 million increase represents Highlands' direct holding costs in overseeing its interest in the Frieda River project and the capitalization of interest on the Carried Funding Loan owed to Frieda River Limited ("FRL") a wholly owned subsidiary of PanAust Limited). Refer note 7.

In assessing the carrying value of the Group's interest in the Frieda River project, the Directors have adopted a fair value less cost to sell valuation methodology. The valuation has been based on the transaction between PanAust Limited and Glencore plc, together with the additional activities and expenditure undertaken by FRL.

FRL is undertaking various studies to investigate opportunities to decrease capital expenditure, reduce overall project risk profile and increase project returns. These studies are expected to be completed by the December quarter of 2018.

The joint venture parties continue to resolve funding obligations through arbitration, with the first stage completed. Refer ASX announcement date 10 April 2018.

The Group's expenditure to date on the Frieda River project is US\$47.7 million.

Others

This represents the holding costs for the Star Mountains and Sewa Bay projects.

Highlands announced on 8 February 2018, that Anglo American relinquished its holding in the Star Mountains Joint Venture with the Group regaining 100% of the tenements.

The Groups' expenditure to 30 June 2018 on the Star Mountains project, net of receipt of management fees and payments from Anglo American, is US\$17.1 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

5. INVESTMENT IN RAMU NICKEL MINE

	30 Jun 2018	31 Dec 2017	30 Jun 2017
	US\$000	US\$000	US\$000
(i) Summarised financial information for Ramu Nickel Mine			
Current assets	138,377	92,764	158,495
Non-current assets	1,621,801	1,666,726	1,720,515
Current liabilities	66,499	73,796	81,577
Non-current liabilities	34,674	34,187	30,379
Net assets	1,659,005	1,651,507	1,767,054
Group's share of net assets	142,011	141,369	151,260
Provisions for impairment	-	(31,369)	(69,260)
Investment at recoverable amount	142,011	110,000	82,000
Reconciliation to carrying amounts:			
Opening net assets	110,000	82,000	82,000
Share of associated entity's production costs	(9,517)	(19,857)	(10,142)
Share of associated entity's other comprehensive loss	(4,271)	(10,127)	(4,274)
Share of additional contribution	14,430	15,107	9,430
Reversal of provision for impairment	31,369	42,877	4,986
Closing net assets	142,011	110,000	82,000
(ii) Interest in Ramu Nickel Mine*			
Revenue	25,740	35,586	16,393
Other indirect costs	(1,506)	(2,001)	(870)
Share of associated entity's production costs	(9,517)	(19,857)	(10,142)
Share of associated entity's other comprehensive loss	(4,271)	(10,127)	(4,274)
Direct holding costs	(277)	(128)	(58)
Share of royalty payable	(925)	-	-
Share of associated entity's total comprehensive income	9,244	3,473	1,049
(iii) Sale of MHP Product*			
Share of associated entity's MHP Products (Wet Metric Tonnes)	9,038	21,094	11,114
Revenue from sales of MHP products	25,740	35,585	16,392
Other revenue	1	1	1
(iv) Loan payable to MCC Ramu NiCo Limited			
Opening balance	115,260	128,962	128,962
Further funding for cash calls	-	(8,231)	1,246
Sales commission payable to MCC Ramu NiCo Limited	-	772	281
Interest accrued	3,027	6,433	3,299
Loan repayment	(3,395)	(12,676)	(5,375)
Closing balance	114,892	115,260	128,413

* Figures for 31 Dec 2017 are for the full 12 months period. Figures for 30 June 2017 and 2018 are for the half year periods.

On nomination, the Group recognised a loan balance owing to MCC Ramu NiCo Limited for its 8.56% share of capped development costs plus accumulated interest for monies paid by MCC Ramu NiCo Limited to lenders on behalf of the Group up to 1 January 2015. These borrowings are non-recourse to the Company and the Group (excluding Ramu Nickel Limited) and were to be repaid by Ramu Nickel Limited out of its share of operating surpluses less ongoing capital expenditure requirements at the current agreed rate of 80% of this net distribution. This repayment methodology had been extended to 31 December 2018. Highlands announced in May 2018

that it had entered into a streaming transaction with Cobalt 27 Capital Corporation, under which Cobalt 27 would pay Highlands an upfront deposit of US\$113 million which would be used to repay loan balances owing to MCC Ramu NiCo Ltd.

