

# HIGHLANDS PACIFIC QUARTERLY REPORT

JUNE 2009



Construction at Basamuk Refinery with acid storage tanks in the foreground  
Ramu Nickel-Cobalt Mine-Papua New Guinea

## KEY POINTS

### **RAMU NICKEL PROJECT (8.56% WITH POTENTIAL TO MOVE TO 20.55%)**

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- Project fully funded and on budget for a total cost of US\$1.4 billion.
- Project expenditure for the quarter was US\$130 million and approximately US\$930 million to date.
- Construction on schedule for completion by end of 2009,
- Commissioning on schedule to start before the end of 2009.
- All major equipment has been purchased, shipped to site and is in the advanced stage of installation. This includes autoclaves, flash vessels, acid plant, power generators, thickeners, pumps and major valves
- Major earth works and foundations at refinery and mine site completed and many prefabricated structures are being erected simultaneously at both locations.
- Second and third autoclaves shipped and positioned during the quarter.
- The 135km slurry pipeline is more than 98.5% joined.
- Calm has continued on site since mid May and construction activities are ongoing as planned.

### **FRIEDA COPPER / GOLD PROJECT (16.9%)**

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- Project in pre-feasibility stage.
- US\$8.92m expenditure for the quarter with Highlands free carried.
- Expenditure of US\$16.92 million year to date against a budget of US\$17.7 million.
- Upgraded resource model expected in December 2009 with a number of holes from the 2009 drilling program extending beyond the current resource model, to be included.
- 24,045m drilled year to date (11,979m drilled for the quarter) – latest drilling results released on 30 June 2009.
- Initial draft pre-feasibility study on potential hydroelectric power generation completed and under review.
- Annual project sustainability report completed and released in early April.
- The 2008 Extended Scoping Study envisaged 40Mtpa being mined over 27 years producing copper concentrate averaging approximately 600kt for the first 10 years then decreasing to an average of approximately 450kt for the balance of 27 years of mine life, with an average concentrate grade of 31%. Project delivering 4.29Mt copper metal (160,000tpa) and 6.41Moz gold (240,000 oz pa) with C1 cash costs of US26 cents per pound at a gold price US\$700/oz.
- Higher throughput rates are now being considered as part of pre-feasibility study.
- Highlands' share of costs until completion of a Feasibility Study to be fully funded by Xstrata.

### **EXPLORATION**

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- Continued review on the Wau-Bulolo area (EL 1340) containing the Yangalemu and Kobiak prospects.
- EL 1392 Tifalmin has been released from the Nong River Joint Venture Agreement with Xstrata Copper and Highlands has taken ownership of 100% of the license. The EL covers prospective ground to the south of the Highlands – Xstrata exploration joint venture ground at Nong River (EL 1312) and is located 20km to the north east of the Ok Tedi mine. Geotechnical and geophysical surveys carried out in the past have identified significant copper and gold anomalies that will be followed up on by Highlands.

### **CORPORATE – CASH RESERVES \$US23.3 MILLION**

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- Cash reserves at the end of the quarter of US\$23.3 million (or AU\$28.8 million) – funds held in both AUD and USD holdings.
  - Six surplus residential properties located in Madang, PNG, sold during the quarter for approximately US\$1 million.
  - Management continues to review projects and corporations with a focus on gold and base metals in the Australasia Pacific region.
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## **RAMU PROJECT**

(HIGHLANDS PACIFIC: 8.56%)

MCC Ramu NiCo Limited (owner of 85% of the Ramu Nickel Cobalt project) and 100% owned subsidiary of China Metallurgical Construction Corporation (MCC) is the project manager for the project. The project remains on track for the targeted completion of construction by the end of 2009 and on budget with a total cost of US\$1.4 billion. Since early May when a worker was injured in a project-related incident, strong community support has seen construction activities continue as planned without disruption.

Expenditure to date is US\$930 million and the project is fully funded, with expenditure for the quarter US\$130 million.

Highlights for the quarter included the following:

- Major earth works and foundations at refinery and mine site completed and many prefabricated structures are being erected simultaneously at both locations.
- Second and third autoclaves shipped and positioned during the quarter (April).
- All major equipment has been purchased, shipped to site and is in an advanced stage of installation. Equipment used is from world renowned suppliers to the industry including, autoclaves (Morimatsu), autoclave pumps (Wirth), autoclave stirrers and seals (Ekato), autoclave valves (Mogas), thickeners (FSSmith), power generators (Wartsilla), filters (Larox) and Volvo excavators and trucks for mining.
- The 135km slurry pipeline is more than 98.5% joined with only a small section of 2km remaining to be joined. After joining is completed pumps and the monitoring system will then be installed and commissioned.
- Madang offices and accommodation complex completed and now operational.
- A detailed commissioning plan has been developed and 144 managerial, technical and operational employees have been recruited.
- Production operational procedures and safety procedures have been developed.

