



QUARTERLY REPORT

SEPTEMBER 2008



Construction of the Basamuk Wharf and Process Plant Area
Ramu Nickel-Cobalt Mine

KEY POINTS

The current market capitalization of the Company is almost solely cash backed. At the current share price there is no recognition for the significant equity that the company has in two world class projects, namely the Ramu Nickel Cobalt Mine and the Frieda River Copper Gold project.

The Company believes that the current low commodity prices are not sustainable and demand for these metals will continue in the future.

The Ramu and Frieda projects are long term projects (20 years plus), and both projects continue to progress forward unabated by current depressed market conditions. In the case of Ramu, construction continues and the project is targeted for commissioning at the end of 2009. The evaluation of the Frieda project also continues with a target for production in 2016.

The Company believes that its equity in these long term projects and the fact that the projects continue to be developed, will position the Company well for when the metal prices and the markets in general recover, thus having the potential to add significant value for shareholders

RAMU NICKEL PROJECT

- Project fully funded and in construction.
- Major earth works and foundations at refinery and mine site completed
- Work continued on 135km slurry pipeline – 15km welded.
- Ramu River Bridge nearing completion.
- Wharf nearing final stages of completion – ready for use in 4th quarter
- Madang offices to be completed in 4th quarter 2008
- Project expenditure to date is approximately US\$419million.
- Construction activity remains at planned levels with project completion still on track for the end of 2009.

FRIEDA COPPER / GOLD PROJECT

- Year to date expenditure US\$18.8 million.
- Budget increased from US\$25 million to US\$30.9 million for the 2008 year.
- Nearly 12,000 metres of the planned 22,000 metres of in-fill drilling completed.
- Very encouraging assay results released during August and September with more assay results to be released over the coming months.
- Xstrata Frieda River Limited Scoping Study for the Frieda River copper gold project has production forecast to commence in 2016 potentially yielding an average payable copper metal of 190,000 tonnes per annum and payable gold of 295,000 ounces per annum for 26 years.
- Potential for an un-g geared project NPV of US\$681 million and IRR of 17.7% based on capital estimate of US\$2.57 billion, a copper price of US\$2/lb and gold price of US\$700/ounce.
- Highlands' share of costs until completion of a Feasibility Study to be fully funded by Xstrata.

KAINANTU

- Transfer of EL 1277 remains outstanding – the transfer will result in a further US\$3 million being received from Barrick Gold Corporation.

EXPLORATION

- Exploration program underway for the 2008 year at Yangalemu (Wau/Bulolo EL 1340) – US\$1 to 1.5 million.
- At the end of the quarter the first 200 metre hole has been completed and the second of the planned 9 holes was at 40 metres. Assay results from the first holes are expected sometime in November.

CORPORATE

- Cash reserves at the end of the quarter of US\$25 million (split between AUD and USD holdings).
 - Management continues to review projects and corporations with a focus on gold and base metals in a time of potentially low acquisition prices, while acknowledging that cash will be a valuable asset for the near future.
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RAMU PROJECT

(HIGHLANDS PACIFIC: 8.56%)

MCC Ramu NiCo Limited (owner of 85% of the Ramu nickel cobalt project) and 100% owned subsidiary of China Metallurgical Construction Corporation (MCC) have officially executed third party financing documents on behalf of the Ramu Nickel Joint Venture.

The project is now in full construction mode and is fully funded. Commissioning of the mine remains on track for the first half of 2009 and the process plant is to be commissioned in late 2009.

Other highlights for the quarter included the following:

- Major earthworks and foundations at refinery and mine site completed. Construction of plant facilities such as MHP precipitation circuit, counter current dewatering circuit and limestone plant are well under way.
- Continued work on the 135km slurry pipeline – 15 km welded. Extensive survey carried out to find the best location for the pipeline and areas requiring the pipe to be buried have been identified. All pipes are coated with an anti-corrosion coating.
- Wharf nearing final stages of completion – ready for use in 4th quarter. The completion of the wharf will allow prefabricated equipment and facilities from China to be imported to hasten construction.
- Madang offices to be completed in 4th quarter 2008
- Ramu River bridge nearing completion – this will facilitate the shipment of large equipment to the mine site.
- Successful MOA review undertaken in August between all stakeholders

Total capital expenditure and commitments to date on the project is approximately US\$419m. Some 1,200 employees and contractors are engaged on site, with numbers set to increase as the project moves into the full construction phase.

