12 March 2019

SCHEME BOOKLET FOR PROPOSED ACQUISITION BY COBALT 27

Highlands Pacific Limited (ASX/POMSoX: HIG, “Highlands”) is pleased to confirm that on 12 March 2019 the National Court of Papua New Guinea ("Court") made orders that a meeting of the holders of Scheme Shares (being all shares in Highlands other than those held by or on behalf of Cobalt 27 Capital Corp. or its subsidiaries) ("Scheme Meeting") be convened to consider and, if thought fit, to approve the proposed acquisition of Highlands by Cobalt 27 Capital Corp. by way of a scheme of arrangement ("Scheme").

Scheme Meeting

The Scheme Meeting will be held at 10.00am (AEST) on Tuesday, 30 April 2019. If the Scheme is approved by the requisite majority of holders of Scheme Shares, being 75% of the votes cast by eligible shareholders at the Scheme Meeting, and all other conditions precedent are satisfied or waived (where capable of waiver), Highlands intends to apply to the Court for orders approving the Scheme. If the Scheme is approved and implemented, holders of Scheme Shares will receive cash consideration of A$0.105 per Scheme Share, rising to A$0.115 if, before 31 December 2019, the closing spot price of nickel[1] exceeds US$13,220 per tonne over a period of 5 consecutive trading days.

Scheme Booklet

A copy of the Scheme Booklet, which includes an Independent Expert’s Report and a Notice of Scheme Meeting, is attached to this announcement and will be sent to holders of Scheme Shares shortly. Those holders of Scheme Shares who have previously nominated an electronic means of notification to the Highlands share registry will receive an email from which they can download the Scheme Booklet.

The Scheme Booklet provides shareholders with information about the Scheme. Shareholders are advised to read the Scheme Booklet in its entirety. The Notice of Scheme Meeting provides information on how to lodge your Proxy Form.

Independent Expert's Report

The Independent Expert, Deloitte Corporate Finance Pty Ltd, has concluded that the Scheme is fair and reasonable to the Highlands shareholders not associated with Cobalt 27 Capital Corp. ("Participating Shareholders") and is therefore in the best interests of the Participating Shareholders in the absence of a superior proposal.

[1] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices.

Directors' recommendation

The Highlands Independent Directors (being all the Highlands Directors other than Anthony Milewski) continue to unanimously recommend that holders of Scheme Shares vote in favour of the Scheme at the Scheme Meeting in the absence of a superior proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Participating Shareholders. Subject to those same qualifications, each Highlands Independent Director intends to vote all the Scheme Shares held or controlled by them in favour of the Scheme.

For further information please contact:

Shareholder Enquiries (Monday to Friday – 8.30AM – 5PM AEST)
Highlands Shareholder Information Line
Telephone (Australia) 1300 352 248
Telephone (International) +61 3 9415 4125
http://www.highlandspacific.com/

ASX Code: HIG
POMSoX Code: HIG
Shares on Issue: 1,093 million
Performance Rights: Nil

Directors
Ron Douglas, Chairman
Craig Lennon, MD/CEO
Anthony Milewski
Ernie Gangloff

Management
Sylvie Moser, CFO & Co Sec
Ron Gawi, GM Port Moresby

Investor and Media Enquiries:
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 that 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).

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

SCHEME BOOKLET

In relation to the proposed acquisition of Highlands Pacific Limited (***Highlands***) by Cobalt 27 Capital Corp. (***Cobalt 27***) by way of scheme of arrangement.

VOTE IN FAVOUR

The Highlands Independent Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Highlands Shareholders.

The Scheme Meeting is scheduled to be held at 10am (AEST/Port Moresby time) on Tuesday 30 April 2019 at the Hilton Port Moresby, Wards Rd, Hohola, Port Moresby, 121, Papua New Guinea.

This Scheme Booklet is important and requires your prompt attention. You should read it in its entirety, and consider its contents carefully, before deciding whether or not to vote in favour of the Scheme. If you are in any doubt about what you should do, you should consult with a financial, legal, taxation or other professional adviser.

If you have any questions in relation to this Scheme Booklet or the Scheme, please contact the Highlands Shareholder Information Line on 1300 352 248 (within Australia) or +61 3 9415 4125 (outside Australia), Monday to Friday between 8.30am to 5.00pm (AEST/Port Moresby time).

This Scheme Booklet has been sent to you because you are shown in the Highlands Share Register as holding Highlands Shares. If you have recently sold all of your Highlands Shares, please disregard this Scheme Booklet.

Important Notices

Nature of this document

This Scheme Booklet provides Highlands Shareholders with information about the proposed acquisition of Highlands by Cobalt 27. You should review all of the information in this Scheme Booklet carefully before making any decision as to how to vote at the Scheme Meeting. Section 1.1 sets out the reasons why you should vote in favour of the Scheme and section 1.2 sets out the reasons why you may wish to vote against the Scheme.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 10.1 of this Scheme Booklet. Section 10.2 sets out some rules of interpretation which apply to this Scheme Booklet.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position or particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult with a financial, legal, taxation or other professional adviser.

Not an offer

This Scheme Booklet does not constitute or contain an offer to Highlands Shareholders, or a solicitation of an offer from Highlands Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia and PNG may be restricted by law or regulation in such other jurisdictions and persons outside of Australia and PNG who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with PNG law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside PNG.

Regulatory information

This document is the explanatory statement for the scheme of arrangement between Highlands and the Scheme Participants for the purposes of section 250(2)(a) of the PNG Companies Act. A copy of the proposed Scheme is included in this Scheme Booklet as Annexure B.

A copy of this Scheme Booklet has been provided to the PNG Securities Commission. Neither the PNG Securities Commission, nor any of its officers, takes any responsibility for the contents of this Scheme Booklet.

Notice of Scheme Meeting

The Notice of Meeting is set out in Annexure D.

Highlands Shareholder's right to appear at the Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Highlands Shareholder may appear at the Second Court Hearing, which is expected to be held at 8:45am on Thursday 2 May at the National Court of Papua New Guinea, Port Moresby, Papua New Guinea.

Any Highlands Shareholder who wishes to oppose the approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Highlands a notice of appearance in the prescribed form together with any affidavit that the Highlands Shareholder proposes to rely on.

Important notice associated with the Court order under section 250(2)(b) of the PNG Companies Act

The fact that, under section 250(2)(b) of the PNG Companies Act, the Court has ordered that a meeting be convened and has directed that an explanatory statement accompany the notice of meeting does not mean that the Court:

- has formed any view as to the merits of the proposed scheme or as to how Highlands Shareholders should vote (on this matter Highlands Shareholders must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe Highlands' or Cobalt 27's objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Highlands' operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by those forward-looking statements.

The business, operations and financial performance of Highlands are subject to various risks, including those summarised in this Scheme Booklet, many of which are beyond the control of Highlands. Highlands Shareholders should note that the historical financial performance of Highlands is no assurance of future financial performance of Highlands (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which Highlands operates as well as general economic conditions; commodity prices; prevailing exchange rates and interest rates; and conditions in the financial markets. The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Highlands believes that the views reflected in any forward-looking statements included in the Highlands Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of Highlands, Cobalt 27, Highlands' officers, Cobalt 27’s officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

All subsequent written and oral forward-looking statements attributable to Highlands or Cobalt 27 or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, Highlands and Cobalt 27 do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Responsibility statement

Highlands has been solely responsible for preparing the Highlands Information. The Highlands Information concerning Highlands and the intentions, views and opinions of Highlands and the Highlands Independent Directors contained in this Scheme Booklet has been prepared by Highlands and the Highlands Independent Directors and is the responsibility of Highlands. Cobalt 27 and the Cobalt 27 Directors and officers do not assume any responsibility for the accuracy or completeness of any Highlands Information or the Independent Expert's Report (or any information contained therein).

Cobalt 27 has been solely responsible for preparing the Cobalt 27 Provided Information. The Cobalt 27 Provided Information concerning Cobalt 27 and the intentions, views and opinions of Cobalt 27 contained in this Scheme Booklet has been prepared by Cobalt 27 and is the responsibility of Cobalt 27. Highlands and the Highlands Directors and officers do not assume any responsibility for the accuracy or completeness of any Cobalt 27 Provided Information.

Deloitte has prepared the Independent Expert’s Report in relation to the Scheme (and for this purpose Deloitte engaged Behre Dolbear as the independent technical expert to prepare a technical report for inclusion in the Independent Expert’s Report (***Independent Technical Specialist's Report***)) and Deloitte takes responsibility for that report (including the Independent Technical Specialist's Report). The Independent Expert’s Report (including the Independent Technical Specialist's Report) is set out in Annexure A.

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Highlands Registry. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

No consenting party has withdrawn their consent to be named before the date of this Scheme Booklet.

Privacy

Highlands and Cobalt 27 may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Highlands Shareholders and the name of persons appointed by those persons to act as a proxy or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Highlands and Cobalt 27 to conduct the Scheme Meeting and implement the Scheme. Personal information of the type described above may be disclosed to the Highlands Registry, print and mail service providers, authorised securities brokers, Related Companies of Highlands and Cobalt 27, and Highlands' and Cobalt 27's officers, employees, advisers and service providers. Highlands Shareholders have certain rights to access personal information that has been collected. Highlands Shareholders should contact the Highlands Registry in the first instance, if they wish to access their personal information. Highlands

Shareholders who appoint a named person to act as their proxy or corporate representative should ensure that they inform that person of these matters.

Responsible Persons Information

Ramu Project Mineral Resources

The information in this Scheme Booklet that relates to the Ramu Project Mineral Resources is based on information compiled by Mr Zhang Xueshu, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Zhang Xeushu is a full-time employee and Chief Geologist of Sinomine Resources Exploration Co and has sufficient experience which is 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 JORC Code.

The information on the Ramu Project Mineral Resources is extracted from the report entitled "Ramu Mineral Resource and Ore Reserve Update 2018" released to the ASX on 10 September 2018 and available on Highlands' 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, 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.

Ramu Project Ore Reserves

The information in this Scheme Booklet that relates to Ramu Project Ore Reserves is based on information compiled by Mr Gao Xiang, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Gao Xiang is a part-time employee of Sinomine Resources Exploration Co and has sufficient experience which is 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 JORC Code.

The information on the Ramu Project Ore Reserves is extracted from the report entitled "Ramu Mineral Resource and Ore Reserve Update 2018" released to the ASX on 10 September 2018 and available on Highlands' 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 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.

Frieda River Copper-Gold Project Mineral Resources

The data in this Scheme Booklet that relates to Mineral Resources for the Frieda River Copper-Gold Project are based on information reviewed by Mr Shaun Versace, a full-time employee of PanAust Limited (a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd) and a Member of The Australasian Institute of Mining and Metallurgy. 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 JORC Code.

The information on the HITEK Mineral Resource is extracted from the report entitled "2017 Horse/Ivaal/Trukai/Ekwai/Koki (HITEK) Deposit Frieda River Mineral Resource and Ore Reserve Statements" released to the ASX on 24 March 2017 and available on Highlands' 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 to the ASX on 27 November 2017 and available on Highlands' website. Highlands confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Mineral Resources, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements 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 announcements.

Frieda River Copper-Gold Project Ore Reserves

The data in this Scheme Booklet that relates to Ore Reserves for the Frieda River Copper-Gold Project are based on information reviewed by Mr Scott Cowie, a Member of the Australasian Institute of Mining and Metallurgy and a full-time employee of PanAust Limited (a wholly owned subsidiary of Guangdong Rising Assets Management Co Ltd). Mr Cowie 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 JORC Code.

The information on the HITEK Ore Reserves is extracted from the report entitled "Frieda River Copper/Gold Project Reserve Update" released to the ASX on 10 December 2018 and available on Highlands' 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 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.

Star Mountains Copper-Gold Project

The database information used for the Olgal Mineral Resource estimates at the Star Mountains Copper-Gold Project was compiled and verified as suitable for this estimate by Mr Lawrence Queen. Details contained in this Scheme Booklet that pertain to the Olgal resource estimates are based upon, and fairly represent, information and supporting documentation compiled by Mr Arnold van der Heyden. Mr. van der Heyden is a full-time employee of H&S Consultants Pty Ltd and a Member of The Australasian Institute of Mining and Metallurgy. Mr. Queen is a contractor for Highlands and a Member of The Australasian Institute of Mining and Metallurgy. Both Mr. Queen and Mr. van der Heyden have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the JORC Code.

The information relating to the Olgal Mineral Resource is extracted from the report entitled "Highlands declares maiden Resource at Star Mountains" released to the ASX on 20 February 2018. 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 that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

Charts and diagrams

Any diagrams, charts, graphs or tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, graphs and tables is based on information available as at the date of this Scheme Booklet.

Financial amounts

Unless otherwise stated, all financial amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to Highlands Share trading on the ASX.

Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding.

All financial and operational information set out in this Scheme Booklet is current as at the date of this Scheme Booklet, unless otherwise stated.

Time

All references to time in this Scheme Booklet are references to Port Moresby, PNG time, unless otherwise stated. Any obligation to do an act by a specified time in a PNG time zone must be done at the corresponding time in any other jurisdiction.

Shareholder Information Line

If you have any questions in relation to this Scheme Booklet or the Scheme, please contact the Highlands Shareholder Information Line on 1300 352 248 (within Australia) or +61 3 9415 4125 (outside Australia), Monday to Friday between 8.30am to 5.00pm (AEST/Port Moresby time).

Date of this Scheme Booklet

This Scheme Booklet is dated 12 March 2019.

Contents

Indicative Key Dates

Event	Date
Latest date and time for receipt of Proxy Forms for the Scheme Meeting	10.00am (AEST/Port Moresby time) on Sunday 28 April 2019
Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm (AEST/Port Moresby time) on Sunday 28 April 2019
Scheme Meeting to be held at the Hilton Port Moresby, Wards Rd, Hohola, Port Moresby, 121, Papua New Guinea	10am (AEST/Port Moresby time) on Tuesday 30 April 2019
If the Scheme is approved by eligible Highlands Shareholders	
Second Court Date for approval of the Scheme	Thursday 2 May 2019
Effective Date Announcement to ASX and POMSoX Last day of trading in Highlands Shares – Highlands suspended from trading on ASX and POMSoX from close of trading	Friday 3 May 2019
Record Date for determining entitlements to Scheme Consideration	7.00pm (Sydney Time) Friday 10 May 2019
Implementation Date Payment of Scheme Consideration to Scheme Participants	Friday 17 May 2019

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other regulatory authority. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and POMSoX and notified on Highlands' website at www.highlandspacific.com.

Letter from the Chairman of Highlands

Dear Highlands Shareholder,

On 2 January 2019, Highlands Pacific Limited (***Highlands***) announced to ASX and POMSoX that it had entered into a Scheme Implementation Agreement with Cobalt 27 Capital Corp. (***Cobalt 27***), under which Cobalt 27 has agreed to acquire all the shares in Highlands (other than the shares it already owns) at a price of $0.105 per Highlands Share in cash, via a scheme of arrangement (the ***Scheme***). The consideration will increase by $0.010 cash per share to $0.115 if before 31 December 2019 the closing spot price of nickel[1] exceeds US$13,220 per tonne over a period of 5 consecutive trading days.

In order for the Scheme to proceed, it must be approved by Highlands Shareholders at the Scheme Meeting, and then by the Court. The Scheme is also subject to certain other conditions.

Cobalt 27 currently owns approximately 19.99% of the shares in Highlands. Cobalt 27 will not vote those shares at the Scheme Meeting on the resolution to approve the Scheme.

The purpose of this Scheme Booklet is to provide you with information about the Scheme to assist you in voting on the Scheme at the Scheme Meeting.

Background to the Scheme

On 23 May 2018, Highlands announced that it had entered into a streaming agreement with Cobalt 27, under which a subsidiary of Cobalt 27 agreed to pay Highlands an upfront deposit of US$113 million to secure an entitlement to 55% of Highland's share of cobalt production and 27.5% of Highlands' share of nickel production from the Ramu Project for the life of the project (the ***Streaming Agreement***). The Cobalt 27 subsidiary also agreed to make certain ongoing volume-based payments. At the same time as entering into the Streaming Agreement, Highlands made a share placement to Cobalt 27 at $0.105 per share, giving Cobalt 27 an approximate 13% shareholding in Highlands.

The Highlands Board was highly supportive of the Streaming Agreement as a basis for unlocking the value of the Ramu Project, as Highlands intended to use the upfront deposit to fully repay its share of the of Ramu Project Loans owing to the majority interest holder in the project, Metallurgical Corporation of China (***MCC***). This would have provided Highlands with immediate access to future cash flows from the Ramu Project, and immediately increased Highlands' interest in the project to 11.3%[2].

The Streaming Agreement was, however, subject to a number of conditions precedent, including entry into an agreement with MCC to amend the Ramu JV Master Agreement, so as to permit Highlands to accelerate the repayment of its share of the Ramu Project Loans. This amending agreement (known as the Project Way Forward Agreement (***PWFA***)) was required to take effect prior to the longstop date in the Streaming Agreement, being 31 December 2018.

During late 2018, it became evident that this condition to the Streaming Agreement was unlikely to be satisfied by 31 December 2018 due to the difficulty in satisfying the requirements imposed by MCC in relation to the PWFA. In particular, MCC required that both Highlands and the other Ramu Project joint venturers, Mineral Resources Ramu Limited and Mineral Resources Madang Limited (together, ***MRDC***)

---

[1] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices.

[2] Under the terms of the existing Ramu JV Master Agreement, a prescribed share (currently 100%) of Highlands' share of operating surpluses at the mine is applied in payment of principal and interest on its share of the Ramu Project Loans. The repayment of its share of the loans would have provided Highlands with immediate access to its share of any cash flows from the project, and would also have brought forward the increase in Highlands' interest in the Ramu Project from 8.56% to 11.3%, which occurs on repayment of it share of those loans. See section 4.2 for further details.

together execute the PWFA. Under the terms of the PWFA proposed by MCC, Highlands would only be permitted to make early repayment of its share of the Ramu Project Loans if MRDC also repaid its share of the Ramu Project Loans at the same time. Highlands therefore needed MRDC to execute the amending agreement prior the long-stop date for the Streaming Agreement in order to satisfy the condition, which did not occur. It also became evident at that time that Cobalt 27 would not agree to extend the long-stop date for the Streaming Agreement. Accordingly, the closing conditions of the Streaming Agreement were not satisfied and the agreement was terminated by the parties.

This meant that Highlands faced an uncertain future in circumstances where:

- **Ramu Project:** Highlands was not in a position to repay the Ramu Project Loans to MCC, and would therefore not be entitled to receive any cash flows from the Ramu Project for the foreseeable future[3]. While Highlands considered other alternatives for refinancing the project loans, the Streaming Agreement was the only realistic option.
- **Frieda River Copper-Gold Project:** Highlands was in dispute with its joint venture partner, PanAust Limited (***PanAust***), regarding joint venture contributions, with arbitration underway in Queensland. Further, PanAust had released an updated feasibility study for the project which indicated the project would require US$6 billion of pre-production capital (excluding non-project infrastructure) and would not see production commence until 2028 at the earliest, based on a seven year implementation schedule and an additional two years to finalise permitting and financing.
- **Star Mountains Project:** Anglo American had withdrawn from the Star Mountains Project joint venture, and Highlands had conducted an unsuccessful process to identify and introduce a new joint venture partner.
- **Corporate:** Highlands had a declining cash balance, and little realistic prospect of generating additional shareholder value, having wound back its corporate office during 2017 and ceased investment in new exploration and project identification.

With this background, Highlands entered into discussions with Cobalt 27 throughout December 2018 regarding alternative transactions which would provide Cobalt 27 with exposure to the Ramu Project and deliver value to Highlands Shareholders. The Scheme arose as a result of those discussions.

Highlands Independent Directors' recommendation

The Highlands Independent Directors **unanimously recommend that you vote in favour of the Scheme** in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Highlands Shareholders. Subject to those same qualifications, each of the Highlands Independent Directors intends to vote all the Highlands Shares held or controlled by them in favour of the Scheme.

The reasons for the Highlands Independent Directors' recommendation include the following:

1. **Material premium:** The Scheme Consideration of $0.105 (rising to $0.115 subject to applicable thresholds being met) per share represents an attractive premium to the trading prices of Highlands Shares recently prior to the announcement of the Scheme. The Scheme provides a liquidity event for Highlands Shareholders at an attractive premium.
2. **Certain value:** The 100% cash proposal provides Highlands Shareholders with certainty of value and the opportunity to realise their full investment for cash, avoiding the uncertainties and risks

[3] As discussed further in section 4.2, Highlands is entitled to receive 35% of the operating surpluses available to it at the Ramu Project upon repayment of its Future Financing Costs, which (based on the preferred commodity price assumptions of the Independent Expert) is not expected to occur until 2022. Highlands will not receive 100% of its operating surpluses at the Ramu Project until it also repays its Historic Financing Costs, which (based on the preferred commodity price assumptions of the Independent Expert) is not expected to occur until at least 2029.

associated with their investment in Highlands and its assets and operations. While the Highlands Independent Directors remain of the view that the company's assets have growth potential, they are also cognisant of the fact that there are real uncertainties and risks which may result in this potential not being fully realised, or not be realised at all. These uncertainties and risks include the factors set out in the background to the Scheme above, together with commodity price risk; risks associated with being a minority interest holder in projects; operating risks of Highlands' projects; and risks associated with operating in Papua New Guinea. These risks and uncertainties are discussed further in section 5.

3 **Upside protection:** Highlands Shareholders will receive additional consideration of $0.010 cash per share should the nickel price close above the agreed threshold of US$13,220 per tonne for five consecutive trading days prior to 31 December 2019. The price of nickel is volatile and will continue to fluctuate in the future. There is no certainty that the Additional Contingent Scheme Consideration will be paid. The Independent Expert has valued the Additional Contingent Scheme Consideration at $0.010 per share by applying a probability factor to approximate the likelihood of its payment. As at 6 March 2019 the nickel price was trading at US$13,607.50 per tonne[4].

4 **Certainty of execution:** The Scheme is not subject to further financing arrangements or due diligence.

5 **No competing proposals have emerged:** Following the announcement of the proposed Scheme, Highlands invited a number of interested parties to conduct due diligence on Highlands and its assets, and to put forward competing proposals. These include a competing change of control transaction, sale of Highlands' interest in the Ramu Project or a transaction to support repayment of the Ramu Project loans[5]. However, as at the date of this Scheme Booklet, no competing proposals have been received.

In forming their view that the Scheme is in the best interests of Highlands Shareholders, the Highlands Independent Directors considered the disadvantages of the Scheme proceeding. These are set out in section 1.2 "Why you may wish to vote against the Scheme." These disadvantages include the fact that:

- Highlands Shareholders will no longer be able to participate in any upside inherent in Highlands' portfolio of assets; and
- Highlands Shareholders may be subject to tax on the disposal of their Highlands Shares. The tax consequences of the Scheme will depend on your personal situation. General guides to the Australian and PNG taxation implications of the Scheme is set out in sections 7 and 8, respectively.

Voting Intentions

Certain Highlands Shareholders have stated their intention to vote any shares held in favour of the Scheme in the absence of a superior proposal, and in the case of PanAust SPV2 Pte, Ltd, subject also to the conditions set out below. These shareholders comprise: LIM Asia Multi-Strategy Fund Inc. and LIM Asia Special Situations Master Fund Limited (which collectively as at 22 February, being the last practicable day before the date of this Scheme Booklet, owned approximately a 9.4% shareholding), certain funds managed by Tribeca Investment Partners Pty Ltd (which as at 7 March 2019, owned a 2.1%

[4] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices.

[5] The Scheme Implementation Agreement with Cobalt 27 contains customary deal protection mechanisms, including no-shop and no-talk obligations on the part of Highlands, restricting the ability of Highlands to solicit and respond to competing proposals. However, under the terms of the Scheme Implementation Agreement, Highlands had a 45 day period up to 16 February 2019 (the ***Go-Shop Period***) before these no-shop and no-talk provisions would commence. No competing proposals were received during the period. Following the Go-Shop Period, Highlands is prohibited from soliciting a Competing Proposal, but is still permitted to respond to any Competing Proposal if the Highlands Independent Directors determine that failing to do so may constitute a breach of their fiduciary or statutory duties (and after having obtained written advice from Highlands' external legal advisers).

shareholding) and PanAust SPV2 Pte, Ltd (which as at 22 February, being the last practicable day before the date of this Scheme Booklet, owned an 11.8% shareholding). PanAust SPV2 Pte, Ltd's intention to vote in favour of the Scheme, in the absence of a superior proposal, is subject to board and regulatory approval in China. PanAust SPV2 Pte, Ltd is a subsidiary of Guangdong Rising Assets Management Co, a Chinese state-owned enterprise.

Independent Expert

Highlands has engaged an independent expert, Deloitte Corporate Finance Pty Ltd (the ***Independent Expert***) to provide an opinion in relation to the Scheme (the ***Independent Expert's Report***). The Independent Expert has in turn engaged Behre Dolbear Australia Pty Ltd to prepare an independent technical report for inclusion in the Independent Expert's Report (***Independent Technical Specialist's Report***).

The Independent Expert has concluded that the Scheme is in the best interests of Highlands Shareholders not associated with Cobalt 27 or PanAust (being the parties to the Frieda River Sale Agreement described below) (***Non-Associated Highlands Shareholders***), in the absence of a Superior Proposal. The Independent Expert has assessed the value of Highlands at between $0.085 and $0.144 per Highlands Share. The Base Scheme Consideration under the Scheme of $0.105 per Highlands Share is within this range.

The Independent Expert’s Report and Independent Technical Specialist's Report are included as Annexure A to this Scheme Booklet.

How to vote

Your vote is important regardless of how many Highlands Shares you own. If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme Resolution.

The Scheme will only be effective and implemented if it is supported by at least 75% of the votes cast on the Scheme Resolution by Highlands Shareholders.

Sale of Frieda River interest to PanAust

Separately from the Scheme, Cobalt 27 has entered into an agreement (the ***Frieda River Sale Agreement***) with PanAust and its subsidiaries, PanAust SPV2 and Frieda River Limited, under which, if the Scheme is implemented, Cobalt 27 will cause Highlands Frieda Limited (which will then be a wholly owned subsidiary of Cobalt 27) to transfer its 20% participating interest in the Frieda River Copper-Gold Project to the PanAust Group for US$9.45 million (being the carrying value of the 20% interest in Highlands' financial statements as at 30 June 2018, of US$28.8 million; less the outstanding principal and interest on all loans made by PanAust's subsidiaries to Highlands Frieda Limited as at 31 December 2018, of US$6.89 million; less all amounts which the PanAust Group claims are payable by Highlands Frieda Limited (and which are currently the subject of dispute and arbitration) in respect of calls under the Frieda River JV Agreement, of US$12.46 million).

The Frieda River Sale Agreement further requires Highlands Frieda Limited, and Frieda River Limited, to enter into a Deed of Settlement (**Frieda River Settlement Deed**) as part of completion under the Frieda River Sale Agreement, which sets out the terms on which the arbitration proceedings between PanAust and Highlands Frieda Limited would be settled, if the Scheme is implemented and the sale contemplated by the Frieda River Sale Agreement is completed. The terms of the Frieda River Sale Agreement are described in more detail in section 6.6(g).

Importantly, the Frieda River Sale Agreement will only complete if the Scheme is implemented. Highlands and Highlands Frieda Limited are not parties to the Frieda River Sale Agreement.

The PanAust Group currently owns 11.8% of the shares in Highlands. The Independent Expert has, in its Independent Expert's Report, provided an opinion on whether the terms of the Frieda River Sale Agreement are fair to Non-Associated Highlands Shareholders and whether it confers a net benefit on

PanAust. The Independent Expert has concluded that the terms of the Frieda River Sale Agreement are fair to those Highlands Shareholders who will not be offered the opportunity to participate in that transaction, and does not confer a net benefit on PanAust.

Further information

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for the Highlands Independent Directors' recommendation and the Independent Expert's Report. It also sets out reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety as it will assist you in making an informed decision on how to vote. I would also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your Highlands Shares.

If you require any further information, please call the Highlands Shareholder Information Line on 1300 352 248 (within Australia) or +61 3 9415 4125 (outside Australia), Monday to Friday between 8.30am and 5.00pm (AEST/Port Moresby time).

Conclusion

On behalf of the Highlands Board, I would like to thank you for your ongoing support.

We look forward to your participation in the Scheme Meeting and encourage you to vote in favour of the Scheme, which we believe, and the Independent Expert has concluded, is in the best interests of Highlands Shareholders, in the absence of a Superior Proposal.

Yours faithfully

Ron Douglas
Chairman

Highlands Pacific Limited

1 Key Considerations Relevant to Your Vote

1.1 Why you should vote in favour of the Scheme

Reasons why you should vote in favour of the Scheme	
Reason 1	The Scheme Consideration of $0.105 (rising to $0.115 subject to the applicable nickel price threshold being met) per Highlands Share represents a significant premium to the trading prices of Highlands Shares recently prior to the announcement of the Scheme
Reason 2	If the Scheme proceeds, Scheme Participants will receive certain value for their investment in Highlands and avoid the ongoing risks and uncertainties associated with their investment in Highlands and its assets and operations
Reason 3	The Scheme is not subject to further financing arrangements or due diligence
Reason 4	Highlands Shareholders will receive additional consideration of $0.010 cash per share should the nickel price close above the agreed threshold of US$13,220 per tonne for five consecutive trading days prior to 31 December 2019. As at 6 March 2019 the nickel price was trading at US$13,607.50 per tonne[6].
Reason 5	The Independent Expert has concluded that the Scheme is in the best interests of Non-Associated Highlands Shareholders, in the absence of a Superior Proposal
Reason 6	No competing proposal has emerged since the Scheme Implementation Agreement was announced
Reason 7	The Highlands Share Price may fall if the Scheme is not implemented
Reason 8	Brokerage charges will not apply to the transfer of Scheme Shares

The Scheme has a number of advantages and disadvantages which may affect Highlands Shareholders in different ways depending on their individual circumstances. Highlands Shareholders should seek professional advice on their particular circumstances, as appropriate.

This section 1.1 provides a summary of some of the reasons why the Highlands Independent Directors unanimously recommend Highlands Shareholders vote in favour of the Scheme. This section should be read in conjunction with section 1.2, which sets out a summary of some of the reasons why Highlands Shareholders may wish to vote against the Scheme.

You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting.

While the Highlands Independent Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme outweigh the disadvantages.

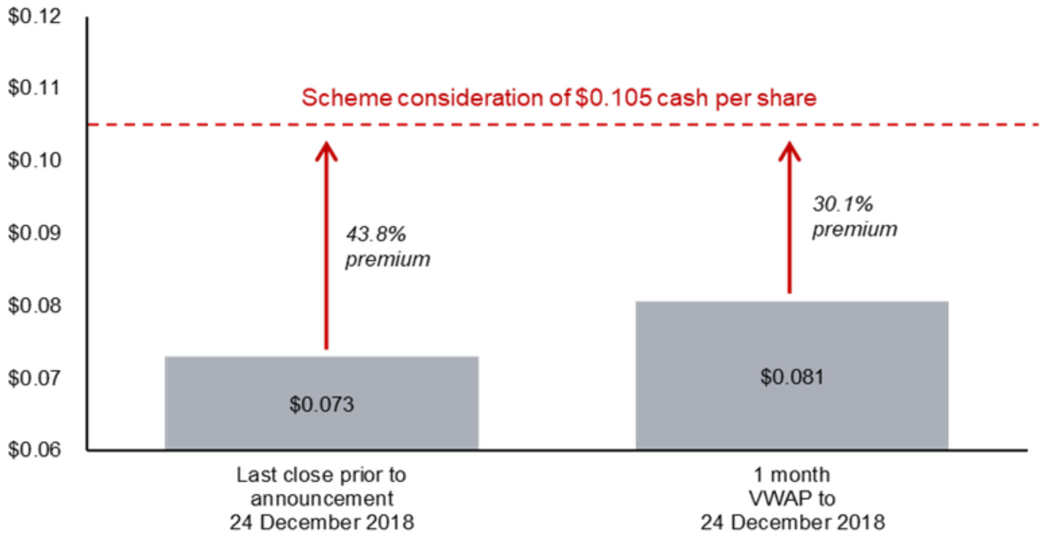
The Highlands Independent Directors have formed the view that the Scheme is in the best interests of Highlands Shareholders for the following reasons:

[6] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices.

Reason 1: The Scheme Consideration of $0.105 (rising to $0.115 subject to the applicable nickel price threshold being met) per Highlands Share represents an attractive premium to the trading prices of Highlands Shares recently prior to the announcement of the Scheme

The Base Scheme Consideration of $0.105 per Highlands Share represents a significant premium of:

- 43.8% over the closing price of Highlands Shares on 24 December 2018, the last day Highlands Shares traded prior to the announcement of the Scheme Implementation Agreement; and
- 30.1% over the 1 month VWAP up to and including 24 December 2018;



In this context, the Scheme provides a liquidity event for Highlands Shareholders at an attractive premium.

The Highlands Independent Directors note that the Base Scheme Consideration represents a lower premium to the 3 month VWAP for Highlands Shares and a minor discount on the 6 month VWAP up to and including 24 December 2018. However, in their view, the trading price of Highlands shares during the period following the announcement of the Streaming Agreement on 23 May 2018 was supported by the positive market reaction to Highlands having secured that agreement. As discussed above, the conditions to the Streaming Agreement were not satisfied and it was terminated on 31 December 2018. The Highlands Independent Directors therefore believe that the premia to the immediate pre-announcement price and 1 month VWAP are more appropriate benchmarks against which to measure the bid price.

To illustrate this point, the chart below shows the closing share price of Highlands Pacific shares on ASX over the past 12 months, versus the ASX Small Ordinaries Resources (XSR) Index (re-based to the Highlands share price).

Reason 2: If the Scheme proceeds, Scheme Participants will receive certain value for their investment in Highlands and avoid the ongoing risks and uncertainties associated with Highlands' assets and operations

While the Highlands Independent Directors remain of the view that Highlands' assets have upside potential, they are also cognisant of the fact that, if the Scheme does not proceed, Highlands faces an uncertain future in circumstances where:

- **Ramu Project:** Highlands is not in a position to repay the project loans to MCC, and will therefore not be entitled to receive any cash flows from the Ramu Project for the foreseeable future[7].
- **Frieda River Copper-Gold Project:** Highlands is in dispute with its joint venture partner, PanAust, regarding joint venture contributions, with arbitration underway in Queensland. Further, PanAust has released an updated feasibility study for the project which indicates the project will require US$6 billion of pre-production capital (excluding non-project infrastructure) and will not see production commence until 2028 at the earliest, based on a seven year implementation schedule and an additional two years to finalise permitting and financing.
- **Star Mountains Project:** Anglo American has withdrawn from the Star Mountains Project joint venture, and Highlands has conducted an unsuccessful process to identify and introduce a new joint venture partner.

[7] As discussed further in section 4.2, Highlands is entitled to receive 35% of the operating surpluses available to it at the Ramu Project upon repayment of its Future Financing Costs, which (based on the preferred commodity price assumptions of the Independent Expert) is not expected to occur until 2022. Highlands will not receive 100% of its operating surpluses at the Ramu Project until it also repays its Historic Financing Costs, which (based on the preferred commodity price assumptions of the Independent Expert) is not expected to occur until at least 2029.

- **Corporate:** Highlands has a declining cash balance, and little realistic prospect of generating additional shareholder value, having wound back its corporate office during 2017 and ceased investment in new exploration and project identification.

Additional uncertainties and risks include:

- commodity price risk;
- high debt levels;
- risks associated with being a minority interest holder in projects (e.g. lack of operational control) and the future conduct of Highlands' joint venture partners;
- operating risks of Highlands' projects; and
- risks associated with operating in Papua New Guinea.

These risks and uncertainties are discussed further in section 5.

Reason 3: Certainty of execution

The Scheme is not subject to further financing arrangements or due diligence.

Reason 4: Highlands Shareholders will receive additional consideration of $0.010 cash per share should the nickel price close above the agreed threshold of US$13,220 per tonne for five consecutive trading days prior to 31 December 2019

The potential for Scheme Participants to receive the Additional Contingent Scheme Consideration subject to the applicable nickel price threshold being met provides upside potential to Highlands Shareholders.

The Independent Expert has valued the Additional Contingent Scheme Consideration at $0.010 per share by applying a probability factor to approximate the likelihood of its payment. As at 6 March 2019 the nickel price was trading at US$13,607.50 per tonne[8].

The price of nickel is volatile and there is no certainty that the Additional Contingent Scheme Consideration will be paid to Highlands shareholders. Information regarding the nickel price on any day can be found at www.lme.com.

Reason 5: The Independent Expert has concluded that the Scheme is in the best interests of Non-Associated Highlands Shareholders, in the absence of a Superior Proposal

Highlands has engaged an independent expert, Deloitte Corporate Finance Pty Ltd (the ***Independent Expert***) to provide an opinion in relation to the Scheme, and on the terms of the Frieda River Sale Agreement (the ***Independent Expert's Report***). The Independent Expert has in turn engaged Behre Dolbear Australia Pty Ltd to prepare an independent technical report for inclusion in the Independent Expert's Report.

The Independent Expert has concluded that the Scheme is in the best interests of Non-Associated Highlands Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the value of Highlands at between $0.085 and $0.144 per Highlands Share. The Base Scheme Consideration under the Scheme of $0.105 per Highlands Share is within this range.

[8] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices.

The Independent Expert's Report and Independent Technical Specialist's Report are included as Annexure A to this Scheme Booklet.

Reason 6: No competing proposal has emerged since the Scheme Implementation Agreement was announced

Since the announcement by Highlands of the proposed Scheme to the ASX and POMSoX on 2 January 2019 and up to the date of this Scheme Booklet, no competing proposal has emerged and the Highlands Independent Directors are not aware, as at the date of this Scheme Booklet, of any competing proposal that is likely to emerge.

The Scheme Implementation Agreement with Cobalt 27 contains customary deal protection mechanisms, including no-shop and no-talk obligations on the part of Highlands, restricting the ability of Highlands to solicit and respond to competing proposals. However, under the terms of the Scheme Implementation Agreement, Highlands had 45 days up to 16 February 2019 (the ***Go-Shop Period***) before these no-shop and no-talk provisions would commence. Following the Go-Shop Period, Highlands is prohibited from soliciting a competing proposal, but is still permitted to respond to any competing proposal if the Highlands Independent Directors determine that failing to do so may constitute a breach of their fiduciary or statutory duties (and after having obtained written advice from Highlands' external legal advisers).

During the Go-Shop Period, Highlands invited a number of interested parties to conduct due diligence on the company and its assets, and to put forward competing proposals such as a competing change of control transaction; sale of Highlands' interest in the Ramu Project or a transaction to support repayment of the Ramu Project loans. While a proposal is still possible, as stated above, as at the date of this Scheme Booklet, no competing proposal has emerged and the Highlands Independent Directors are not aware, as at the date of this Scheme Booklet, of any competing proposal that is likely to emerge.

Further details of the relevant provisions of the Scheme Implementation Agreement are provided in section 9.1.

Reason 7: The Highlands Share Price may fall if the Scheme is not implemented

If the Scheme is not implemented, the Highlands Shares will remain quoted on the ASX and POMSoX and will continue to be subject to market volatility. If the Scheme is not implemented, the price at which Highlands Shares trade may fall, including to a price that is materially below the Base Scheme Consideration of $0.105 per Highlands Share. The closing Highlands Share Price on 24 December 2018, being the last day Highlands Shares traded prior to the announcement of the Scheme Implementation Agreement, was $0.073 per Highlands Share.

Refer to Reason 1 above for the VWAP of the Highlands Share Price over the 1 month period up to and including 24 December 2018 and on 22 May 2018 (the day prior to the announcement of the Streaming Agreement with Cobalt 27).

Reason 8: Brokerage charges will not apply to the transfer of Scheme Shares

You will not incur brokerage charges on the transfer of your Highlands Shares to Cobalt 27 pursuant to the Scheme. If you sell your Highlands Shares on ASX or POMSoX (rather than disposing of them via the Scheme), you may incur brokerage charges.

1.2 Why you may wish to vote against the Scheme

Reasons why you may not want to vote in favour of the Scheme	
Reason 1	You may not agree with the Highlands Independent Directors’ unanimous recommendation and the Independent Expert’s conclusion
Reason 2	You will no longer be able to participate in any upside through the development of Highlands' business and assets
Reason 3	You may have a more positive view on the future price of the commodities which underpin Highlands' assets
Reason 4	You may wish to maintain your investment in Highlands
Reason 5	The tax consequences of the Scheme may not suit your financial position
Reason 6	You may consider that there is potential for a Superior Proposal to emerge

Although the Scheme is recommended unanimously by the Highlands Independent Directors and the Independent Expert has concluded that the Scheme is in the best interests of Non-Associated Highlands Shareholders, there are number of factors which may lead you to consider voting against the Scheme. These include the following:

Reason 1: You may not agree with the Highlands Independent Directors’ unanimous recommendation and the Independent Expert’s conclusion

Despite the view of the Highlands Independent Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Highlands Shareholders or not in your individual interest.

Reason 2: You will no longer be able to participate in any upside potential through the development of Highlands' business and assets

If the Scheme is approved and implemented, you will cease to be a Highlands Shareholder. As such, you will no longer be able to participate in any upside through the development of Highlands' business and assets, which may occur in the future.

As stated above, the Highlands Independent Directors remain of the view that the company's assets have growth potential. However, they are also cognisant of the fact that there are real uncertainties and risks in relation to those assets. These uncertainties and risks may result in Highlands' potential not being fully realised, or realised at all. See Reason 2 in section 1.1 for a discussion of some of those uncertainties and risks.

Reason 3: You may have a more positive view on the future price of the commodities which underpin Highlands' assets

The valuation of a Highlands Share is highly sensitive to the commodity price assumptions used. In recommending the Scheme to Highlands Shareholders, the Highlands Independent Directors considered both prevailing commodity prices and market expectations of future prices. You may have a more positive view on the future price of the commodities which underpin the assets of Highlands, including nickel and cobalt which are produced at the Ramu Project.

Reason 4: You may wish to maintain your investment in Highlands

You may wish to maintain your investment in Highlands in order to have an investment in a publicly listed company with the specific characteristics of Highlands such as industry, geography, commodity and capital structure.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Highlands Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of Highlands and they may incur transaction costs in undertaking any new investment.

Reason 5: The tax consequences of the Scheme may not suit your financial position

The tax consequences of the Scheme will depend on your personal situation. General guides to the Australian and PNG taxation implications of the Scheme are set out in sections 7 and 8, respectively. These guides are expressed in general terms only and Highlands Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

Reason 6: You may consider that there is potential for a superior proposal to emerge

It is possible that, if Highlands were to continue as an independent listed entity, a competing proposal could materialise in the future, such as a takeover bid with a higher price. Implementation of the Scheme will mean that Highlands Shareholders would not receive the benefit of any such proposal.

However, as stated at Reason 6 in section 1.1, since the announcement of the Scheme Implementation Agreement to the ASX and POMSoX on 2 January 2019 and up to the date of this Scheme Booklet, no competing proposal has emerged, despite Highlands inviting a number of interested parties to conduct due diligence on the company and its assets, and to put forward competing proposals. The Highlands Independent Directors are also not aware of any superior or any alternative proposal that is likely to emerge.

2 Frequently Asked Questions

This section 2 answers some frequently asked questions about the Scheme. It is not intended to address all relevant issues for Highlands Shareholders and should be read together with all other parts of this Scheme Booklet.

Question	Answer	More Information
The Scheme, the Highlands Independent Directors' recommendation and opinion of the Independent Expert		
What are Highlands Shareholders being asked to consider?	Highlands Shareholders are being asked to consider and vote on a proposed scheme of arrangement under PNG law, under which all of their Highlands Shares would be transferred to Cobalt 27. In return, Highlands Shareholders would receive $0.105 (rising to $0.115 if before 31 December 2019 the closing spot price of nickel[9] exceeds US$13,220 per tonne over a period of 5 consecutive trading days) for each Highlands Share they hold on the Record Date. If the Scheme proceeds, Highlands will become a wholly owned subsidiary of Cobalt 27 and delisted from the ASX and POMSOX.	Section 3.1 sets out further details on the Scheme Consideration. Section 3.3 outlines the key steps to implement the Scheme.
What is the Scheme?	The Scheme is a scheme of arrangement under PNG law, which is a statutory procedure that is used to enable one company to acquire another company.	Section 3 contains an overview of the Scheme and a copy of the Scheme is contained in Annexure B.
What do the Highlands Independent Directors recommend?	The Highlands Independent Directors unanimously recommend that Highlands Shareholders vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Non-Associated Highlands Shareholders.	Sections 1.1 and 1.2 set out further details of the Highlands Independent Directors' recommendation, including a summary of the reasons why you should vote in favour of the Scheme or why you may wish to vote against it.
How do the Highlands Independent Directors intend to vote?	Each Highlands Independent Director who holds Highlands Shares intends to vote all Highlands Shares held or controlled by them in favour of the	Details of the interests of each Highlands Director in Highlands (including Highlands

[9] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices.

Question	Answer	More Information
	Scheme subject to the same qualifications as their recommendation.	Shares) are set out in section 4.6(c).
What is the opinion of the Independent Expert on the Scheme?	The Independent Expert has concluded that the Scheme is in the best interests of Non-Associated Highlands Shareholders, in the absence of a Superior Proposal.	Annexure A contains a copy of the Independent Expert's Report.
The bidder		
Who is Cobalt 27?	Cobalt 27 is an electric metals investment vehicle that offers direct exposure to metals integral to key technologies of the electric vehicle and battery energy storage markets. Cobalt 27 was previously a party to the Streaming Agreement with Highlands, announced to the ASX on 22 May 2018. Cobalt 27 is Highlands' largest shareholder and currently owns an approximate 19.99% shareholding in Highlands. Cobalt 27 will not vote its Highlands Shares at the Scheme Meeting on the resolution to approve the Scheme.	Section 6.1 contains further details about Cobalt 27. Section 6.5 contains further information about the means by which Cobalt 27 will fund the Scheme Consideration.
The conditions		
Are there any conditions to be satisfied?	There are certain conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become effective. In summary, as at the date of this Scheme Booklet, the outstanding conditions include: • approval from Highlands Shareholders; • Court approval; • no regulatory intervention preventing the implementation of the Scheme; • all Government Agency approvals and consents that are required, or which Highlands and Cobalt 27 agree are desirable, to implement the Scheme being obtained prior to 8am on the Second Court Date.	Section 9.1(a) contains further information on the conditions to the Scheme. Section 9.2 contains a summary of the status of the conditions to the Scheme. For further information on regulatory relief relating to the Scheme, see section 9.7.

Question	Answer	More Information
	• no Highlands Prescribed Occurrence occurring between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date; • no Highlands Material Adverse Change occurring between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date; • any required consent under a Key Material Contract, or waiver of any right of termination or other pre-emptive right or other material right in favour of a party other than Highlands, being obtained and not withdrawn by 8:00am on the Second Court Date; and • the Cobalt 27 Warranty in clause 9.1(j) of the Scheme Implementation Agreement (relating to the ability of Cobalt 27 to fund payment of the Scheme Consideration) being true and correct as if given at all times between the date of the Scheme Implementation Agreement and 8.00am of the Second Court Date. As at the date of this Scheme Booklet, all of the Highlands Independent Directors believe that these conditions are capable of being satisfied in accordance with the Scheme Implementation Agreement.	
What is the Frieda River Sale Agreement?	Separately from the Scheme, Cobalt 27 has entered into the Frieda River Sale Agreement with the PanAust Group under which, if the Scheme is implemented, Cobalt 27 will cause Highlands Frieda Limited (which will then be a wholly owned subsidiary of Cobalt 27) to transfer its 20% participating	The terms of the Frieda River Sale Agreement are set out in more detail in section 6.6(g). Annexure A contains a copy of the

Question	Answer	More Information
	interest in the Frieda River Copper-Gold Project to PanAust for US$9.45 million. The Frieda River Sale Agreement will only complete if the Scheme is implemented. Highlands and Highlands Frieda Limited are not parties to the Frieda River Sale Agreement. The PanAust Group currently owns 11.8% of the shares in Highlands. The Independent Expert has, in its Independent Expert's Report, provided an opinion on the terms of the sale under the Frieda River Sale Agreement. The Independent Expert has concluded that the terms of the Frieda River Sale Agreement are fair to those Highlands Shareholders who will not be offered the opportunity to participate in that transaction, and does not confer a net benefit on PanAust.	Independent Expert's Report.
The Scheme Meeting and voting		
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on Tuesday 30 April 2019 at the Hilton Port Moresby, Wards Rd, Hohola, Port Moresby, 121, Papua New Guinea, commencing at 10.00am (AEST/Port Moresby time).	The Notice of Meeting contained in Annexure D sets out further details on the Scheme Meeting.
What vote is required to approve the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed by at least 75% of the votes cast on the Scheme Resolution by eligible Highlands Shareholders (either in person or by proxy).	Section 3.3(a) and the Notice of Meeting contained in Annexure D set out further details on the Scheme approval requirements.
Am I entitled to vote?	Each Highlands Shareholder who is registered on the Highlands Share Register at 7.00pm (AEST/Port Moresby time) on Sunday 28 April is entitled to vote at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote.
How do I vote?	You can vote in person at the Scheme Meeting or appoint a proxy or, if you are a body corporate, a duly appointed corporate representative to attend and vote on your behalf at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on how to vote at the Scheme Meeting.

Question	Answer	More Information
Will Cobalt 27 vote any Highlands Shares that it holds at the Scheme Meeting?	Cobalt 27 holds approximately 19.99% of the shares in Highlands and will not vote at the Scheme Meeting.	Section 6.7 contains further details about the interest of Cobalt 27 in Highlands Shares.
When will the result of the Scheme Meeting be known?	The result of the Scheme Meeting will be available shortly after the conclusion of the meeting and will be announced to ASX and POMSoX once available. Even if the Scheme Resolution is passed by the Scheme Meeting, the Scheme is subject to approval of the Court.	N/A
What happens if the Court does not approve the Scheme or the Scheme does not otherwise proceed?	If the Scheme is not approved at the Scheme Meeting, or if the Scheme Resolution is approved at the Scheme Meeting but the Scheme is not approved by the Court or another condition to the Scheme is not satisfied or waived (where capable of waiver), the Scheme will not become Effective and will not be implemented. In such a scenario, Scheme Participants will not receive the Scheme Consideration but will retain their Highlands Shares. In these circumstances, Highlands will continue to operate as a stand-alone company listed on ASX and POMSoX.	Section 5 contains further information on the risks and uncertainties you will continue to be exposed to if the Scheme does not proceed.
What happens to my Highlands Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes Effective?	If you do not vote, or vote against the Scheme, and the Scheme becomes Effective, any Highlands Shares held by you on the Record Date (currently expected to be 7.00pm (AEST/Port Moresby time) on Friday, 10 May 2019) will be transferred to Cobalt 27 and you will receive the Scheme Consideration, notwithstanding that you did not vote or voted against the Scheme. Further, if the Scheme becomes Effective, Highlands intends to apply to ASX and POMSoX for Highlands Shares to be suspended from official quotation on ASX and POMSoX from the close of trading on the Effective Date. You will not be able to sell your Highlands	N/A

Question	Answer	More Information
	Shares on-market after this time. Cobalt 27 has also indicated that it intends to delist Highlands from ASX and POMSoX if the Scheme becomes Effective.	
Can I oppose the Scheme at the Second Court Hearing?	You have the right as a Highlands Shareholder to appear and make submissions at the Second Court Hearing which is scheduled to be held at 8:45am on Thursday 2 May 2019 at the National Court of Papua New Guinea, Port Moresby, Papua New Guinea.	Refer to the Important Notices commencing on page 1.
In what currency will I receive the Scheme Consideration?	Scheme Participants, other than those with a PNG Registered address, will be paid the Scheme Consideration in A$, by cheque or, if the requirements outlined in section 3.2 are complied with, by electronic funds transfer into an Australian dollar denominated bank account. Scheme Participants with a PNG Registered address will be paid the PNG Kina equivalent of the Scheme Consideration (calculated at the A$/PNG Kina exchange rate on the Record Date[10]), by cheque or, if the requirements outlined in section 3.2 are complied with, by electronic funds transfer into a PNG Kina denominated bank account.	Section 3.2 sets out further details on how the Scheme Consideration will be paid.
When and how will I be paid the Scheme Consideration?	Payment of the Scheme Consideration will occur in accordance with the Scheme on the Implementation Date. The Implementation Date is expected to occur on Friday 17 May 2019. Scheme Participants will, unless a valid election is made, receive the Scheme Consideration by cheque sent by pre-paid post. If the Highlands Registry has received a valid request from a Scheme Participant, whose Registered Address is not a PNG address, for payment by electronic funds transfer into an Australian dollar denominated bank account by the	Section 3.2 sets out further details on the Scheme Consideration, including how to change or nominate an Australian bank account in which to receive payment of the Scheme Consideration.

[10] As determined by Highlands, acting reasonably.

Question	Answer	More Information
	Record Date, the Scheme Consideration will be paid directly to their nominated Australian dollar bank account by electronic funds transfer. Scheme Participants with a PNG Registered Address may elect to receive the Scheme Consideration by electronic funds transfer to a PNG Kina denominated bank account by contacting the Highlands Share Registry prior to the Record Date.	
Is voting compulsory?	No. Voting is not compulsory. However, the Highlands Independent Directors believe that the Scheme is important for all Highlands Shareholders and the Highlands Independent Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Non-Associated Highlands Shareholders.	The Notice of Meeting contained in Annexure D sets out further details on how to vote at the Scheme Meeting.
Other questions		
What is the likelihood of another offer emerging?	Highlands is not in a position to speculate on potential competing offers. Since the announcement of the Scheme Implementation Agreement between Cobalt 27 and Highlands to the ASX and POMSoX on 2 January 2019 and up to the date of this Scheme Booklet, no competing proposal has emerged. The Highlands Independent Directors are not aware of any superior or any alternative proposal that is likely to emerge. Under the Scheme Implementation Agreement, during the Exclusivity Period Highlands is bound by a ‘no shop’ provision, which requires that it does not solicit, encourage, initiate or invite any enquiries, discussions or negotiations with any third party, that may reasonably be expected to lead to a Competing Proposal. Highlands had 45 days up to 16 February 2019 (the ***Go-Shop Period***) before this no-shop provision	Section 9.1(b) sets out further details on the exclusivity arrangements in place under the Scheme Implementation Agreement, including further detail on the ‘no shop’ provision.

Question	Answer	More Information
	commenced, however no competing proposals were received during the Go-Shop Period. Highlands is still permitted to respond to any Competing Proposal should the Highlands Independent Directors determine that failing to do so may constitute a breach of their fiduciary or statutory duties (and after having obtained written advice from Highlands' external legal advisers).	
What are the tax implications of the Scheme being implemented?	The tax consequences of the Scheme will depend on your personal situation.	Section 7 provides a general guide to the Australian tax implications of the Scheme, and a guide to the PNG tax implications is set out in section 8.
Can I sell my Highlands Shares now?	You can sell your Highlands Shares on market at any time before close of trading on ASX or POMSoX on the Effective Date at the then prevailing Highlands Share Price (which may vary from the Scheme Consideration).	N/A
Do I have to give any warranties in relation to my Scheme Shares?	Yes. Each Scheme Participant will be deemed to have warranted to Cobalt 27 that all of their Scheme Shares will, at the date of transfer under the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and that they have full power and capacity to sell and to transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to Cobalt 27.	Section 3.4 sets out further details on the warranties given by Scheme Participants. The warranties given by Scheme Participants are contained in clause 8.4 of the Scheme, which is contained in Annexure B.
Where can I get further information?	For further information, you can call the Highlands Shareholder Information Line on 1300 352 248 (within Australia) or +61 3 9415 4125 (outside Australia), Monday to Friday between 8.30am to 5.00pm (AEST/Port Moresby time).	N/A

3 Overview of the Scheme

This section 3 contains an overview of the Scheme, a copy of which is included in Annexure B.

3.1 Consideration

If the Scheme becomes Effective, Scheme Participants will receive total cash payments of A$0.105 cents per Highlands Share, in return for the transfer of their Highlands Shares to Cobalt 27 (the ***Base Scheme Consideration***).

The consideration will increase by $0.010 per share to $0.115 if before 31 December 2019 the closing spot price of nickel[11] exceeds US$13,220 per tonne over a period of 5 consecutive trading days (the ***Additional Contingent Scheme Consideration***).

Payment of the Base Scheme Consideration will be made on the Implementation Date. If payment of the Additional Contingent Scheme Consideration is triggered prior to the Record Date (which is 5 Business Days prior to the Implementation Date), then payment of the Additional Contingent Scheme Consideration will also be made on the Implementation Date. If payment of the Additional Contingent Scheme Consideration is triggered after the Record Date but prior to 31 December 2019, then payment of the Additional Contingent Scheme Consideration will be made within 10 Business Days of the payment being triggered.

3.2 How will the consideration be paid?

Scheme Participants, other than those with a PNG Registered Address, will be paid the Scheme Consideration in A$, by cheque or, if the requirements outlined below are complied with, by electronic funds transfer into an Australian dollar denominated bank account.

Scheme Participants with a PNG Registered Address will be paid the PNG Kina equivalent of the Scheme Consideration (calculated at the A$/PNG Kina exchange rate on the Record Date[12]), by cheque or, if the requirements outlined below are complied with, by electronic funds transfer into a PNG Kina denominated bank account.

The requirements for receiving the Scheme Consideration by electronic funds transfer are as follows:

(a) **Scheme Participants (other than Scheme Participants with a PNG Registered Address)**

Scheme Participants other than those with a PNG Registered Address will, unless a valid election is made (as outlined below), receive the Scheme Consideration by cheque sent by pre-paid post. The cheque will be in Australian dollars.

If the Highlands Registry has, prior to the Record Date, received a valid request from such a Scheme Participant for payment by electronic funds transfer into an Australian dollar denominated bank account, the Scheme Consideration will be paid directly to their nominated Australian dollar bank account by electronic funds transfer.

Provided it is received prior to the Record Date, you can change or nominate an Australian bank account in which to receive payment of the Scheme Consideration by completing the hard-copy direct credit instruction form that accompanied this Scheme Booklet or by visiting www.investorcentre.com/au and logging in using your Holder Identifier (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Proxy Form).

[11] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices.

[12] As determined by Highlands, acting reasonably.

(b) **Scheme Participants with a PNG Registered Address**

Scheme Participants with a PNG Registered Address will, unless a valid election is made (as outlined below), receive the Scheme Consideration by cheque sent by pre-paid post. The cheque will be in PNG Kina.

If the Highlands Registry has, prior to the Record Date, received a valid request from such a Scheme Participant for payment by electronic funds transfer into a PNG Kina denominated bank account, the Scheme Consideration will be paid directly to their nominated PNG Kina bank account by electronic funds transfer.

Provided it is received prior to the Record Date, you can change or nominate a PNG bank account in which to receive payment of the Scheme Consideration by completing the hard-copy direct credit instruction form that accompanied this Scheme Booklet or by visiting www.investorcentre.com/au and logging in using your Holder Identifier (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Proxy Form).

(c) **Unredeemed Cheques**

Highlands may cancel a cheque issued to a Scheme Participant if the cheque is returned to Highlands or has not been presented for payment within 6 months after the date on which the cheque was sent. However, during the 12 months commencing on the Implementation Date, upon a request from a Scheme Participant, Highlands must reissue a cheque that has previously been cancelled by it.

3.3 Key steps in the Scheme

(a) **Scheme approval requirements**

The Scheme will become effective and be implemented only if it is:

- approved by the requisite majority of Highlands Shareholders at the Scheme Meeting, which is to be held on 30 April 2019; and
- approved by the Court at the Second Court Hearing.

Approval by Highlands Shareholders requires the Scheme Resolution to be approved by at least 75% of the votes cast on the Scheme Resolution by Highlands Shareholders.

In the event that:

- the Scheme is agreed to by the requisite majority of Highlands Shareholders at the Scheme Meeting; and
- all other conditions (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

then Highlands will apply to the Court for orders approving the Scheme.

Each Highlands Shareholder has the right to appear at the Second Court Hearing.

(b) **Effective Date**

If the Court approves the Scheme and all other conditions have been satisfied or waived (where capable of waiver), the Scheme will become Effective on the date specified by the Second Court Order, which is expected to be 1 to 2 Business Days after the date of the Second Court Order. Highlands will, on the Scheme becoming Effective, give notice of that event to ASX and POMSoX.

(c) **Record Date**

The Scheme Participants will be entitled to receive the Scheme Consideration in respect of the Highlands Shares they hold as at the Record Date (being the fifth Business Day after the Effective Date). The Record Date is currently expected to occur on Friday 10 May 2019.

(i) **Dealings on or prior to the Record Date**

For the purpose of determining which Highlands Shareholders are eligible to participate in the Scheme, dealings in Highlands Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered on the Highlands Share Register as the holder of the relevant Highlands Shares as at the Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Highlands Registry on or before the Record Date (and the transferee remains registered as at the Record Date).

For the purposes of determining entitlements under the Scheme, Highlands will not accept for registration or recognise any transfer or transmission applications in respect of Highlands Shares received after the Record Date.

(ii) **Dealings after the Record Date**

For the purpose of determining entitlements to the Scheme Consideration, Highlands must maintain the Highlands Share Register in its form as at the Record Date until the Scheme Consideration has been paid to the Scheme Participants. The Highlands Share Register in this form will solely determine entitlements to the Scheme Consideration.

After the Record Date, each entry on the Highlands Share Register relating to Scheme Shares will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of such Scheme Shares.

(d) **Implementation Date**

The Implementation Date is, subject to certain conditions set out in the Scheme, the fifth Business Day after the Record Date. The Implementation Date is currently expected to occur on Friday 17 May 2019.

Prior to implementation of the Scheme, and by no later than 12pm on the Business Day before the Implementation Date, Cobalt 27 must deposit (or procure the deposit) into one or more trust accounts nominated by Highlands (collectively, the ***Scheme Trust Account***), an amount at least equal to the aggregate amount of:

(i) the Base Scheme Consideration payable to each Scheme Participant; and

(ii) the Additional Contingent Scheme Consideration.

On the Implementation Date:

- Highlands will pay the Scheme Consideration received from Cobalt 27 to Scheme Participants; and
- the Scheme Shares will be transferred to Cobalt 27 without Scheme Participants needing to take any further action.

(e) **Additional Contingent Scheme Consideration**

If the Additional Contingent Scheme Consideration becomes payable before the Record Date, Highlands must (subject to Cobalt 27 having satisfied its obligations outlined in section 3.3(d) above) pay or procure the payment from the Scheme Trust Account of the Additional Contingent Scheme Consideration to each Scheme Participant on or prior to the Implementation Date.

If the Additional Contingent Scheme Consideration becomes payable after the Record Date but prior to 31 December 2019, then within 10 Business Days after such occurrence (and subject to Cobalt 27 having satisfied its obligations outlined in section 3.3(d) above), Highlands must pay or procure the payment from its nominated trust account of the Additional Contingent Scheme Consideration to each Scheme Participant.

(f) **Deed Poll**

Cobalt 27 has executed the Deed Poll pursuant to which it has undertaken in favour of each Scheme Participant to procure that each Scheme Participant is provided with the Scheme Consideration to which they are entitled under the Scheme, in accordance with the terms of the Scheme and subject to the Scheme becoming Effective.

A copy of the Deed Poll is contained in Annexure C.

3.4 Warranties by Scheme Participants

The Scheme provides that each Scheme Participant is taken to have warranted to Cobalt 27 that:

(a) all of their Scheme Shares which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to Cobalt 27.

3.5 No brokerage or stamp duty

You will not have to pay brokerage or stamp duty on the transfer of your Highlands Shares under the Scheme.

3.6 Delisting of Highlands

If the Scheme proceeds, Highlands intends to apply to ASX and POMSoX for Highlands Shares to be suspended from official quotation on ASX and POMSoX from close of trading on the Effective Date.

4 Information about Highlands

4.1 Introduction

Highlands is a PNG incorporated and registered mining and exploration company listed on the ASX and POMSoX exchanges. It is engaged in the exploration and evaluation of gold and metal prospects in Australia and the Asia Pacific region. Its major assets are interests in the Ramu Nickel-Cobalt Mine and the Frieda River Copper-Gold Project. Highlands also undertakes exploratory activities at the Star Mountains Project in PNG and has an exploration tenement on Normanby Island (Sewa Bay).

4.2 Ramu Nickel-Cobalt Mine

(a) Project Outline

Highlands' principal asset is an 8.56% interest in the Ramu Nickel Cobalt mine, located 75km west of the provincial capital of Madang on the north coast of PNG. The remaining interests in the joint venture are held by entities managed by the PNG Mineral Resources Development Company (***MRDC***) (combined 6.44% interest) and MCC Ramu Nico Ltd (***MCC Ramu***) (85% interest). MCC Ramu, 61% of which is owned by MCC and 39% of which is held by other Chinese entities, is the operator and manager of the joint venture.

The Ramu Project cost a total of US$2.1 billion to develop. It is one of the largest nickel and cobalt producers in Asia, and one of the largest cobalt producers in the world outside of the Democratic Republic of Congo. The mine has a potential life of at least 30 years and has been in operation since 2012.

The project consists of a nickel laterite mine at Kurumbukari, where the project has a deposit with a JORC resource of 136 million tonnes of ore at 0.91% nickel and 0.1% cobalt.[13] The mine is linked by a 135km slurry pipeline to a process plant and deep-water port at Basamuk, east of Madang, where a concentrate (mixed hydroxide product (***MHP***)) is produced for shipment to offshore markets. The MHP is particularly sought after for use in battery manufacturing.

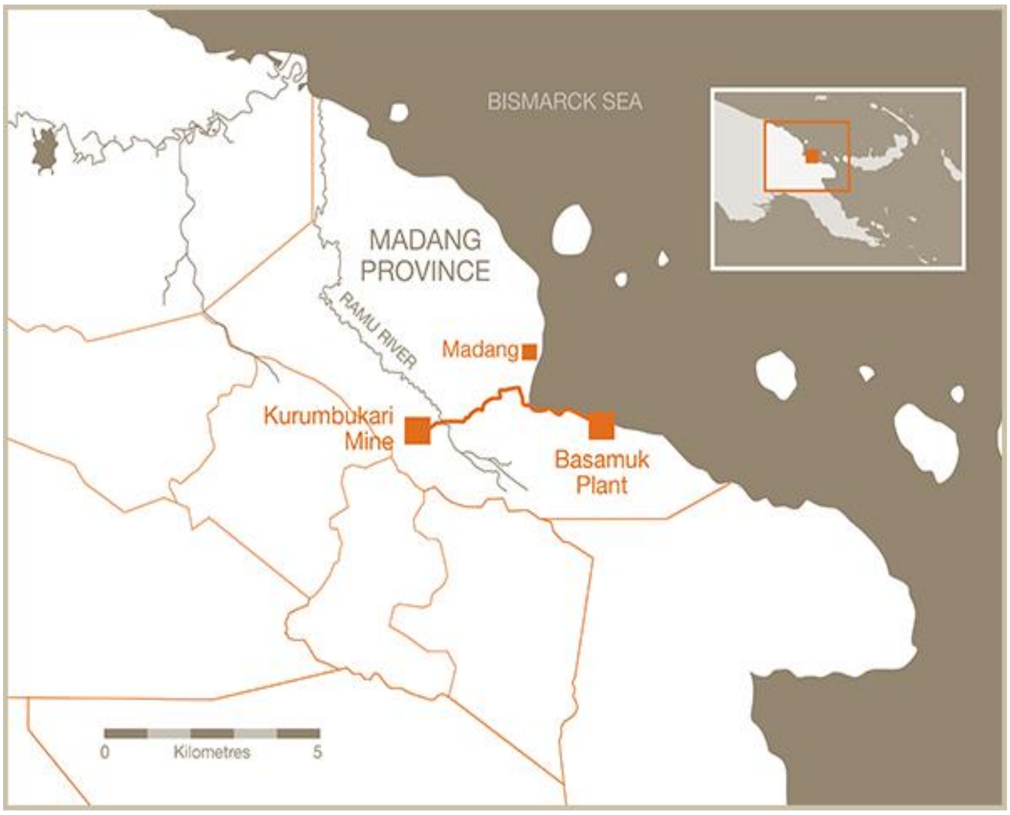
In the year ending December 2018, the Ramu Nickel-Cobalt Mine produced 35,355 tonnes of nickel, up from 34,666 tonnes in 2017, and 3,275 tonnes of cobalt, which was marginally lower than in 2017. The Ramu Project realised a net cash inflow (unaudited) of US$93 million for the year to December 2018 after capital expenditure of US$5 million.

MCC has raised with Highlands a preliminary proposal to expand production at the Ramu Project. The production expansion plan envisages adding new autoclaves to the refinery at the site as well as relevant equipment and facilities for the mine and refinery on the basis of the existing engineering facilities, in order to further expand the overall production capacity of the Ramu Project. Although a feasibility study has been completed, the plan is preliminary at this stage and has not been put to the joint venturers for approval. Consequently, a final investment decision has not been made and the timing and intention around the expansion remains uncertain.

Highlands' share of the loans at the Ramu Project currently totals approximately US$117.7 million. Under the Ramu JV Master Agreement these loans are repaid out of Highlands' share of operating surpluses from the Ramu Nickel-Cobalt Mine. Highlands' interest in the Ramu Project will immediately increase from 8.56% to 11.3% upon

[13] See the 'Important Notices' section of this Scheme Booklet for Competent Persons information relating to the JORC Code. For full details of the Ramu Project's Ore Reserves, see Highlands' ASX announcement of 10 September 2018. Highlands is not aware of any new information or data that materially affects the information contained in that announcement.

repayment of its share of the loans associated with the project, as described in more detail in section 4.2(b) below. Highlands also has an option to acquire an additional 9.25% interest at fair market value, which could increase its interest in the Ramu Project to 20.55%



(b) **Ramu Project Loans**

Under the terms of the Ramu JV Master Agreement, MCC is responsible for the development and financing of the project, including Highlands' equity (on a free carry basis), and arranging the debt.

Highlands' share of the Ramu Project debt currently totals approximately US$117.7 million and includes its 8.56% share of principal and interest repayments made by MCC to third parties on behalf of Highlands, plus accumulated interest charged by MCC (***Ramu Project Loans***). The Ramu Project Loans are divided into a 'Future Financing Costs' component of approximately US$42.8 million and a 'Historic Financing Costs' component of approximately US$73.9 million.

Under the terms of the Ramu JV Master Agreement, the Ramu Project Loans may only be repaid out of Highlands' share of operating surpluses from the Ramu Nickel-Cobalt Mine (sales revenue less operating costs and on-going capital expenditure) and there is no right to repay the loans early from other sources. The borrowing is held in Highlands' wholly owned subsidiary Ramu Nickel Limited and is non-recourse to Highlands.

Currently all of the operating surpluses available to Highlands in respect of the Ramu Project are applied to repayment of the Future Financing Costs. Once the Future Financing Costs of the Ramu Project Loans have been fully repaid, 65% of the operating surplus available to Highlands would be applied to the repayment of the Historic Financing Costs and the remaining 35% would be available to Highlands. Once the Historic Financing Costs are also fully repaid, 100% of Highlands' share of the operating surplus would be available to Highlands.

Assuming steady state production, current operating cash flows and market consensus commodity prices, Highlands expects the Future Financing Costs component of the Ramu Project Loans would be repaid in approximately 3-5 years and the Ramu Project Loans would be fully repaid in approximately 8-10 years.

