



## Quarterly Activities Report - for the period ended 31 December 2017

### ASX Code: **HIG**

Shares on Issue: 950 million

Performance Rights: Nil

Shareholders: ~7,200

\*Updated for share issue completed on 23 January 2017

**Market Cap: A\$90m** (9.5c-per-share)

**Cash at bank: A\$8.7m**

### Directors

Ron Douglas, *Chairman*

Craig Lennon, *Managing*

*Director/CEO*

John Wylie

Bart Philemon

### Management

Sylvie Moser, *CFO & Co Sec*

Ron Gawi, *GM Port Moresby*

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### HIGHLIGHTS

#### **Ramu Nickel Cobalt Mine** (*Highlands 8.56% with potential to move to 20.55%*)

- Record production of 9,160 tonnes of nickel and 877 tonnes of cobalt achieved in December quarter.
- Annual production of nickel in concentrate increased 56% on 2016 to a record 34,666 tonnes, exceeding nameplate production capacity of 32,600 tonnes.
- Nickel and Cobalt prices rising. Nickel reached US\$12,850/t in December quarter, and Cobalt surged to record levels, trading at US\$78,000/t in mid-January 2018.
- Ramu project net cash inflow (unaudited) of US\$49 million for the December quarter, after capital expenditure of US\$7 million. YTD project net cash inflow (unaudited) US\$170 million, after capital expenditure of US\$17 million.
- Cash operating margins for the December quarter averaged approximately US\$6,790/t nickel, after cobalt credits.
- Highlands on track to receive maiden distribution when the audited joint venture accounts are finalised at the end of March 2018.

#### **Star Mountains Copper Gold exploration** (*Highlands 49%*)

- Drilling campaign results being analysed to determine future exploration plans.
- Activity focused on care and maintenance of infrastructure and equipment for the quarter.

#### **Frieda River Copper Gold Project** (*Highlands 20%*)

- PanAust progressing studies on possible redesign and refinement of project components.
- PNG government authorities' assessment of the Special Mining Lease application is pending the outcome of redesign work.
- Arbitration hearing scheduled for March 12 to consider dispute between joint venture partners regarding funding obligations.
- Process to explore potential sale of Highland's interest in Frieda River continuing.

#### **Sewa Bay Nickel** (*Exploration*)

- Exploration tenement renewal application submitted during the quarter.
- Discussions continue with Sojitz and Pacific Metals on future programs.

### Corporate

- Long serving director Dan Wood retired, reducing board to four directors.
- Potential acquisitions being explored with a focus on base and precious metals projects that are close to production.
- Cash totalled US\$6.8 million (A\$8.7 million) at the end of December 2017.

**Managing Director Craig Lennon said the highlight of the quarter was the record performance of the Ramu operation, which is now consistently exceeding its design capacity and generating strong cashflows as nickel and cobalt prices continue to rise.**

"Ramu is now performing exceptionally well, confirming it is one of the true success stories of PNG's mining industry. Our commitment and perseverance are now delivering results, and the operation is achieving consistent production records just as cobalt prices surge to record levels, and as nickel continues to show a solid upward trend, buoyed by demand for battery metals. At the Star Mountains project, the encouraging results of the last drilling campaign are being carefully analysed by our partner Anglo American to assess the next steps for the project. And at Frieda River, work is being undertaken to consider alternative project designs which may deliver significantly improved project economics," he said.



## Ramu Nickel Cobalt Mine

**Location:** The Kurumbukari mine is connected to the Basamuk treatment plant by a 135km pipeline which is on the coast and 75 km east of the provincial capital of Madang, PNG.

**Equity:** Highlands has an 8.56% interest in the mine which will increase to 11.3% at no cost after internal project debt has been repaid (refer below). Highlands has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%.

**Funding:** MCC Ramu NiCo was responsible for development and financing the project. Highlands share of the project borrowings (capped to a specified development threshold) are held in Highlands' wholly owned subsidiary, Ramu Nickel Limited, and are non-recourse to Highlands Pacific Limited or other group companies. The borrowings are to be repaid out of Ramu Nickel's share of operating surpluses from the project (sales revenue less operating costs and on-going capital expenditure) rather than operating and financing cashflows generated by the Highlands Group.

**About MCC:** Metallurgical Corporation of China Limited is the operator of the project. MCC is a multi-asset company, well known for its strength in scientific research, industrial engineering practice and international trading. MCC holds a 61% interest in MCC Ramu NiCo Limited (which holds an 85% interest in the Mine), with other Chinese end users holding the remaining 39%.