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

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

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

## **FRIEDA RIVER PROJECT**

(HIGHLANDS PACIFIC: 16.9%)

Highlands Pacific is exploring the Frieda porphyry copper/gold deposit in joint venture with Xstrata Frieda River Limited (Xstrata) and OMRD Frieda Co. Limited (OMRD). Xstrata is funding Highlands' share of the expenditure until completion of the Feasibility Study. The project progressed into the pre-feasibility stage at the beginning of 2009.

The Extended Scoping Study was completed in December 2008 and defined an execution model with the following configuration:

- Open pit operation at Horse-Ivaal-Trukai mining 40Mtpa with a LOM strip ratio of 0.96;
- A two line concentrator delivering concentrate to be exported via a pipeline to a new port on the north coast of PNG;
- Copper concentrate production averaging approximately 600kt for the first 10 years then decreasing to an average of approximately 450kt for the balance of 27 years of mine life, with an average concentrate grade of 31%;
- On site hydro power generation;
- Construction commencing in 2012;
- Production commencing in 2016; and the
- Project delivering 4.29Mt copper metal (160,000tpa) and 6.41Moz gold (240,000 oz pa) with C1 cash costs of US26 cents and a gold price of US\$700/oz.

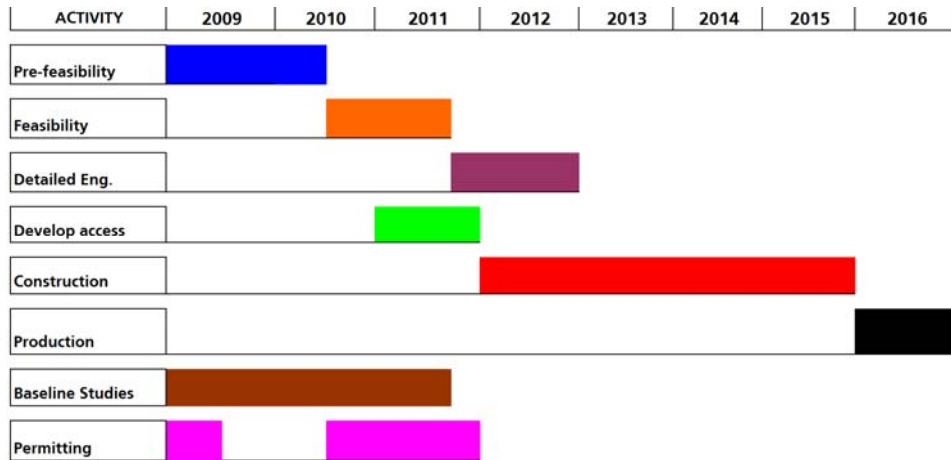
The 2009 Pre-Feasibility Study program includes the following activities:

- 35-37,000m of drilling – consisting of infill drilling, metallurgical sampling, waste rock characterisation, generation of geotechnical data for pit wall design and sterilisation drilling for infrastructure sites;
- Revised resource estimate (due in approximately December 2009);
- Preparation work for the mine plan and schedule;
- Flotation test work on Nena ores;
- Preparation for pilot plant;
- Engineering design work on the hydro-electric dam including geotechnical evaluation;
- Environmental baseline monitoring;
- Re-estimation of capital cost estimation for the Extended Scoping Study; and
- Community affairs work aimed at resolving outstanding land ownership claims.

Work completed year to date includes the following:

- Initial draft pre-feasibility study on potential hydroelectric power generation completed and under review;
- Appointment by Xstrata (as the manager of the project) of Bechtel to provide technical services in relation to the overall project evaluation;
- 24,045m drilled year to date (11,979m drilled for the quarter) – latest drilling results released on 30 June 2009;
- Expenditure of US\$16.92 million year to date against a budget of US\$17.7 million. US\$8.92m expenditure for the quarter
- Annual project sustainability report completed and released; and
- 220 personnel employed on site at the end of June.

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



The project covers Exploration Licences 58 and 1212 and the Nena Deposit which is subject to Xstrata making a further option payment of US\$10.8million to Highlands. The project is a Joint Venture between Xstrata 76.2%, HPL 16.9% and OMRD 6.9%. To retain its interest in the project, Xstrata must complete a Feasibility Study by January 2012.

