



19 May 2016

## 2016 Annual General Meeting Chairman's Address

As required by Listing Rule 3.13.3, attached is a copy of the Chairman's Address, which will be delivered at the Annual General Meeting of the Company being held today at 10.00am in Port Moresby, Papua New Guinea.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Craig Lennon', with a horizontal line underneath it.

**CRAIG LENNON**  
**COMPANY SECRETARY**



19 May 2016

## Highlands Pacific AGM Chairman's Address

I want you to take home from the AGM two major points. Firstly, when, not if, the commodity markets for copper and nickel turn for the better, I believe Highlands will be a great investment to have in your portfolio. Secondly, in the meantime external forces conspire to demand great patience as well as discipline, determination, belief and hard work while we get through the challenges that are thrown at us. Your Board and management are committed to meet this demand.

### Markets

The first challenge is that of the markets. Shareholders will be aware that commodity markets especially for copper and nickel have not been kind to us over the last 12 months. Commodity markets have since I have been involved in the industry for over 40 years been notoriously cyclical. It is also notorious that despite the best efforts of experts, both independent and within the big multinational mining houses, it is just not possible to predict accurately on a consistent basis the time and extent of changes through the cycles. The only course for the investor who is in a position to do so is to maintain patience and discipline, waiting for the time to come.

One is encouraged by the recent decision of Rio Tinto to go ahead with its US\$5 billion expansion of its copper mine in Mongolia. It is widely anticipated that copper supply will not match expected demand though the medium term, but when the markets come to reflect that position is not known. As to nickel, while analysts are less united, the fact is that the industry is hurting around the world. The closure of the QNI Nickel Plant close to home in Townsville is just one example of this. One has to believe that eventually these troubles will reflect in a price recovery to which our Ramu assets are very well leveraged.

### Legislative Reform

Another external challenge which has the potential to impact upon this and other countries operating in PNG is the process of legislative reform. I refer in particular to the MRA Amending Act 2015 and proposals for a new Mining Act.

The amendments to the MRA Act include doubling the rate of a production levy, giving the MRA control over the proceeds of that levy and removing the industry from any representation on the MRA Board. Perhaps more importantly a review of the Mining Act is being contemplated and while the situation remains fluid, it is important that care be taken to ensure that the new Act does not, because of lack of full consultation with industry and a full appreciation of the issues and ramifications of proposed changes, end up with legislation that discourages further investment in PNG.



To underline the point, now is not the time to introduce more risk into the legislative scheme of things in relation to our industry. In the last year the PNG Chamber of Mines and Petroleum has reported that a number of major players in the industry have pulled out of joint venture farm-in deals and has also noted the relinquishment of many exploration tenements. Further the Chamber has reported that grass roots or preliminary exploration has declined markedly since 2011 and it expects that further contraction will take place this year.

In any reforms of the existing legislative scheme it is vital that the PNG Government makes sure that whatever is done we set the scene for growing the pie, for it profits no one to be bickering over shares of a pie that is diminishing as we argue.

### **Ramu**

Let me turn to the challenges we have at present at Ramu. As those who have studied the accounts will know our direct participation in this Project has resulted into bringing on to the balance sheet substantial assets and debts. On the other hand, primarily due to depressed commodity prices we have in accordance with accounting standards been required to impair the holding value of our ownership of Ramu. The net result is that assets are valued for accounting purposes at only US\$85 million with a total debt of US\$119 million. Some things need to be clearly understood about this.

Firstly, the Highland group other than Ramu Nickel Limited, the wholly owned subsidiary which holds our interest in Ramu has no liability for that debt. While that subsidiary confines its activities to its holding in Ramu the debt can and will only be repaid from cash flow arising out of the Ramu Project.

Secondly, we are leveraged significantly to an increase in commodity prices. With the benefit of hindsight some might say that in the circumstances we would have been better off to delay our nomination into the Ramu Project. The plain fact is that had we delayed nomination for 12 months our debt would be around a million dollars higher than what it in fact was as at 31 December 2015, notwithstanding the low prices that we achieved during 2015. Had prices been in accordance with consensus forecasts the reduction in debt would have been three times greater.