## RAMU NICKEL COBALT MINE (8.56% with potential to move to 20.55%)

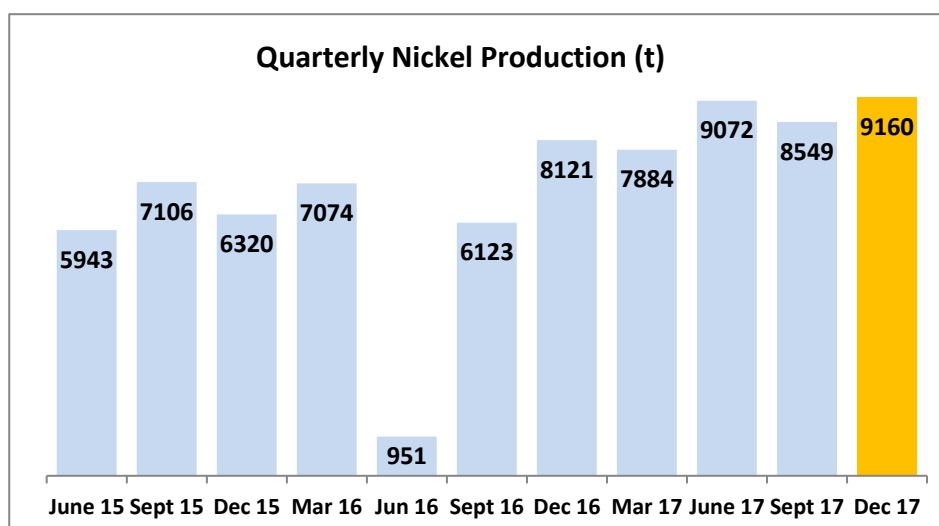
The Ramu nickel/cobalt mine achieved record production in the December quarter and in the full year to December, 2017. Nickel output in the quarter totalled 9,160 tonnes, which was up 7% compared with the preceding three months to September, while cobalt production rose by 8.5% to 877 tonnes.

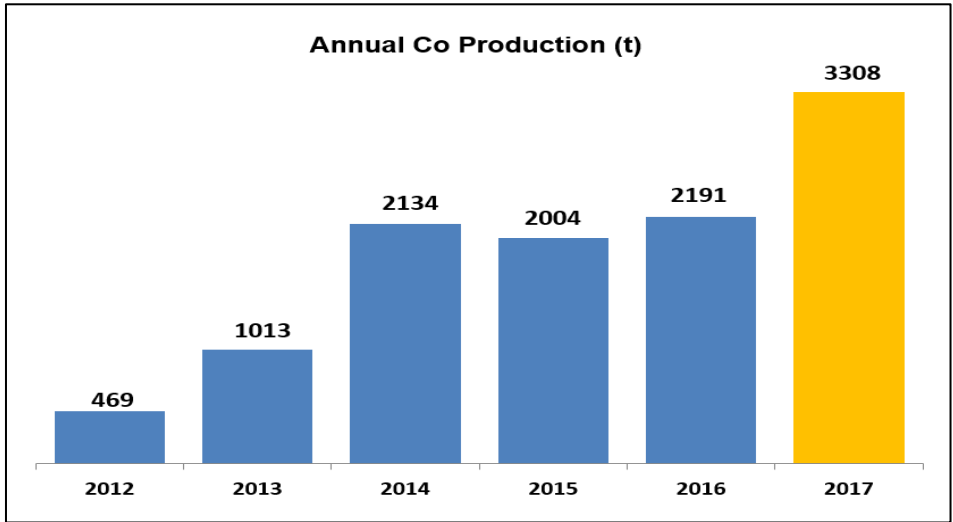
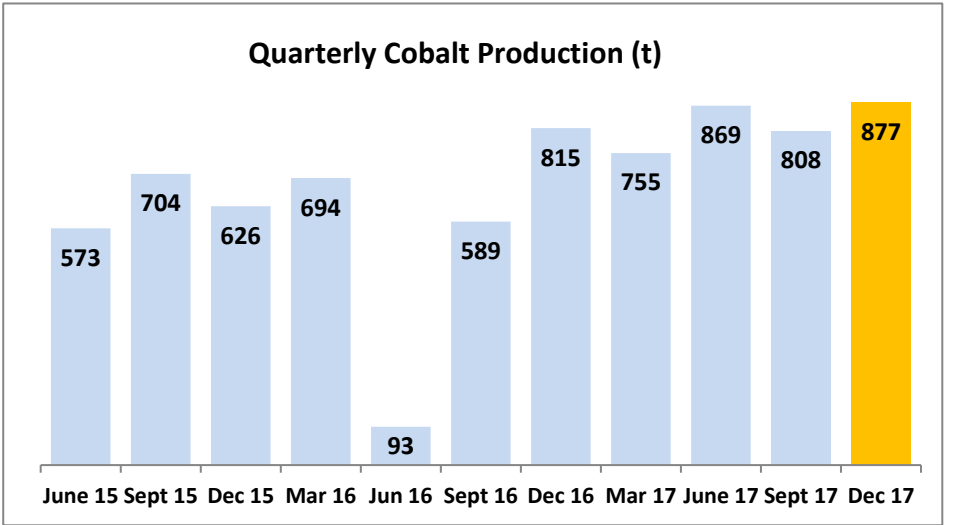
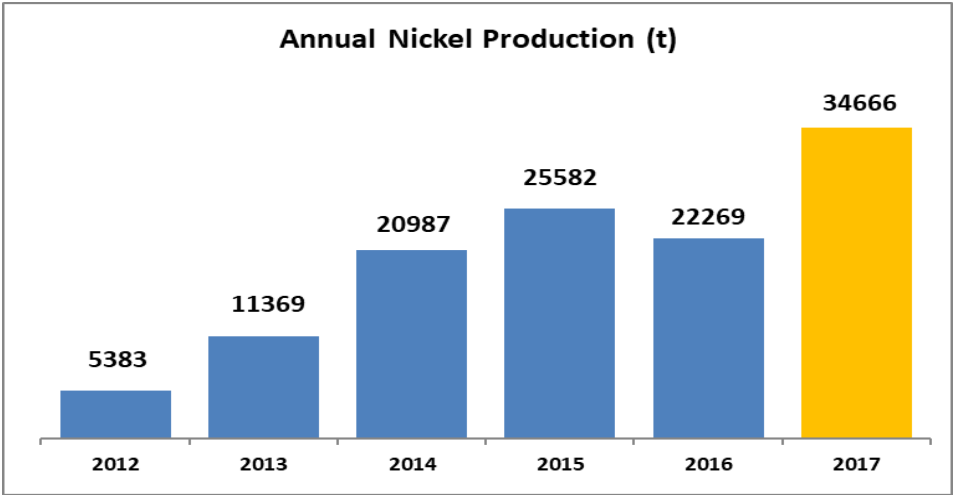
For the full year, nickel production totalled 34,666 tonnes, which was well above forecast output of 32,600 tonnes, and up 56% compared with the prior year. Annual cobalt production was 3,308 tonnes, up more than 51% compared with the prior year, as cobalt prices reached record levels of more than US\$78,000/t due to increasing demand in battery production.