(c) **Streaming Agreement**

On 23 May 2018, Highlands announced that it had entered into a streaming agreement with Cobalt 27, under which a subsidiary of Cobalt 27 agreed to pay Highlands an upfront deposit of US$113 million to secure an entitlement to 55% of Highland's share of cobalt production and 27.5% of Highlands' share of nickel production from the Ramu Project for the life of the project (the ***Streaming Agreement***). The Cobalt 27 subsidiary also agreed to make certain ongoing volume-based payments. At the same time as entering into the Streaming Agreement, Highlands made a share placement to Cobalt 27 at $0.105 per share, giving Cobalt 27 an approximate 13% shareholding in Highlands.

The Highlands Board was highly supportive of the Streaming Agreement as a basis for unlocking the value of the Ramu Project, as Highlands intended to use the upfront deposit to fully repay its share of the of Ramu Project Loans owing to the majority interest holder in the project, MCC. This would have provided Highlands with immediate access to future cash flows from the Ramu Project, and immediately increased Highlands' interest in the project to 11.3%[14].

The Streaming Agreement was, however, subject to a number of conditions precedent, including entry into an agreement with MCC to amend the Ramu JV Master Agreement, so as to permit Highlands to accelerate the repayment of the its share of the Ramu Project Loans. Entry into this amending agreement (known as the Project Way Forward Agreement (***PWFA***) was required prior to the longstop date in the Streaming Agreement, being 31 December 2018.

During late 2018, it became evident that this condition to the Streaming Agreement was unlikely to be satisfied by 31 December 2018 due to the difficulty in satisfying the requirements imposed by MCC in relation to the PWFA. In particular, MCC required that both Highlands and MRDC together execute the PWFA. Under the terms of the PWFA proposed by MCC, Highlands would only be permitted to make early repayment of its share of the Ramu Project Loans if MRDC also repaid its share of the Ramu Project Loans at the same time. Highlands therefore needed MRDC to execute the amending agreement prior the long-stop date for the Streaming Agreement in order to satisfy the condition, which did not occur. It also became evident at that time that Cobalt 27 would not agree to extend the long-stop date for the Streaming Agreement. Accordingly, the closing conditions of the Streaming Agreement were not satisfied and the agreement was terminated by the parties.

(d) **Project Way Forward Agreement**

As noted above, the PWFA was not executed by all the joint venture parties by the longstop date in the Streaming Agreement of 31 December 2018. MRDC subsequently executed the PWFA on 12 February 2019, meaning it has now been executed by all the joint venture parties.

[14] Under the terms of the existing Ramu JV Master Agreement, a prescribed share (currently 100%) of Highlands' share of operating surpluses at the Ramu Nickel-Cobalt Mine is applied in payment of principal and interest on its share of the Ramu Project Loans. The repayment of its share of the loans would have provided Highlands with immediate access to its share of any cash flows from the project, and would also have brought forward the increase in Highlands' interest in the Ramu Project from 8.56% to 11.3%, which occurs on repayment of its share of those loans.

The PWFA provides Highlands and MRDC with the option to repay their respective Ramu Project loans prior to 30 June 2019, but Highlands has no current means to finance this repayment. If the Scheme is implemented, it is possible that Cobalt 27 will be in a position to refinance the Ramu Project Loans as contemplated in the PWFA, including by financing MRDC's share of the project loans.

Under the PWFA, Highlands also agreed to:

(i) enter into a Sales Agency Agreement to formalise MCC's role as sales agent for Highlands; and

(ii) relinquish its option under the Ramu JV Master Agreement to acquire an additional 9.25% interest in the Ramu Project at fair market value on repayment of the Ramu Project Loans pursuant to the PWFA.

The Highlands Independent Directors have considered various options in addition to the Streaming Agreement to accelerate the repayment of the Ramu Project Loans and provide Highlands earlier access to a larger interest in the Ramu Project. Highlands has not been able to finalise any such refinancing arrangement. See the 'Background to the Scheme' section of the Chairman's Letter for further information on Highlands' attempts to facilitate the repayment of the Ramu Project Loans.

4.3 Frieda River Copper-Gold Project

(a) Project Outline

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. The remaining 80% is held by 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.), who is the manager of the project. The PNG Government reserves a right to acquire up to a 30% interest in the project.

The Horse-Ivaal-Trukai, Ekwai and Koki (***HITEK***) Ore Reserve estimate for the Frieda River Copper-Gold Project at September 2018 was a total of 1,365 million tonnes of proven and probable ore with a copper grade of 0.46% and a gold grade of 0.25 g/t.[15]

The HITEK Mineral Resource estimate was updated in January 2017, and totals 1,860 million tonnes of material classified as Measured Mineral Resource and Indicated Mineral Resource, with a copper grade of 0.47% and gold grade of 0.25%. In addition, the HITEK Mineral Resource includes 780 million tonnes in the Inferred Mineral Resource category with a copper grade of 0.35% and gold grade of 0.18 g/t.[16]

The separate Nena Mineral Resource includes a Sulphide Resource and a Gold Cap Resource, which were updated in 2017. The Nena Sulphide Resource includes an Indicated Mineral Resource of 35 million tonnes with a copper grade of 2.35%, a gold grade of 0.79 g/t, and an Inferred Mineral Resource of 17 million tonnes with a copper grade of 1.68% and a gold grade of 0.29 g/t. The Nena Gold Cap Resource includes an Indicated Mineral Resource of 11 million tonnes with a copper grade of 0.07% and a gold

---

[15] See the 'Important Notices' section of this Scheme Booklet for Competent Persons information relating to the JORC Code. For full details of the HITEK Ore Reserves, see Highlands' ASX announcement of 10 December 2018. Highlands is not aware of any new information or data that materially affects the information contained in that announcement.

[16] See the 'Important Notices' section of this Scheme Booklet for Competent Persons information relating to the JORC Code. For full details of the HITEK Mineral Resource, see Highlands' ASX announcement of 24 March 2017. Highlands is not aware of any new information or data that materially affects the information contained in that announcement.

grade of 1.35 g/t, as well as an Inferred Mineral Resource of 10 million tonnes with a copper grade of 0.06% and a gold grade of 1.28 g/t.[17]

(b) **2018 Feasibility Study**

Highlands received a feasibility study for the Frieda River Copper-Gold Project from the project manager PanAust in December 2018.

The feasibility study followed an extensive review of PanAust's previous development plan which was outlined in its May 2016 feasibility study, which was subsequently updated in an addendum in March 2017.

The 2018 feasibility study presents changes to prior studies in a number of ways, including in the following respects:

(i) it considers that under a single ownership structure, the combined project including the Frieda River mine and process plant, together with the hydro-electric facility, but excluding road, transport and regional power transmission infrastructure, has a total pre-production capital cost of US$6 billion;

(ii) it generates a post-tax Internal Rate of Return of 11% in real terms, with a seven-year implementation schedule;

(iii) it relies on the construction and upgrade of roads linking the mine site to the Port of Vanimo on the northern coast of PNG, and requires an upgrade of the Vanimo Port as well as the existing airstrip at Green River to create a new shared-use regional airport. The total cost of the road, airfield and port upgrades is estimated at US$739 million, to be funded by government and/or public-private partnerships;

(iv) it requires a 340km slurry pipeline to be built linking the process plant at the mine site with the Port of Vanimo. The pipeline will cost US$351 million and will be operated by a third party on commercial terms;

(v) it requires the construction of a hydro-electric power station integrated with a tailings and waste rock integrated storage facility to increase power production to meet processing requirements and enable the sale of excess power;

(vi) the development plan assumes the sale of excess power from the proposed hydro-electric facility to third parties via a transmission network to be constructed at a capital cost of up to US$418 million inclusive of a rural electrification network along the road corridor; and

(vii) it considers the mine life has increased to 33 years, compared with 18 years in the prior study; and

(viii) the entire project requires increased total capital investment of more than US$7 billion, encompassing the cost of the mine development, process plant, integrated storage facility and hydro-electric power plant, road construction and airport upgrades and power transmission network.

(c) **Arbitration proceedings against PanAust**

Highlands and PanAust are in dispute regarding funding obligations under the Frieda River JV Agreement, and the dispute has been the subject of arbitration proceedings

[17] See the 'Important Notices' section of this Scheme Booklet for Competent Persons information relating to the JORC Code. For full details of the Nena Mineral Resource, see Highlands' ASX announcement of 27 November 2017. Highlands is not aware of any new information or data that materially affects the information contained in that announcement.

(***PanAust Arbitration***). The first stage of the PanAust Arbitration was determined in April 2018, with the arbitrator concluding that Highlands' free carry for the Frieda River project feasibility study ended on the date of lodgement of the joint venture application for a Special Mining Lease on 23 June 2016. The Arbitrator also awarded costs as part of this first stage of arbitration to PanAust. These costs have been assessed at approximately $400,000 by a third-party costs assessor, although the parties are yet to agree to a final figure. The PanAust Arbitration is now in the second stage where Highlands will be contending that other provisions of the joint venture agreement should be applied in relation to the feasibility study costs that are continuing.

4.4 Star Mountains Copper-Gold Project

The Star Mountains exploration tenements cover 1049 square kms and are located approximately 20km north east of the Ok Tedi mine and 25kms from the support town of Tabubil, in the West Sepik Province of PNG.

In February 2015, Highlands established a joint venture at the Star Mountains Project with Anglo American plc (***Anglo American***), pursuant to which Anglo American funded an exploration program including two diamond drilling campaigns. Anglo American invested a total of US$38 million in the Star Mountains Project, including a US$10 million payment to Highlands for its initial entry into the project. Highlands announced on 8 February 2018 that Anglo American had decided, following a review of its global exploration portfolio, to withdraw from the joint venture with Highlands and relinquish its interest in the Star Mountains Project for nil consideration.

The Star Mountains Project remains on care and maintenance while a new joint venture partner is being identified. Highlands currently holds full ownership in the Star Mountains Project. The PNG Government retains the right to acquire up to a 30% interest in the project on granting of a special mining lease.

In early 2018, an Inferred Mineral Resource was declared at the Olgal prospect, which is estimated to contain 210 million tonnes grading 0.4% copper and 4 g/t gold, for 840,000 tonnes of contained copper and 2.9 million ounces of gold.[18]

4.5 Sewa Bay Project

The Sewa Bay nickel laterite project is a 162 square km exploration licence located in the western portion of Normanby Island in the D'Entrecasteaux group of islands, Milne Bay Province, PNG. Two main areas of mineralisation above 1% nickel were identified in the 2015 campaign and cover an area of 7 square kms.

Highlands has been conducting exploration at the tenement in conjunction with international trading house Sojitz Group and Japanese company Pacific Metals Co. Ltd, however this agreement has been terminated. Following successful augur drilling campaigns in 2013 and 2015, a further program was undertaken in November 2016 which included an airborne laser and imagery (LIDAR) survey over the tenement area, to provide detailed topographical mapping. The survey was completed in February 2017 with the resulting imaging being used to assist in identifying further exploration targets and assist with infrastructure studies.

Highlands is currently in the process of undertaking a strategic review of the project.

[18] See the 'Important Notices' section of this Scheme Booklet for Competent Persons information relating to the JORC Code. For full details on the Mineral Resource declared at the Olgal prospect, see Highlands' ASX announcement of 20 February 2018. Highlands is not aware of any new information or data that materially affects the information contained in that announcement.

4.6 Highlands Board and key management personnel

(a) Highlands' Board

The Highlands Board comprises the following directors:

Name	Position
Ron Douglas	Chairman and Independent Non-Executive Director
Craig Lennon	Managing Director and CEO
Anthony Milewski	Non-Independent, Non-Executive Director
Ernie Gangloff	Independent Non-Executive Director

(b) Highlands' Key Management Personnel

Highlands' Key Management Personnel comprises the following individuals.

Name	Position
Craig Lennon	Managing Director
Sylvie Moser	Chief Financial Officer and Company Secretary
Erik Andersen	Company Secretary
Ron Gawi	General Manager Port Moresby

(c) Interests of Highlands Directors in Highlands

As at the date of this Scheme Booklet, the number of Highlands Shares held by or on behalf of the Highlands Directors is as follows.

Director	Highlands Shares	% of Highlands Shares held
Ron Douglas	750,000	0.07%
Craig Lennon	6,750,000	0.62%
Anthony Milewski	0	0%
Ernie Gangloff	0	0%

No other Highlands Director has acquired or disposed of a Relevant Interest in any Highlands Shares in the four months ending on the date immediately before the date of this Scheme Booklet.

(d) Interests of Highlands Directors in Cobalt 27 or any of its Associates

As at the time of the preparation of this Scheme Booklet, Anthony Milewski holds the positions of Chairman, CEO and Director of Cobalt 27.

Craig Lennon, the CEO and a Director of Highlands, was appointed to Cobalt 27's Advisory Board in May 2018 pursuant to the Streaming Agreement between Cobalt 27 and Highlands. Following the termination of the Streaming Agreement, Mr Lennon tendered his resignation from the Cobalt 27 Advisory Board on 18 January 2019 and Cobalt 27 accepted Mr Lennon's resignation on the same date. Because the Streaming Agreement did not proceed to closing, Mr Lennon performed no duties in his role as Advisory Board member, attended no meetings of the Advisory Board and received no compensation (or any entitlement to compensation, including by issue of stock options in Cobalt 27) from Cobalt 27. No Highlands Independent Director has a Relevant Interest in any shares in Cobalt 27 or any of its Associates.

No Highlands Independent Director acquired or disposed of a Relevant Interest in any shares in Cobalt 27 or any of its Associates in the four months ending on the date immediately before the date of this Scheme Booklet.

4.7 Capital Structure

(a) Capital Structure and market capitalisation

As at the date of this Scheme Booklet, Highlands had the following securities on issue.

Type of security	Number
Ordinary shares	1,092,733,836

As at 5 March 2019, Highlands had a market capitalisation of approximately $114,737,053 (based on a closing price of $0.105 per Highlands Share).

(a) Performance Rights

As at the date of this Scheme Booklet, all previously allocated Performance Rights have vested or lapsed and there are no outstanding Performance Rights.

(b) Substantial holders

As at 22 February 2019, being the last practicable date prior to the date of this Scheme Booklet, the substantial holders of Highlands Shares were as follows.

Substantial holder	Number of shares	% of Highlands Shares held
Cobalt 27 Capital Corp	218,500,000	20.00
PanAust Limited	128,865,980	11.79
LIM Advisors Limited	97,930,373	8.96

4.8 Highlands Group Structure

As at the date of this Scheme Booklet, Highlands was the ultimate holding company of the following wholly-owned subsidiaries.

Entity name	Country of incorporation	Equity holding (%)
Ramu Nickel Limited	PNG	100%
Highlands Frieda Limited	PNG	100%
Highlands Pacific Resources Limited	PNG	100%
Highlands Pacific Australia Pty Limited	Australia	100%
Highlands Pacific Services Limited	PNG	100%

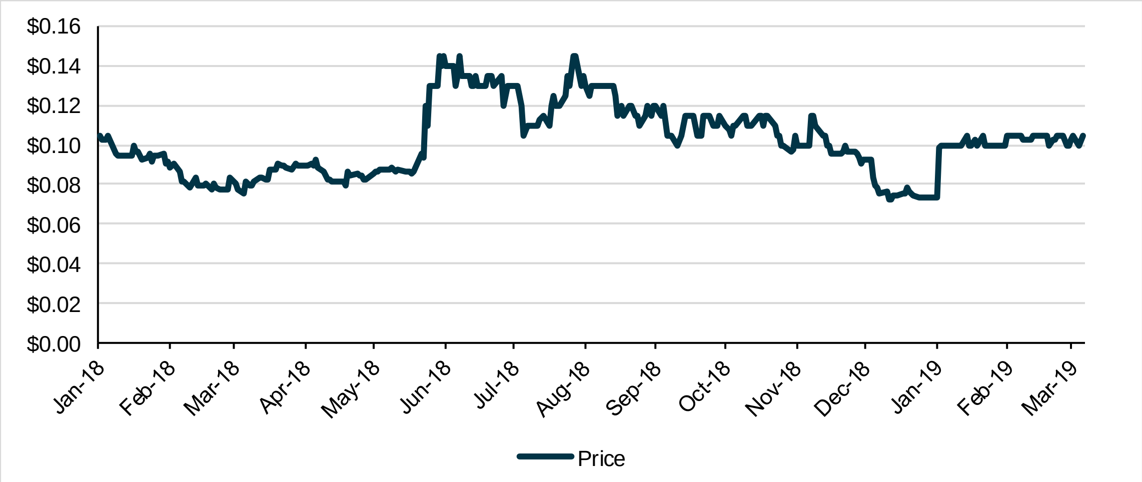
Through these entities Highlands also owns an 8.56% interest in the Ramu Project JV Agreement[19] and a 20% interest in the Frieda River JV Agreement[20].

[19] The Highlands Group's 8.56% interest increases to 11.30% at no cost to the Highlands Group after the debt for the financing of the project has been repaid. In the event that this project debt is not repaid under the terms of the Project Way Forward Agreement (***PWFA***) between the Ramu Project joint venture parties, Highlands has the option to acquire an additional 9.25% interest in the Ramu Project at fair market value.

[20] Guangdong Rising Assets Management Co., Ltd has an 80% interest in the Frieda River Joint Venture Agreement with the Highlands Group having the remaining 20%. The joint venture is subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any major mining development in PNG.

4.9 Recent Highlands Share Price History

The graph below shows the closing Highlands Share Price for the period from 1 January 2018 to 5 March 2019.



As at 5 March 2019:

- the closing Highlands Share Price was $0.105;
- the highest recorded closing Highlands Share Price during the preceding 3 months was $0.105; and
- the lowest recorded closing Highlands Share Price during the preceding 3 months was $0.072.

As at 24 December 2018, being the last trading day before Cobalt 27's proposal was announced to ASX:

- the last recorded Highlands Share Price was $0.073;
- the 1-month VWAP of the Highlands Shares was $0.081;
- the 3-month VWAP of the Highlands Shares was $0.096;
- the 6-month VWAP of the Highlands Shares was $0.108; and
- the lowest and highest Highlands Share Prices during the preceding 3 months were $0.072 and $0.115, respectively.

4.10 Historical financial information

(a) Basis of preparation

This section 4.10 sets out historical financial information about Highlands for the year ended 31 December 2018. The financial information in this section is a summary only and is prepared for the purpose of this Scheme Booklet. It does not contain all the disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the PNG Companies Act. The information has been extracted from the audited financial reports of Highlands for the year ended 31 December 2018.

Further detail on Highlands' financial performance and financial statements can be found in the Financial Reports section of Highlands' website at http://www.highlandspacific.com/financial-reports.

(b) Historical consolidated statement of comprehensive income

	Notes	Consolidated 2018 US$000	Consolidated 2017 US$000
Finance Income		65	109
Total Income	**2**	**65**	**109**
General and administrative costs		2,404	3,106
Depreciation and amortisation		39	61
Net foreign exchange losses / (gain)		833	(220)
Total Operating Costs	**3**	**3,276**	**2,947**
Net Operating Costs		**(3,211)**	**(2,838)**
Interest expense	10	(5,954)	(6,433)
Reversal of / (provision for) exploration costs	9	(127)	358
Reversal of impairment of subsidiary advances	12	-	-
Provision for diminution of investment	11	-	-
Reversal of impairment of investment	10	31,369	42,877
Impairment of exploration and evaluation expenditure	9	(9,600)	-
Share of operating profit (loss) of equity accounted investments	10	9,789	3,473
Profit from Operation Before Income Tax		**22,266**	**37,437**
Income tax expense	4	-	-
Profit for the Year		**22,266**	**37,437**
Other Comprehensive Income for the Year		-	-
Total Comprehensive Income for the Year		**22,266**	**37,437**
Basic earnings per share	5	US$0.0215	US$0.040
Diluted earnings per share	5	US$0.0212	US$0.039

(c) Historical statement of financial position

	Notes	Consolidated 2018 US$000	2017 US$000
CURRENT ASSETS			
Cash and cash equivalents	6	14,857	6,816
Receivables	7	4,025	1,598
		18,882	**8,414**
NON-CURRENT ASSETS			
Property, plant and equipment	8	90	124
Exploration & evaluation expenditure	9	29,237	37,948
Investment in Ramu Nickel mine	10	142,097	110,000
Investment in subsidiaries	11	-	-
Advances to subsidiaries	12	-	-
		171,424	**148,072**
TOTAL ASSETS		**190,306**	**156,486**
CURRENT LIABILITIES			
Trade and other payables	13	684	2,871
Borrowings	14	9,413	9,270
Provisions	15	167	177
		10,264	**12,318**
NON-CURRENT LIABILITIES			
Advances from subsidiaries	12	-	-
Borrowings	14	115,137	112,611
Provisions	15	17	9
		115,154	**112,620**
TOTAL LIABILITIES		**125,418**	**124,938**
NET ASSETS/LIABILITIES		**64,888**	**31,548**
EQUITY			
Contributed equity	16	314,981	303,906
Reserves	17	(3,988)	(3,988)
Accumulated losses		(246,105)	(268,370)
TOTAL EQUITY		**64,888**	**31,548**

(d) **Historical consolidated statement of changes in equity**

CONSOLIDATED	Notes	Contributed equity US$000	Reserves US$000	Accumulated losses US$000	Total US$000
Year Ended 31 December 2018					
Balance as at 1 January 2018		303,906	(3,988)	(268,371)	31,547
Profit for the year		-	-	22,266	22,266
Transactions with owners in their capacity as owners					
Issue of share capital	16	11,075	-	-	11,075
Balance as at 31 December 2018		**314,981**	**(3,988)**	**(246,105)**	**64,888**
Year Ended 31 December 2017					
Balance as at 1 January 2017		303,911	(4,382)	(305,808)	(6,279)
Profit for the year		-	-	37,437	37,437
Transactions with owners in their capacity as owners					
Share based payments	25	-	394	-	394
Issue of share capital	16	(5)	-	-	(5)
Balance as at 31 December 2017		**303,906**	**(3,988)**	**(268,371)**	**31,547**

(e) **Historical consolidated statement of cash flows**

	Notes	Consolidated 2018 US$000	2017 US$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest from investments		75	110
Income tax paid		-	(1)
Payments to suppliers and employees		(2,415)	(2,714)
Net Cash Used in Operating Activities	**22**	**(2,340)**	**(2,605)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Advance to subsidiaries		-	-
Receipt from recovery of exploration costs		-	446
Contribution from joint venture partners		18	8,867
Payment to joint venture partner		(573)	-
Receipts from joint ventures		1,772	-
Purchase of property, plant and equipment	8	(5)	(2)
Exploration, evaluation and development		(1,073)	(10,631)
Net Cash from / (Used) in Investing Activities		**139**	**(1,320)**
CASH FLOWS FROM A FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	16	11,265	-
Costs associated with issue	16	(190)	(5)
Net Cash Used in Financing Activities		**11,075**	**(5)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**8,874**	**(3,930)**
Add cash brought forward		6,816	10,526
Effect of exchange rate changes on cash and cash equivalents		(833)	220
CASH AND CASH EQUIVALENTS CARRIED FORWARD		**14,857**	**6,816**
CASH COMPRISES			
Cash and cash equivalents	6	14,857	6,816

(f) **Material changes to Highlands' financial position since 31 December 2018**

Within the knowledge of the Highlands Independent Directors and other than as disclosed in this Scheme Booklet or announced to ASX, the financial position of Highlands has not materially changed since 31 December 2018, being the date of Highlands' consolidated financial report for the year ended 31 December 2018.

4.11 Highlands' financing arrangements

Highlands' borrowings of US$125 million includes its share of the Ramu Project Loans. As at 31 December 2018, Highlands' share of the Ramu Project Loans was US$117.7 million. As discussed in section 4.2, the debt owed to MCC Ramu is to be repaid out of Highlands' share of operating surpluses from the Ramu Project (sales revenue less operating costs and on-going capital expenditure).

Highlands owes the additional US$7 million to Frieda River Limited, a wholly-owned subsidiary of PanAust, its joint venture partner in the Frieda River project.

4.12 Highlands dividend history

No dividends were paid or declared during the financial year ended 31 December 2018. No dividends have been recommended by the Highlands Directors in respect of or since the year ended 31 December 2018.

4.13 Highlands Independent Directors' intentions for the business

If the Scheme is implemented, the existing Highlands Independent Directors will resign and the Highlands Board will be reconstituted in accordance with the instructions of Cobalt 27 after the Implementation Date. Accordingly, it is not possible for the Highlands Independent Directors to provide a statement of their intentions after the Scheme is implemented regarding:

(a) the continuation of the business of Highlands or how Highlands' existing business will be conducted;

(b) any major changes, if any, to be made to the business of Highlands; or

(c) the future employment of the present employees of Highlands.

The Highlands Independent Directors have been advised that the intentions of Cobalt 27 with respect to these matters are as set out in section 6.6.

5 Risks

5.1 Introduction

The Highlands Independent Directors considers that it is appropriate for Highlands Shareholders, in considering the Scheme, to be aware that there are a number of general risk factors as well as risks specific to Highlands and/or the industries in which it operates, which could materially adversely affect the future operating and financial performance of Highlands or the value of Highlands.

This section outlines:

- general investment risks (refer to section 5.2); and
- risks associated with your current investment in Highlands Shares (refer to section 5.3).

While some of these risks can be mitigated, some are out of the control of Highlands and the Highlands Directors and cannot be mitigated.

This section 5 is a summary only. There may be additional risks and uncertainties not currently known to Highlands which may also have a material adverse effect on Highlands' financial and operational performance now or in the future.

If the Scheme is implemented you will receive the Scheme Consideration, will cease to be a Highlands Shareholder and will also no longer be exposed to some of the risks set out below (and other risks to which Highlands may be exposed). If the Scheme does not proceed, you will continue to hold your Highlands Shares and continue to be exposed to risks and opportunities associated with that investment.

In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section 5 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs.

While the Highlands Independent Directors recommend that Highlands Shareholders vote in favour of the Scheme in the absence of a Superior Proposal, Highlands Shareholders are encouraged to make their own independent assessment as to whether to vote in favour of the Scheme.

5.2 General investment risks

Like many listed companies, the market price of Highlands Shares and the potential for any future dividends to Highlands Shareholders are influenced by a number of factors, including the following:

- changes in investor sentiment and overall performance of the Australian, Papua New Guinean and international stock markets, particularly in relation to mining and exploration stocks;
- changes in general economic and business conditions, including levels of consumer spending, business demand, inflation, interest rates and exchange rates, access to debt and capital markets, government fiscal, monetary and regulatory policies;
- changes in government fiscal, monetary, taxation and regulatory policies, including foreign investment policies;

- government or political intervention in export and import markets (including sanction controls and import duties) and the disruptions this causes to supply and demand dynamics;
- changes to the rate of company income tax or the tax arrangements between PNG, Australia and other jurisdictions in which Highlands operates;
- natural disasters and catastrophes, whether on a global, regional or local scale; and
- changes to accounting standards and reporting standards.

5.3 Risks associated with your current investment in Highlands Shares

There is a range of business-specific risks associated with your current investment in Highlands Shares, as set out below. You will only continue to be exposed to these risks if the Scheme does not proceed, in which case (in the absence of a Superior Proposal that is ultimately consummated) Highlands will continue to operate as a stand-alone entity.

(a) Dependence on production from the Ramu Project

Highlands' only interest in an operating mine is the Ramu Project. As a result, the commercial viability of Highlands is currently highly dependent upon the successful operation of the Ramu Project.

(b) Refinancing risks

Under the terms of the Ramu JV Master Agreement, the repayment of the US$117.7 million project loans owed by Highlands to MCC will immediately increase Highlands' interest in the Ramu Project from 8.56% to 11.3% and allow Highlands to access an immediate material uplift in the Ramu Project cash flows. The terms of the Streaming Agreement contemplated Highlands using an upfront deposit from Cobalt 27 to fully repay these project loans to MCC.

Given the termination of the Streaming Agreement and the absence, at the time of this Scheme Booklet, of any alternative financing transaction or agreement, there is a risk that Highlands will be unable to undertake an early repayment of the Ramu Project loans to MCC. In this event, Highlands would not be entitled to receive any cash flows from the Ramu Project for the foreseeable future 3 to 5 years or more, depending on the cash generation of the project[21].

(c) Risks associated with Highlands' debt levels

Under the Ramu JV Master Agreement Highlands' wholly owned subsidiary Ramu Nickel Limited currently owes approximately US$117.7 million to MCC. This loan is non-recourse to Highlands and is serviced out of Highlands' entitlement to operating surplus from the Ramu Project.

If the cash flows in respect of the Ramu Project were to materially decrease, either as a result of a decrease in operating production or of the relevant commodity prices, the ongoing ability of Ramu Nickel Limited to continue to service the debt may be affected.

(d) Risks associated with being a minority interest holder

[21] As discussed further in section 4.2, Highlands is entitled to receive 35% of the operating surpluses available to it at the Ramu Project upon repayment of its Future Financing Costs, which (based on the preferred commodity price assumptions of the Independent Expert) is not expected to occur until 2022. Highlands will not receive 100% of its operating surpluses at the Ramu Project until it also repays its Historic Financing Costs, which (based on the preferred commodity price assumptions of the Independent Expert) is not expected to occur until at least 2029.

Highlands is a minority interest holder in both the Ramu Project, where they hold an 8.56% interest, and the Frieda River Copper-Gold Project, where they hold a 20% interest. Accordingly, Highlands is not in a position to make key strategic decisions about, or exert control over the operational direction of, either of these projects, but remains exposed to any losses or liabilities the projects may sustain due to the conduct of Highlands' joint venture partners.

(e) **Operational risks**

There are a number of risks associated with the operation of Highlands' projects, including the following:

(i) **Earthquake seismic activity risks**

Papua New Guinea is a seismically active area. No assurance can be given that operations at Highlands' projects will not be adversely affected by earthquake activity during its life.

(ii) **Health and safety risks**

While Highlands maintains a strong focus on health and safety, mineral exploration, development and production operations present a number of inherent health and safety risks. Highlands employees and professional services contractors undertake work in environments where risk of personal injury is present.

If the safety performance of Highlands or any of its joint venture partners deteriorated or there was a serious incident on one of their projects, Highlands may suffer reputational damage, impacting its ability to retain employees. In addition, if Highlands or any of its joint venture partners fail to comply with the necessary occupational health and safety legislative requirements across the jurisdictions in which Highlands operates, this could result in fines, penalties and compensation for damages. Also, a major health scare in jurisdictions in which Highlands operates could adversely affect its activities in that jurisdiction, and therefore negatively impact Highlands' revenues and profitability.

(iii) **Water**

The effects of changes in rainfall patterns, water shortages and changing storm patterns and intensities may adversely impact the costs, production levels and financial performance of Highlands' operations. There is no guarantee that there will be sufficient future rainfall to support Highlands' future water demands in relation to its sites and operations, and this could adversely affect production and Highlands' ability to develop or expand projects and operations in the future. In addition, there can be no assurance that Highlands will be able to obtain alternative water sources on commercially reasonable terms or at all in the event of prolonged drought conditions. Conversely, some of Highlands' sites and operations may be subject from time to time to severe storms and high rainfall leading to flooding and associated damage which may result in delays to or loss of production and development of some of its sites, projects and operations.

(iv) **Environmental risks**

Each of Highlands and those projects in which it holds an interest are required to comply with the environmental requirements of relevant governmental authorities and legislation in the jurisdictions in which they operate.

Failure on the part of Highlands or its joint venture partners to comply with environmental laws and regulations could result in monetary penalties or closure of Highlands' operations either permanently or temporarily. These regulations establish limits and conditions on its ability to conduct these operations. As a minority joint venture partner in both the Ramu Project and Frieda River Copper-Gold Project, there is a risk Highlands may be subject to financial or regulatory liability if its majority joint venture partners at these projects fail to comply with the relevant environmental laws and regulations governing the projects.

Highlands is required to rehabilitate the lands that it mines once mining operations have been completed in accordance with applicable environmental laws and regulations. Estimates of the total ultimate closure and rehabilitation costs are significant and based principally on current legal and regulatory requirements that may change materially. Environmental liabilities are accrued when they are known, probable and can be reasonably estimated. Increasingly, regulators are seeking security in the form of cash collateral or bank guarantees in respect of environmental obligations, which could have an adverse effect on Highlands' financial condition.

Environmental laws and regulations are continually changing and are generally becoming more restrictive. If Highlands' environmental compliance obligations were to change as a result of changes in the laws and regulations, or if unanticipated environmental conditions were to arise at any of Highlands' projects or developments, its expenses and provisions may increase to reflect these changes. If material, these expenses and provisions could adversely affect Highlands' results of operations and financial condition.

(v) **Industrial relations**

Industrial disruptions, work stoppages and accidents in the course of operations can result in production losses and delays and may adversely affect Highlands' performance.

(vi) **Credit risk and payment delay for suppliers, customers and partners**

Highlands is exposed to credit risk of banks, suppliers, customers, off takers and partners and there may be delay in payment under key contracts. There is a risk that any material default or payment delay may impact Highlands' cash flows and ability to service debt and other obligations, and this may materially adversely affect its business, financial condition and results of operations.

(vii) **Mineral title risk**

To the best of its knowledge, title to all mineral properties held by entities in which a Highlands Group entity or one of their joint venture partners holds an interest is in good standing. However, the properties may be subject to prior unregistered agreements or transfers, and title may be affected by undetected defects. There may be valid challenges to the title of these properties, which, if successful, could impair development and/or operations. Highlands cannot give any assurance that title to the relevant properties that either it or its joint venture partners own will not be challenged.

(f) **Commodity price risk**

Highlands is exposed to commodity price risk. Highlands' performance is dependent on the market prices of nickel and cobalt, which are volatile and are affected by numerous factors beyond Highlands' control. Highlands is exposed to the impact of any fall in the cobalt and/or nickel price. If cobalt and/or nickel prices decrease, Highlands will realise reduced revenues. Conversely, if cobalt and/or nickel prices increase, Highlands will realise the positive impact of the increase.

(g) **Political and community risk**

Highlands' activities are principally conducted in PNG which is subject to political uncertainties including, but not limited to, the risk of a civil rebellion, expropriation, nationalisation, change of law and land ownership disputes. Unpredictable government action concerning the economy, taxation, or the operation and regulations of facilities deemed important (such as mines) could have a significant adverse impact on Highlands.

(h) **Currency risks**

Highlands operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar, United States dollar and the PNG Kina. Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates.

Highlands is exposed to currency risk on purchases and cash deposits that are denominated in non-US Dollars.

(i) **Economic and financial risks**

Changes in the economic climate in which Highlands operates and in economic factors such as economic growth, interest and inflation rates, government regulation and taxation, employment levels, consumer sentiment, market volatility and monetary policy could adversely impact the value of Highlands Shares or the performance of Highlands.

(j) **Offshore remittances**

The PNG Kina is subject to exchange controls. No assurance can be given that Highlands will be able to convert its US dollar receipts or any PNG Kina funds it has into other currencies at rates comparable to those at which funds were remitted to PNG in the past or at all.

(k) **Insurance**

Insurance against all risks is not always available or affordable. Highlands will maintain insurance where it is considered appropriate for its needs. However, it will not be insured against all risks either because appropriate cover is not available or because the Highlands Directors consider the required premiums to be excessive with regard to the benefits that would accrue.

6 Information about Cobalt 27

The information contained in this section 6 has been prepared by Cobalt 27. The information concerning Cobalt 27 and its Related Companies, and the intentions, views and opinions contained in this section are the responsibility of Cobalt 27. Highlands and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

6.1 Overview of Cobalt 27

Cobalt 27 is a battery metals streaming and royalty company offering direct exposure to cobalt, nickel and lithium, integral elements in key technologies of electric vehicles and energy storage systems. Cobalt 27 owns approximately 2,905.7 Mt of physical cobalt and has acquired a 32.6% cobalt stream on Vale S.A.'s Voisey's Bay mine (including the announced underground expansion) commencing on 1 January 2021. Cobalt 27 also manages a portfolio of eleven royalties and intends to continue to invest in a cobalt-nickel-lithium focused portfolio of streams, royalties and direct interests in mineral properties containing cobalt.

Cobalt 27 was incorporated under the *Business Corporations Act* (British Columbia) on 9 May 2006 under the name "Actus Minerals Corp". On September 26, 2014, the company changed its name to “Arak Resources Ltd.” and on April 6, 2017 Cobalt 27 changed its name to “Cobalt 27 Capital Corp.”. Cobalt 27 is a reporting issuer in each of the provinces and territories of Canada. The common shares of Cobalt 27 are listed and posted for trading on the TSX Venture Exchange under the symbol “KBLT”, on the OTCQX under the symbol “CBLLF” and on the Frankfurt Stock Exchange under the symbol “270”.

Cobalt 27’s head office is located at Suite 401 – 4 King St. West, Toronto, Ontario, Canada. Cobalt 27’s registered and records offices are located at Suite 1700 – 666 Burrard Street, Vancouver, British Columbia, Canada.

Further information on Cobalt 27 is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and from its website at www.cobalt27.com.

6.2 Directors of Cobalt 27 and Cobalt 27 management

The directors of Cobalt 27 as at the date of this Scheme Booklet are as follows:

Name	Position
Anthony Milewski	Chairman/Director
Justin Cochrane	Director
Frank Estergaard	Director
Nick French	Director
Candace MacGibbon	Director
Phillip Williams	Director

Profiles of the key members of Cobalt 27 management with responsibility for this investment are set out below:

(a) **Anthony Milewski, Chief Executive Officer**

Mr Milewski has spent his career in various aspects of the mining industry, including as a company director, advisor, founder and investor. In particular, he has been active in the battery metals industry including investing in cobalt and actively trading physical cobalt.

Mr Milewski has managed numerous mining investments at various stages of development, including exploration, development, production and turnaround situations, and across a broad range of commodities.

Following Cobalt 27's A$10 million equity investment in Highlands for resulting ownership of 13% in June 2018, Mr Milewski was appointed to the Board of Directors of Highlands.

Mr Milewski was formerly a member of the investment team at Pala Investments Limited. Prior to joining Pala Investments, he worked at Firebird Management LLC.

(b) **Justin Cochrane, President and Chief Operating Officer**

Mr Cochrane has over 16 years of royalty and stream financing, M&A and corporate finance experience. Prior to joining Cobalt 27, he served as Executive Vice President and Head of Corporate Development for Sandstorm Gold Ltd. for five years.

Prior to Sandstorm Gold Ltd., he spent nine years in investment banking and equity capital markets with National Bank Financial where he covered the resource, clean-tech and energy technology sectors. In addition, Mr Cochrane is currently a board member of Duke Royalty Limited and Nevada Copper Corp.

Mr Cochrane is a Chartered Financial Analyst and a registered and licensed security advisor in Canada.

(c) **Martin Vydra, Head of Strategy**

Mr Vydra joined Cobalt 27 after a 31-year career with Sherritt International Corporation, a leader in the mining, processing and refining of lateritic nickel and cobalt with operations in Canada, Cuba and Madagascar.

From 2008-2011, Mr Vydra held the position of Managing Director, Commercial Contracts and Marketing at Sherritt International Corporation, with global responsibility for metal marketing. Over his career, Mr Vydra has been responsible for the sales and marketing of cobalt, nickel, fine cobalt powders and chemicals, thermal spray powders and coinage with end users ranging from aerospace to lithium-ion battery manufacturers.

(d) **Cindy Davis, Chief Financial Officer**

Since June 2008, Ms Davis has provided accounting and financial reporting services for publicly listed companies, through Marrelli Support Services Inc. She is currently a director and audit committee chair for Outdoor Partner Media Corporation and CFO for each of Royal Road Minerals Limited, CHAR Technologies Ltd. and Pasinex Resources Ltd. Ms Davis is a Canadian Chartered Professional Accountant and holds a Bachelor of Science degree specialising in Accounting and Economics from the University of West Indies in Jamaica.

6.3 Rationale for Cobalt 27's proposed acquisition of Highlands

The proposed acquisition of Highlands represents an integral part of Cobalt 27’s strategy to create a leading high-growth, diversified battery metals streaming and royalty company. The acquisition of Highlands will allow Cobalt 27 to gain a direct interest in the Ramu nickel-cobalt mine which will expand and diversify Cobalt 27’s existing cobalt-focused portfolio into nickel, another key input into batteries for electric vehicles and energy storage markets. In addition, the proposed acquisition will materially increase Cobalt 27’s forecasted cash flow and its attributable cobalt and nickel production.

6.4 Acquiring entity

If the Scheme is implemented, the Scheme Shares will be acquired by Cobalt 27.

6.5 Funding arrangements for the Scheme Consideration

Based on the number of Highlands Shares on issue as at the date of this Scheme Booklet, the maximum amount of cash payable by Cobalt 27 in connection with this scheme is $100,536,891. This amount represents 874,233,836 Highlands Shares (being all the shares less the Excluded Securities held by or on behalf of Cobalt 27, which will not be acquired under the Scheme) multiplied by $0.115 per Highlands Share, being the Base Scheme Consideration of $0.105 cents per Highlands Share plus the Additional Scheme Consideration of $0.010 cents per Highlands Share.

Cobalt 27 will provide, or procure the provision of, the Scheme Consideration payable to Highlands Shareholders from Cobalt 27's cash reserves or other financing sources. As of 30 September 2018, Cobalt 27 had working capital of $49,924,135 and undrawn debt facilities available for funding of the payment of any Scheme Consideration payable of approximately US$200 million.

Cobalt 27 has obtained commitments in respect of facilities for the purpose of funding the acquisition of Highlands Shares pursuant to the Scheme and paying related costs and expenses in the amount of US$200 million (***Debt Facilities***). The commitments for the Debt Facilities have been provided by a syndicate of Canadian and international banks led by the National Bank of Canada.

The Debt Facilities have been documented under an Amended and Restated Credit Agreement which contains conditions precedent to drawdown, representations and warranties, undertakings and events of default which are customary for a facilities of this nature. There are no conditions precedent to drawdown which are not within the control of Cobalt 27 to satisfy.

The Debt Facilities may only be drawn if the conditions precedent to drawdown are satisfied, certain defaults have not occurred and certain representations and warranties are true and correct. Cobalt 27 has no reason to believe that the Debt Facilities will not be available to be drawn down on the Implementation Date.

The funds required to pay for the Scheme Consideration are not required for other operations or commitments of Cobalt 27 and are available to Cobalt 27 under the arrangements discussed above.

Having regard to the matters set out in this Section, Cobalt 27 is of the opinion that it has a reasonable basis for forming the view, and holds the view, that it will be able to pay the Scheme Consideration.

6.6 Cobalt 27's intentions if the Scheme is implemented

This section sets out Cobalt 27's current intentions on the basis of facts and information concerning Highlands and the general business environment which are known to Cobalt 27 at the time of the preparation of this Scheme Booklet.

If the Scheme is implemented, Cobalt 27 intends to undertake a detailed review of Highlands' operations covering strategic, financial and commercial operating matters to determine the optimum manner of integrating, operating and managing the business.

Final decisions about any major changes to the future commercial operating plan and management organisation for Highlands will be made by Cobalt 27 following the completion of the post-acquisition review described above and will be based on all material facts and circumstances at the relevant time.

Accordingly, other than where the disclosure below expressly states that Cobalt 27 has determined to do something, the statements set out in this section are statements of current intention only and may change as new information becomes available or as circumstances change.

(a) **Operations**

At the present time, without the benefit of detailed analysis, Cobalt 27 does not anticipate making any other material changes to Highlands' operations if the Scheme is implemented. Cobalt 27 does not currently have full knowledge of all material information, facts and circumstances that are necessary to assess all of the operational, commercial, taxation and financial implications of its current intentions.

Following the implementation of the Scheme, Cobalt 27 will, to the extent information is available to it, conduct a full review of the operations, assets and employees of Highlands in light of that information. Final decisions will only be made after that review and in light of material information and circumstances at the relevant time. Accordingly, the intentions described below are statements of current intention only and may change as new information becomes available or circumstances change.

(b) **Board of directors**

Following the implementation of the Scheme, Cobalt 27 will replace the Board of Highlands with Cobalt 27 nominees. Cobalt 27 will also make changes to the members of the board of other Highlands Group Members.

(c) **Head office**

If the Scheme is implemented, Cobalt 27 will consider the extent to which head office functions of Highlands duplicate functions performed by the Cobalt 27 office in Toronto, Canada. It is possible that some functions of Highlands' head office may no longer be necessary if Highlands is removed from the ASX and POMSoX following the implementation of the Scheme.

(d) **Employees**

Cobalt 27 expects there to be limited impact on the employees of Highlands if the Scheme is implemented. At head office level, it is possible that certain roles may become redundant if Highlands is removed from the ASX and POMSoX. However, it is not anticipated that significant changes will occur in employee numbers.

(e) **Delisting**

If the Scheme is implemented, it is intended that quotation of Highlands Shares on the ASX and POMSoX will be terminated and Highlands will be removed from the official list of the ASX and POMSoX on or around the Business Day immediately following the Implementation Date.

(f) **Corporate governance**

Cobalt 27 does not intend, after the implementation of the Scheme, that Highlands will have corporate governance policies and practices equivalent to those adopted by Highlands in the past or by ASX or POMSoX listed companies generally. Instead, Cobalt 27 expects that, after the Implementation Date, that Highlands will adopt policies and practices appropriate for a wholly owned subsidiary of a company that is a reporting issuer under applicable Canadian securities laws and listed on the TSX Venture Exchange.

(g) **Frieda River Sale Agreement**

Separately from the Scheme, Cobalt 27 has entered into an agreement (the ***Frieda River Sale Agreement***) with PanAust and its subsidiaries, PanAust SPV2 and Frieda River

Limited, under which, if the Scheme is implemented, Cobalt 27 will cause Highlands Frieda Limited (which will then be a wholly owned subsidiary of Cobalt 27) to transfer its 20% participating interest in the Frieda River Copper-Gold Project to the PanAust Group for US$9.45 million (being the carrying value of the 20% interest in Highlands' financial statements as at 30 June 2018, of US$28.8 million; less the outstanding principal and interest on all loans made by PanAust's subsidiaries to Highlands Frieda Limited as at 31 December 2018, of US$6.89 million; less all amounts which the PanAust Group claims are payable by Highlands Frieda Limited (and which are currently the subject of dispute and arbitration) in respect of calls under the Frieda River JV Agreement, of US$12.46 million).

As part of completion under the Frieda River Sale Agreement, Highlands Frieda Limited and Frieda River Limited will enter into a settlement deed (**Frieda River Settlement Deed**) which will set out the terms on which the arbitration proceedings between PanAust and Highlands Frieda Limited would be settled. The Frieda River Sale Agreement also provides that, if the agreement completes, the sale will, as between the parties, have an effective date of 1 January 2019, and that cash calls between 1 January 2019 and completion of the sale will be to the account of the PanAust Group.

The Frieda River Sale Agreement is subject to a number of conditions, in addition to the condition that the Scheme is implemented. Those conditions include People's Republic of China regulatory approvals, PNG Mining Act approvals and board approval from PanAust's ultimate holding company, Guangdong Rising Assets Management Co., Ltd.

The PanAust Group currently owns 11.8% of the shares in Highlands. The Independent Expert has, in its Independent Expert's Report, provided an opinion on the terms of the sale under the Frieda River Sale Agreement. The Independent Expert has concluded that the terms of the Frieda River Sale Agreement are fair to those Highlands Shareholders who will not be offered the opportunity to participate in that transaction, and does not confer a net benefit on PanAust.

Under the Frieda River Sale Agreement, the US$9.45 million purchase price for the 20% participating interest is to be paid out of the Scheme Consideration which the PanAust Group receives for its 11.8% shareholding in Highlands on implementation of the Scheme.

(h) **Intentions generally**

Other than as set out in this Section 6.6, and elsewhere in this Scheme Booklet, it is Cobalt 27’s intention:

(i) to continue the business of Highlands;

(ii) not to make any major changes to the business of Highlands nor to redeploy any of Highlands' fixed assets; and

(iii) to continue the employment of Highlands' present employees.

6.7 Cobalt 27's interests in Highlands Shares

(a) **Interest in Highlands Shares**

As at the date of this Scheme Booklet:

(i) Cobalt 27 has a relevant interest in 218,500,000 Highlands Shares which is approximately 20% of all Highlands Shares; and

(ii) Cobalt 27 and its associates do not have a relevant interest in any other class of securities of Highlands other than the 218,500,000 Highlands Shares.

(b) **Dealing in Highlands Shares in previous four months**

Except for the consideration to be provided under the Scheme, during the period of four months before the date of this Scheme Booklet, Cobalt 27 and its associates have not provided, or agreed to provide, consideration for Highlands Shares under a purchase or agreement other than as follows:

(i) 66,000,000 Highlands Shares acquired on the ASX on 2 January 2019 for A$6,930,000 (approximately 16,257,000 Kina);

(ii) 2,000,000 Highlands Shares acquired on the ASX on 3 January 2019 for A$200,000 (approximately 469,192 Kina);

(iii) 1,000,000 Highlands Shares acquired on the ASX on 4 January 2019 for A$100,000 (approximately 239,300 Kina);

(iv) 2,000,000 Highlands Shares acquired on the ASX on 7 January 2019 for A$200,000 (approximately 480,794 Kina);

(v) 3,372,961 Highlands Shares acquired on the ASX on 8 January 2019 for A$337,296.10 (approximately 808,060 Kina);

(vi) 627,039 Highlands Shares acquired on the ASX on 9 January 2019 for A$63,017.42 (approximately 152,000 Kina);

(vii) 906,993 Highlands Shares acquired on the ASX on 10 January 2019 for A$90,699.30 (approximately 219,700 Kina);

(viii) 62,507 Highlands Shares acquired on the ASX on 11 January 2019 for A$6,250.70 (approximately 15,100 Kina); and

(c) **Benefits to holders of Highlands Shares**

Except as set out in this Scheme Booklet, neither Cobalt 27 nor any of its associates, during the period of four months before the date of this Scheme Booklet, gave, or offered to give or agreed to give, a benefit to another person which was likely to induce the other person, or an associate to:

(i) vote in favour of the Scheme; or

(ii) dispose of Highlands Shares,

and which benefit was not offered to all Highlands Shareholders under the Scheme.

(d) **Benefits to Highlands officers**

Except as set out in this Scheme Booklet, neither Cobalt 27 nor any of its associates will be making any payment or giving any benefit to any Highlands Independent Director as compensation or consideration for, or otherwise in connection with, their resignation from the Board of Directors of Highlands, except to the extent that the Board of Directors is reconstituted following implementation of the Scheme.

7 Australian Taxation Implications

7.1 Taxation outline

The following is a general description of the Australian tax consequences for a Highlands Shareholder that disposes of their Highlands Shares under the Scheme. This discussion assumes that the Scheme will be implemented in accordance with the terms described in the Scheme.

The description is based upon the Australian tax law in effect at the date of this Scheme Booklet, but is general in nature and is not intended to be an authoritative or complete statement of the tax laws applicable to the particular circumstances of a Highlands Shareholder.

The comments set out below are relevant only to those Highlands Shareholders who hold their Highlands Shares on capital account. This description does not apply to all Highlands Shareholders. For example, it does not apply to Highlands Shareholders that:

- hold their Highlands Shares on revenue account or as 'trading stock' under Australian tax law;
- are temporary residents of Australia for Australian taxation purposes;
- hold their Highlands Shares in connection with a business carried on through a permanent establishment outside their country of residence;
- acquired their Highlands Shares under a tax deferred employee share scheme (***ESS***) and who have not had (or will not have had) their ESS deferred taxing point before the Implementation Date;
- are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (***ITAA 1997***) in relation to gains and losses on their Highlands Shares;
- may be subject to special tax rules, such as partnerships, tax exempt organisations and entities subject to the Investment Manager Regime under Subdivision 842-I of the ITAA 1997 in respect of their Highlands Shares;
- obtained rollover relief in connection with the acquisition of their Highlands Shares; or
- have not been resident in the same country for tax purposes throughout the period they have owned the Highlands Shares.

This summary is based on the Australian tax law, and our understanding of the practice of the tax authorities, at the time of issue of this summary. The laws are complex and subject to change periodically, as is their interpretation by the courts and the tax authorities. This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. This summary does not take into account the tax law of countries other than Australia. The precise implications of ownership or disposal will depend upon each shareholder's specific circumstances. Highlands Shareholders should seek independent professional advice in relation to their particular circumstances.

Highlands Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under Australian law.

Unless otherwise indicated, this description applies to Highlands Shareholders who are individuals.

7.2 Australian resident shareholders

(a) **Capital Gains Tax (*CGT*)**

The Scheme will result in the transfer by Highlands Shareholders of their Highlands Shares to Cobalt 27. The transfer of the Highlands Shares to Cobalt 27 will cause a change in the ownership of the Highlands Shares and will trigger a CGT event A1 for Australian CGT purposes.

The CGT event should occur on the date on which the change of ownership of the Highlands Shares will occur, which will be the Implementation Date.

(b) **Calculation of capital gain or capital loss**

Highlands Shareholders will make a capital gain on the disposal of the Highlands Shares if the 'capital proceeds' from the disposal of the Highlands Shares are more than the 'cost base' of those Highlands Shares. Conversely, Highlands Shareholders will make a capital loss if the 'capital proceeds' are less than the 'reduced cost base' of those Highlands Shares.

Cost base

The 'cost base' and 'reduced cost base' of Highlands Shares will generally include the amount of money paid, or the value of any property given, in order to acquire the shares, plus any incidental costs of acquisition (e.g. brokerage fees and stamp duty). The cost base and reduced cost base of each Highlands Share for a Highland Shareholder will depend on the individual circumstances of the shareholder.

Capital proceeds

The capital proceeds from a CGT event are the total of the money a taxpayer receives, or is entitled to receive, in respect of the event happening, and the market value of any other property a taxpayer receives, or is entitled to receive, in respect of the event happening.

The capital proceeds from the CGT event arising from the transfer of the Highlands Shares under the Scheme will include the Base Scheme Consideration – that is, the cash payment to each Scheme Participant of $0.105 cents per Highlands Share.

The capital proceeds from the CGT event will also include the market value of the right to receive the Additional Contingent Scheme Consideration (the ***Contingent Right***).

The Independent Expert has valued the Additional Contingent Scheme Consideration at $0.01 per share.

Accordingly:

- the total capital proceeds for the transfer of the Highlands Shares under the scheme will be $0.105 per share (the Base Scheme Consideration) plus $0.01 per share (the market value of the Contingent Right);
- the Contingent Right would be a separate CGT asset acquired by the Highlands Shareholders for a cost base equal to $0.01 per share;
- in the event that the Additional Contingent Scheme Consideration is paid, there would be a CGT event (the satisfaction of the Contingent Right), however, no capital gain should be made because there should be no difference between the cost base of that right ($0.01 per share) and the Additional Contingent Scheme Consideration ($0.01 per share); and
- in the event that the Additional Contingent Scheme Consideration is not paid, there would be a CGT event (the expiry of the Contingent Right) and a capital

loss equal to the 'reduced cost base' of that right ($0.01 per share) in the income year in which the Contingent Right expires.

Highlands Shareholders should obtain independent advice in relation to the tax consequences of the Additional Contingent Scheme Consideration. The Australian tax treatment of such arrangements (commonly referred to as 'earnout arrangements') is complex, and a current focus area of the ATO. The ATO has recently issued a Discussion Paper on the application of the tax law to earnout arrangements that do not qualify for concessional CGT 'look-through' treatment. The ATO will form its view on the application of the tax law to such arrangements once it has concluded the public consultation that it is currently undertaking in respect of that Discussion Paper.

(c) **CGT discount**

Australian resident Highlands Shareholders who are individuals, complying superannuation entities or trusts may be entitled to reduce the amount of any capital gain made on the disposal of their Highlands Shares if they have held their Highlands Shares for at least 12 months prior to the Implementation Date (excluding the acquisition date and the Implementation Date). This reduction is referred to as the 'CGT discount'.

The CGT discount, if it is available, is applied only after any available capital losses have been applied to reduce the capital gain.

This discount rate is 50% for individuals and trusts, and 33.3% for complying superannuation entities. The rules relating to discount capital gains for trusts are complex. As such, Highlands Shareholders who are trustees should seek independent tax advice on how the CGT discount provisions will apply to the trustee and the trust's beneficiaries. For trustees the ultimate availability of the discount may depend on a beneficiary’s entitlement to a discount.

The CGT discount is not available to, among others, Highlands Shareholders that:

- are companies; or
- have held their Highlands Shares for less than 12 months (excluding the acquisition date and the Implementation Date).

In a year of income, capital gains and capital losses made by a Highlands Shareholder from all sources are aggregated to determine whether they make a net capital gain or capital loss for the year of income. A net capital loss is not deductible from the assessable income for a Highlands Shareholder. However, a net capital loss may be able to be carried forward to offset capital gains made by the Highlands Shareholder in future years of income, subject to various requirements being met.

7.3 Non-resident shareholders

For a Highlands Shareholder who:

- is not a resident of Australia for Australian tax purposes; and
- does not hold their Highlands Shares in carrying on a business through a permanent establishment in Australia,

the disposal of Highlands Shares will generally only result in Australian CGT implications if, in broad terms:

- that Highlands Shareholder together with its associates held an interest of 10% or more in Highlands at the time of disposal or for a 12 month period within two years preceding the disposal (referred to as a 'non-portfolio interest'); and

- more than 50% of the market value of Highlands' assets is attributable to direct or indirect interests in 'taxable Australian real property' (as defined in the income tax legislation).

On the basis that less than 50% of the market value of Highlands' assets is attributable to direct or indirect interests in 'taxable Australian real property' (as defined in the income tax legislation), Highlands Shareholders that are non-Australian tax residents should generally be able to disregard any Australian capital gain or loss otherwise arising as a result of the disposal of the Highlands Shares.

A non-resident individual Highlands Shareholder who has previously been an Australian tax resident and chose to disregard a capital gain or loss in respect of their Highlands Shares from CGT event I1 on ceasing to be an Australian tax resident may be subject to Australian CGT consequences on disposal of their Highlands Shares.

Highlands Shareholders that are non-Australian tax residents should seek their own independent tax advice as to the tax implications of the Scheme, including tax implications in their country of residence.

7.4 Foreign Resident Capital Gains Withholding (*FRCGW*)

The FRCGW regime may impose a 12.5% 'withholding' obligation (calculated by reference to the purchase price) on the purchasers of certain assets (including shares which are 'indirect Australian real property interests' as defined in the income tax legislation) in certain circumstances.

On the basis that less than 50% of the market value of Highlands' assets is attributable to direct and indirect interests in 'taxable Australian real property' (as defined in the income tax legislation), the FRCGW regime should not apply to Cobalt 27's acquisition of Highlands Shares from a Highlands Shareholder and Cobalt 27 will not withhold any amount from the Base Scheme Consideration or the Additional Contingent Scheme Consideration on account of FRCGW.

7.5 Australian Goods and Services Tax (*GST*)

Highlands Shareholders should not be liable for GST on a disposal of Highlands Shares pursuant to the Scheme.

Expenses (such as adviser fees) incurred by Highlands Shareholders in relation to the Scheme may include GST amounts. Highlands Shareholders may not be entitled to input tax credits in relation to such expenses (this will depend on individual shareholder's circumstances).

7.6 Australian stamp duty

No stamp duty should be payable in any Australian jurisdiction by Highlands Shareholders on the disposal of their Highlands Shares.

8 PNG Taxation Implications

8.1 Taxation outline

The following is a general description of the PNG tax consequences for a Highlands Shareholder that disposes of their Highlands Shares under the Scheme (assuming it becomes effective). The comments set out below are relevant only to those Highlands Shareholders who hold their Highlands Shares on capital account. The description is based upon the PNG tax law in effect at the date of this Scheme Booklet, but is general in nature and is not intended to be an authoritative or complete statement of the tax laws applicable to the particular circumstances of a Highlands Shareholder.

This description does not apply to all Highlands Shareholders. For example, it does not apply to Highlands Shareholders that:

- hold their Highlands Shares on revenue account or as trading stock; or
- hold their Highlands Shares in connection with a business carried on through a permanent establishment outside their country of residence.

Highlands Shareholders should seek independent professional advice in relation to their particular circumstances. Highlands Shareholders who are tax residents of a country other than PNG (whether or not they are also residents of PNG for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under PNG law.

Unless otherwise indicated, this description applies to Highlands Shareholders who are individuals.

8.2 PNG resident shareholders

The Scheme will, if implemented, result in the disposal by Highlands Shareholders of their Highlands Shares to Cobalt 27. The PNG tax consequences arising on the disposal of Highlands Shares by PNG resident Highlands Shareholders will depend upon whether the Highlands Shares are held on capital account or on revenue account.

There is currently no capital gains tax in PNG. Consequently, if the Highlands Shares are held on capital account, no PNG income tax will be payable on any capital gain realised by a PNG resident Highlands Shareholder on the disposal of the Highlands Shares and no deduction will be available in respect of any capital loss realised by a PNG resident Highlands Shareholder on the disposal of the Highlands Shares.

If the Highlands Shares are held on revenue account, either because the Highlands Shareholder is a trader in Highlands Shares or otherwise acquired them for the purpose of resale at profit, any gain arising in these circumstances will be liable to tax in PNG and a loss arising in these circumstances may be an allowable deduction. The rate of PNG tax applicable to such a profit derived by a PNG resident individual is the individual's marginal tax rate and a PNG resident corporation is liable for tax at the standard corporate tax rate of 30%.

8.3 Non-PNG resident shareholders

A non-PNG resident Highlands Shareholder disposing of Highlands Shares will be subject to the same PNG tax rules as apply to PNG resident Shareholders. In the case of a non-resident corporate Highlands Shareholder the applicable tax rate will be 48% instead of 30%.

8.4 PNG Goods and Services Tax (GST)

Highlands Shareholders should not be liable for GST on a disposal of Highlands Shares pursuant to the Scheme.

Expenses (such as adviser fees) incurred by Highlands Shareholders in relation to the Scheme may include GST amounts. Highlands Shareholders may not be entitled to input tax credits in relation to such expenses (this will depend on individual shareholder's circumstances).

8.5 PNG stamp duty

The transfer of Highlands Shares will not be subject to PNG stamp duty provided the Highlands Shares are listed on POMSoX and the sale is effected through a stock broker registered to operate on POMSoX under PNG law. The transfer of Highlands Shares listed on the ASX will not be subject to PNG stamp duty.

9 Additional Information

9.1 Summary of Scheme Implementation Agreement

On 1 January 2019, Highlands and Cobalt 27 entered into a binding Scheme Implementation Agreement under which Highlands agreed to propose the Scheme. The Scheme Implementation Agreement contains terms and conditions that are standard for these types of agreements, including in relation to the parties' obligations to implement the Scheme and Highlands' obligation to conduct its business in the ordinary course during the Scheme process.

A full copy of the Scheme Implementation Agreement in the form it was originally signed was lodged with ASX and POMSoX on 2 January 2019, and can be obtained from www.asx.com.au or the Announcements section of Highlands' website http://www.highlandspacific.com/asx-announcements.

On 4 March 2019, amendments to the Scheme Implementation Agreement were agreed between Highlands and Cobalt 27. The substance of these amendments was to:

- reflect that Highlands no longer proposes to enter into an arrangement with PanAust to buy back PanAust's Highlands shares in exchange for Highlands' interest in the Frieda River Copper Gold Project. PanAust and Cobalt 27 have separately entered into the Frieda River Sale Agreement (described in the Chairman's Letter and at Section 2 of this Scheme Booklet) under which, if the Scheme is implemented, Cobalt 27 will cause Highlands to transfer its interest in the Frieda River Copper Gold Project to PanAust for US$9.45 million;
- confirm that those Scheme Participants with a PNG Registered Address will receive their Scheme Consideration in the PNG Kina, which will be the PNG Kina equivalent of the Australian dollar Scheme Consideration at the exchange rate at the Record Date[22].

This Scheme Booklet has been prepared to reflect the Scheme Implementation Agreement as amended and a summary of the Scheme Implementation Agreement (as amended) is provided below.

(a) **Conditions Precedent**

Implementation of the Scheme is subject to the following conditions which must be satisfied or waived (where capable of waiver) before the Scheme can be implemented:

- **Highlands Shareholder approval**: Highlands Shareholders approve the Scheme;
- **Court approval**: the Court approves the Scheme;
- **No restraints:** no judgment, order, decree, statute, law, ordinance, rule or regulation, or other temporary restraining order, preliminary or permanent injunction, restraint or prohibition, entered, enacted, promulgated, enforced or issued by any court or other Government Agency of competent jurisdiction, remains in effect as at 8.00am on the Second Court Date that prohibits, materially restricts, makes illegal or restrains the implementation of the Scheme.
- **Independent Expert**: the Independent Expert issues a report that concludes that the Scheme is in the best interests of

[22] As determined by Highlands, acting reasonably.

Scheme Participants, and the Independent Expert does not change that opinion or withdraw the Independent Expert's Report by notice in writing to Highlands prior to 8.00am on the Second Court Date;

- **Government Agency approvals**: Highlands and Cobalt 27 obtain all consents and approvals from Government Agencies which are required, or which Cobalt 27 and Highlands agree are desirable, to implement the Transaction before 8.00am on the Second Court Date. If such consents or approvals are subject to conditions, those conditions must be reasonably acceptable to Cobalt 27 and Highlands;
- **No Highlands Prescribed Occurrence**: no Highlands Prescribed Occurrence occurs between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date;
- **No Highlands Material Adverse Change**: no Highlands Material Adverse Change occurs between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date;
- **Ramu Project**: to the extent that the implementation of the Scheme would require consent or trigger any right of termination or other pre-emptive right or other material right in favour of a party (other than a Highlands Group entity), under a Key Material Contract, each required consent, or waiver of each such right, being obtained and not withdrawn (and, where given conditionally, subject to conditions reasonably acceptable to Cobalt 27) by 8.00am of the Second Court Date. Highlands has determined that no such consent or waiver is required;
- **Execution of Deed Poll**: between the date of the Scheme Implementation Agreement and 8.00am on the First Court Date, Cobalt 27 signs and delivers the Deed Poll; and
- **Cobalt 27 funding**: the Cobalt 27 Warranty in clause 9.1(j) of the Scheme Implementation Agreement is true and correct as if given at all times between the date of the Scheme Implementation Agreement and 8.00am of the Second Court Date.

Full details of the conditions and the ability of Highlands and Cobalt 27 to rely on the various conditions and the provisions relating to satisfaction or waiver of these conditions are set out in clause 3 of the Scheme Implementation Agreement. A summary of the status of the conditions is set out in section 9.2 of this Scheme Booklet.

(b) **Exclusivity**

The Scheme Implementation Agreement contains certain exclusivity arrangements in favour of Cobalt 27, which commenced on the Exclusivity Date, being 16 February 2019, and apply throughout the Exclusivity Period. These arrangements may be summarised as follows:

- **No Shop:** during the Exclusivity Period, Highlands must not, and must ensure that each of its Representatives does not, except with the prior written consent of Cobalt 27, solicit, invite, encourage or initiate any Competing Proposal or any enquiries, negotiations or discussions with any third party in relation to, or that may reasonably be expected to lead to, a Competing Proposal.
- **No Talk:** during the Exclusivity Period, Highlands must not, and must ensure that each of its Representatives does not, enter into, continue or participate in negotiations or discussions with, or enter into any agreement, arrangement or understanding with, any third party in relation to, or that may reasonably be expected to lead to, a Competing Proposal unless the Highlands Board, acting in good faith, after having obtained written advice from Highlands' external legal advisers, determines that not undertaking that act may involve a breach of the fiduciary or statutory duties owed by any Highlands Independent Director.
- **No Due Diligence**: during the Exclusivity Period, Highlands must not, and must ensure that each of its Representatives does not, make available to any third party (other than to Representatives of Cobalt 27) or permit any such third party to receive any non-public information relating to any Highlands Group entity in connection with such a third party formulating, developing or finalising a Competing Proposal. This restriction does not apply to the extent the Highlands Board, acting in good faith, after having obtained written advice from Highlands' external legal advisers, determines that not undertaking that act may involve a breach of the fiduciary or statutory duties owed by any Highlands Independent Director.
- **Notification:** during the Exclusivity Period, Highlands must promptly notify Cobalt 27 if it receives in writing any Competing Proposal. The notice must include the material terms of the Competing Proposal including the name of the party, details of the proposed price, details of the proposed consideration, conditions, timing and any break fee in respect of the Competing Proposal. These notification obligations do not apply to the extent that the Highlands Board, acting in good faith and having obtained written advice from Highlands' external legal and (if appropriate) financial advisers, determines that compliance with the obligations would, or would be likely to, involve a breach of the fiduciary or statutory duties owed by any Highlands Independent Director.
- **Matching Right**: prior to or during the Exclusivity Period, Highlands must not:

- enter into any legally binding agreement, arrangement or understanding (whether or not in writing) pursuant to which a third party proposes to undertake or give effect to a Competing Proposal; and
- publicly change or withdraw its statement that it considers the Scheme to be in the best interests of Highlands Shareholders and/or its recommendation that Highlands Shareholders vote in favour of the Scheme,

unless the Competing Proposal is a Superior Proposal and Highlands has given Cobalt 27 at least five Business Days to amend the terms of the Scheme so that the terms of the Scheme (as amended) would provide an outcome for Highlands Shareholders that is equal or superior to the applicable Competing Proposal (a ***Cobalt 27 Counterproposal***). If a Cobalt 27 Counterproposal is received by Highlands, Highlands must:

- use its best endeavours to give effect to the Cobalt 27 Counterproposal, including by making necessary amendments to the Scheme Implementation Agreement, Scheme and Deed Poll; and
- use its best endeavours to procure that the Highlands Board recommend the Cobalt 27 Counterproposal to Highlands Shareholders and not the applicable Competing Proposal.

These exclusivity arrangements are set out in full in clause 11 of the Scheme Implementation Agreement.

(c) **Break Fee**

Highlands has agreed to pay Cobalt 27 a break fee of A$1 million if, prior to the end of the Exclusivity Period:

- **Failure to recommend**: any Highlands Independent Director fails to recommend the Scheme or changes their recommendation in favour of the Scheme, other than in circumstances where the Independent Expert concludes the Scheme is not in the best interests of Highlands Shareholders or where Highlands has terminated the Scheme Implementation Agreement due to a material breach by Cobalt 27;
- **Superior Proposal**: a Superior Proposal is announced and recommended or supported by the Highlands Board or any Highlands Independent Director; or
- **Termination:** Cobalt 27 terminates the Scheme Implementation Agreement due to a material breach by Highlands (where Highlands has failed to remedy such breach within five Business Days of being given notice of the breach).

However, the Break Fee is not payable if the Scheme nevertheless becomes Effective.

For full details of the Break Fee, see clause 12 of the Scheme Implementation Agreement.

(d) **Reverse Break Fee**

Cobalt 27 has agreed to pay Highlands a reverse break fee of $1 million if:

- **Termination**: Highlands terminates the Scheme Implementation Agreement due to a material breach by Cobalt 27 (where Cobalt 27 has failed to remedy such breach within five Business Days of being given notice of the breach); or
- **Failure to pay Scheme Consideration**: Cobalt 27 does not pay the Scheme Consideration in accordance with the terms and conditions of the Scheme Implementation Agreement and the Deed Poll.

(e) **Termination**

Either Highlands or Cobalt 27 can terminate the Scheme Implementation Agreement by notice to the other, if:

- the Effective Date for the Scheme has not occurred on or before the End Date;
- the other party has materially breached a provision of the Scheme Implementation Agreement at any time prior to 8:00am on the Second Court Date, provided that the party not in breach has given notice to the other setting out the relevant circumstances and the relevant circumstances continue to exist 5 Business Days (or shorter ending at ending at 5.00pm on the last Business Day before the Second Court Date) after the time such notice is given;
- a Condition Precedent is not satisfied, and that Condition Precedent is not waived by Highlands or Cobalt 27, if applicable, and after consulting in good faith the parties are unable to reach an agreement to implement the Scheme by alternative means, extend the relevant time for satisfaction of the Condition Precedent or adjourn or change the date of the application made to the Court to approve the Scheme, or extend the End Date;
- agreed in writing by Highlands and Cobalt 27.