Highlands has an 8.56% interest in the Ramu project which will increase to 11.30% at no cost to the Company after repayment of the debt raised to finance the project has been completed. From commissioning, HPL is able to have access to its pro-rata 8.56% share of Ramu's post-debt servicing net cashflow. When the finance is repaid, HPL will also have the option to purchase an additional 9.25% in Ramu at fair market value which, if exercised, would take HPL's interest to 20.55%. It should be noted that the development of the Ramu project will be non-recourse to HPL with respect to the debt funding, while the equity funding is a free carry to HPL in respect to its 8.56% interest. HPL's share of product based on its 8.56% share is 2,666 tonnes of nickel and 282 tonnes of cobalt per annum, rising to 3,520 tonnes of nickel and 373 tonnes of cobalt when equity increases to 11.30%.

MCC (Fortune 500 Company) is a major driving force behind the growth of China's steel industry and a major contractor on a number of key projects in China and the Asia Pacific region. The company is a leading investor licensed by the Chinese Government in natural resources exploration. MCC has to date invested as much as US\$1 billion in mining resources abroad, including the production facilities and interests in mineral deposits. MCC is one of the largest equipment manufacturers in China and has total assets of approximately US\$20 billion. In 2007 the company had revenue of US\$18 billion and total profit for the group of US\$1 billion. It has over 50,000 technical and managerial employees.

Other Chinese parties involved with MCC are Jinchuan Group Limited; Jilin Jien Nickel Industry Co. Ltd.; and Jiuquan Iron and Steel (Group) Co. Ltd. These are all major players in the steel and nickel industry in China. Jinchuan is also the largest producer of nickel metal and cobalt in China and is the fifth largest in the world. It has been very active in the Australasian market recently in both signing off-take agreements and taking holdings directly in companies. Jilin is one of the largest producers of nickel sulphate in the world and Jiuquan is a major domestic iron and steel smelting company which is listed in the top 500 of Chinese national enterprises.

FRIEDA RIVER PROJECT

(HIGHLANDS PACIFIC: 16.68%)

HPL is exploring the Frieda porphyry copper/gold deposit in joint venture with Xstrata Frieda River Limited (Xstrata) and OMRD Frieda Co. Limited (OMRD).

The project covers Exploration Licences 58 and 1212 and the Nena Deposit which is subject to Xstrata making an option payment of US\$10.8million to Highlands. The project is a joint venture between Xstrata 75.14%, HPL 16.68% and OMRD 8.18%. To retain its interest in the project, Xstrata must complete a bankable feasibility study by January 2012.

Xstrata Copper is the project operator.

The expenditure for the 2008 year to date is US\$18.8 million. As announced on 29 September the budget for the 2008 year has been increased from US\$25 million to US\$30.9 million. The increased budget will allow the current extended scoping study to be completed by December 2008 and a decision made on progressing to pre-feasibility in 2009.

Xstrata is funding Highlands' share of the expenditure until completion of the Feasibility Study.

Year to date, Xstrata has completed nearly 12,000 metres of the planned 22,000 metres of in-fill drilling.

Assay results have been released in August and September and include the following:

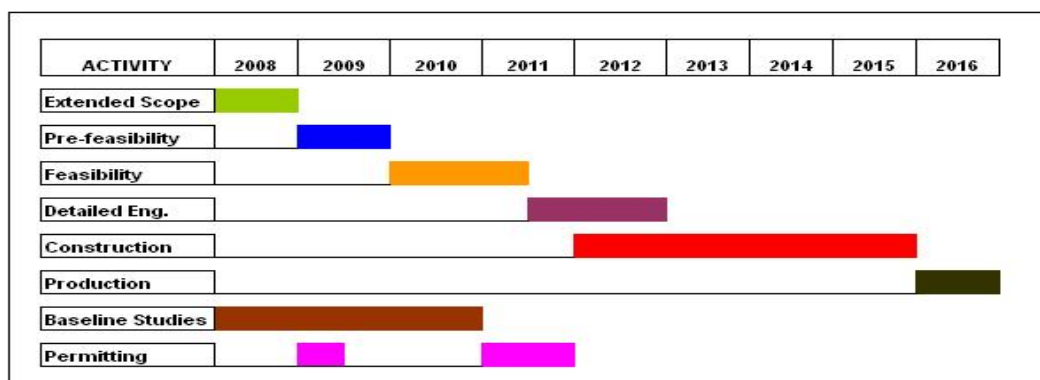
- 329 metres @ 0.85% Cu and 0.90 g/t Au from 12 metres below the surface (released 5 August 2008);
- 264 metres @ 0.67% Cu and 0.67 g/t Au from 4 metres below the surface (released 26 September 2008);
- 108 metres @ 0.67% Cu and 0.44 g/t Au from 12 metres below the surface (released 26 September 2008); and
- 281 metres @ 0.63% Cu and 0.31 g/t Au from 36 metres below the surface (released 26 September 2008).