The record outputs confirm Ramu as one of the largest nickel and cobalt producers in Asia, and one of the most successful nickel laterite operations to have been brought into production.

The mine produces approximately 2.7% of global cobalt supply and 5% of production outside of the Democratic Republic of Congo (DRC), which generates more than half of global cobalt supply.

|                               | FY<br>2016 | 2017<br>Mar Qtr | 2017<br>Jun Qtr | 2017<br>Sept Qtr | 2017<br>Dec Qtr | FY<br>2017 |
|-------------------------------|------------|-----------------|-----------------|------------------|-----------------|------------|
| <b>Ore Processed (dry kt)</b> | 2,270      | 809             | 936             | 897              | 960             | 3,601      |
| <b>MHP Produced (dry t)</b>   | 57,824     | 20,143          | 23,717          | 22,156           | 23,932          | 89,947     |
| <b>Contained Ni (t)</b>       | 22,269     | 7,884           | 9,072           | 8,549            | 9,160           | 34,666     |
| <b>Contained Co (t)</b>       | 2,191      | 755             | 869             | 808              | 877             | 3,308      |
| <b>MHP shipped (dry t)</b>    | 64,307     | 19,397          | 29,703          | 22,907           | 21,105          | 93,111     |
| <b>Contained Ni (t)</b>       | 24,199     | 7,411           | 11,249          | 8,857            | 8,182           | 35,699     |
| <b>Contained Co (t)</b>       | 2376       | 721             | 1,076           | 844              | 789             | 3,430      |









The strong production results were driven by excellent operational performances at both the Kurumbukari mine and the Basamuk process plant near Madang.

Mine production at Kurumbukari increased 4% compared with the prior quarter, and annual mine production was 45% higher than the prior year. This enabled slurry transfer to the Basamuk process plant to increase 7% in the December quarter, compared to the prior September three months, while annual slurry supply to Basamuk increased 59% to 3,600kt. The process plant continued to achieve excellent throughput and utilization rates. The first quarter of 2018 will see two of the three HPAL trains undergo their annual maintenance shutdown which will impact production levels slightly.

Slurry nickel and cobalt grades remained consistent for the quarter and the year, averaging 1.1% for nickel and 0.11% for cobalt.

#### Financial Performance

The Ramu operation's financial results benefited from the strong production performance and rising cobalt and nickel prices. Nickel rose to US\$12,850/t in November, while cobalt reached US\$68,250/t in December and has since continued to a record US\$78,250 at mid-January.



Source: Trading Economics

Average revenue received per tonne of nickel sold in the December quarter was approximately US\$13,570/t, net of selling costs and payable charges and including cobalt credits. Cash operating margins generated during the quarter averaged approximately US\$6,790/t, after cobalt credits.

The operation realised a net cash inflow (unaudited) of US\$49 million for the December quarter after capital expenditure of US\$7 million (US\$170 million for the full year after capital expenditure of US\$17 million).

As a result of the strong production rates and increased nickel and cobalt prices during 2017 a maiden distribution is expected to be received by Highlands for the 2015 to 2017 period when the audited joint venture accounts are finalised at the end of March this year. Current estimates are for a distribution in excess of US\$1 million with almost US\$15 million being applied to the working capital and development loan balances, including accrued interest.



| 2015-2017 Distribution  | \$Millions |
|---|------------|
| Project cash surplus (after capital expenditure)  | 165        |
| Highlands 8.56% share   | 14         |
| Repayment of working capital loans  | (3)        |
| <b>TOTAL</b>  | <b>11</b>  |
| Highlands Debt Repayment (80%) plus cash call interest charges  | (10)       |
| Highlands Cash Distribution<br>(to be paid after finalisation of the audited 2017 joint venture accounts) | 1          |

Our joint venture partner and financier, MCC, has agreed to extend the current debt repayment structure for one year to the end of 2018. Under this structure, Highland's 8.56% share of net cash inflow has 80% applied to debt repayment and 20% being received as a cash distribution (similar to the above for the 2015 - 2017 period).

| 2018 Forecast Distribution                       | 2017 Prices (\$M) | Spot Prices (\$M) |
|--|-------------------|-------------------|
| Project cash surplus (after capital expenditure) | 170               | 268               |
| Highlands 8.56% share                            | 15                | 23                |
| Highlands Debt Repayment (80%)                   | (12)              | (18)              |
| Highlands Cash Distribution                      | 3                 | 5                 |

The table above assumes production rates and operating costs are the same as the 2017 year. For the Column "2017 Prices" it is assumed the average nickel and cobalt pricing received in 2017 is repeated in 2018 (no increase). Spot prices used in the far right column are US\$12,450/t for nickel and US\$76,900/t for cobalt.