Cobalt 27 may terminate the Scheme Implementation Agreement by written notice to Highlands if, at any time before 8.00am on the Second Court Date, at least a majority of the Highlands Independent Directors publicly adversely changes (including by attaching qualifications to) or withdraws their statements that they consider the Scheme to be in the best interests of Highlands Shareholders or their recommendation that Highlands Shareholders approve the Scheme, or publicly recommends, promotes or otherwise endorses a Superior Proposal.

Highlands may terminate the Scheme Implementation Agreement by written notice to Cobalt 27 if, at any time before 8.00am on the Second Court Date, a majority of the Highlands Independent Directors publicly adversely changes (including by attaching qualifications to) or withdraws their statements that they consider the Scheme to be in the best interests of Highlands Shareholders or their recommendation that Highlands Shareholders approve the Scheme, or publicly recommends, promotes or otherwise endorses a Superior Proposal, provided that the Highlands Independent Directors act in accordance with clause 7.1(b) of the Scheme Implementation Agreement.

9.2 Status of Conditions Precedent

The Conditions Precedent are summarised in section 9.1(a) and are set out in clause 3 of the Scheme Implementation Agreement.

As at 8 March 2019:

(a) the Independent Expert Condition Precedent in clause 3.1(b) of the Scheme Implementation Agreement has been satisfied;

(b) Cobalt 27 have executed the Deed Poll in accordance with clause 3.1(i) of the Scheme Implementation Agreement;

(c) none of the other Conditions Precedent have yet been satisfied or waived; and

(d) all of the Highlands Independent Directors believe that the other Conditions Precedent are capable of being satisfied in accordance with the Scheme Implementation Agreement.

Highlands will keep Highlands Shareholders updated on any material developments through releasing announcements to the market as appropriate.

9.3 Benefits and agreements

(a) **Benefits in connection with retirement from office**

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Highlands (or any of its Related Companies) as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in Highlands (or any of its Related Companies) in connection with the Scheme.

(b) **Agreements connected with or conditional on the Scheme**

There are no agreements or arrangements made between any Highlands Independent Director and any other person in connection with, or conditional on, the outcome of the Scheme.

(c) **Interests of Highlands Directors in contracts with Cobalt 27**

As at the time of the preparation of this Scheme Booklet, Anthony Milewski, a non-independent, non-executive Director of Highlands, also holds the positions of Chairman, CEO and Director of Cobalt 27. Mr Milewski has not participated in any Highlands Board meetings, or meetings of the Highlands Independent Directors, in connection with the Scheme.

Craig Lennon, the CEO and a Director of Highlands, was appointed to Cobalt 27's Advisory Board in May 2018 pursuant to the Streaming Agreement between Cobalt 27 and Highlands. Following the termination of the Streaming Agreement, Mr Lennon tendered his resignation from the Cobalt 27 Advisory Board on 18 January 2019 and Cobalt 27 accepted Mr Lennon's resignation on the same date. Prior to the Streaming Agreement and termination of the appointment, Mr Lennon had performed no duties in his role as Advisory Board member, had attended no meetings of the Advisory Board and had received no compensation (or become entitled to receive any compensation) from Cobalt 27.

None of the Highlands Independent Directors have any interest in any contract entered into by Cobalt 27.

(d) **Benefits under the Scheme or from Cobalt 27**

None of the Highlands Independent Directors have agreed to receive, or are entitled to receive, any benefit from Cobalt 27 which is conditional on, or is related to, the Scheme[23].

9.4 Consents and disclosures

(a) **Consents**

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- Cobalt 27 in respect of the Cobalt 27 Provided Information only; and
- Deloitte in respect of the Independent Expert's Report.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the date of this Scheme Booklet, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- Grant Samuel, Melbourne Branch as financial adviser to Highlands;
- Allens as legal adviser to Highlands;
- PricewaterhouseCoopers as auditors to Highlands; and
- Computershare Investor Services Pty Limited as the Highlands Registry.

(b) **Disclosures and responsibility**

Further, each party named in section 9.4(a):

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than Cobalt 27, in respect of the Cobalt 27 Provided Information only and Deloitte, in relation to the Independent Expert's Report; and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 9.4(b).

9.5 No other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Highlands Independent Director as at the date of this Scheme Booklet, which has not previously been disclosed to Highlands Shareholders.

[23] Other than their entitlement to receive the Scheme Consideration for the Highlands Shares in which they have a Relevant Interest.

9.6 Supplementary information

If, between the date of this Scheme Booklet and the Effective Date, Highlands becomes aware that:

- a material statement in this Scheme Booklet is false or misleading;
- there is a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet has occurred; or
- a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet,

Highlands will prepare a supplementary document to this Scheme Booklet.

The form which the supplementary document may take, and whether a copy will be sent to each Highlands Shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from Highlands' website at www.highlandspacific.com and from the ASX website at www.asx.com.au.

9.7 Regulatory relief

(a) **PNG Securities Commission**

Cobalt 27 has applied for, and the PNG Securities Commission has granted, an exemption to Cobalt 27 pursuant to section 279(1) of the PNG Capital Markets Act in respect of section 278 of the PNG Capital Markets Act, which requires any take-over offer in PNG to be done in accordance with a Take-overs Code (the ***Code***), given that the Code is currently repealed.

(b) **ASIC**

Cobalt 27 has obtained from ASIC (on its own behalf and, where applicable, on behalf of Highlands) the following exemptions from the Australian Corporations Act:

(i) the requirements of division 5A in Part 7.9 in relation to offers to purchase Highlands Shares from Scheme Participants in connection with the Scheme; and

(ii) the requirement of subsection 911A to obtain an Australian Financial Services Licence in respect of any statement in this Scheme Booklet which may constitute 'general advice'.

10 Glossary and Interpretation

10.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
$	Australian dollars (unless otherwise specified).
Additional Contingent Scheme Consideration	$0.010 per Scheme Share.
Adviser	in relation to an entity, a financier, financial adviser, corporate adviser, legal adviser, or technical or other expert adviser or consultant who provides advisory services in a professional capacity to the market in general and who has been engaged by that entity.
Annexure	an annexure to this Scheme Booklet.
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as 'ASX' operated by ASX Limited.
ASX Listing Rules	The official listing rules of ASX.
Australian Corporations Act	the *Corporations Act 2001* (Cth), as amended by any applicable ASIC relief.
Authorised Persons	in respect of a person: • a director, officer, partner, member or employee of the person; • an Adviser of the person; and • a director, officer or employee of an Adviser of the person.
Base Scheme Consideration	A$0.105 for each Scheme Share, except that if Cobalt 27 or any of its associates (within the meaning of section 12 of the Australian Corporations Act) acquires any interest in any Highlands Share for a price higher than A$0.105 at any time between the date of the Scheme Implementation Agreement and the Record Date, the Base Scheme Consideration will be that higher price. If Cobalt 27 or any of its associates (within the meaning of section 12 of the Australian Corporations Act) acquires any interest in a Highlands Share for a consideration which is in whole or in part non-cash, the 'price' for the purposes of the previous sentence will be calculated by reference to the fair market value of that non-cash consideration.
Behre Dolbear	Behre Dolbear Australia Pty Ltd.
Break Fee	an amount equal to A$1 million.
Business Day	means a day that banks are open for business in each of: (a) Brisbane, Australia; (b) Toronto, Canada; and (c) Port Moresby, Papua New Guinea.

Term	Meaning
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
Claim	in relation to a party, a demand, claim, action or proceeding made or brought against the party, however arising and whether present unascertained, immediate, future or contingent.
Cobalt 27	Cobalt 27 Capital Corp., a description of which is provided in section 6.1.
Cobalt 27 Director	a director of Cobalt 27.
Cobalt 27 Group	Cobalt 27 and each Subsidiary of Cobalt 27 and **Cobalt 27 Group entity** means any of them.
Cobalt 27 Provided Information	the information contained in the question 'Who is Cobalt 27?' in section 2 and in section 6, but excludes the Highlands Information and the Independent Expert's Report.
Cobalt 27 Warranty	the representations and warranties of Cobalt 27 set out in clause 9.1 of the Scheme Implementation Agreement.
Competing Proposal	any proposal, agreement, transaction or arrangement by or with any person pursuant to which, if the proposal, agreement, transaction or arrangement is entered into or completed substantially in accordance with its terms a third party: (a) directly or indirectly acquires a Relevant Interest in, or has a right to acquire a legal, beneficial or economic interest in, or control of, 10% or more of the Highlands Shares; (b) directly or indirectly acquires or becomes the holder of, or otherwise has a right to acquire a legal, beneficial or economic interest in, or control of, all or a substantial part of the assets or business of Highlands; (c) otherwise acquires control (within the meaning of section 50AA of the Australian Corporations Act) of Highlands; (d) otherwise directly or indirectly acquires or merges with Highlands or any material Subsidiary of Highlands; or (e) requires Highlands to abandon, or otherwise fail to proceed with, the Scheme, whether by way of takeover offer or bid, scheme of arrangement, trust scheme of arrangement, amalgamation shareholder approved transaction, capital reduction, share buy-back or repurchase, sale or purchase of shares, other securities or assets or any other transaction or arrangement.
Condition Precedent	the conditions precedent set out in clause 3.1 of the Scheme Implementation Agreement, which are described in section 9.1(a) of this Scheme Booklet.
Court	the National Court of Papua New Guinea.

Term	Meaning
Deed Poll	a deed poll substantially in the form of Annexure C to the Scheme Booklet.
Deloitte	Deloitte Corporate Finance Pty Ltd.
EBITDA	operating profit from continuing operations after adding back interest, taxation, and depreciation and amortisation.
Effective	when used in relation to the Scheme, the coming into effect, under section 250 of the PNG Companies Act, of the orders of the Court made under section 250(1) of the PNG Companies Act.
Effective Date	the date on which the Scheme becomes Effective.
End Date	30 June 2019, or such later date as Cobalt 27 and Highlands may agree in writing.
Excluded Securities	means Highlands Shares held by a Highlands Shareholder who: (a) is a member of the Cobalt 27 Group; or (b) holds the Highlands Shares on behalf of, or for the benefit of any member of the Cobalt 27 Group.
Exclusivity Date	16 February 2019 (being the date 45 days after the announcement of the Scheme Implementation Agreement).
Exclusivity Period	the period commencing on the Exclusivity Date and ending on the earlier of: (a) the termination of the Scheme Implementation Agreement in accordance with its terms; (b) the Implementation Date; and (c) the End Date.
First Court Date	the first day of hearing of an application made to the Court by Highlands for the First Court Order or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.
First Court Order	the order pursuant to section 250(2)(b) of the PNG Companies Act convening the Scheme Meeting.
Frieda River Copper-Gold Project	the Frieda River Copper-Gold Project located 175km north-west of the Porgera gold mine and 75 kms north-east of the Ok Tedi mine in PNG, and the joint venture related thereto.
Frieda River JV Agreement	the Exploration, Development and Mine Operating Agreement dated 27 July 2007 between Xstrata Frieda River Limited, Highlands Frieda Limited and OMRD Frieda Co Ltd, as amended by Variation Deeds dated 24 November 2011 and 25 August 2014.
Frieda River Limited	the wholly owned Subsidiary of PanAust which holds an 80% interest in the Frieda River JV Agreement.
Frieda River Sale Agreement	the agreement to effect the transfer of Highlands' participating interest in the Frieda River JV Agreement to an entity in the PanAust Group as described in section 6.6(g).

Term	Meaning
Future Financing Costs	has the meaning given to that term in section 4.2(b).
Government Agency	any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency or similar entity or organisation, or securities exchange.
g/t	grams per tonne.
Highlands	Highlands Pacific Limited.
Highlands Board	the board of directors of Highlands.
Highlands Director	a director of Highlands.
Highlands Frieda Limited	the wholly owned Subsidiary of Highlands which holds a 20% interest in the Frieda River JV Agreement.
Highlands Independent Director	a director of Highlands, other than any nominee director or Representative of the Cobalt 27 Group.
Highlands Group	means Highlands and each Subsidiary of Highlands, and ***Highlands Group entity*** means any of them.
Highlands Information	all information in this Scheme Booklet other than the Cobalt 27 Provided Information and the Independent Expert's Report.
Highlands Material Adverse Change	means: (a) any event, occurrence or matter that individually or when aggregated with all such events, occurrence or matters has had or could be reasonably expected to have: (i) the effect of diminishing the value of the consolidated net assets of the Highlands Group, taken as a whole, by at least 15% or more against what it would reasonably be expected to have been but for that event, occurrence or matter; or (ii) the effect of diminishing the consolidated underlying earnings before interest, tax, depreciation and amortisation of the Highlands Group, taken as a whole, in any financial year, by at least 15% or more against what it would reasonably be expected to have been in that financial year but for that event, occurrence or matter (disregarding any event, occurrence or matter which have a one-off or non-recurring impact); or (b) if for a continuous period of 10 days, there is a cessation or suspension of operations at the Ramu Project including without limitation any civil unrest, landowner dispute, actions or inactions by a joint venture party or the manager of the Ramu Project, change in law, regulation, regulatory

Term	Meaning
	administration, practices or undertakings in connection with the Ramu Project, but does not include any event, occurrence or matter: (c) required to be undertaken or procured by the Highlands Group pursuant to a Transaction Document; (d) fairly disclosed to: (i) ASX or POMSoX; or (ii) Cobalt 27 or any of their respective Representatives in the Highlands Disclosed Information, prior to the date of the Scheme Implementation Agreement and the event, when it occurs, is materially the same as had been disclosed; (e) arising from any actual or proposed change in any tax, law or accounting standards or mandatory policies or codes; (f) relating to or arising from any general economic, regulatory or political conditions or changes in those conditions, but excluding events, occurrences or matters relating to or arising from economic, regulatory or political conditions in PNG that have an adverse effect on the Ramu Project which is materially greater than on other mining and/or processing operations in PNG; (g) financial market fluctuations, changes in commodity prices including but not limited to the price of cobalt and nickel, changes in interest rates or changes in foreign currency exchange rates; (h) which is a non-cash impairment charge in the financial statements of the Highlands Group; (i) relating to or arising from an act of terrorism, war (whether or not declared), natural disaster or the like; (j) relating to costs or expenses incurred by Highlands associated with the Scheme, including all fees payable to external advisers of Highlands; or (k) agreed to in writing by Cobalt 27 (not to be unreasonably withheld or delayed).
Highlands Prescribed Occurrence	means the occurrence of any of the following: (a) Highlands converts all or any of its securities into a larger or smaller number of securities; (b) any Highlands Group entity reduces, or resolves to reduce, its capital in any way; (c) any Highlands Group entity: (i) enters into a buy-back agreement; or

Term	Meaning
	(ii) resolves to approve the terms of a buy-back agreement; (d) any Highlands Group entity issues shares or grants an option over its shares, or agrees to make such an issue or grant such an option, other than to an entity all the issued shares of which are owned by one or more Highlands Group entities; (e) Highlands declares, pays or distributes any dividends, bonus or other share of profits or assets; (f) Highlands adopts a new constitution, makes any material change to, or repeals, the Constitution or a provision of it (other than pursuant to the amendments required for the implementation of the Scheme); (g) any Highlands Group entity creates, or agrees to create, any mortgage charge, lien or other encumbrance over the whole, or a substantial part, of its business or assets other than in the ordinary course of its business; (h) an Insolvency Event occurs in relation to a Highlands Group entity; (i) a Highlands Group entity acquires or disposes, or agrees to acquire or dispose, of the whole or substantial part of a business or property the value of which exceeds $1 million individually or $5 million in aggregate other than in the ordinary course of its business or as contemplated by any budget or work program included in the Data Room; (j) Highlands incurs any financial indebtedness or issues any indebtedness, other than pursuant to advances under its credit facilities in existence as at the date of the Scheme Implementation Agreement where the funds drawn pursuant to those advances are used in the ordinary course of business; or (k) Highlands makes any loans, advances or capital contributions to, or investments in, any other person, other than to or in Highlands or any Subsidiary of Highlands; but does not include any matter: (l) required to be undertaken or procured by the Highlands Group pursuant to a Transaction; (m) fairly disclosed to: (i) ASX or POMSoX; or (ii) Cobalt 27 or any of their respective Representatives in the Highlands Disclosed Information,

Term	Meaning
	prior to the date of the Scheme Implementation Agreement and the event, when it occurs, is materially the same as had been disclosed; (n) agreed to in writing by Cobalt 27 (not to be unreasonably withheld or delayed); or (o) which occurs in the ordinary course of the Highlands Group's business.
Highlands Registry	the share registry of Highlands, being Computershare Investor Services Pty Limited.
Highlands Share	a fully paid ordinary share in the capital of Highlands.
Highlands Share Price	the price of Highlands Shares as quoted on ASX.
Highlands Share Register	the register of holders of Highlands Shares kept by Highlands.
Highlands Shareholder	each person who is registered in the Highlands Share Register as the holder of one or more Highlands Shares.
Highlands Shareholder Information Line	the information line set up for the purpose of answering enquiries from Highlands Shareholders in relation to the Scheme, being on 1300 352 248 (within Australia), or +61 3 9415 4125 (outside Australia), Monday to Friday between 8.30am and 5.00pm (AEST/Port Moresby time).
Historic Financing Costs	has the meaning given to that term in section 4.2(b).
HITEK	the Horse-Ivaal-Trukai, Ekwai and Koki (HITEK) Mineral Resource.
Implementation Date	the date that is five Business Days after the Record Date, or such other date as Highlands and Cobalt 27 may agree in writing.
Independent Expert	Deloitte Corporate Finance Pty Ltd.
Independent Expert's Report	the report by the Independent Expert (including any update or supplementary report), a copy of which is set out in Annexure A.
Independent Technical Expert	Behre Dolbear Australia Pty Ltd.
Independent Technical Specialist's Report	the independent technical report prepared by the Independent Technical Expert for inclusion in the Independent Expert's Report.
Indicated Mineral Resource	has the meaning given to that term in the JORC Code.
Inferred Mineral Resource	has the meaning given to that term in the JORC Code.
Insolvency Event	in relation to an entity:

Term	Meaning
	(a) the entity resolving that it be wound up or a court making an order for the winding up or dissolution of the entity (other than where the order is set aside within 14 days); (b) a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other insolvency official being appointed to the entity or in relation to the whole, or a substantial part, of its assets; (c) the entity executing a deed of company arrangement; (d) the entity ceases, or threatens to cease to, carry on substantially all the business conducted by it as at the date of the Scheme Implementation Agreement; (e) the entity is or becomes unable to pay its debts when they fall due within the meaning of the Australian Corporations Act (or, if applicable, legislation of the place of its incorporation); or (f) the entity being deregistered as a company or otherwise dissolved.
JORC	the Australasian Joint Ore Reserves Committee.
JORC Code	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 edition.
Key Material Contract	means: (a) the Ramu Nickel Joint Venture Agreement dated October 20, 2005, among MCC Ramu NiCo Limited, Ramu Nickel Limited, Mineral Resources Madang Limited and Mineral Resources Ramu Limited; and (b) the Master Agreement dated March 30, 2005 by and among China Metallurgical Construction (Group) Corporation, Seller, Mineral Resources Ramu Limited and Mineral Resources Madang Limited, as amended and clarified by the clarification agreement dated February 19, 2015 between MCC Ramu NiCo Limited, Ramu Nickel Limited, Mineral Resources Madang Limited and Mineral Resources Ramu Limited and Ramu NiCo Management (MCC) Limited.
MCC	Metallurgical Corporation of China Limited.
MCC Ramu	MCC Ramu Nico Ltd.
Measured Mineral Resource	has the meaning given to that term in the JORC Code.
Mineral Resource	has the meaning given to that term in the JORC Code.
MRDC	PNG Mineral Resources Development Company, being the entity that manages Mineral Resources Ramu Limited and Mineral Resources Madang Limited, who collectively hold a 6.44% interest in the Ramu Project JV Agreement.

Term	Meaning
Non-Associated Highlands Shareholder	Highlands Shareholders not associated with the Cobalt 27 Group or the PanAust Group.
Ore Reserve	has the meaning given to that term in the JORC Code.
PanAust	PanAust Limited (ACN 011 065 160) of Level 1, 15 James Street, Fortitude Valley, Brisbane Queensland 4006, a company incorporated in Australia.
PanAust Group	PanAust Limited and each Subsidiary of PanAust Limited, and ***PanAust Group entity*** means any of them.
Performance Rights	rights allocated to selected employees of Highlands under the Highlands Long Term Incentive Plan, pursuant to which selected employees are able to receive ordinary fully paid shares in Highlands subject to specific performance hurdles being satisfied.
PNG	Papua New Guinea.
PNG Companies Act	the *Companies Act 1997* (PNG).
PNG Capital Markets Act	the *PNG Capital Markets Act 2015*.
PNG Mining Act	the *Mining Act 1992* (PNG).
PNG Registrar of Companies	the Registrar of Companies appointed under section 394(1) of the PNG Companies Act.
PNG Securities Act	the *Securities Act 1997* (PNG).
PNG Securities Commission	the Securities Commission of Papua New Guinea.
POMSoX	the Port Moresby Stock Exchange Limited or, as the context requires, the financial market operated by it.
Proxy Form	the proxy form for the Scheme Meeting which forms part of this Scheme Booklet.
PWFA	the Project Way Forward Agreement, being the contractual framework signed by the Ramu JV Master Agreement parties to facilitate the repayment of the Ramu Project loans to MCC.
Ramu Nickel-Cobalt Mine	the nickel-cobalt mine operated at the Ramu Project.
Ramu Project	the Ramu Nickel-Cobalt Mine located on the Kurumbukari plateau near Madang, PNG and the joint venture related thereto.
Ramu Project JV Agreement	the Ramu Nickel Joint Venture Agreement dated October 20, 2005, between MCC Ramu NiCo Limited, Ramu Nickel Limited, Mineral Resources Madang Limited and Mineral Resources Ramu Limited.
Ramu JV Master Agreement	the agreement titled 'Ramu Nickel Project Master Agreement' dated 30 March 2005 between China Metallurgical Construction (Group)

Term	Meaning
	Corporation, Ramu Nickel Limited, Mineral Resources Ramu Limited and Mineral Resources Madang Limited.
Ramu Project Loans	has the meaning given to that term in section 4.2(b).
Record Date	7.00pm on the fifth Business Day after the Effective Date, or such other date as may be agreed in writing between Cobalt 27 and Highlands.
Registered Address	In relation to a Scheme Participant, the address of that Scheme Participant shown in the Highlands Register as at the Record Date.
Regulatory Approval	any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, direction, declaration, authority, waiver, modification or exemption from, by or with a Governmental Agency or anything that would be fully or partly prohibited or restricted by law if a Governmental Agency intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.
Related Company	has the meaning given in the PNG Companies Act, except that references to 'subsidiary' have the meaning given to 'Subsidiary' in this Scheme Booklet.
Relevant Interest	has the meaning previously attributed to it in section 113 of the PNG Securities Act (and for that purpose, section 114 of the PNG Securities Act will not be taken into account to the extent that it would exclude from the definition of 'relevant interest' in section 113 any proxies to vote any share or any voting agreement in respect of any share). The term "Relevant Interest" also includes an economic interest in a share under a cash settled equity swap or equivalent transaction.
Representative	in relation to a person: (a) a Related Company of the person; (b) a director, officer or employee of the person or any of the person's Related Companies; or (c) an Adviser to the person or any of the person's Related Companies.
Scheme	scheme of arrangement under Part XVI of the PNG Companies Act between Highlands and holders of the Scheme Shares substantially in the form of Annexure B, or in such other form as Cobalt 27 and Highlands may agree in writing.
Scheme Booklet	this document dated 12 March 2019, including all of the Annexures to and the forms which accompany this document.
Scheme Consideration	the Base Scheme Consideration and, if the Contingent Scheme Consideration Event occurs, the Additional Contingent Scheme Consideration, as more fully described in Section 3.1.

Term	Meaning
Scheme Implementation Agreement	the implementation agreement between Highlands and Cobalt 27 dated 1 January 2019 relating to the implementation of the Scheme and summarised in section 9.1.
Scheme Meeting	the meeting of Highlands Shareholders to be ordered by the Court to be convened under section 250(2)(b) of the PNG Companies Act in relation to the Scheme, and includes any adjournment of that meeting.
Scheme Participant	a Highlands Shareholder as at the Record Date other than holders of Excluded Securities.
Scheme Resolution	the resolution to approve the Scheme to be considered by Highlands Shareholders at the Scheme Meeting, set out in the Notice of Scheme Meeting contained in Annexure D.
Scheme Share	a Highlands Share on issue as at the Record Date other than the Excluded Securities.
Second Court Date	the first day of hearing of an application made to the Court by Highlands for the Second Court Order or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.
Second Court Order	an order, pursuant to section 250(1) of the PNG Companies Act, approving the Scheme.
Second Court Hearing	the hearing of an application made to the Court for orders pursuant to section 250(1) of the PNG Companies Act approving the Scheme.
Star Mountains Project	the copper-gold project relating to the Star Mountains exploration tenements, located approximately 20km north of the Ok Tedi mine in the West Sepik Province, PNG.
Streaming Agreement	the streaming agreement between Highlands and Cobalt 27 dated 22 May 2018 in relation to the supply of future production of cobalt and nickel from the Ramu Nickel Cobalt Mine summarised in section 4.2(b).
Subsidiary	has the meaning given in the PNG Companies Act, provided that an entity will also be taken to be a Subsidiary of another entity if it is controlled by that entity (as 'control' is defined in section 6 of the PNG Companies Act) and, without limitation: (a) a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share; (b) an entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation; and (c) an entity will also be deemed to be a Subsidiary of an entity if that entity is required by the accounting standards to be consolidated with that entity.
Superior Proposal	a bona fide Competing Proposal received by Highlands (and not received as a result of a material breach by Highlands of its obligations under clause 11 of the Scheme Implementation

Term	Meaning
	Agreement) that the Highlands Board determines, acting in good faith and after having obtained advice from Highlands' external legal and financial advisers: (a) is reasonably capable of being valued and completed, taking into account all aspects of the Competing Proposal; and (b) would, if completed substantially in accordance with its terms, be more favourable to the Highlands Shareholders than the Transaction.
Trading Day	has the meaning given in the ASX Listing Rules.
Transaction	the proposed acquisition by Cobalt 27 of all the Scheme Shares through the implementation of the Scheme.
Transaction Documents	the Scheme Implementation Agreement, the Scheme and the Deed Poll.
US	United States of America.
US$	United States dollars.
VWAP	the volume weighted average trading price of the relevant securities on the ASX, calculated by dividing the total value by the total volume of securities traded for the relevant period.

10.2 Interpretation

In this Scheme Booklet:

(a) words of any gender include all genders;

(b) words importing the singular include the plural and vice versa;

(c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(d) a reference to a section or annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;

(e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;

(f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;

(g) a reference to time is a reference to Port Moresby, PNG time unless otherwise specified;

(h) a reference to dollars and $ is to Australian currency unless otherwise specified;

(i) an accounting term is a reference to that term as it is used in accounting standards under the PNG Companies Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in PNG; and

(j) the words 'include', 'including', 'for example' or 'such as' when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

Annexure A – Independent Expert's Report

Highlands Pacific Limited

Independent Expert's Report and Financial Services Guide

12 March 2019

Financial Services Guide (FSG)

What is a FSG?

An FSG is designed to provide information about the supply of financial services to you.

Why are we providing this FSG to you?

Deloitte Corporate Finance Pty Limited (**DCF**) (AFSL 241457) has been engaged by Highlands Pacific Limited to prepare an independent expert's report (**our Report**) in connection with Cobalt 27 Capital Corp's proposed acquisition of all the shares in Highlands Pacific Limited which is does not yet own under the Scheme Implementation Agreement. Highlands Pacific Limited will provide our Report to you.

Our Report provides you with general financial product advice. This FSG informs you about the use of general financial product advice, the financial services we offer, our dispute resolution process and our remuneration.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds, to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

We are providing general financial product advice

In our Report, we provide general financial product advice as we have not taken into account your personal objectives, financial situation or needs, and you would not expect us to have done so. You should consider whether our general advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is in connection with the acquisition of a financial product, you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we remunerated?

Our fees are usually determined on a fixed fee or time cost basis plus reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. You are not responsible for our fees.

We will receive a fee of approximately $150,000 exclusive of GST in relation to the preparation of our Report. This fee is not contingent upon the success or otherwise of Cobalt 27 Capital Corp's proposed acquisition of Highlands Pacific Limited under the Scheme Implementation Agreement.

Apart from these fees, DCF, our directors and officers, and any related bodies corporate, affiliates or associates, and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary, and, while eligible for annual salary increases and bonuses based on overall performance, they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

The Deloitte member firm in Australia (Deloitte Touche Tohmatsu) controls DCF. Please see **www.deloitte.com/au/about** for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We, and other entities related to Deloitte Touche Tohmatsu, do not have any formal associations or relationships with any entities that are issuers of financial products. However, we may provide professional services to issuers of financial products in the ordinary course of business.

What should you do if you have a complaint?

If you have a concern about our Report, please contact us:

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Phone: +61 2 9322 7000

If an issue is not resolved to your satisfaction, you can lodge a dispute with the Financial Ombudsman Service (**FOS**).

FOS provides fair and independent financial services dispute resolution free to consumers.

www.fos.org.au
1800 367 287 (free call)
Financial Ombudsman Service

GPO Box 3 Melbourne VIC 3001

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services we provide. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

Deloitte Corporate Finance Pty Limited
A.B.N. 19 003 833 127
AFSL 241457

Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

DX 10307SSE
Tel: +61 (8) 9365 7000
Fax: +61 (8) 9365 7001
www.deloitte.com.au

The Independent Directors
Highlands Pacific Limited
Level 4, 167 Eagle Street
Brisbane QLD 4000
Australia

Dear Independent Directors

1 Introduction and background

On 2 January 2019 (the **Announcement Date**), Highlands Pacific Limited (**HIG**) announced that it had entered into a scheme implementation agreement with Cobalt 27 Capital Corp (**Cobalt 27**) dated 1 January 2019 (**Scheme Implementation Agreement**), to acquire all of the shares in HIG, which it does not already own for A$0.105 per share (**Cash Consideration**), plus contingent consideration of A$0.01 per share, subject to the LME closing price for Nickel exceeding US$13,220 per tonne for 5 consecutive trading days before 31 December 2019 (**Contingent Consideration**) (**the Proposed Scheme**).

Separately from the Proposed Scheme, Cobalt 27 has entered into an agreement (the **Frieda River Sale Agreement**) with PanAust Limited and its subsidiaries (**PanAust**), under which, if the Proposed Scheme is implemented, Cobalt 27 will cause Highlands Frieda Limited (which will then be a wholly owned subsidiary of Cobalt 27) to transfer its 20% participating interest in the Frieda River Copper-Gold Project to the PanAust Group for net cash consideration of US$9.45 million.

2 Basis of evaluation of the Proposed Scheme and the Frieda River Sale Agreement

2.1 Purpose of the report

The directors of HIG not associated with Cobalt 27 or PanAust (the **Independent Directors**) have requested Deloitte Corporate Finance Pty Limited (**Deloitte Corporate Finance**) to prepare an independent expert's report (**IER**) opining on whether the Proposed Scheme is in the best interests of shareholders of HIG not associated with Cobalt 27 (the Participating Shareholders) or not associated with Cobalt 27 or PanAust (the Participating Shareholders excluding PanAust).

We understand that HIG is registered in Papua New Guinea (**PNG**) and therefore, if approved, the Proposed Scheme will be implemented by order of the National Court of Papua New Guinea under section 250 of the PNG Companies Act. The receipt of an IER is usual practice prior to requesting a court to make the relevant orders. We understand that the report will also be used to assist the Independent Directors in recommending whether or not Participating Shareholders should vote in favour of the Proposed Scheme or not.

HIG shares trade on the Australian Securities Exchange Limited (**ASX**) and are therefore subject to Australian Securities and Investments Commission (**ASIC**) regulation. In the absence of relevant guidelines or requirements for the analysis to be undertaken to comply with the PNG law, in undertaking this assignment we have had regard to the Australian guidance contained in ASIC Regulatory Guide 111 (**RG 111**) in relation to the content of expert's reports and ASIC Regulatory Guide 112 (**RG 112**) in respect of the independence of experts.

Accordingly, we have prepared this IER to consider whether or not, in our opinion, the Proposed Scheme is in the best interests of Participating Shareholders and set out the reasons for that opinion.

The Independent Directors have also requested Deloitte Corporate Finance to provide our opinion on whether PanAust will obtain a 'net benefit' (as that term is used in the Takeovers Panel Guidance Note 21: Collateral Benefits (**GN21**)) as a result of the Frieda River Sale Agreement.

This report is to be included in the Scheme Booklet to be sent to HIG shareholders and has been prepared for the exclusive purpose of assisting Participating Shareholders in their consideration of the Proposed Scheme. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Participating Shareholders and HIG, in respect of this report, including any errors or omissions however caused.

2.2 Basis of evaluation

Evaluation of the Proposed Scheme

In RG 111, ASIC provides guidance as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

RG 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer or scheme of arrangement. In respect of control transactions, under RG 111 an offer is fair when the value of the consideration is equal to or greater than the value of the shares subject to the proposed scheme. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium).

Consistent with RG 111, if the value of the consideration being offered by Cobalt 27 is equal to or greater than the value of HIG shares then the Proposed Scheme would be considered 'fair'. If 'fair', the Proposed Scheme would also be considered 'reasonable'. It might also be 'reasonable' if, despite being 'not fair', there are sufficient reasons for Participating Shareholders to accept the Proposed Scheme in the absence of a higher alternative proposal.

If, based on the above analysis we assessed the Proposed Scheme to be 'fair and reasonable', we would consider the Proposed Scheme to be 'in the best interests' of Participating Shareholders. If we assessed the Proposed Scheme to be 'not fair but reasonable' we may still consider the Proposed Scheme to be 'in the best interests' of Participating Shareholders if there are sufficient other reasons for Participating Shareholders to vote in favour of the scheme, in the absence of a higher offer. If we assessed the Proposed Scheme to be 'not fair and not reasonable', we would consider the Proposed Scheme to be 'not in the best interests' of Participating Shareholders.

Evaluation of the Frieda River Sale Agreement

We have had regard to GN21 and ASIC Regulatory Guide 9 in assessing whether anything has come to our attention that would cause us to believe that the Frieda River Sale Agreement would constitute the receipt of a collateral benefit by PanAust or whether PanAust will receive a net benefit as a result of the Frieda River Sale Agreement.

Under GN21, the Takeovers Panel states that if the bidder provides a security holder (in this case PanAust, as it holds shares in HIG) something of value that it does not offer to other shareholders, the Takeovers Panel may conclude a collateral benefit has been given which gives rise to unacceptable circumstances.

The potential collateral benefit should be considered on a holistic basis, by assessing any potential benefit by reference to the commercial balance of advantages flowing to and from the shareholder. In accordance with GN21, factors that influence the view of the balance of advantages include:

- the substance and commercial reality of the transaction
- the context in which the benefit is given or the consideration is given up
- the overall effect of the transaction
- an objective assessment of the transaction (rather than the parties' intentions).

In determining whether there is a net benefit to PanAust and consistent with our understanding of the principles of GN21 requiring an overall view of the transaction, we have undertaken both a quantitative and qualitative analysis and have considered the following:

- whether the consideration agreed in relation to the Frieda River Sale Agreement represents the fair market value of what HIG is giving up and what PanAust is receiving
- the substance and commercial reality of the transaction including the overall effect of the Frieda River Sale Agreement.

2.3 Role of the technical expert

Given the nature of the assets of HIG, Behre Dolbear Australia Pty Ltd (**BDA**), a specialist advisory company with technical expertise in the mining industry, was engaged to advise Deloitte Corporate Finance on the valuation of the exploration assets, and on the following technical inputs to the financial models of the assets of HIG:

- geology - data collection, resource and reserve estimates, exploration results
- mine - life of mine plans, production schedules, geotechnical and hydrological factors
- metallurgy - testwork, process design and process performance, metallurgical recoveries
- infrastructure - power, water, transport, site access, product handling logistics
- environmental and social issues, tenement status and project approvals status
- capital and operating cost estimates
- financial model inputs.

BDA also considered evidence from broadly comparable transactions for the value of the Frieda River Copper-Gold Project. BDA has been engaged by Deloitte Corporate Finance and carried out its work under the oversight of Deloitte Corporate Finance. A copy of BDA's Report is provided in Appendix G.

2.4 Summary and conclusion

Proposed Scheme

In our opinion the Proposed Scheme is fair and reasonable and therefore in the best interests of the Participating Shareholders. In arriving at this opinion, we have had regard to the following factors.

The Proposed Scheme is fair

According to RG111, in order to assess whether the Proposed Scheme is fair, the independent expert is required to compare the fair market value of a share in HIG on a control basis with the fair market value of the consideration under the Proposed Scheme. The Proposed Scheme is fair if the value of the consideration is equal to or greater than the value of the securities subject to the Proposed Scheme.

Set out in the table below is a comparison of our assessment of the fair market value of a share in HIG with the consideration offered by Cobalt 27.

Table 1

	Unit	Low	High	Preferred
Value of a share in HIG (control basis)	**A$**	**0.085**	**0.144**	**0.108**
Cash Consideration	A$	0.105	0.105	0.105
Contingent Consideration	A$	0.009	0.010	0.010
Value of the consideration	**A$**	**0.114**	**0.115**	**0.115**

Source: Deloitte Corporate Finance Analysis

We note that our value range for an HIG share is wide. This is due to following:

- the high level of debt attributable to HIG in relation to the Ramu Project. Our valuation range for HIG's interest in the Ramu Project, before adjusting for debt, is between US$192.1 million and US$203.4 million with a preferred value of US$197.8 million
- uncertainty concerning the economics for the Frieda River Copper-Gold Project, which is highly dependent on future copper prices, and also a number of infrastructure projects which would be required for the project to be developed
- HIG's ability to realise value from its exploration assets.

Wide valuation ranges are not unusual for assets of this nature.

We also note that our valuation of a HIG share is highly sensitive to the commodity price assumptions used, and therefore the value range can change significantly with relatively small changes in commodity prices. A +/-12% movement in nickel prices (which corresponds to the decrease in nickel prices during 2018) would result in a A$0.05 movement in the value of an HIG share.

Our preferred value of a share in HIG is closer to the low end than the high end of our valuation range. This is because our preferred value for HIG's 20% interest in the Frieda River Copper-Gold Project, net of debt related to the project and disputed amounts, is closer to the low end than the high end of our selected valuation range. This is because, although there is upside optionality to the project, in the current environment and recognising the risks pertaining to the project (funding risk, dependence on supporting infrastructure projects to be developed by the PNG Government and reliance on a higher copper price than the current forecast long-term price for the project to be economic), we consider it unlikely that a market participant would pay a material amount for this optionality.

Given that the closing LME nickel price has traded above the contingent consideration threshold for the two days preceding the issue of our report, we have applied a probability of 90% - 100% to the Contingent Consideration being paid. We have cross-checked the probability applied under a Monte-Carlo simulation for reasonableness.

The consideration offered by Cobalt 27 falls within our valuation range and above our preferred value of A$0.108. Accordingly it is our opinion that the Proposed Scheme is fair.

The Proposed Scheme is reasonable

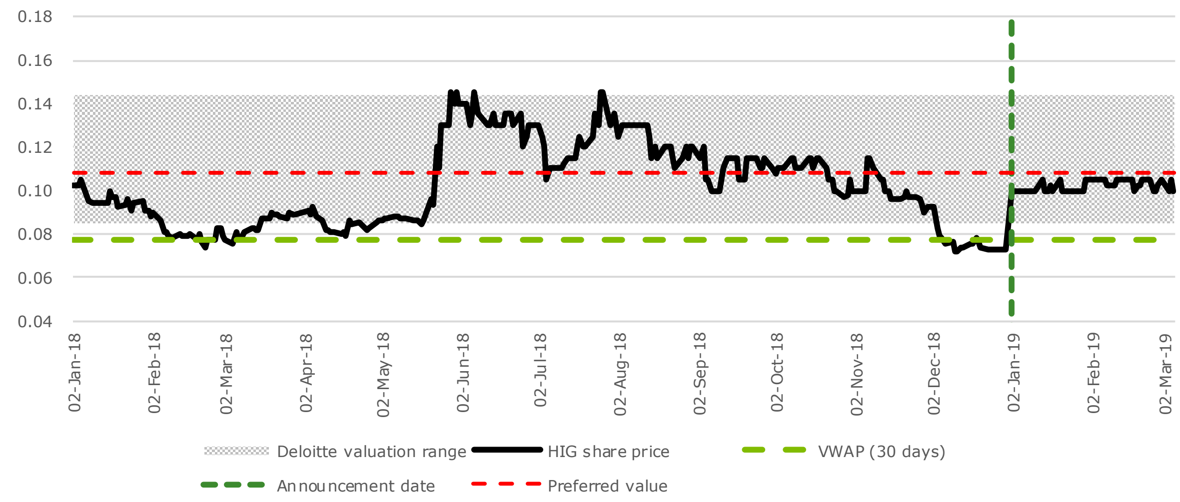
In accordance with RG111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Scheme is reasonable. We also note the following factors.

Participating Shareholders are receiving a premium to HIG's share price prior to the announcement of the Proposed Scheme

Over the twelve months prior to the Announcement Date, HIG shares traded at a high of A$0.145 following the announcement on 23 May 2018 of the Streaming Arrangement with Cobalt 27, at a time when nickel and cobalt prices were US$15,000/t and US$40/lb respectively. Over the period to 31 December 2018, cobalt prices approximately halved, and it became increasingly unlikely that the Streaming Arrangement with Cobalt 27 would proceed. Accordingly, HIG shares traded down to A$0.073 at 31 December 2018 and the 30-day VWAP of HIG shares before the announcement of the Proposed Scheme was A$0.077 per share.

HIG's recent share price history and its 30-day VWAP prior to the announcement of the Proposed Scheme are set out in the figure below, in addition to our assessed value range of an HIG share on a controlling interest basis, being A$0.085 to A$0.144, with a preferred value of A$0.108.

Figure 1



Source: Capital IQ, Deloitte Corporate Finance analysis

The preferred value of the consideration offered under the Proposed Scheme of A$0.115 represents a premium of 57.5% to the share price on the day before the Announcement Date and 49.4% to the 30-day VWAP preceding the Announcement Date.

In the absence of the Proposed Scheme, HIG shares may trade significantly below current levels

The closing share price on the day prior to the Announcement Date was A$0.073 per share. Since the Announcement Date, HIG's shares have traded (including intraday trades) in the range of A$0.099 to A$0.105 per share, an increase of 36% to 44% compared with the closing HIG share price prior to the Announcement Date.

It is common for the share price of a target company the subject of a takeover transaction to trade at or around the consideration offered during the transaction period, particularly if the market has formed the view that the transaction is likely to proceed at that price. It is also not uncommon for the share price to fall back to pre-announcement levels or lower if the transaction is unsuccessful.

In the event that the Proposed Scheme is unsuccessful and in the absence of an alternative offer, HIG's share price may decline to the levels at which it traded prior to the Announcement Date.

The Proposed Scheme allows Participating Shareholders to immediately realise their investment

The Proposed Scheme allows all Participating Shareholders to immediately realise their investment in HIG for a known cash amount, at a premium to the traded share price prior to the Announcement Date. If the Proposed Scheme is approved, Participating Shareholders will no longer face the future risks associated with HIG's ability to continue to operate over the medium term. In the absence of an asset sale, none of HIG's assets are likely to generate cash flows for HIG until a significant portion of the Ramu Project debt is repaid. Under our preferred commodity price assumptions, the first tranche of the Ramu Project debt would be repaid in 2022, following which HIG can access 35% of its share of the cash flows relating to the Ramu Project. HIG can only access 100% of its share of the Ramu Project cash flows following repayment of all project debt which, under our preferred commodity price assumptions, is projected to occur in 2029.

Under the Project Way Forward Agreement (**PWFA**) entered into with its joint venture partners in the Ramu Project, HIG has a limited window of time, ending on 30 June 2019, during which it may repay the project loans to MCC, following which HIG would have immediate access to the Ramu Project cash flows, and HIG's interest would increase from 8.56% to 11.3%. If the Proposed Scheme is not approved, it is unlikely that HIG will be able to arrange alternative funding for it and its fellow minority joint venture partners in time to meet the 30 June 2019 deadline, meaning the current financing structure will remain in place.

HIG's ability to realise value from its exploration projects and its interest in the Frieda River Copper-Gold Project is limited.

In these circumstances, there is significant uncertainty over if and when HIG may pay dividends which might allow the Participating Shareholders to realise value from their shareholding.

There are limited other options for Participating Shareholders to realise value

HIG has not received any alternative offers and Management of HIG (**Management**) has indicated they are not aware of any superior alternative offers.

The previously announced Streaming Arrangement with Cobalt 27, which lapsed on 31 December 2018, offered an alternative path to Participating Shareholders to realise value. However, as noted above, the Streaming Arrangement lapsed on 31 December 2018, and given the decrease in cobalt and nickel prices since the time the agreement was entered into, it is highly unlikely that an equivalent agreement could be entered into today.

In the absence of the Proposed Scheme, a future capital raising and/or dilution of the Frieda River Copper-Gold Project interest may be required

HIG's joint venture partner in the Frieda River Copper-Gold Project, PanAust Group, claims that an amount of US$12.46 million (as at 31 December 2018) is payable to PanAust by HIG in respect of calls under the Frieda River JV Agreement. These claims are currently the subject of dispute and arbitration, and the outcome of the first round of arbitration was unfavourable to HIG. In the absence of the Proposed Scheme, PanAust's claims will remain unsettled, and Management has indicated that they would seek further arbitration in relation to the disputed amounts. If unsuccessful, HIG would need to pay US$13.0 million (as at 14 January 2019) to PanAust, which would significantly reduce its current cash and receivables balance of US$18.8 million, or dilute its interest in the Frieda River Copper-Gold Project. If HIG is successful in the second hearing the amount may be substantially less than the US$13 million.

If the Proposed Scheme does not proceed and HIG is unsuccessful in the second arbitration hearing and elects not to dilute its interest in the Frieda River Copper-Gold Project, HIG's current cash and receivables position is sufficient to settle the claimed amount. However, in this situation, having regard to ongoing corporate overheads and exploration expenditure commitments, HIG would more than likely need to raise additional capital within the next 12-24 months. This may result in dilution for the Participating Shareholders, which will be avoided if the Proposed Scheme proceeds.

Loss of exposure to potential future expansion at the Ramu Project, and potential future development at the Frieda River Copper-Gold Project

If the Proposed Scheme is successful, Participating Shareholders will forego any upside benefit resulting from the expansion of the Ramu Project, should additional feasibility studies result in an economic expansion case, and equally from the optionality on the copper price inherent in the 20% interest in the Frieda River Copper-Gold Project, beyond that already factored into the consideration offered.

However, there are several broadly comparable companies listed in Australia and internationally in which Participating Shareholders can invest the proceeds from the sale of their HIG shares to gain similar exposure to nickel, cobalt, copper and gold assets.

The Proposed Scheme would still be fair if HIG sold its interest in the Frieda River Copper-Gold Project to PanAust under the same terms as the Frieda River Sale Agreement

Set out in the table below is a comparison of our assessment of the fair market value of a share in HIG with the consideration offered by Cobalt 27, if we were to assume that the Frieda River Sale Agreement took place directly between HIG and PanAust. Our assessment of the fairness of the Frieda River Sale Agreement is set out below in Table 3.

Table 2

	Unit	Low	High	Preferred
Value of a share in HIG (control basis)	**A$**	**0.096**	**0.133**	**0.115**
Value of the consideration	**A$**	**0.114**	**0.115**	**0.115**

Source: Deloitte Corporate Finance Analysis

Deloitte.

If HIG sold its interest in the Frieda River Copper-Gold Project directly to PanAust on the same terms as currently contemplated under the Frieda River Sale Agreement, based on the above analysis, we have concluded that the Proposed Scheme would still be fair.

The value of the consideration falls within our valuation range and is equal to our preferred valuation range of a share in HIG.

The above also indirectly confirms that, in our opinion, Participating Shareholders excluding PanAust are not suffering a loss of value as a result of the Frieda River Sale Agreement that is being entered into between Cobalt 27 and PanAust.

Frieda River Sale Agreement

In our opinion, PanAust will not obtain a net benefit as a result of the Frieda River Sale Agreement. In arriving at this opinion, we have had regard to the following factors.

The Frieda River Sale Agreement is fair

In order to assess whether PanAust obtains a net benefit as a result of the Frieda River Sale Agreement, we have compared the fair market value of HIG's interest in the Frieda River Copper-Gold Project with the fair market value of the consideration being offered by PanAust. PanAust will not obtain a net benefit if the value of the consideration is equal to or greater than the value of HIG's interest in the Frieda River Copper-Gold Project.

Set out in the table below is a comparison of our assessment of the fair market value of HIG's interest in the Frieda River Copper-Gold Project with the consideration offered by PanAust.

Table 3

	Unit	Low	High	Preferred
Value of HIG's interest in the Frieda River Copper-Gold Project, net of debt and disputed amounts	**US$m**	**1.00**	**17.50**	**4.00**
Value of the consideration	**US$m**	**9.45**	**9.45**	**9.45**

Source: Deloitte Corporate Finance Analysis

We note that our assessment of the value of the Frieda River project has been performed on a control basis. Accordingly, no adjustment is required to reflect that PanAust will be obtaining 100% ownership of the Frieda River project.

The consideration offered by PanAust falls within our valuation range and above our preferred value of US$4.0 million and is therefore fair.

Other considerations

The Frieda River Sale Agreement resolves an ongoing dispute between PanAust and HIG. The resolution of the dispute creates certainty and avoids future legal costs associated with resolving the dispute. It could be argued that these benefits are derived by both PanAust and HIG; however, it should be noted that HIG would be owned by Cobalt 27 at that point.

Having regard to the substance, commercial reality and the overall effect of the transaction, we are not aware of any other relevant matters which would result in PanAust obtaining a net benefit as a result of the Frieda River Sale Agreement.

2.5 Opinion

In our opinion, the Proposed Scheme is fair and reasonable to the Participating Shareholders. It is therefore in the best interests of the Participating Shareholders.

In our opinion, PanAust will not obtain a net benefit as a result of the Frieda River Sale Agreement.

An individual Participating Shareholder’s decision in relation to the Proposed Scheme may be influenced by his or her particular circumstances. If in doubt the Participating Shareholders should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

Stephen Reid

Authorised Representative
AR Number: 461011

Nicki Ivory

Authorised Representative
AR Number: 461005

Deloitte.

Glossary

Reference	Definition
A$	Australian dollars
A$m	Million Australian dollars
AISC	All in sustaining costs
Anglo-American	Anglo-American Plc
Announcement date	2 January 2019, announcement date of the Proposed Scheme
ASIC	The Australian Securities and Investments Commission
ASIC RG 111	ASIC Regulatory Guide 111: Content of expert reports
ASIC RG 112	ASIC Regulatory Guide 112: Independence of expert
ASX	Australian Securities Exchange
Au	Gold
AUASB	Auditing and Assurance Standards Board
β	Beta
BDA	Behre Dolbear Australia Pty Ltd
BSK	Basamuk processing plant of Ramu Project
CAPM	Capital Asset Pricing model
Cash Consideration	A$0.105 per HIG share
CEO	Chief Executive Officer
CNY	Chinese Yuan
Co	Cobalt
Cobalt 27	Cobalt 27 Capital Corp.
Cobalt 27 Group	Cobalt 27 Capital Corp. and each subsidiary of Cobalt 27 Capital Corp.
COMEX	Commodities Exchange
Contingent Consideration	$0.010 per HIG Share subject to the LME closing price for Nickel exceeding US$13,220 per tonne for 5 consecutive days before 31 December 2019
CPI	Consumer Price Index
Cth or Regulations	Corporations Regulations 2001
Cu	Copper
DCF	Discounted cash flow
Deloitte	Deloitte Touche Tohmatsu
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
DRC	Democratic Republic of Congo
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EIU	Economist Intelligence Unit
EMRP	Equity Market Risk Premium
FRHEP	Frieda River Hydroelectric Project
Frieda River Copper-Gold Project	Frieda River Copper-Gold Project located in PNG
Frieda River Purchase Agreement	Agreement whereby PanAust will acquire HIG's 20% interest in the Frieda River Copper-Gold Project for US$9.45 million, (being the carrying value of the 20% interest in Highlands' financial statements as at 30 June 2018, of US$28.8 million; less the outstanding principal and interest on all loans made by PanAust's subsidiaries to Highlands Frieda Limited as at 31 December 2018, of US$6.89 million; less all amounts which the PanAust Group claims are payable by Highlands Frieda Limited (and which are currently the subject of dispute and arbitration) in respect of calls under the Frieda River JV Agreement, of US$12.46 million.
FS	Feasibility Study
FY	Financial year
g/t	grams per tonne
GRAM	Guangdong Rising Assets Management Co. Ltd., a Chinese state-owned company

HIG Group	Highlands Pacific Limited and each Subsidiary of Highlands Pacific Limited
HIG or the Company	Highlands Pacific Limited
Highlands Frieda	Highlands Frieda Limited, subsidiary of HIG
HIT	Horse/Ivaal/Trukai Frieda River deposits
HITEK	Horse/Ivaal/Trukai/Ekwai/Koki Frieda River deposits
IBIS	IBIS World Pty Limited
IER	Independent expert's report
Independent Directors	Directors of HIG not associated with Cobalt 27 or PanAust
JV	Joint venture
KBK	Kurumbukari mine and beneficiation plant of Ramu Project
Kd	Cost of debt
Ke	Cost of equity capital
kms	Kilometres
kt	thousand tonnes
LBMA	London Bullion Market Association
Listing Rules	The official listing rules of ASX
LME	London Metals Exchange
MCC	Metallurgical Corporation of China
MHP	Mixed Hydroxide Product
Moz	million ounces
MRA	Mineral Resources Authority of PNG
MRDC	Entities managed by the PNG Mineral Resources Development Company MRDC
MSCI Index	Morgan Stanley Capital International World Index
Mt	million tonnes
Ni	Nickel
NPV	Net present value
NSR	Net smelter royalty
NYMEX	New York Mercantile Exchange
PanAust	PanAust Limited, a subsidiary of GRAM, and its subsidiaries
Participating Shareholders	Shareholders of HIG entitled to vote on the Proposed Scheme, for the avoidance of doubt this includes PanAust but excludes Cobalt 27
Participating Shareholders excluding PanAust	Shareholders of HIG not associated with Cobalt 27 or PanAust
Part 3	Part 3 of Schedule 8 of the Corporations Regulations 2001
PEM	Prospectivity enhancement multiplier
PNG	Papua New Guinea
PNG Companies Act	the Companies Act 1997 (PNG).
PNG Kina	Papua New Guinean Kina
PNG Parties	HIG and MRDC together are referred to as the PNG parties
POMSOX	Port Moresby stock exchange
Project Way Forward Agreement	Clarification agreement entered into between HIG and the other joint venturers in the Ramu Project, the majority owner and operator MCC, and MRDC. This agreement enables both HIG and MRDC to repay their respective project loans to MCC.
Proposed Scheme	Scheme of Arrangement to be entered into between HIG and Cobalt 27 under which Cobalt 27 agrees to acquire all of the shares in HIG which it does not already own by way of a Scheme of Arrangement under the PNG Companies Act.
Ramu Financial Model	Ramu nickel/cobalt mine financial model
Ramu Project	Ramu nickel-cobalt mine located in PNG
Ramu Project Manager	Ramu Nico Management (MCC) Ltd., subsidiary of MCC
Rf	Risk free rate of return
Rm	Expected return on the market portfolio

Scheme Booklet	Document to be provided to HIG Shareholders in relation to the Proposed Scheme
Scheme Implementation Agreement	the implementation agreement between HIG and Cobalt 27 dated 1 January 2019 relating to the implementation of the Proposed Scheme
Section 411 of the Act	Section 411 of the Corporation Act 2001
Sewa Bay	Sewa Bay nickel laterite exploration project
SIP	Sepik River Infrastructure Project
SPGP	Sepik Power Grid Project
Sq km	Square kilometre
Star Mountains	Star Mountains copper-gold exploration project
Streaming Arrangement	Arrangement entered into on 23 May 2018 whereby Cobalt 27's wholly owned subsidiary, Electric Metals Streaming Corp., would have paid HIG an upfront deposit of US$113 million to secure an entitlement to 55.0% of HIG's share of cobalt production and 27.5% of HIG's share of the nickel production from the Ramu Mine for the life of the project. In addition, Electric Metals Streaming Corp. would have made ongoing payments of US$4.00 per pound of payable cobalt and US$1.00 per pound of payable nickel, each subject to annual inflation adjustments from June 2023.
t	tonnes
the Management	Management of HIG
Tpa	Tonnes per annum
US$	United States dollars
US$/lb	US$ per pound
US$/oz	US$ per ounce
US$/t	US$ per tonne
VWAP	Volume weighted average share price
WACC	Weighted average cost of capital
Xstrata	Xstrata Plc

Contents

1. Terms of the Proposed Scheme

1.1 Key conditions of the Proposed Scheme

On 2 January 2019, HIG announced that it had entered into a Scheme Implementation Agreement with Cobalt 27 under which Cobalt 27 agreed to acquire all of the shares in HIG which it does not already own by way of a Scheme of Arrangement (**Proposed Scheme**) under the PNG Companies Act. Cobalt 27 is currently the largest holder of HIG shares, holding an interest of approximately 20%.

Under the terms of the Proposed Scheme, HIG shareholders will be entitled to receive A$0.105 cash per share, subject to all applicable conditions being satisfied or waived and the Proposed Scheme being implemented.

The consideration will increase by A$0.010 cash per share to A$0.115 if the closing spot price of nickel[1] exceeds US$13,220 per tonne over a period of five consecutive trading days, before 31 December 2019.

The Proposed Scheme will require the approval of 75% of HIG's shareholders entitled to vote and voting at a shareholder meeting which is expected to be held in mid to late April 2019. The Proposed Scheme will also require approval by the PNG National Court.

Two of HIG's shareholders who are eligible to vote have stated their intention to vote in favour of the Proposed Scheme in the absence of a superior proposal. These shareholders are: Lim Advisors Ltd (owning 8.96% at 22 February 2019) and Tribeca Investment Partners Pty Ltd (owning 2.59% at 22 February 2019).

PanAust currently holds approximately 11.79% of HIG's shares, and is also the holder of an 80% participating interest in the Frieda River Copper-Gold Project. Separately from the Proposed Scheme, Cobalt 27 has entered into an agreement with PanAust, under which, if the Proposed Scheme is implemented, Cobalt 27 will cause Highlands Frieda Limited (which will then be a wholly owned subsidiary of Cobalt 27) to transfer its 20% participating interest in the Frieda River Copper-Gold Project to the PanAust Group for net US$9.45 million. The Frieda River Sale Agreement will only complete if the Proposed Scheme is implemented. Further detail on the Frieda River Sale Agreement is set out in Section 1.3.

Cobalt 27 will not vote in respect of their HIG shares at the shareholder meeting on the resolution to approve the Proposed Scheme, while PanAust does intend to vote.

Under the Scheme Implementation Agreement HIG had a 45-day period to consider all options and approach other parties for superior offers on its project interests or for HIG in full. This period ended on 16 February 2018. Although HIG approached a significant number of potential acquirers, no firm offers were received.

1.2 Rationale for the Proposed Scheme

One of HIG's key assets is its 8.56% interest in the Ramu nickel-cobalt mine (**Ramu Project**). According to the Master Agreement between HIG and its joint venture partner and lender in the Ramu Project, Metallurgical Corporation of China (**MCC**), in order for HIG to access the cash flows generated by the Ramu Project, it first needs to repay the future finance cost portion of the Ramu Project loans to MCC, after which HIG can access 35% of its share of the cash flows. HIG can only access 100% of its share of the Ramu Project cash flows following repayment of both future and historical finance costs. Following the repayment of all Ramu Project loans, HIG's interest will also increase from 8.56% to 11.3%.

The Proposed Scheme follows an attempt by HIG and Cobalt 27 to close a streaming transaction entered into on 22 May 2018 to facilitate repayment of the Ramu Project loans (the **Streaming Arrangement**), and thereby allow HIG to start receiving full cash flows from its interest in the Ramu Project as well as increasing its interest to 11.3%.

According to the terms of the Streaming Arrangement, Cobalt 27's wholly owned subsidiary, Electric Metals Streaming Corp., would have paid HIG an upfront deposit of US$113 million to secure an

---

[1] Determined as the mid-point of the London Metal Exchange (LME) Official Closing Cash Bid and Cash Offer prices

entitlement to 55.0% of HIG's share of cobalt production and 27.5% of HIG's share of the nickel production from the Ramu Project for the life of the project. In addition, Electric Metals Streaming Corp. would have made ongoing payments of US$4.00 per pound of payable cobalt and US$1.00 per pound of payable nickel, each subject to annual inflation adjustments from June 2023.

A key condition of the Streaming Arrangement was formal approval from MCC for HIG to repay its Ramu Project loans to MCC, including entry into the PWFA with the other joint venturers in the Ramu Project, the majority owner and operator, MCC and entities managed by the PNG Mineral Resources Development Company (on behalf of PNG Government and land owners (MRDC).

HIG received the executed PWFA and Sales Agency Agreement from MCC on 21 December 2018 after a significant delay. This approval required both HIG and MRDC to repay their respective project loans to MCC prior to 30 June 2019 or for the current financing structure to remain in place. It was not possible for HIG to unilaterally repay its project loans to MCC. The PWFA was executed by MRDC on 12 February 2019.

Due to the late receipt of approval from MCC and requirement for MRDC participation, it was not possible for all closing conditions of the Streaming Arrangement with Cobalt 27 to be satisfied prior to the long stop date of 31 December 2018. HIG was willing to amend the Streaming Arrangement to extend the long stop date beyond 31 December 2018 to allow for the satisfaction of the outstanding conditions precedent and to align with the PWFA: however Cobalt 27 declined any extension and accordingly, the Streaming Arrangement was terminated.

As it became clear that the Streaming Arrangement would not close, HIG formed a Board subcommittee to examine all options to maximise shareholder value. The Independent Directors have concluded that the Proposed Scheme represents the best and most certain outcome for shareholders.

1.3 Frieda River Sale Agreement

Separately from the Proposed Scheme, Cobalt 27 has entered into an agreement (the **Frieda River Sale Agreement**) with PanAust under which, if the Proposed Scheme is implemented, Cobalt 27 will cause Highlands Frieda Limited (which will then be a wholly owned subsidiary of Cobalt 27) to transfer its 20% participating interest in the Frieda River Copper-Gold Project to the PanAust Group for US$9.45 million (being the carrying value of the 20% interest in HIG's' financial statements as at 30 June 2018, of US$28.8 million; less the outstanding principal and interest on all loans made by PanAust's subsidiaries to Highlands Frieda Limited as at 31 December 2018, of US$6.89 million; less all amounts which the PanAust Group claims are payable by Highlands Frieda Limited (and which are currently the subject of dispute and arbitration) in respect of calls under the Frieda River JV Agreement, of US$12.46 million).

Under the Frieda River Sale Agreement, PanAust Group is required to cause the US$9.45 million purchase price for the 20% participating interest to be paid out of the Scheme Consideration which the PanAust Group receives for its 11.8% shareholding in Highlands on implementation of the Scheme.

The Frieda River Sale Agreement also sets out the terms on which the arbitration proceedings between PanAust and Highlands Frieda Limited would be settled if the Scheme is implemented. The agreement also provides that, if the agreement completes, the sale will, as between the parties, have an effective date of 1 January 2019, and that cash calls between 1 January 2019 and completion of the sale will be to the account of the PanAust Group.

The Frieda River Sale Agreement is subject to a number of conditions, in addition to the condition that the Proposed Scheme is implemented. Those conditions include People's Republic of China regulatory approvals, PNG Mining Act approvals and board approval from PanAust's ultimate holding company, Guangdong Rising Assets Management Co., Ltd.

The PanAust Group currently owns 11.8% of the shares in HIG. The PanAust Group intends to vote in respect of those shares at the Scheme Meeting on the resolution to approve the Proposed Scheme.

2 Profile of HIG

2.1 Overview

HIG is a Papua New Guinea (**PNG**) incorporated and registered mining and exploration holding company listed on the Australian Stock Exchange (**ASX**) and Port Moresby Stock Exchange (**POMSoX**). HIG has operated in PNG for over 20 years and is considered one of the most significant minerals explorers, developers and producers in the country, advancing some of PNG's most significant copper, gold and nickel assets.

Its major assets are:

- 8.56% interest in the Ramu Project in joint venture with MCC Ramu Nico Ltd
- 20% interest in the Frieda River Copper-Gold Project in joint venture with PanAust Ltd
- 100% interest in the Star Mountains Copper-Gold exploration project
- 100% interest in the Sewa Bay Nickel Laterite exploration project.

2.2 Mining Assets

Ramu Nickel/Cobalt mine

The producing Ramu Nickel/Cobalt mine is located 75km west of the provincial capital of Madang, PNG.

Ownership structure and funding arrangements

The project is a joint venture between HIG (8.56%), MRDC (6.44%) and MCC Ramu Nico Ltd. (85%). MCC holds a 61% interest in MCC Ramu Nico Ltd., with the remaining 39% held by other Chinese entities. HIG's interest in the project will increase to 11.3% at no additional cost to HIG after both future and historical finance costs funded by MCC Ramu Nico Ltd. have been repaid. HIG also had an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%. However, this option has been removed in the latest PWFA if the PWFA completes. If the PWFA terminates or lapses (e.g. financing costs are not repaid before 30 June 2019), HIG retains the option.

From the date of commencement of the joint venture (20 October 2005) up to 31 December 2014, 100% of cash costs for the development and operations of the project were funded by MCC Ramu Nico Ltd. From 1 January 2015 rights to receive cash from sale of product, meet the cash costs of the joint venture and repay the share of historical and future financing costs are borne in accordance with the participants' respective joint venture interests and the terms of the Master Agreement.

MCC Ramu Nico Ltd. acts as agent for HIG to sell its 8.56% share of the product produced at the Ramu Project. The proceeds from such sales are held in trust by MCC Ramu Nico Ltd., which funds Ramu Nico Management (MCC) Ltd. (the Ramu Project manager) to meet the cash operating and capital costs of the joint venture and the historical and future financing costs in accordance with the terms of the Master Agreement.

The Ramu Project JV Agreement sets out a cash waterfall mechanism that governs distributions to JV partners. The cash waterfall firstly allocates cash to project expenses, secondly to future finance costs and finally historic financing costs. There was an agreement in place between HIG and MCC Ramu Nico Ltd., whereby the cash distribution used to repay the capital and financing costs was limited to 80% of net project cash flow distributions, with the remaining funds distributed to HIG. However, this agreement expired on 31 December 2018. Accordingly, HIG will not receive any cash flows from the Project until the future finance costs are repaid. HIG is only able to access 35% of the Ramu Project cash flows once the future finance costs are repaid and 100% of cash flows once all the historic financing costs are repaid

Under our preferred commodity price assumptions, the future finance costs would be repaid in 2022 and historic finance costs in 2029.

Reserves and Resources

The following table summarises the Ramu Project's Ore Reserves and Mineral Resources as at 15 June 2018.

Table 4

	Tonnes(Mt)	Average Grade (%)	
		Ni	Co
Mineral Resources (0.5% cut off)			
Measured	34	0.9	0.1
Indicated	42	0.9	0.1
Inferred	60	1.0	0.1
Total Mineral Resources	**136**	**0.9**	**0.1**
Ore Reserves			
Proved	24	0.9	0.1
Probable	33	0.9	0.1
Total Ore Reserves	**56**	**0.9**	**0.1**

Source: HIG Quarterly Report September 2018, announced on 25 October 2018
Note:
1. The table above is subject to rounding

Production

The Ramu Project commenced production in 2012 with production ramping up in the following 5 years before reaching nameplate capacity in 2017. The table below shows the annual production for the past six years:

Table 5

	2013	2014	2015	2016	2017	2018	Nameplate
Ore Processed (dry kt)	1,253	2,273	2,784	2,270	3,601	3,719	3,400
MHP Produced (dry t)	29,736	57,360	65,286	57,824	89,947	92,258	78,000
Contained Ni (t)	11,369	20,987	25,582	22,269	34,666	35,355	32,600
Contained Co (t)	1,013	2,134	2,505	2,191	3,308	3,275	3,400
%Nameplate Capacity	35%	64%	78%	68%	106%	108%	100%

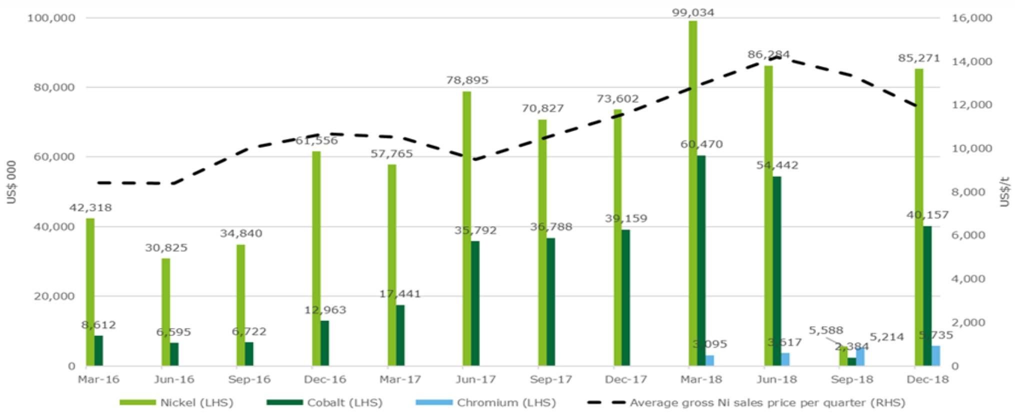
Source: HIG Annual Report 2017, HIG Quarterly Reports 2018
Note:
1. % Nameplate Capacity is based on Contained Ni production

The mine and associated processing plant achieved record annual production of 92,258 tonnes of Mixed Hydroxide Product (**MHP**) in 2018, containing 35,355 tonnes of nickel and 3,275 tonnes of cobalt. The 3,719 kt of ore processed in 2018 was above the nameplate capacity of 3,400 kt.

Sales

The figure below shows the quarterly sales per commodity in US$'000 for the past three years.

Figure 2



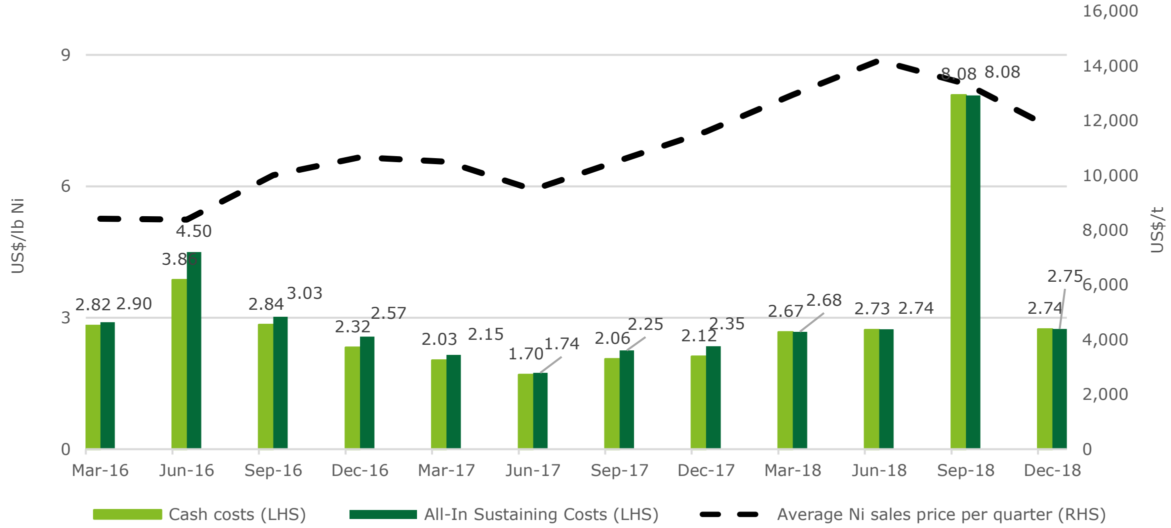
Source: HIG Ramu Monthly Reports 2016, 2017 and 2018

Sales have shown an increasing trend during the past three years. However, there was a significant decline in the September quarter 2018 as product shipments were largely suspended due to sales contract renegotiations that took longer than expected, following the completion of contracts that terminated in the first half of 2018.