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Forward Looking Statements

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

# ATTACHMENT 1

## LIST OF MINING TENEMENTS

Tenement Reference	Beneficial Interest at Commencement of Period	Beneficial Interest at End of Period
Exploration (Highlands Pacific Resources Limited) ELs 1277 (transferred in April 2009) and 1340	100% Note 1	100% Note 1
Frieda River Project (Highlands Frieda Limited) ELs 0058 and 1212 EL 1312 EL 1392 ELAs 1654, 1655, 1656, 1657, 1658 and 1659	16.9% Note 1, 2 28% Note 1, 3 28% Note 1, 3 16.9% Note 1	16.9% Note 1, 2 28% Note 1, 3 100% Note 1 16.9% Note 1
Ramu Project (Ramu Nickel Limited) SML 8 ML 149 LMPs 42, 43, 44, 45, 46, 47, 48 and 49 MEs 75, 76, 77, 78 and 79 ELs 193 and 1178	8.56% 8.56% 8.56% 8.56% 8.56%	8.56% 8.56% 8.56% 8.56% 8.56%

## NOTES

- Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country.
- Highlands Pacific retains an 89.22% interest in the Nena Deposit (part of EL 0058), which is subject to an Option Agreement with Xstrata.
- Highlands Pacific holds 28% of the Nong River EL's – EL1312 and EL 1392, however during the quarter Xstrata Frieda River Limited elected to forego its 72% interest in EL 1392 and Highlands took this interest up.
- Definitions:
  - EL - Exploration Licence
  - ELA - Exploration Licence Application
  - SML - Special Mining Lease
  - ML - Mining Lease
  - LMP - Lease for Mining Purpose
  - ME - Mining Easements

## APPENDIX 5B

### MINING EXPLORATION ENTITY QUARTERLY REPORT

Name of entity

HIGHLANDS PACIFIC LIMITED

ACN or ARBN

ARBN 078 118 653

QUARTER ENDED ("CURRENT QUARTER")

30 JUNE 2009

**NOTE:** As Highlands operating and mining development decisions are based on US dollars, Highlands Directors have adopted the US dollar as Highlands functional and management reporting currency. For ease of understanding by the Australian and PNG investment communities, results have been converted, in this report, to \$A at the rate ruling at the end of the quarter of \$A/\$US 0.8114.

#### CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter \$US'000	Current quarter \$A'000	Year to date (6 months) \$US'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>				
1.1 Receipts from product sales and related debtors	4	5	18	22
1.2 Payments for:				
(a) exploration and evaluation	(36)	(44)	(321)	(396)
(b) development	-	-	-	-
(c) production	-	-	-	-
(d) administration	(1,212)	(1,494)	(1,966)	(2,423)
1.3 Dividends received	-	-	-	-
1.4 Interest and other items of a similar nature received	170	210	238	293
1.5 Interest and other costs of finance paid	-	-	-	-
1.6 Income taxes paid	(8)	(10)	(8)	(10)
1.7 Other	-	-	-	-
<b>Net Operating Cash Flows</b>	<b>(1,082)</b>	<b>(1,333)</b>	<b>(2,039)</b>	<b>(2,513)</b>
<b>Cash flows related to investing activities</b>				
1.8 Payment for purchases of:				
(a) prospects	-	-	-	-
(b) equity investments	-	-	-	-
(c) other fixed assets	15	18	15	18
1.9 Proceeds from sale of:				
(a) prospects	3,000	3,697	3,000	3,697
(b) equity investments	-	-	-	-
(c) other fixed assets	1,014	1,250	1,014	1,250
1.10 Loans to other entities	-	-	-	-
1.11 Loans repaid by other entities	-	-	-	-
1.12 Other	-	-	-	-
<b>Net investing cash flows</b>	<b>4,029</b>	<b>4,965</b>	<b>4,029</b>	<b>4,965</b>
1.13 Total operating and investing cash flows (carried forward)	2,947	3,632	1,990	2,453

<b>Cash flows related to financing activities</b>					
1.14	Proceeds from issues of shares, options, etc	-	-	-	-
1.15	Proceeds from sale of forfeited shares	-	-	-	-
1.16	Proceeds from borrowings	-	-	-	-
1.17	Repayment of borrowings	-	-	-	-
1.18	Dividends paid	-	-	-	-
1.19	Other	-	-	-	-
	<b>Net financing cash flows</b>	-	-	-	-
	<b>Net increase (decrease) in cash held</b>	2,947	3,632	1,990	2,453
1.20	Cash at beginning of quarter/year to date	19,199	27,934	20,266	29,252
1.21	Exchange rate adjustments to item 1.20 - unrealised	1,202	(2,791)	1,092	(2,930)
1.22	<b>Cash at end of quarter</b>	<b>23,348</b>	<b>28,775</b>	<b>23,348</b>	<b>31,705</b>