From 2019, 100% of Highlands 8.56% share of net cash inflow is to be applied to debt repayment until US\$53 million is repaid (2017 and 2018 repayments above not included in this figure), then the debt repayment percentage reduces to 65% with Highlands receiving 35% of its 8.56% share of cash inflow.

As at 31 December 2017 the total loan balance was US\$115 million (pre-audit). Once all borrowings have been repaid, Highlands' interest in Ramu will increase to 11.3% at no cost to Highlands.



**Ramu Mineral Resources 31 Dec 2016 (at a 0.5% nominal cut-off and excluding oversize (+2mm))**

| Kurumbukari  |           |             |            |
|--------------|-----------|-------------|------------|
| Category     | MT        | Ni(%)       | Co(%)      |
| Measured     | 37        | 0.9         | 0.1        |
| Indicated    | 5         | 1.3         | 0.1        |
| Inferred     | 2         | 1.2         | 0.1        |
| <b>Total</b> | <b>44</b> | <b>0.96</b> | <b>0.1</b> |

| Ramu West    |           |            |            |
|--------------|-----------|------------|------------|
| Category     | MT        | Ni(%)      | Co(%)      |
| Indicated    | 17        | 0.9        | 0.1        |
| Inferred     | 3         | 1.5        | 0.1        |
| <b>Total</b> | <b>20</b> | <b>1.0</b> | <b>0.1</b> |

| Greater Ramu |    |       |       |
|--------------|----|-------|-------|
| Category     | MT | Ni(%) | Co(%) |
| Inferred     | 60 | 1.0   | 0.1   |

| Global Total | MT  | Ni(%) | Co(%) |
|--------------|-----|-------|-------|
|              | 124 | 1.0   | 0.1   |

**Notes:** 1. Totals may not equal the sum of the component parts due to rounding adjustments. 2. Tonnes (dry) represent the -2 mm economic portion of resource mineralization in the rocky saprolite.

**Competent Persons Statement:** The information in this report that relates to Ramu Mineral Resources is based on information compiled by Xiong Xiaofang, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Xiong Xiaofang is a full-time employee of China ENFI Engineering Corporation and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Xiong Xiaofang consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



## Ramu Ore Reserve 31 Dec 2016

| Kurumbukari  |           |            |            |                  |
|--------------|-----------|------------|------------|------------------|
| Category     | MT        | Ni(%)      | Co(%)      | Rocks +2mm<br>MT |
| Proved       | 29        | 0.9        | 0.1        |                  |
| Probable     | 6         | 1.3        | 0.1        | 9                |
| <b>Total</b> | <b>35</b> | <b>1.0</b> | <b>0.1</b> | <b>9</b>         |

| Ramu West    |           |            |            |                  |
|--------------|-----------|------------|------------|------------------|
| Category     | MT        | Ni(%)      | Co(%)      | Rocks +2mm<br>MT |
| Proved       |           |            |            |                  |
| Probable     | 14        | 0.9        | 0.1        |                  |
| <b>Total</b> | <b>14</b> | <b>0.9</b> | <b>0.1</b> |                  |

| Global Total | MT | Ni(%) | Co(%) |   |
|--------------|----|-------|-------|---|
|              | 49 | 1.0   | 0.1   | 9 |

**Notes:** 1. Totals may not equal the sum of the component parts due to rounding adjustments. 2. Ore tonnes (dry) represent the -2 mm economic portion of resource mineralization. Rock represents an estimate of oversize material (+2 mm) that includes low-grade rocks and rock fragments that occur in the rocky saprolite mineralized zone and are considered as internal waste. The rock will be removed by a simple screening process prior to beneficiation. Accordingly, the ore tonnage is reported after initial screening prior to the beneficiation plant. 3. The Ore Reserve estimate was made using metal prices of US\$17,045/t nickel and US\$25,412/t cobalt. 4. Cut-off grade is variable and equates to 0.58% nickel equivalent, including credit for recovered cobalt metal.

**Competent Persons Statement:** The information in this report that relates to Ramu Ore Reserves is based upon information compiled by Mr Chao An Deng, who is a Deputy Chief Engineer of China ENFI Engineering Corporation and a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Chao An Deng is a full-time employee of China ENFI Engineering Corporation and has sufficient experience relevant to the style of mineralization and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code)". Mr Chao An Deng consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.





**Location:** The Star Mountains refers to a range of mountains in far west PNG. The tenements are approximately 20kms NE of the Ok Tedi copper mine. Total tenement area 675km<sup>2</sup>

**History:** First explored by Kennecott in the early 1970s.

**Ownership:** In February 2015, Highlands Pacific and a subsidiary of Anglo American Plc formed a joint venture for exploration and development of the Star Mountains project, which includes the Tifalmin lease (EL 1392), Munbil (EL 1781), Benstead (EL 2001), Nong River lease (EL 1312) and the Mt Abemh lease (EL 2467). Under the terms of that joint venture, Anglo American holds the rights to move to an 80% interest in the project, subject to achieving certain spending commitments and completing a bankable feasibility study. The PNG Government retains the right to acquire up to a 30% interest in the project.