__Cash costs and All-In Sustaining Costs (AISC)__

The figure below shows the cash costs and AISC per pound (US$/lb) on a payable nickel basis for the Ramu Project for the past three years.

Figure 3



Source: HIG Ramu Monthly Reports 2016, 2017 and 2018
Note:
1. Based on Ramu monthly reports provided by HIG and Deloitte Corporate Finance analysis on cash costs. Deloitte Corporate Finance has determined cash costs as cost of goods sold plus sales costs, general and admin costs excluding depreciation and royalties and levies. All-in sustaining costs include sustaining capex costs and cash costs.

Cash costs and AISC per pound (US$/lb) spiked in the September quarter 2018 following the sales suspension due to the sales contract renegotiations.

MCC has raised with HIG a preliminary proposal to expand production at the Ramu Project. The production expansion plan envisages adding new autoclaves to the refinery as well as relevant equipment and facilities for the mine and refinery on the basis of the existing engineering facilities, in order to further expand the overall production capacity of the Ramu Project. In this expansion design, the mining throughput after the expansion will reach 8,300 kt/a (dry-basis) and the product output of the Ramu Project will increase considerably to 65,789 t/a for nickel and 6,556 t/a for cobalt.

Although a feasibility study has been completed, the plan is preliminary at this stage and has not been put to the joint venturers for approval. Consequently, a final investment decision has not been made and the timing and intention around the expansion remains uncertain.

Frieda River Copper-Gold Project

The Frieda River Copper-Gold Project is located in the north-west of PNG, 70 kms south of Sepik River on the border of the Sanduan and East Sepik Provinces of PNG and approximately 500 kms up-river from the coast. The project is one of the largest undeveloped open pit copper deposits in the world, with a resource inventory of 13 Mt of copper and 20 Moz of gold.

HIG owns a 20% interest in the project, with the other 80% held by PanAust, a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd. (**GRAM**), a Chinese state-owned company. The PNG Government has a right to acquire up to a 30% interest in the project by making a payment equal to 30% of sunk costs incurred at the time that it grants a Special Mining Lease. Under the joint venture agreement between HIG and GRAM, if the Government exercises its right to acquire a 30% stake, HIG's holding would reduce to 15% and GRAM's to 55%.

Mineral Resources have been estimated for two deposits in the Frieda River Copper-Gold Project: the Horse/Ivaal/Trukai, Ekwai and Koki copper-gold porphyry deposits (**HITEK**) and the Nena epithermal high sulphidation copper/gold deposit.

The following table summarises the HITEK deposits' Ore Reserves and Mineral Resources as at 31 December 2017.

Table 6

	Tonnes(Mt)	Average Grade (%)	
		Ni	Co
Mineral Resources (0.5% cut off)			
Measured	620	0.53	0.30
Indicated	1,240	0.44	0.22
Inferred	780	0.35	0.18
Total Mineral Resources	**2,640**	**0.44**	**0.23**
Ore Reserves			
Proved	604	0.51	0.30
Probable	761	0.42	0.21
Total Ore Reserves	**1,365**	**0.46**	**0.25**

Source: HIG Annual Report 2017, announced on 20 March 2018, HITEK 2018 Ore Reserve – October 2018
Note: 1. The table above is subject to rounding

The following table summarises the Nena deposit's Mineral Resources as at December 2017.

Table 7

	Tonnes (Mt)	Average Grade			
		%Cu	g/t Au	%As	ppm Sb
Sulphide Mineral Resource (0.3% Cu cut-off)					
Indicated	35	2.35	0.79	0.25	160
Inferred	17	1.68	0.29	0.12	80
Total	**52**	**2.13**	**0.63**	**0.20**	**130**
Gold Cap Mineral Resource (0.5 g/t gold cut-off, with upper Cu limit of 0.3%)					
Indicated	11	0.07	1.35	0.30	230
Inferred	10	0.06	1.28	0.21	170
Total	**20**	**0.06**	**1.32**	**0.26**	**200**

Source: HIG Annual Report 2017, announced on 20 March 2018
Notes:
1. The table above is subject to rounding

Project ownership history

On 1 November 2013, PanAust announced it had entered into a sale agreement with Glencore to acquire its 80% interest in the Frieda River Copper-Gold Project. The transaction completed on 25 August 2014 for consideration as follows:

- an initial acquisition payment of US$25 million to Glencore together with an additional amount of approximately US$4 million for reimbursement of costs incurred since the date of the agreement
- a further payment of US$50 million (indexed for inflation) paid to Glencore on 31 December 2015
- on successful commencement of a mining operation at the Frieda River Copper-Gold Project, Glencore is entitled to a 2% net smelter royalty on PanAust's interest until a total aggregate amount of US$50 million of royalty revenue is received. The royalty is also payable in the case where the PNG Government exercises its option to acquire up to a 30% interest in the Frieda River Copper-Gold Project or upon a change of control event in relation to PanAust. We understand that PanAust settled the NSR royalty for a lower amount when it was acquired by GRAM, although the amount is not in the public domain.

PanAust was responsible for 100% of the costs incurred by the Frieda River JV to finalise the feasibility study as well as 100% of the costs to maintain the Frieda River Copper-Gold Project site, assets and community relations programmes up to the time of completion of the feasibility study and lodgement of the special mining license.

PanAust lodged the special mining lease application in June 2016 and continued to refine the feasibility study resulting in a subsequent feasibility study addendum in May 2017. A further feasibility study was released in December 2018. These feasibility studies are discussed in the section below.

PanAust and HIG are currently undergoing arbitration in relation to a dispute in respect of project costs from June 2016 until present which currently amounts to US$13 million. PanAust is representing that these feasibility study costs became payable by HIG when the special mining lease application was lodged, while HIG maintains that these costs become due at completion of both the special mining lease application lodgement and completion of the feasibility study. The first arbitration case ruled that HIG's free carry ended on the special mining lease application date (30 June 2016). HIG is pursuing further arbitration on the feasibility study costs, however, care and maintenance costs will no longer be free carried.

Cobalt 27 has entered into the Frieda River Purchase Agreement as set out in Section 1.2.

Feasibilty studies completed

Xstrata feasibility study (2012)

Four phases of studies were completed by the Xstrata JV between 2007 and 2012 resulting in the potential for a large scale project based on the HIT deposit, with the project configured to produce an average of 190,000 tpa of copper and 290,000 ozpa of gold over 20 years. The study produced a negative NPV of US$2.95 billion at a 10% post tax real discount rate over a 17-year payback period. This was the result of a high capital cost of US$7.5bn that drove a capital intensity of US$27,800/t copper equivalent. Key to the high capex was the need for a Hydro dam with 160MW of capacity supported by four turbines and a 111m high dam wall. The project did not progress due to the significant capital investment required, prevailing market conditions and Xstrata's merger with Glencore.

PanAust feasibility study (2016)

The 2016 feasibility study defined a standalone project, with all aspects of the mine, integrated storage facilities, power and logistics assumed to be under a single ownership structure. It built on the 2012 Xstrata feasibility study and contemplated a 40 mtpa project scale to offset the substantial infrastructure capital requirements, maximise the resource base and achieve optimum operating costs. The mineral resource base was extended to include the Koki and Ekwai deposits, with a number of alternative integrated storage facility locations considered. A smaller scale 25 mtpa case was also considered in this feasibility study, although the study ultimately concluded this was not a viable option given the remote nature of the project and associated high infrastructure costs. Strategic development options for a larger scale project up to 65mtpa were also considered through incorporating the Nena deposit and underground development options for the HITEK deposits, however, the possibility of this larger scale project was not considered to be feasible due to increased funding constraints, increased construction risk and longer construction duration.

The 40 mtpa base case incorporated US$2.6 billion in upfront capex for the mine and c. US$1.4 million for a Hydro Electric Power plant. The mine would be configured to produce an average of 175,000 tpa of copper and 250,000 oz of gold over 18 years. Additional capex of c. US$1bn was required to upgrade the integrated storage facility after three to four years.

PanAust feasibility study addendum (May 2017)

PanAust subsequently undertook an addendum to the 2016 feasibility study incorporating additional data and further analysis. This included data from the 2016 Ekwai and Koki resource definition and geotechnical drilling program which led to an amended open-pit design and consequent updated mine plan and production schedule, which improved the project NPV based on the metrics suggested by the feasibility study.

2018 feasibility study

Following the 2017 feasibility study addendum, PanAust continued studies on the Frieda River Copper-Gold Project, leading to the 2018 feasibility study. This study aimed to improve the Frieda River Copper-

Deloitte.

Gold Project economics by adopting a shared-use infrastructure model and creating two separate commercial projects: the Frieda River Copper Gold Project and the Frieda River Hydroelectric Project (**FRHEP**). The shared use infrastructure model incorporates the Sepik River Infrastructure Project (**SIP**) and Sepik Power Grid Project (**SPGP**). The project evolved into a US$7.2 billion mega-project with several inter-dependent parts.

The US$739 million SIP comprises a shared-use transport and communications infrastructure that would result in social and economic development in one of the least developed areas of PNG. The SIP comprises:

- redevelopment of the Port of Vanimo
- upgrade of the existing road from Vanimo to Green River
- construction of a new regional road from Green River to Telefomin, via Hotmin
- establishment of a regional airport facility in Green River.

The feasibility study assumes that these facilities will operate as public infrastructure or on a commercial cost recovery basis by third party operators. However, at this stage there have been no parties identified or proposals received to undertake these infrastructure developments.

The US$796 million SPGP contemplated by the 2018 Feasibility Study aims to provide transmission infrastructure in Northwest PNG, which does not currently have a national power grid, for sale of hydro-electric power generated by the FRHEP. The feasibility study envisages that a government owned corporation would own and maintain the SPGP.

The feasibility study documents considerations around a US$3.2 billion FRHEP on a commercial standalone basis, with the majority of the electricity to be supplied to the Frieda River Copper Gold Project, potentially under a long-term power purchase agreement. Excess electricity will be distributed through transmission lines developed under the SPGP to local, and potentially, export markets.

The study details an integrated development plan for the Frieda River Copper-Gold Project enabled by the SIP that integrates with the other project components. The study details a large-scale open-pit mine to extract ore from the HITEK porphyry copper-gold deposit to produce concentrate for export to custom smelters.

BDA has performed a detailed review of the technical aspects of the 2018 Feasibility Study which is set out in section 4 of Appendix G.

The project, as envisaged under the 2018 Feasibility Study, represents a complex undertaking due to the high capital expenditure requirements, multiple project participants and space and time based interdependencies. A final investment decision has not been made on the project. The study documents the following minimum key requirements to support a positive decision:

- prior completion of the SIP with the upgrade of the Port of Vanimo and the construction of the Green River to Hotmin road by 2020
- a supportive and stable fiscal regime that provides confidence to government, developers and investors
- third-party establishment of the regional public road
- redevelopment of the Port of Vanimo
- grant of tenements and permits
- issue of environmental permits for all parts of the project
- acceptable funding arrangements
- satisfactory power purchase agreements and associated contractual commitments
- supportive commodity prices.

Star Mountains Copper-Gold Porphyry Exploration

The Star Mountains exploration tenements cover 1,049 sq kms, 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 River Copper-Gold Project.

Star Mountains was held under a joint venture agreement between Xstrata Plc (**Xstrata**) and HIG whereby Xstrata could earn a 72% interest if a feasibility study was completed by 2019. In early 2014, HIG regained its 100% interest following the expiry of the option agreement with Xstrata.

In February 2015, HIG entered into a new joint venture agreement with Anglo-American Plc (**Anglo-American**) allowing Anglo-American to earn up to 80% by completing a bankable feasibility study within 15 years. Anglo-American paid US$10 million for its initial 51% interest and spent in excess of US$25 million during its time in the joint venture. HIG announced on 8 February 2018 that Anglo-American exited the joint venture agreement at the start of 2018.

At present, HIG holds a 100% interest in the Star Mountains tenements. The PNG Government retains the right to acquire up to a 30% interest in the project on granting of a special mining lease. The project remains on care and maintenance while a new joint venture partner is being identified.

HIG spent in excess of US$25 million in the exploration campaign from 2009 to 2013. While the project is on care and maintenance, annual costs of US$300,000 to US$400,000 are being incurred.

The following table summarises the Star Mountains Mineral Resources at various cut off copper grades as at February 2018.

Table 8

Cu Cut-off grade	Tonnes (Mt)	Average Grade %Cu	Average Grade g/t Au	Mt Cu	Moz Au
0.2	450	0.3	0.3	1.4	4.5
0.3	210	0.4	0.4	0.8	2.9
0.4	80	0.5	0.6	0.4	1.6

Source: HIG Quarterly Report September 2018

Sewa Bay Nickel Laterite Exploration

The Sewa Bay project is a 162 sq km project located in the western portion of Normanby Island in the D'Entrecasteaux group of islands, Milne Bay Province.

HIG and international trading house Sojitz Group, together with Japanese company Pacific Metals Co. Ltd., terminated discussions regarding exploration activities at the Sewa Bay tenements in January 2019. The exploration program to date has been funded by Sojitz Group and Pacific Metals Co Ltd.; however, agreement could not be reached on how to progress the project and these parties have terminated discussions.

HIG is currently evaluating its strategic options in relation to Sewa Bay.

2.3 Capital structure

At 22 February 2019 HIG had 1,092.73 million shares on issue, with the following top 10 beneficial shareholders:

Table 9

N	Shareholder	No ordinary shares held (millions)	Percentage of issued shares (%)
1	Cobalt 27 Capital Corp.	218.50	20.00%
2	PanAust Limited	128.87	11.79%
3	LIM Advisors Limited	97.93	8.96%
4	Independent Public Business Corporation of PNG	29.22	2.67%
5	Tribeca Investment Partners Pty Ltd.	28.33	2.59%
6	Thomas J Beresford	18.33	1.68%
7	Jay Hughes	18.00	1.65%
8	Caravel Capital Investors	16.81	1.54%
9	Mineral Resources Development Co Ltd	13.85	1.27%
10	Bank Julius Baer & Co	11.69	1.07%
	Total top 10 shareholders	**581.53**	**53.22%**
	Other shareholders	**511.20**	**46.78%**
	Total shares outstanding	**1,092.73**	**100.00%**

Source: S&P Capital IQ

The following table shows the most significant changes in the shareholding of HIG and the price per share paid in each transaction:

Table 10

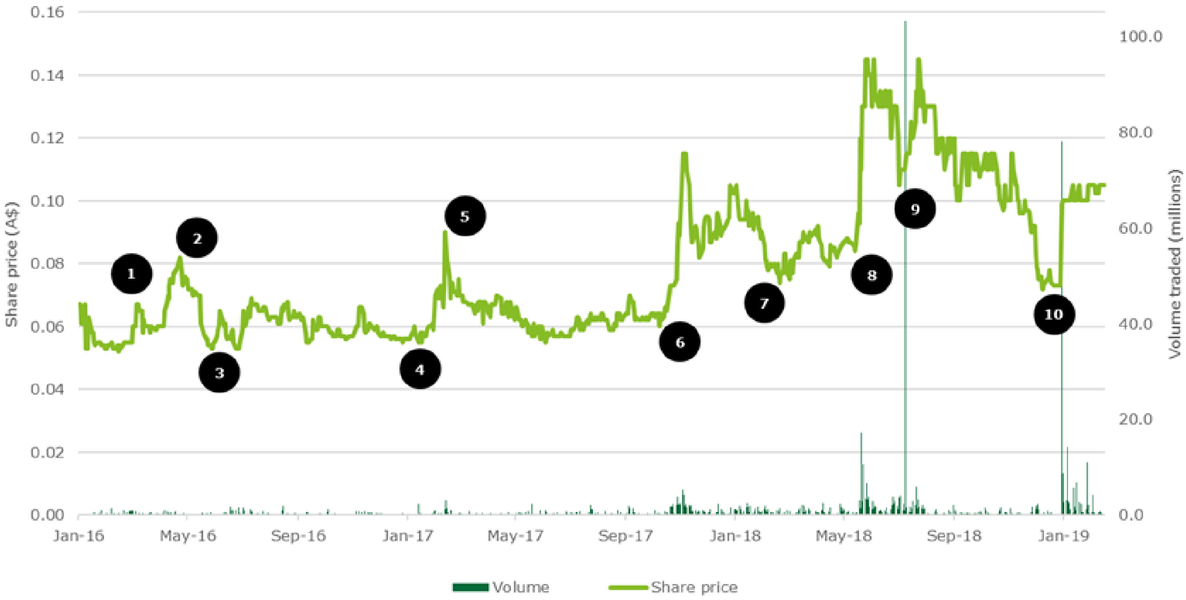
Date	Shareholder	Type of Transaction	Shares (units)	Price (A$ per share)
11-Jan-19	Cobalt 27 Capital Corp.	Buy	62,507	0.100
10-Jan-19	Cobalt 27 Capital Corp.	Buy	906,993	0.100
9-Jan-19	Cobalt 27 Capital Corp.	Buy	627,039	0.101
8-Jan-19	Cobalt 27 Capital Corp.	Buy	3,372,961	0.100
7-Jan-19	Cobalt 27 Capital Corp.	Buy	2,000,000	0.100
8-Jan-19	Cobalt 27 Capital Corp.	Buy	1,000,000	0.100
3-Jan-19	Cobalt 27 Capital Corp.	Buy	2,000,000	0.100
2-Jan-19	Cobalt 27 Capital Corp.	Buy	66,000,000	0.105
2-Jan-19	UBS Group AG	Sell	64,815,422	0.103
17-Jul-18	UBS Group AG	Buy	11,377,562	0.129
12-Jul-18	PNG Sustainable Development Program Limited	Sell	102,930,373	0.100
12-Jul-18	LIM Advisors Limited	Buy	102,930,373	0.100
4-Jun-18	Tribeca Investment Partners Pty Ltd.	Sell	245,143	0.145
4-Jun-18	UBS Group AG	Sell	691,051	0.122
4-Jun-18	Cobalt 27 Capital Corp.	Buy	142,530,500	0.105
29-May-18	Urion Holdings (Malta) Ltd	Sell	130,752,002	0.100
25-May-18	Tribeca Investment Partners Pty Ltd.	Buy	87,000,000	0.100
25-May-18	UBS Group AG	Buy	99,765,908	0.101
5-Jan-18	Urion Holdings (Malta) Ltd	Sell	7,389,362	0.097
5-Jan-18	Urion Holdings (Malta) Ltd	Sell	9,700,368	0.093
5-Jan-18	Urion Holdings (Malta) Ltd	Buy	279,207	0.065

Source: ASX Announcements

2.4 Recent share trading

The figure below illustrates HIG's share trading in Australian dollars (A$) on the ASX since 2016.

Figure 4



Source: ASX announcements, Capital IQ

Key announcements from the chart above are set out in the following table. We note that the last twelve-month liquidity percentage for HIG was 32% at the Announcement Date.

Table 11

Ref	Date	Commentary
1	22/3/16	HIG releases FY15 annual results announcing lower losses from operations compared to the previous year.
2	29/5/16	The company announced that it has received the Frieda River Copper-Gold Project Feasibility Study from PanAust which envisaged that the project will have a higher Capex requirement compared to the previous development concept announced by PanAust in September 2014.
3	27/6/16	HIG announced that a Special Mining Lease application had been lodged with the Mineral Resources Authority of PNG for the Frieda River Copper-Gold Project.
4	19/1/17	The company announced the receipt of the independent peer review of the Frieda River Feasibility Study. The report stated that there remained areas of significant uncertainty and risk, primarily related to infrastructure and utilities for the project. HIG was of the view that the Feasibility Study was incomplete.
5	15/2/17	PanAust requested a special meeting of HIG to remove four of the company's five non-executive directors and appoint three PanAust nominees.
6	24/10/17	HIG released its September 2017 quarterly report announcing the strong operational performance achieved in the quarter by the Ramu Project, which recorded its second highest ever quarterly production result.
7	8/2/18	HIG announced that Anglo-American had given notice that it would withdraw from the Star Mountains project, leaving HIG with a 100% interest.
8	23/5/18	HIG announced that it agreed a A$15 million placement and US$113 million streaming agreement with Cobalt 27. A$15 million was to be raised in a private placement to Cobalt 27 at a price of A$0.105 per HIG share, and Cobalt 27 would pay US$113 million under a streaming agreement in respect of future production from the Ramu Project (55% and 27.5% of HIG attributable share of cobalt and nickel production, respectively)
9	3/07/18	HIG released an update on the streaming transaction with Cobalt 27 indicating that MCC has provided support to the transaction and was currently seeking the necessary internal approvals to authorise the execution of the agreement.
10	2/1/19	HIG announced it has entered into the Scheme Implementation Agreement with Cobalt 27

Source: ASX announcements

2.5 Financial performance

We have summarised in the table below the profit and loss statements of HIG in US$ from the year ended 31 December 2015 to 31 December 2018.

Table 12

US$'000	Audited Actual 31-Dec-15 FY15	Audited Actual 31-Dec-16 FY16	Audited Actual 31-Dec-17 FY17	Unaudited Actual 31-Dec-18 FY18
Finance income	72	90	109	65
Other income	8	5	-	-
Total Income	**80**	**95**	**109**	**65**
Restructure and redundancy costs	-	1,031	-	-
General and administrative expenses	4,067	3,006	3,106	2,404
Depreciation and amortisation	73	66	61	39
Net foreign exchange (gain)/losses	174	194	(220)	833
Total Operating Costs	**4,314**	**4,297**	**2,947**	**3,276**
Operational profit/(loss)	**(4,234)**	**(4,202)**	**(2,838)**	**(3,211)**
Interest expense	(5,663)	(6,265)	(6,433)	(5,954)
Reversal of/(provision for) exploration costs	20,328	576	358	(127)
Reversal of/(impairment of) non-current assets	(73,190)	(390)	42,877	31,369
Impairment of non-current assets	-	-	-	(9,600)
Share of operating profit/(loss) of equity accounted investments	(5,253)	(5,554)	3,473	11,393
Net finance income/(expense)	**(63,778)**	**(11,633)**	**40,275**	**23,870**
Profit/(loss) before tax	**(68,012)**	**(15,835)**	**37,437**	**23,870**
Income tax benefit/(expense)	-	-	-	-
Profit/(loss) after tax	**(68,012)**	**(15,835)**	**37,437**	**23,870**
Other comprehensive profit/(loss) net of tax	**-**	**-**	**-**	**-**
Total comprehensive profit/(loss) for the year	**(68,012)**	**(15,835)**	**37,437**	**23,870**

Source: HIG
Notes:
1. The table above is subject to rounding

We note the following in relation to the financial performance of HIG.

- Operating costs have been decreasing over the review period due to cost saving measures implemented by Management
- Interest expenses are related to the Ramu Project debt
- In FY17 and FY18, HIG reported profits due to reversals of impairment of the company's investment in the Ramu Project. The impairment reversals were a result of favourable movements in the nickel and cobalt prices and increased production volume. The improvement in gross margin is attributed to the Company's lower operating costs due to cost saving measures implemented by Management
- The US$9.6 million impairment in FY18 corresponds to the net book value of Star Mountains exploration tenement that has been impaired to zero. As noted in Section 2.2, no new joint venture partner has been identified for this exploration project and Management considers that it is difficult to argue value on the resource alone, as the resource is too small to justify development in such a remote location.

2.6 Financial position

We have summarised in the table below the financial position of HIG as at 31 December 2015, 31 December 2016, 31 December 2017 as well as at 31 December 2018. The values are expressed in US$.

Table 13

US$'000	Audited Actual 31-Dec-15 FY15	Audited Actual 31-Dec-16 FY16	Audited Actual 31-Dec-17 FY17	Unaudited Actual 31-Dec-18 FY18
Cash and cash equivalents	8,990	10,526	6,816	14,857
Receivables	6,656	1,444	1,598	4,025
Total current assets	**15,646**	**11,970**	**8,414**	**18,882**
Property, plant and equipment	234	184	124	90
Exploration and evaluation expenditure	36,487	37,100	37,948	29,237
Investment in Ramu Nickel Mine	85,000	82,000	110,000	143,700
Total non-current assets	**121,721**	**119,284**	**148,072**	**173,027**
Total assets	**137,367**	**131,254**	**156,486**	**191,909**
Trade and other payables	2,472	2,005	2,871	684
Borrowings	2,000	4,381	9,270	9,413
Provisions	289	122	177	167
Total current liabilities	**4,761**	**6,508**	**12,318**	**10,264**
Borrowings	123,796	131,001	112,611	115,137
Provisions	19	24	9	17
Total non-current liabilities	**123,815**	**131,025**	**112,620**	**115,154**
Total liabilities	**128,576**	**137,533**	**124,938**	**125,418**
Net assets	**8,791**	**(6,279)**	**31,547**	**66,491**

Source: HIG
Notes:
1. The table above is subject to rounding

We note the following in relation to the financial position of HIG.

- The increase in cash from FY17 to F18 is mainly due to a capital raising through the issue of 142,350,500 new ordinary shares for a consideration of US$11.3 million.
- Receivables mainly correspond to HIG's share of a sales receivable from MCC Ramu NiCo Ltd. At December 2018 the balance of this receivable was US$4.0 million.
- Exploration and evaluation expenditure represents HIG's interest in the Frieda River Copper-Gold Project, Star Mountains project and Sewa Bay project.
- Investment in Ramu Nickel mine has increased in FY17 and FY18 as a result of the reversal of the impairment noted above in Section 2.5.
- Borrowings are mainly related to HIG's interest in the Ramu Project owed to MCC Ramu NiCo Ltd. At December 2018 the balance of these borrowings was US$117.7 million (US$2.5 million in current liabilities and US$115.1 million in non-current liabilities). According to the joint venture agreement, Ramu NiCo Ltd was responsible for development and financing of the mine. These borrowings represent HIG's 8.56% share of principal and interest repayments made by MCC Ramu NiCo Ltd to third party lenders on behalf of HIG, plus any accumulated interest charged by MCC Ramu NiCo Ltd. The borrowings are to be repaid out of HIG's share of operating surpluses (sales revenue less operating costs and on-going capital expenditure). The interest rates for historical financing costs and future financing costs are 5.05% and 5.90% respectively, compounded monthly.

3 Valuation of HIG

To assess the fair market value of HIG for the purposes of our opinion on the Proposed Scheme, we have applied the sum of the parts method, which aggregates our assessed fair market value of each of HIG's primary assets and liabilities. To value HIG's primary assets and liabilities, and for the purposes of our opinion on Frieda River Sale Agreement, we have considered the generally acceptable valuation methodologies as set out in Appendix B. We have adopted the following methodologies for each of the primary assets of HIG:

Table 14

Summary of mining assets	Selected valuation methodology
Ramu Project	DCF
Frieda River Copper-Gold Project	PanAust/Glencore transaction and Mineral resource multiples
Star Mountains Copper-Gold Porphyry Exploration	BDA valuation
Sewa Bay Nickel Laterite Exploration	BDA valuation

Source: BDA, Deloitte Corporate Finance analysis

We have used the discounted cash flow (**DCF**) methodology to value the Ramu Project as is customary for projects at an operating stage.

For the valuation of the Frieda River Copper-Gold Project, we have primarily had regard to the price paid by PanAust to acquire the Frieda River Copper-Gold Project from Glencore, and to mineral resource multiples implied by transactions in comparable companies and assets. We have also considered valuation outcomes from the 2018 Frieda River feasibility study, using the DCF methodology.

The valuation methodology adopted by BDA for the exploration assets (Star Mountains and Sewa Bay) is set out in Section 3.4.

Fair market value is defined as the amount at which the subject assets and liabilities would be expected to change hands in a hypothetical transaction between a knowledgeable willing, but not anxious, buyer and a knowledgeable willing, but not anxious, seller acting at arm's length.

Fair market value, as defined above, is a concept of value which may or may not equal the 'purchase/sale price' that could be obtained if the subject assets and liabilities were sold to a special purchaser in an actual transaction in the open market. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations which could only be enjoyed by the special purchaser. Our valuation has not been premised on the existence of a special purchaser.

3.1 Valuation of HIG

We have estimated the fair market value of an HIG share on a control basis to be in the range of A$0.085 to A$0.144, with a preferred value of A$0.108.

We have estimated the fair market value of an HIG share using the sum of the parts method, which requires the assessment of:

- the fair market value of HIG's interest in the Ramu Project (8.56%, increasing to 11.3% upon repayment of all project debt)
- the fair market value of HIG's interest in the Frieda River Copper-Gold Project (20%), net of debt related to the project and disputed amounts in relation to Frieda River Copper-Gold Project arbitration
- the fair market value of HIG's interest in the Star Mountains Copper-Gold exploration project (100%)
- the fair market value of HIG's interest in the Sewa Bay Nickel Laterite exploration project (100%)
- the net present value of the future cash flows of corporate expenses associated with HIG operations
- the fair market value of other assets and liabilities
- the net cash
- the number of ordinary shares on issue.

The following table sets out our assessment of the fair market value of an HIG share before the Proposed Scheme on a control basis using the sum of the parts method.

Table 15

	Unit	Low	High	Preferred
Ramu Project (8.56% to 11.3% interest)	US$m	51.2	64.8	58.0
Frieda River Copper-Gold Project (20% interest) net of debt and disputed amounts	US$m	1.0	17.5	4.0
Star Mountains Copper-Gold Exploration (100% interest)	US$m	0.0	11.5	6.0
Sewa Bay Nickel Exploration (100% interest)	US$m	1.4	1.7	1.6
Total project values	**US$m**	**53.6**	**95.5**	**69.6**
Add: Working capital	US$m	3.3	3.3	3.3
Add: Net cash	US$m	14.9	14.9	14.9
Less: Corporate costs	US$m	(6.8)	(3.2)	(5.0)
Equity value of HIG (control basis)	**US$m**	**65.0**	**110.5**	**82.8**
Number of ordinary shares on issue	millions	1,093	1,093	1,093
Equity value of a share in HIG (control basis)	**US$**	0.059	0.101	0.076
Equity value of a share in HIG (control basis)	**A$**	**0.085**	**0.144**	**0.108**

Source: HIG, BDA, Deloitte Corporate Finance analysis
Notes:
1. The table above is subject to rounding
2. Converted to A$ based on the US$:A$ rate of 0.703 as at 7 March 2019.

We set out our consideration of the above values in the following sections.

3.2 Valuation of the Ramu Project

We have adopted the DCF method to value the Ramu Project. As outlined above, Management has provided us with a financial model for the project which includes detailed cash flow projections on a nominal basis. On this basis, we have performed an analysis of the cash flow projections, including:

- limited procedures regarding the mathematical accuracy of the Ramu Financial Model (but have performed neither a detailed review nor an audit)
- review of the basis of the underlying assumptions such as revenue, operating expenditure, capital expenditure, royalties, taxes, interest and debt repayments.

In addition to the above, BDA has reviewed the technical assumptions set out in the Ramu Financial Model, and held discussions with Management regarding the preparation of and basis for the technical assumptions.

In valuing the Ramu Project, we have considered the following two scenarios:

Debt Refinance Scenario

Upon repayment of the Ramu Project debt owed by HIG and MRDC (the PNG Parties), HIG's interest in the Ramu Project will increase to 11.3%. Under this scenario, the owner of HIG's interest in the Ramu Project would have immediate access to 11.3% of the cash flows from the Ramu Project, subject to repaying its portion of the debt, and facilitating the refinancing of MRDC's portion of the debt. We consider it unlikely that another lender would provide terms to MRDC which are equivalent, or more favourable, than the current facilities. At the same time, we consider it unlikely that MRDC would agree to refinancing terms that would leave it in a worse position than its current one. Accordingly, we have assumed that the owner of HIG's interest in the Ramu Project would repay or refinance the PNG Parties' portion of the project debt, would provide a finance facility to MRDC on the same terms as the current finance facilities, and would receive principal and interest repayments from MRDC in return. This would allow the owner of HIG's interest in the Ramu Project to immediately increase its interest from 8.56% to 11.3%.

Under this scenario we have therefore determined HIG's interest in the Ramu Project, as set out in Table 14, as follows:

- HIG's 11.3% interest in the enterprise value of the Ramu Project
- Less: repayment or refinance of the PNG Parties' portion of the project debt
- Add: the present value of principal and interest repayments from MRDC on their refinanced portion of the project debt.

Equity Cash Flow Scenario: the owner of HIG's interest in the Ramu Project is not able to refinance HIG and MRDC's project debt, and continues to repay the debt. Under this scenario, HIG's share of the project debt would be paid down over time from project cash flows, such that using our preferred commodity price assumptions, the Ramu project loans would be fully repaid by 2029. From this date onwards, HIG's interest in the project would increase from 8.53% to 11.3%.

We have had primary regard to the Debt Refinance Scenario in determining the fair market value of the Ramu Project. Under this scenario our valuation takes account of benefits not otherwise available to Non-Associated Shareholders. Our consideration of the Equity Cash Flow Scenario, which models the experience of Non-Associated Shareholders, is also described below.

We have estimated the fair market value of the Ramu Project to be in the range of US$51.2 million to US$64.8 million on a control basis, as set out in the table below. Our preferred value of the Ramu Project reflects the mid-point of our selected value range of US$58.0 million.

Table 16

US$m	Unit	Low	High	Preferred
Enterprise Value of the Ramu Project (100% interest)	US$m	1,700	1,800	1,750
HIG's Interest in the Ramu Project (11.3% interest)	US$m	192.1	203.4	197.8
HIG & MRDC Debt	US$m	(206.1)	(206.1)	(206.1)
NPV of MRDC Debt Repayments	US$m	65.2	67.5	66.4
HIG's Equity interest in the Ramu Project	US$m	**51.2**	**64.8**	**58.0**

Source: Deloitte Corporate Finance analysis

Management has provided us with a financial model (the **Ramu Financial Model**), which includes the projected cash flows at both the project level and the joint venture partner level, including financing cash flows. We have used the Ramu Financial Model as the basis for our analysis under both the Debt Refinance Scenario and the Equity Cash Flow Scenario.

Economic assumptions

We have made amendments to the Ramu Financial Model to reflect our selected nickel and cobalt price assumptions, foreign exchange rates and inflation assumptions. Our consideration of these assumptions is set out below.

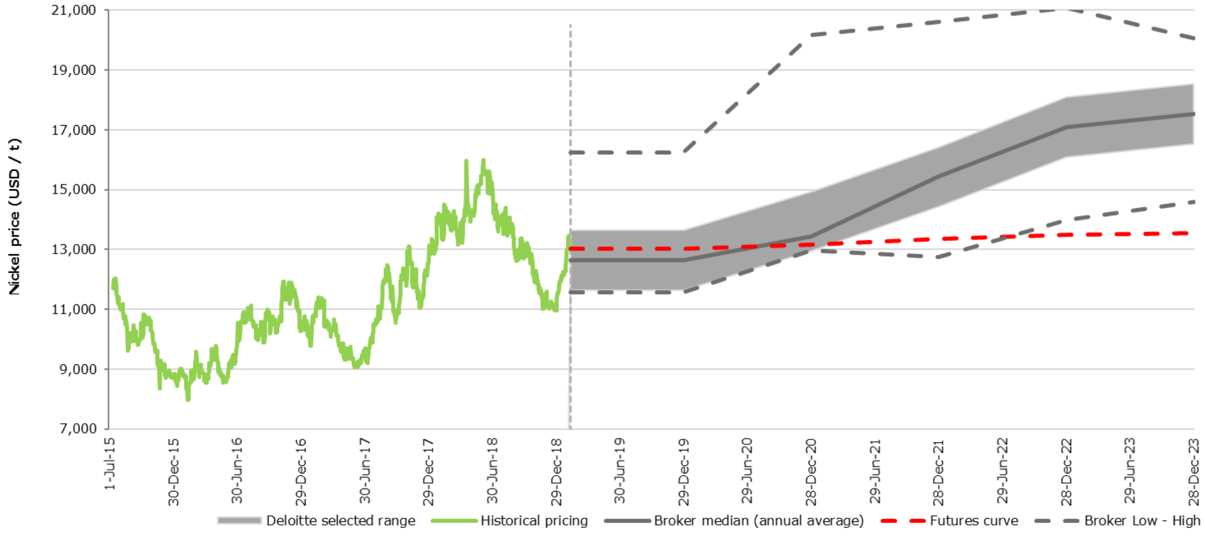
Commodity prices

The primary commodities produced from the Ramu Project are nickel and cobalt. In estimating appropriate forecast nickel and cobalt price assumptions, we have had regard to the following:

- spot and historical nickel and cobalt prices
- broker forecast nickel and cobalt price estimates
- open nickel futures contracts
- other publicly available industry estimates and commentary.

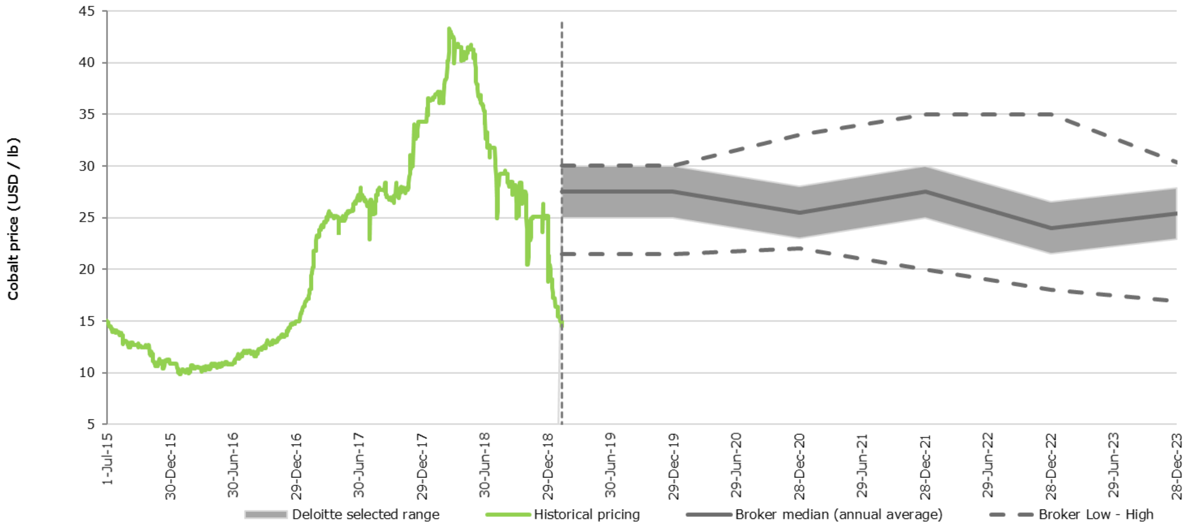
The following figures show historical nickel and cobalt prices over the past three years, along with the range of nominal broker nickel and cobalt price forecasts, the nickel forward curve and nickel and cobalt spot prices.

Figure 5



Source: Capital IQ, Thomson Research, Deloitte Corporate Finance analysis

Figure 6



Source: Capital IQ, Thomson Research, Deloitte Corporate Finance analysis

Although we have had regard to short term historical and spot nickel and cobalt prices and the nickel forward curve, we have selected nominal nickel and cobalt price ranges at the median of broker estimates.

Table 17

	2019	2020	2021	2022	2023+
Nickel price (US$/t)					
Median broker forecasts	12,644	13,448	15,432	17,086	17,525
Cobalt price (US$/lb)					
Median broker forecasts	27.50	25.50	27.50	24.00	25.39

Source: Capital IQ, Thomson Research, Deloitte Corporate Finance analysis
Note:
1. Commodity prices from 2024 onwards have been adjusted by US inflation to reflect nominal prices

We understand there are no nickel or cobalt hedges or contracts in place relating to the Ramu Project.

Foreign exchange

In our adjusted forecasts we have considered cash flows in three different currencies: US$, PNG Kina and CNY. We have selected the US$:PNG Kina and US$:CNY foreign exchange rate assumptions based on our consideration of:

- historical and current US$:PNG Kina and US$:CNY exchange rates
- forecasts prepared by economic analysts and other publicly available information, including analyst forecasts.

Based on the above, we have adopted the following foreign exchange rate assumptions:

Table 18

Foreign exchange	2019	2020	2021	2022	2023+
US$:PNG Kina	3.38	3.48	3.58	3.62	3.66
US$:CNY	7.00	6.93	7.00	7.13	7.11

Source: Economist Intelligence Unit (EIU) and broker forecasts where available, Deloitte Corporate Finance analysis

Inflation

The Ramu Financial Model has been prepared on a nominal basis. We have therefore adopted the following US$, PNG Kina and RMB inflation assumptions to adjust the different inputs of the model to reflect nominal forecast cash flows, based on our consideration of the following:

- historical and current US, PNG and Chinese CPI rates
- CPI forecasts prepared by economic analysts and other publicly available information.

Based on the above, we have adopted the following CPI assumptions to adjust the inputs of the Ramu Financial Model.

Table 19

Inflation	2019	2020	2021	2022	2023+
US CPI	2.20%	1.40%	2.20%	2.10%	1.80%
PNG CPI	4.80%	4.60%	4.80%	5.10%	5.30%
China CPI	2.60%	2.50%	2.60%	2.80%	2.70%

Source: Economist Intelligence Unit (EIU) and broker forecasts where available, Deloitte Corporate Finance analysis

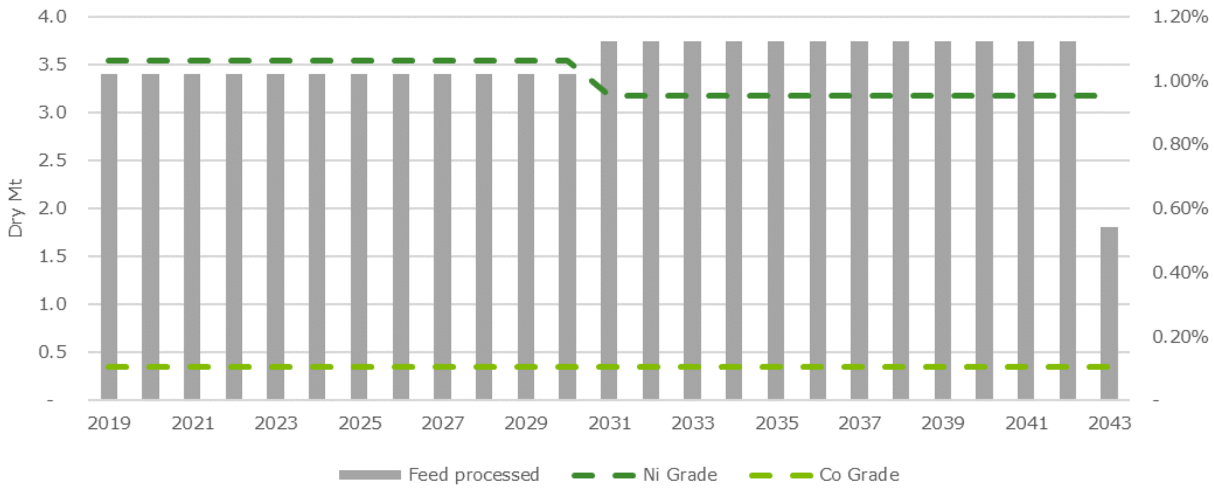
Key assumptions

The key assumptions adopted in the preparation of the cash flow projections and the adjustments we have made are discussed below. We note the figures below are presented in nominal terms unless otherwise stated.

Revenue

Revenue is a function of the quantity of the feed processed by the refinery and the prices of nickel and cobalt, as discussed in the following sections. The figure below shows the forecast annual processing feed profile over the life of mine of the Ramu Project.

Figure 7



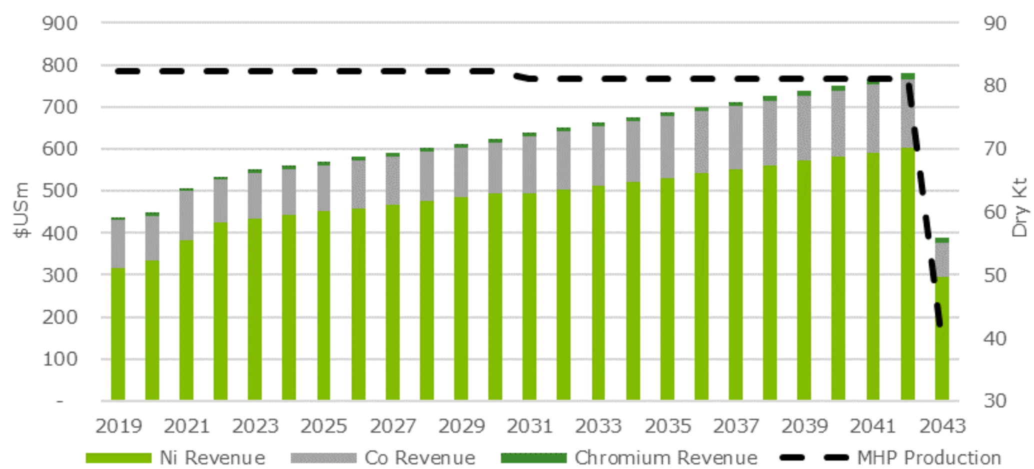
Source: Ramu Financial Model, Deloitte Corporate Finance analysis

We note the following with respect to the above figure:

- total forecast processing feed comprises approximately 87.5 Mt (91.2 Mt if we consider the 2018 production). As recommended by BDA, this incorporates an extension to the mine life based on the conversion of around half of the inferred resources to measured and indicated status and then to reserves, and the discovery of additional resources. The Ramu Project holds a special mining lease that has been granted until 2040, however based on our discussions with BDA, we have considered that a willing and knowledgeable buyer would probably consider an extension to the special mining lease as allowed under the terms of the special mining lease and therefore our production forecasts go until year 2043
- forecast processing feed is 3.4 Mt per year between 2019 and 2030, which is consistent with the processing capacity of the project. As recommended by BDA, we have assumed the nickel grade of slurry to the refinery decreases from 1.06% to 0.95% after the first 42 Mt which occurs from 2031 onwards. Therefore BDA considers that it is reasonable to assume production would increase by 10% to 3.7 Mt per year from 2031 to the end of the mine life
- we have used a cobalt grade of 0.105% as suggested by BDA, which is lower than the cobalt grade included in the Ramu Financial Model (0.120%)

The figure below shows the forecast annual revenues by metal and the MHP production over the life of mine of the Ramu Project.

Figure 8



Source: Ramu Financial Model, Deloitte Corporate Finance analysis

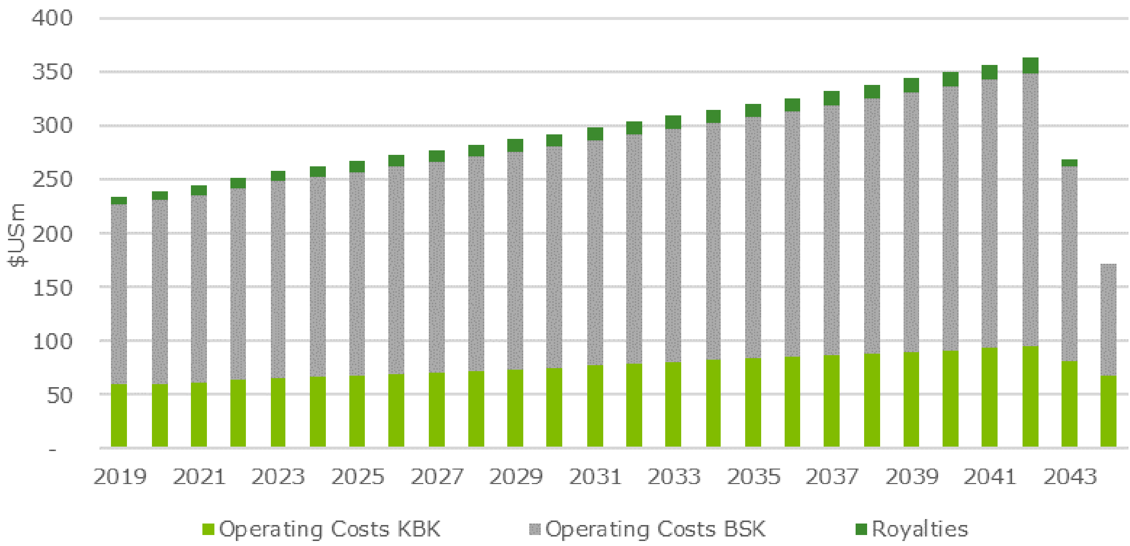
We note the following with respect to the above figure:

- total forecast revenues net of selling costs over the life of mine are projected to be approximately US$15.5 billion in nominal terms
- forecast MHP production is 82.2 Kt per year between 2019 and 2030, and decreases to 81.1 kt per year from 2031 onwards consistent with the anticipated decrease in nickel grade suggested by BDA.

Operating expenditure

Operating expenditure consists mainly of the costs associated with the mine (KBK Operating Costs) and the costs associated with the refinery (BSK Operating Costs). The following figure sets out forecast annual operating expenditure for the Ramu Project (in nominal terms).

Figure 9



Source: Ramu Financial Model, Deloitte Corporate Finance analysis

We note the following with respect to the above figure:

- total KBK operating costs over the life of mine are projected to be approximately US$2.0 billion (in nominal terms) and comprises fuel, reagent and consumables, maintenance material, labour and G&A expenses of the mine. As recommended by BDA, we have assumed an increase of 14.38% over the KBK operating costs included in the Ramu Financial Model, increasing them to the average KBK operating costs as a % of the total revenues for 2016-2018
- total BSK operating costs over the life of mine are projected to be approximately US$5.3 billion (in nominal terms), comprising fuel, reagent and consumables, maintenance material, labour and G&A expenses of the refinery. As advised by BDA, we have assumed an increase of 15.12% over the BSK operating costs included in the Ramu Financial Model, increasing them to the average BSK operating costs as a % of the total revenues for 2016-2018
- forecast royalties included in the Ramu Financial Model comprise a Mineral Resources Authority (**MRA**) levy of 0.25% of sales revenue and a Nickel royalty of 1.25% of sales revenue after deducting the refining costs. As suggested by BDA and based on what the Ramu Project has been paying during the past four years (2013-2017), we have assumed a Nickel royalty of 2% of FOB sales revenue after deducting the refining costs. We have also updated the MRA Levy to 0.5% of FOB sales revenue based on the legislative changes announced by the PNG Government in February 2018
- the Ramu Financial Model assumes that all the forecast KBK and BSK operating costs are incurred in US$. Based on advice received from BDA, we have assumed that operating costs are incurred in three currencies according to the allocations below:

Table 20

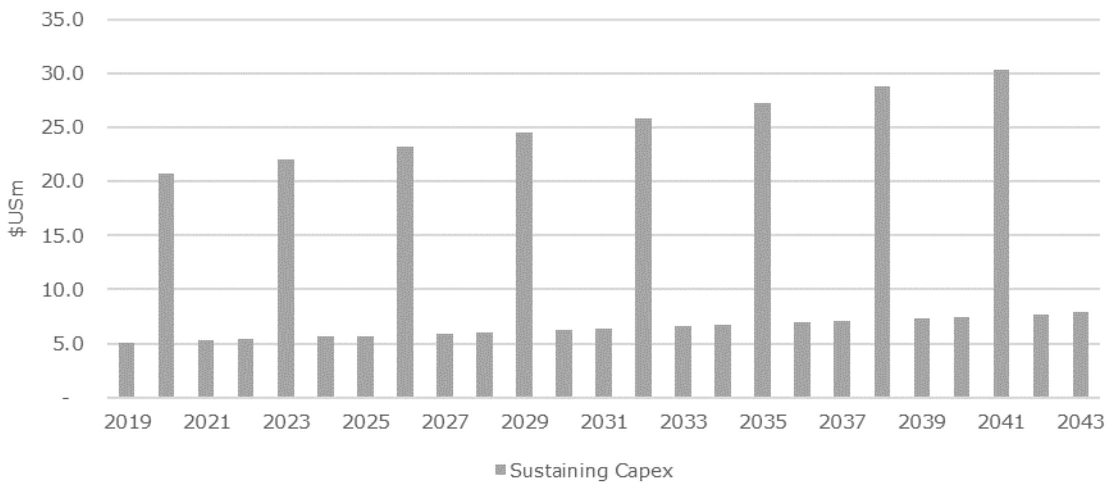
	PNG Kina	CNY	US$	Total
KBK operating costs	55%	10%	35%	**100%**
BSK operating costs	25%	25%	50%	**100%**

Source: BDA, Deloitte Corporate Finance analysis

Capital expenditure

The following figure sets out projected capital expenditure for the Ramu Project (in nominal terms).

Figure 10



Source: Ramu Financial Model, Deloitte Corporate Finance analysis

We note that the total capital expenditure over the life of mine is projected to be approximately US$312 million, which is all sustaining capital expenditure. BDA reviewed the projected capital expenditure and concluded that it is reasonable.

Project expansion

As discussed in Section 2.2, there is a plan to implement an expansion of the Ramu Project that would increase the mining throughput to 8.3 Mt per year. BDA reviewed the assumptions included in the Ramu Financial Model for the expansion and suggested changes to the technical assumptions.

We have analysed the impact of the expansion case and based on the adjustments to technical assumptions suggested by BDA and our preferred economic and discount rate assumptions, the expansion does not add any incremental value to the project.

The expansion plans appear to be preliminary in nature, the economics and timing of any expansion is uncertain, and no proposal has been presented to the JV partners for a final investment decision in relation to the expansion.

Based on the above, we do not consider it appropriate to attribute any incremental value to the expansion case.

Other assumptions

In addition to the assumptions discussed in the preceding sections, we have also made the following assumptions:

- cash flows are modelled on a post-tax basis, incorporating a PNG corporate tax rate of 30%, and take account of a 10 year tax holiday that concludes in 2025, with 2026 being the first year that the project would pay corporate taxes
- based on advice received from BDA, we have incorporated total projected rehabilitation/closure costs of US$53 million in nominal terms (US$33.25 million in real terms) which are incurred in 2044 at the end of the mine life
- cash flows have been adjusted for working capital movements, including realisation of the significant quantity of excess inventory that the project is currently holding. At 31 December 2018 the total quantity of contained nickel in MHP in inventory was 11,266 dry Mt. We have applied a net realisable value approach, assuming that the excess inventory is realised over a 12 to 24 month period
- under the Debt Refinance Scenario, we have estimated the PNG Parties share of project debt of US$206.1 million based on the debt balance at 31 December 2018 included in the Ramu Financial Model. We have assumed that a potential acquirer of HIG's interest in the Ramu Project would repay or refinance the full PNG Parties debt in accordance with the PWFA. We have assumed that a potential acquirer would provide a finance facility to MRDC for its share of the debt (approx. US$88.5 million) on the same terms as the current finance facilities, and would receive the principal and interest repayments from MRDC in return as a cash inflow over time
- under the Equity Cash Flow Scenario, we have assumed that HIG's share of the project debt would be paid down over time from project cash flows on the same terms as the current finance facilities under the JV agreement of the project.

Discount rate

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. Under the Debt Refinance Scenario, we have selected a US$ denominated, nominal post-tax base discount rate in the range of 12.0% to 13.0% to discount the future cash flows of the Ramu Project to their present value. Refer to Appendix D for additional detail on our selected discount rate.

In selecting this range, we considered the following:

- the required rates of return on listed companies in a similar business
- the specific business and financing risks of the Ramu Project
- the fact that the Ramu Project enjoys a tax holiday until 2025
- an appropriate level of financial gearing.

Under the Equity Cash Flow Scenario, we have discounted equity cash flows to HIG after debt repayments at a cost of equity. The cost of equity has been calculated using the same assumptions as set out in Appendix D, but taking into consideration the current and projected high level of gearing associated with HIG's interest in the project, assuming that the project debt is not immediately paid down.

Sensitivity analysis

We have considered the sensitivity of the value of the Ramu Project under the Debt Refinance Scenario to changes in nickel and cobalt prices, discount rate, operating expenditure and capital expenditure assumptions adopted, as set out in the table below.

Table 21

	Base discount rate (nominal, post-tax)				
(US$ million, EV Ramu Project)	11.50%	12.00%	12.5%	13.00%	13.50%
Nickel price - median broker forecasts					
-7.5%	1,667	1,614	1,565	1,518	1,473
-5.0%	1,741	1,686	1,634	1,585	1,539
-2.5%	1,814	1,757	1,703	1,652	1,604
Selected Deloitte	1,889	1,830	1,774	1,720	1,670
+2.5%	1,964	1,902	1,844	1,789	1,736
+5.0%	2,039	1,975	1,914	1,857	1,802
+7.5%	2,114	2,047	1,984	1,925	1,868
Cobalt price - median broker forecasts					
-7.5%	1,828	1,771	1,716	1,665	1,616
-5.0%	1,849	1,790	1,735	1,683	1,634
-2.5%	1,869	1,810	1,754	1,702	1,652
Selected Deloitte	1,889	1,830	1,774	1,720	1,670
+2.5%	1,910	1,850	1,793	1,739	1,688
+5.0%	1,930	1,869	1,812	1,758	1,706
+7.5%	1,950	1,889	1,831	1,776	1,724
Operating expenditure					
+10.0%	1,705	1,651	1,601	1,553	1,507
+5.0%	1,797	1,740	1,687	1,636	1,588
Selected assumptions	1,889	1,830	1,774	1,720	1,670
-5.0%	1,982	1,920	1,861	1,805	1,752
-10.0%	2,075	2,010	1,948	1,890	1,835
Capital expenditure					
+20.0%	1,869	1,811	1,755	1,702	1,653
+10.0%	1,879	1,820	1,764	1,711	1,661
Selected assumptions	1,889	1,830	1,774	1,720	1,670
-10.0%	1,899	1,839	1,783	1,729	1,679
-20.0%	1,909	1,849	1,792	1,738	1,687

Source: Deloitte Corporate Finance analysis

The tables above illustrate that the value of the Ramu Project is highly sensitive to nickel and cobalt prices and operating expenditure assumptions. Given that the project is already in the operating stage and that we have not considered the expansion scenario, the Ramu Project is not sensitive to capex assumptions.

Assessment of value

Under the Debt Refinance Scenario, we have selected a valuation range around the median broker forecast nickel and cobalt prices, and the mid-point of our discount rate range. Accordingly, we have estimated the value of 100% of the Ramu Project to be in the range of US$1.7 billion to US$1.8 billion, on a control basis.

As a cross-check to this valuation analysis, we have also considered the value of the Ramu Project based on the Equity Cash Flow Scenario. The fair market value of HIG's interest under this approach falls within our selected valuation range.

3.3 Valuation of the Frieda River Copper-Gold Project

We have determined a value for the Frieda River Copper-Gold Project net of project debt and disputed amounts to be in the range of US$1.0 million to US$17.5 million, with a preferred value of US$4.0 million as set out in the table below:

Table 22

US$m	Unit	Low	High	Preferred
Frieda River Copper-Gold Project (20% interest)	US$m	20.0	30.0	23.0
Less: Frieda River disputed amounts	US$m	(13.0)	(6.5)	(13.0)
Less: Debt	US$m	(6.0)	(6.0)	(6.0)
Net Value	**US$m**	**1.0**	**17.5**	**4.0**

Source: Deloitte Corporate Finance analysis

Our considerations of the valuation of the project and disputed amounts is set out below.

Frieda River Copper-Gold Project

In conjunction with BDA, we have considered the extent to which the following methods would be appropriate to value the Frieda River Copper-Gold Project:

- the transaction price agreed by PanAust in October 2015 to acquire its 80% interest in the Frieda River Copper-Gold Project
- a market based approach based on contained copper equivalent Mineral Resource Multiples applied to the amount of Mineral Resources included in the 2018 Frieda River feasibility study.
- a DCF approach based on the amount of Mineral Resources included in the 2018 Frieda River feasibility study.

Transaction price paid by PanAust

PanAust agreed to acquire the Frieda River Copper-Gold Project from Glencore in October 2013, with the acquisition completing on 25 August 2014. The components of the acquisition consideration are as follows:

- initial payment of US$25 million
- further payment of US$50 million payable to Glencore on 31 December 2015
- re-imbursement of project expenditure incurred by Glencore from the date of agreement in October 2013 to the completion date in August 2014
- a net smelter royalty (**NSR**) of 2% on PanAust's 80% interest in the Frieda River Copper-Gold Project, up to a maximum of US$50 million which we understand has been settled for a lower amount by PanAust when it was acquired by GRAM. Having regard to the limitations of the Frieda River Copper-Gold Project feasibility study, as discussed below and the settlement of the NSR for a lower amount that is not in the public domain, we have selected a range for the value of the NSR from nil to US$12.5 million, being the value of the NSR based on PanAust's 80% interest in the cash flow projections set out in the Frieda River Copper-Gold Project feasibility study model, using our preferred long term pricing and a 15% discount rate.

The following table summarises our determination of the value implied for HIG's 20% interest based on PanAust's acquisition of its 80% interest in the Frieda River Copper-Gold Project.

Table 23

Frieda River Copper-Gold Project value based on transaction price	US$m	US$m
	Low	High
Upfront cash	25.0	25.0
Reimbursement of project expenditure	4.4	4.4
Deferred consideration	50.0	50.0
Net smelter royalty	0	12.5
Total consideration for 80% interest	**79.4**	**91.9**
Implied value for HIG's 20%	**19.9**	**23.0**

Source: Deloitte Corporate Finance analysis

We consider that PanAust's acquisition of its 80% interest in the Frieda River Copper-Gold Project provides a highly relevant benchmark for the current value of HIG's 20% interest in the project, for the following reasons:

- the transaction with Glencore represents a third party, arms-length transaction
- while spot copper prices have decreased by c. 13% since April 2015, long term views of the copper price have remained consistent at around US$3.00/lb.
- PanAust has incurred significant costs in relation to updated feasibility studies since the time of the acquisition of its 80% interest in the Frieda River Copper-Gold Project. However, based on discussions with BDA, we understand that the additional work undertaken by PanAust has not materially changed the basic project concepts (other than an alternative approach to addressing the financing of the power and infrastructure requirements) or its timelines to production, and the overall characteristics of the Frieda River Copper-Gold Project remain largely consistent with the project envisaged at that time. For example, the Xstrata 2012 feasibility study envisaged a 50 Mtpa copper-gold project with stand-alone infrastructure requirements and a six-year development timeline to first production. The 2018 Feasibility Study contemplates a 40 Mtpa project, which is dependent on c. US$1.3 billion in government and a third party funded infrastructure projects. This includes a US$4.3 billion third-party funded hydro-electric power plant supporting the US$2.8 billion copper-gold mine, processing plant and ancillary facilities. First production is planned in 2028, based on a ten-year development timeline.

Discounted cash flow approach

Based on the following factors, we have concluded that it is not appropriate to rely on the DCF approach as a basis for the valuation of the Frieda River Copper-Gold Project:

- although the 2018 feasibility study has been completed, it presents a complex development path. The feasibility study assumes that c. US$1.3 billion in road, port and upgraded airport infrastructure will be provided, at no cost to the Frieda River Copper-Gold Project, by the PNG government or other parties. To the knowledge of HIG, no parties have been formally approached in relation to these projects and it is uncertain whether the government or another party would be willing to fund this infrastructure at no cost to the mine
- the feasibility study presents two scenarios in relation to the US$4.3 billion FRHEP: one where the FRHEP is combined with the Frieda River Copper-Gold Project, and one where the FRHEP is undertaken separately. The feasibility study indicates that the different characteristics of the two projects would benefit from separate ownership structures after construction, commissioning and ramp-up to steady state production. This would significantly increase the upfront capex requirements to develop the Frieda River Copper-Gold Project
- capex estimates included in the feasibility study for Frieda River Copper-Gold Project were prepared to a target accuracy of -10% to +30% with the SIP and SPGP capex estimates prepared to -15% to +50% accuracy. The outcome under the DCF approach is very sensitive to the capex assumptions applied resulting in significant uncertainty in relation to the economics of the project. The target levels of accuracy for capex estimates indicate there is a greater probability that the capex estimates are underestimated than overestimated, and accordingly, a greater likelihood that DCF analysis will overestimate than underestimate the value of the Frieda River Copper-Gold Project

- based on the 2018 feasibility study, under our preferred long-term copper price assumption of US$3.00/lb, a discount rate of lower than 13.8% on a real basis would be required for the project to be NPV positive. We consider that this discount rate would be in the region of or less than that expected by a potential investor to adequately compensate for the inherent risk in the project
- there is an inherent interdependency between the mine project and the related infrastructure projects on which the mine depends. Currently there is a high degree of uncertainty that funding could be secured by third parties to build the infrastructure required for the mine development. If copper prices were to increase, the more economic the mine becomes, the more attractive it becomes for the owner of the mine to take on some of the funding required for these related infrastructure projects. This would increase the likelihood of the infrastructure projects being built but put further pressure on the economics of the mine development, in part because investors in the mine would expect a commercial return on the infrastructure required for the mine. In these circumstances, due to the high level of uncertainty in relation to the infrastructure projects and the interplay with the economics of the mine, we consider it difficult to draw meaningful conclusions from a discounted cash flow valuation based on the 2018 feasibility study.

Market based approach

Given the nature of the Frieda River Copper-Gold Project, being a large low-grade copper deposit located in a remote area with little existing supporting infrastructure, it is difficult to identify transactions involving similar projects that could be considered directly comparable to the project.

Nonetheless, in conjunction with BDA, we have considered mineral resource multiples observed from global transactions from 2014 to 2019 as a benchmark for the value of the Frieda River Copper-Gold Project. We have not considered transactions prior to 2014 given the different prevailing commodity price and project cost environments. The details of these transactions are included in Appendix E.

We consider the project most closely comparable to the Frieda River Copper-Gold Project to be the Tampakan project. The Tampakan project contains an estimated 19.4Mt of copper equivalent resource of a similar low grade nature to the Frieda River Copper-Gold Project, in the most remote region of the Philippines.

There have been two transactions involving the Tampakan project over the last 5 years. One transaction, in January 2015, related to the scheme of arrangement whereby Alsons Investment Group acquired the 80% interest it did not already own in Indophil Resources NL, the owner of a 32.5% interest in the Tampakan project. The other transaction, in August 2015, related to the disposal of Glencore/Xstrata's 62.5% interest in the project. These transactions implied resource multiples of US$13.0/t and US$28.9/t of contained copper equivalent metal respectively. Applying these resource multiples to the contained copper equivalent resource at the Frieda River Copper-Gold Project would imply a valuation range of US$40.0 million to US$88.5 million for HIG's interest.

While we consider the Tampakan project to be the most closely comparable to Frieda River Copper-Gold Project of the transactions listed in Appendix E, we make the following observations about the relative comparability of the two projects:

- the Tampakan project contains a larger, higher grade resource than the Frieda River Copper-Gold Project
- the feasibility study for the Tampakan project demonstrated more favourable project economics, and less challenging infrastructure constraints than the Frieda River Copper-Gold Project
- while the Tampakan project currently faces significant development challenges in the form of government and community opposition, at the time of the transactions, there was less government opposition to the mining industry in the Philippines than today
- both the Tampakan project and the Frieda River Copper-Gold Project were sold by Glencore/Xstrata, a knowledgeable and willing vendor with extensive experience in the mining sector, within a one year period (in 2014 and 2015), with the Tampakan project attracting a significantly higher resource multiple than the Frieda River Copper-Gold Project.

The above observations would support the application of applying a lower multiple for the Frieda River Copper-Gold Project than for the Tampakan project.

In relation to the other potentially comparable transactions identified, we make the following observations:

- the Malmysz project is located in far-east Russia. The transaction price for the acquisition of the project interest implies a contained copper equivalent multiple of US$52.6/t. The project is located near supporting infrastructure and a recent feasibility study reported strong project economics at an IRR of 30% with an estimated mine life of 25-37 years. We therefore consider it reasonable that a significantly lower multiple should be applicable to the Frieda River Copper Gold Project
- the Galore Creek project is located in British Columbia, which is considered a favourable mining jurisdiction. The transaction price of $275 million encompasses US$175 million of contingent consideration based on the outcome of pre-feasibility and feasibility studies. Using a probability weighted transaction price of US$187.5 million (incorporating a 50% probability of contingent consideration being paid), the implied copper equivalent multiple is US$47.13/t. Again, given the more favourable location and jurisdiction, we would expect this multiple to be higher than the appropriate multiple for the Frieda River Copper-Gold Project
- the Asmara project is located in Eritrea in North-east Africa. The transaction price for the acquisition of the Asmara project implies a resource multiple of US$83.4/t of contained copper equivalent. The Asmara project has a significantly higher average contained grade than Frieda River Copper-Gold Project (0.75% compared with 0.44%) and the time line to development at acquisition was considerably shorter with first production expected in 2019. We therefore consider it reasonable that a significantly lower multiple should be applicable to the Frieda River Copper-Gold Project.

Conclusion

Based on the considerations set out in the preceding sections, we have assessed the value of HIG's 20% interest in the Frieda River Copper-Gold Project to be in the range of US$20.0 million to US$30.0 million with a preferred value of US$23.0 million.

In selecting our low and preferred values, we have had primary regard to the price paid by PanAust for the acquisition of its 80% interest in the Frieda River Copper-Gold Project in August 2014. This is supported by BDA's opinion, set out in Section 7 of their report.

In selecting the high end of our valuation range, we have had regard to the fact that PanAust has incurred significant costs since its acquisition of the Frieda River Copper-Gold Project in August 2014. While these additional costs incurred since acquisition may have optimised aspects of the project development, as noted in BDA's report, the project parameters and development concept remain similar to those envisaged by Xstrata at the time of the August 2014 transaction (thus suggesting there is limited incremental value uplift).

Frieda River disputed amounts

HIG and PanAust are undergoing arbitration proceedings concerning certain cash calls made by PanAust to HIG regarding the Frieda River Copper-Gold Project feasibility study and other project costs incurred in relation to the project from 24 June 2016 (date of the submission by PanAust of its special mining lease application) to the present.

The arbitration was split into two proceedings. On 10 April 2018 HIG announced that the arbitrator found in favour of PanAust at the first hearing and concluded that HIG's free carry of project expenditure ended on 24 June 2016. At the second hearing HIG will contend that other provisions of the JV agreement should also be applied to make PanAust liable for the full cost of the feasibility studies undertaken since 24 June 2016. In the alternate, HIG will argue it should only be required to pay its share of the cost of the feasibility studies at a later date if the project proceeds on the basis of those feasibility studies.

If the arbitrator finds in favour of PanAust at the second hearing, HIG's share of project expenditure is c. US$13.0 million. HIG may then elect to pay that amount or to dilute its JV interest. If HIG is successful in the second hearing the amount may be substantially less than US$13.0 million.

Arbitration proceedings are currently on hold until the Proposed Scheme with Cobalt 27 is finalised. In parallel to the Proposed Scheme, Cobalt 27 has agreed with PanAust to settle all outstanding Frieda River Copper-Gold Project liabilities as part of the Frieda River Purchase Agreement as set out in Section 1.2.

