

23 February 2015

Highlands Pacific to begin receiving cashflow from Ramu nickel project

Highlands Pacific Limited (ASX: HIG) has conditionally exercised its right to begin receiving its share of the cash operating surpluses commencing 1 January 2015 from the giant Ramu nickel project in PNG, in which it holds an 8.56% interest.

Highlands' decision to participate in the operating results of Ramu comes after the operator, Metallurgical Corporation of China (MCC), revealed that the project achieved its first annual operating surplus of approximately US\$67 million in 2014 (unaudited). After capital expenditure of US\$23 million, the net cash surplus was \$44 million.

The project generated a surplus whilst continuing to ramp up towards full capacity, achieving a production rate of approximately 67% of nameplate for the full year and 72% in the December quarter. Output is forecast to reach 83% of nameplate in the current year, rising to full capacity in 2016.

During 2014, the project produced 20,987 tonnes of nickel and 2,134 tonnes of cobalt at an average production cost of approximately US\$10,800 per tonne of nickel (before cobalt credits). At full annual production of 31,150 tonnes of nickel and 3,300 tonnes of cobalt, the operation is forecast to have a production cost of approximately \$10,000 per tonne of nickel (before cobalt credits).

Under the joint venture agreement in place for the Ramu project, Highlands was entitled to nominate, at a date of its choosing, when it wished to begin participating in the operating results, effectively shielding it from losses incurred during the commissioning stage.

Highlands' nomination is conditional on MCC completing audited joint venture accounts for the 2014 year, confirming the operation has moved to profitability.

Following its decision to participate, Highlands' will begin receiving its pro-rata share of operating surpluses, and will continue to contribute its share of on-going capital expenditure requirements. Of the funds to be distributed to Highlands, commencing in the June quarter 2015, 80% initially will be applied to repay its 8.56% share of a capped Ramu capital cost of \$1.010 billion (approximately US\$86 million). The remaining 20% will be available to Highlands for other purposes.

Based on a nickel price of approximately \$20,000/tonne, it is anticipated that Highlands will have repaid its share of the capped project capital by 2025, at which point its share in the project will increase to 11.3% at no cost. During that time Highlands expects to received approximately US\$50 million in cash flow, after debt repayments. Highlands also holds a further option to acquire an additional 9.25% interest in the project at fair market value, increasing its interest to 20.55%.

Highlands Pacific Managing Director John Gooding said the decision to nominate was great news for Highlands, providing the company with access to cashflow from the project, which is expected to generate significant returns for its shareholders and for the State of Papua New Guinea over the next 30 years.



"We are obviously delighted to see the project reach profitability. First discovered in 1962, it has taken great technical skill and dedication from the many participants in the project over the past 50 years to reach this development milestone. Highlands took over management of the project in 1992, and in the ensuing period we have worked tirelessly with our partners MCC and PNG's Mineral Resource Development Company which represents the landowners to deliver the project to production and profitability."

"Our hard work is now beginning to be rewarded, and the cashflows we expect to receive from the project in the future will underpin our further development plans at Frieda River and Star Mountains, providing the potential to generate significant returns to our shareholders," he said.

Ramu Project Overview

History: First discovered in 1962, Highlands assumed management of the joint venture in 1992. An intensive period of geological exploration and engineering led to a prefeasibility study and the establishment of the Ramu Nickel Joint Venture to prepare a bankable feasibility study in 1996. In 2000 the project was granted its Special Mining License and in 2005 Metallurgical Corporation of China Limited joined the joint venture and was responsible for financing and construction. Construction commenced in 2008. Commissioning started in 2012 and has gradually been ramping up over the period since. Total construction cost was \$2.1 billion.

Ownership: The project is held in a joint venture. Participants include Highlands (8.56%), MCC Ramu NiCo Limited (85%), and PNG Government and local landowners through the Mineral Resource Development Company (6.44%)

Mining and Beneficiation Plant: The project involves mining ore at the Kurumbukari open pit mine, with the ore then converted to a slurry for transport 135 kilometres by pipeline to the Basamuk process plant near Madang on the north coast of PNG.