**2011 Exploration Program:** *Focused on the completion of Stage 1 drilling program on the Olgal prospect.*

**2012 Exploration Program:** *5,587m of drilling for 17 holes covering 6 prospect areas.*

**2015 Exploration Program:** *Nine hole program for a total of 5,387 metres.*

**2016/17 Exploration Program:** *Seven holes completed for 5,620 metres.*

## STAR MOUNTAINS COPPER/GOLD PORPHYRY EXPLORATION

The focus of activity during the December quarter was analysis of the results of the 2017 drilling campaign. The campaign involved seven diamond drill holes for a total depth of approximately 5,620 metres, with four holes drilled at the Fune prospect, two holes at Unfin and one hole at Olgal.

Anglo American plc, the manager of the joint venture, is now using the data from the drilling campaign to assess its plans for future exploration. Current site work is focussed on care and maintenance of the tenements and associated equipment and infrastructure.





## About Frieda River

**Location:** Located in the north-west of Papua New Guinea.

**Ownership:** Highlands owns 20%. PanAust, a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd. (GRAM) owns 80%.

The Frieda River district endowment totals some 2.8 billion tonnes of mineral resource containing approximately 13 Mt of copper and 21 Moz of gold.

## FRIEDA RIVER COPPER - GOLD PROJECT (20%)

### Permitting and Project Redesign

The PNG Government's assessment of the Frieda SML application that was lodged in June 2016 by the Frieda River Joint Venture (FRJV) has been actioned as far as possible by the relevant regulatory Authority on the basis of current information. The Mineral Resource Authority (MRA) continues to review information provided by the applicant as it comes to hand as part of its ongoing assessment.

The MRA has been notified by the FRJV that further studies on alternative options are underway. The manager of the project has advised the government that it is undertaking technical studies on the potential redesign and refinement of project components and that this work will be completed in the second half of 2018. Until this work is completed, and the results presented by the manager to the FRJV, the FRJV is unable to confirm if it will lodge a variation or amendment to the June 2016 SML application.

The overall approval and permitting process for the SML application and related matters is under the overall management of a government appointed State Negotiating Team, Chaired by the Department of Mineral Policy and Geohazards Management.

### Frieda River sale process

As previously announced, Highlands is undertaking a process seeking to maximise the value of its interest in the Frieda River project and has appointed advisers Cutfield Freeman and Co to investigate opportunities including a potential sale. This process requires significant assessment and analysis and is continuing, however it may or may not lead to a transaction being completed.

### Arbitration Proceedings

The arbitration process to resolve the dispute between Highlands and PanAust progressed during the December quarter, with the first hearing scheduled for March 12.

The parties are in dispute regarding their obligations under the joint venture agreement, including whether Highlands is obliged to commence funding of project expenditures. The parties have agreed to seek a final and binding arbitration before a sole arbitrator. If Highlands is unsuccessful in the arbitration process, then it will consider using its right to dilute its interest in the project in lieu of making funding contributions. With the project having significant sunk costs, the rate of dilution is relatively small (approximately 1% for US\$25 million of joint venture expenditure).



## Frieda River Resources

The Nena Mineral Resource for the Nena deposit was updated and announced in November 2017. The Nena sulphide Mineral Resource supersedes the previous estimate prepared by Glencore-Xstrata. The Nena gold cap Mineral Resource estimate is newly reported.

The Frieda River Copper-Gold Project exploits the HITEK deposit, which is a large-scale porphyry-style copper-gold deposit with low concentrations of deleterious elements. The Mineral Resource estimates are reported under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code, 2012 Edition).

### January 2017 HITEK Mineral Resource

| Classification      | Tonnes (Mt)  | Copper (%)  | Gold (g/t)  |
|---------------------|--------------|-------------|-------------|
| Measured            | 620          | 0.53        | 0.30        |
| Indicated           | 1,240        | 0.44        | 0.22        |
| <b>M+I subtotal</b> | <b>1,860</b> | <b>0.47</b> | <b>0.25</b> |
| Inferred            | 780          | 0.35        | 0.18        |
| <b>MII total</b>    | <b>2,640</b> | <b>0.44</b> | <b>0.23</b> |

*Copper cut-off grade 0.2% (total copper).*

*This Mineral Resource is reported on a 100% ownership basis.*

*May include minor computational errors due to rounding.*

*The HITEK Mineral Resource is constrained within Revenue Factor 1.5 shell, (US\$4.95/lb Cu, US\$2,175/oz Au)*

*"FRL\_HITEK\_V3\_25x25x15\_1608v1e HIT-MII EK-MII\_Shell\_06\_1.5.sft".*

### November 2017 Nena Mineral Resource

| Nena Sulphide Mineral Resource 2017 |             |             |             |             |            |
|-------------------------------------|-------------|-------------|-------------|-------------|------------|
| Category                            | Tonnes (Mt) | Cu(%)       | Au(g/t)     | As(%)       | Sb(ppm)    |
| <b>Indicated</b>                    | 35          | 2.35        | 0.79        | 0.25        | 160        |
| <b>Inferred</b>                     | 17          | 1.68        | 0.29        | 0.12        | 80         |
| <b>Total</b>                        | <b>52</b>   | <b>2.13</b> | <b>0.63</b> | <b>0.20</b> | <b>130</b> |

| Nena Gold Cap Mineral Resource 2017 |             |             |             |             |            |
|-------------------------------------|-------------|-------------|-------------|-------------|------------|
| Category                            | Tonnes (Mt) | Cu(%)       | Au(g/t)     | As(%)       | Sb(ppm)    |
| <b>Indicated</b>                    | 11          | 0.07        | 1.35        | 0.30        | 230        |
| <b>Inferred</b>                     | 10          | 0.06        | 1.28        | 0.21        | 170        |
| <b>Total</b>                        | <b>20</b>   | <b>0.06</b> | <b>1.32</b> | <b>0.26</b> | <b>200</b> |