Having regard to the decision against HIG at the first arbitration hearing and the uncertainty around the outcome of the second hearing, we have incorporated in our valuation of HIG 100% of the disputed amounts at the low end of our valuation range, and 50% of the disputed amounts at the high end of our valuation range, resulting in a range from US$6.5 million to US$13.0 million. Our preferred value is US$13.0 million.

3.4 Valuation of exploration tenements

BDA's assessment of the fair market value of the exploration tenements, including Star Mountains and Sewa Bay, is set out in the table below.

Table 24

Exploration asset	Methodology	Unit	Low	High	Preferred
Star Mountains Copper-Gold Exploration	Past expenditure	US$m	-	10	5.0
	Joint venture terms	US$m	-	13	6.5
	Average Value	US$m	-	*11.5*	*6.0*
Sewa Bay Nickel Exploration	Past expenditure	US$m	1.4	1.7	1.6
Total		**US$m**	**1.4**	**13.2**	**7.6**

Source: BDA, Deloitte Corporate Finance analysis

The following valuation approaches were adopted by BDA:

- past expenditure or the amount spent on exploration of a tenement is commonly used as a guide in determining the value of exploration tenements, and 'deemed expenditure' is frequently the basis of joint venture agreements. The assumption is that well directed exploration has added value to the property. This is not always the case and exploration can also downgrade a property and therefore a prospectivity enhancement multiplier (**PEM**), which commonly ranges from 0.5-3.0, is applied to the effective expenditure
- joint venture terms where one party pays to acquire an interest in a project, or spends exploration funds in order to earn an interest, also provide an indication of value for exploration tenements.

We have relied on BDA's valuation of HIG's interest in the exploration tenements. Refer to Appendix G for BDA's Independent Technical Expert Review Report.

3.5 Working capital

HIG had working capital of US$3.3 million as at 31 December 2018, per the table below.

Table 25

	US$m
Receivables	4.0
Trade and other payables	(0.7)
Working capital	**3.3**

Source: HIG Financial Statements 31 December 2018

3.6 Cash

HIG had cash of US$14.9 million as at 31 December 2018.

3.7 Corporate costs

We have estimated an appropriate level of ongoing annual corporate overheads for HIG to be in the range of US$0.5 million to US$1.0 million, assuming a potential purchaser would not maintain an ASX listing or separate HIG board.

We have determined the present value of the tax-effected corporate overhead cost range capitalised at our selected discount rate range of 12.0% to 13.0% to be US$3.2 million to US$6.8 million.

Appendix A: Context to the Report

Individual circumstances

We have evaluated the Proposed Scheme for the Non-Associated Shareholders as a whole and have not considered the effect of the Proposed Scheme on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Scheme from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Scheme is fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of HIG and is to be included in a Scheme Booklet to be provided to HIG's shareholders for approval of the Proposed Scheme in accordance with the PNG Companies Act. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Scheme Booklet in their assessment of the Proposed Scheme outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and HIG, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Scheme. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by HIG and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to HIG management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by HIG and its officers, employees, agents or advisors, HIG has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which HIG may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by HIG and its officers, employees, agents or advisors or the failure by HIG and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Scheme.

Deloitte Corporate Finance also relies on the valuation report prepared by BDA. Deloitte Corporate Finance has received consent from BDA for reliance in the preparation of this report.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of HIG personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (**AUASB**) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for HIG included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of HIG referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Stephen James Reid, M App. Fin. Inv, B.Ec, CA and Nicki Ivory, B.Com., CA, CFA. Each have many years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of Grosvenor Place, 225 George Street Sydney, NSW 2000 acknowledges that:

- HIG proposes to issue a scheme booklet to be provided to HIG's Shareholders in relation to the Proposed Scheme between HIG and Cobalt 27
- the scheme booklet will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft scheme booklet for review
- it is named in the scheme booklet as the 'independent expert' and the scheme booklet includes its independent expert's report as an Annexure.

On the basis that the scheme booklet is consistent in all material respects with the draft scheme booklet received, Deloitte Corporate Finance Pty Limited consents to it being named in the scheme booklet in the form and context in which it is so named, to the inclusion of its independent expert's report as an Annexure to the scheme booklet and to all references to its independent expert's report in the form and context in which they are included, whether the scheme booklet is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the scheme booklet and takes no responsibility for any part of the scheme booklet, other than any references to its name and the independent expert's report as included as an Annexure.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- Scheme Implementation Agreement associated with the Proposed Scheme between HIG and Cobalt 27
- Draft scheme booklet in relation to the Proposed Scheme
- audited financial statements for HIG for the years ending 31 December 2015, 31 December 2016, 31 December 2017 and unaudited financial statements as at 31 December 2018
- Ramu project financial model
- Frieda River 2018 Feasibility Study and supporting financial model
- HIG company website and ASX announcements
- BDA's independent technical expert review report
- other publicly available information, media releases and reports on HIG and the mining industry.

In addition, we have had discussions and correspondence with certain directors and executives, including Craig Lennon, CEO and Ron Douglas, Chairman in relation to the above information and to current operations and prospects.

We have also had discussions and correspondence with Malcolm Hancock, John McIntyre and Peter Ingham of BDA with regards to the contents of the BDA independent technical expert review report.

Appendix B: Valuation methodologies

To estimate the fair market value of HIG we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which provides guidance in respect of the content of independent expert’s reports. These are discussed below.

Market based methods

Market based methods estimate a company’s fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company’s recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company’s future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company’s earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company’s future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of a company’s shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company’s value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company’s assets are liquid, or for asset holding companies

Appendix C: Mining industry

Nickel

Nickel's malleability, hardness and ductility have made it a key component for alloying elements like stainless steel, non-ferrous metals and other corrosion resistant alloys.

Demand

Demand in the nickel industry is largely driven by the construction and automobile industries. Key factors influencing the demand for nickel include the following:

- the steel industry represents 60% of global nickel consumption. Nickel is blended with steel to produce stainless steel which is used in the construction and automobile industries. Therefore, the demand for and price of nickel is directly related to the performance of the aforesaid industries
- as a result of increased urbanisation in China, India and other emerging economies there is greater demand for construction, industrial equipment and consumer goods
- US construction and industrial spending are expected to strengthen in coming years, resulting in increased demand for nickel. During this same period, China, India and other developing economies will invest heavily in expanding output capacity and upgrading infrastructure
- this improvement in the global economy will positively impact currently subdued demand for automobiles, construction and industrial projects, boosting prospects for commodities across the board.

Supply

Nickel is available in abundance in the world and therefore, supply is generally not a price driver. Most price fluctuations are linked to changes in demand. Some factors influencing the supply for nickel are the concerns about overheating of the Chinese economy and the development of new Chinese infrastructure projects as China is the most significant consumer of nickel worldwide. Additionally, economic perspectives of advanced economies have a significant effect on the level of investment and spending in nickel projects in emerging regions such as South America and East Asia.

Outlook

In 2016, nickel prices declined 19.1% compared with the previous year, mainly as a result of poor demand from China. China consumes more than one-half of the world's nickel supply. In 2017 and the first half of 2018, prices started to increase as the global supply and demand for nickel converged once again. This trend reversed during the second half of 2018 as growing anxiety over the effect of increasing protectionism, and particularly the US-China trade war, started to depress the prices of many industrial materials, including that of nickel. Global demand for nickel is projected to increase over the next five years, driven by higher steel production. According to an IBISWorld Nickel Industry Report (October 2018), following the decline over the past five years, nickel prices are projected to increase steadily over the next five years through 2023-24. Higher prices are expected to encourage a small number of new enterprises to enter the industry, and limit the number exiting.

Figure 11 : Historical and projected nickel prices on a nominal basis

Source: Capital IQ, Broker reports forecasts and Deloitte Corporate Finance analysis

Cobalt

Overview

Cobalt's malleability, hardness and ductility has made it a key component to be used in batteries for electric vehicles, as its use prevents overheating and combustion.

Demand and Supply

The majority of cobalt production globally occurs as a by-product of mining other commodities, and around 38% of cobalt is produced as a by-product of nickel mining. Hence, increases in nickel production are likely to lead to increases in supply of cobalt. Demand for cobalt has risen significantly over the past five years due to its use in preventing batteries from overheating. As cobalt is almost entirely produced as a by-product of nickel and copper mining, increases in the price of cobalt does not necessarily result in an increase in supply.

Most global cobalt is currently sourced from the Democratic Republic of Congo (DRC). The DRC is politically unstable and some mining operations use child labour. Demand for cobalt produced from mines located in other jurisdictions has risen as battery manufacturers have sought to secure a more reliable and ethical source of cobalt. The Ramu Project is one of the most significant nickel and cobalt producers outside of the DRC.

Outlook

Cobalt supply and prices are largely driven by output from copper and nickel mines. Cobalt prices have grown from around US$10 per pound in 2015-2016 to US$40 per pound in 2017-18. The subsequent decrease in price during the second half of 2018 was mainly a result of new supply coming into the market from mines in the DRC.

Figure 12: Historical and projected cobalt prices on a nominal basis

Source: Capital IQ, Broker reports forecasts and Deloitte Corporate Finance analysis

Copper

Overview

Copper's malleability, strength, resistance to corrosion and electrical conductivity has made it a key component in the building, construction and electrical industries. Alloyed with other metals, such as zinc (to form brass), aluminium or tin (to form bronze), copper can acquire new characteristics for use in highly specialised applications.

Demand

Demand in the copper industry is largely driven by the construction, telecommunications and electronic consumer goods industries. Key factors influencing the demand for copper include the following:

- demand in the construction industry has increased as a result of the increased requirements for energy efficiency and development of sustainable energy in the power sector. This has been offset by the use of substitutes, particularly aluminium, in certain applications. However, for most applications, the impact of substitution has been minimal
- increases in demand for copper have come from the construction, industrial equipment and consumer goods industries in emerging economies such as China and India, as a result of urbanisation and increases in economic development
- consumption of copper is likely to increase in the European Union and United States, the second and third largest markets for copper, respectively, due to continued industrial demand and tighter scrap metal availability
- India is expected to be the fastest growing large copper market globally during the years 2019-20 due to strong economic growth and rising infrastructure investment.
- Despite uncertainty surrounding the outlook for the global economy, demand for copper is expected to increase over the short-term. Increasing demand for electric vehicles, which use around four times the amount of copper as in fossil fuel-powered vehicles, is likely to drive increasing demand for copper in the future.

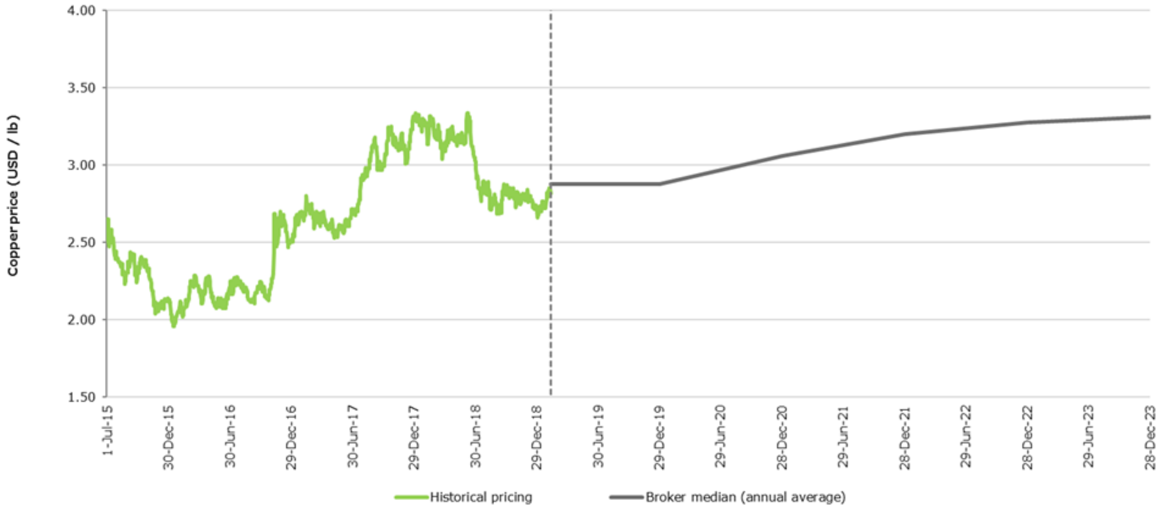
Supply

Chile is currently the largest copper producer globally, accounting for almost one third of international copper reserves. Despite recent increases in operating costs associated with rising labour costs and limited availability of water in certain areas, the region is expected to remain a dominant producer, given the high grades of the reserves and the low geopolitical risk of the country. Many existing copper ore deposits are experiencing declining ore grades, placing downward pressure on supply, exacerbated by the fact that higher grade deposits are becoming harder to find. This will partly offset some of the forecast growth in the next few years as new mines and mine expansions come online, predominantly from developing countries.

Outlook

Since 2016, the price of copper has surged almost 50 per cent. This was predominantly spurred by the Chinese government announcement of the implementation of an infrastructure stimulus which resulted in a major construction boom. Demand growth coupled with a weaker US dollar and a forecast slowdown in Chinese demand is expected to create some volatility in copper prices in the near term. In the long term, however, real prices are expected to remain relatively flat.

Figure 13: Historical and projected copper prices on a nominal basis



Source: Capital IQ, Broker reports forecasts and Deloitte Corporate Finance analysis

Gold

Overview

Gold is predominantly traded through the London Bullion Market Association (LBMA), the New York Mercantile Exchange (NYMEX), the Commodities Exchange (COMEX) or the Tokyo Commodities Exchange. As gold is traded on a similar basis to currencies between central banks, the gold futures market is driven by spot prices and interest rate differentials. The gold futures markets exhibit greater dependence on spot prices and interest differentials than base metals markets.

Demand for gold, either in ingot form, or fabricated into jewellery and coins, rests on its traditional role as a store of wealth for both individuals and nations. Industrial uses for gold are limited to the electronics industry and dentistry.

Demand and Supply

Demand and supply for gold is inversely related to global economic performance. Gold is considered an investment safe haven during periods of weak economic growth and political turbulence. The June 2016 Brexit vote destabilized currency markets and pushed yields downward on historically safe currencies such as the US dollar and Japanese Yen. This led investors to invest in precious metals including gold and silver. Further uncertainty due to US elections resulted in increased investment in gold. A large number of investors have kept cash in lieu of traditional safe investments such as gold. Given these factors global gold prices have shown an increasing trend over the past three years.

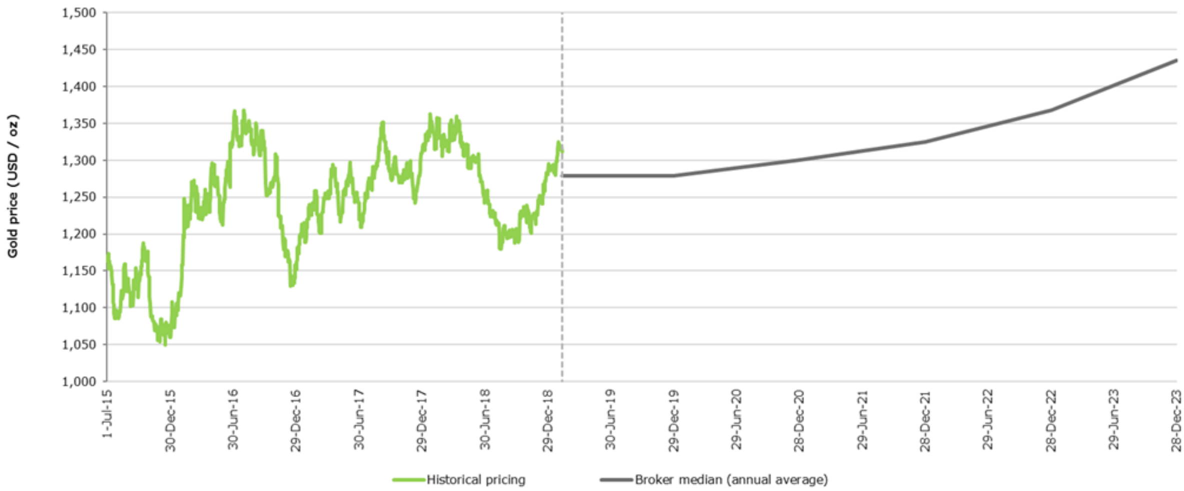
Outlook

The global economic performance is expected to remain challenging during 2019: global financing conditions have tightened, industrial production has moderated, trade tensions remain elevated, and some large emerging market and developing economies have experienced significant financial market stress leading to a supportive environment for gold demand. In its January 2019 economic update, the World Bank forecast that global economic growth will ease to 2.9% in 2019 and to 2.8% in 2020-21. Given this uncertainty and volatility in global markets, 2019 could see a continuation of the trend seen at the end of 2018, of investors increasing their gold holdings, as an investment safe haven.

On the supply side, it is increasingly challenging to develop new mines and some market commentators consider that long-term gold production is likely to have peaked, with global mine supply growth slowing. Despite recent increases in the gold price, some commentators consider that current spot gold prices are insufficient to sustain production and replace reserves, and that a sustained higher gold price, of at least US$1,350/oz, would be needed to encourage the development of large greenfield projects.

Future movements in interest rates and the USD are key factors which will influence whether the gold price will continue to increase in the next year. If the USD appreciates and the US Federal Reserve resumes tightening interest rates, this will limit increases in the gold price, even if physical supply/demand trends are broadly supportive of higher prices.

Figure 14: Historical and projected gold prices on a nominal basis



Source: Capital IQ, Broker reports forecasts and Deloitte Corporate Finance analysis

Appendix D: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity selected. This is commonly referred to as the weighted average cost of capital (**WACC**). The WACC can be derived using the following formula:

$$\text{WACC} = \left(\frac{E}{V} \times K_e\right) + \left(\frac{D}{V} \times K_d \times (1 - t_c)\right)$$

The components of the formula are:

K_e	=	cost of equity capital
K_d	=	cost of debt
t_c	=	corporate tax rate
E/V	=	proportion of enterprise funded by equity
D/V	=	proportion of enterprise funded by debt

We have used the CAPM to estimate the K_e for the Ramu Project. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital. The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta \, (R_m - R_f) + \alpha$$

A brief description of the above factors and a summary of the USD denominated build-up of our selected discount rate is set out below.

Table 26

	Base Discount Rate		Tax Holiday Period Discount Rate	
	Low	High	Low	High
Risk free rate (R_f)	2.93%	2.93%	2.93%	2.93%
Equity market risk premium (EMRP)	6.25%	6.25%	6.25%	6.25%
Beta (ungeared β)	1.10	1.20	1.10	1.20
Beta (geared β)[1]	1.20	1.27	1.25	1.33
Country specific risk premium	3.00%	4.00%	3.00%	4.00%
Calculated K_e	**13.39%**	**14.88%**	**13.74%**	**15.26%**
Net debt / enterprise value	20.00%	20.00%	20.00%	20.00%
Tax rate	30.00%	30.00%	0.00%	0.00%
K_d (pre-tax)	7.50%	8.50%	7.50%	8.50%
K_d (post-tax)	**5.25%**	**5.95%**	**7.50%**	**8.50%**
Calculated WACC (post-tax, nominal)	**11.77%**	**13.10%**	**12.49%**	**13.91%**
Selected WACC (nominal)	**12.00%**	**13.00%**	**12.75%**	**13.75%**

Source: Capital IQ, Deloitte Corporate Finance analysis
Notes:
1. Includes the Blume adjustment

R_f: compensates the investor for the time value of money and the expected inflation rate over the investment period. In determining the risk-free rate, we have adopted the five-day average of the 20-year US treasury constant maturity bonds as at 7 March 2019.

EMRP: represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. We consider an EMRP of 6.25% to be reasonable.

β: measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole.

We note that the average and median unlevered betas of comparable nickel producing companies are 1.11 and 1.20 based on 4 year monthly data, respectively.

Therefore, we have selected a beta of between 1.10 and 1.20 for Ramu. We have re-levered the selected beta based on our selected gearing set out below. We have also applied the Blume mean reversion adjustment, resulting in a selected adjusted levered beta in the range of 1.20 to 1.27.

Gearing ratio:

We have considered the capital structures of nickel producers considered comparable to Ramu and our view on the optimal long-term capital structure of similar companies to determine a reasonable LOM gearing ratio of 20%.

Country specific risk premium: given the Ramu Project is located in Papua New Guinea, a developing country, we consider it appropriate to include an asset risk premium to reflect the Ramu Project's potential exposure to sovereign risk.

Sovereign, or country risk, is the risk arising from an unpredictable change in government policy or behaviour of a regulatory agency and other risks attributable to an unstable political or civil environment. Market perception of country risk is subjective and conclusions drawn require the exercise of professional judgement. To arrive at a reasonable approximation of the additional return required to compensate for the risk inherent in investing in developing countries, we have had regard to a variety of external evidence, including:

- current general macroeconomic and political conditions facing Papua New Guinea
- country ratings attributed by rating agencies such as Moody's, S&P, and other market analysts such as EIU
- the differential between US Government bond rates and USD-denominated government bonds issued by countries with a similar credit rating to Papua New Guinea
- Papua New Guinea does not issue any USD and AUD-denominated Government bonds. Therefore, we have also considered USD-denominated Government bonds issued by countries with a similar credit risk rating to Papua New Guinea. We have compared their yields to the yield on US Government bonds of a similar maturity to determine an implied country risk premium. The results of the analysis are viewed as a guide for an appropriate risk premium for the country, and potentially for those with similar credit ratings.

Our research indicates the following:

- Moody's and Fitch attribute Papua New Guinea with a credit rating of B2 and B+, respectively. Countries with similar ratings include Nigeria and Kenya
- the average spread of government bonds issued by countries with a similar rating over the US risk free rate of comparable tenor is approximately 10%. Similarly, Aswath Damodaran calculates a risk premium of 7.4% for Papua New Guinea under the same principles.

Notwithstanding the evidence set out above, in selecting a sovereign risk premium for the Ramu Project, we have also considered qualitative factors that, in our view, suggest the risk premium should be lower for the Ramu Project compared to smaller assets located in the same jurisdiction. This includes the scale of the Ramu Projects, along with the tangible economic benefits that Papua New Guinea gains.

Having regard to all of the above, we have selected a country risk premium of 3.0% to 4.0% for the Ramu Project.

Tax rate: our selected tax rate of 30% reflects the current Papua New Guinea corporate tax rate. The Ramu project has agreed a 10-year tax holiday that concludes in 2025, with 2026 being the first year that the project would pay corporate taxes. Accordingly, for the cash flows up to and including 2025, we have applied a discount rate which does not take account of the income tax shield on borrowings.

K_d: we have estimated an applicable pre-tax cost of debt to be 7.5% to 8.5%. The cost of debt is a reflection of the interest rate demanded by debt capital providers. Interest rates are typically determined with reference to a base rate. As the Ramu Project's cash flow projections are in USD we have used the 5 day average of the 20-year US treasury constant maturity bonds as a base rate. A debt margin is added that is specific to the default risk of the company/asset being funded. To determine the debt margin we have made reference to the 5 day average spread of BBB rated US corporate bonds of 1.5%, as well as a margin for operating in Papua New Guinea 3.0% to 4.0%.

Deloitte.

Appendix E: Comparable transactions

Table 27

Date	Note	Buyer/Seller	Project-Location	Effective project interest acquired		Resource					EV/ Resource	
				US$M	%	Mt	Cu %	Au g/t	Cu Mt	Au Moz	CuEq Mt	$/t CuEq
10/18	1	Russian Copper Company/IG Copper	Malmyzh-Russia	200.0	51.0	1,661	0.34	0.17	5.6	9.1	7.5	52.6
8/18	2	Mitsubishi/Anglo American	Quellaveco-Peru	600.0	21.9	2,960	0.46	0.00	13.6	0.0	15.8	173.6
7/18	3	Newmont/Novagold Resources	Galore Creek, Copper Canyon-Canada	275.0	50.0	1,161	0.42	0.29	5.5	10.7	8.0	69.1
4/16	4	Sichuan Railway/Asmara	Asmara-Eritrea	78.3	60.0	92	0.75	0.47	0.7	1.4	1.6	83.4
8/15	5	Alsons/Glencore	Tampakan, Philippines	350.0	62.5	2,940	0.51	0.19	15.0	17.6	19.4	28.9
1/15	6	Alsons/Indophil	Tampakan, Manat-Philippines	75.4	30.0	2,940	0.51	0.19	15.0	17.6	19.4	13.0
8/14	7	PanAust/Glencore	Frieda River-PNG	87.4	80.0	2,123	0.49	0.24	10.4	16.1	13.5	8.1
8/14	8	First Quantum/Lumina Copper	Taca Taca-Argentina	400.8	94.3	3,091	0.42	0.07	13.0	7.1	16.0	26.6

Source: S&P Global Market Intelligence, Company Annual Reports and Announcements, Deloitte Corporate Finance Analysis, BDA.

Notes:

1. Russian Copper Company - 51% share of Malmyzh project in Russia owned by IG Copper LLC
2. Mitsubishi – 21.9% share of Quellaveco project in Peru owned by Anglo America plc. Consideration of US$600 million includes $500 million upon closing, $50 million once project processing reaches at least 150,000 tonnes per day and the remaining $50 million once processing reaches 180,000 tonnes per day
   Quellaveco project includes value from molybdenum in addition to copper and gold; Galore Creek and Copper Canyon project includes value from zinc and silver in addition to the copper and gold; CuEq = copper equivalent, determined by calculating the 'copper equivalent' value of the other contained metals based on metal price at the time of the transaction; no allowance has been made for metallurgical and/or refining losses
3. Newmont - 50% share of Galore Creek and Copper Canyon project in Canada owned by Novagold Resources Inc. Consideration of US$275 million includes an initial payment of US$100 million, deferred consideration of US$75 million at the earlier of prefeasibility study or three years from closing, deferred consideration of US$25 million at the earlier of feasibility study or 5 years from completion and US$75 million contingent consideration on a final development decision
4. Sichuan Railway – 60% of Asmara project in Eritrea owned by Asmara Mining Share Company. 60% Asmara project interest acquired for US$65 million with liabilities assumed of US$13.3 million, giving an allocated value for 60% of the Asmara project of US$78 million
5. Alsons Group – acquisition of Glencore's 62.5% interest in the Tampakan project for US$208 million, with liabilities assumed of US$ 142 million, giving an allocated value for 62.5% of the Tampakan project of US$350 million
6. Alsons Group – scheme of arrangement to acquire 80% of Indophil Resources NL with principal assets of 37.5% interest in the Tampakan project in Philippines and US$196.9 million cash; transaction value of US$234 million gives an allocated value of US$75.4 million, after adjustments, for the effective 30.0% interest in the Tampakan project
7. PanAust - 80% share of Frieda River project in PNG owned by Glencore

8. First Quantum acquired 94.3% of Lumina Copper Corp which owns 100% of the Taca Taca project in Argentina. Total transaction consideration of US$190.6 million in cash, US$201.4 million in equity, US$13.5 million in in the money options adjusted for cash acquired of US$3.9 million and other minor adjustments, giving an allocated value of US$400.8 million for the effective 94.3% in the Taca Taca project

Deloitte.

Appendix F: Comparable company betas

Table 28

Name	Country	EV (on a minority basis) ($' million)	Debt to enterprise value (%)	2-year weekly beta Levered	2-year weekly beta Unlevered	2-year weekly beta R2 correlation	4-year monthly beta Levered	4-year monthly beta Unlevered	4-year monthly beta R2 correlation
Nickel and Cobalt									
Public Joint Stock Company Mining and Metallurgical Company Norilsk Nickel	Russia	57,885	17%	0.96	0.82	0.19	0.85	0.74	0.18
ERAMET S.A.	France	3,905	30%	1.88	1.60	0.16	2.08	1.64	0.16
Independence Group NL	Australia	2,764	0%	1.49	1.46	0.20	1.46	1.42	0.20
PT Vale Indonesia Tbk	Indonesia	3,323	0%	1.28	1.28	0.12	1.55	1.55	0.10
Sherritt International Corporation	Canada	716	72%	1.60	0.46	0.12	1.28	0.31	0.07
Western Areas Limited	Australia	496	0%	1.68	1.68	0.25	1.73	1.73	0.26
Nickel Mines Limited	Australia	633	0%	0.58	0.58	0.05	0.51	0.51	0.15
Jinchuan Group International Resources Co. Ltd	Hong Kong	2,248	22%	1.11	0.83	0.04	1.56	0.98	0.07
Average			**18%**	**1.32**	**1.09**	**0.14**	**1.38**	**1.11**	**0.15**
Median			**9%**	**1.38**	**1.06**	**0.14**	**1.50**	**1.20**	**0.16**

1. Data above is current as at 7 March 2019
2. EV – Enterprise value
3. Negative values are presented as nil
4. n/m – not meaningful
5. Figures in this table are subject to roundin

Appendix G: BDA Australia Pty Ltd Independent technical expert review report

BEHRE
DOLBEAR
AUSTRALIA

BDA

Minerals Industry Consultants

ACN No. 065 713 724

Level 9, 80 Mount Street
North Sydney, NSW 2060
Australia

Tel: 612 9954 4988
Fax: 612 9929 2549
Email: bdaus@bigpond.com

ABN 62 065 713 724

7 March 2019

Mr Stephen Reid
Deloitte Corporate Finance Pty Ltd
Grosvenor Place
225 George Street
Sydney NSW 2000

Dear Stephen

INDEPENDENT TECHNICAL EXPERT REVIEW FOR DELOITTE CORPORATE FINANCE
HIGHLANDS PACIFIC LIMITED - MINERAL PROJECTS
BEHRE DOLBEAR AUSTRALIA PTY LIMITED

1.0 INTRODUCTION

Deloitte Corporate Finance Pty Ltd ("Deloitte") has been appointed by Highlands Pacific Limited ("Highlands", "HIG" or "the Company") to prepare an Independent Expert's Report (the "IER") advising whether, in Deloitte's opinion, the proposed acquisition by Cobalt 27 Capital Corp. ("Cobalt 27") of all of the shares in HIG which it does not already own, including those held by PanAust Limited (PanAust) (Non-Associated Shareholders), is in the best interests of HIG shareholders. Separately from the Proposed Scheme, Cobalt 27 has entered into an agreement ("the Frieda River Sale Agreement") with PanAust, under which, if the Proposed Scheme is implemented, Cobalt 27 will cause Highlands Frieda Limited (" Highlands Frieda"), which will then be a wholly-owned subsidiary of Cobalt 27, to transfer its 20% participating interest in the Frieda River Copper-Gold Project to the PanAust Group for US$9.46 million ("M").

Collectively, the Proposed Scheme and the Buy-Back are referred to as the Proposed Transactions.

Deloitte, acting as the Independent Expert ("IE"), requires an Independent Technical Expert ("ITE") with appropriate technical knowledge to provide advice in respect of the aspects of the independent expert's report where Deloitte does not have the required expertise. In that role, Behre Dolbear Australia Pty Limited ("BDA") has been retained to act as the ITE to advise Deloitte with regard to technical aspects of the valuations. The ITE role involves providing advice to the IE on financial model technical parameters and providing valuation of the exploration properties. The ITE has undertaken a technical due diligence review of Highlands' Papua New Guinea ("PNG") mineral projects comprising:

- the Ramu nickel-cobalt operation comprising the Kurumbukari nickel-cobalt laterite mine and the Basamuk processing plant in the Madang Province
- the Frieda River copper-gold project in the Sanduan (West Sepik) Province
- the Star Mountains copper-gold exploration tenements, near Ok Tedi mine, in the Sanduan (West Sepik) Province
- the Sewa Bay nickel laterite deposits on Normanby Island, Milne Bay Province.

The locations of the various projects within PNG are shown in Figure 1.

Highlands Pacific *PNG Projects and Exploration Tenements*

Figure 1 **LOCATION PLAN**

BDA - 0179/02 (Jan. 2019)

Behre Dolbear Australia Pty Ltd

BDA has previously undertaken a series of reviews (including site visits) of Highlands' Ramu and Frieda River projects between 2012 and 2013, acting as independent technical advisors to Highlands. Since 2014, BDA has also on several occasions independently peer reviewed the Frieda River project on behalf of the new majority owner, PanAust Limited ("PanAust") and its major shareholder Guangdong Rising Assets Management Limited ("GRAM"), as feasibility studies of this project have been developed. With respect to the ITE task, BDA has re-visited the Ramu project in accordance with ASIC guidelines and the VALMIN Code. With regard to the exploration properties, the ITE review has been conducted on a desk-top basis without site visits, as the sites are currently inactive and the value can reasonably be determined from expenditure and JV terms.

BDA is well qualified to carry out such an assignment, as the firm specialises in independent technical due diligence, advisory and review work for companies and financial institutions on mining and processing projects and has been involved in numerous mining-related studies, valuations, prospectuses and Independent Engineer assignments in recent years. BDA's specialist consultants have many years of technical and operating experience and are respected experts in their field.

Where appropriate, resources and reserves have been reviewed in accordance with Australian industry standards; these include compliance with the Code and Guidelines for Reporting Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia - December 2012 ("the JORC Code").

2.0 SCOPE OF WORK

Deloitte has provided an outline scope of work for the Independent Technical Expert role and report. For this report under the VALMIN Code, BDA has undertaken a recent site visit (February 2019) to the Ramu project; BDA has undertaken previous site visits to the Frieda River project, but no further visit to Frieda River has been undertaken as there has been little site work since BDA's last visit. The Star Mountains and Normanby Island (Sewa Bay) exploration tenements, being inactive, have been reviewed on a desktop basis. The basis of advice and valuation has been discussed in detail with the Independent Expert as considered necessary and appropriate to ensure compliance.

The ITE role involves advising Deloitte on the technical inputs to the financial models for Ramu and Frieda River, and valuation of the Star Mountains and Sewa Bay exploration properties.

The ITE scope of work comprises a review of:

- the Ramu nickel-cobalt operation comprising the Kurumbukari nickel-cobalt laterite mine and the Basamuk processing operation in the Madang Province
- the Frieda River copper-gold project in the Sanduan (West Sepik) Province
- the Star Mountains copper-gold exploration tenements, near Ok Tedi mine, in the Sanduan Province
- the Sewa Bay nickel laterite deposits on Normanby Island in the D'Entrecasteaux Group of Islands in the Milne Bay Province.

The scope of work involves, where appropriate, review of the following project components:

- geology - data collection, resource and reserve estimates, reconciliation data, exploration results
- mining - life of mine plans, production schedules, geotechnical and hydrological factors
- metallurgy - testwork, process design and process performance, metallurgical recoveries
- infrastructure - power, water, transport, site access, product handling logistics
- environmental and social issues, tenement status and project approvals status
- capital and operating cost estimates
- financial model inputs
- consideration of evidence from broadly comparable transactions
- valuation of the exploration properties.

BDA has prepared this report for Deloitte, based on the information provided, site visits as noted above and detailed discussions with operations and exploration managers.

Resources and reserves have been reviewed in accordance with Australian industry standards and for compliance with the Code and Guidelines for Reporting of Identified Mineral Resources and Ore Reserves - Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia - December 2012 (the JORC Code). The report has been prepared in keeping with the VALMIN Code for the Technical Assessment and Valuation of Mineral Assets and Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and as amended and updated in 2005 and 2015.

3.0 RAMU NICKEL OPERATIONS

BDA has been commissioned to provide Deloitte with appropriate technical inputs to the financial models on the Highlands PNG mineral projects, including the Ramu nickel-cobalt mining and processing operation. BDA has undertaken a technical due diligence review of the available data provided by Highlands and MCC Ramu NiCo Limited ("MCC Ramu"), and has provided an opinion as to the reliability and validity of the estimates.

3.1 General Description

The Ramu nickel-cobalt project is located in Madang Province on the north coast of PNG (Figure 1). The project comprises the Kurumbukari ("KBK") mine and beneficiation plant, located on the Kurumbukari plateau, in the foothills of the Bismarck Ranges, 600-800 metres ("m") above sea level and 75 kilometres ("km") to the southwest of the provincial capital of Madang, and the Basamuk processing plant located on the coast, approximately 55km southeast of Madang (Figure 2). Beneficiated ore is pumped from the mine as a slurry to the plant via a 135km pipeline. The Basamuk plant produces a mixed nickel-cobalt hydroxide product ("MHP") and has an annual production capacity of approximately 34,000 tonnes ("t") of contained nickel ("Ni") and 3,300t of contained cobalt ("Co"). Tailings are disposed of in a 150m deep-sea offshore trench.

The Ramu project is a joint venture between MCC Ramu, which has 85% ownership and is the operator of the project, and Ramu Nickel Limited, a wholly owned subsidiary of Highlands, with an 8.56% interest, and Mineral Resources Madang Limited and Mineral Resources Ramu Limited which hold 2.5% and 3.94% interest respectively, and which are both subsidiaries of Mineral Resource Development Corporation ("MRDC"). MRDC is a PNG Government entity which holds the government and landowners' interests. MCC Ramu is wholly owned by MCC-JJJ Mining whose shareholders are the Metallurgical Corporation of China Limited ("MCC") with 67.02%, Jilin Jien Nickel Industry Limited (13%), Jiuquan Iron and Steel (Group) Limited (13%) and Jinchuan Group Limited (6.98%).

The joint venture agreement allows for an increase in HIG's interest in the project to 11.3% at no cost after the internal project debt has been repaid from operating cash flow.

The project commenced construction in 2008. Trial mining at KBK began in 2009 and mining operations commenced in late 2011. Project construction was essentially completed in 2012, and project commissioning and ramp up commenced. The initial ramp up was relatively slow, but in the last two years production has exceeded nameplate capacity with 34,666t Ni and 3,308t Co produced in 2017 and 35,355t Ni and 3,275t Co produced in 2018 (see Table 3.1).

Table 3.1

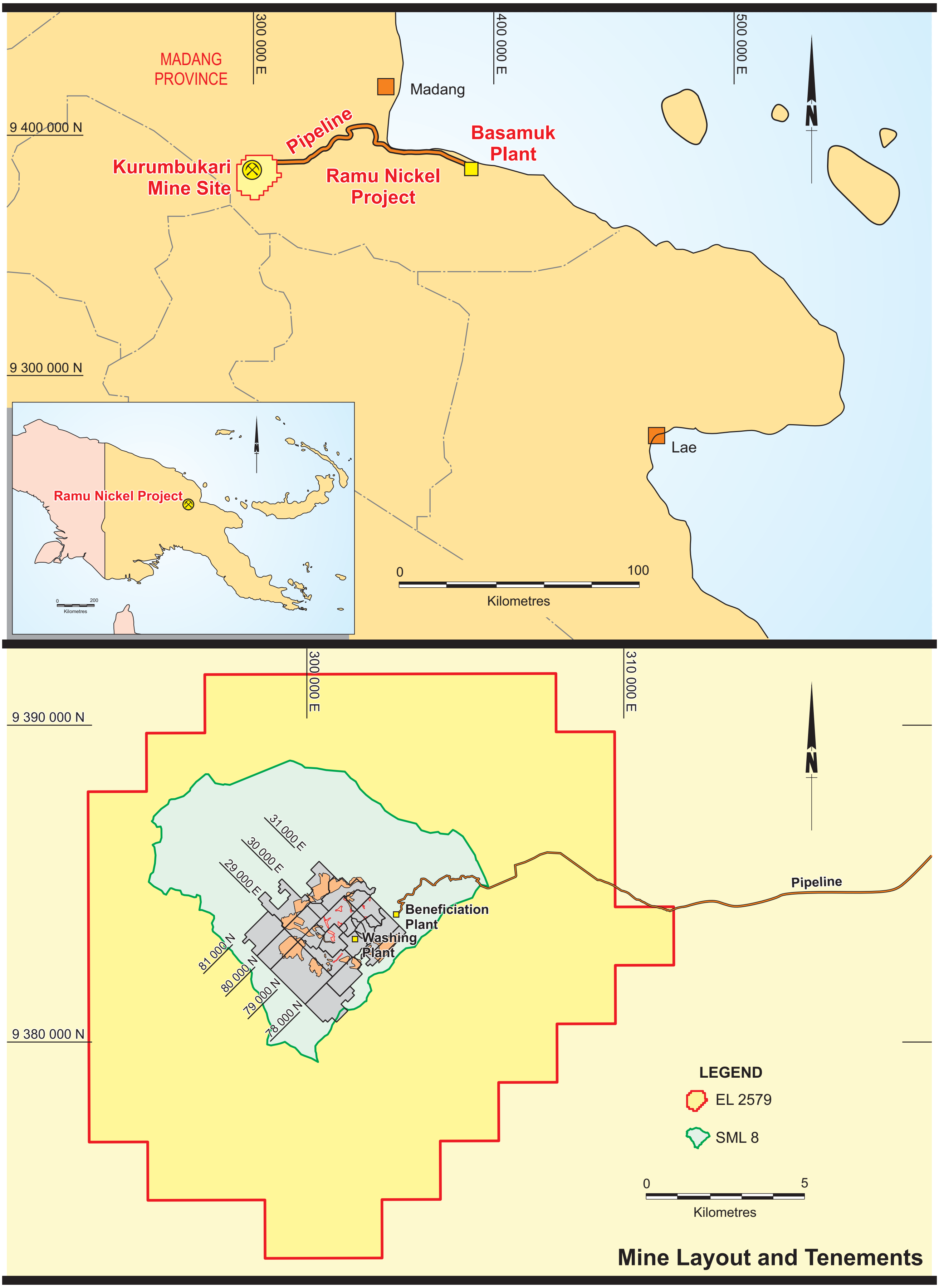
Historical Production from Ramu Project – Years 2012 to 2018

Item	Units	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Ore Mined	Mt (wet)	1.547	3.482	5.949	6.105	3.876	5.523	6.350
Ore Processed	Mt (dry)	0.816	1.253	2.273	2.784	2.270	3.601	3.719
Ore Grade	Ni (%)	0.98	1.00	1.06	1.12	1.13	1.09	1.10
Ore Grade	Co (%)	0.09	0.09	0.10	0.11	0.11	0.11	0.10
MHP Produced	t (dry)	13,777	29,736	57,360	65,286	57,824	89,947	92,258
Contained Ni	t	5,283	11,369	20,987	25,581	22,269	34,666	35,355
Contained Co	t	469	1,013	2,134	2,505	2,191	3,308	3,275

Note: Data sourced from Highlands' Quarterly Reports

Ramu's production targets going forward are for an annual production of 34,000t of contained nickel and 3,300t of contained cobalt in MHP. MCC Ramu has proposed investigation of a US$1.5 billion ("B") expansion of the project with studies underway.

BDA consultants visited the Ramu project site in early February 2019, visiting both the mining and processing operations. BDA has had discussions with operations managers and superintendents, and has reviewed data provided by MCC Ramu and Highlands. BDA has undertaken a technical review in accordance with the scope of work set by Deloitte, specifically to provide an opinion with regard to the reasonableness and accuracy of the technical inputs to Deloitte's valuation financial model.



Highlands Pacific

Ramu Nickel Project

Figure 2

TENEMENTS, KURUMBUKARI MINE, PIPELINE AND BASAMUK PLANT

BDA - 0179/02 (Jan. 2019)

Behre Dolbear Australia Pty Ltd

3.2 Tenements and Approvals

The Ramu nickel deposit is covered by Exploration Licence EL 2579 (formerly EL 193) and Special Mining Lease SML 8 (Figure 2). ELs have a two-year renewal period. Highlands holds through Ramu Nickel Limited an 8.56% equity interest in SML 8 and EL 2579, together with other licences listed in Table 3.2, as part of the assets of the Joint Venture. The SML, EL and other tenements cover the project's mineral deposits and project infrastructure corridors. Under the terms of the Joint Venture agreement, upon repayment of Highlands' and MRDC's project debt, Highland's interest in SML will increase to 11.3%.

Table 3.2

Ramu Nickel Project Tenement Details as at 31 January 2019

Licence	Province	Start Date	Expiry Date	Status	Highlands Interest (%)
SML 8	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
ML 149	Madang	26/7/2000	10/10/2020	Current	Ramu Nickel Limited (8.56%)
LMP 42	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
LMP 43	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
LMP 44	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
LMP 45	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
LMP 46	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
LMP 47	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
LMP 48	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
LMP 49	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
ME 75	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
ME 77	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
ME 78	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
ME 79	Madang	26/7/2000	25/7/2040	Current	Ramu Nickel Limited (8.56%)
EL 2579 (was 193)	Madang	15/1/2016		Under Application	Ramu Nickel Limited (8.56%)
EL 2376	Madang	26/5/2016	25/5/2018	Under Renewal	Ramu Nickel Limited (8.56%)

Notes: All the mining tenements for the Ramu Project are held in joint venture. The percentage detailed in the table indicates the percentage held by Highlands; EL=Exploration Licence, ELA=Exploration Licence Application, SML=Special Mining Lease, ML=Mining Lease, LMP=Lease for Mining Purpose, ME=Mining Easement

Mining Tenements in Papua New Guinea

Tenements are issued by the PNG Mining Minister on recommendation from the Mining Advisory Council ("MAC") under the Mining Act 1992. The Head of State, acting on advice from the National Executive Council issues the Special Mining Lease whilst the Minister for Mining issues the other types of licences.

Exploration License

An exploration licence may be granted for a term not exceeding two years, which may be extended for periods not exceeding 2 years. The area of land in respect of which an exploration licence may be granted shall be no more than 750 sub-blocks (one sub-block = 3.41square kilometres ["km^2"]).

Mining Lease

A mining lease is generally issued for small to medium scale alluvial and hard rock mining operations. A mining lease may be granted for a term not exceeding 20 years, which may be extended for periods not exceeding 10 years. The area of land in respect to which a mining lease shall be granted shall be not more than $60km^2$.

Special Mining Lease

A Special Mining Lease is generally issued to the EL holder for large scale mining operations. The EL holder must also be a party to a Mining Development Contract with the state. A SML may be granted for a term not exceeding 40 years, which may be extended for periods not exceeding 20 years. Before the grant of a SML, the Minister is required to convene a development forum to consider the views of the persons and authorities whom the Minister believes will be affected by the grant of the SML.

Lease for Mining Purpose

A LMP may be granted in connection with mining operations conducted or to be conducted by the applicant for one or more of the following purposes: the construction of buildings and other improvements; operating plant, machinery and equipment; the installation of a treatment plant and the treatment of minerals therein; the deposit of tailings or waste; housing and other infrastructure required in connection with mining or treatment operations; transport facilities including roads, airstrips and ports; any other purpose ancillary to mining or treatment operations or to any of the preceding purposes which may be approved by the Minister.

Mining Easement

A mining easement may be granted in connection with mining, treatment or ancillary operations conducted by the applicant for the purpose of constructing and operating one or more of the following facilities: a road, an aerial ropeway, a power transmission line, a pipeline, a conveyor system, a bridge or tunnel, a waterway, or any other facility ancillary to mining or treatment or ancillary operations in connection with any of the preceding purposes which may be approved by the Minister.

3.3 Geology and Mineralisation

The Ramu deposit is a typical tropical nickel-cobalt laterite deposit. The deposit was historically divided into three contiguous resource blocks, KBK, Ramu West, and Greater Ramu. The currently explored area of the deposit is around 8 x 5km, however, the mineralisation covers a much larger area. The deposit lies above a bedrock comprised of ultramafic dunite with minor harzburgite and pyroxenite. The nickel-cobalt laterite mineralisation is related to the weathering and leaching of the bedrock and consists of distinct layers of weathered, lateritic material as summarised in Table 3.3. The rock-free saprolite interface was defined from a combination of geological logging of drill core and ground penetrating radar ("GPR") surveys. The limonite and saprolite layers are the primary ore horizons in the deposit. The upper R1 rocky saprolite has been shown to be mineable, however, only a portion of the lower R2 rocky saprolite has been mined as run-of-mine ("ROM") ore.

Table 3.3

Summary of the Rock Types at Kurumbukari Mine

Rock Type	Description	Thickness (m)
Overburden	Humic layer and red limonite overburden; generally contains low nickel (<0.5% Ni) and cobalt grades; stripped as waste before mining the lower ore layers	0.7-47m averaging 4.5m
Limonite	Yellow limonite ore; hosts the bulk of the nickel-cobalt resource	0.3-19m averaging 4.7m
Saprolite	Enriched in nickel and cobalt and significantly magnesium; the top of the saprolite marks the boundary between acidic weathering and alkaline weathering conditions in the profile	0.4-13m averaging 3.9m
Rocky Saprolite - R1	Contains less than 30% (averaging 17% by volume) dunite boulders in a saprolite host; enriched in nickel but not in cobalt	0.4-21m averaging 2.8m
Rocky Saprolite - R2	Contains greater than 30% (averaging 51% by volume) dunite boulders in a saprolite host; enriched in nickel but cobalt is generally depleted.	0.3-13m averaging 2.6m
Bedrock	Typically dunite.	

The depth profile of the laterite ore averages approximately 14m, but varies locally as a result of active erosion by streams and gullies. The principal ore minerals at Ramu are goethite, asbolan and garnierite. Chromite is present in the deposit as a residual mineral and is recovered as a by-product by gravity separation methods from the ROM ore wash plant at the mine site.

Assay data shows that nickel is generally depleted (less than 0.5% Ni) in the overburden layer (including the humic and red limonite horizons), but is enriched in the yellow limonite and saprolite layers, including the rocky saprolite R1 and R2. Cobalt is generally depleted in the overburden layer, is enriched in the saprolite layer and generally depleted in the rocky saprolite.

3.4 Geological Data

The Ramu deposit has been defined principally by diamond drilling (HQ and NQ triple tube core), supplemented by historical auger and diamond drilling. The drill hole database used for the 1998 feasibility study resource model included 972 diamond holes (drilling density varies from 100 x 100m) in KBK, 58 diamond holes (drilling density 200 x 200m) in Ramu West and 71 diamond holes and 113 auger holes (drilling density 400 x 400m) in Greater Ramu. All drill holes were shallow vertical holes and therefore no down-hole surveys were carried out. Collar coordinates were surveyed using electronic distance measuring ("EDM") survey equipment. In 2016, MCC Ramu drilled 668 diamond holes (drilling density ranging from 50 x 50m to 100 x 100m to 200 x 200m) at the north and south of the KBK block. In 2017, MCC Ramu drilled a further 1,065 diamond holes (drill hole spacing ranging from 50 x 50m to 100 x 100m) at the west and north of the KBK block. BDA was informed during the site visit that further drilling has been completed in 2018.

All drill holes were comprehensively logged and sampled at 1m intervals. All drill core was photographed. The whole core was used for analysis historically but only half of the core was sampled for the 2016 and 2017 drilling. For the rocky saprolite layers (R1 and R2), all rock fragments above 2mm are excluded from the assay samples. Samples are pulverised to 85% passing 75 microns with a 25g charge prepared for assay. The analytical method for KBK and Ramu West drill samples included a four acid digest with Atomic Absorption Spectroscopy ("AAS") finish, using a detection limit of 25ppm for Ni and Co. Analysis was undertaken for Ni, Co, Mg, Al and Mn at Astrolabe Pty Limited ("Astrolabe"), which at the time was Highlands' in-house company laboratory. The Greater Ramu historical data are believed to be also based on AAS analysis, but no information is available on the digestion methods. Assays for the 2016 and 2017 samples were analysed by the MCC Ramu laboratory at the mine site using a four-acid digest with an Inductively Coupled Plasma Optical Emission Spectroscopy ("ICP-OES") finish.

Quality assurance and quality control ("QA/QC") procedures for KBK and Ramu West included insertion of blanks, standards and duplicate samples at a rate of one QA/QC sample to 10 drill samples. Approximately 10% of samples were sent for inter-laboratory checks, primarily at ALS Limited in Brisbane. QA/QC checks indicated acceptable results for Ni and Co; some assay biases were identified for Mg, Al and Mn. Adjustment of Mg, Al and Mn values for resource modelling purposes was carried out using regression techniques. No QA/QC samples were included for the 2016 drilling assays, therefore, the 2016 drilling data was not used for resource/reserve updates for the project.

Bulk density for KBK is based on 1,550 determinations using a mix of measuring techniques with the predominant method being weighing whole core with volume estimates based on vernier measurements of core diameter. Mean bulk density values from KBK were applied to Ramu West and Greater Ramu.

3.5 Mineral Resources

Of the three contiguous resource blocks in the Ramu deposit, the KBK and Ramu West blocks contain Measured and Indicated resources and Greater Ramu block contains Inferred resources. The KBK resource model was developed in 1998 and remained unchanged for the 2007 Feasibility Study and the December 2013, December 2015 and December 2016 resource estimate updates. The models for the Ramu West and Greater Ramu were updated for the December 2013 estimate and remained unchanged for the December 2015 and December 2016 resource estimate updates. The 2017 drilling expanded the original KBK block to the west and to the north. Current reported mineral resources were estimated as of 15 June 2018 and publicly reported in September 2018. As the 2017 drilling has extended the original KBK block to the north into the original Greater Ramu block and to the west into an area with no previous drilling, the June 2018 resource estimate update was only reported for the entire Ramu deposit area with no separation for the three original resource blocks. Mineral resources for the December 2016 update (reported for the three separate resource blocks) and the June 2018 update (reported for the entire Ramu deposit only) are summarised in Tables 3.4 and 3.5 respectively.

Table 3.4

Ramu Mineral Resources - 31 December 2016

Deposit	Category	Tonnage Mt	Nickel Grade %	Cobalt Grade %
KBK	Measured	37	0.9	0.1
	Indicated	5	1.3	0.1
	Inferred	2	1.2	0.1
	Subtotal	*44*	*1.0*	*0.1*
Ramu West	Indicated	17	0.9	0.1
	Inferred	3	1.5	0.2
	Subtotal	*20*	*1.0*	*0.1*
Greater Ramu	Inferred	60	1.0	0.1
	Subtotal	*60*	*1.0*	*0.1*
Total	Measured	37	0.9	0.1
	Indicated	22	1.0	0.1
	Inferred	65	1.0	0.1
	Total	**124**	**1.0**	**0.1**

Note: resources at a cut off of 0.5% Ni; resources are inclusive of reserves; figures may not add exactly due to rounding; resources do not include the +2mm rock fragments in the rocky saprolite layers; resources exclude depletion from mining from 31 December 2016

Table 3.5

Ramu Mineral Resources - 15 June 2018

Category	Tonnage Mt	Nickel Grade %	Cobalt Grade %
Measured	34	0.9	0.1
Indicated	42	0.9	0.1
Inferred	60	1.0	0.1
Total	**136**	**0.9**	**0.1**

Note: resources at a cut off of 0.5% Ni; resources are inclusive of reserves; the figures may not add exactly due to rounding; resources do not include the +2mm rock fragments in the rocky saprolite layers; resources exclude depletion from mining since 15 June 2018

Resources include limonite, saprolite and rocky saprolite mineralisation at a cut off of 0.5% Ni. The rocky saprolite includes rock-free material less than -2mm in size. The lower boundary of the rocky saprolite is determined by either the first 1.5m boulder intersected or a 3m intersection with greater than 50% of the volume of the intercept being rock.

Micro Lynx software using a gridded seam modelling technique was used for the original resource model created for the 1998 Feasibility Study. Grade estimation for that model was carried out using omni-directional variography and Ordinary Kriging ("OK") with grade values interpolated into a 25 x 25m block model. Bulk density values for KBK were estimated using the inverse distance squared ("ID^2") interpolation method. Surpac mining software has been used to update the resource estimate from December 2013. A new digital terrain model ("DTM") developed by MCC Ramu was utilised which enabled an allowance to be made for mining depletion. The Ramu West model was updated to incorporate additional drilling completed since 1999. For the June 2018 resource estimate update, the KBK block was expanded to the north into the original Greater Ramu block and to the west into an area with no previous resource estimate; the ID^2 interpolation method was used for grade estimation for the newly drilled areas; only a total resource statement has been presented with no separation provided into the original three resource blocks.

In the KBK block, the limonite and saprolite are categorised as Measured resources, the upper rocky saprolite as Indicated, and the lower rocky saprolite as Inferred. In Ramu West, the same layer combinations are categorised Indicated and Inferred respectively, reflecting the wider drill hole spacing of 200 x 200m. The entire resource in Greater Ramu area is categorised as Inferred due to the wide 400 x 400m hole spacing. For the June 2018 resource estimate update, the additional drilled area around the original KBK block with a drilling density of 100 x 100m was classified as Indicated (limonite, saprolite and upper rock saprolite) and Inferred (lower rocky saprolite).

As the resource estimate for the Ramu deposit does not include the +2mm rock fragments, it should be compared in production reconciliations with the dry tonnage data from the slurry produced post the wash plant at the mine site, not with the dry tonnage of the ROM ore. As chromite concentrate produced by the wash plant represents a significant percentage (generally +5%) of the -2mm portion of the ROM ore, this material should also be considered in production reconciliations.

3.6 Ore Reserves

Ore reserves for KBK and Ramu West were estimated in January 2014 by AMC Consultants Pty Limited ("AMC"), based on the December 2013 resource block model, and were publicly reported by Highlands in March 2014.

AMC used the following parameters for pit optimisation and ore reserve estimation:

- Whittle 4X pit optimisation was used to define the optimum pit shell using inputs including geotechnical parameters, mining parameters, metal prices, metallurgical recoveries, mining and processing costs and royalties; a single mining option was assessed based on a mill feed rate of 2.8 million tonnes per annum ("Mtpa") (85% of nameplate capacity)
- pit optimisation used a nickel price of US$15,000/t and a cobalt price of US$26,500/t; payable revenue was based on sale of a mixed hydroxide product at 77% of the nickel price and 60% of the cobalt price; a royalty rate of 2% net smelter revenue was applied
- a mining ore loss factor of 5% and mining dilution factor based on dilution skins on ore contacts were applied
- metallurgical recoveries applied were 91% for nickel and 85% for cobalt
- for pit optimisation, the overall pit slope angle applied was 45°
- average mining costs used were US$2.74 per wet tonne; processing costs were US$77.90 per dry tonne of refinery feed
- cut-off grade is variable from block to block, based on production rates and operating costs, processing

recoveries and metal prices; the average cut-off grade is approximately 0.65% Ni equivalent, including cobalt credits.

The ore reserve is categorised as Proved and Probable in accordance with the JORC Code. Inferred mineral resources were treated as waste in the ore reserve estimate.

BDA notes that the 0.65% Ni equivalent cut-off grade for reserves is similar to the 0.5% Ni resource cut-off grade, as indicated by the same average Ni and Co grades for both the resource statements and reserve statements.

The ore reserve estimate for the Ramu deposit was updated by AMC in December 2015, by China ENFI Engineering Corporation ("ENFI") in December 2016, and by Sinomine Resource Exploration Co., Ltd. ("Sinomine") in June 2018 (publicly reported by Highlands in September 2018). The Sinomine report does not provide details for the parameters and procedures used for the reserve estimation. However, based on the same resource and reserve Ni and Co grades for all the resource/reserve estimates, and the lower reserve/resource (Measured/Indicated only) ratio for the June 2018 Sinomine reserve estimate (0.74 for June 2018, 0.83 for December 2016, 0.85 for December 2015 and 0.85 for December 2013), BDA considers that the June 2018 Sinomine reserve estimate for the Ramu deposit is generally acceptable. BDA notes that June 2018 Sinomine reserve estimate used a cut-off grade of 0.5% Ni, which is not materially different from the 0.65% Ni equivalent used by AMC in December 2015 as indicated by the same average Ni and Co grades for the resource and reserve estimates.

The ore reserves for the Ramu deposit as of 15 June 2018 are summarised in Table 3.6.

Table 3.6

Ramu Ore Reserves – June 2018

Category	Tonnage Mt	Nickel Grade %	Cobalt Grade %	Contained Ni Tonnes	Contained Co Tonnes
Proved	24	0.9	0.1	216,000	24,000
Probable	33	0.9	0.1	297,000	33,000
Total	**56**	**0.9**	**0.1**	**513,000**	**57,000**

Note: ore reserves estimated by Sinomine using a cut-off grade of 0.5% Ni, which is not materially different from the 0.65% nickel equivalent cut-off grade previously used by AMC; reserves are included in resources; the figures may not add exactly due to rounding; reserves do not include the +2mm rock fragments in the rocky saprolite layers; reserves exclude depletion from mining since 15 June 2018

3.7 Additional Resource/Reserve Potential

BDA considers that there is significant additional resource/reserve potential at Ramu:

- The currently drilled area for defining mineral resources is about 25km^2, which is only a portion of the total Mining Licence (SML 8) area of 54.4km^2. The mining licence is surrounded by the much larger Exploration Licence (EL 2579) with an area of 194.95km^2. MCC Ramu is applying for an expansion of EL 2579 to cover all the identified dunite bedrock. The laterite nickel and cobalt mineralisation is generally continuous above the weathered and leached dunite except in areas with significant erosion. Additional drilling outside the current drilled area is likely to increase the mineral resources significantly, and potentially add to the Ramu ore reserves.

- In addition to the Measured and Indicated resources, there are significant Inferred resources in the current Ramu resource estimate. Additional infill drilling could upgrade at least a portion of the Inferred resource to Measured and Indicated status, which could potentially be included in future reserves with further mine planning.

3.8 Mining

Mining operations at KBK were initially based on open pit mining of ore and waste, using conventional small-scale hydraulic excavators and articulated, all-wheel drive rear-dump trucks, supported by a fleet of earthmoving and servicing equipment for the soft conditions. After an initial trial period, hydro-sluicing was introduced in 2016 as a second form of extraction; hydro-sluicing has accounted for around 30% of production since its introduction.

The pit designs include Measured and Indicated resources, but also include a quantity of Inferred resources that lie within the pit shells; there are reasonable prospects that some of this material may be confirmed as mineable ore with infill drilling.

The project has a nominal 16-year mine life based on the current Ore Reserves, with potential to extend the pits as and when additional reserves are defined. The mine plan is prepared for the short term, while the long term mine plans include all resources. Extraction is progressing from the central area where the washing (de-agglomeration) plant is located (Figures 2 and 3). Two pit areas are generally set aside for hydro sluicing. BDA considers that the proposed mine production schedule is reasonably achievable and realistic. Recent mining operations have met the requirements of the refinery which has been operating at between 104-108% of design capacity.

Figure 3 shows the current mining layout including the areas known as Pits 1-20. Mining is progressing out from the washing plant. After the initial logging of the trees by specialised teams, the humus/topsoil and overburden are generally removed by bulldozers; excavator and truck haulage are used if the quantities are significant. Ore is mined by excavator and truck and is hauled from the mining area to either one of the four ore bins. The material from the hydro-sluicing is pumped to the washing plant for screening and then pumped with the ore slurry from the washing plant to the beneficiation plant.

The planned average annual mining rate is around 7.9Mtpa (wet) of total material, with mining including ore (limonite and saprolite), waste and topsoil stripping and stockpiling, as well as materials re-handling to the plant and rehabilitation. The total project comprises mining approximately 56Mt of Proved and Probable reserves grading 0.9% Ni and 0.1% Co. The ore tonnage estimated by MCC Ramu represents the -2mm economic portion of resource mineralisation and is reported after the initial screening, ie. ore available to feed the beneficiation plant. The rocky material greater than 2mm that occurs in the rocky saprolite mineralised zone, is excavated and hauled from the mine, but is considered internal waste and is removed in the washing plant prior to beneficiation.

Mine scheduling is based on the reserve block model grades which provide data for initial grade control and delivery of the target blend of material to the plant.

3.9 Mine Reconciliation

BDA has reviewed the mineral resource reconciliation against mine production for the Ramu operation; both the production figures and depleted mineral resource figures were supplied by MCC Ramu's mine geology staff.

The reconciliation between the depleted mineral resource model and the ore received by the Basamuk processing plant plus chromite concentrate recovered by the mine site wash plant for the period of operation between January 2012 and October 2018 is summarised in Table 3.7.

Table 3.7

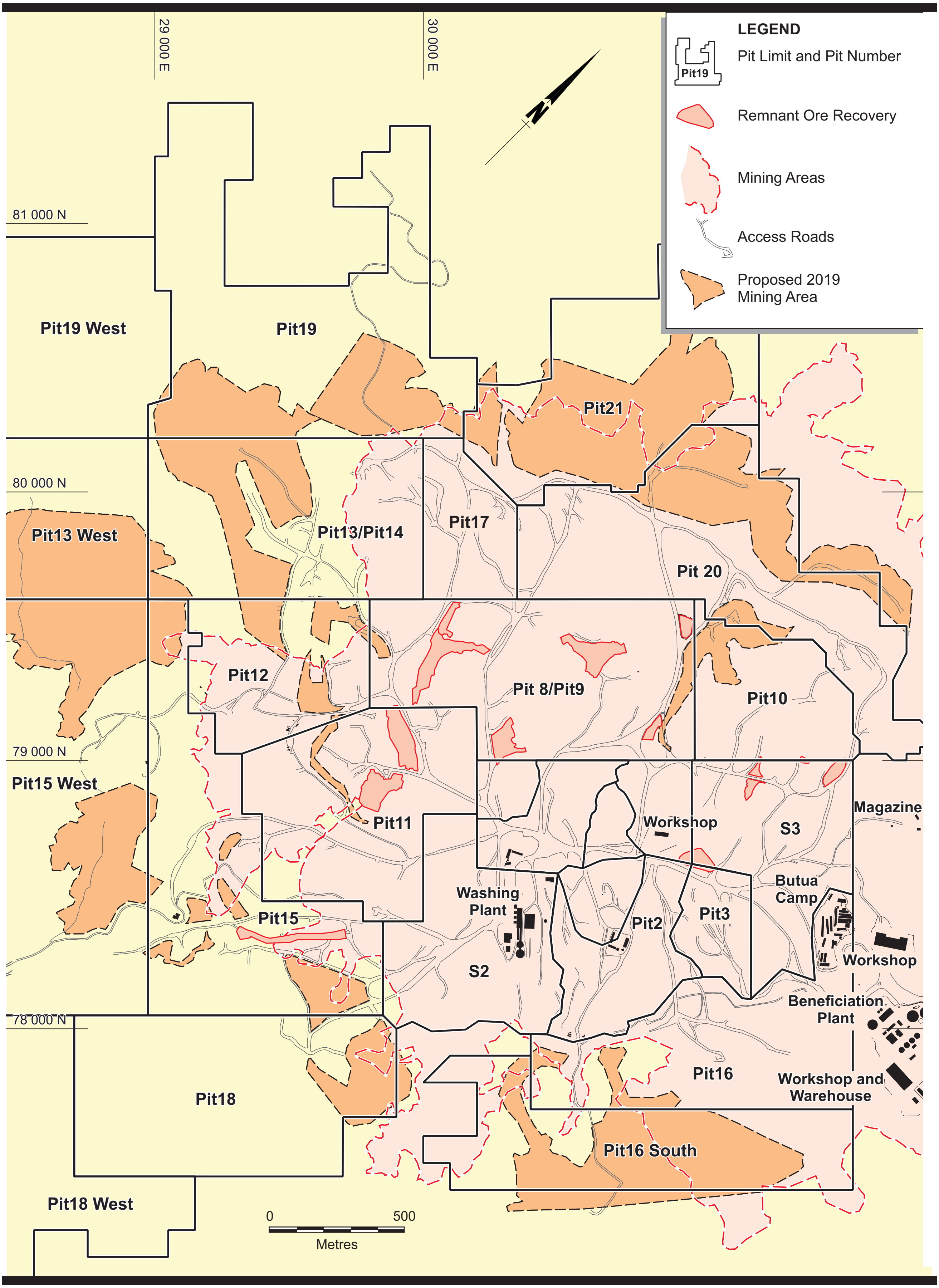
Ramu Mining Reconciliation for Period January 2012 to October 2018

Data	Tonnage kt	Nickel Grade %	Cobalt Grade %
Resource Model Depleted (MR)	19,406	1.00	0.100
Dry Slurry to Basamuk Plant	15,981	1.08	0.104
Chromite Concentrate Produced	890	0.00	0.000
Total Production (TP)	16,871	1.03	0.099
Reconciliation % (TP vs MR)	*87*	*103*	*99*

The results indicate that the total production tonnage is only about 87% of the forecast resource tonnage, indicating either an overestimation of resource tonnage or losses in the mining, transportation and ROM ore washing process. The depleted resource tonnage includes only the limonite, saprolite and upper rocky saprolite layers (Measured/Indicated resources) and excludes the lower rocky saprolite layer (Inferred resource); the fact that mining actually recovers at least a portion of the lower rocky saprolite means that the actual production loss or tonnage discrepancy is likely to be higher than 13%, significantly higher than the 5% mining loss factor applied in the ore reserve estimate. If this tonnage differential is confirmed by further detailed reconciliation, consideration should be given to revisions to the resource estimates or to the mining loss factor used for ore reserve estimation. In the table above, the chromite concentrate comprises 5.3% of the total production tonnage; the ore tonnage sent to the Basamuk plant is only 82% of the estimated resource tonnage depleted.

The Ni grade in the ore feed to the plant is 3% higher than the depleted resource Ni grade, suggesting that the resource grade estimates are reasonable and mining dilution is minimal. The lower rocky saprolite R2 was not planned to be mined because it is an Inferred resource but it was at least partially mined in actual production; Ni is enriched in R2 and therefore the mining of a portion of the R2 unit could contribute to the slightly higher Ni grade. The Co ore feed grade is close (within 1%) to the resource grade estimate. The production data provided by MCC Ramu does not include the Mg grade.

Based on the production reconciliations to date, BDA considers that the resource and reserve estimates provide a reasonable guide to the likely grade of ore feed to the Basamuk plant, but that the tonnage may be overestimated. Tonnage feed to the plant may be 15-20% less than indicated in the resource and reserve estimates.



Highlands Pacific *Ramu Nickel Project*

Figure 3 **KURUMBUKARI MINE SITE LAYOUT**

Behre Dolbear Australia Pty Ltd

3.10 Processing

Mine Site Wash Plant and Beneficiation Plant

The feed to the wash plant comes from both conventional excavator and truck mining and from hydraulic mining. The KBK mine site plant flowsheet is shown in Figure 4 and comprises a de-agglomeration or wash plant, with four separate lines, each comprising a feed bin with grizzly, apron feeder and rotating drum scrubber. The scrubber washes and screens the ore, with the coarse (+50mm) material rejected at the end of the scrubber, while intermediate (-50mm) sized pebbles are fed to two logwashers operating in parallel. The "fines" (-3mm) are further screened and sent to the beneficiation plant with the -50mm + 3mm material sent to waste. The hydraulic mining material is pumped directly to the screens to allow separation of the -3mm material.

The fines from the wash plant including the fines from the hydraulic mining are pumped to the Beneficiation Plant. The main purpose of the Beneficiation Plant is to remove the high amount of chromite mineral from the slurry. Chromite is a very abrasive mineral and is quite harmful to steel pipelines. The Beneficiation Plant (Figure 4) comprises a receiving storage tank from which the slurry is pumped to the plant. The first step is to separate the "slimes" or -53 micron ("µm") material using two banks or clusters of hydrocyclones. The +53µm material is sent to two banks of spiral concentrators which separates the coarse chromite from the Ni/Co bearing fines. The coarse chromite-rich concentrates are sent to two banks of 26 shaking tables each to remove chromite. The table concentrates containing more than 80% of the chromite in the feed slurry are sent to a magnetic separator which separates a high grade chromite product or concentrate and a lower grade "middlings" product. The high grade chromite concentrate is filtered and stockpiled for sale.

The non-chromite streams from the spirals and tables are sent to a grinding mill to be reduced to a size distribution of about 100% passing 150µm. The ground slurry is thickened to recover water for re-use in the wash plant and hydraulic mining, and the slurry is pumped via a pipeline to the hydrometallurgical plant at Basamuk Bay.