Apart from challenging prices we have had to face the personal and financial consequences of the tragic death at Basamuk in April. While we do not have control over the operations at Basamuk we feel as keenly as if we did the tragic loss of life and the serious injury suffered by Ramu personnel. The plant must be closed until a full review of the causes of this tragedy has been completed and appropriate procedures are approved and designed to ensure that it never happens again. We are providing whatever support we can to our Ramu partner MCC to assist and accelerate this process.





### **Frieda River**

Highlands has today released to the ASX an announcement with respect to the Frieda River Project. The announcement relates to the “Frieda River Project Feasibility Study” (the **Study**) received from PanAust Limited (**PanAust**), a wholly-owned subsidiary of Guangdong Rising Assets Management Co Ltd (**GRAM**).

### **Star Mountains**

By contrast with some of the challenges we are dealing with elsewhere we are very pleased with the developments at Star Mountains. At the last AGM I announced a 4 hole 3000 metre exploration drilling program had begun. In fact we have completed 9 holes with a total drilling length of 5387 metres. The program has confirmed the presence of copper gold mineralisation at the two prospects which were the focus of the program.

Since the beginning of this year additional exploration has been carried out including an air-borne electrical resistivity survey completed during the first quarter. The survey was flown over more than 3300 line kilometres. The results are under analysis at the moment and will assist in the development of further exploration targets. As we have also reported, extensive field work has continued this year including tenement mapping, rock chip and soil sampling as well as stream sediment sampling.

As shareholders will be aware Anglo American Plc. can earn 51% interest by spending US\$25 million on exploration over a 4 year period from 2015 and to establish a JORC compliant resource of 3 million tonnes of contained copper equivalent within 5 years. To date Anglo American have expended approximately thirteen and a half million.

In addition Anglo can earn an 80% interest by completing and funding the bankable feasibility study within 15 years.

### **Sewa Bay**

During 2015 in conjunction with Sojitz funding a second auger exploration program, a higher grade zone covering roughly 7km<sup>2</sup> grading greater than 1% nickel was delineated. As a next phase of exploration a 55 hole diamond drill program was proposed but due to the sustained low nickel prices at present Sojitz and their partner Pacific Metals have decided to not go ahead with the funding. This is a significant nickel laterite discovery and could have value in the future as a direct shipping operation or with synergies to the Ramu nickel operation as auxiliary feed for the plant at Basamuk.

We are hoping that our excellent working relationship with Sojitz will result in further joint activities in the future.



## **Corporate**

We have cash at bank as at the end of April of US\$13.1 million. As announced in our quarterly report the Board has decided to suspend the company's short term incentive executive remuneration for 2016 in order to preserve cash resources, to ensure we can survive and prosper through the challenges currently being thrown at us. While we have contingency plans for further cost reductions they would carry with them a lesser ability for Highlands to handle some of the challenges we need to deal with but rest assured we are keeping the situation under review board meeting by board meeting. It is our intention to ensure that the company and therefore all of its shareholders will be properly positioned to enjoy the fruits of its patience and discipline when market conditions become more favourable. As I said at the outset patience and discipline are the watchwords that we go by.

I thank you for your patience and discipline, as indeed I thank our management as they toil to ensure the company is as well positioned as possible for the future.

## **Forward-Looking Statements**

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



**ASX Code: HIG**  
**PoMSox Code: HIG**  
**Shares on Issue: 928 million**  
**Performance Rights: 30 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  
 Peter Jolly, GM Projects  
 Ron Gawi, GM Port Moresby  
 Leslie Nand, GM Exploration Projects  
 Joe Dowling, GM Investor Relations and Communications

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**[www.highlandspacific.com](http://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 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 in the Star Mountains. Highlands also has exploration tenements 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. The joint venture with partner Anglo American substantiates the world class potential and has enabled an extensive exploration program to be commence in 2015.

#### **Ramu Nickel Cobalt Mine**

The producing Ramu nickel cobalt 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. The project's operator and majority owner is Hong Kong and Shanghai listed Metallurgical Corporation of China Limited (MCC).

#### **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 Frieda River Limited (FRL) (a wholly owned subsidiary of PanAust Limited which in turn is a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd.) holds 80%. FRL will be responsible for 100% of the costs incurred by the Frieda River Joint Venture to finalise the definitive feasibility study for FRL's development concept and fund the cost of an independent expert to be appointed by the joint venture to provide a peer review. FRL 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 lodgment of the Mining Lease or Special Mining Lease application with the requisite definitive feasibility study.

\* 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.