*Gold cut-off grade 0.5g/t with an upper copper grade limit of 0.3%.*

*Reported on a 100% ownership basis.*

*Totals may include minor discrepancies for rounding.*



## 2017 HITEK Ore Reserve estimate

| Classification      | Tonnes (Mt) | Copper (%)  | Gold (g/t)  |
|---------------------|-------------|-------------|-------------|
| Proved              | 413         | 0.54        | 0.32        |
| Probable            | 272         | 0.45        | 0.21        |
| <b>Ore Reserves</b> | <b>686</b>  | <b>0.50</b> | <b>0.28</b> |

*The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves.*

*This Ore Reserve is reported on a 100% ownership basis.*

*May include minor computational errors due to rounding.*

*The Frieda River Ore Reserve is estimated at commodity prices of US\$3.30/lb copper and US\$1,455/oz gold subject to a floating value<sup>1</sup> based cut-off grade. The representative average copper only cut-off grade is 0.21% copper.*

*<sup>1</sup>Potential mill feed is determined on a net mill value basis and incorporates the influence of metal recovery, ore processing costs and revenue.*

### Competent Person. Ore Reserves

*The data in this report that relate to Ore Reserves for the Frieda River Project are based on information reviewed by Mr Scott Cowie who is a Member and Chartered Professional (Mining) of the Australasian Institute of Mining and Metallurgy (MAusIMM CP). Mr Cowie is a full time employee of PanAust Limited. Mr Cowie has sufficient experience relevant to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Cowie consents to the inclusion in the report of the Ore Reserves in the form and context in which they appear.*

*The information on the HITEK Reserve is extracted from the report entitled “2017 Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Deposit Frieda River Mineral Resource and Ore Reserve Statements” created on 24 March 2017 and available on the Company website.*

### Competent Person Statement. Mineral Resources

*The data in this report that relate to Mineral Resources for Frieda River (HITEK and Nena) are based on information reviewed by Mr Shaun Versace who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Versace is a full time employee of PanAust Limited. Mr Versace has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Versace consents to the inclusion in the report of the Mineral Resources in the form and context in which they appear.*

*The information on the HITEK Resource is extracted from the report entitled “2017 Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Deposit Frieda River Mineral Resource and Ore Reserve Statements” created on 24 March 2017 and available on the Company website.*

*The information on the Nena Resource is extracted from the report entitled “Frieda River Copper-Gold Project Mineral Resource update for the Nena copper-gold deposit” released on 27 November 2017 and available on the Company website.*

*Highlands confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Highlands confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.*





**Location:** Normanby Island,  
Milne Bay Province

**Ownership:** The Esa'ala lease  
(EL 1761) is 100% owned by  
Highlands.

**Area:** 758 km<sup>2</sup>

## SEWA BAY – NICKEL LATERITE / GOLD EXPLORATION

Highlands and international trading house Sojitz Group, together with Japanese company Pacific Metals Co. Ltd., are continuing discussions regarding exploration activities at the Sewa Bay tenements in Milne Bay Province, where significant nickel mineralisation previously has been identified.

The exploration program to date has been funded by Sojitz and Pacific Metals. A renewal application for EL 1761 was submitted during the quarter.

### Forward Looking Statements

*All statements other than statements of historical fact included in this announcement including, without limitation, statements regarding future plans and objectives of Highlands Pacific Limited are forward-looking statements. When used in this announcement, forward-looking statements can be identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects' or 'intends' and other similar words that involve risks and uncertainties.*

*These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this announcement, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the company, its directors and management of Highlands Pacific Limited that could cause Highlands Pacific Limited's actual results to differ materially from the results expressed or anticipated in these statements.*

*Highlands Pacific Limited cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Highlands Pacific Limited does not undertake to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this announcement, except where required by applicable law and stock exchange listing requirements.*



## ATTACHMENT 1

### LIST OF MINING TENEMENTS

(All located in Papua New Guinea)

| Tenement Reference  | Beneficial Interest at Commencement of Period | Beneficial Interest at End of Period | Location – Province           |
|---|---|--------------------------------------|-------------------------------|
| Exploration (Highlands Pacific Resources Limited)<br>EL 1761  | 100% - Note 1                                 | 100% - Note 1                        | Milne Bay Province            |
| Star Mountains (Highlands Pacific Resources Limited)<br>ELs 1312, 1392, 1781, 2001, 2467, 2478 and 2571 | 49% - Note 1                                  | 49% - Note 1                         | Sandaun Province              |
| Frieda River Project (Highlands Frieda Limited)<br>ELs 0058, 1895 and 1956                              | 20% - Note 1                                  | 20% - Note 1                         | Sandaun Province              |
| ELs 1212, 1746 and 1957   | 20% - Note 1                                  | 20% - Note 1                         | Sandaun & East Sepik Province |
| ELs 1743, 1744, 1745, and 1896  | 20% - Note 1                                  | 20% - Note 1                         | East Sepik Province           |
| Ramu Project (Ramu Nickel Limited)<br>SML 8   | 8.56%   | 8.56%                                | Madang Province               |
| ML 149  | 8.56%   | 8.56%                                | Madang Province               |
| LMPs 42, 43, 44, 45, 46, 47, 48 and 49  | 8.56%   | 8.56%                                | Madang Province               |
| MEs 75, 76, 77, 78 and 79   | 8.56%   | 8.56%                                | Madang Province               |
| ELs 193 and 2376 (previously 1178)  | 8.56%   | 8.56%                                | Madang Province               |