The KBK plant commenced operation in 2012 and experienced a number of issues during ramp up and early operation, however these have been systematically resolved. The KBK plant is designed to treat around 4.6Mtpa of dry ore (nominally around 8Mtpa of wet ore) at a 41% moisture level from the mine to provide 3.2Mpta (dry) feed to the Basamuk plant, having an average LOM metal grade of around 1.1% Ni and 0.1% Co.

The feed to the wash plant has averaged about 6Mtpa for the past two years. Metal production for 2017 and 2018 has been at or slightly in excess of design (106% and 108% respectively); monthly production in 2016 was close to design, but three months of production were lost due to a major plant accident. BDA considers that the ramp-up period was completed in 2015, and considers that the plant should be capable of design production going forward.

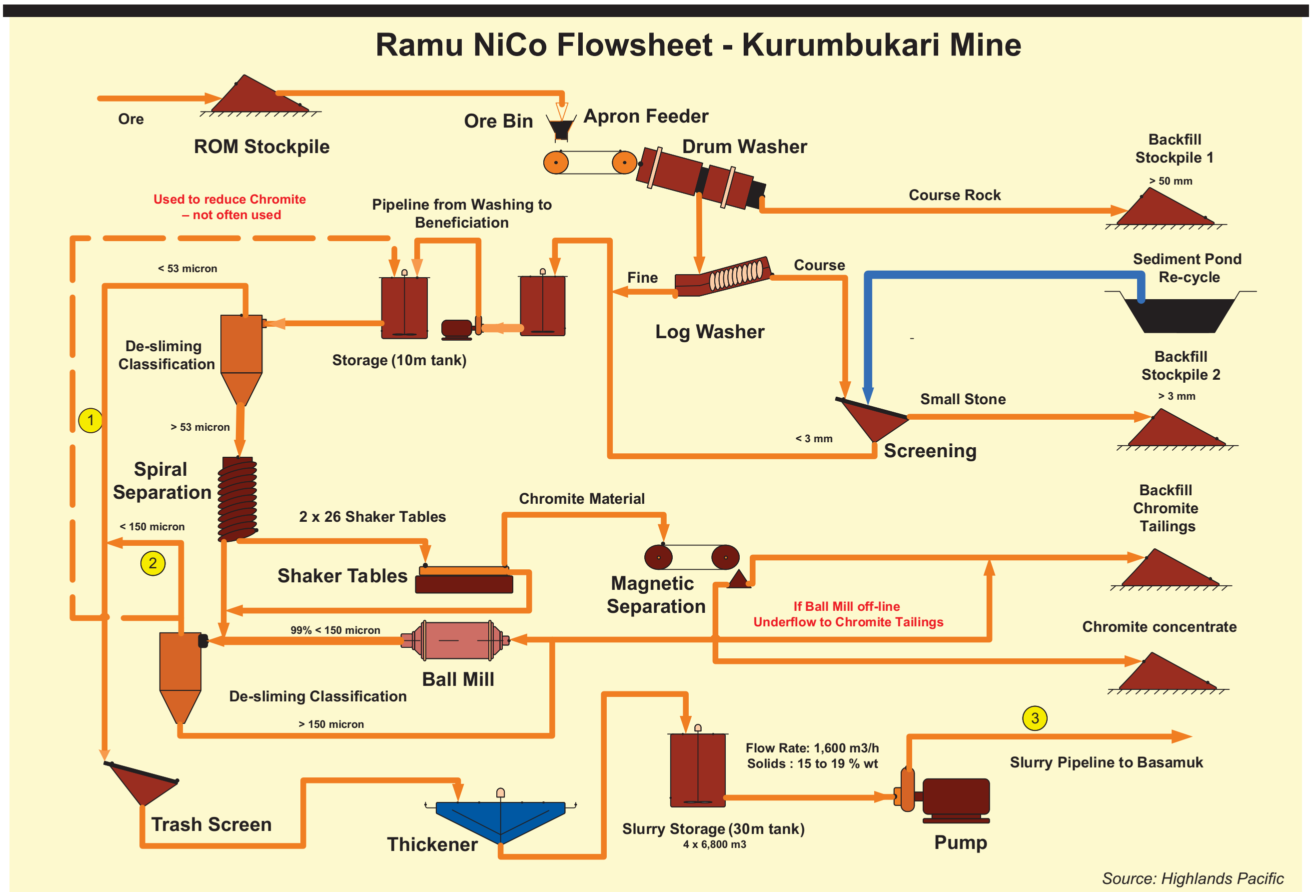
Basamuk Refinery

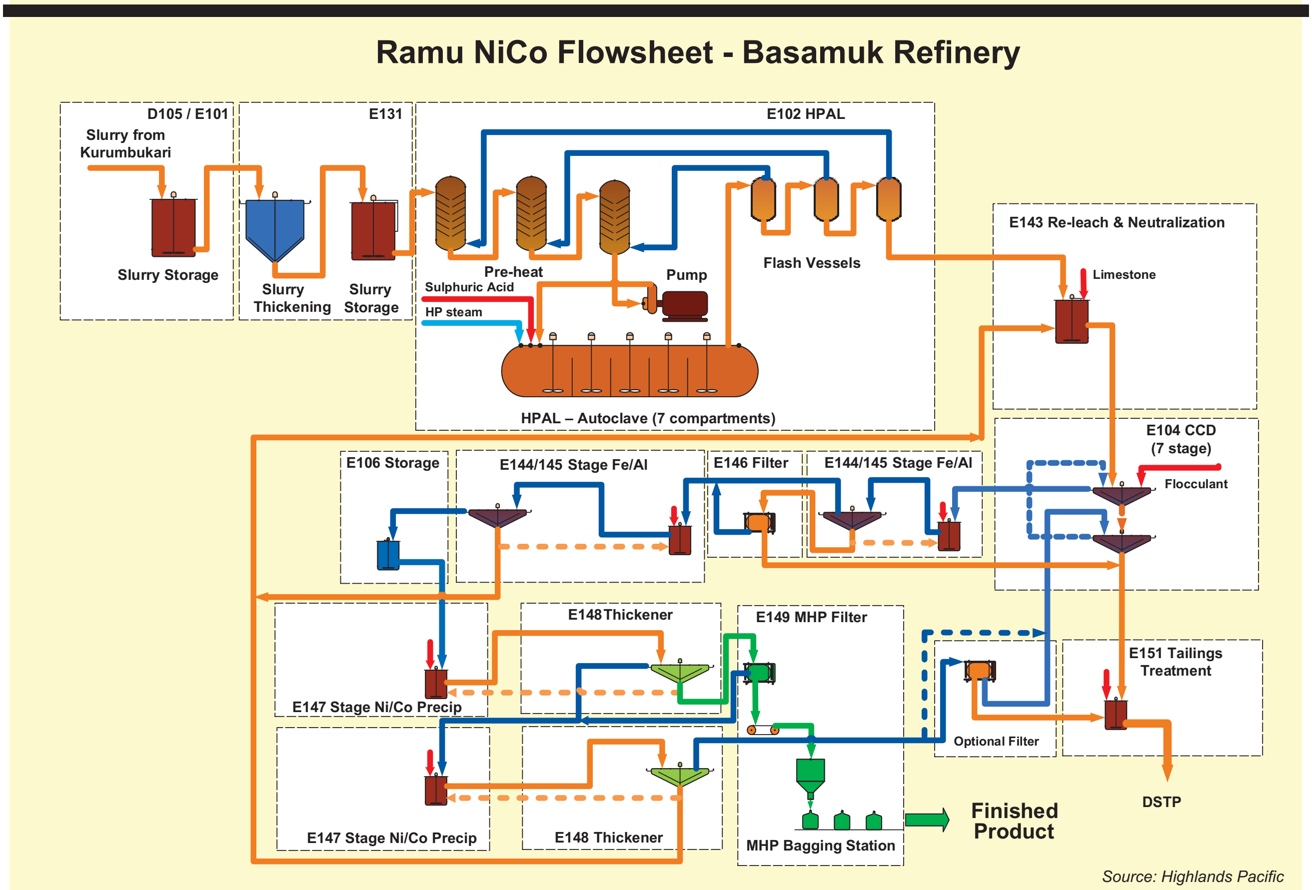
Following washing, scrubbing, screening and beneficiation, the ore is transported from the mine site via a 135km slurry pipeline to the Basamuk refinery, located approximately 75km east of Madang (Figure 2). The Basamuk plant is designed to produce annually approximately 78,000t (dry) of mixed nickel-cobalt hydroxide product (MHP) containing around 32,600t Ni and 3,300t Co.

The refinery flow-sheet (Figure 4) comprises several discrete processes including high pressure acid leaching ('HPAL"), slurry pre-neutralisation ("PN"), counter current decantation ("CCD"), thickening, scrubbing, iron and aluminium removal, Ni-Co precipitation and neutralisation of the residue.

Ore from KBK arrives at the Basamuk site at high pressure which has to be dissipated using a series of orifice plates. Once the slurry energy has been reduced, the slurry is stored in tanks prior to being thickened and then pumped to the HPAL feed storage tanks. The plant incorporates three HPAL trains (autoclaves). Slurry is fed to the three HPAL lines at about 145tph/autoclave. Each HPAL line is made up of three pre-heat vessels, the autoclave and three heat recovery/pressure let-down or "flash" vessels. The discharge from the third pre-heat vessel at around 200°C is pumped using two Wirth positive displacement ("PD") pumps into the autoclave. Each PD pump is capable of pumping full capacity but normally operates at half rate. Each pump has its own discharge line into the autoclave. Steam and acid is added to the autoclave to raise the temperature to 250°C at a pressure of about 43 bars (4,300 kilo-pascals or about 30,000 pounds per square inch). The autoclave is lined with high quality titanium 17 alloy and is equipped with seven compartments and seven Ekato agitators for a residence time of about 1 hour.

The discharge from the autoclave heat recovery vessels is sent to a pre-neutralisation circuit where limestone is added to reduce the free acid ("FA") and also precipitate some iron and aluminium. After the PN circuit the slurry is treated in a series of seven 36m diameter counter-current decantation (CCD) thickeners with slurry feeding forward and thickener overflow or liquor feeding counter-current.





Highlands Pacific *Ramu Nickel Project*

Figure 4 **PROCESS FLOWSHEETS**

The slurry from CCD 7 is sent to tailings neutralisation while the liquor from CCD1 is sent for further Fe and Al removal by precipitation using limestone slurry. Once the metals are precipitated the slurry is thickened with the underflow solids sent for filtering. The filtered solids are sent to the tailings disposal circuit while the filtrate joins the first stage thickener overflow for a second neutralisation stage. The second stage discharge is thickened, with solids returned to PN for re-leaching of any Ni and Co with the thickener overflow liquor sent to the first stage of Ni/Co precipitation.

The first Ni/Co precipitation step uses sodium hydroxide to precipitate the Ni and Co as hydroxides with the resultant slurry thickened. The underflow solids containing the mixed hydroxide product (MHP) are filtered and the solids packaged in 1t bags. The MHP grades about 38% Ni and 3.5% Co with moisture at greater than 60%. A second stage Ni/Co precipitation step uses burned lime with the slurry thickened. Thickener underflow solids are returned to PN for re-leach.

Tailings neutralisation is accomplished in a series of agitated tanks with lime slurry added to the waste pulp to raise the pH to over 7. The neutralised tailings slurry is discharged using deep sea tailings placement ("DSTP"). The project has an approved deep sea tailings discharge system which has a twenty year life, currently considered sufficient for the LOM.

The plant has a two-train acid-making facility as well as a limestone processing plant for making the key reagents used in producing the mixed hydroxide product.

The Basamuk Ni/Co extraction and recovery plant has been operating well over the past three years following ramp up. HPAL extractions average about 94% for Ni and 95% for Co with overall plant recoveries of 87% Ni (target 89%) and 87% Co (target 88%). Acid consumption on average is about 265kg/t of dry ore treated.

3.11 Infrastructure

The Kurumbukari mine and beneficiation plant are established operations and the site is provided with appropriate infrastructure at this stage, with suitable road access, power and water. Accommodation is also established for the workforce.

Water is sourced from the nearby Gagaiyo River, with a capacity of 48,000m^3 per day, and power is generated at site by six generators with a combined capacity of 30MW.

The process plant at Basamuk has established water and power infrastructure along with workforce accommodation. Water is sourced from the nearby Yaganon River and from six large diameter wells with capacity around 24,000m^3 per day; power is generated at site by eight generators with a combined capacity of 54MW which use heavy fuel oil ("HFO").

Adjacent to the plant site are wharf facilities that can handle ships up to 50,000dwt. The wharf is equipped with three 25t portal cranes. Goods handling at the wharf includes handling of bulk cargo, general cargo, oil products and a few containers as well as loading and unloading of special or large-sized equipment.

Sulphur is imported from overseas sources to supply the two double-catalysis double-adsorption sulphur burning acid plants. Each plant has a capacity of 500ktpa sulphuric acid. Sufficient dry sulphur storage has been provided at the port and sufficient acid storage has been provided at the plant area. Steam is a by-product of the acid plants and is used throughout the plant for various uses including HPAL. Currently there is no co-generation of power from the acid plants. Extra steam is provided from two 245t steam boilers fired by fuel oil.

Limestone is mined at a quarry near the Basamuk plant. The limestone is transported to the plant with a large storage capacity to accommodate wet season quarrying delays. The limestone is reclaimed and crushed in a two-stage jaw and cone crushing circuit with the fines sent to a grinding mill circuit for further size reduction and slurrying ready for use in the plant. Initially, it was intended to burn some of the limestone in a rotary kiln to produce the burned lime necessary for downstream processing, however, the limestone quality was inadequate and it was decided to import burned lime in bags. This burned lime is slurried and stored ready for use.

3.12 Environmental and Social

Environmental

The relevant PNG environment legislation under which the Ramu project is operated is the *Environment Act 2000*.

The Kurumbukari mine and beneficiation plant and Basamuk processing plant are operated by MCC Ramu under various Environment Permits issued by the Independent State of Papua New Guinea under Section 65 of the Environment Act 2000.

The key Environmental Approval for the project is the Environmental Plan Approval issued under the Environmental Planning Act 1978 in March 2000 by the Minister for Environment and Conservation.

The operations permits are WD-L3(115) which covers all works within SML 8, all LMPs, MEs and ML 149. Permit WE-L3(85) covers the extraction and use of water resources within SML 8, all LMPs, MEs and ML 149. Both of these permits were issued on 1 January 2004 for a term of 50 years, and various amendments have been made to the initial permits issued. Permit WD-L3(115) also approves the discharge of waste streams into the environment from the various premises, including air emissions and tailings discharge via the Deep Sea Tailings Pipeline (DSTP).

Both the mine and processing plan are operated under various environment protection management plans including air emissions, noise, water, chemical spill and control, dust control, erosion and sediment control, water resources, and progressive rehabilitation. Other socio-economic management plans include cultural, historical and archaeological heritage, and social and economic management.

Various environmental monitoring and reporting programmes are conducted across the mine site and processing plant areas which are a requirement stipulated under the environmental permits. A key monitoring programme is SO_2 emissions from the processing plant exhaust stacks. SO_2 monitoring programmes include on-line (ie. in-stack) which are reported regularly to CEPA (PNG Conservation and Environment Protection Authority). Other programmes include ground-level SO_2 monitoring, daily SO_2 monitoring for confined area access and manual SO_2 sampling and analysis.

MCC Ramu is required to conduct inspection of the DSTP on an annual basis. This is performed using a Remotely Operated Vehicle ("ROV") external visual inspection of the Deep Sea Tailings Pipeline (DSTP) at the Basamuk Bay Refinery. The purpose of this visual inspection is to identify the integrity of the pipeline to ensure its effective tailings discharge at the 152m below sea level outfall. The latest inspection confirmed that there was no identified evidence of damage, cracks or tailings leakage observed on the tailings pipeline at the time of inspection and the tailings discharge at 152m appears to be unobstructed and was flowing freely at the time of inspection.

A 5-year marine environment monitoring programme is also a requirement under the operating permit. The first marine monitoring programme was completed in 2018; preliminary results indicate no adverse effects findings on fish tissue samples and that metals are at background levels.

Social/Landholder Compensation

The PNG Mining Act 1992 provides for compensation to be paid by the holders of mining leases to the landholders for all loss or damage suffered, or foreseen to be suffered. The Water Resources Act also provides for certain compensation to be paid in certain circumstances to persons with an interest in land, where that interest is compromised.

To facilitate these compensation requirements, MCC Ramu has an executed Lands and Environment Compensation Agreement in place, dated 7 January 2000. This agreement is registered under Section 156 (6) of the Mining Act dated 24 February 2000. This Land and Environment Compensation Agreement remains valid and the various landholders groups are paid compensation on the terms and conditions set out in the agreement. Highlands advises that the Compensation Agreement is currently being reviewed.

3.13 Life of Mine Plan

The life of mine plan in this report is based on Highlands' production schedule in the Excel file "*Ramu financial model.xls*". The proposed annual treatment rate is approximately 3.4Mtpa, resulting in a mine life of around 14 years. The LOM production schedule is summarised in Table 3.8.

Table 3.8

Financial Model Ramu Production Schedule - Actuals 2015-2018 and Life of Mine 2019-2032

Item		Actual				Forecast									
	Unit	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	27-32	Total
Total Material Mined	Mt (wet)	7.32	4.74	6.90	7.85	8.52	8.52	8.52	8.52	8.52	8.52	8.52	8.52	51.14	119.33
Ore Processed	Mt (dry)	2.78	2.27	3.60	3.72	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	20.40	47.60
Ore Grade	% Ni	1.12	1.13	1.09	1.11	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08
	% Co	0.11	0.11	0.11	0.10	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
Ni Recovery	%	82	87	88	86	89	89	89	89	89	89	89	89	89	89
Co Recovery	%	83	86	87	85	82	82	82	82	82	82	82	82	82	82
MHP Produced.	kt	65.3	57.8	89.9	92.3	83.8	83.8	83.8	83.8	83.8	83.8	83.8	83.8	502.8	1173.2
MHP Grade	% Ni	39	39	39	38	39	39	39	39	39	39	39	39	39	39.0
	% Co	3.8	3.8	3.7	3.5	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	4.0
Ni Production	kt Ni	25.6	22.3	34.7	35.4	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	196.1	457.5
Co Production	kt Co	2.5	2.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	20.1	46.8

Note: kt = thousand tonnes; the wet ore is assumed to contain 45% moisture; Ore Processed = ore after beneficiation at KBK

The mining schedule set out in Table 3.8 has a total of 119.3Mt of wet material which provides 47.6Mt of dry ore assuming approximately 45% moisture and removal of a chromite concentrate, produced from the KBK beneficiation plant and fed to the refinery via the pipeline. The current reserve (56Mt) is higher than the above scheduled ore tonnage and with the potential available resources additional to the reserve there is strong likelihood of extending the LOM. The Highlands' model incorporates an option to extend the LOM by five years at the same throughput, grade and production rate, as an upside review case.

The LOM plan from 2019 is based on an annualised treatment rate of around 3.4Mtpa of ore. Annual beneficiated grades feeding the Basamuk plant over the LOM are projected to average 1.08% Ni and 0.12% Co.

The projected metallurgical performance over the LOM reflects the results from experience to date. Nickel recovery is projected to average 89%; cobalt recovery is projected at 82%. Both metal recoveries are considered reasonable based on current performance. Nickel production in MHP is projected to be approximately 32,700t per annum ("tpa") at full production; cobalt production is projected to be 3,300tpa.

BDA has reviewed the Ramu production schedule, the grade projections, recoveries and metal production from concentrate and has advised Deloitte with regard to the appropriate values for the technical inputs to the financial model, recognising the status of the project and the projected accuracy of the estimates (see Section 3.17).

3.14 Capital Cost Estimates

Capital cost estimates for Ramu essentially cover sustaining and replacement capital (Table 3.9). No provision for mine closure has been included in the cost estimate.

Table 3.9

Ramu Sustaining Capital Cost Estimate - Actuals 2015-2018 and Life of Mine 2019-2032

Item		Actual				Forecast									
	Unit	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	27-32	Total
Sustaining Capital	US$M	18.9	25.6	16.9	5.3	5.0	20.0	5.0	5.0	5.0	5.0	5.0	20.0	60.0	226.7

BDA has reviewed the Ramu provisional estimates and has advised Deloitte with regard to the appropriate values for the technical inputs to the financial model. These values take recognition of the status of the project and the projected accuracy of the estimates; BDA has also proposed an allowance for closure costs (see Section 3.17).

3.15 Operating Cost Estimates

The operating cost estimates in the financial model "*Ramu Model.xls*" are shown in Table 3.10.

Table 3.10

Ramu Operating Cost Estimate – Actuals 2015-2018 and Life of Mine 2019-2032

Item		Actual				Forecast									
	Unit	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	27-32	Total
Physicals															
Material Mined	Mt (wet)	7.3	4.7	6.9	7.9	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	51.1	119.3
Ore Processed	Mt (dry)	2.78	2.27	3.60	3.72	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	20.40	47.60
Ni Production	kt	25.6	22.3	34.7	35.4	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	196.2	457.5
Co Production	kt	2.5	2.2	3.3	3.3	3.3	3.4	3.3	3.4	3.3	3.4	3.3	3.4	20.8	46.8
Cr Production	kt	51.4	52.8	90.1	92.1	95.4	95.4	95.4	95.4	95.4	95.4	95.4	95.4	572.4	1,335.7
Costs															
Mining (KBK Total)	US$M	50.9	44.8	54.3	63.9	50.5	50.5	50.5	50.5	50.5	50.5	50.5	50.5	303.1	707.4
Processing (BSK Total)	US$M	168.7	118.2	159.8	190.3	144.2	144.2	144.2	144.2	144.2	144.2	144.2	144.2	865.1	2,018.6
Site Costs	US$M	219.6	163.0	214.1	254.2	194.7	194.7	194.7	194.7	194.7	194.7	194.7	194.7	1,168.3	2,726.0
Realisation MHP & Cr	US$M	9.2	8.4	15.1	28.0	23.0	24.3	24.3	24.3	24.3	24.3	24.3	24.3	145.4	338.0
Royalty/Levy	US$M	na	na	na	4.1	3.7	3.7	3.6	3.6	3.5	3.5	3.4	3.4	19.2	47.6
Co & Cr Credits	US$M	na	na	na	-161.4	-125.7	-127.7	-127.7	-127.7	-127.7	-127.7	-127.7	-127.7	-766.1	-1,785.6
Total Operating Costs	US$M	219.6	163.0	214.1	124.9	95.7	95.0	94.9	94.9	94.8	94.8	94.7	94.7	566.8	1,326.1
Unit Costs															
Mining	US$/t *	18.3	19.7	15.1	17.2	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Processed	US$/t *	60.7	52.1	44.4	51.2	42.4	42.4	42.4	42.4	42.4	42.4	42.4	42.4	42.4	42.4
Site Costs	*US$/t **	79.0	71.8	59.5	68.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3
Total Operating Costs	*US$/lb Ni*	na	na	na	1.60	1.33	1.32	1.32	1.32	1.31	1.31	1.31	1.31	1.31	1.31

*Note: * unit cost per dry tonne processed; G&A split between operations 30% KBK and 70% BSK; some post operating costs are included in the period 2027-2032 after the end of production in 2032*

Costs are based on experience to date and are generally consistent with conventional open pit mining standards in PNG and with local labour rates. The equipment costs and performance are based on site experience project to date, reflecting the actual local conditions. Mining costs include the extraction of ore with either conventional mining with excavator and trucks or by hydro-sluicing; the costs also include the beneficiation of the ore at KBK including the removal of the chromite in a separate concentrate. The estimated cost is approximately US$14.90/t of dry ore processed for the next eight years with a LOM unit cost of US$16.00/t. The mining unit costs are lower than recent historical costs. The mining costs are sensitive to changes in fuel costs, which represent around 27% of the mining cost, and to maintenance costs from the difficult operating conditions. The costs assume around 23% of the ore is hydro-sluiced; an increase in this proportion could potentially lower the operating costs of the KBK operations. Mining costs for conventional mining are likely to rise as the mining area becomes further from the washing (de-agglomeration) plant but increasing hydro sluicing could offset these increases.

Processing costs at BSK have been estimated at US$45.22/t over the LOM. These costs will be most sensitive to acid consumption and power plant fuel prices. The estimated processing costs are comparable to those achieved on the project to date, adjusted for known variances, although the 2018 unit processing costs were higher at US$51.20/t treated. One variable is the frequency of autoclave shutdowns and, to some extent, acid plant shutdowns. The trend at the Basamuk plant has been to extend autoclave shutdowns from eight months to approaching twelve months, thus allowing some reduction in shutdown maintenance costs.

Combined general and administration ("G&A") costs have been allocated to KBK and BSK at 30% and 70% respectively in the financial model.

Overall, the operating cost estimates appear generally reasonable; BDA considers the operating cost estimates to be accurate to ±10-15%, as would be anticipated for an existing operation. BDA has reviewed the Ramu operating cost estimates and has advised Deloitte with regard to the appropriate values for the technical inputs to the financial model (see Section 3.17). These values take recognition of the status of the project and the projected accuracy of the estimates.

3.16 Ramu Expansion Plan

In 2018 MCC Ramu announced plans for a US$1.5B capital expansion to double the existing production capacity. It is proposed that plant throughput will increase to around 8,300kt per annum (dry-basis) and that metal production will increase to 65,790tpa of contained nickel and 6,555tpa of contained cobalt. Approvals for the expansion will be required from the various government agencies and by the various landowner groups at the two sites and along the slurry pipeline. MCC Ramu has indicated that preparation of engineering designs for the expansion has commenced; an expansion feasibility study has been prepared by ENFI.

BDA has reviewed the expansion estimates prepared by ENFI and has advised Deloitte with regards to the appropriate values for the technical inputs to the assessment of the expansion (see Section 3.17). These values take recognition of the status of the project and the projected accuracy of the estimates.

3.17 Valuation Assumptions

Deloitte has undertaken the valuation of operating assets where an established production profile can be defined and costs can be determined, using a financial model and NPV approach. Deloitte has requested that BDA review the production and cost projections and advise on the reasonableness of the assumptions and projections for valuation purposes. BDA has reviewed Highlands' production projections (based on MCC Ramu's forecasts) as a basis for valuation and the following BDA suggested inputs have been incorporated into the Deloitte valuation.

The production and cost projections are based on Highlands' production projections and existing reserves, and incorporate potential increases in the LOM through successful exploration and definition of additional resources and reserves.

In determining appropriate parameters for valuation, BDA has considered the assessments that might be made by a willing, knowledgeable and prudent buyer in assessing a value for the project.

Mine Inventory

- BDA has considered that a willing and knowledgeable buyer would probably consider an extension to mine life based on the conversion of around half of the Inferred resources to Measured and Indicated status and then to reserves and the discovery of additional resources within the SML; BDA considers that an additional 40Mt represents a reasonable valuation scenario; the overall mine inventory would then total approximately 90Mt which results in a mine life of around 25 years. It is noted that the mine life would then extend at least three years beyond the term of the current SML that expires in 2040; it is assumed that an extension of the SML term would be granted after the appropriate application for the extension had been submitted.
- The nickel grades used in the Highlands' model are reasonably close to the current refinery throughput grade, but are higher than the stated Ore Reserves grade. BDA notes that removal of the chromite concentrate has

an impact on the grade; BDA suggests a grade of 1.06% Ni for the first 42Mt with 0.95% Ni thereafter.

- The cobalt grades used in the model are higher than the current throughput grades and do not reflect the Ore Reserve cobalt grade. BDA has reviewed the reserve grades from previous estimates as well as the recent reserve grades and has made allowances for the upgrade of cobalt grade when the chromite concentrate is removed at the beneficiation plant from the slurry feed to refinery; BDA has suggested using 0.105% Co for the life of mine.

Production

- BDA considers the LOM mine and refinery rates are somewhat conservative given that recent throughput has been 6% and 8% above design capacity for 2017 and 2018 respectively. BDA considers that a willing and knowledgeable buyer would anticipate that these nickel production levels would be maintained throughout the LOM, even when the throughput grade reduces. BDA suggests that for modelling purposes the plant feed rate be increased by up to 10% to offset periods of lower grade; the final nickel and cobalt capacity would be within the current capacity.

Process Recoveries and Grades

- BDA considers that the projected metallurgical recoveries and concentrate grades are reasonable and generally consistent with operating performance.

Capital and Operating Costs

- Sustaining capital costs as set out in the Highlands' model are considered generally reasonable for valuation purposes. The operating cost forecasts for the LOM are lower than the recent actual costs and BDA suggests that the average unit costs over the last three years be used for the LOM rather than the lower forecast costs.

- No allowance has been made in the model for closure and BDA has recommended the inclusion of US$8.25M and US$25M for end of mine life closure costs for the KBK mine and BSK refinery sites respectively, recognising that rehabilitation work at the mine will be ongoing.

Royalty

- The current Mining Act incorporates a royalty rate of 1.25%; the new Mining Act which is not yet promulgated envisages a royalty rate of 2%. BDA has discussed this issue with Deloitte and has suggested that it would be prudent to consider a 2% royalty going forward.

Expansion Plan

- The Highlands financial model includes an option to incorporate an expansion of the Ramu operation as proposed by MCC Ramu in its 2018 announcement. The expansion case assumes a 100% expansion of production after a three year period of construction. BDA suggests that a four year construction period be considered, in line with the ENFI study.

- The model assumes a 100% increase in the base case production which is line with the ENFI proposal in the feasibility study. BDA suggests this assumption be adopted for the life of the remaining mine inventory, but with the modified grades as suggested above.

- The capital cost of the expansion in the model is US$1.0B compared to the ENFI cost estimate of US$1.3B (excluding working capital adjustments). BDA recommends adopting the ENFI cost estimate for the expansion case but using the model estimate as an upside case sensitivity.

- The model currently incorporates a 50% reduction in unit operating costs for the expansion case; BDA considers this overly optimistic. The ENFI feasibility study is based on a 15% reduction in the life of mine operating costs and BDA considers this a more reasonable estimate for valuation purposes.

4.0 FRIEDA RIVER PROJECT

BDA has been commissioned to provide Deloitte with appropriate technical inputs to the financial models on the Highlands PNG mineral projects, including the Frieda River copper-gold development project. BDA has undertaken a technical due diligence review of the available data provided by Highlands, and has provided opinion as to the reliability and validity of the estimates.

4.1 Overview and General Description

The Frieda River copper-gold project is located in the northern foothills of the New Guinea Highlands Central Range, in the Sandaun (West Sepik) Province of Papua New Guinea (PNG), in a remote area approximately 200km from the northern coast. The project site is 175km northwest of the Porgera gold mine and 75km northeast of the Ok Tedi copper-gold mine.

The project is held by the Frieda River Joint Venture, an unincorporated joint venture between Frieda River Limited ("FRL"), a wholly-owned subsidiary of PanAust Limited (PanAust), and Highlands Frieda Limited ("HFL"), a wholly-owned subsidiary of Highlands Pacific Limited. FRL is the manager of the project and holds an 80% interest; HFL holds the remaining 20% interest. PanAust is a wholly-owned subsidiary of Guandong Rising Assets Management (GRAM). The PNG Government has the right, prior to granting of a Special Mining Lease, to purchase up to 30% equity in the project.

Frieda River is one of the largest undeveloped copper projects in the world. The Frieda River deposit and the small but high grade Nena deposit to the northwest, lie within Exploration Licence EL58 (Figures 5 and 6).

The topography of the project area is extremely rugged, with elevations to the south of up to 3,000m. The project lies at the headwaters of the Frieda River, in the foothills of the Schattenberg Ranges, at an elevation of 300-800m. To the north, the principal feature is the broad, flat-lying Sepik River flood plain. The area is subject to 7-8m of annual rainfall. The area is remote, with no roads or other infrastructure.

Copper mineralisation was first identified at Frieda River in 1965 during regional mapping. In 1968 Mount Isa Mines ("MIM") applied for and was granted Prospecting Authority 58 (later EL 58). Initial drilling took place in 1969 and identified the principal mineralisation within the Horse prospect. In 1974 drilling identified the Ivaal and Trukai extensions to the Horse mineralisation and, in 1975, the Nena high sulphidation epithermal deposit was discovered (Figure 6).

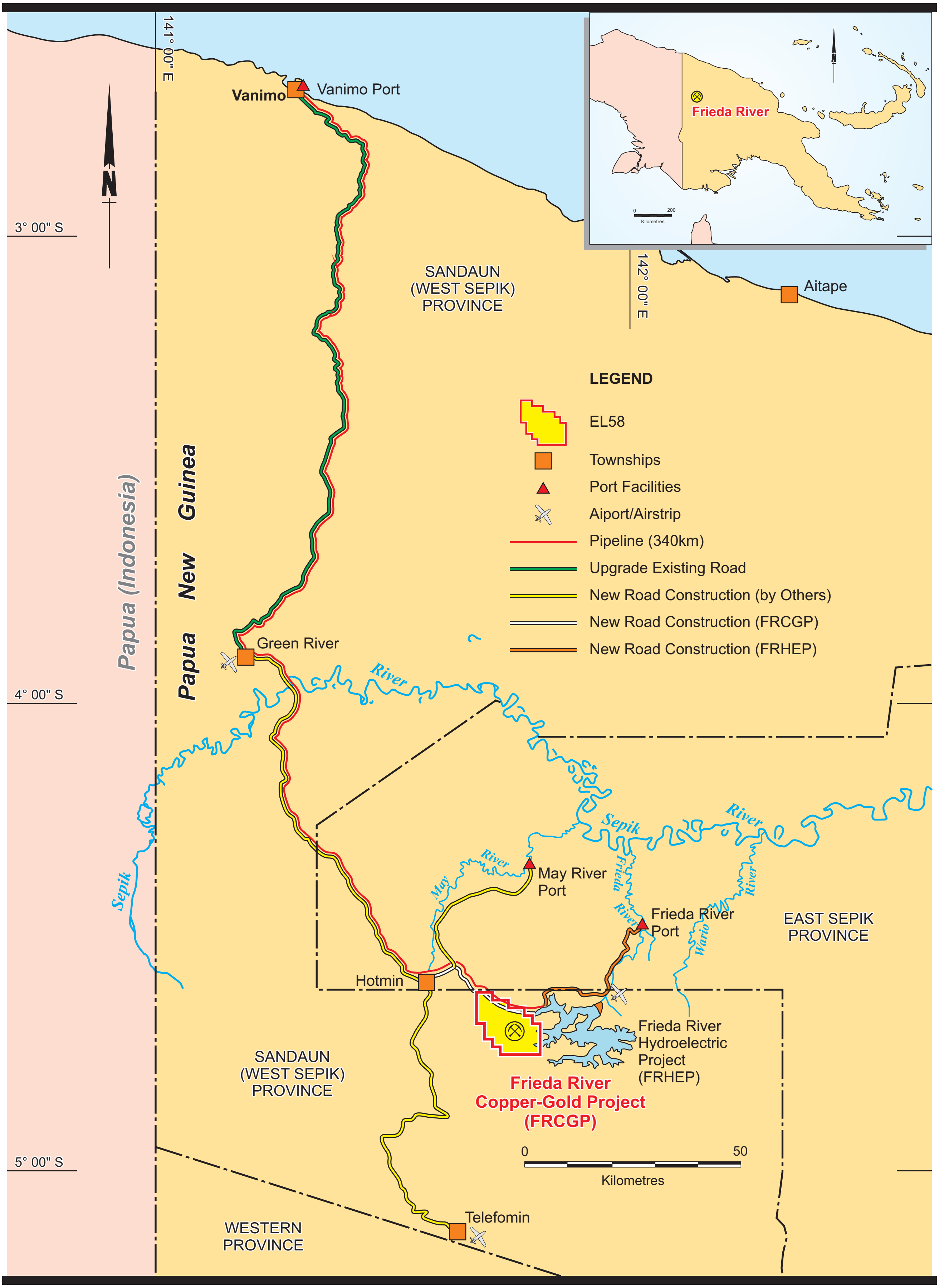
Drilling has continued intermittently through to the latest programme in 2012. A number of different companies have been involved including Highlands Gold (later Highlands Pacific Ltd), Cyprus-Amax, Noranda Pacific, Falconbridge, Xstrata, and most recently PanAust in joint venture with Highlands. The bulk of the resource drilling has been carried out in various programmes since 2002.

Xstrata completed a Pre-Feasibility Study in 2010 and further detailed work was undertaken to support a FS carried out in 2011. The resource for the Horse-Ivaal-Trukai ("HIT") deposit at a 0.2% Cu cut off was estimated in the FS at 2,090Mt averaging 0.45% Cu and 0.22g/t Au. Bechtel undertook much of the detailed design and engineering work for the FS. The FS capital cost estimate was of the order of US$7B. Xstrata re-examined a number of areas in 2012 to evaluate alternative development concepts and concluded that the capital cost could potentially be reduced by around US$2B. However, Xstrata determined that, based on the other projects in its development pipeline, it would seek expressions of interest for the Frieda River project.

In November 2013, PanAust announced that it had entered into a share sale and purchase agreement with Glencore Xstrata plc to acquire that company's interest in the Frieda River project, held by Xstrata Frieda River Limited ("XFRL"), for US$75M in two instalments, with a further conditional payment of a 2% net smelter return ("NSR") with a cap of US$50M.

PanAust (FRL) prepared and issued a Feasibility Study in May 2016 covering the proposed development and operation of the project and in March 2017 FRL issued an Addendum update of sections of the study.

In September 2018 FRL issued a further Feasibility Study, the Sepik Development Project ("SDP") incorporating a number of different concepts to the previous 2016/17 FS, subdividing the project study into four components, the Frieda River Copper-Gold Project ("FRCGP"), the Frieda River Hydroelectrical Project ("FRHEP"), the Sepik Infrastructure Project ("SIP") and the Sepik Power Grid Project ("SPGP"). The concept behind the SDP was that the development of the FRCGP relied on substantial infrastructure development and that potentially these aspects could be partially split off from the mine development project and constructed and funded by others as part of the region's development. Such infrastructure development could potentially attract inter-government aid funding as well as financing from foreign credit agencies and regional development banks thus facilitating the separate financing and development of the FRCGP.



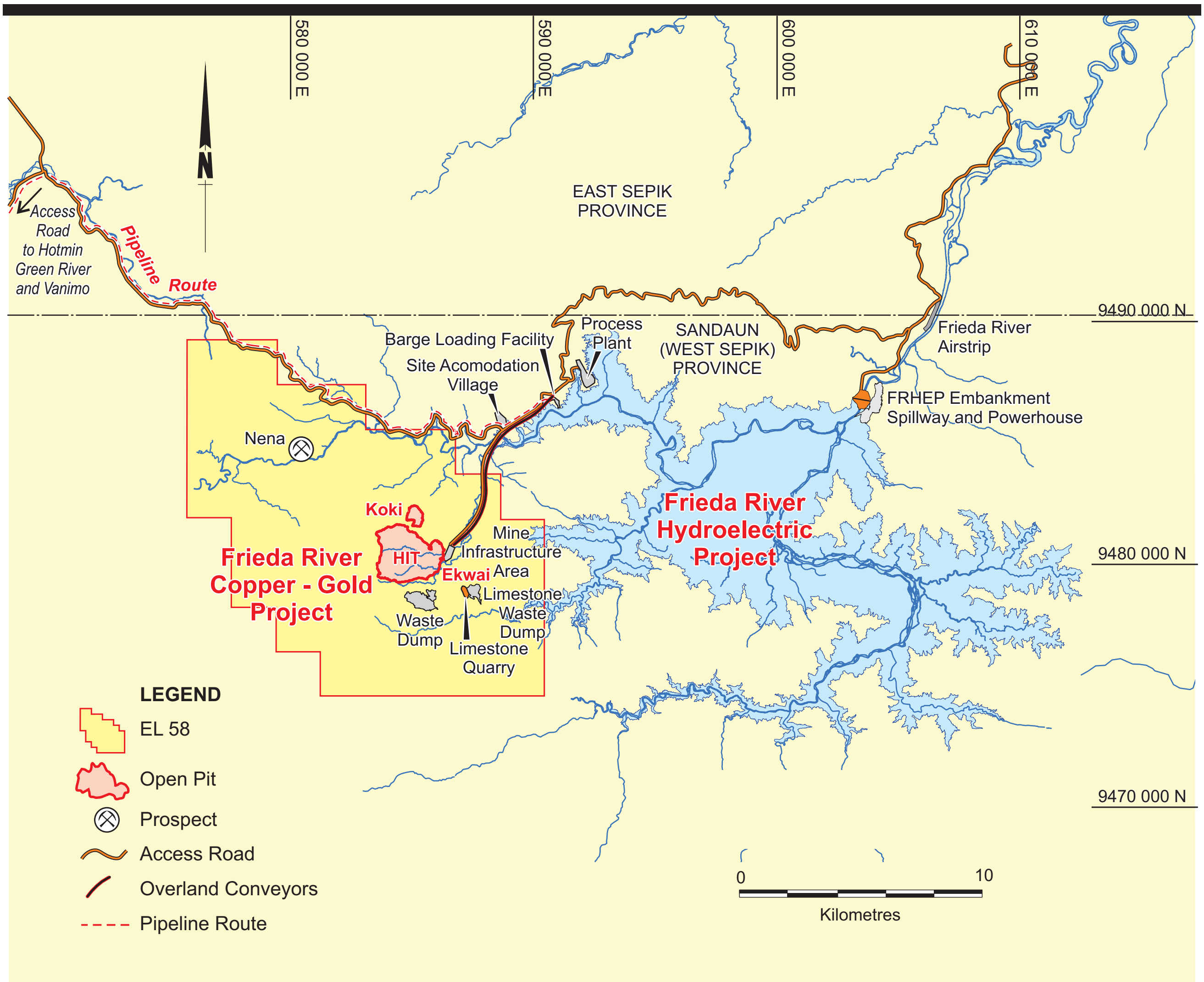
Highlands Pacific *Frieda River Project*

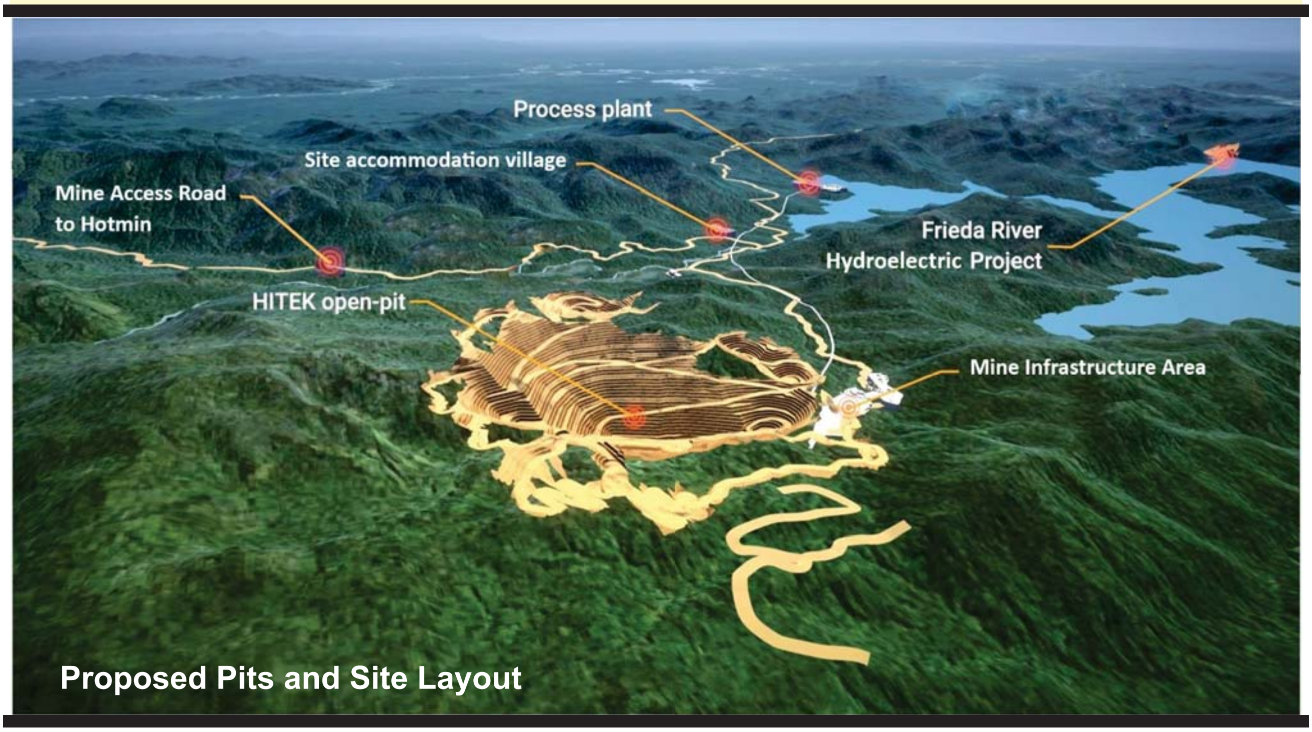
Figure 5

LOCATION PLAN AND TENEMENTS

BDA - 0179/02 (Jan. 2019)

Behre Dolbear Australia Pty Ltd





Highlands Pacific *Frieda River Project*

Figure 6

SITE LAYOUT PLAN

BDA - 0179/02 (Jan. 2019)

Behre Dolbear Australia Pty Ltd

BDA acknowledges the benefits to the FRCGP financing if these other elements can be provided by others, but it must be noted that the development of the FRCGP, as envisaged in the SDP, is fundamentally linked to the development of the FRHEP and relies on the low cost power provided by the hydroelectric scheme; disposal of mining and processing waste also relies on the hydroelectric dam for subaqueous waste disposal. Similarly, while much of the transport infrastructure envisaged under the SIP will certainly be of benefit to the general development of this area of PNG, the FRCGP also relies on this infrastructure for construction, development and operations.

BDA personnel conducting this review have undertaken past site visits to the Frieda River project but BDA has not visited the Frieda River site as part of the current review process, on the basis that BDA considers and has been advised that the site conditions have not changed materially since its former visits.

4.2 Tenements and Approvals

The Frieda River Copper-Gold Project is held by the Frieda River Joint Venture, an unincorporated joint venture between Frieda River Limited (FRL), a subsidiary company of PanAust, and Highlands Frieda Limited (HFL), a subsidiary company of Highlands. FRL is the manager of the Joint Venture and holds an 80% interest with HFL holding the remaining 20% interest.

The Independent State of Papua New Guinea (PNG) has a right prior to the commencement of mining to purchase up to 30% equity in any mineral discovery arising from an Exploration Licence.

FRL and HFL, as participants in the Joint Venture, have obligations under the Exploration, Development and Mine Operating Agreement dated 27 July 2007 (as amended) to fund expenditure of the Joint Venture.

The Horse-Ivaal-Trukai-Ekwai-Koki (HITEK) deposits, which are the subject of the project, are covered by Exploration Licence EL 58 (Figure 6). ELs have a two-year renewal period. FRL and HFL hold EL 58, together with EL1212 and other licences described in Table 4.1 as part of the assets of the Joint Venture. The ELs cover the project's mineral deposits and potential infrastructure corridors. EL 58 is the subject of the Special Mining Lease SML 9 application which was made on 23 June 2016. Various other tenement applications made on 12 December 2018 in relation to the Sepik Development Project include LMPs 106-118 (13 in total), MEs 98-101 (4 in total) and ML 522. The Environmental Impact Statement for the Sepik Development Project was submitted to the PNG Conservation and Environment Protection Authority on 12 December 2018.

Table 4.1

Highlands Pacific Tenement Details as at 31 January 2019 – Frieda River Project

Licence	Province	Start Date	Expiry Date	Status	Highlands Interest (%)
EL 58	Sandaun	15/11/2017	14/11/2019	Current	Highlands Frieda Limited (20%)
EL 1895	Sandaun	15/5/2016	14/05/2018	Under Renewal	Highlands Frieda Limited (20%)
EL 1956	Sandaun	15/5/2016	14/05/2018	Under renewal	Highlands Frieda Limited (20%)
EL 1212	Sandaun & East Sepik	30/5/2017	25/05/2019	Current	Highlands Frieda Limited (20%)
EL 1746	Sandaun & East Sepik	21/6/2016	20/06/2018	Under Renewal	Highlands Frieda Limited (20%)
EL 1957	Sandaun & East Sepik	15/5/2016	14/05/2018	Under Renewal	Highlands Frieda Limited (20%)
EL 1744	East Sepik	21/6/2016	20/06/2018	Under Renewal	Highlands Frieda Limited (20%)
EL 1745	East Sepik	21/6/2016	20/06/2018	Under renewal	Highlands Frieda Limited (20%)

Notes: all mining tenements for the Freida River Project are held in joint venture; the percentage detailed in the table indicates the percentage held by Highlands; all Frieda River ELs are subject to the right of the 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 development costs; EL=Exploration Licence

Development Approval

FRL recently concluded preparation of the Environmental Impact Statement ("EIS") for the Sepik Development Project under the provisions of the PNG Environment Act 2000 (Environment Act) and in accordance with the Conservation and Environmental Protection Agency (CEPA) guidelines. This EIS was submitted to the PNG Conservation and Environment Protection Authority on 12 December 2018.

4.3 Geology

The project is located in the northern foothills of the New Guinea Central Range within the Papuan Mobile Belt. The Frieda River Igneous Complex ("FRIC") represents the remains of a strata-volcano comprising volcanics (largely porphyritic andesites) and intrusives (diorites and monzonites) with a metasedimentary phyllite basement of probable Cretaceous age. The volcanics are part of a Miocene age (10-20 million years) island arc, formed during the convergence of the Australian and Pacific plates with associated subduction zones

The Frieda River deposit is associated with a mid-Miocene calc-alkaline intrusive centre, with mineralisation associated primarily with hydrothermal fluids and alterations associated with dioritic intrusions. Porphyry-style copper mineralisation occurs both within the diorites and adjacent rock types. Seven intrusive centres have been identified of which the three principal ones are the Horse (southeast), Ivaal (central) and Trukai (northwest) centres; together with the adjacent Ekwai and Koki mineralisation centres to the north and northeast these form the HITEK deposit which is the focus of the Frieda River development studies (Figure 6). The Nena deposit further to the northwest (Figure 6) is high sulphidation epithermal in style, with complex syngenetic mineralogy with associated enargite (copper arsenic sulphide) and relatively high levels of arsenic. The Nena deposit is not included in the current development plans, but is likely to be developed as a later add-on to the main Frieda River mineralisation.

The oldest rocks forming the basement to the FRIC consist of faulted blocks of Ok Binai schist, phyllite and mudstones, and ultramafic rocks of Cretaceous to Eocene age; these rocks have undergone regional metamorphism to phyllite-greenschist facies.

The unconformably overlying FRIC comprises lavas and pyroclastic rocks of basaltic-andesitic composition, gently dipping to the southwest, and flanked by volcaniclastic and epiclastic sediments (the Wogamush Formation). Multi-phase diorite to quartz-diorite intrusions cut the sediments and volcanics.

The intrusive and volcanic units are of similar ages, from 12-17 million years. Six principal intrusive geological units have been identified; from oldest to youngest these comprise the Frieda Diorite Porphyry (Fdp) and the Koki Diorite Porphyry (Kdp) which are considered pre-mineralisation, the Horse Microdiorite (Hmd) and the Hornblende Monzonite (Hbm) which comprise the principal mineralised units, and the post mineralisation Knob Diorite (Kd) and the Flimtem Trachyandesite (Ftm). The late stage Flimtem Trachyandesite post-dates mineralisation and alteration and forms barren cross-cutting dykes which dilute the overall block grade.

The HITEK mineralisation is hosted largely in the Horse Microdiorite, with a general northwest orientation. The Hmd is considered the principal source of mineralising fluids; the Koki mineralisation is hosted largely in the Kdp and the Hbm also contains some high grade mineralisation. The sequence is cut by late Ftm northeast-trending trachyandesite dykes. Both the Kd and Ftm are interpreted as being intruded after the main phyllic alteration event.

The mineralisation is associated primarily with hydrothermal fluids and alterations associated with the dioritic intrusions. Mineralisation occurs both within the intrusive diorites and in the adjacent volcanics and volcaniclastics. The ore zone is subdivided by cross cutting fault zones.

The mineralisation zones are associated with concentric alteration assemblages, centred on the main intrusives. The core is a potassic zone associated with chalcopyrite, bornite and gold; original hornblende has been replaced by biotite-magnetite. Surrounding the potassic zone is a phyllic alteration assemblage with chalcopyrite mineralisation and where the biotite is replaced by chlorite. The outer margins of the deposit are represented by a barren silica-clay-pyrite ("QIP") assemblage typically with high sulphur (>6% S).

Grades in the core potassic zone are typically greater than 0.4% Cu and 0.3g/t Au and reach up to 1% Cu and 0.6g/t Au.

Much of the rock is cut by fine veins of anhydrite. At depth this gives hard competent rocks but at shallower levels where the anhydrite has weathered to gypsum and has been dissolved, the cores are typically broken.

Copper mineralisation comprises mostly fine grain aggregates of chalcopyrite and bornite with supergene chalcocite. Chalcopyrite-bornite quartz vein stockworks are overprinted by quartz-chalcopyrite-pyrite veins. Mineralisation and grade continuity characteristics are good extending for some hundreds of metres. Gold is typically fine grained and associated with bornite and chalcopyrite.

There is a low level of deleterious elements with pyrite being the only significant sulphide gangue mineral (with the exception of the arsenic-rich Nena deposit to the northwest); silver, molybdenum, zinc, lead and arsenic occur in minor to trace amounts within the HITEK deposits.

Overall, the geology, though complex, is reasonably well defined and understood.

4.4 Geological Data

Diamond drilling at Frieda River covers a 40-year period, with a number of different companies involved. Over 600 holes have been drilled of which the majority are diamond drill holes with over 140,000m of core. Some percussion drilling has been carried out but these holes are not used in the resource estimate. Similarly, older diamond drill holes where survey or other data are considered less reliable are excluded from the estimate.

Most of the resource definition drilling has taken place over the last 10-15 years and has been of a high quality. Drill hole sections are spaced at 75m intervals, with drill hole spacing ranging from 50-75m within the central Measured areas, extending to 100m for Indicated categories.

Core recovery through the mineralised sections averages 91%. Drill hole collars have been surveyed using laser theodolite or GPS and are considered accurate to better than one metre. Downhole surveys for dip and azimuth have been taken every 30-50m. An airborne laser scanner survey has been flown to provide a topographical surface over the resource area with an accuracy of 2m or better.

Drill hole samples have been sent for assay to Astrolabe Pty Limited (Astrolabe) in Port Moresby, or from 2004 onwards, to ALS-Chemex in Townsville. Inductively coupled plasma optical emission spectroscopy (ICP-OES) has been used to provide a full range of elements. Samples with copper assays of greater than 0.5% Cu were repeated by aqua regia digest and AAS. Gold determinations were by 50g fire assay.

All recent drilling has all been subject to comprehensive QA/QC procedures including the use of standards, blanks, duplicates and check assaying by external laboratories. In addition a number of the older holes have been twinned. No significant issues have been identified.

Bulk densities have been determined taking a sample of core from each core tray and using a water immersion method. The cores are waxed prior to measurement. Much of the shallower core, and core above the gypsum-anhydrite transition, (gypsum anhydrite surface or "GAS") is broken and oxidised. Density values below the gypsum anhydrite transition are typically greater than 2.7 tonnes per cubic metre ("t/m^3") whereas above, the densities average less than 2.5t/m^3.

BDA has not audited or reviewed the Frieda River data in detail, but from discussions with Highlands and PanAust geologists BDA considers that the drilling, sampling, assaying and density determination programmes have been professionally undertaken in accordance with good industry standards and that the data forms an appropriate basis for resource estimation.

4.5 Mineral Resources Estimate

The resources quoted by FRL have been reviewed in accordance with the JORC Code.

Geological modelling appears thorough and a number of structural, lithological and alteration/oxidation domains have been defined. The estimate is based on approximately 540 drill holes and over 150,000m of drilling, with 4m downhole composites (two 2m samples), split on domain boundaries.

No top cuts were applied to the data. Smearing of high grade data was limited by using a restricted search radius for samples above a certain grade. Block grades or values were estimated for copper, gold, copper oxide, sulphur, density and point load index by Ordinary Kriging. Values were estimated into 25 x 25 x 15m blocks, with 5 x 5 x 5m sub-blocks to improve resolution along domain boundaries.

Model validation was carried out based on visual checks of plans, sections and raw data, and review of statistical plots including swath plots. The kriged estimates were also cross checked against an inverse distance squared model. The current HITEK resource estimates are shown in Table 4.2.

Table 4.2

Frieda River Mineral Resource - HIT, Ekwai, Koki and HITEK - 0.2% Cu Cut Off

Category	Tonnage Mt	Copper Grade Cu %	Gold Grade Au g/t	Contained Cu kt	Contained Au koz
FRL HIT					
Measured	620	0.53	0.30	3,290	5,980
Indicated	1,120	0.44	0.21	4,910	7,540
Inferred	380	0.36	0.15	1,370	1,830
Total	**2,120**	**0.45**	**0.23**	**9,570**	**15,350**
FRL Ekwai					
Indicated	50	0.53	0.33	270	530
Inferred	80	0.34	0.22	270	570
Total	**130**	**0.44**	**0.26**	**540**	**1,100**
FRL Koki					
Indicated	70	0.47	0.24	320	530
Inferred	330	0.34	0.20	1,120	2,120
Total	**400**	**0.36**	**0.21**	**1,440**	**2,650**
FRL HITEK					
Measured	620	0.53	0.30	3,290	5,980
Indicated	1,240	0.44	0.22	5,500	8,600
Inferred	780	0.35	0.18	2,760	4,520
Total	**2,640**	**0.44**	**0.23**	**11,550**	**19,100**

Note: HITEK resources constrained by an economic Whittle pit shell using metal prices of US$3.30/lb Cu and US$1,450/oz of Au times a factor of 1.5; resource reported at a 0.2% Cu cut off

Block classification included consideration of data density, geological confidence and continuity, but was primarily based on search parameters (estimation passes) using three-pass kriging. Measured blocks require a grade estimate in the first pass; Indicated blocks require a grade estimate in the first or second pass. Inferred blocks include those estimated with the third pass.

Drill spacing in the HIT deposit centre averages 75 x 75m; drill spacing at Ekwai and Koki averages 90 x 70m and 140 x 70m respectively. Measured blocks are typically defined by a drill spacing of 50-75m. Indicated blocks generally have a drill spacing of up to 100m and blocks based on a wider spacing are classified as Inferred. However, as noted other factors such a geological confidence and continuity are also taken into account.

PanAust has used a 1.5 revenue factor to derive the Whittle pit shell which constrains the resource, and this results in the use of metal prices of US$4.95/lb Cu and US$2,175/oz of gold, significantly higher than current prices. The JORC Code requires that a resource should have reasonable prospects for eventual economic extraction. Given the size of the resource and the long mine life, BDA considers the constraining shell to be acceptable, provided the assumptions are clearly stated.

The 2018 FS appropriately describes the drill data used, the resource domaining, the kriging methodology, the resource block sizes adopted, resource classification and independent peer reviews.

In the 2018 Feasibility Study, FRL has also documented the Nena resource estimate. The Nena deposit is a high sulphidation epithermal-type deposit containing copper-arsenic and copper-antimony sulphides. The deposit is divided into two zones, a sulphide zone and an overlying weathered gold-rich cap. The two zones have been estimated separately and are summarised in Table 4.3.

Table 4.3

Nena Resource - Gold Cap and Sulphide

Category	Tonnage Mt	Copper Grade Cu %	Gold Grade Au g/t	Arsenic Ppm	Antimony ppm
Nena Gold Cap					
Indicated	11	0.07	1.35	3,000	230
Inferred	10	0.06	1.28	2,100	330
Total	**20**	**0.06**	**1.32**	**2,600**	**200**
Nena Sulphide					
Indicated	35	2.35	0.79	2,500	160
Inferred	17	1.68	0.29	1,200	80
Total	**52**	**2.13**	**0.63**	**2,000**	**130**

Note: gold cap resource reported at a 0.5g/t cut off; sulphide resource reported at a 0.3% Cu cut off

Overall, BDA considers the HITEK and Nena resource processes and procedures to be reasonable and to be appropriately described in the 2018 Feasibility Study.

4.6 Reserve Estimate

HITEK reserve estimates are shown in Table 4.4. The FRL Ore Reserve Report (HITEK 2018 Ore Reserve - October 2018) explains and discusses the results; this is a comprehensive document and includes a JORC Table 1 commentary.

Table 4.4

Frieda River Reserve - September 2018 Feasibility Study

Category	Tonnage Mt	Copper Grade Cu %	Gold Grade Au g/t	Contained Cu kt	Contained Au koz
Proved	604	0.51	0.30	3,080	5,830
Probable	761	0.42	0.21	3,200	5,140
Total	**1,365**	**0.46**	**0.25**	**6,280**	**10,970**

Note: the reserve is restricted to the areas where Measured and Indicated resources have been defined; reserve defined at a Cu price of US$3.30/lb Cu and a gold price of US$1,390/oz Au; selected 2018 pit shell corresponds to a 0.88 revenue factor of US$2.90/lb Cu and US$1,276/oz Au; the minimum Cu grade selected is 0.15% Cu for primary ore and 0.2% Cu for oxidised ore

There is a material increase in the 2018 reserve estimate compared with the previous 2016 study. The primary difference between the two estimates is that the 2016 reserve was constrained by the capacity of the then-proposed Nena River Integrated Storage Facility ("ISF") to contain the waste rock and tailings produced. Thus the mine life and reserve were 'cut off' when no more waste storage capacity was available. This constraint has now been removed by moving to the much larger capacity Frieda River dam location (Figure 6) with 3.4Bm^3 capacity compared with 1.0Bm^3 in the 2016 study, allowing all economically recoverable ore blocks to be included in the reserve.

The construction of a hydroelectrical power facility on the Frieda Dam also provides a source of much cheaper power, reducing the processing cost and reducing the effective economic cut-off grade. Potential increases in mill capacity also increase revenue flow and offset increased stripping ratios and mining costs.

BDA understands that there are plans to develop the Nena resource during the HITEK mine life; however, this work remains at a scoping study stage and no reserves have been estimated for the Nena deposit in the 2018 FS.

Mining Inventory

The Mining Inventory represents the tonnes and grade of ore planned to be mined and processed during the project life. In many cases (with a well-drilled deposit), this is equivalent to the project Ore Reserve, but in the case of Frieda River, significant tonnages of Inferred resources (190Mt or 13%) are included in the Mining Inventory.

The 2018 FS Mining Inventory are shown in Table 4.5.

Table 4.5

Frieda River Mining Inventory - 2018 FS

Category	Tonnage Mt	Copper Grade Cu %	Gold Grade Au g/t	Contained Cu kt	Contained Au koz
Measured	590	0.52	0.30	2,660	3,890
Indicated	712	0.43	0.21	2,600	3,270
Inferred	190	0.32	0.13	500	490
Total	**1,492**	**0.45**	**0.24**	**5,760**	**7,650**

The 2018 FS shows the contribution of the Inferred material in approximately 10-year increments and annually in a bar chart format; details of annual Measured, Indicated and Inferred contributions to mill feed are provided in an Appendix. The steep topography has limited the near-surface drill coverage in some areas, resulting in some significant tonnages of Inferred resource (up to 25%) contributing to the mill feed in the early years; BDA anticipates that this material will be systematically grade control-drilled prior to mining.

BDA notes that the HITEK 2018 Proved and Probable reserve figures total 1,365Mt whereas the Measured and Indicated component of the Mining Inventory totals 1,302Mt. Thus 63Mt of the reserve tonnage is not actually included in the mining inventory to be delivered to the plant for processing, being replaced in terms of mill feed by higher grade available Inferred blocks. Given the limited stockpiling areas available, not all potentially economic material can be stockpiled for future processing. In practice, in BDA's opinion, it is likely that schedule modifications and site operations management will see the bulk of all economic material processed.

4.7 Mining

Under the latest feasibility studies, mining operations at Frieda River are based on open pit mining of ore and waste, using conventional large-scale hydraulic excavators and rear-dump trucks, supported by a fleet of earthmoving and servicing equipment for the pioneering work and soft conditions. The pit designs for Frieda River include the Measured and Indicated resources, but also a quantity of Inferred resources that lie within the pit shells and where there is reasonable confidence that the resources will convert to reserves with additional drilling.

Most recent FRL studies prepared by PanAust have considered a large-scale initial operation, which, together with a number of changes in project concept, has altered the previous economics, both in terms of significantly higher capital, but lower operating costs and unit production costs. Studies have examined a 33-year mine life, with some potential to extend the pit as additional Inferred resources are converted to reserves deeper in the pit. BDA considers that the proposed development timing is likely to be optimistic due to the associated infrastructure development required and the integration of the essential components of the project; however, the mine schedule proposed is considered reasonably achievable and realistic.

The planned average annual mining rate averages around 88Mtpa of total material over the life of the mining operation, with ore mining ramping up from around 30Mtpa to 70Mtpa over the first ten years and waste mining ranging from around 29-65Mtpa in the same period.

The total material moved is planned to ramp up over the life of the operations with planned capacity being up to 85Mtpa in the first six years before being increased to a maximum of 135Mtpa at the peak of mining production in Years 7 to 22 before being reduced to around 50Mtpa in the last six years. The final pit design incorporates a series of cutbacks, with the northern wall in the main Horse-Ivaal-Trukai pit extending around 500m to 700m depth. Based on current modelling, the final pit over the full LOM has an overall waste to ore ratio of approximately 0.95:1. It involves mining around 1.49Bt of resource grading 0.45% Cu and 0.24g/t Au, as well as 1.42Bt of waste, with currently-defined Inferred resources contributing around 13% of the total mining inventory tonnes, or 194Mt LOM.

Pit designs and scheduling plans are based on optimisation studies and subsequent more detailed design work to incorporate ramps and smooth the pit walls. Geotechnical analyses have proposed a schedule of wall angles for the different materials and geotechnical conditions; these parameters have been incorporated in the optimisation and design studies. Pit optimisation uses copper and gold recoveries and costs for the different ore types in line with the feasibility study, and copper and gold prices of US$2.90/lb Cu and US$1,276/oz Au respectively.

In terms of geomechanics, rock strengths and rock quality are typically low in the weathered zone above the gypsum-anhydrite surface (GAS), which is projected to lie 200-300m below surface. Above the GAS, the rock mass appears to be highly fractured, whereas below that surface, the rock mass is expected to be much stronger. Pit wall designs have incorporated these characteristics, along with the assumption that slopes will require drainage.

Grade control procedures proposed are similar to those used elsewhere in the industry, based on assaying RC grade control holes. This will provide reliable data for copper and gold grade control and maintain consistent mill feed for optimising metallurgical recoveries.

4.8 Processing

FRL's most recent study envisages processing a maximum of 49Mtpa of ore during the initial seven years of operation (Stage 1) and then expanding capacity to a maximum of 65Mtpa for a further 26 years (Stage 2). The preliminary plant design provides for the following major components at start-up and after expansion:

- *Crushers* - two 1,600 x 2,400 gyratory crushers operating in parallel for the life of the operation, discharging onto a 1.8m wide overland belt conveyor with a capacity of 12,900tph and installed power of 7MW which will transport the ore approximately 9.5km from the crushing area to the crushed ore stockpile; the conveyor discharge point is around 155m lower than the loading point
- *Crushed Ore Stockpile* - a 430kt covered crushed ore stockpile providing around 15 hours of crushed ore storage for Stage 1, increased to 19 hours at 65Mtpa for Stage 2 by provision of a second SAG mill feed conveyor; the tunnel beneath the stockpile for the second conveyor will be constructed during the initial development and would be fitted with reclaim equipment (feeders and conveyor) as part of the expansion project
- *Grinding Circuit* - a grinding circuit comprising a 40ft (12.2m) diameter by 26ft (7.9m) long 28MW SAG mill preceding two 28ft (8.5m) diameter by 44ft (13.4m) long 22MW ball mills for Stage 1, with the ball mills operated in closed circuit with hydrocyclones, producing a flotation feed sized at 80% passing ("p_{80}") 150 microns ("µm") at a pulp density of 28% solids; the grinding circuit would be duplicated for Stage 2
- *Pebble Crusher* - a SAG mill pebble crushing circuit which would take the oversize from screens operating on the SAG mill discharges; grinding steel is removed from this material which is then either crushed in two 750kW cone crushers, or if SAG mill power draw is sufficiently low and throughput is on target, the pebbles bypass the crushers and are recirculated to the SAG mill feed
- *Rougher Flotation* - a rougher flotation circuit comprising two parallel lines, each of seven 600m^3 volume flotation tank cells, which will provide 26.4 minutes residence time for Stage 1 and have a design copper recovery of 90%; a third line of seven 600m^3 rougher tank cells would be installed for Stage 2
- *Regrind* - a rougher concentrate regrind circuit comprising a total of 64 x 250mm diameter hydrocyclones in two clusters producing an overflow product with a p_{80} of 20µm and an underflow product which is fed to 3 x 3.8MW high intensity stirred mills to be ground to a p_{80} of 20µm prior to feeding to the cleaner flotation feed
- *Cleaner Flotation* - a four-stage cleaner flotation circuit comprised of three B6500/24 Jameson cleaner scalper cells operated in parallel, followed by a conventional cleaner circuit comprised of 8 x 300m^3 first cleaner tanks, 6 x 160m^3 second cleaner tanks and 5 x 100m^3 third cleaner tanks; the cleaner circuit would not require modification for Stage 2; tailings from each conventional cleaner stage would recirculate to the feed to the previous stage
- *Tailings* - first cleaner tailings and rougher tailings will be combined as the final tailings stream, which will be thickened in two 65M diameter high rate thickeners with a third thickener to be added for Stage 2; combined tailings thickener underflow will be pumped to an agitated tank which will provide surge capacity between the thickeners and the tailings pumping system, which will deliver the thickened tailings to the Integrated Storage Facility (ISF)
- *Concentrate* - final flotation concentrate will be thickened to 50% solids and then pumped via a three-stage pumping system at a rate of 146 dry tonnes per hour to the port of Vanimo, a distance of 335km; the first pumping stage will be at the mine site and two intermediate stations will be located along the pipeline at points 118km and 217km from the mine site; initially, the intermediate pump stations will be supplied with power from diesel generators; from Year 2, when the transmission line from Frieda River to Vanimo is planned to be available, spur lines will deliver power from the FRHEP and the diesel sets will be used as an emergency back-up supply; the concentrate pipeline (240mm in diameter) will be buried to control access by third parties; the two pump stations will be protected by security personnel

- *Concentrate Dewatering* - the concentrate dewatering circuits, at the plant site and at the Vanimo port site, each comprise a 35m diameter thickener and associated pumps and tanks; thickener overflow at the plant site returns to the plant process water system; overflow from the port-site thickener will be used as wash-down and miscellaneous process water, with excess water being treated in a water treatment plant and discharged into the ocean
- *Concentrate Loading* - the thickener underflow at the port filter plant will be filtered in two plate-and-frame pressure filters, with filtrate water also being treated prior to ocean discharge; filtered concentrate will be stockpiled using a front-end loader on a covered stockpile, prior to loading onto vessels via a ship loader system.

The plant design includes appropriate spillage collection mechanisms, sample collection systems, reagent distribution systems, on-stream analysis technology, process control systems and other auxiliary equipment.

BDA considers that the design of the plant flowsheet is appropriate for the ore as defined by the testwork undertaken. This latest design takes advantage of industry experience with comparable projects involving relatively variable copper ore bodies.

4.9 Infrastructure

Overview

The bulk of the infrastructure facilities relevant to the construction and operation of the FRCGP are incorporated within the FRHEP and the SIP development scope. Certain site specific items however remain part of the FRCGP. Initial access to the FRCGP and FRHEP sites will be via the Sepik and Frieda rivers to the Frieda River port and access roads to site, until the SIP access roads through Hotmin and Vanimo are completed (Figures 5 and 6) . This early access to the FRCGP and FRHEP sites from the Frieda River port is on the critical path and upgrade of the port facilities and access road will be undertaken as initial pioneering works. Until the road connection from Green River and Hotmin is established, the only air access for personnel will be via the existing Frieda River airstrip, which is restricted to light aircraft.