Basamuk Process Plant: The Basamuk process plant incorporates three High Pressure Acid Leach (HPAL) trains (autoclaves) and is designed to produce 31,150 tonnes of nickel and 3,300 tonnes of cobalt per annum.



Highland's Pacific projects in PNG



Kurumbukari mine site



Basamuk plant site



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

Kurumbukari			
Category	MT	Ni(%)	Co(%)
Measured	40	0.9	0.1
Indicated	7	1.4	0.1
Inferred	4	1.2	0.1
Total	51	1.0	0.1

Ramu West			
Category	MT	Ni(%)	Co(%)
Indicated	17	0.8	0.1
Inferred	3	1.5	0.2
Total	20	0.9	0.1

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

Global Total	MT	Ni(%)	Co(%)
	131	1.0	0.1

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

Ramu Ore Reserve

Kurumbukari				
Category	MT	Ni(%)	Co(%)	Rocks +2mm MT
Proved	35	0.9	0.1	
Probable	7	1.4	0.1	11
Total	42	1.0	0.1	11

Ramu West				
Category	MT	Ni(%)	Co(%)	Rocks +2mm MT
Proved				
Probable	14	0.9	0.1	
Total	14	0.9	0.1	

Global Total	MT	Ni(%)	Co(%)	
	55	1.0	0.1	11



Competent Persons Statement: *Details contained in this report that pertain to the Ramu Ore Reserve Estimate are based upon, and fairly represent, information and supporting documentation compiled by Mr Patrick Smith, a Member of The Australasian Institute of Mining and Metallurgy CP (Min) and a full-time employee of AMC Consultants Pty Ltd. Mr Smith has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Smith consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

The information on the Ramu project is extracted from the report entitled “Ramu – Mineral Resource & Ore Statement” created on 14 March 2014 and available on the Company website. Highlands confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. Highlands confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

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ASX Code: HIG
PoMSox Code: HIG
Shares on Issue: 921 million
Options on Issue: 7.2 million
Performance Rights: 19.9 million

Directors

Ken MacDonald, Chairman
John Gooding, Managing Director
Mike Carroll
Dan Wood
Bart Philemon

Management

Craig Lennon, CFO & Co.Sec
Larry Queen, Chief Geologist
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About Highlands Pacific Limited

Highlands Pacific is a PNG incorporated and registered mining and exploration company listed on the ASX and PoMSox exchanges. Its major assets are interests in the producing US\$2.1bn Ramu nickel cobalt mine and the Frieda River copper gold project; with exploration in progress on the Star Mountains. Highlands also has exploration tenements at Muller Range on the border of the Western and Southern Highlands Provinces and on Normanby Island (Sewa Bay).

Star Mountains Prospects*

The Star Mountains exploration tenements, which include Nong River EL1312, Mt Scorpion EL1781, Munbil EL2001 and Tifalmin EL1392, 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.

Ramu Nickel Cobalt Mine

The producing Ramu nickel mine is located 75km west of the provincial capital of Madang, PNG. Highlands 8.56% interest in Ramu will increase to 11.3% at no cost to Highlands after repayment of its share of the project debt. Highlands also has an option to acquire an additional 9.25% interest in Ramu at fair market value, which could increase the company's interest in the mine to 20.55%, if the option is exercised.

Frieda River Copper-Gold Project*

The Frieda River Copper-Gold Project is located 175kms 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 PanAust 80%. PanAust will be responsible for 100% of the costs incurred by the Frieda River Joint Venture to finalise the definitive feasibility study for PanAust's development concept and will appoint and fund the cost of an independent expert to provide a peer review. PanAust will also be responsible for 100% of the costs to maintain the Frieda River project site, assets and community relations programmes up to the point in time of lodgement of the Mining Lease or Special Mining Lease application.

* Subject to the right of the Independent State of Papua New Guinea to acquire up to a 30% equity interest in any mining development in the country.