Assay results will continue to be released over the coming months.

Other work undertaken in the quarter as part of the 2008 program included:

- Resource modelling on the Horse/Ivaal/Trukai deposit;
- Continued infrastructure, environmental, process engineering, mine scheduling and planning studies; and
- Flotation test work on the Horse/Ivaal/Trukai pit ore – concentrate grades of 27% copper have been produced.

The work program prepared by Xstrata for the Frieda River project which, provided a number of challenges are met, will have the following timeline:



The Scoping Study envisages open-pit operations situated at Horse/Ivaal/Trukai (processing 40Mtpa for 26 years) and Nena (processing 3Mtpa for 20 years). Copper concentrate production forecasts for the project will potentially yield an average payable copper metal of 190,000 tonnes per annum and payable gold of 295,000 ounces per annum.

The project's average C1 cash cost (net of gold credits at US\$700/oz) over the life of the project is approximately US\$0.81/lb.

The project shows positive NPV above an un-escalated copper price of US\$1.68/lb. The Scoping Study runs a number of sensitivities and under one sensitivity there is the potential for an un-g geared project NPV of US\$681million and an IRR of 17.7% using the following variables - an initial capital estimate of US\$2.57 billion, a copper price of US\$2.0/lb, a gold price of US\$700/oz and a discount rate of 10%.

The report highlighted that there is potential to capture more value from the Nena deposit in particular and from the project in general, through further optimisation.

EXPLORATION

Drilling commenced at Yangalemu during the quarter. The first hole has been completed and the core is currently being logged and sampled. Initial logging shows the first hole, as expected, intercepted several zones of alteration and silica flooding and veining. The entire hole will be split and half core submitted for assay. First assay results should be available in November.

The program has a budget of US\$1.0 to US\$1.5 million and will target some 2,000 metres of exploration drilling. Exploration expenditure managed by Highlands Pacific for the quarter was US\$445,000 bringing the total expenditure to date to US\$605,000.

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Forward Looking Statements

This announcement includes certain 'Forward Looking Statements'. All statements, other than statements of historical fact included herein, including without limitation, statements regarding potential mineralization, resources and reserves, exploration results and future plans and objectives of Highlands Pacific Group Limited are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements.

ATTACHMENT 1

LIST OF MINING TENEMENTS

Tenement Reference	Beneficial Interest at Commencement of Period	Beneficial Interest at End of Period
Exploration (Highlands Pacific Resources Limited) ELs 1277 and 1340	100% Note 1	100% Note 1
Frieda River Project (Highlands Frieda Limited) ELs 0058 and 1212 ELs 1312 and 1392 ELAs 1654, 1655, 1656, 1657, 1658 and 1659	16.68% Note 1, 2 28% Note 1, 3 16.68% Note 1	16.68% Note 1, 2 28% Note 1, 3 16.68% Note 1
Ramu Project (Ramu Nickel Limited) SML 8 ML 149 LMPs 42, 43, 44, 45, 46, 47, 48 and 49 MEs 75, 76, 77, 78 and 79 ELs 193 and 1178	8.56% 8.56% 8.56% 8.56% 8.56%	8.56% 8.56% 8.56% 8.56% 8.56%