The utilities and infrastructure are appropriate to the location, the engineering appears to be sound and is in keeping with that normally expected for a remote mining project. A high level of attention has been given to the definition of the infrastructure to ensure that it is suited to purpose and can be appropriately costed. BDA is satisfied that the infrastructure is adequate and suited to the Frieda River location and is correctly integrated with the other elements defined to properly contribute to the operational functioning of the project.

Transport and logistics specific to the FRCGP and the FRHEP have been studied in detail and the proposed systems appear to be appropriate to the location and operating conditions. The risks have been assessed and appropriately mitigated.

Power

Power supply to the FRCGP process plant will be via a 22km 132kV transmission line from the FRHEP connecting to the main plant sub-station. The transmission line will be a dual circuit single tower line providing N-1 redundancy for security of supply.

The 132/33kV main plant sub-station will initially be rated at 300MVA, consisting of 3 x 85MVA ONAN/ONAF transformers to ensure reliable starting of the gearless mill drives. These transformers will be natural air cooled with the option of upgrading to fan cooling to meet increased demand. From Year 8 for the Stage 2 upgrade of the concentrator, the sub-station capacity will be increased to 500MVA, consisting of 5 x 85MVA identical transformers.

Site overall maximum demand is estimated to be 180MW for Stage 1 and 280MW for Stage 2.

The electrical demand and energy calculations are fully supported by detailed analysis, drive by drive and feeder by feeder, including diversity factors, load factors and type of drive for Years 1 through 33. These detailed analyses also include the emergency supply requirements.

Emergency diesel power supply of 30MVA will be provided to maintain all the essential services in the plant, accommodation village and essential utilities such as water treatment and sewage plant.

Within the plant area all 33kV power will be distributed via underground cables and overhead lines will only be used outside of the process area to the mine and the accommodation village. All lines will include optical ground wire protection and surge arrestors.

The overall power systems including transmission lines, sub-stations and distribution systems and their overall stability under a range of scenarios has been properly assessed by expert consultants including GHD, APD Engineering, GR Engineering and SRK. The level of detail in the FS is sufficient to have confidence in the proposed designs. The underlying assumptions are all considered reasonable.

Control and Monitoring

A process control system ("PCS") will interface with PLCs throughout the ore processing facilities. A Supervisory Control and Data Acquisition system ("SCADA") separate from the PCS will be provided for monitoring and controlling the power supply, transmission and distribution systems.

A fibre optic cable will be installed alongside the concentrate pipeline between the process plant and the port at Vanimo. This will provide the control and monitoring backbone for the slurry pipeline system, booster pumping stations and the back-up emergency power supply.

The proposed control and monitoring systems appear to be satisfactory and in line with best practice for the industry. However, given the considerable distances between various parts of the mining, waste management, process and concentrate delivery systems, a high level of reliable monitoring and control will be essential, and control system and communications redundancy will be important.

Accommodation Village

The main accommodation village will be located in the Nena Valley with road access to both the process plant and mine site. The village will house up to 3,648 personnel in graded accommodation appropriate to the peak workforce make-up during construction. For operations, the accommodation will cater for 1,610 personnel and the make-up of the accommodation will be 350 single en-suite rooms and 1,318 twin rooms with shared ablutions.

The dining facility will seat 1,500 persons at one time. A multi-purpose indoor recreation facility will be provided. The entire accommodation facilities will be air-conditioned and equipped for WiFi.

A further accommodation unit will be established at the Vanimo Infrastructure Area ("VIA") located some 10km from the town, consisting of accommodation for 350 personnel for the support of the port and logistics operations.

Administration Office

Multi-story prefabricated buildings will be used to minimise the earthworks footprint and site erection time. The Central Control Room for all facilities will be located in the Administrative offices, together with all the training facilities. Security Entry Control will be monitored from the Guard House and will be capable of initiating site lockdown in an emergency.

Communications and Information Systems

External communications and IT will be via satellite with internal communications and IT either via optic fibre cable (within the mine site area and the power stations) or microwave link to more remote sites such as the airport. The mine/process site will be wireless enabled to allow for the extensive application of handheld device technology in all areas. The fibre optic backbone along the northern transmission line will provide interconnection with the PNG national network via Vanimo.

Mobile fleet and equipment will be tracked with GPS-based software and equipped with mobile VHF radio.

Workshops and Warehouses

Workshops and warehouses will be located to service the mine site and the process plant. Buildings will be purpose-designed portal frame and clad structures on concrete pads, equipped with appropriate facilities and equipment including overhead cranes to suit the application. Warehouses will include covered storage and contain laydown areas.

Emergency Response Centre and Medical Centre

Fully equipped facilities will be provided to meet all the normal needs of the workforce and will include ambulance station, emergency fire and rescue vehicles. The Medical Centre will be capable of emergency and general surgery plus bed-confined patients and will include radiology, pharmacy, dental, laboratory and GP services.

Transport and Logistics

A detailed transport and logistics study was undertaken by consultants GHD to review in particular the construction and operational transport requirements for the FRCGP and the FRHEP, taking into account the SIP in relation to the Port of Vanimo, the Green River Airport and road access.

Initial access to the FRCGP and FRHEP sites will be via the Sepik and Frieda rivers to the Frieda River port and to the Frieda River airstrip and access roads, until the SIP access roads through Hotmin and Vanimo are completed. Upgrade of the river port facilities and access road will be undertaken as initial pioneering works. Until the road connection from Green River is established, the only air access for personnel will be via the existing Frieda River airstrip, which is restricted to light aircraft.

The SIP will provide access to the FRCGP site via the Mine Access Road linking the site to Hotmin and then to Vanimo via the Public Access Roads. Barging across the Sepik River will ferry equipment and construction materials for a period of 12-18 months while waiting for the Sepik River Bridge to be constructed. Timely road construction will be an essential requirement for meeting the other project objectives.

An overall one-way trip from Vanimo to the mine site is estimated at between 10 and 12 hours depending on rest stops and the bridge over the Sepik. Until this bridge is completed, a barging operation will be in place across the Sepik. All trucks will travel in convey with a lead escort vehicle for safety, based on PanAust's Laos experience.

All road transport will be GPS tracked and Bar Coding and Radio Frequency Identification Tags ("RFIT") will be provided on all mobile equipment. This will feed into a logistics tracking and control system, similar to that in use for concentrate transport between Phu Kham and the port in PanAust's Lao operations.

Road design has a major impact on fleet selection. Gradients of up to 12.5% and winding sections with a minimum 45m corner radius which will limit speeds to 35-40kph make single trailer and tractor configuration the only suitable truck combination. B Doubles are considered to be unsuitable, at least initially. The trucks must be manoeuvrable to get around or reverse away from land slips. PanAust's experience in Laos with road construction through difficult terrain supports this view. It is also noted that to date no B Doubles are operating in PNG.

600HP tractor units towing a 40 foot flat top trailer (6 x 4 wheel configuration) are considered to be the optimum vehicle for road transport of freight. Twelve duty units plus standbys are proposed.

Further details on the transport infrastructure are given in the SIP section, including details regarding the Port of Vanimo and the Green River Airport.

Sepik Infrastructure Project (SIP)

The SIP will be completed over a period of ten years and includes components that are vital to the development of the FRCGP and the FRHEP as well as components that will further the economic development of the northwestern region of PNG. The essential elements of the SIP are the establishment of ocean, river, road and air access to enable construction of the temporary and permanent facilities for the FRHEP and FRCGP and to provide ongoing access for supplies and export of product.

Field works will begin with site establishment and construction of critical enabling infrastructure that includes roads, airport upgrades, material offloading facilities and river diversion works for the FRHEP.

The SIP can be managed as three major sub-projects, namely:

- Public Roads
- Green River Airport
- Port of Vanimo.

Each of these sub-projects could be funded and undertaken by third parties as they contribute to the overall public infrastructure necessary for the long-term economic development of northwestern PNG, while nevertheless being integral and essential to the development and operation of the FRCGP and FRHEP.

Portions of the infrastructure which are specific to the two Frieda River projects, rather than having a general public infrastructure benefit, will be undertaken as part of those two major projects. These include the port facilities required by the Frieda River projects and the 74km long section of access road from Hotmin into the mine and hydro dam areas which will be private security roads; these elements are part of the FRCGP and FRHEP scope and are not included in the SIP project scope.

Other major road construction will involve a 298km road from Vanimo to Hotmin. The SIP scope also includes a 111km public road from Hotmin to Telefomin. All public access roads will be owned and maintained by the PNG Government.

Existing roads from Vanimo south into oil palm and logging areas will be upgraded and extended with a major bridge over the Sepik River as part of the public road system serving Hotmin and Telefomin and connecting with the Frieda River project.

An optic fibre cable will be installed along the road corridor to provide high bandwidth communications to the whole area connected to an international service at Vanimo. The cable will also support mobile phone facilities along the road route.

Extensive investigation, planning and preliminary engineering studies have been undertaken by FRL as part of the overall 2018 Sepik Development Project Feasibility Study including capital cost estimating and implementation planning and scheduling.

Funding for the SIP could possibly come under inter-government aid provisions or international development bank facilities.

Green River Airport

The Green River Airport development will include upgrade of the existing airstrip to create a 1,200m x 30m sealed runway to a Code 2 certification, suitable for up to 50-seat commercial aircraft. Facilities will include a terminal building with a capacity for handling 80 passengers and an apron area suitable for two aircraft and two helicopters.

The upgrade would be undertaken in two stages. Stage 1 will support the early implementation activities for the FRCGP and will be part of that project's scope of work. Stage 2 will achieve the full Code 2 facilities including power (1.5MW) and infrastructure with a car park, bus terminal, security, navigation aids, water and sewage plants. Stage 2 will be funded as part of the SIP at an estimated capital cost of US$16.1M. Appropriate navigation aids would be installed.

BDA notes that issues of land tenure will be a significant factor to be resolved. Current land ownership in the area is not clear. The laws in PNG regarding customary land issues are complex and resolution can be time consuming. Ultimately, the PNG Government will need to grant leases for the extended airstrip and associated facilities and grant a licence for a commercial airport under the applicable legislation and regulative framework. A fully functioning airport will be necessary for the major construction phase of the FRCGP.

BDA considers that sufficient preliminary design work has been completed to support the estimate and construction schedule. Land tenure, airport ownership and the funding structure remain outstanding and will require early resolution to ensure the airport development meets the overall FRCGP and FRHEP project timetable.

Port of Vanimo

Development of the Port of Vanimo is seen as an opportunity to enhance the transport and communications infrastructure in the Sepik Region of PNG by means of a significant ocean port. The port will operate on a commercial basis via a Public-Private Partnership. As well as FRL, other users will include other mining projects, palm oil, logging and multi-user freight companies. The port upgrade is required to support both the construction and operational phases of the FRCGP and FRHEP.

The proposed upgrade will include:

- A general freight and fuel berth able to service vessels up to Handymax size but mostly 6,500dwt multi-purpose vessels (450 x 20 foot containers)
- A dedicated berth for FRCGP copper concentrate export via Handymax vessels, handling up to 1.25wmtpa
- Port apron development with shared infrastructure - diesel storage, container laydown etc.
- Port administration and operations infrastructure - offices, workshop, weighbridge etc.

Capital cost for the full port development is estimated at US$103M including 15% contingency.

Similar land tenure issues apply at Vanimo as elsewhere in PNG and these will need to be resolved with the co-operation of the PNG Government. A mix of state-owned and customary-owned land is involved. It appears that a Port Declaration has been made by the PNG Ports Corporation Limited under the Harbours Act. The multiple PNG legislation regarding ports and their operation suggests that the task of developing the Port of Vanimo is likely to be both time consuming and complex.

The proposed port development would be carried out in three stages:

- Stage 1 - pioneering to reclaim and establish the port apron area
- Stage 2 - construction of the general freight berth and port infrastructure
- Stage 3 - construction of the copper concentrate export berth and FRCGP dedicated facilities.

The Vanimo Infrastructure Area (VIA) will include an FRL regional office, staff accommodation, hotel for shift personnel, warehouse and maintenance workshop.

The general cargo berth construction will be pre-fabricated concrete slabs forming the deck supported on piled foundations; the structure will support the operation of 180t mobile cranes capable of handling 40 foot containers, and a pipeline for fuel pumped to a bulk storage on shore. Diesel fuel will be stored at the port in a tank farm. Annual fuel deliveries are expected to be 100ML and 5,500 x 20 foot equivalent container movements are forecast. The on-shore fuel storage will be provided and operated by a contractor. A full range of port services and mobile equipment has been included in the design of the 1.6ha general cargo area.

The FRCGP facilities will occupy a 7ha apron area and connect with a 240m causeway out to 5m water depth and then a piled trestle structure to the berth and mooring dolphins. This structure will carry a 550m long conveyor from the concentrate storage shed out to a slewing ship loader rated at 2,500tph. Vessels will be moved along the berth during loading; this procedure is common and is used at other similar Handymax loading facilities.

The concentrate dewatering and storage facilities will be located within the FRCGP compound area. The 9.5 inch concentrate pipeline delivery rate will be equivalent to 175dry tph (3,500tpd). The dewatering plant will be rated at 4,000tpd and the storage shed will hold up to 80,000wmt of copper concentrate. Concentrate recovery will be by a FEL loading into a hopper on the ship loading conveyor at a rate of 900-1,000tph. Shipping parcels in multiples of 10,000t with between 20,000-50,000t per vessel are envisaged. Handymax vessels are estimated to have an average shipping time of 14 days to various Asian ports (China, India, Philippines, Japan etc).

Incoming cargo for the FRCGP will be consolidated at an offshore receipt centre in South East Asia and shipped by chartered vessel to Vanimo, generally using 6,500dwt multi-purpose vessels capable of transporting 450 x 20 foot containers, based on PanAust experience with supplies to its operations in Laos. The majority of supplies will be containerised in either 20 or 40 foot containers with larger items as break bulk cargo. Reagents and other liquid chemicals will be shipped in Isotainers and grinding media in special tipping containers to avoid double handling.

Diesel supply to the mining operation is planned to be 15ML per vessel, pumped to a 24ML tank farm providing 30 days' supply and hauled to site by a fleet of road tankers.

4.10 Environment and Community Issues

Environmental Issues

The key environmental issues requiring mitigation strategies for the currently proposed development are land disturbance within the Frieda River Copper Gold Project (FRCGP) and Frieda River Hydro Electric Project (FRHEP) footprints, fugitive sediment emissions during construction and dissolved metal emissions during operations and closure.

The proposed key strategies for protecting the project-wide environment are the sub-aqueous deposition of mine waste rock and tailings within an integrated storage facility (ISF) and active treatment of open-pit contact water within the proposed Water Treatment Plant facility. FRL proposes that surface waters be diverted around the open-pits so as to maximise the operability of the mine and limit the volume of open-pit contact water requiring treatment, as once project-impacted waters have entered the ISF, there is likely to be limited opportunity to modify water quality parameters at the ISF discharge point.

A project site-wide water balance and downstream water chemistry modelling shows that water discharged to the Frieda River will meet PNG Ambient Water Quality Standards. Water quality monitoring, water chemistry modelling and site-wide water modelling conducted is extensive and appropriate for the current stage of project planning and EIS compilation.

Proposed Waste Rock and Tailing Disposal System (ISF)

Geochemical characterisation studies indicate that most waste rock will be potentially acid forming (PAF). FRL proposed that all PAF mine waste rock and process tailings will be disposed of and stored sub-aqueously in the Integrated Storage Facility (ISF). The ISF continues the concept of the 2012 and 2016 Feasibility Studies; the location of the waste storage facility has been moved from the 2016 FS Nena River dam and relocated to the Frieda River catchment and incorporated in the dam lake created by the proposed 2018 FS hydroelectric dam. The proposed 191m high dam wall provides increased capacity in the upper reaches of the dam for all the PAF waste produced during the proposed 33 year LOM. The dam location proposed is immediately downstream from the junction of the Nena and Frieda rivers, in a similar location to the 200MW hydro dam proposed in the 2012 Bechtel FS. All PAF mine waste will be crushed and conveyed to the ISF for sub-aqueous placement using barges; tailings will be deposited in the ISF from a tailings floating distribution pipeline. The proposal represents a safe and efficient method of handling the waste material, providing long-term storage; sub-aqueous storage will minimise the potential for development of acid rock drainage ("ARD") and maximise protection of the riverine environment.

Community Issues

In terms of socio-economic benefits, ensuring appropriate landowner benefit sharing and the management of landowner expectations, to minimise as far as possible any over-anticipation of benefits has been identified early as a key project driver; separately, it will also be important to manage expectations of benefit sharing to landowners and other residents who live near the project or along service corridors (both public and private roads) but who are not directly impacted and hence will receive more modest benefits than those that will flow to those landowners who are directly affected; this aspect has the potential to lead to social unrest.

Resettlement of some villages is planned under the current development proposal, requiring the re-establishment of housing and gardens, livelihoods and development of infrastructure and services, all at a comparable or better level than in the old settlements. A key consideration is the need to ensure that new housing, infrastructure, services and transport developed as part of the resettlement plan also incorporates adequate planning for inter-generational requirements.

The proposed development of the FRCGP and FRHEP will require the relocation of four villages, Wabia (83 families), Ok Isai (93 families), Paupe (36 families) and Wameimin 2 (48 families), comprising a total of 260 families. The first three of these villages will require resettlement due to inundation of the FRHEP reservoir. The remaining village will require resettlement due to its proximity to the FRCGP. FRL propose that a resettlement action plan ("RAP") will be developed in conjunction with a community-level planning process to facilitate community resettlement.

4.11 Life of Mine Production Plan

The life of mine plan in this report is based on the production schedule in the Excel file "*20181025 FRL Project Evaluation Model v5.1e.xls"* prepared by PanAust and provided by Highlands. The production schedule for the recent feasibility study was prepared on the basis of mining the HIT open pit in eleven cutbacks/phases as well as the mining of the two small pits, Ekwai and Koki. The Ekwai pit is scheduled to be completed by Year 4 which allows the open pit void to be used for stockpiling of lower grade ore with 12Mt capacity; Koki pit is scheduled to be mined out in Year 8. The mine production schedule has taken into account the appropriate production constraints.

The proposed plant production schedule is based on treatment of a high proportion of oxidised ore in the early operating years followed by an increase in milled tonnage in Year 8, when the expanded grinding and flotation circuits have been commissioned. The expansion of plant capacity takes place in Years 6 and 7, with the grinding circuit being duplicated and the rougher flotation capacity being increased by 50%. Throughput averages 42Mtpa for the first five operating years and is expected to peak in Years 8-11 in the range 61-66Mtpa. Subsequently, throughput is generally in the range of 45-61Mtpa, with the effect of harder ore with depth partially offset by the increase in plant throughput capacity. Annual milled grades are projected to range from 0.65-0.37% Cu and from 0.35-0.19g/t Au.

The LOM production schedule is summarised in Table 4.6.

Table 4.6

Financial Model Frieda River Production Schedule

Item	Unit	Years										
		1	2	3	4	5	6-10	11-15	16-20	21-30	31+	Total
Ore Mined	Mt	36	40	45	38	52	275	285	231	394	97	1,492
Waste Mined	Mt	23	28	40	44	33	279	320	316	337	2	1,422
Total Material Moved	Mt	59	69	85	81	85	554	605	546	731	99	2,914
Strip Ratio	Waste:Ore	0.64	0.70	0.89	1.16	0.63	1.01	1.12	1.37	0.86	0.02	0.95
Ore Milled	Mt	36	40	45	38	49	272	283	226	394	109	1,492
Ore Grade	% Cu	0.47	0.65	0.61	0.55	0.55	0.49	0.45	0.45	0.37	0.41	0.45
	g/t Au	0.25	0.35	0.34	0.27	0.33	0.26	0.23	0.22	0.19	0.26	0.24
Cu Recovery	%	74.2	78.7	81.0	83.3	84.4	84.4	87.5	86.7	87.9	87.9	85.6
Au Recovery	%	51.7	59.0	61.2	65.7	65.7	64.9	69.7	68.2	69.9	70.0	67.1
Concentrate Production	kt (dry)	537	899	908	696	877	4,474	4,169	3,366	4,797	1,447	22,170
Concentrate Grade	% Cu	23	23	24	25	26	25	27	26	27	27	26
	g/t Au	9	9	10	10	12	10	11	10	11	14	11
Cu Production	kt	119	197	214	167	218	1083	1071	848	1244	376	5,538
Gold Production	koz	145	254	295	211	328	1404	1423	1073	1666	610	7,408

The projected metallurgical performance over the LOM reflects the results from the most recent testwork programmes carried out and comparative analysis of the performance of plants processing similar ore types.

Copper recovery is projected to be in the range 74-88%, averaging 85%%; gold recovery is projected at 52-70%. Projected metal recoveries are considered good, considering the relatively low grade of the ore. The financial model specifies a copper concentrate grade of 26% Cu.

Copper production in concentrate is projected to range from 218kt in Year 5 to around 125ktpa after Year 20. Gold production is projected to be above 200koz per annum for most of the first twenty production years.

BDA has reviewed the Frieda River provisional production schedule, the grade projections, recoveries and metal production from concentrate and has advised Deloitte with regard to the appropriate values for the technical inputs to the financial model (see Section 4.15). These values take recognition of the status of the project and the projected accuracy of the estimates.

4.12 Capital Cost Estimates

The capital costs presented in the September 2018 FS for the FRCGP total US$2,770M, with additional sustaining capital totalling US$1,910M over the life of the mine. The capital cost estimates are summarised in Table 4.7 and have been generated in 2018 US$.

Table 4.7

FRCGP Capital Cost Estimate

Item	Total Capital US$M
Initial Capital	
Direct Costs	
Mine	523
Process Plant	976
Information Technology, Administration and Training	65
Site Accommodation Village	72
Environmental Facilities	3
Power	38
Water	8
Main Roads	44
Ocean Port Facilities	91
Subtotal Direct Costs	*1,820*
Common Distributable Costs	523
Project Delivery Management	302
Owner's Costs	188
Contingency	429
Subtotal	*3,262*
Reduction for Mining Equipment Lease Provision	143
Reduction for Concentrate Pipeline BOOT Contract	351
Total Initial Capital	**2,770**
Total Sustaining Capital	**1,910**
Total Life of Mine Capital	**4,680**

The capital costs presented in the September 2018 FS for the FRHEP total US$3,228M, with additional sustaining capital totalling US$250M to be expended every 40 years of operation for a major refurbishment of the hydroelectric facility. The capital costs for the SIP total US$739M, with no additional sustaining capital. The FRCGP financial model assumes this capital is funded separately and that FRCGP pays a commercial rate for power from the FRHEP and access to the SIP facilities.

The estimate has been prepared by the FRL project management team using Quest, a computer-based estimating system and has been classified by FRL as a Class 3 estimate as defined by AACE International with a target accuracy range of -10% to +30%; the estimate has generally been prepared in accordance with industry standards.

For facilities for which engineering designs were available, quantities were derived from material take-offs carried out by the FRL engineering team using preliminary engineering designs. Where preliminary engineering was not available, quantities were estimated from conceptual designs and sketches. Most quantities were derived from preliminary designs. Prices for equipment and materials were based on budget quotes obtained from prospective suppliers or from historical data from similar previous projects. Most of the prices were derived from budget quotes with the rest using historical data and some nominal allowances.

Unit rates and productivity factors were derived from information provided by consultants and construction contractors with appropriate PNG experience or from FRL in-house data. Labour costs were derived from data provided by engineering contractors and FRL experience. Design growth allowances have been included in the estimate for each direct cost centre.

The contingency allowance has been determined as a result of quantitative cost and schedule risk analysis completed for FRL by Broadleaf Capital International Pty Ltd and was set at 16% of direct and indirect costs which the analysis determined would provide an 80% probability that the estimate will not be exceeded.

The designs used in preparing the estimates are based on geotechnical investigations carried out by FRL and previous site investigations; however, it should be recognised that the risk of geotechnical conditions being less favourable than assumed remains significant and additional site investigation work will be required. In addition, there is a significant risk that labour productivity will be lower than forecast in the estimate. Climatic and topographic conditions at Frieda River are severe.

With respect to the capital cost estimates, BDA has reviewed the Frieda River provisional estimates and has advised Deloitte with regard to the appropriate values to the technical inputs to the financial model (see Section 4.15). These values take recognition of the status of the project and the projected accuracy of the estimates.

4.13 Operating Cost Estimates

The operating cost estimates in the financial model "*20181025 FRL Project Evaluation Model v5.1e.xls*" are shown in Table 4.8.

Table 4.8
Frieda River Operating Cost Estimate - Life of Mine

Item	Units	Years										
		1	2	3	4	5	6-10	11-15	16-20	20-30	31+	Total
Physicals												
Ore Mined	Mt	36	40	45	38	52	275	285	231	394	97	1,492
Total Material Moved	Mt	59	69	85	81	85	554	605	546	731	99	2,914
Ore Milled	Mt	36	40	45	38	49	272	283	226	394	109	1,492
Cu Production	kt	119	197	214	167	218	1,083	1,071	848	1,244	376	5,538
Costs - US$												
Mining	$M	181	198	215	198	189	1,107	1,375	1,311	1,840	364	6,978
Milling	$M	393	249	252	238	265	1,588	1,882	1,792	3,388	1,038	11,086
Support	$M	108	100	101	101	102	514	526	513	993	289	3,347
Total Site Costs	*$M*	*682*	*546*	*568*	*537*	*556*	*3,210*	*3,784*	*3,616*	*6,221*	*1691*	*21,411*
TCRC	$M	65	108	112	87	110	555	529	423	611	185	2,784
Transport/Selling	$M	69	76	76	70	75	384	376	348	244	74	1,793
Gold Credits	$M	196	343	398	285	443	1,895	1,921	1,449	2,249	824	10,002
Cash Costs	$M	620	387	358	409	299	2,253	2,768	2,938	4,827	1127	15,985
Royalty	$M	23	40	44	34	46	222	222	172	263	83	1,149
Total Costs	*$M*	*643*	*427*	*402*	*443*	*345*	*2,475*	*2,990*	*3,110*	*5,090*	*1,210*	*17,134*
Unit Costs - US$												
Mining	$/t mined	3.06	2.90	2.54	2.43	2.22	2.00	2.28	2.40	2.52	3.67	2.39
Mining	$/t milled	5.02	4.95	4.78	5.22	3.85	4.07	4.86	5.80	4.67	3.34	4.68
Processing	$/t milled	10.92	6.22	5.60	6.27	5.41	5.84	6.65	7.93	8.60	9.52	7.43
Support	$/t milled	3.00	2.49	2.25	2.65	2.08	1.89	1.86	2.27	2.52	2.65	2.24
Site Operating Cost	$/t milled	18.94	13.66	12.63	14.14	11.34	11.80	13.37	16.00	15.79	15.51	14.35
C1 Cu Cost	*$/lb Cu*	*2.56*	*1.05*	*0.90*	*1.33*	*0.67*	*0.93*	*1.15*	*1.55*	*1.74*	*1.70*	*1.32*

Operating costs for the mining operation are generally consistent with conventional open pit mining standards in PNG and with local labour rates. The equipment costs and performance are based to a reasonable extent on site experience elsewhere, adjusted for the anticipated local conditions. Mining costs include the delivery of ore to the ROM stockpile approximately 1km from the open pit mining limit. Initial mining costs in the first five years have been estimated to average approximately US$2.60/t of material mined or US$4.65/t of ore and average around US$4.68 over the LOM. The mining costs compare reasonably with known current costs in comparable operations. The mining costs will be sensitive to increases in fuel costs, which will represent around 20% of the mining cost, and to ground hardness, which increases wear on ground engaging tools reduces drill and blast productivity. BDA considers there may be some potential to reduce mining costs at the rates proposed.

Processing costs have been estimated at US$7.43/t over the LOM. These costs will be most sensitive to ore hardness and the power price. The estimated processing costs are comparable to those currently achieved in similar operations where the Frieda River plant would likely be similar in design and flowsheet.

Administration and support costs have been estimated at around US$100M per annum. These costs would include the costs of supply of consumables to the project via the port at Vanimo. Transport and selling costs include the cost of operation of the concentrate pumping system and the dewatering and ship-loading facilities at Vanimo.

Realisation charges are based on a concentrate grade ranging with time from 23-27% Cu.

Overall, the operating cost estimates appear generally reasonable. BDA considers the operating cost estimates to be accurate to ±25-35%, as would be anticipated at this level of study.

With respect to the operating cost estimates, BDA has reviewed the Frieda River provisional estimates and has advised Deloitte with regard to the appropriate values to the technical inputs to the financial model (see Section 4.15). These values take recognition of the status of the project.

4.14 Implementation Plan and Schedule

Implementation of the FRCGP includes detailed engineering, procurement, project preparation, construction, commissioning and operational readiness activities followed by ramp-up to full production. The total project implementation period is forecast to be around 7.5 years including 5 years of construction.

A preliminary Project Implementation Plan ("PIP") has been prepared by PanAust as part of the 2018 FS. The PIP sets out in considerable detail the proposed strategy, methodology and schedule for implementing all aspects of the Sepik Development Project including the FRCGP.

The PIP states that project implementation, including the implementation of the FRCGP, is to be overseen by a management steering committee representing major stakeholders. The project management team will comprise an FRL Owner's team and a team from a Project Management Consultant ("PMC") supported by design consultants and specialist engineering, procurement and supply contractors.

Construction will be performed under contracting models that reflect the nature of the work. These models will include engineering, procurement and construction ("EPC") contracts, build, own and operate ("BOO") contracts and construction contracts in accordance with a contracting and procurement strategy.

The road from Vanimo to Green River is to be upgraded and a new section of road from Green River to Hotmin is to be constructed to provide access for construction equipment and material to the FRCGP site from Vanimo and for the transport of personnel from the Green River airport to the site. BDA notes that funding and construction of these roads by others as part of the SIP may involve some loss of control of the construction process by FRL. If this is the case it may increase the risks of schedule and cost overruns for both the FRCGP and the FRHEP.

The current schedule has the roads from Vanimo to Hotmin complete at the start of Year -5 in line with the start of major earthworks for the FRCGP and FRHEP. Tunnelling and critical works on the FRHEP will commence some 12 months earlier and be accessed via the Sepik and Frieda Rivers, the Frieda River port and Frieda River airport. The Sepik River bridge to the south of Green River is currently scheduled for completion approximately 18 months after the road, with barges required to ferry cargoes across the river until the completion of the bridge. Any delay in the completion of the access roads including the Sepik River bridge will significantly increase the risk in meeting the FRCGP and the FRHEP schedules.

The critical path for the FRCGP generally passes through the engineering, procurement and construction of the process plant and BDA notes that the commissioning and operation of the process plant depends on the FRHEP being in operation to provide power to the plant. Any delay in bringing the FRHEP into operation for any reason, including factors outside of FRL's control caused by agreements entered into with others, will impact on the timing of bringing the FRCGP into operation.

4.15 Valuation Assumptions

A feasibility study has recently been completed for the Freida River project, including financial modelling of the proposed development and operation. Deloitte has considered the use of the financial model and NPV as one approach to its valuation of the Frieda River project. Deloitte has requested that BDA review the production and cost projections and advise on the reasonableness of the assumptions and projections for valuation purposes.

The production and cost projections are based on FRCGP stated reserves and reflect the cost estimations completed in the feasibility study. The project has been thoroughly studied over a number of iterations, and BDA considers that the cost and production assumptions are generally reasonable. However, estimates of project capital and operating costs are rarely more accurate than ±15% and given the location of Freida River and the potential logistical issues, some aspects of the capital cost estimates could increase by +30%. BDA also emphasises that the modelling assumes that critical components required for project development, namely the hydro-power station and dam and components of the road, port and air access are provided by others.

BDA has considered the assessments that might be made by a willing, knowledgeable and prudent buyer in assessing a value for the project and has recommended the following production and cost projections be considered for valuation purposes.

Mine Inventory

- BDA considers that the LOM mine inventory based on the Ore Reserves plus around 10-15% of Inferred resources is reasonable for valuation purposes

Production

- BDA considers the LOM production rate as set out in the feasibility study is appropriate.

Process Recoveries

- BDA considers that the projected metallurgical recoveries and concentrate grades are reasonable and consistent with the testwork but recommends that the sensitivity of a 2% reduction in recovery for copper and gold be tested.

Capital and Operating Costs

- BDA has suggested that the cost projections as presented be used as a base case with a test of sensitivities of a 30% increase in capital costs and ±10% on operating costs.
- Allowance has been made in the model for closure costs and is considered appropriate.

Nena and Exploration Potential

- There are a number of issues relating to the development of the Nena resources including the mineralogy and the high arsenic content; however the Nena resources and surrounding areas do provide some potential for additional feed to a Frieda River project once all the basic infrastructure and services are in place. BDA suggests that this additional value may best be captured in the modelling by testing the impact of an additional two years of production.

5.0 EXPLORATION PROPERTIES

BDA has been commissioned to undertake a technical due diligence review and valuation of the Highlands PNG mineral exploration properties, comprising:

a) the Star Mountains copper-gold exploration tenements near Ok Tedi mine in the Sanduan (West Sepik) Province

b) the Sewa Bay nickel laterite deposits on Normanby Island in the D'Entrecasteaux group of Islands, Milne Bay Province.

BDA has reviewed the available exploration, expenditure and commitment data and the joint venture terms that apply to the properties and has provided Deloitte with valuations based on BDA's assessment of those factors and the overall prospectivity and potential of the prospects. The valuation estimates are discussed in Section 6 of this report. This Section 5 provides a technical description of the two exploration areas, the Star Mountains and Sewa Bay.

5.1 Star Mountains Copper-Gold Exploration Tenements

Historical Background and Current Status

Highlands holds 100% interest in seven exploration leases in the Star Mountains in the Sanduan Province of PNG. The tenements cover an area of 1,049km^2 and are located approximately 20km northeast of the Ok Tedi mine, 25km from the support town of Tabubil and 60km from the Frieda River project (Figure 7).

The Star Mountains lie within the New Guinean Orogenic Belt which hosts some of the world's largest copper porphyry and volcanogenic massive sulphide deposits including Grasberg, Frieda River, Porgera, Ok Tedi and Hidden Valley.

The Star Mountains area was first explored by Kennecott in the early 1970s. Kennecott discovered the Tifalmin porphyry copper district and drilled five holes in the Nong River lease area (EL 1312) in 1972. With the discovery of the Ok Tedi copper-gold mineralisation around 20km to the south, exploration focussed on the Ok Tedi area and no further drilling was undertaken in the Star Mountains area for more than 30 years.

From 1972 to 2009, the area was explored by the Geological Survey of PNG, and by CRA, BHP, Newcrest and Ok Tedi Mining Limited. This work consisted primarily of geological mapping and surface geochemical sampling including stream sediment, rock chip and soil sampling. The area was also covered by airborne magnetic and radiometric surveys.

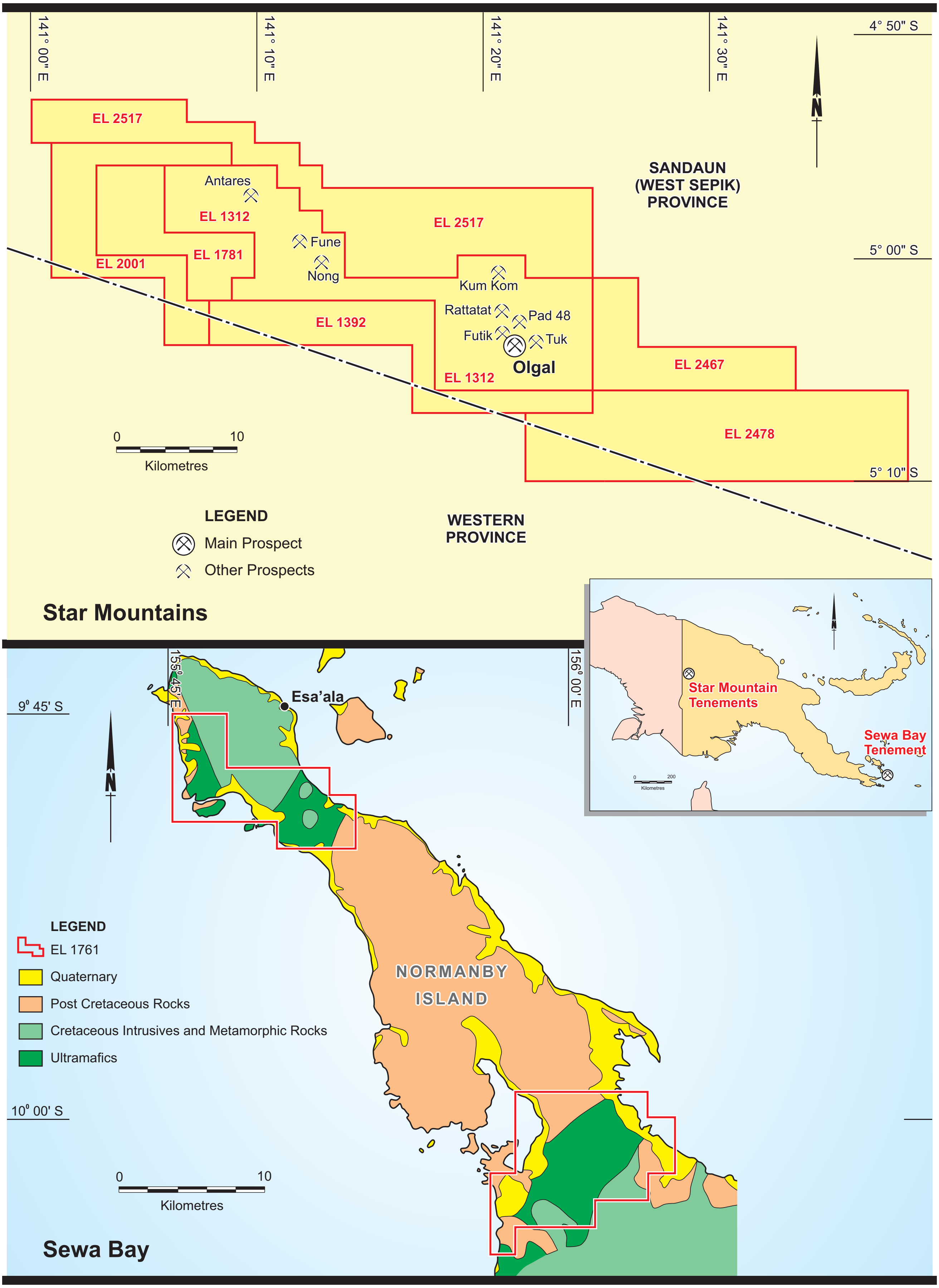
No further drilling was carried out until 2009 when Highlands commenced exploration in the area with a drilling campaign focussed on the Olgal prospect within the Nong River lease (Figure 7). Highlands established an exploration base at Tifalmin and from 2009 to 2012 drilled 14 holes at Olgal, of which 12 encountered mineralisation. In 2012, Highlands also drilled a number of other nearby prospects including Futik, Pad48, Rattatat, Kum Kom and Tuk, with mineralisation intersected in a number of holes.

Overall, from 2009 to 2013, Highlands spent in excess of US$25M on exploration in the Star Mountains. Some ten copper-gold porphyry and skarn prospects were identified and preliminary drilling undertaken on six prospects. The Olgal prospect was the main target, with one hole intersecting 596m grading 0.61% Cu and 0.85g/t Au from 24m down hole.

In February 2015 Highlands entered into a farm-in and joint venture ("JV") agreement with Anglo American plc ("Anglo American") whereby Anglo American was to fund all exploration expenditure to earn a 51% interest in the project by proving a JORC compliant Inferred resource of at least 3Mt of contained copper equivalent before January 2020. Anglo American also paid Highlands US$10M in two tranches of US$5M each, the first payment of US$5M payable on execution of the farm-in and joint venture agreement and the second payment 12 months later.

Under the JV agreement, Anglo American was to become manager of the joint venture after expending an initial US$25M to earn a 15% interest in the tenements and would earn the additional 36% by proving the required Inferred resource. Anglo American also had an option to increase its interest in the project to 80% by completing a bankable feasibility study within 15 years of the date of the agreement.

In 2015 a nine hole drilling programme was completed, comprising six holes at Olgal and three at Kum Kom. In 2016/17 seven holes were drilled, one at Olgal, two at Unfin and four at Fune. Overall, 23 holes have been drilled at Olgal (including re-drill and wedge holes) totalling 8,949m and 27 holes have been drilled at other prospects. Mineralisation has been identified at six prospects in total.



Highlands Pacific *Star Mountains and Sewa Bay Exploration Prospects*

Figure 7

LOCATION, TENEMENTS AND GEOLOGY

BDA - 0179/02 (Jan. 2019)

Behre Dolbear Australia Pty Ltd

In addition to the drilling programmes, reconnaissance geological mapping, surface geochemical surveys, induced polarisation ("IP") surveys and airborne (fixed wing and helicopter) geophysical surveys have been completed including aeromagnetic, radiometric, and electromagnetic (ZTEM), with follow up interpretation incorporating regional structural mapping, LIDAR and remote sensing data.

In February 2018 Anglo American advised Highlands that following a review of its global exploration portfolio it would withdraw from the Star Mountains exploration joint venture and would relinquish its 15% interest; Highlands thus regained 100% control and ownership of the tenements.

Highlands advises that total exploration expenditure at Star Mountains has exceeded US$60M (Highlands >US$25M, Anglo American US$28M and others >US$7M).

Tenements

The Star Mountains exploration tenements comprise Nong River EL1312, Tifalmin EL1392, Mt Scorpion EL1781, Benstead EL2001, Mt Abemh EL 2467, Ilam River EL 2478 and Lake Louise EL 2517 (Figure 7), and are located 20km northeast of the Ok Tedi mine. Following Anglo American's withdrawal from the joint venture in February 2018, Highlands regained 100% control and ownership of the tenements.

The tenements are in good standing with expiry dates as shown in Table 5.1.

Table 5.1

Star Mountains Tenement Details as at February 2019

Licence	Province	Start Date	Expiry Date	Status	Highlands Interest (%)
EL 1312 - Nong River	Sandaun	20/9/2016	19/9/2018	Under Renewal	Highlands (100%)
EL 1392 - Tifalmin	Sandaun	10/6/2015	9/6/2017	Under Renewal	Highlands (100%)
EL 1781 - Mt Scorpion	Sandaun	12/3/2016	11/3/2018	Under Renewal	Highlands (100%)
EL 2001 - Benstead	Sandaun	20/12/2016	19/12/2018	Under Renewal	Highlands (100%)
EL 2467 - Mt Abemh	Sandaun	2/12/2016	1/12/2018	Under Renewal	Highlands (100%)
EL 2478 - Ilam River	Sandaun	26/7/2017	25/7/2019	Current	Highlands (100%)
EL 2517 - Lake Louise	Sandaun	26/7/2017	25/7/2019	Current	Highlands (100%)

All tenement interests are subject to a potential 30% participation by the PNG government.

Geology

The Star Mountain exploration tenements are located within the prospective New Guinean Orogenic Belt which hosts the Grasberg and Ok Tedi copper-gold mines, the Porgera and Hidden Valley gold mines and the Frieda River project.

The principal exploration work has focussed on the Nong River lease, EL 1312. Two metallogenic districts have been identified in EL 1312, the Tifalmin porphyries on the east side of the tenement which includes six prospects (Olgal, Futik, Pad48, Rattatat, Kum Kom, and Tuk) and the Nong River porphyries in the western part of the tenement including the Antares Complex, Amtanmin and Nong prospects (Figure 7).

A number of copper-gold porphyry intrusive complexes have been located which in some cases have associated skarn mineralisation. Stockwork copper mineralisation >0.2% Cu has been intersected in drill holes in six of the prospects that have been drilled to date (Olgal, Futik, Pad48, Rattatat, Kum Kom and Fune).

The main prospect, Olgal, is a copper-gold porphyry hosted by a multi-stage diorite which intrudes Oligocene-early Miocene limestones. The contact between the diorite and the limestone is typically brecciated, with minor skarns. Mineralisation is limited to the Olgal diorite stock and is associated with potassic and sericitic alteration. Mineralisation comprises predominantly disseminated chalcopyrite with minor bornite; some degree of zoning is apparent with higher grades present in the central core. There is a minor (20m) zone of weathering near surface where copper has been leached.

The deposit is cut off to the south and at depth by a regional thrust fault which dips at around 30° to the east-northeast.

The Olgal deposit has been tested with 23 drill holes, intersecting copper and gold mineralisation. A deep vertical drill hole intersected mineralisation over a depth of 596m starting 24m below surface, with a grade of 0.61% Cu and 0.85g/t Au. Other intercepts include 244m at 0.41% Cu and 0.33g/t Au and 501m at 0.40% Cu and 0.24g/t Au, both from surface.

Four drill holes in the Futik prospect (located 2km from Olgal) and two holes in the Rattatat prospect (3km from Olgal) intersected porphyry copper and gold mineralisation. Two holes in the Kum Kom prospect (5km from Olgal) intersected skarn mineralisation with intercepts including 30m at 1.11% Cu and 0.45g/t Au from 140m and 88m at 0.82% Cu and 0.31g/t Au from 266m.

Olgal Mineral Resource

In February 2018 Highlands declared a maiden Mineral Resource for the Olgal prospect, within the Star Mountain Nong River lease (EL 1312). At a 0.3% Cu cut off, the resource was estimated at 210Mt grading 0.4% Cu and 0.43g/t Au containing 840,000t of copper and 2.9Moz of gold (Table 5.2).

Table 5.2

Olgal Prospect Mineral Resource – February 2018 – 0.3% Cu Cut Off

Deposit	Category	Tonnage Mt	Copper Grade Cu %	Gold Grade Au g/t	Contained Copper Mt	Contained Gold Moz
Olgal	Inferred	210	0.40	0.43	0.84	2.9

Note: estimate by H&S Consultants Pty Ltd (H&SC) February 2018; H&SC calculated a copper equivalent ("CuEq") value of 0.65% CuEq based on metal prices of US$3/lb for copper and US$1,200/oz for gold

The estimate was undertaken by independent resource specialists H&S Consultants (H&SC) based on data from 23 diamond core holes and 8,949m of drilling. Drill spacing is irregular, limited to accessible sites in the rugged terrain, but averages approximately 200m. Samples were typically 2m length, comprising sawn half core; the samples were composited to 4m for estimation purposes. Core recovery averaged 91%. All core samples were assayed for copper and gold (plus a suite of other elements) at either ALS or Intertek laboratories in Townsville using a three acid digest and Inductively Coupled Plasma - Atomic Emission Spectroscopy ("ICP-AES") for copper, and a 50g fire assay for gold. Core samples were taken for density measurements by weighing in air and weighing in water; an average value of 2.18t/m^3 was applied to the primary zone, with 2.0t/m^3 for the oxide zone.

Geological domains were defined to limit the resource estimation and to separate oxide and primary mineralisation; the oxidised zone is around 20m thick and is depleted in sulphur and copper. The mineralised zone incorporates both intrusive and sedimentary lithologies. At depth the resource was limited to the material above the Olgal-Futik thrust fault, at approximately 800m below surface. The basal thrust was identified in seven drill holes; this structure dips at around 30° in an east-northeast direction and separates the upper mineralised sequence from a barren basement.

Estimation was by Ordinary Kriging ("OK"); the coefficients of variation (standard deviation/mean) are all quite low indicating that OK is an appropriate estimation method. No grade cutting was applied as there are no extreme values. A block size of 50 x 50 x 20m was selected, which is considered reasonable in terms of the average drill hole spacing.

H&SC carried out various validation checks based on visual comparison of block and drill hole grades and statistical analysis. The resource was reported by H&SC at a range of cut offs but 0.3% Cu was selected as the most appropriate based on a review of comparable projects. It is envisaged that the mineralisation would be amenable to open pit or block cave mining. Mineralogical studies indicate a fairly typical copper-gold porphyry, with copper occurring principally as fine-grained disseminated chalcopyrite and minor bornite. The ore would appear to be amenable to conventional flotation.

No potentially deleterious elements have been identified at any significant levels; arsenic, antimony, bismuth and cadmium levels are all low to very low; there is significant sulphur in the primary zone however which could be acid-producing.

H&SC classified the entire resource as Inferred based on the wide drill hole spacing and current geological understanding.

H&SC concluded that substantial Mineral Resources exist at Olgal, and that a Scoping Study is required to determine the economic potential, and potential target size. Additional drilling is required to increase the level of confidence in the resource, as well as to follow up on potential extensions.

Highlands notes that the Olgal resource area covers only roughly 0.9km x 0.6km and represents only a small part of the total Star Mountains tenement package of 1049km^2, and that significant potential exists for additional resources at other prospects within the tenement area.

Future Exploration Programme

A 200Mt copper-gold deposit has been outlined at Olgal and there are reasonable prospects that the Star Mountain leases could host significant copper porphyry and skarn mineralisation, that could potentially support a substantial mining project.

However, with the withdrawal of Anglo American from the Star Mountains joint venture, there is no immediate plan for further exploration. Clearly, in considering its exploration portfolio, Anglo American determined that it had higher priorities elsewhere. Highlands has advised that since the withdrawal of Anglo American it has sought further joint venture partners, but to date that search has been unsuccessful. While recognising the future potential, Highlands advises that the companies it has approached have all been wary of the high costs of exploration in PNG in an environment such as Star Mountains, the high capital cost of bringing a project into production in a remote location with limited infrastructure, and also that a number of companies at this point in time did not have PNG on their list of preferred countries for investment.

Clearly this situation could change over time, and the successful development of, for example, Frieda River, could see a major change in sentiment. Similarly, as the end of mine life approaches for Ok Tedi there could be renewed interest in nearby resources that could potentially utilise some of the existing Ok Tedi facilities and infrastructure.

Nevertheless, at this point in time Highlands is not proposing further exploration for Star Mountains and under the proposed Cobalt 27 agreement the properties would pass to Cobalt 27 for any further exploration or transactions.

5.2 Sewa Bay Nickel Laterite Exploration Tenements

Historical Background and Current Status

Highlands holds 100% interest in the Esa'ala exploration licence EL 1761 covering an area of 162km^2 at Sewa Bay in the western portion of Normanby Island, in the D'Entrecasteaux group of islands, Milne Bay Province (Figure 7). Sewa Bay is approximately 400km from Port Moresby and 650km from Ramu's Basamuk process plant (Figure 1). The tenement includes areas underlain by ultramafic rocks with nickel-rich laterites developed at surface. It is envisaged that the area has potential for a direct-shipping nickel laterite operation.

Prior to Highlands' interest in the area, exploration was limited to reconnaissance surveys by the Bureau of Mineral Resources Australia and the Geological Survey of Papua New Guinea.

Highlands commenced exploration at Sewa Bay in 2012. Remote sensing work and reconnaissance mapping were complete during 2012. Rock chip sampling and a reconnaissance 20-hole hand auger drilling programme were carried out during 2013 to test the potential for nickel mineralisation in three areas of exposed ultramafic dunite and pyroxenite rocks within the exploration licence. The auger drilling indicated widespread development of laterite. Drill samples were dispatched to ALS in Townsville for analysis. Drill thickness of the laterite horizon ranged from 1-3m; nickel grades ranged from 0.2-1.38% Ni and cobalt grades from 0.03-0.14% Co.

Since 2013 Highlands has been conducting exploration of the tenements in conjunction with international trading house Sojitz Group ("Sojitz") and Japanese company Pacific Metals Co., Ltd ("Pacific Metals"). The companies have an agreement whereby Sojitz and Pacific Metals fund the exploration with an option to negotiate a formal farm-in and joint venture agreement on the project; if a joint venture is negotiated it is envisaged that Sojitz will become a majority partner and fund further evaluation of the project.

In 2013 and 2015, mechanical auger drilling campaigns were undertaken, managed by Highlands but funded by Sojitz and Pacific Metals, to establish the areal extent and grade of the nickel laterite deposits. The 2015 campaign included 303 auger holes totalling 545m, with three pits dug to a depth of 2m. The auger grid spacing was approximately 300m, with some of the thicker zones infilled at 150m spacing. The holes were drilled to refusal; most holes were relatively shallow, 1-2m deep, with the auger unable to penetrate more competent rocks or sticky clays, but the occasional hole achieved a depth of 5-6m. Highlands advises that it considers the depth of the limonite/saprolite profile is likely to average 3-4m, but with some thicker zones of 6m or more. To date drilling has identified three main areas of interest covering an area of approximately 7km^2, with nickel mineralisation grading at or above 1% Ni. Highlands has suggested a potential target of around 10Mt of nickel laterite above 1% Ni.

A further programme was undertaken in 2016 which included a LIDAR survey to provide detailed topographical mapping.

Highlands advises that to date approximately US$0.75M has been spent on exploration. No resources have been estimated to date and no progress has been made on moving to a formal agreement with Sojitz. The Ramu project would be a potential customer for future supplies of nickel laterite, but currently has no shortage of its own laterite supply. No progress has been made on any discussions with MCC Ramu or with any other parties in relation to Sewa Bay. Establishment of a nickel laterite mineral resource would be an important first step in progressing the project.

Tenement Status

The Esa'ala tenement EL 1761 is located at Sewa Bay on Normandy Island, Milne Bay Province, PNG (Figure 7). The tenement was granted in March 2012 and is 100% owned by Highlands. The tenement covers an area of 162km^2 and is in good standing; a renewal was granted on 31 August 2018 for a further two years to 11 March 2020. The tenement interest is subject to a potential 30% participation by the PNG government in any mining development.

Table 5.3

Sewa Bay Tenement Details as at February 2019

Licence	Province	Start Date	Expiry Date	Status	Highlands Interest (%)
EL 1761	Milne Bay	12/3/2018	11/3/2020	Current	Highlands Pacific Resources Limited (100%)

Geology

The D'Entrecasteaux Islands consist of a series of metamorphic core complexes which form prominent tectonic domes of probable Cretaceous age. The domes are overlain by overthrust sea floor plate rocks including ultramafics composed of serpentinised dunites, harzburgites and pyroxenites.

Three fault bounded blocks of ultramafic rocks occur within the Esa'ala tenement covering a total area of approximately 50km^2. Nickel-enriched laterites form over the underlying ultramafic units.

Topographically the ultramafics are characterised by either low hills covered by poor forest or bracken, or steep mountainous terrain with high relief and stunted vegetation. Approximately half the area underlain by ultramafics has slopes of less than 15° and therefore has potential for development of laterite soil profiles. The laterite is a wet tropical laterite, similar to the Ramu deposit.

Future Exploration Programme

Any future exploration should focus on establishing the nickel laterite resource within the tenement. The auger drilling to date has identified the areas of nickeliferous laterite, but for Mineral Resource estimation and systematic logging and sampling for assaying and density determination, diamond drilling would be recommended.

However, there is no immediate plan for further exploration. Highlands has advised that in the context of the proposed Cobalt 27 transaction, Sojitz has declined to progress joint venture discussions, and at this point in time Highlands is not proposing any further exploration. Under the proposed Cobalt 27 agreement the properties would pass to Cobalt 27 for any further exploration or transactions.

Highlands has advised that no interest has been shown by third-parties in entering into any joint venture arrangement on the Sewa Bay properties.

6.0 VALUATION OF THE EXPLORATION PROPERTIES

6.1 Valuation Principles and Methodologies

Valuation Principles

As a general principle, the fair market value of a property as stated in the VALMIN Code is the amount a willing buyer would pay a willing seller in an arm's length transaction, wherein each party acted knowledgeably, prudently and without compulsion.

Standards and Procedures

This report has been prepared in keeping with the VALMIN Code for the Technical Assessment and Valuation of Mineral Assets and Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and as amended and updated in 2005 and 2015. Resource and reserve estimation procedures and categorisations have been reviewed in terms of the JORC Code, 2012.

The effective date for this valuation is 1 February 2019.

Valuation Methods

There is no single method of valuation which is appropriate for all situations. Rather, there are a variety of valuation methods, all of which have some merit and are more or less applicable depending on the circumstances. The following are appropriate items to be considered:

- discounted cash flow
- amount an alternative acquirer might be willing to offer
- the amount which could be distributed in an orderly realisation of assets
- the most recent quoted price of listed securities
- the current market price of the asset, securities or company.

The *discounted cash flow* or net present value method is generally regarded as the most appropriate primary valuation tool for operating mines or mining projects close to development. Valuing properties at an earlier stage of exploration where ore reserves, mining and processing methods, and capital and operating costs, are yet to be fully defined, involves the application of alternative methods. The methods generally applied to exploration properties are the *related transaction* or real estate method, the value indicated by *alternative offers* or by *joint venture terms,* and the *past expenditure* method. *Rules of thumb or yardstick values* based on certain industry ratios can be used for both mining and exploration properties. Under appropriate circumstances, values indicated by *stock market valuation* should be taken into account as should any *previous independent valuations* of the property.

The valuation methods considered are briefly described below.

Net Present Value ("NPV")

If a project is in operation, under development, or at a final feasibility study stage and reserves, mining and processing recoveries, and capital and operating costs are well defined, it is generally accepted that the net present value of the project cash flows is a primary component of any valuation study. This does not imply that the fair market value of the project necessarily is the NPV, but rather that the value should bear some defined relationship to the NPV.

If a project is at the feasibility study stage, additional weight has to be given to the risks related to uncertainties in costs and operational performance, risks related to the ability to achieve the necessary finance for the project, risks related to granting on licenses or permits, environmental and community aspects, political or sovereign risk and sometimes a lower degree of confidence in the reserves and recoveries. In an ongoing operation, many of these items are relatively well defined.

The NPV provides a technical value as defined by the VALMIN Code. The market value could be determined to be at a discount or a premium to the NPV due to other market or risk factors.

No detailed feasibility study has been completed for Highlands' Star Mountains or Sewa Bay properties; at Star Mountains an Inferred resource has been estimated for the Olgal deposit, but no reserves have been defined and no mine plan or production schedule has been developed. No estimates have been made of likely capital or operating costs.

In these circumstances, no reasonable determination can be made of likely cash flows and therefore the discounted cashflow or NPV method is not applicable or appropriate.

Alternative Valuation Methods

Previous Transactions, Alternative Offers and Joint Venture Terms

If discussions have been held with other parties and offers have been made on the projects or tenements under review, then these values are certainly relevant and worthy of consideration. Similarly, joint venture terms where one party pays to acquire an interest in a project, or spends exploration funds in order to earn an interest, may also provide an indication of value.

The Star Mountains project has, until recently, operated under a joint venture agreement with Anglo American, and Sewa Bay exploration has been funded by Sojitz with an option agreement in place. BDA has considered whether these joint venture arrangements or agreements might provide a guide to possible value.

Comparable Transactions

Recent comparable transactions on copper-gold porphyry or nickel laterite projects can be relevant to the valuation of the Highlands' exploration projects and tenements. While it is acknowledged that it can be difficult to determine to what extent the properties and transactions are indeed comparable, this method can provide a useful benchmark for valuation purposes. The timing of such transactions must be considered as there can be substantial change in value with time.

BDA has considered whether, in recent years, there have been any comparable relevant transactions that could be used as a basis for estimation of value of the Highlands' exploration projects.

Market Valuation

On the fundamental definition of value, as being the amount a knowledgeable and willing buyer would pay a knowledgeable and willing seller in an arm's length transaction, it is clear that due consideration has to be given to market capitalisation. In the case of a one project company or a company with one major asset, the market capitalisation gives some guide to the value that the market places on that asset at that point in time, although certain sectors may trade at premiums or discounts to net assets, reflecting a view of future risk or earnings potential. Commonly however a company has several projects at various stages of development, together with a range of assets and liabilities, and in such cases it is difficult to define the value of individual projects in terms of the share price and market capitalisation.

BDA has considered whether Highlands' market capitalisation provides any guide to valuation of the exploration properties, but has conclude that the company's market capitalisation relates primarily to its interests in the Ramu and Frieda River projects and gives no clear guide to the value of the exploration properties.

Rules of Thumb or Yardsticks

Certain industry ratios are commonly applied to mining projects to derive an approximate indication of value. The most commonly used ratios relate to gold projects and comprise dollars per ounce of gold in resources, dollars per ounce of gold in reserves, or dollars per ounce of annual production.

BDA has considered whether yardstick values ($/t of contained copper or $/oz of contained gold in resource) provides a meaningful guide to the Star Mountains properties.

Past Expenditure

Past expenditure, or the amount spent on exploration of a tenement is commonly used as a guide in determining the value of exploration tenements, and 'deemed expenditure' is frequently the basis of joint venture agreements. The assumption is that well directed exploration has added value to the property. This is not always the case and exploration can also downgrade a property and therefore a 'prospectivity enhancement multiplier' (PEM), which commonly ranges from 0.5-3.0, is applied to the effective expenditure. The selection of the appropriate multiplier is a matter of experience and judgement. To eliminate some of the subjectivity with respect to this method, BDA applies a scale of PEM ranges as follows to exploration expenditure:

- PEM 0.5 - 0.9 Previous exploration indicates the area has limited potential
- PEM 1.0 - 1.4 The existing (historical and/or current) data consists of pre-drilling exploration and the results are sufficiently encouraging to warrant further exploration.
- PEM 1.5 - 1.9 The prospect contains one or more defined significant targets warranting additional exploration.
- PEM 2.0 - 2.4 The prospect has one or more targets with significant drill hole or sample intersections.
- PEM 2.5 - 2.9 Exploration is well advanced and infill drilling or sampling is required to define a resource.
- PEM >3.0 A resource has been defined but a (recent) pre-feasibility study has not yet been completed.

BDA has considered exploration expenditure as one method of determining a value for the Star Mountains and Sewa Bay projects.

Prospectivity

Over-riding any mechanical or technical valuation method for exploration ground must be recognition of prospectivity and potential, which is the fundamental value in relation to exploration properties.

Other Expert Valuations

Where other independent experts or analysts have made recent valuations of the same or comparable properties these opinions clearly need to be reviewed and to be taken into consideration. We have inquired of Highlands whether any other recent valuations of the Company or its assets have been undertaken; Highlands has advised that there has been only one recent broker's report which might be relevant and BDA has considered whether this valuation provides a guide to the value of the exploration properties.

Special Circumstances

Special circumstances of relevance to mining projects or properties can have a significant impact on value and modify valuations which might otherwise apply. Examples could be:

- *environmental risks* - which can result in a project being subject to extensive opposition, delays and possibly refusal of development approvals
- *indigenous peoples/land rights issues* - projects in areas subject to claims from indigenous peoples can experience prolonged delays, extended negotiations or veto
- *country issues* - the location of a project can significantly impact on the cost of development and operating costs and has a major impact on perceived risk and sovereign risk
- *technical* - issues peculiar to an area or orebody such as geotechnical or hydrological conditions, or metallurgical difficulties could affect a project's economics.

We have considered whether any such factors apply to the exploration properties under review.

6.2 Valuation of Highlands' Star Mountains Exploration Properties

Overview

The Star Mountains property consists of seven exploration tenements covering an area of 1,049km^2 within prospective geological terrain that hosts a number of known copper-gold deposits which are either in operation such as Ok Tedi and Grasberg mines or have reached an advanced feasibility stage such as Frieda River. Highlands has been undertaking exploration activities in the Star Mountains since 2003.

The principal prospects are located in the Nong River tenement, EL 1312, and the majority of the exploration work has been centred on this lease. In total 50 diamond drill holes have been completed and copper-gold mineralisation intersected at six prospects. Reconnaissance mapping, geochemical surveys, induced polarisation, and airborne magnetic, radiometric, electromagnetic (ZTEM) and LIDAR surveys have been carried out.

The main prospect is Olgal, within EL 1312, where 23 holes have intersected a mineralised porphyry intrusive. In February 2018 Highlands announced a maiden Inferred resource totalling 210Mt at 0.4% Cu and 0.43g/t Au, containing 840,000t of copper and 2.9Moz of gold. Mineralisation extends to depths of 800m.

Drilling at some of the prospects has intersected skarn mineralisation, demonstrating the potential for somewhat higher grades of mineralisation of around 1% Cu.

In 2015 Highlands entered into a joint venture on the Star Mountains project with Anglo American, whereby Anglo American would earn an interest in the project by funding exploration and undertaking a feasibility study. Anglo American was to spend an initial US$25M to earn a 15% interest in the tenements and would earn an additional 36% by proving up an Inferred resource of at least 3Mt of contained copper equivalent before January 2020. Anglo American also had an option to increase its interest in the project to 80% by completing a bankable feasibility study within 15 years of the date of the agreement.

Anglo American also paid Highlands US$10M with the first payment of US$5M paid on execution of the farm-in and joint venture agreement and the second payment 12 months later.

Anglo American spent US$25M and earned a 15% interest in the project. However, in February 2018 Anglo American advised Highlands that it would withdraw from the Star Mountains exploration joint venture and would relinquish its 15% interest.

With 100% interest reverting to Highlands, the company initiated discussions with other parties with a view to forming a new joint venture. However, to date Highlands advises that it has been unable to secure a joint venture partner, with the main issues of concern being the high cost of exploration in such an environment, the high capital cost of developing a project in the Star Mountains area should exploration prove successful, with limited infrastructure in the area, and a general concern regarding the investment and approvals environment in PNG;

while the general prospectivity of PNG was well recognised, several of the companies contacted did not have PNG on their list of preferred areas for investment.

Valuation using Past Expenditure

Expenditure by Highlands since 2003 is documented in the statutory reports submitted to Mineral Resources Authority in PNG on a bi-annual basis. Highlands' has provided BDA with annual account and expenditure documentation which totals US$55.4M. BDA has reviewed the expenditure details and after deductions for administration costs not directly related to exploration expenditure has estimated exploration related expenditure at US$51.6M.

The amount of exploration expenditure prior to 2003 is unknown, although Highlands has estimated that around US$7M would have been spent. Exploration conducted by Kennecott and others has not been taken into account in this valuation.

The assumption made for valuations using past expenditure is that the exploration has been well directed and has added value to the property. This is not always the case and exploration can also downgrade a property. Therefore a prospectivity enhancement multiplier ("PEM"), which commonly ranges from 0.5-3.0, is applied to the past expenditure.

The selection of an appropriate multiplier is a matter of experience and judgment but can be highly subjective. To minimise the subjectivity, BDA utilises the PEM ranges listed in Section 6.1 as a guide to establish the property's value based on past expenditure.

In the case of Star Mountains, a resource has been defined at the Olgal prospect and mineralisation has been intersected by drilling at five other prospects. With 23 holes drilled at Olgal and 27 at other prospects it would be reasonable to allocate approximately 45% of the expenditure to Olgal and 55% to other prospects.

Based on the state of exploration, BDA is of the opinion that an appropriate PEM for Olgal expenditure is 2.5-3.0; an Inferred resource has been estimated but significant additional infill drilling is required. For the other prospects BDA considers that an exploration PEM of 1.5-2.0 is appropriate; drilling has identified mineralisation at five additional prospects with some significant intersections, but substantial additional drilling will be required to establish whether or not material resources can be defined.

On this basis, BDA has determined a past expenditure valuation of the property as follows:

- Olgal - 51.6 x 0.45 x (2.5 to 3.0) = US$58-70M
- Other Prospects - 51.6 x 55 x (1.5 to 2.0) = US$43-57M
- Total - US$101-127M.

Given the past expenditure of over US$50M and possibly over US$60M if expenditure by earlier explorers is also included, this range appears reasonable, however a number of other factors also need to be considered:

- High cost of exploration in an environment such as Star Mountains, PNG – due to the logistical difficulties, exploration costs are significantly higher than they might be for the same effective exploration in a more accessible and better serviced area; in BDA's opinion a factor of between 0.4-0.5 should be applied to the Star Mountains expenditure to derive an effective exploration number (ie exploration is considered to be up to 2-3 times more expensive in this remote area of PNG)
- The lack of interest from other parties in entering into a joint venture arrangement with Highlands following Anglo American's withdrawal from the exploration joint venture, commonly quoting 'PNG factors'.
- Given the failure to attract any third-party interest in either a joint venture or sale of the Star Mountains tenements, Highlands has advised that it intends to write down its investment to zero value.

It appears therefore that this is a case where "Special Circumstances" have to be considered, with country issues, environmental/indigenous peoples issues and technical issues (access and lack of infrastructure) all being material factors impacting on value.

BDA suggests that considering effective expenditure rather than actual costs could perhaps halve the valuation estimate to US$40-60M (say US$50M).

It could be argued that Special Circumstances, evidenced by the lack of interest of other third-parties in entering into any joint venture arrangement with Highlands on the project and the fact that Anglo American returned its interest in the property for no consideration reduces the value to zero, given that that is the value that knowledgeable parties appear prepared to offer. This would also appear to be Highlands' opinion, given its determination to take an impairment on the property and write the book value down to zero.

However, BDA considers that while current circumstances may be viewed as unfavourable, this sentiment could change materially if other comparable PNG projects are seen to be developed successfully and/or access and infrastructure improves, and BDA considers a willing and knowledgeable buyer could be found who would be willing to take this longer term view. Smaller companies, who Highlands may not have approached, may consider that a project on which substantial funds have already been spent, and on which a resource has been established, might be a suitable addition to other prospects to include in an Initial Public Offering ("IPO") to raise equity funds for further development or exploration.

In consideration of the above, BDA accepts that the minimum value could be zero, and that applying a discount factor to reflect Special Circumstances is a necessary component to derive a meaningful value that reflects current realities. In BDA's opinion, applying a 20% factor to the reduced effective exploration expenditure, giving a valuation range of US$0-10M, effectively represents the assessment of a willing and knowledgeable buyer.

Valuation using Joint Venture Terms

Joint venture terms can provide an indication of value, based on the amount a party is willing to pay to earn an interest or the amount a buyer may be willing to pay in cash to purchase a project interest.

Highlands negotiated a joint venture agreement with Anglo American in 2014 which involved Anglo American farming into the Star Mountains tenements for an up-front cash payment of US$10M (paid in two US$5M tranches) and expenditure of US$25M to earn a 15% interest. The JV terms also provided Anglo American with the option to increase its interest to 51% by proving up an Inferred resource containing a minimum of 3Mt of contained copper, and further increasing its interest to 80% by completion of a bankable feasibility study. The JV transaction terms are summarised in Table 6.1.

These terms are used to derive an implied value for 100% of the property.

Table 6.1

Highlands – Anglo American Joint Venture Parameters

Parameter	Value US$M
First Stage	
Cash Payment	10.0
Expenditure Commitment over 4 years	25.0
Potential Interest Earned (and right to manage project)	15%
Expenditure Commitment – definition of Inferred Resource containing 3Mt of contained CuEq within 5 years	Assumed US$10M
Potential Interest Earned (and right to manage project)	51%
Second Stage	
Completion of a bankable feasibility study within 15 years	Unknown
Potential Interest Earned (and right to manage project)	80%
Implied Value of 100% of Property based on First Stage	**88.2**

Note: CuEq = Copper equivalent

The total expenditure commitment by Anglo American for it to earn 51% of the property is uncertain because there is a requirement to define a certain size of resource. The current Olgal resource totals 210Mt at approximately 0.4% Cu and 0.4g/t Au containing 1.36Mt of copper equivalent (based on 1 ounce of gold being equivalent to 0.18t of copper at current metal prices). A copper-gold resource containing 3Mt of contained copper equivalent metal would equate approximately to a deposit of 460Mt at a grade of 0.4% Cu and 0.4g/t Au, or approximately double the current Olgal resource.