The carrying value of the Group's interest in the Ramu Nickel mine has been increased to US\$142 million, which is the Group's equity accounted share of the net assets of the Ramu Nickel mine. The previous impairment held against the investment has been fully reversed in the current period. This is primarily driven by an increase in commodity prices and the containment of operating costs. In assessing the carrying value of its interest in the Ramu Nickel mine for impairment testing purposes, the Directors have adopted a value in use ("VIU") methodology as to the present value of the expected future cash flows before financing from 2018 through to 2031. The calculations use cash flow projections based on financial budgets covering the period from 2018 to 2031.

Key assumptions

The key assumptions and estimates used in determining the VIU are related to commodity prices, discount rates, operating costs, exchange rates and capital expenditures.

The following key assumptions were used in impairment and fair value testing:

Assumptions	30 June 2018	31 December 2017
Nickel Price	US\$6.09 – US\$7.98	US\$5.26 – US\$7.89
Cobalt Price (US/Lb)	US\$25.81 – US\$36.23	US\$21.35 – US\$29.55
LOM years	14 years	14 years
Production Rate	100%	100%
After tax discount rate (Real)	12.60%	12.48%

(Nb. Prices above are nominal.)

Sensitivities

Management performed a sensitivity analysis on the long-term commodity price of nickel, which is the key assumption that impacts impairment calculations. While holding all other assumptions constant, a positive 10% movement in the long-term price assumptions range for nickel, results in a movement in the present value of future cash flows of approximately US\$16 million, while a negative 10% movement, results in a reduction of US\$19 million.

Holding all other assumptions constant, a change in WACC to 12% would result in an increase in the present value of future cashflows of US\$6 million and change in WACC to 13% would result in a decrease of US\$4 million. Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of the asset, modest changes in one or more assumptions could potentially result in a material adjustment (negative or positive) to the carrying value of the related non-current asset in the next reporting period. The inter-relationships of the significant assumptions upon which estimated future cashflows are based is impractical to disclose as to the extent of the possible effects of changes in all key assumptions in isolation.

6. TRADE AND OTHER PAYABLES

Current	Consolidated	
	June 2018	Dec 2017
	US\$000	US\$000
Trade creditors	8	47
Accruals and other creditors - (1)	199	569
Royalty payable - (2)	557	-
Payable to joint venturers - (3)	-	2,255
	764	2,871

(1) Other creditors include accruals for annual leave. The entire commitment is presented as current, as the Group does not have an unreserved right to defer settlement. However, based on past experience, the Group does not expect all employees to take their full amount of accrued leave within the next 12 months. Current leave obligations expected to be settled after 12 months are US\$29,706 (2017 December: US\$41,603).

(2) At June 2018 this represents Highlands' share of royalty payable attributable to Ramu Nickel mine.

(3) At December 2017 this represented US\$1.8 million prepayments received from customers relating to Highlands' share of MHP sales of the Ramu Nickel mine and included US\$463,590 owing to Anglo American plc ("Anglo American") for cash calls on the Star Mountain project.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

7. BORROWINGS

	Consolidated	
	June 2018	Dec 2017
	US\$000	US\$000
Current		
Loan from MCC Ramu NiCo Limited**	8,939	9,270
	8,939	9,270
Non-Current		
Loan from FRL*	6,743	6,621
Loan from MCC Ramu NiCo Limited**	105,953	105,990
	112,696	112,611

*The Carried Funding Loan represents the amount owing to FRL at 30 June 2018. This loan is as a result of FRL carrying the Group's share of expenditure on the Frieda project from 23 January 2012 up until 25 August 2014, the date on which former joint venture partner Glencore divested its interest. The Carried Funding Loan has been classified as a financial liability in accordance with IAS 32 Financial Instruments - Presentation and measured at amortised cost. Interest on the loan of US\$122,303 has been accrued and capitalised into the exploration and evaluation expenditure balance, in accordance with IAS 23 Borrowing Costs. This loan balance will continue to accrue interest at a rate of "US\$ one-month LIBOR" plus 2% and is repayable by Highlands out of production cash flows.