NOTES

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country.
2. Highlands Pacific retains an 89.22% interest in the Nena Deposit (part of EL 0058), which is subject to an Option Agreement with Xstrata.
3. Highlands Pacific holds 28% of the Nong River EL's – EL1312 and EL 1392.
4. Definitions:
 - EL - Exploration License
 - ELA - Exploration License Application
 - SML - Special Mining Lease
 - ML - Mining Lease
 - LMP - Lease for Mining Purpose
 - ME - Mining Easements

APPENDIX 5B

MINING EXPLORATION ENTITY QUARTERLY REPORT

Name of entity

HIGHLANDS PACIFIC LIMITED

ACN or ARBN

ARBN 078 118 653

QUARTER ENDED ("CURRENT QUARTER")

30 SEPTEMBER 2008

NOTE: As Highlands operating and mining development decisions are based on US dollars, Highlands Directors have adopted the US dollar as Highlands functional and management reporting currency. For ease of understanding by the Australian and PNG investment communities, results have been converted, in this report, to \$A at the rate ruling at the end of the quarter of \$A/\$US 0.7996.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter	Current quarter	Year to date	Year to date
	\$US'000	\$A'000	(9 months) \$US'000	(9 months) \$A'000
Cash flows related to operating activities				
1.1 Receipts from product sales and related debtors	55	69	6,861	8,581
1.2 Payments for:				
(a) exploration and evaluation	(450)	(563)	(605)	(757)
(b) development	-	-	-	-
(c) production	-	-	(1,566)	(1,958)
(d) administration	(754)	(943)	(2,801)	(3,503)
1.3 Dividends received	-	-	-	-
1.4 Interest and other items of a similar nature received	219	274	694	868
1.5 Interest and other costs of finance paid	-	-	-	-
1.6 Income taxes paid	-	-	-	-
1.7 Other	-	-	-	-
Net Operating Cash Flows	(930)	(1,163)	2,583	3,230
Cash flows related to investing activities				
1.8 Payment for purchases of:				
(a) prospects	(1,017)	(1,272)	(1,017)	(1,272)
(b) equity investments	-	-	-	-
(c) other fixed assets	(50)	(63)	(373)	(466)
1.9 Proceeds from sale of:				
(a) prospects	-	-	4,000	5,003
(b) equity investments	-	-	-	-
(c) other fixed assets	686	858	686	858
1.10 Loans to other entities	-	-	-	-
1.11 Loans repaid by other entities	-	-	-	-
1.12 Other	-	-	-	-
Net investing cash flows	(381)	(476)	3,296	4,122
1.13 Total operating and investing cash flows (carried forward)	(1,311)	(1,639)	5,879	7,353

Cash flows related to financing activities					
1.14	Proceeds from issues of shares, options, etc	-	-	-	-
1.15	Proceeds from sale of forfeited shares	-	-	-	-
1.16	Proceeds from borrowings	-	-	-	-
1.17	Repayment of borrowings	-	-	-	-
1.18	Dividends paid	-	-	-	-
1.19	Other	-	-	-	-
	Net financing cash flows	-	-	-	-
	Net increase (decrease) in cash held	(1,311)	(1,639)	5,879	7,353
1.20	Cash at beginning of quarter/year to date	28,162	29,256	20,751	21,104
1.21	Exchange rate adjustments to item 1.20 - unrealised	(1,753)	3,771	(1,532)	2,931
1.22	Cash at end of quarter	25,098	31,388	25,098	31,388

Payments to directors of the entity and associates of the directors
Payment to related entities of the entity and associates of the related entities

	Current quarter		
	\$US'000	\$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	82	103
1.24	Aggregate amount of loans to the parties in item 1.10	nil	nil
1.25	Explanation necessary for an understanding of the transactions		
	Refer Quarterly Report		

Non-cash financing and investing activities

2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows	None
2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest	None

Financing facilities available

	Amount available		Amount used	
	\$US'000	\$A'000	\$US'000	\$A'000
3.1 Loan facilities:				
Bridging Facility	nil	nil	nil	nil
Project Finance	nil	nil	nil	nil
3.2 Credit standby arrangements	Nil	Nil	n/a	n/a

Estimated cash outflows for next quarter

	\$US'000	\$A'000
4.1 Exploration and evaluation		
Wau/Bulolo	500	625
Frieda River (to be funded by joint venturer)	-	-
Other	-	-
Total Exploration and evaluation	500	625
4.2 Development		
Ramu (to be funded by joint venture)	-	-
Other	-	-
Total Development	-	-
Total	500	625