Anglo American has spent the original US$25M required to earn its 15% interest and, bearing in mind the high cost of exploration and logistical support required to operate in the isolated and rugged terrain of the Star Mountains, BDA considers at least US$10M additional would be required to double the established resource to prove up 3Mt of contained copper equivalent. This would result in a total expenditure (including the original cash payment of US$10M) of US$45M to earn 51% in the property.

The implied value of 100% of the property, based on the joint venture terms to earn a 51% interest, is therefore approximately US$88M.

While this is a reasonable assessment of the implied value at the time of forming the joint venture in 2014, it is also appropriate to take into account that four years later Anglo American withdrew from the joint venture, even though it had at that stage earned a 15% interest, and handed the 15% interest back to Highlands at no cost. It would appear that by 2018 Anglo American had determined that its interest in Star Mountains was of no material value, despite the expenditure at that stage of US$35M. As noted above, this interpretation is reinforced by the failure of Highlands to interest any other party in committing to a joint venture, despite the substantial exploration investments already made. Thus again it could be argued that, evidenced by the withdrawal of Anglo American and the handing back of its 15% interest, that the Star Mountains project is now considered to be of very limited, and perhaps zero, value.

While, as argued above, a zero value is clearly a minimum value, the implied joint venture value of US88M is considered unrealistic in the current context of what a willing and knowledgeable buyer would be prepared to offer. BDA considers, as above, that given the lack of interest by Anglo American in retaining any interest in the project, and the failure of Highlands to secure a replacement joint venture party, that a substantial Special Circumstances factor of 10-20% (say 15%) of the implied joint venture value is again appropriate to properly reflect current circumstances, giving a range of values (considering joint venture terms) of US$0-13M.

Other Expert Valuations

BDA has enquired of Highlands if there has been any other recent independent valuation of its exploration properties. Highlands has advised that the only independent valuation it is aware of is one carried out by Morgans Financial Limited ("Morgans"). BDA has reviewed the Morgans report which estimates a value for Highlands' shares, based on its interest in the Ramu nickel-cobalt operation and the Frieda River copper-gold project; no value is ascribed to the exploration interests. BDA therefore concludes that Morgans has determined that the exploration interests are not of material value.

6.3 Valuation of Highlands' Sewa Bay Nickel Laterite Tenement

Overview

The Sewa Bay property is a single exploration tenement covering three areas underlain by ultramafic rocks. The ultramafic rocks have potential for tropical laterite development, containing nickel and cobalt mineralisation. Highlands' aim is to define a nickel-cobalt resource suitable for a direct shipping ore operation. The tenement area is $162km^2$ but the areas outlined to date with nickel laterite potential cover around $7km^2$. The largest of the three areas is in the southern part of the tenement.

Highlands commenced exploration in 2012. Prior to 2012 only limited reconnaissance exploration had been carried out by the Bureau of Mineral Resources Australia and the Geological Survey of PNG. Highlands undertook remote sensing work and reconnaissance mapping followed by rock chip sampling and a 20-hole reconnaissance hand auger drilling programme in 2013. The auger drilling indicated widespread development of laterite over ultramafic dunite and pyroxenite rocks. Drill thickness of the laterite horizon ranged from 1-3m with nickel grades ranging from 0.2-1.38% Ni and cobalt grades from 0.03-0.14% Co.

Since 2013 exploration of the tenements has been conducted in conjunction with international trading house Sojitz and Japanese company Pacific Metals. The companies have an agreement whereby Sojitz and Pacific Metals fund the exploration with an option to negotiate a formal farm-in and joint venture agreement on the project, with Sojitz becoming the majority partner and funding further evaluation of the project.

In 2013 and 2015, mechanical auger drilling campaigns were undertaken and three pits were dug to a depth of 2m. The auger grid spacing was approximately 300m, with some of the thicker zones infilled at 150m spacing. The holes were drilled to refusal; most holes were relatively shallow, 1-2m deep, with the auger unable to penetrate more competent rocks or sticky clays, but the occasional hole achieved a depth of 5-6m. Highlands advises that it considers the depth of the limonite/saprolite profile is likely to average 3-4m, but with some thicker zones of 6m or more. Highlands has suggested a potential target of around 10Mt of nickel laterite above 1% Ni.

Highlands advises that to date approximately US$0.75M has been spent on exploration. No resources have been estimated to date and no progress has been made on moving to a formal agreement with Sojitz. The Ramu project would be a potential customer for future supplies of nickel laterite, but currently has no shortage of its own laterite supply. No progress has been made on any discussions with MCC Ramu or with any other parties in relation to Sewa Bay. Establishment of a nickel laterite mineral resource would be an important first step in progressing the project.

Valuation using Past Expenditure

Expenditure by Highlands since 2012 is documented in statutory reports submitted to the Mineral Resources Authority in PNG on a bi-annual basis. Highlands has provided BDA with a detailed breakdown of expenditure from 2012 totalling approximately US$0.75M.

BDA has reviewed the expenditure details and after deductions for administration costs not directly related to exploration expenditure has estimated exploration related expenditure at US$0.70M.

The assumption made for valuations using past expenditure is that the exploration has been well directed and has added value to the property. This is not always the case and exploration can also downgrade a property. Therefore a prospectivity enhancement multiplier (PEM), which commonly ranges from 0.5-3.0, is applied to the past expenditure.

The selection of an appropriate multiplier is a matter of experience and judgment but can be highly subjective. To minimise the subjectivity, BDA utilises the PEM ranges listed in Section 6.1 as a guide to establish the property's value based on past expenditure. :

BDA considers an appropriate PEM value for the tenement is in the range 2.0-2.4 which reflects the fact that nickel-cobalt laterite mineralisation has been located in the tenement and mineralised drill intersections have been obtained. On this basis BDA estimates the value of the property based on past expenditure to be in the range US$1.4-1.7M.

Valuation using Joint Venture Terms

Highlands entered into a service agreement and Memorandum of Understanding ("MOU") with Japanese-based international trading house Sojitz Group in December 2014. Sojitz has been funding the exploration programmes at Sewa Bay since that date, but no formal joint venture agreement has been finalised. Highlands advises that the MOU provided Sojitz with an option to negotiate a joint venture if the prospect proved to be of sufficient interest and potential, with the aim being that a farm-in joint venture agreement would be negotiated, with Sojitz becoming the majority partner and funding further evaluation of the project.

With no defined JV terms it is not possible to use the agreement as a basis for assessing the value of the property. Highlands advises that further discussions have been held with Sojitz, but given the current offer from Cobalt 27, Sojitz has declined to progress the joint venture discussions.

Highlands advises that it has sought further interest from other parties, but none have shown any willingness to form a joint venture on the project.

Yardstick Valuation

Certain industry ratios are commonly applied to mining projects to derive an approximate indication of value. For nickel laterite projects yardstick values can be derived in terms of $/t of laterite resource of $/t of contained nickel or nickel equivalent. However, at Sewa Bay no resource has been estimated; the drilling to date has been auger drilling with limited depth penetration. Most of the holes are quite shallow (1-2m), but it is not clear whether these have ended in basement rocks or in saprolitic clays with potential for lateritic mineralisation to continue at depth.

With such limited information BDA considers it would be inappropriate to attempt to apply a yardstick valuation to the Sewa Bay prospect.

Other Expert Valuations

BDA has enquired of Highlands if there has been any other recent independent valuation of its exploration properties. Highlands has advised that the only independent valuation it is aware of is one carried out by Morgans. BDA has reviewed the Morgans report which estimates a value for Highlands' shares, based on its interest in the Ramu nickel-cobalt operation and the Frieda River copper-gold project; no value is ascribed to the exploration interests. BDA therefore concludes that Morgans has determined that the exploration interests are not of material value.

6.4 Summary - Valuation of Highlands Exploration Areas

Highlands' Star Mountains and Sewa Bay exploration properties are 100% owned by Highlands. The properties have been subject to former joint venture arrangements or, in the case of Sewa Bay, exploration funding arrangements, but currently there are no joint ventures in place and Highlands has been unable to secure new joint venture partners.

In the case of Star Mountains, an Inferred copper-gold resource has been estimated at one of the prospects, and mineralisation has been intersected by diamond drilling at five other prospects. At Sewa Bay, shallow lateritic nickel-cobalt mineralisation has been identified with auger drilling, but most holes have penetrated only 1-2m; no resources have been estimated.

BDA has used the Past Expenditure and Joint Venture Terms methods to determine a value for the Star Mountains property. However, it has been necessary to apply a discount factor to these values to properly reflect the current status, with the former JV partner having pulled out and having returned its interest to Highlands, even after expenditure of substantial funds. From discussions with Highlands in relation to its efforts to secure a new joint venture partner, it is clear that many potential partners have issues with the high cost of exploration in such a remote area, with the cost of development should exploration prove successful in an area with very limited infrastructure, and in some cases, issues with the risks of investing in PNG. These factors have a material impact on the assessment of the amount that a willing and knowledgeable buyer would offer in an arm's length transaction.

In the case of Sewa Bay, Highlands has experienced similar difficulties in securing a joint venture agreement. To date exploration is at a relatively early stage, and while nickel-cobalt laterite mineralisation has been intersected in shallow auger holes, the thickness of the mineralisation remains unknown and no resources have been estimated. Highlands advises that its target is to prove up a resource to support a viable direct shipping operation; the obvious purchaser of such ores would be the Ramu project, but MCC Ramu has extensive resources of its own, and Highlands advises that there has been no interest in engaging, at this point in time, in Sewa Bay exploration.

Overall BDA considers that the Past Expenditure method provides a reasonable guide to the current value of the Sewa Bay property.

Table 6.2 summarises the valuations for both exploration properties.

Table 6.2

Summary of Valuation of Highlands Exploration Properties

Methodology	Valuation (US$M)			Comments
	Low	Most Likely	High	
Star Mountains				
Exploration Expenditure/PEM	0.0	5.0	10.0	Effective costs x PEM x 20% factor
Joint Venture Terms	0.0	6.5	13.0	20-30% discount factor
Average of Values	*0.0*	*6.0*	*11.5*	
Sewa Bay				
Exploration Expenditure	1.4	1.6	1.7	Exploration costs x PEM factor
Average of Values	*1.4*	*1.6*	*1.7*	
BDA Assessed Valuation	**1.4**	**7.6**	**13.2**	Preferred value based on project considerations

7.0 COMMENTARY ON FRIEDA RIVER COMPARABLE TRANSACTIONS

Deloitte has requested that BDA review a range of transactions that Deloitte is considering as a basis for determining a "Comparable Transaction" valuation for Frieda River. Deloitte has requested that BDA opine on which transactions are most relevant in this context, or which projects are most comparable to Frieda River.

The transactions identified by Deloitte relate to copper projects at a similar stage of development/feasibility study as Freida River, based on the status of the project over the last five or so years. During this period the Freida River project has been subject to a number of detailed studies resulting in at least three principal feasibility studies and concepts for development (Xstrata 2011, Xstrata Addendum 2012, PanAust 2016 and PanAust SDP 2018).

To date the project remains undeveloped. The most recent feasibility study has subdivided the project into the Frieda River copper-gold mining and processing project, and separate components covering a hydro-electric power facility and other transport and port infrastructure which PanAust envisaged would be constructed and financed by others. However, due to the size of the project and the remote location, capital expenditure remains substantial.

Issues of accessibility, government approvals, cost of development and lack of infrastructure are significant aspects of the Frieda River project which will impact on valuation and are material features to consider in selecting comparable transactions. Of fundamental relevance is also the size, grade and nature of the deposit, ie. a major copper-gold porphyry with as resource of around 2.6Bt and a mining inventory of around 1.5Bt of ore, at a grade of around 0.45% Cu and 0.24g/t Au, amenable to open pit extraction at around a 1:1 stripping ratio. The waste rock however is generally sulphide-bearing, and thus the waste (and tailings) have to be stored in such a way as to minimise oxidation and generation of acidic drainage; in the case of Frieda River it has been concluded in all recent feasibility studies that the preferred storage solution is sub-aqueous deposition.

Utilising comparable transactions as a measure of valuation is a well-established process, but is always subject to the issue as to how comparable are the transactions being considered. As noted above, Frieda River has a number of individual characteristics. BDA considers that most of the projects within the comparable transaction list prepared by Deloitte are in more accessible areas, commonly with better infrastructure, and further along the development timeline, or with an anticipated shorter development and construction timeframe. It is probable, in BDA's view, that such projects would have a higher unit value than might be attributable to Frieda River.

In BDA's opinion the most comparable project is the Tampakan copper-gold deposit in the Philippines, with a resource tonnage of around 2.9Bt at a grade of 0.5% Cu and 0.2g/t Au (contained copper equivalent (CuEq) of 19.4Mt compared to Freida River at 16.8Mt). There are two comparative values for Tampakan as shown in Table 7.1 from the transactions by the Alsons Group of Companies ("Alsons") in 2015. In January 2015 Alsons purchased 80% of Indophil Resources Ltd with principal assets of 37.5% interest in the Tampakan project and US$197M cash; the transaction included Manat prospect, but it would be reasonable to ascribe the bulk of the transaction value, less the cash component, to Tampakan. In August 2015 Alsons purchased the remaining 62.5% interest in Tampakan from Glencore for a net value of US$350M, after adjustments for liabilities.

Both projects (Tampakan and Frieda River) have some way to go before the project can be developed. Current anti-mining sentiment and government restrictions means that investment in the Philippines is now seen as unattractive, but this was not the case in the past, and an investment in 2015 might have been judged as being of a similar level of risk to an investment in PNG.

In BDA's opinion, by far the most relevant transaction for consideration is the purchase of the Freida River project itself by PanAust Limited from Glencore in 2014. While PanAust has conducted extensive studies over the past four years to optimise aspects of the project development, and has developed an innovative approach to reduce the project financing requirement, provided that funding of the various infrastructure components can be achieved, nevertheless the project parameters and development concept remain similar to those envisaged by Xstrata, and in BDA's opinion, the purchase, which was an open transaction, conducted between a knowledgeable willing seller and a knowledgeable willing buyer, remains a significant guide to value.

Table 7.1

Deloitte List of Potential Comparative Transactions - Copper and Gold Projects

Date	Buyer/Seller	Project-Location	Effective Project Payment	Effective Project Interest Acquired	Resource							EV/ Resource
			US$M	%	Mt	Cu %	Au g/t	Cu Mt	Au Moz	CuEq Mt		$M/Mt CuEq
10/18	Russian Copper Company/IG Copper	Malmyzh-Russia	200.0	51	1,661	0.34	0.17	5.6	9.1	7.5		52.6
8/18	Mitsubishi/Anglo American	Quellaveco-Peru	600.0	21.9	2,960	0.46	0.00	13.6	0.0	15.8		173.6
7/18	Newmont/Novagold Resources	Galore Creek, Copper Canyon-Canada	275.0	50	1,161	0.42	0.29	5.5	10.7	8.0		69.1
4/16	Sichuan Railway/Asmara	Asmara-Eritrea	78.0	60	92	0.75	0.47	0.7	1.4	1.6		86.1
8/15	Alsons/Glencore	Tampakan, Philippines	350	62.5	2,940	0.51	0.19	15.0	17.6	19.4		28.9
1/15	Alsons/Indophil	Tampakan - Philippines	94.3	37.5	2,940	0.51	0.19	15.0	17.6	19.4		13.0
8/14	PanAust/Glencore	Freida River-PNG	87.4	80	2,123	0.49	0.24	10.4	16.1	13.5		8.1
8/14	First Quantum/Lumina Copper	Lumina-Argentina	425.0	100	3,091	0.42	0.07	13.0	7.1	16.0		26.6

Note: Quellaveco project includes value from molybdenum in addition to copper and gold; Galore Creek and Copper Canyon project includes value from zinc and silver in addition to the copper and gold; CuEq = copper equivalent, determined by calculating the 'copper equivalent' value of the other contained metals based on metal price at the time of the transaction; no allowance has been made for metallurgical and/or refining losses

1. *Russian Copper Company - 51% share of Malmyzh project in Russia owned by IG Copper LLC*
2. *Mitsubishi – 21.9% share of Quellaveco project in Peru owned by Anglo America plc; consideration of US$600M includes US$500M upon closing, US$50M once project processing reaches at least 150,000 tonnes per day and the remaining US$50M once processing reaches 180,000 tonnes per day*
3. *Newmont - 50% share of Galore Creek and Copper Canyon project in Canada owned by Novagold Resources Inc.; consideration of US$275M includes an initial payment of US$100M, deferred consideration of US$75M at the earlier of prefeasibility study or three years from closing, deferred consideration of US$25M at the earlier of feasibility study or five years from completion and US$75M contingent consideration on a final development decision*
4. *Sichuan Railway – 65% of Asmara project in Eritrea owned by Asmara Mining Share Company; 65% Asmara project interest acquired for US$65M with liabilities assumed of US$13.3M, giving an allocated value for 62.5% of the Asmara project of US$78M*
5. *Alsons Group – acquisition of Glencore's 62.5% interest in the Tampakan project for US$208M, including liabilities assumed of US$142M, giving an allocated value of 62.5% of Tampakan of US$350M*
6. *Alsons Group – scheme of arrangement to acquire 80% of Indophil Resources NL with principal assets of 37.5% interest in the Tampakan project in Philippines and US$197M cash; transaction value of US234M gives an allocated value of US$94.3M to 37.5% of Tampakan, after adjustments including a value to other exploration assets of US$1.2M*
7. *PanAust - 80% share of Freida River project in PNG owned by Glencore*
8. *First Quantum – acquired 94% of Lumina Copper Corp which owns 100% of the Taca Taca project in Argentina; transaction value of US$401M after adjustments gives an allocated value of US$425M for the 100% of the Taca Taca project.*

8.0 SOURCES OF INFORMATION

BDA's report is based on review of available documentation and reports provided, together with a recent visit to the Ramu project and previous site visits to Frieda River. BDA has had discussions with operational management and technical staff. The principal reports and documents reviewed are listed below:

Highland Pacific Limited - Public Information

- Financial Reports 2017, 2018 – Highlands Pacific Ltd
- Quarterly Activity Reports 2017, 2018 – Highlands Pacific Ltd
- Annual Report 2017 – Highlands Pacific Ltd
- ASX Announcements 2017, 2018 and January/February 2019 – Highlands Pacific Ltd
- Company Web Page www.highlandspacific.com including Presentations

Ramu Nickel Project

- Lands and Environment Compensation Agreement - Ramu Nickel Limited and Landowner Groups, Jan 2000
- Environmental Plan Approval - Minister for Environment and Conservation, March 2000
- Environment Permit WD-L3(115) - Department of Environment and Conservation, 2004
- Environment Permit WE-L3(85) - Department of Environment and Conservation, 2004
- Phase II Ramu Ni-Co Expansion Project Feasibility Study - China ENFI Engineering Corporation, Feb 2018
- 2019 Operational Plan and Budget - Ramu NiCo Management (MCC) Limited, undated
- Improve Product Quality Through Optimising Process Control, 23rd Annual Conference Proceedings ALTA - P Jolly and G. Yongxue, 2018
- 2018 Mineral Resource & Ore Reserve Statement - Highlands Pacific Ltd, October 2018
- Ramu Mine Reconciliation Data - Ramu NiCo Management (MCC) Limited, February 2019

Frieda River Project

- The Sepik Development Project 2018 Feasibility Study (including the four components: the Frieda River Copper Gold Project, the Frieda River Hydroelectric Project, the Sepik Infrastructure Project and the Sepik Power Grid Project - PanAust Limited, October 2018

Exploration Properties

- ASX Announcements for Star Mountains and Sewa Bay 2017, 2018 - Highlands Pacific Ltd
- Schedule of Exploration Expenditure, Star Mountains and Sewa Bay, Project to Date to end 2018 - Highlands Pacific Ltd, January 2019
- Annual Exploration Reports, 2015, 2016, 2017 - Highlands Pacific Ltd
- Olgal Resource Estimate - H&S Consultants Pty Ltd, February 2018

9.0 ASSOCIATES/CONSULTANTS - QUALIFICATIONS AND EXPERIENCE

BDA has a team of dedicated consultants and a wide range of specialists that it can call upon. In all cases BDA aims to use the best qualified and most experienced consultants for the job. The qualifications and experience of the principals of BDA and the associates engaged in this review are summarised below.

Mr Malcolm Hancock and Mr John McIntyre (BDA Executive Directors) have coordinated the work, provided project direction and liaison and participated in report preparation and review meetings as required. Mr Hancock is a geologist and Mr McIntyre a mining engineer and both have extensive project review, due diligence and valuation experience. Both Mr Hancock and Mr McIntyre are qualified as Competent Persons, as required under the JORC Code, and each is qualified as a Certified Minerals Valuer (CMV) under the Australasian Institute of Minerals Valuers and Appraisers (AIMVA).

Mr Malcolm Hancock (BA, MA, FGS, FAusIMM, MIMMM, MMICA, CP(Geol), MAIMVA(CMV)) is a Principal and Executive Director of BDA. He is a geologist with more than 40 years of experience in the areas of resource/reserve estimation, reconciliation, exploration, project feasibility and development, mine geology and mining operations. Before joining BDA, he held executive positions responsible for geological and mining aspects of project acquisitions, feasibility studies, mine development and operations. He has been involved in the feasibility, construction, and commissioning of several mining operations. He has worked on both open pit and underground operations, on gold, base metal, light metal and industrial mineral projects, and has undertaken the management and direction of many of BDA's independent engineer operations in recent years.

Mr John McIntyre (BE (Min) Hon., FAusIMM, MMICA, CP(Min), MAIMVA(CMV), MAIMA) is a Principal and Managing Director of BDA. He is a mining engineer who has been involved in the Australian and international mining industry for more than 40 years, with operational and management experience in copper, lead, zinc, nickel, gold, uranium and coal in open pit and underground operations. He has been involved in numerous mining projects and operations, feasibility studies and technical and operational reviews in Australia, West Africa, New Zealand, North and South America, PNG and South East Asia. He has been a consultant for more than 20 years and has been Managing Director of BDA since 1994, involved in the development of the independent engineering and technical audit role.

Mr Peter Ingham (BSc (Min), MSc, DIC, GDipAppFin (Sec Inst), CEng, FAusIMM, MIMMM, MAIMVA(CMV)) is General Manager Mining of BDA and is a graduate mining engineer with more than 30 years in the mining industry in Europe, Africa, Australia and Asia. His experience includes operations management, mining contract management, strategic planning, project assessment and acquisition, cost estimation and operational audits and trouble-shooting. He is experienced in a range of commodities, including gold, copper, nickel and base metals, in both surface and underground mining.

Dr Qingping Deng (BS, MS and PhD, CPG AIPG, MMSA), is a Director of BDA. Dr. Deng is a geologist and a mining specialist with over 30 years of worldwide professional experience in the minerals industry, specialising in geology, exploration, deposit modelling and mine planning, estimation of resources and reserves, geostatistics, resource/reserve auditing, strategic planning, economic analysis, project evaluation and valuation, feasibility studies, competent person's reports for securities filing, and due diligence studies for financing and acquisition for various metals and industrial minerals, coal, dimension stones and fertilisers in North, Central and South Americas, Asia, Australia, Europe, and Africa. He meets all the requirements for 'Competent Person' as defined in the Australasian JORC Code for the purpose of mineral resource/ore reserve estimation and reporting. Dr. Deng is a well-recognised ore reserve specialist and is fluent in both English and Chinese.

Mr Roland Nice (BSc, FAusIMM, Life MCIM, MAIME, MIEAust, Chartered Engineer) is a Senior Associate of BDA with more than 45 years as a professional metallurgist. He has extensive experience in process engineering and operations, project evaluation, technical design and analysis. He has held senior management positions, including General Manager, Metallurgy and Concentrator Manager. Mr Nice has been closely involved with the process plant design, development and construction of gold, copper, nickel, non-ferrous and base metal mines, and industrial mineral projects. He has worked principally in Australia, Canada, Africa and Southeast Asia.

Mr Ian White (BSc (Hon) Metall., MSc, DIC, FAusIMM, MAIMVA(CMV)) is a Senior Associate of BDA with more than 30 years of experience in the Australian mining industry. He is a metallurgist and has held senior management positions in several operating mines and has been involved in plant design and optimisation, process design testwork, feasibility studies and plant commissioning and project valuation. He is experienced in CIP/CIL technology, flotation, gravity separation, heap leaching, SX/EW, comminution, magnetic separation and pelletising and has worked with a range of commodities including gold, copper, iron ore, base metals, tin and industrial minerals. Mr White has conducted the process review, engineering and construction monitoring, and Completion Testing for BDA on numerous major projects in Australia, New Zealand, Laos, Vietnam, the Philippines, China and the Pacific region.

Mr Adrian Brett (BSc (Hon) Geol, MSc Geotech, MSc Envir. Law, FAusIMM) is a Senior Associate of BDA with more than 40 years' experience in environmental and geo-science, including the fields of environmental planning and impact assessment, site contamination assessments, environmental audit, environmental law and policy analysis and the development of environmental guidelines and training manuals. He has worked in an advisory capacity with several United Nations, Australian and overseas government agencies. He has completed assignments in Australia, Indonesia, Thailand, Laos, the Philippines, the Middle East, Africa and South America.

Mr Richard Frew (BE Civil, MIE Aust) is a Senior Associate of BDA with more than 40 years' experience as a planning, estimation and contracts engineer. He is experienced in contract management, feasibility study review, financial modelling, capital cost estimation, infrastructure, project controls and implementation. He has worked on a large number of projects providing management and project services to the owners or financiers, including major projects in Australia, the Philippines, Argentina, Mauritania, New Zealand and Romania. Mr Frew's specialisation is in infrastructure, capital costs and implementation strategy.

10.0 LIMITATIONS AND CONSENT

BDA consents to making the Report available to the Directors of Highlands and Deloitte on the understanding that all parties are aware of and understand the scope of BDA's engagement as set out in the Scope of Work. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any other purpose without written consent from BDA as to the form and context in which it appears.

This report does not constitute a technical or legal audit. The assessment in this report has been based on data, reports and other information made available to BDA by Highlands and its advisors and referred to in this report. Highlands has advised BDA that all relevant documentation relating to the projects has been provided, that the information is complete as to material details and is not misleading.

BDA has reviewed the data, reports and information provided and has used consultants with appropriate experience and expertise relevant to the various aspects of the project. The opinions stated herein are given in good faith. BDA believes that the basic assumptions are factual and correct and the interpretations are reasonable. This BDA report contains forecasts and projections based on information provided by Highlands and its advisors. BDA's assessment of the mine plans, projected production schedules and capital and operating costs are based on technical reviews of project data and site visits. However, these forecasts and projections cannot be assured and factors both within and beyond the control of Highlands could cause the actual results to be materially different from the assessments and projections contained in this report.

BDA has independently analysed data provided by Highlands and its advisors, but the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data. BDA does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from third party use of it. BDA reserves the right to change its opinions on the mining studies expressed in this report should any of the fundamental information provided by Highlands or its advisors be significantly or materially revised.

11.0 WARRANTY AND LIMITATIONS

BDA warrants that its activities have followed accepted engineering standards through the use of professionally-qualified engineers and the adoption of standards as specified by the appropriate professional Associations. BDA does not accept any liability to any individual, organisation or company and takes no responsibility for any loss or damage arising from the use of the report, or information, data, or assumptions contained therein.

With respect to the use of any BDA report as a public document, BDA requires that Highlands agrees to indemnify and hold harmless BDA and its stockholders, controlling persons, directors, officers, employees, associates and other independent contractors and agents against any and all losses, claims, liabilities or actions to which they may become subject under any statute or common law and to reimburse them on a current basis for any legal expenses incurred by them in connection with investigating any claims and defending any actions.

Sincerely yours

BEHRE DOLBEAR AUSTRALIA PTY LTD

Malcolm Hancock
Executive Director
Telephone: 612 9873 1955
Mobile: 61 417 446 440
Email: mhancock@bigpond.com

John McIntyre
Managing Director
Telephone: 612 9954 4988
Mobile: 61 418 210 333
Email: bdaus@bigpond.com

Deloitte.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.
Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 182,000 professionals are committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 5,700 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

Annexure B – Scheme

Scheme of Arrangement pursuant to section 250(1) of the *Companies Act 1997* (PNG)

Between

Highlands Pacific Limited (a company limited by shares that is incorporated in and domiciled in Papua New Guinea) of Level 1, Allotment 6. Section 58, Sir Hubert Murray Highway, Boroko NCD, Papua New Guinea (***Highlands Pacific***).

And

Each holder of Highlands Pacific Shares recorded in the Register as at the Record Date (other than as holder of Excluded Securities) (each a ***Scheme Participant*** and together the ***Scheme Participants***).

Recitals

A Highlands Pacific is a public company limited by shares, incorporated in Papua New Guinea. Highlands Pacific Shares are quoted for trading on the ASX and POMSoX.

B Cobalt 27 is a company incorporated in British Columbia, Canada.

C Highlands Pacific and Cobalt 27 have entered into a Scheme Implementation Agreement dated 1 January 2019 (the ***Scheme Implementation Agreement***) pursuant to which:

(a) Highlands Pacific has agreed to propose the Scheme to Highlands Pacific Shareholders; and

(b) Highlands Pacific and Cobalt 27 have agreed to take certain steps to give effect to the Scheme.

D If the Scheme becomes Effective, then:

(a) all of the Scheme Shares and all of the rights and entitlements attaching to them on the Implementation Date will be transferred to Cobalt 27 or the Cobalt 27 Nominee;

(b) the Scheme Consideration will be provided to the Scheme Participants in accordance with the terms of the Scheme and the Deed Poll; and

(c) Highlands Pacific will enter the name and address of Cobalt 27 or the Cobalt 27 Nominee in the Highlands Pacific Register as the holder of all of the Scheme Shares.

E By executing the Scheme Implementation Agreement, Highlands Pacific has agreed to propose and implement the Scheme, and Cobalt 27 has agreed to assist with that proposal and implementation, on and subject to the terms of the Scheme Implementation Agreement.

F Cobalt 27 has entered into the Deed Poll for the purpose of covenanting in favour of the Scheme Participants that it will observe and perform the obligations contemplated of it under the Scheme, and that it will procure that Cobalt 27 performs the obligations contemplated of it under the Scheme.

It is agreed as follows.

1 Definitions and interpretation

1.1 Definitions

In this document, unless the context requires otherwise:

Additional Contingent Scheme Consideration means A$0.010 per Scheme Share.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the ASX operated by it.

ASX Listing Rules means the official listing rules of ASX.

Base Scheme Consideration means A$0.105 for each Scheme Share, except that if Cobalt 27 or any of its associates (within the meaning of section 12 of the Australian Corporations Act) acquires any interest in any Highlands Pacific Share for a price higher than A$0.105 at any time between the date of the Scheme Implementation Agreement and the Record Date, the Base Scheme Consideration will be that higher price. If Cobalt 27 or any of its associates (within the meaning of section 12 of the Australian Corporations Act) acquires any interest in a Highlands Pacific Share for a consideration which is in whole or in part non-cash, the 'price' for the purposes of the previous sentence will be calculated by reference to the fair market value of that non-cash consideration.

Business Day means a day that banks are open for business in each of:

(a) Brisbane, Australia;

(b) Toronto, Canada; and

(c) Port Moresby, Papua New Guinea.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Cobalt 27 means Cobalt 27 Capital Corp (a company incorporated under the laws of British Columbia) of Suite 401, 4 King Street West, Toronto, Ontario, Canada, M5H 1B6.

Cobalt 27 Nominee means, in respect of the transfer of Highlands Pacific Shares under the Scheme, a wholly owned Subsidiary of Cobalt 27 nominated prior to the Record Date.

Constitution means the constitution establishing Highlands Pacific, as amended from time to time.

Contingent Scheme Consideration Event occurs if, at any time during the period from the date of this Agreement up until and including 31 December 2019, the LME Closing Price over a 5 consecutive trading day period exceeds US$13,220 per tonne. (For the avoidance of doubt, a Contingent Scheme Consideration Event can only occur once.)

Court means the National Court of Papua New Guinea.

Deed Poll means the deed poll executed on or about the date of this document by Cobalt 27 in favour of the Scheme Participants.

Effective means, when used in relation to the Scheme, the coming into effect, pursuant to section 250 of the PNG Companies Act, of the orders of the Court under section 250(1) of the PNG Companies Act in relation to the Scheme, but in any event at no time before a certified copy of the orders of the Court are lodged with the PNG Registrar of Companies.

Effective Date means the date on which the Scheme becomes Effective.

End Date means 30 June 2019, or such later date as Cobalt 27 and Highlands Pacific may agree in writing.

Excluded Securities means Highlands Pacific Shares held by a Highlands Pacific Shareholder who:

(a) is a member of the Cobalt 27 Group; or

(b) holds the Highlands Pacific Shares on behalf of, or for the benefit of any member of the Cobalt 27 Group.

Highlands Pacific Share means an issued fully paid ordinary share in the capital of Highlands Pacific.

Highlands Pacific Share Registry means Computershare Investor Services Pty Limited of 117 Victoria Street, West End QLD 4101, Australia, or any replacement share registry services provider to Highlands Pacific.

Highlands Pacific Shareholder means a person who is registered in the Highlands Pacific Register as a holder of Highlands Pacific Shares.

Implementation Date means the date that is five Business Days after the Record Date, or such other date as Cobalt 27 and Highlands Pacific may agree in writing.

LME Closing Price means, in respect of a trading day on the London Metals Exchange (***LME***), the mid-point of the LME Official Cash Bid Price and LME Official Cash Offer Price at the close of trading on that trading day (as currently published on: https://www.lme.com/Metals/Non-ferrous/Nickel#tabIndex=0).

PNG Companies Act means the *Companies Act 1997* (PNG).

PNG Registrar of Companies means the Registrar of Companies appointed under section 394(1) of the PNG Companies Act.

POMSoX means Port Moresby Stock Exchange Limited or, as the context requires, the financial market operated by it.

Record Date means 7.00pm on the date that is five Business Days after the Effective Date, or such other date as may be agreed in writing between Cobalt 27 and Highlands Pacific.

Register means the register of members of Highlands Pacific maintained by or on behalf of Highlands Pacific.

Registered Address means, in relation to a Scheme Participant, the address of that Scheme Participant shown in the Highlands Pacific Register as at the Record Date.

Scheme means the scheme of arrangement under Part XVI of the PNG Companies Act between Highlands Pacific and holders of the Scheme Shares substantially in the form of this document or in such other form as Cobalt 27 and Highlands Pacific may agree in writing (such agreement not to be unreasonably withheld or delayed).

Scheme Consideration means the Base Scheme Consideration and, if the Contingent Scheme Consideration Event occurs, the Additional Contingent Scheme Consideration.

Scheme Meeting means the meeting of Scheme Participants to be ordered by the Court to be convened under section 250(2)(b) of the PNG Companies Act in relation to the Scheme, and includes any adjournment of that meeting.

Scheme Orders means the orders of the Court made under section 250(1) of the PNG Companies Act in relation to the Scheme.

Scheme Shares means the Highlands Pacific Shares on issue as at the Record Date other than the Excluded Securities.

Scheme Transfer means, in relation to each Scheme Participant, a form of transfer of their Scheme Shares for the purpose of section 65(2) of the PNG Companies Act, which may be a master transfer of all or part of all of the Scheme Shares.

Second Court Date means the first day of hearing of an application made to the Court for orders approving the Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Subsidiary has the meaning given in the PNG Companies Act, provided that an entity will also be taken to be a Subsidiary of another entity if it is controlled by that entity (as 'control' is defined in section 6 of the PNG Companies Act) and, without limitation:

(a) a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share;

(b) an entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation; and

(c) an entity will also be deemed to be a Subsidiary of an entity if that entity is required by the accounting standards to be consolidated with that entity.

Trust Accounts means the A$ trust account and the Kina trust account operated by Highlands Pacific (or by the Highlands Pacific Share Registry on behalf of Highlands Pacific) as trustee for the Scheme Participants.

1.2 Interpretation

(a) Headings are for convenience only and do not affect interpretation.

(b) Mentioning anything after includes, including, for example, or similar expressions, does not limit what else might be included.

(c) The following rules apply unless the context requires otherwise.

(i) The singular includes the plural, and the converse also applies.

(ii) A gender includes all genders.

(iii) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.

(iv) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.

(v) A reference to a clause is a reference to a clause of this document.

(vi) A reference to an agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.

(vii) A reference to writing includes any method of representing or reproducing words, figures, drawings or symbols in a visible and tangible form.

(viii) A reference to a person includes the person's successors, permitted substitutes and permitted assigns (and, where applicable, the person's legal personal representatives).

(ix) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.

(x) A reference to *dollars* or *$* is to Australian currency and a reference to *US dollars* or *US$* is to the currency of the United States of America.

(xi) Words and phrases not specifically defined in this document have the same meanings (if any) given to them in the PNG Companies Act.

(xii) A reference to time is to Port Moresby, Papua New Guinea time.

(xiii) If the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing must be done on the immediately succeeding Business Day.

2 Conditions

2.1 Conditions Precedent

The Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) as at 8.00am on the Second Court Date each of the conditions precedent set out in clause 3.1 of the Scheme Implementation Agreement (other than the condition precedent relating to the approval of the Court set out in clause 3.1(c) of the Scheme Implementation Agreement) has been satisfied or waived in accordance with the Scheme Implementation Agreement;

(b) as at 8.00am on the Second Court Date, neither the Scheme Implementation Agreement nor the Deed Poll has been terminated in accordance with its terms;

(c) the Court makes orders approving the Scheme under section 250(1) of the PNG Companies Act, including with such alterations made or required by the Court under section 251(1) of the PNG Companies Act as are acceptable to Cobalt 27 and Highlands Pacific (each acting reasonably);

(d) such other conditions made or required by the Court as are acceptable to Cobalt 27 and Highlands Pacific (each acting reasonably) have been satisfied or waived in accordance with the Scheme Implementation Agreement; and

(e) the orders of the Court made under section 250(1) of the PNG Companies Act approving the Scheme come into effect on or before the End Date.

2.2 Certificate

(a) Highlands Pacific and Cobalt 27 will provide to the Court on the Second Court Date a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its knowledge) whether or not all of the conditions precedent in clauses 2.1(a) and (b) have been satisfied or waived in accordance with the Scheme Implementation Agreement as at 8.00am on the Second Court Date.

(b) The certificate referred to in clause 2.2 constitutes conclusive evidence that such conditions precedent were satisfied, waived or taken to be waived in accordance with the Scheme Implementation Agreement.

2.3 Lapsing

The Scheme will lapse and be of no further force or effect if:

(a) the Effective Date does not occur on or before the End Date; or

(b) the Scheme Implementation Agreement or the Deed Poll is terminated in accordance with its terms unless Highlands Pacific and Cobalt 27 otherwise agree in writing.

3 Scheme becoming Effective

Subject to clause 2.3, the Scheme will take effect on and from the Effective Date.

4 Implementation of Scheme

(a) If the conditions precedent in clause 2.1 are satisfied or waived, Highlands Pacific must lodge with PNG Registrar of Companies, in accordance with section 250(4) of the PNG Companies Act, an office copy of the Scheme Orders as soon as practicable after, and in any event by no later than 5.00pm on the first Business Day after, the day on which the Scheme Orders are entered, or such other date as agreed by Highlands Pacific and Cobalt 27.

(b) On the Implementation Date, subject to Cobalt 27 having satisfied its obligations in clause 5, all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Cobalt 27 (or, if Cobalt 27 has nominated a Cobalt 27 Nominee, to the Cobalt 27 Nominee), without the need for any further act by any Scheme Participant (other than acts performed by Highlands Pacific or any of its directors and officers as attorney and agent for Scheme Participants under the Scheme), by:

(i) Highlands Pacific delivering to Cobalt 27 (or, if Cobalt 27 has nominated a Cobalt 27 Nominee, to the Cobalt 27 Nominee) for execution duly completed (and, if necessary, stamped) Scheme Transfers to transfer all of the Scheme Shares to Cobalt 27 (or, if Cobalt 27 has nominated a Cobalt 27 Nominee, to the Cobalt 27 Nominee), duly executed by Highlands Pacific (or any of its directors and officers) as the attorney and agent of each Scheme Participant as transferor under clause 8.3;

(ii) Cobalt 27 (or, if Cobalt 27 has nominated a Cobalt 27 Nominee, the Cobalt 27 Nominee) executing the Scheme Transfers as transferee and delivering them to Highlands Pacific for registration; and

(iii) Highlands Pacific, immediately after receipt of the Scheme Transfers under clause 4(b)(ii), entering, or procuring the entry of, the name and address of Cobalt 27 (or, if Cobalt 27 has nominated a Cobalt 27 Nominee, the Cobalt 27 Nominee) in the Highlands Pacific Register as the holder of all of the Scheme Shares.

5 Scheme Consideration

5.1 Entitlement to Scheme Consideration

Subject to the terms of the Scheme, each Scheme Participant will be entitled to receive the Scheme Consideration for all of the Scheme Participant's Scheme Shares.

5.2 Payment of Scheme Consideration

Cobalt 27 must, by no later than 12pm on the Business Day before the Implementation Date:

(a) deposit (or procure the deposit) in cleared funds into the Trust Accounts (with the Scheme Consideration payable to Scheme Participants with a Registered Address outside Papua New Guinea being paid into the A$ Trust Account and the Scheme Consideration payable to Scheme Participants with a Registered Address in Papua New Guinea being paid into the Kina Trust Account) an amount at least equal to the aggregate amount of:

(i) the Base Scheme Consideration payable to each Scheme Participant; and

(ii) the Additional Contingent Scheme Consideration that has become payable to each Scheme Participant (if the Contingent Scheme Consideration Event has occurred during the period after the date of the Scheme Implementation Agreement and on or prior to the Record Date), or which may become payable to each Scheme Participant (if the Contingent Scheme Consideration Event occurs during the period after the Record Date and up to an including 31 December 2019),

provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Cobalt 27's account; and

(b) provide written confirmation to Highlands Pacific of that deposit.

5.3 Payment to Scheme Participants – Scheme Consideration and Additional Contingent Scheme Consideration

(a) On the Implementation Date, subject to Cobalt 27 having satisfied its obligations in clause 5.2, Highlands Pacific must pay or procure the payment from the Trust Account, of the Base Scheme Consideration to each Scheme Participant.

(b) If the Additional Contingent Scheme Consideration Event occurs on or prior to the Record Date, on or prior to the Implementation Date, subject to Cobalt 27 having satisfied its obligations in clause 5.2, Highlands Pacific must pay or procure the payment from the Trust Account of the Additional Contingent Scheme Consideration to each Scheme Participant.

(c) If the Additional Scheme Consideration Event occurs after the Record Date, within 10 Business Days after such occurrence, subject to Cobalt 27 having satisfied its obligations in clause 5.2, Highlands Pacific must pay or procure the payment from the Trust Account of the Additional Contingent Scheme Consideration to each Scheme Participant.

(d) The obligations of Highlands Pacific under clause 5.3(a), 5.3(b) and 5.3(c) will be satisfied by Highlands Pacific (in its absolute discretion):

(i) where a Scheme Participant has, before the Record Date, made a valid direction in writing to Highlands Pacific to pay the relevant amount in the relevant currency by electronic means to a bank account of the Scheme Participant, by paying or procuring the payment of the relevant amount in the relevant currency in accordance with that direction. For this purpose any such direction must comply with the reasonable requirements of the Highlands Pacific Share Registry. Where a Scheme Participant has previously made a valid election in accordance with the requirements of the Highlands Pacific Share Registry to receive dividend payments by electronic funds transfer to a bank account in the relevant currency, this will be deemed to be a direction under this clause. A Scheme Participant may give a direction that part of the Scheme Consideration to be paid to that Scheme Participant be paid to one such bank account, and that the remainder of the Scheme Consideration be paid to another such bank account of the Scheme Participant; or

(ii) otherwise, whether or not the Scheme Participant has made an election in respect of dividend payments referred to in clause 5.3(d)(i), dispatching, or procuring the dispatch of, a cheque for the relevant amount to the Scheme Participant by prepaid post to their Registered Address (as at the Record Date), such cheque being drawn in the name of the Scheme Participant (or in the case of joint holders, in accordance with the procedures set out in clause 5.5).

(e) If, following satisfaction of Cobalt 27's obligations under clause 5.2 but prior to the occurrence of all of the events described in clause 4, the Scheme lapses under clause 2.3(b):

(i) Highlands Pacific must immediately repay (or cause to be repaid) to or at the direction of Cobalt 27 the funds that were deposited in the Trust Account plus any interest on the amounts deposited (less bank fees and other charges); and

(ii) the obligation to transfer Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, to Cobalt 27 or the Cobalt 27 Nominee under clause 4 will immediately cease.

(f) If implementation of the Scheme has occurred on the Implementation Date in accordance with this clause 5.3, but the Contingent Scheme Consideration Event has not occurred by 31 December 2019, Highlands Pacific must immediately repay (or cause to be repaid) to or at the direction of Cobalt 27 the remaining funds representing the Additional Contingent Scheme Consideration that were deposited in the Trust Account (if any) plus any interest on the amounts deposited (less bank fees and other charges).

(g) Scheme Participants with a Registered Address in Papua New Guinea will receive any Base Scheme Consideration or Additional Contingent Scheme Consideration amount in the Papua New Guinean Kina equivalent, calculated at the rate of exchange on the Record Date as determined by Highlands Pacific acting reasonably.

5.4 Unknown Registered Address

Clause 5.3 does not apply to a Scheme Participant who does not have a Registered Address or where Highlands Pacific and Cobalt 27 believe that such Scheme Participant is not known at their Registered Address.

5.5 Joint holders

In the case of Scheme Shares held in joint names:

(a) any cheque required to be sent under the Scheme will be made payable to the joint holders and sent to either, at the sole discretion of Highlands Pacific, the holder whose name appears first in the Highlands Pacific Register as at the Record Date or to the joint holders; and

(b) any other document required to be sent under the Scheme, will be forwarded to either, at the sole discretion of Highlands Pacific, the holder whose name appears first in the Highlands Pacific Register as at the Record Date or to the joint holders.

5.6 Cancellation and re-issue of cheques

(a) Highlands Pacific may cancel a cheque issued under this clause 5 if the cheque:

(i) is returned to Highlands Pacific or the Highlands Pacific Share Registry; or

(ii) has not been presented for payment within 6 months after the date on which the cheque was sent.

(b) During the period of 12 months commencing on the Implementation Date, on request in writing from a Scheme Participant to Highlands Pacific or the Highlands Pacific Share Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Highlands Pacific must reissue a cheque that was previously cancelled under clause 5.6(a).

5.7 Fractional entitlements

Where the calculation of the Scheme Consideration to be paid to a Scheme Participant would result in the Scheme Participant becoming entitled to a fraction of a cent, that fractional entitlement will be rounded up or down to the nearest whole number of Cobalt 27 Shares or nearest whole cent (as applicable) in accordance with the Scheme.

If Cobalt 27 is of the opinion, formed reasonably, that several Scheme Participants, each of which holds a holding of Scheme Shares which results in a fractional entitlement to New Cobalt 27 Shares have, before the Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to the rounding provided for in the calculation of each Scheme Participant's entitlement to the Scheme Consideration, Cobalt 27 may direct Highlands Pacific to give notice to those Scheme Participants:

(a) setting out the names and Registered Address for all of them;

(b) stating that opinion; and

(c) attributing to one of them specifically identified in the notice the Scheme Shares held by all of them,

and, after the notice has been so given, the Scheme Participant specifically identified in the notice shall, for the purposes of the Scheme, be taken to hold all those Scheme Shares and each of the other Scheme Participants whose names are set out in the notice shall, for the purposes of the Scheme, be taken to hold no Scheme Shares.

5.8 Unclaimed monies

(a) Highlands Pacific may cancel a cheque issued under this clause 5 if the cheque:

   (i) is returned to Highlands Pacific; or

   (ii) has not been presented for payment within six months after the date on which the cheque was sent.

(b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Participant to Highlands Pacific (or the Highlands Pacific Share Registry) (which request may not be made until the date which is five Business Days after the Implementation Date), Highlands Pacific must reissue a cheque that was previously cancelled under this clause 5.8.

5.9 Remaining monies (if any) in Trust Account

To the extent that, following satisfaction of Highlands Pacific's obligations under the other provisions of this clause 5 and provided Cobalt 27 has by that time acquired the Scheme Shares in accordance with the Scheme, there is a surplus in the Trust Account, then subject to compliance with applicable laws, the other terms of the Scheme, the Deed Poll and the Scheme Implementation Agreement, that surplus (less any bank fees and related charges) shall be paid by Highlands Pacific (or the Highlands Pacific Share Registry on Highlands Pacific's behalf) to Cobalt 27.

5.10 Orders of a Court

(a) If written notice is given to Highlands Pacific (or the Highlands Pacific Share Registry) of an order or direction made by a Court that:

   (i) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable or required to be issued to that Scheme Participant by Highlands Pacific in accordance with this clause 5, then Highlands Pacific shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or

(ii) prevents Highlands Pacific from providing consideration to any particular Scheme Participant in accordance with this clause 5, or the payment or issuance of such consideration is otherwise prohibitive by applicable law, Highlands Pacific shall be entitled to (as applicable) retain an amount equal to the number of Scheme Shares held by that Scheme Participant multiplied by the Scheme Consideration in accordance with this clause 5 is permitted by that (or another) court or direction or otherwise by law.

(b) To the extent that amounts are so deducted or withheld in accordance with clause 5.10(a), such deducted or withheld amounts will be treated for all purposes under this Scheme as having been paid to the person in respect of which such deduction and withholding was made, provided that such deducted or withheld amounts are actually remitted as required.

6 Dealings in Highlands Pacific Shares

6.1 Dealings in Highlands Pacific Shares by Scheme Participants

For the purpose of establishing the persons who are Scheme Participants, dealings in Highlands Pacific Shares will be recognised by Highlands Pacific provided that:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Highlands Pacific Register as the holder of the relevant Highlands Pacific Shares by the Record Date; and

(b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the Highlands Pacific Share Registry by 5.00pm on the day which is the Record Date at the place where the Highlands Pacific Register is located (in which case Highlands Pacific must register such transfers or transmission applications before 7.00pm on that day),

and Highlands Pacific will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Participants nor for any other purpose (other than to transfer to Cobalt 27 or the Cobalt 27 Nominee pursuant to the Scheme and any subsequent transfers by Cobalt 27 or the Cobalt 27 Nominee and their successors in title, any transfer or transmission application in respect of Highlands Pacific Shares received after such times, or received prior to such times but not in actionable or registrable form (as appropriate).

6.2 Highlands Pacific Register

(a) Highlands Pacific will, until the Scheme Consideration has been provided and the name and address of Cobalt 27 or the Cobalt 27 Nominee has been entered in the Highlands Pacific Register as the holder of all of the Scheme Shares, maintain, or procure the maintenance of, the Highlands Pacific Register in accordance with this clause 6, and the Highlands Pacific Register in this form and the terms of the Scheme will solely determine entitlements to the Scheme Consideration.

(b) As from the Record Date (and other than for Cobalt 27 or the Cobalt 27 Nominee following the Implementation Date), each entry in the Highlands Pacific Register as at the Record Date relating to Scheme Shares will cease to have any effect other than as evidence of the entitlements of Scheme Participants to the Scheme Consideration in respect of those Scheme Shares.

(c) As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, Highlands Pacific will ensure that details of the names, Registered Addresses and holdings of Highlands Pacific Shares for each Scheme Participant as shown in the Highlands Pacific Register are available to Cobalt 27 in the form Cobalt 27 reasonably requires.

6.3 Effect of share certificates and holding statements

As from the Record Date (and other than for Cobalt 27 or the Cobalt 27 Nominee following the Implementation Date), all share certificates and holding statements for Scheme Shares (other than statements of holding in respect of Excluded Securities) will cease to have effect as documents of title in respect of those Scheme Shares.

6.4 No disposals after Record Date

If the Scheme becomes Effective, each Scheme Participant, and any person claiming through that Scheme Participant, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after 5.00pm on the Record Date other than to Cobalt 27 or the Cobalt 27 Nominee in accordance with the Scheme and any subsequent transfers by Cobalt 27 or the Cobalt 27 Nominee and their successors in title.

7 Suspension and termination of quotation of Highlands Pacific Shares

(a) Highlands Pacific must apply to ASX and POMSoX for suspension of trading of the Highlands Pacific Shares with effect from the close of business on the Effective Date.

(b) Highlands Pacific must apply to ASX and POMSoX for termination of official quotation of the Highlands Pacific Shares and the removal of Highlands Pacific from the official list of ASX and POMSoX with effect from the Business Day immediately following the Implementation Date, or from such later date as may be determined by Cobalt 27.

8 General provisions

8.1 Further assurances

(a) Each Scheme Participant and Highlands Pacific will do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it.

(b) Without limiting Highlands Pacific's other powers under the Scheme, Highlands Pacific has power to do all things that it considers necessary or desirable to give effect to the Scheme and the Scheme Implementation Agreement.

8.2 Scheme Participants' agreements and consents

Each Scheme Participant:

(a) irrevocably agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, to Cobalt 27 or the Cobalt 27 Nominee in accordance with the terms of the Scheme;

(b) acknowledges and agrees that the Scheme binds Highlands Pacific and all Scheme Participants (including those that did not attend the Scheme Meeting or did not vote at that meeting or voted against the Scheme at that Scheme Meeting) and, to the extent of any inconsistency, overrides the Constitution; and

(c) irrevocably consents to Highlands Pacific and Cobalt 27 doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it,

without the need for any further act by that Scheme Participant.

8.3 Appointment of Highlands Pacific as attorney for implementation of Scheme

Each Scheme Participant, without the need for any further act by that Scheme Participant, irrevocably appoints Highlands Pacific as that Scheme Participant's agent and attorney for the purpose of:

(a) doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it, including the effecting of a valid transfer or transfers (or the execution and delivery of any Scheme Transfers) under clause 4(b)(i); and

(b) enforcing the Deed Poll against Cobalt 27,

and Highlands Pacific accepts such appointment. Highlands Pacific, as agent and attorney of each Scheme Participant, may sub delegate its functions, authorities or powers under this clause 8.3 to all or any of its directors and officers (jointly, severally, or jointly and severally).

8.4 Warranty by Scheme Participants

Each Scheme Participant is deemed to have warranted to Cobalt 27, and, to the extent enforceable, to have appointed and authorised Highlands Pacific as that Scheme Participant's agent and attorney to warrant to Cobalt 27, that all of their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the time of the transfer of them to Cobalt 27 or the Cobalt 27 Nominee pursuant to the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Shares (together with any rights and entitlements attaching to those Scheme Shares) to Cobalt 27 or the Cobalt 27 Nominee pursuant to the Scheme. Highlands Pacific undertakes in favour of each Scheme Participant that it will provide such warranty, to the extent enforceable, to Cobalt 27 on behalf of that Scheme Participant.

8.5 Title to Scheme Shares

Cobalt 27 or the Cobalt 27 Nominee will be beneficially entitled to the Scheme Shares transferred to it under the Scheme pending registration by Highlands Pacific of the name and address of Cobalt 27 or the Cobalt 27 Nominee in the Highlands Pacific Register as the holder of the Scheme Shares.

8.6 Appointment of Cobalt 27 as attorney and agent for Scheme Shares

(a) From the time that Cobalt 27 has satisfied its obligations in clause 5.2 until Cobalt 27 or the Cobalt 27 Nominee is registered in the Highlands Pacific Register as the holder of all Scheme Shares, each Highlands Pacific Shareholder:

(i) without the need for any further act by that Highlands Pacific Shareholder, irrevocably appoints Cobalt 27 as its proxy to (and irrevocably appoints Cobalt 27 as its agent and attorney for the purpose of appointing any director or officer of Cobalt 27 as that Highlands Pacific Shareholder's proxy and, where appropriate, its corporate representative to):

(A) attend shareholders' meetings of Highlands Pacific;

(B) exercise the votes attaching to the Highlands Pacific Shares registered in the name of the Highlands Pacific Shareholder; and

(C) sign any Highlands Pacific Shareholders' resolution;

(ii) must take all other action in the capacity of a Highlands Pacific Shareholder as Cobalt 27 reasonably directs; and

(iii) acknowledges and agrees that in exercising the powers referred to in clause 8.6(a), Cobalt 27 and any person nominated by Cobalt 27 under clause 8.6(a) may act in the best interests of Cobalt 27 as the intended registered holder of the Scheme Shares.

(b) From the time that Cobalt 27 has satisfied its obligations in clause 5.2 until Cobalt 27 is registered in the Highlands Pacific Register as the holder of all Scheme Shares, no Highlands Pacific Shareholder may attend or vote at any meetings of Highlands Pacific Shareholders or sign any Highlands Pacific Shareholders' resolution (whether in person, by proxy or by corporate representative) other than under this clause 8.6.

8.7 Alterations and conditions to Scheme

If the Court proposes to approve the Scheme subject to any alterations or conditions, Highlands Pacific may, by its counsel or solicitors, and with the prior written consent of Cobalt 27:

(a) consent on behalf of all persons concerned, including each Highlands Pacific Shareholder, to those alterations or conditions; and

(b) each Scheme Participant agrees to any such alterations or conditions which Highlands Pacific has consented to.

8.8 Enforcement of Deed Poll

Highlands Pacific undertakes in favour of each Scheme Participant that it will enforce the Deed Poll against Cobalt 27 on behalf of and as agent and attorney for the Scheme Participants.

8.9 Consent

Each of the Scheme Participants consents to Highlands Pacific doing all things necessary or incidental to the implementation of this Scheme, whether on behalf of the Scheme Participants, Highlands Pacific or otherwise.

8.10 Notices

(a) Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to Highlands Pacific, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Highlands Pacific's registered office or by the Highlands Pacific Share Registry, as the case may be.

(b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Highlands Pacific Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

8.11 Duty

Cobalt 27 will:

(a) pay all duty (including stamp duty and any related fines, penalties and interest) payable on or in connection with the transfer by Scheme Participants of the Scheme Shares to Cobalt 27 or the Cobalt 27 Nominee pursuant to the Scheme; and

(b) indemnify each Scheme Participant against any liability arising from failure to comply with clause 8.11(a).

8.12 Governing law and jurisdiction

This document is governed by the laws of the Independent State of Papua New Guinea. Each party submits to the non-exclusive jurisdiction of courts exercising jurisdiction there and courts of appeal from them in connection with matters concerning this document. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

Annexure C – Deed Poll

Deed Poll

This Deed Poll is made on 8 March 2019

Parties

1 **Cobalt 27 Capital Corp** (a company incorporated under the laws of British Columbia) of Suite 401, 4 King Street West, Toronto, Ontario, Canada, M5H 1B6 (***Cobalt 27***).

In favour of

Each Scheme Participant.

Recitals

A Cobalt 27 and Highlands Pacific Limited (a company incorporated in and domiciled in Papua New Guinea) (***Highlands Pacific***) have entered into a scheme implementation agreement dated 1 January 2019, as amended by Deed of Amendment and Restatement dated 4 March 2019 (the ***Scheme Implementation Agreement***).

B Highlands Pacific has agreed in the Scheme Implementation Agreement to propose the Scheme, pursuant to which, subject to the satisfaction or waiver of certain conditions precedent, Cobalt 27 will acquire all of the Scheme Shares from Scheme Participants for the Scheme Consideration.

C In accordance with the Scheme Implementation Agreement, Cobalt 27 is entering into this Deed Poll for the purpose of covenanting in favour of the Scheme Participants that it will observe and perform the obligations contemplated of it under the Scheme.

It is agreed as follows.

1 Definitions and Interpretation

1.1 Definitions

Terms defined in the Scheme Implementation Agreement have the same meaning in this Deed Poll, unless the context requires otherwise.

1.2 Interpretation

The provisions of clause 1.2 of the Scheme Implementation Agreement form part of this Deed Poll as if set out in full in this Deed Poll, and on the basis that references to 'this document' or 'this Agreement' in that clause are references to 'this Deed Poll'.

2 Nature of Deed Poll

Cobalt 27 acknowledges that:

(a) this Deed Poll may be relied on and enforced by any Scheme Participant in accordance with its terms, even though the Scheme Participants are not party to it; and

(b) under the Scheme, each Scheme Participant appoints Highlands Pacific as its agent and attorney to enforce this Deed Poll against Cobalt 27 on behalf of that Scheme Participant.

3 Conditions Precedent and Termination

3.1 Conditions precedent

Cobalt 27's obligations (as relevant) under this Deed Poll are subject to the Scheme becoming Effective.

3.2 Termination

If the Scheme Implementation Agreement is terminated before the Effective Date or the Scheme does not become Effective on or before the End Date, the obligations of Cobalt 27 under this Deed Poll will automatically terminate and the terms of this Deed Poll will be of no further force or effect, unless Highlands Pacific and Cobalt 27 otherwise agree in accordance with the Scheme Implementation Agreement.

3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2, then, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) Cobalt 27 is released from its obligations under this Deed Poll, except those obligations under clause 8.6; and

(b) each Scheme Participant retains any rights, powers or remedies that Scheme Participant has against Cobalt 27 in respect of any breach of its obligations under this Deed Poll that occurred before termination of this Deed Poll.

4 Compliance with Scheme Obligations

4.1 Obligations of Cobalt 27

Subject to clause 3, in consideration for the transfer to Cobalt 27 or the Cobalt 27 Nominee of the Scheme Shares in accordance with the Scheme, Cobalt 27 covenants in favour of each Scheme Participant that it will observe and perform all obligations contemplated of it under the Scheme, including the relevant obligations relating to the provision of the Scheme Consideration in accordance with the terms of the Scheme.

5 Representations and Warranties

Cobalt 27 makes the following representations and warranties.

(a) (**Status**) It is a corporation duly incorporated and validly existing under the laws of the place of its incorporation.

(b) (**Power**) It has the power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll and does not require shareholder approval or any other form of corporate approval which it has not already obtained to do so.

(c) (**Corporate authorisations**) It has taken all necessary corporate action to authorise the entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll.

(d) (**Document binding**) This Deed Poll is its valid and binding obligation enforceable in accordance with its terms.

(e) (**Transactions permitted**) The execution and performance by it of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:

(i) a law, judgment, ruling, order or decree binding on it; or

(ii) its constitution or other constituent documents.

6 Continuing Obligations

This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

(a) Cobalt 27 having fully performed its obligations under this Deed Poll; and

(b) termination of this Deed Poll under clause 3.

7 Further Assurances

Cobalt 27 will, on its own behalf and, to the extent authorised by the Scheme, on behalf of each Scheme Participant, do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the provisions of this Deed Poll and the transactions contemplated by it.

8 General

8.1 Notices

Any notice, demand, consent or other communication (a ***Notice***) given or made under this Deed Poll:

(a) must be in writing and signed by the sender or a person duly authorised by the sender;

(b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or email to the address or email address (as applicable) below or the address or email address (as applicable) last notified by the intended recipient to the sender:

Cobalt 27: Address: 4 King St. West – Suite 401, Toronto, ON, M5H 1B6

Email: justin@cobalt27.com

Attention: President & COO

With a copy to:

Piper Alderman, Level 23, Governor Macquarie Tower, 1
Farrer Place, Sydney NSW 2000

Email: mwilliamson@piperalderman.com.au

Attention: Mark Williamson

(c) will be conclusively taken to be duly given or made:

(i) in the case of delivery in person, when delivered;

(ii) in the case of delivery by post, 3 Business Days after the date of posting (if posted to an address in the same country) or 7 Business Days after the date of posting (if posted to an address in another country); and

(iii) in the case of email, at the earliest of:

(A) the time that the sender receives an automated message from the intended recipient's information system confirming delivery of the email;

(B) the time that the intended recipient confirms receipt of the email by reply email; and

(C) two hours after the time the email is sent (as recorded on the device from which the sender sent the email) unless the sender receives, within that two hour period, an automated message that the email has not been delivered,

but if the result is that a Notice would be taken to be given or made:

(iv) in the case of delivery by hand or post, at a time that is later than 5pm;

(v) in the case of delivery by email, at a time that is later than 7pm; or

(vi) on a day that is not a business day,

in the place specified by the intended recipient as its postal address under clause 8.1(b), it will be conclusively taken to have been duly given or made at the start of business on the next business day in that place.

8.2 No waiver

No failure to exercise nor any delay in exercising any right, power or remedy by Cobalt 27 or by any Scheme Participant operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver of any right, power or remedy on one or more occasions does not operate as a waiver of that right, power or remedy on any other occasion, or of any other right, power or remedy. A waiver is not valid or binding on the person granting that waiver unless made in writing.

8.3 Remedies cumulative

The rights, powers and remedies of Cobalt 27 and of each Scheme Participant under this Deed Poll are in addition to, and do not exclude or limit, any right, power or remedy provided by law or equity or by any agreement.

8.4 Amendment

No amendment or variation of this Deed Poll is valid or binding unless:

(a) either:

(i) before the Second Court Date, the amendment or variation is agreed to in writing by Highlands Pacific and Cobalt 27 (which such agreement may be given or withheld without reference to or approval by any Highlands Pacific Participant); or

(ii) on or after the Second Court Date, the amendment or variation is agreed to in writing by Highlands Pacific and Cobalt 27 (which such agreement may be given or withheld without reference to or approval by any Highlands Pacific Participant), and is approved by the Court; and

(b) Cobalt 27 enters into a further deed poll in favour of the Scheme Participants giving effect to that amendment or variation.

8.5 Assignment

The rights and obligations of Cobalt 27 and of each Scheme Participant under this Deed Poll are personal. They cannot be assigned, encumbered or otherwise dealt with and no person may attempt, or purport, to do so without the prior consent of Cobalt 27 and Highlands Pacific.

8.6 Costs and duty

Cobalt 27 must bear its own costs arising out of the negotiation, preparation and execution of this Deed Poll. All duty (including stamp duty and any fines, penalties and interest) payable on or in connection with this Deed Poll and any instrument executed under or any transaction evidenced by this Deed Poll must be borne by Cobalt 27. Cobalt 27 must indemnify each Scheme Participant on demand against any liability for that duty (including any related fines, penalties and interest).

8.7 Governing law and jurisdiction

This Deed Poll is governed by the laws of Queensland, Australia. Cobalt 27 submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Deed Poll.

Executed and delivered as a Deed.

Signed sealed and delivered for **Cobalt 27** by

Seal

Signature of Witness	Signature of Authorised Signatory
Vanessa Drew	Justin Cochrane
Name of Witness	Name of Authorised Signatory

Annexure D – Notice of Meeting

NOTICE OF MEETING

HIGHLANDS PACIFIC LIMITED

NOTICE OF COURT ORDERED MEETING OF REGISTERED HOLDERS OF FULLY PAID ORDINARY SHARES IN HIGHLANDS

NOTICE IS HEREBY GIVEN, that by Order of the National Court of Papua New Guinea (***Court***), made on 12 March 2019 under section 250(2)(b) of the *Companies Act 1997* (PNG), the Court has ordered that a meeting of Highlands Shareholders (other than holders of Excluded Securities), be held at the Hilton Port Moresby, Wards Rd, Hohola, Port Moresby, 121, Papua New Guinea on Tuesday, 30 April 2019 at 10.00am (Port Moresby time).

Purpose of meeting

The purpose of the meeting is to consider and, if thought fit, to agree to the scheme of arrangement (with or without modification) between Highlands and the Scheme Participants described in the Scheme Resolution below.

Resolution

Highlands Shareholders will be asked to consider and, if thought fit, to pass the following resolution:

> "That pursuant to and in accordance with section 250 of the *Companies Act 1997* (PNG), the scheme of arrangement proposed to be entered into between Highlands and the Scheme Participants, as contained in and more particularly set out in the Scheme Booklet of which the notice convening this meeting forms part (***Scheme***), is agreed to and the Highlands Board is authorised to agree to such alterations or conditions as are thought fit by the Court and, subject to approval of the Scheme by the Court, to implement the Scheme with any such alterations or conditions."

By order of the Board of Highlands Pacific Limited

Sylvie Moser

Company Secretary

12 March 2019

Notes

Terminology Capitalised terms which are defined in the Highlands Constitution or in the Scheme Booklet which accompanies this Notice of Scheme Meeting have the same meaning when used in this notice (including these notes) unless the context requires otherwise.

- **Required Majority:** The Scheme Resolution must be approved by at least 75 per cent of the total number of votes cast at the Scheme Meeting (in person, by proxy or corporate representative).
- **Quorum:** The Highlands Constitution provides that the quorum for a meeting of Highlands Shareholders is three Highlands Shareholders, in person, by proxy, by attorney or, in the case of a shareholder which is a body corporate, by a representative appointed in respect of the meeting under Rule 6.14 of the Highlands Constitution.
- **Court Approval:** In accordance with section 250(1) of the *Companies Act 1997* (PNG), the Scheme must be approved by order of the Court. If the Scheme Resolution is passed (with or without modification) in accordance with the Required Majority set out above and the conditions precedent to the Scheme referred to in the Scheme Booklet are satisfied (or waived, where permitted), Highlands intends to apply to the Court for the necessary orders to give effect to the Scheme.
- **Voting by poll:** Voting at the meeting on the Scheme Resolution will occur by poll only.
- **Voting Entitlement:** Only Highlands Shareholders who are registered on the Highlands Register as at 7.00pm on Sunday 28 April 2019 are entitled to vote at the Scheme Meeting.
- **How to Vote:** Highlands Shareholders can vote at the Scheme Meeting in one of the following ways:
  - by attending the Scheme Meeting and voting in person;
  - in the case of corporations, by appointing an authorised corporate representative to attend and vote on their behalf; and
  - by appointing a proxy to attend and vote on their behalf, using the Proxy Form accompanying the Scheme Booklet or a corresponding additional or replacement form obtained from the Highlands Registry.
- **Voting in person or by authorised corporate representative:** Highlands Shareholders or their authorised corporate representatives who plan to attend the Scheme Meeting are asked to bring with them their Proxy Form enclosed with the Scheme Booklet and to arrive at the venue, allowing sufficient time to enable shareholdings to be checked against the Highlands Register and attendances noted. In order to vote in person at the Scheme Meeting, a corporation that is a Highlands Shareholder may appoint an individual to act as its representative. The appointment must comply with the requirements of Rule 6.14 of the Highlands Constitution. The representative should bring to the Scheme Meeting evidence of their appointment, including any authority under which it is signed.
- **Voting by proxy:** A Highlands Shareholder entitled to attend and vote may appoint a proxy to attend and vote instead of the Highlands Shareholder. A proxy need not be a Highlands Shareholder. For the appointment of a proxy to be effective, the Proxy Form accompanying the Scheme Booklet or a corresponding additional or replacement form obtained from the Highlands Registry (together with any power of attorney or other authority under which the Proxy Form is signed or a copy of that power of attorney certified as a true copy by statutory declaration) must be completed and received by the Highlands Registry by 10.00am on Sunday 28 April 2019. Proxy Forms received after this time will be invalid. A Proxy Form can be returned by posting it in the envelope provided (reply paid in Australia only) or by posting it to:

  Highlands Pacific Registry C/- Computershare Investor Services Pty Limited

  GPO Box 242

  Melbourne Victoria 3001

  Australia

Corporate Directory

Highlands Pacific Limited

Level 1, Allotment 6. Section 58, Sir Hubert
Murray Highway
Boroko NCD
Papua New Guinea

Highlands Pacific Registry

Computershare Investor Services Pty Limited
117 Victoria Street, West End
QLD 4101
Australia

Financial Adviser

Grant Samuel
Level 6
1 Collins Street
Melbourne VIC 3000
Australia

Australian Legal Adviser

Allens
Level 28
126 Phillip Street
Sydney NSW 2000
Australia

Independent Expert

Deloitte Corporate Finance Pty Ltd
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Technical Expert

Behre Dolbear Australia Pty Ltd
Level 9/80 Mount Street
North Sydney NSW 2060
Australia

Auditors

PricewaterhouseCoopers
Level 6, PWC Haus
Harbour City, Konedobu
Port Moresby, NCD 125
Papua New Guinea