**These borrowings relate to the Group's interest, held in the wholly owned subsidiary Ramu Nickel Limited, in the Ramu Nickel mine and are owing to MCC Ramu NiCo Limited. As part of the Joint Venture Agreement with MCC Ramu NiCo Limited, MCC Ramu NiCo Limited was responsible for development and financing of the mine. These borrowings represent the Group's 8.56% share of principal repayments (capped to a specified development threshold) and interest repayments made by MCC Ramu NiCo Limited to third party lenders on behalf of the Group, plus any accumulated interest charged by MCC Ramu NiCo Limited. The borrowings are held in the Group's wholly owned subsidiary Ramu Nickel Limited and are non-recourse to the rest of the Group or Parent entity Highlands Pacific Limited. The borrowings are to be repaid out of the Group's share of operating surpluses (sales revenue less operating costs and on-going capital expenditure) rather than operating and financing cashflows generated by the group. Refer to note 5.

8. CONTRIBUTED EQUITY

Paid Up Capital	June 2018	Dec 2017	June 2018	Dec 2017
	US\$000	US\$000	Shares 000's	Shares 000's
Balance brought forward	303,906	303,911	935,916	927,778
Issued during the period	11,265	-	156,818	8,138
Less costs associated with issue	(165)	(5)	-	-
Balance carried forward	315,006	303,906	1,092,734	935,916

The total number of shares issued as at 30 June 2018 was 1,092,733,836. 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.

9. SEGMENT REPORTING

	Exploration	Frieda	Ramu	Corporate	Group
30 June 2018	US\$000	US\$000	US\$000	US\$000	US\$000
Segment revenue	-	-	-	44	44
Segment result	(23)	-	37,587	(1,477)	36,087
Net Profit / (Loss)	(23)	-	37,587	(1,477)	36,087
Segment assets	9,600	28,800	142,011	21,039	201,450
Segment liabilities	(12)	(6,818)	(115,494)	(392)	(122,716)
Acquisition of segment assets	-	-	-	2	2
Segment depreciation and amortisation	-	-	-	(23)	(23)
30 June 2017					
Segment revenue	-	-	-	55	55
Segment result	299	-	2,736	(1,578)	1,457
Net Profit / (Loss)	299	-	2,736	(1,578)	1,457
Segment assets	9,600	27,910	82,000	12,769	132,279
Segment liabilities	(1,335)	(6,583)	(128,466)	(517)	(136,901)
Acquisition of segment assets	-	-	-	2	2
Segment depreciation and amortisation	-	-	-	(31)	(31)
31 December 2017					
Segment asset	9,600	28,348	110,000	8,538	156,486
Segment liabilities	(738)	(6,641)	(117,114)	(445)	(124,938)

10. EVENTS OCCURRING AFTER BALANCE DATE

Nil to report.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 3 to 15 are in accordance with:
 - (i) International Financial Reporting Standard IAS 34: 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 2018 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.

A handwritten signature in black ink, appearing to read 'Ron Douglas', with a large, stylized initial 'R'.

Ron Douglas

Chairman

12 September 2018



Report on review of interim financial information to the Directors of Highlands Pacific Limited

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Highlands Pacific Limited (the Company) and its subsidiaries (the Group) as at 30 June 2018 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, 'Interim financial reporting'. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting'.

Restriction on distribution or use

This report is made solely to the Directors of the Company, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Company, as a body, for our review work, for this report or for the conclusions we have formed.

PricewaterhouseCoopers

Christopher Hansor
Partner

Registered under the
Accountants Act 1996

Port Moresby
12 September 2018



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