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$US'000	Current quarter \$A'000	Previous quarter \$US'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	5,054	6,321	954	991
5.2 Deposits at call	3,024	3,782	8,454	8,782
5.3 Bank overdraft	-	-	-	-
5.4 Other short-term deposits	17,019	21,285	18,754	19,483
Total cash at end of quarter (item 1.22)	25,098	31,388	28,162	29,256

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note 2)	Interest at beginning of qtr	Interest at end of qtr
6.1 Interests in mining tenements relinquished, reduced or lapsed		Refer Table 2 in Quarterly Report		
6.2 Interests in mining tenements acquired or increased		Refer Table 2 in Quarterly Report		

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 Preference + securities <i>(description)</i>				
7.2 Issued during quarter				
7.3 + Ordinary securities	652,402,148	652,402,148		
7.4 Issued during quarter				
+ Convertible debt securities <i>(description and conversation factor)</i>				
7.5				
7.6 Issued during quarter				
7.7 Options <i>(description and conversation factor)</i>	Refer Attachment A		Exercise Price	
Project Financiers	32,144,483	Nil	AUD 0.54	Nil
Directors' and Executives' Option Incentive Scheme	23,471,250	Nil	Refer attached	Nil
Other Investors	43,025,908	Nil	Refer attached	Nil
7.8 Issued during quarter	Nil	Nil	Refer attached	Nil
7.9 Exercised during quarter	Nil	n/a	n/a	n/a
7.10 Expired & lapsed during quarter	Nil	Nil	n/a	Nil
7.11 Debentures <i>(totals only)</i>	Nil	Nil		
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil		

COMPLIANCE STATEMENT

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
(Director/Company Secretary)

Date: 28 October 2008

Print name: C T LENNON

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, AASB 1022: Accounting for Extractive Industries and AASB 1026: Statement of Cash Flows apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

ATTACHMENT A

HIGHLANDS PACIFIC LIMITED APPENDIX 5B – ITEM 7.7

OPTIONS (DESCRIPTION AND CONVERSION FACTOR)

Outstanding at the end of the quarter	Issued	Exercised
Exercise Price	A\$0.54	A\$0.54
Number of Options	11,144,483	Nil
Expiry Date	31 December 2009	31 December 2009
Exercise Price	A\$0.37	A\$0.37
Number of Options	443,750	Nil
Expiry Date	Various dates	Various dates
Exercise Price	A\$0.435	A\$0.435
Number of Options	137,500	Nil
Expiry Date	Various dates	Various dates
Exercise Price	A\$0.423	A\$0.423
Number of Options	1,000,000	Nil
Expiry Date	31 July 2010	31 July 2010
Exercise Price	A\$0.50	A\$0.50
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	4 May 2010
Exercise Price	A\$0.55	A\$0.55
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	4 May 2010
Exercise Price	A\$0.60	A\$0.60
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	4 May 2010
Exercise Price	A\$0.65	A\$0.65
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	4 May 2010
Exercise Price	A\$0.175	A\$0.175
Number of Options	2,500,000	Nil
Expiry Date	19 July 2010	19 July 2010
Exercise Price	A\$0.175	A\$0.175
Number of Options	200,000	Nil
Expiry Date	31 July 2011	31 July 2010
Exercise Price	A\$0.155	A\$0.155
Number of Options	10,000,000	Nil
Expiry Date	21 May 2010	21 May 2010
Exercise Price	A\$0.20	A\$0.20
Number of Options	21,000,000	Nil
Expiry Date	21 Aug 2010	21 Aug 2010
Exercise Price	A\$0.175	A\$0.175
Number of Options	3,800,000	Nil
Expiry Date	12 Dec 2010	12 Dec 2010

Outstanding at the end of the quarter	Issued	Exercised
Exercise Price	A\$0.30	A\$0.30
Number of Options	3,390,000	Nil
Expiry Date	28 Feb 2013	28 Feb 2013
Exercise Price	A\$0.13	A\$0.30
Number of Options	2,000,000	Nil
Expiry Date	19 July 2011	19 July 2011

No options expired or lapsed during the quarter

No options issued during the quarter.

No options were exercised during the quarter.