**Mining Tenements acquired or disposed of during the quarter – nil.**

**Beneficial percentage interests held in farm-in or farm-out agreements –** all the mining tenements for the Frieda River Project, the Ramu Project and Star Mountains are held in joint venture. The percentage detailed in the table above indicates the percentage held by Highlands.

**Beneficial percentage interests in farm-in or farm-out agreements acquired or disposed of during the quarter – nil.**

### NOTES

- 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 by paying its pro-rata share of historical sunk costs and future developments costs.
- Definitions:
  - EL - Exploration Licence
  - ELA - Exploration Licence 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")

31 December 2017

**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 0.7800.

### CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Current<br>quarter | Current<br>quarter | Year to<br>date | Year to<br>date |
|---|--------------------|--------------------|-----------------|-----------------|
|   | \$US'000           | \$A'000            | \$US'000        | \$A'000         |
| <b>Cash flows related to operating activities</b>         |                    |                    |                 |                 |
| 1.1 Receipts from customers                               | -                  | -                  | -               | -               |
| 1.2 Payments for:   |                    |                    |                 |                 |
| - exploration and evaluation (Frieda)*                    | (113)              | (145)              | (648)           | (831)           |
| - production (Ramu holding costs)*                        | (30)               | (38)               | (129)           | (165)           |
| - staff costs   | (341)              | (437)              | (1,080)         | (1,385)         |
| - administration and corporate costs                      | (221)              | (283)              | (1,632)         | (2,092)         |
| 1.4 Interest received                                     | 24                 | 31                 | 110             | 141             |
| 1.5 Income taxes (paid)/refund                            | -                  | -                  | -               | -               |
| 1.6 Other - management fees received from JV management   | 18                 | 23                 | 446             | 572             |
| 1.7 <b>Net cash from / (used) in operating activities</b> | (663)              | (849)              | (2,933)         | (3,760)         |
| <b>Cash flows from investing activities</b>               |                    |                    |                 |                 |
| 2.1 Payments to acquire:<br>property, plant and equipment | -                  | -                  | (2)             | (3)             |
| 2.2 Proceeds from the disposal of:<br>- investments       | -                  | -                  | -               | -               |
| 2.3 Other - JV contributions received                     | 1,664              | 2,133              | 8,867           | 11,368          |
| Other - JV contributions expended                         | (1,131)            | (1,450)            | (9,857)         | (12,637)        |
| 2.4 <b>Net cash from / (used in) investing activities</b> | 533                | 683                | (992)           | (1,272)         |

\* Includes staff costs pertaining to these projects





|  |  |       |         |         |         |
|--|--|-------|---------|---------|---------|
| <b>Cash flows from financing activities</b>                                |  |       |         |         |         |
| 3.1  | Proceeds from issue of shares                                    | -     | -       | (5)     | (6)     |
| 3.2  | Repayment of borrowings  | -     | -       | -       | -       |
| 3.3  | <b>Net cash from / (used in) financing activities</b>            | -     | -       | (5)     | (6)     |
| <b>Net increase (decrease) in cash and cash equivalents for the period</b> |  | (130) | (1,532) | (3,930) | (5,037) |
| 4.1  | Cash and cash equivalents at beginning of the period             | 6,931 | 8,842   | 10,526  | 14,547  |
| 4.2  | Net cash from / (used in) operating activities (item 1.7 above)  | (663) | (849)   | (2,933) | (3,760) |
| 4.3  | Net cash from / (used in) investing activities (item 2.4 above)  | 533   | 683     | (992)   | (1,272) |
| 4.4  | Net cash from / (used in) financing activities (item 3.10 above) | -     | -       | (5)     | (6)     |
| 4.5  | Effect of movement in exchange rates on cash held                | 15    | 62      | 220     | (771)   |
| 4.6  | <b>Cash and cash equivalents at end of period</b>                | 6,816 | 8,738   | 6,816   | 8,738   |

#### Reconciliation of cash and cash equivalents

|   |  |                 |                 |                  |                  |
|---|--|-----------------|-----------------|------------------|------------------|
| at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts |  | Current quarter | Current quarter | Previous quarter | Previous quarter |
|   |  | \$US'000        | \$A'000         | \$US'000         | \$A'000          |
| 5.1   | Bank balances  | 1,468           | 1,882           | 1,574            | 2,008            |
| 5.2   | Call deposits  | -               | -               | -                | -                |
| 5.3   | Bank overdrafts  | -               | -               | -                | -                |
| 5.4   | Other short-term deposits                              | 5,348           | 6,856           | 5,357            | 6,834            |
| 5.5   | <b>Cash and cash equivalents at the end of quarter</b> | 6,816           | 8,738           | 6,931            | 8,842            |

#### Payments to directors of the entity and their associates

|     |  |                 |         |
|-----|--|-----------------|---------|
|     |  | Current quarter |         |
|     |  | \$US'000        | \$A'000 |
| 6.1 | Aggregate amount of payments to these parties (included in item 1.2)                                 | 50              | 64      |
| 6.2 | Aggregate amount of cash flow from loans to these parties (included in item 2.3)                     | nil             | nil     |
| 6.3 | Include below any explanation necessary to understanding of the transactions included in 6.1 and 6.2 |                 |         |

#### Payments to related entities of the entity and their associates

|     |  |                 |         |
|-----|--|-----------------|---------|
|     |  | Current quarter |         |
|     |  | \$US'000        | \$A'000 |
| 7.1 | Aggregate amount of payments to these parties (included in item 1.2)                                 | nil             | nil     |
| 7.2 | Aggregate amount of cash flow from loans to these parties (included in item 2.3)                     | nil             | nil     |
| 7.3 | Include below any explanation necessary to understanding of the transactions included in 7.1 and 7.2 |                 |         |



#### Financing facilities available

|   | Amount available |         | Amount used |         |
|---|------------------|---------|-------------|---------|
|   | \$US'000         | \$A'000 | \$US'000    | \$A'000 |
| 8.1 Loan facilities                                     | Nil              | Nil     | n/a         | n/a     |
| 8.2 Credit standby arrangements                         | Nil              | Nil     | n/a         | n/a     |
| 8.3 Other (please specify)                              | Nil              | Nil     | n/a         | n/a     |
| 8.4 Include below a description of each facility above. |                  |         |             |         |

#### Estimated cash outflows for next quarter

|   | \$US'000 | \$A'000 |
|---|----------|---------|
| 9.1 Exploration and evaluation  |          |         |
| Nong River / Tifalmin project costs (funded by Anglo American)          | -        | -       |
| Frieda Holding Costs (joint venture costs funded by PanAust)            | 200      | 256     |
| 9.2 Development   | -        | -       |
| 9.3 Ramu Production – Holding Costs (joint venture costs funded by MCC) | 30       | 38      |
| 9.4 Staff costs   | 300      | 385     |
| 9.5 Administration and corporate costs                                  | 285      | 365     |
| 9.6 Other   | -        | -       |
| 9.7 Total estimated cash outflows                                       | 815      | 1,044   |

#### Changes in mining tenements (items 2.1(b) and 2.2(b) above)

|  | Tenement reference and location | Nature of interest                     | Interest at beginning of quarter | Interest at end of quarter |
|--|---------------------------------|--|----------------------------------|----------------------------|
| 10.1 Interests in mining tenements lapsed, relinquished or reduced |                                 | Refer Attachment 1 in Quarterly Report |                                  |                            |
| 10.2 Interests in mining tenements acquired or                     |                                 | Refer Attachment 1 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 <b>Preference + securities</b> <i>(description)</i>                           |                           |               |                                  |                                     |
| 7.2 Issued during quarter   |                           |               |                                  |                                     |
| 7.3 <b>+ Ordinary securities</b>  | 935,915,836               | 935,915,836   |                                  |                                     |
| 7.4 Issued during quarter   | Nil                       | Nil           | Nil                              | Nil                                 |
| <b>+ Convertible debt securities</b> <i>(description and conversation factor)</i> |                           |               |                                  |                                     |
| 7.5   |                           |               |                                  |                                     |
| 7.6 Issued during quarter   |                           |               |                                  |                                     |
| 7.7 <b>Options</b> <i>(description and conversation factor)</i>                   | <b>Refer Attachment A</b> |               | <u>Exercise Price</u>            |                                     |
| Performance Rights Plan   | 17,150,000                | Nil           | Refer attached                   | Nil                                 |
| 7.8 Issued during quarter (Performance Rights)                                    | Nil                       | Nil           | n/a                              | n/a                                 |
| 7.9 Exercised during quarter (Performance Rights)                                 | Nil                       | Nil           | n/a                              | n/a                                 |
| 7.10 Expired & lapsed during quarter (Options & PR's)                             | Nil                       | Nil           | n/a                              | n/a                                 |
| 7.11 <b>Debentures</b> <i>(totals only)</i>                                       | Nil                       | Nil           |                                  |                                     |
| 7.12 <b>Unsecured notes</b> <i>(totals only)</i>                                  | Nil                       | Nil           |                                  |                                     |





## COMPLIANCE STATEMENT

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....

(Director/Company Secretary)

Date: 29 January 2018

Print name: **S MOSER**

### 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. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of AASB 6: *Exploration for and Evaluation of Mineral Resources* and AASB 107: *Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.



## ATTACHMENT A

### HIGHLANDS PACIFIC LIMITED APPENDIX 5B – ITEM 7.7

#### PERFORMANCE RIGHTS (DESCRIPTION AND CONVERSION FACTOR)

Outstanding at the end of the quarter

| Details   | Issued      | Previously Exercised |
|---|-------------|----------------------|
| Exercise Price                                  | A\$0.00     |                      |
| Number of Performance Rights                    | 17,150,000  |                      |
| Expiry Date                                     | 31 Dec 2017 |                      |
| (Subject to service and performance conditions) |             |                      |

No Performance Rights were issued during the quarter

No Performance Rights were exercised during the quarter

No Performance Rights lapsed during the quarter