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

	Current quarter		
	\$US'000	\$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	70	86
1.24	Aggregate amount of loans to the parties in item 1.10	nil	nil
1.25	Explanation necessary for an understanding of the transactions		
	Refer Quarterly Report		

**Non-cash financing and investing activities**

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

### Financing facilities available

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

### Estimated cash outflows for next quarter

	\$US'000	\$A'000
4.1 Exploration and evaluation		
Wau/Bulolo	25	31
Frieda River (to be funded by joint venturer)	-	-
Other	-	-
<b>Total Exploration and evaluation</b>	<b>25</b>	<b>31</b>
4.2 Development		
Ramu (to be funded by joint venture)	-	-
Other	-	-
<b>Total Development</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>25</b>	<b>31</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter	Current quarter	Previous quarter	Previous quarter
	\$US'000	\$A'000	\$US'000	\$A'000
5.1 Cash on hand and at bank	2,440	3,007	871	1,267
5.2 Deposits at call	-	-	-	-
5.3 Bank overdraft	-	-	-	-
5.4 Other short-term deposits	20,908	25,768	18,328	26,667
<b>Total cash at end of quarter (item 1.22)</b>	<b>23,348</b>	<b>28,775</b>	<b>19,199</b>	<b>27,934</b>

### Changes in interests in mining tenements

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

**Issued and quoted securities at end of current quarter**

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

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 Preference + securities <i>(description)</i>				
7.2 Issued during quarter				
7.3 + Ordinary securities	652,402,148	652,402,148		
7.4 Issued during quarter				
+ Convertible debt securities <i>(description and conversation factor)</i>				
7.5				
7.6 Issued during quarter				
7.7 Options <i>(description and conversation factor)</i>	Refer Attachment A		<u>Exercise Price</u>	
Project Financiers	32,144,483	Nil	AUD 0.54	Nil
Directors' and Executives' Option Incentive Scheme	27,250,000	Nil	Refer attached	Nil
Other Investors	43,025,908	Nil	Refer attached	Nil
7.8 Issued during quarter	3,000,000	Nil	Refer attached	Nil
7.9 Exercised during quarter	Nil	n/a	n/a	n/a
7.10 Expired & lapsed during quarter	Nil	Nil	n/a	Nil
7.11 Debentures <i>(totals only)</i>	Nil	Nil		
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil		

## COMPLIANCE STATEMENT

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



Sign here: .....  
(Director/Company Secretary)

Date: 22 July 2009

Print name: C T LENNON

### Notes

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

# ATTACHMENT A

## HIGHLANDS PACIFIC LIMITED APPENDIX 5B – ITEM 7.7

### OPTIONS (DESCRIPTION AND CONVERSION FACTOR)

Outstanding at the end of the quarter	Issued	Exercised
Exercise Price	A\$0.54	
Number of Options	11,144,483	Nil
Expiry Date	31 December 2009	
Exercise Price	A\$0.423	
Number of Options	1,000,000	Nil
Expiry Date	31 July 2010	
Exercise Price	A\$0.50	
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	
Exercise Price	A\$0.55	
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	
Exercise Price	A\$0.60	
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	
Exercise Price	A\$0.65	
Number of Options	10,756,477	Nil
Expiry Date	4 May 2010	
Exercise Price	A\$0.175	
Number of Options	2,500,000	Nil
Expiry Date	19 July 2010	
Exercise Price	A\$0.175	
Number of Options	200,000	Nil
Expiry Date	31 July 2011	
Exercise Price	A\$0.155	
Number of Options	10,000,000	Nil
Expiry Date	21 May 2010	

Outstanding at the end of the quarter	Issued	Exercised
Exercise Price	A\$0.20	
Number of Options	21,000,000	Nil
Expiry Date	21 Aug 2010	
Exercise Price	A\$0.175	
Number of Options	3,800,000	Nil
Expiry Date	12 Dec 2010	
Exercise Price	A\$0.30	
Number of Options	3,390,000	Nil
Expiry Date	28 Feb 2013	
Exercise Price	A\$0.13	
Number of Options	2,000,000	Nil
Expiry Date	19 July 2011	
Exercise Price	A\$0.078	
Number of Options	1,360,000	Nil
Expiry Date	29 Jan 2014	
Exercise Price	A\$0.078	
Number of Options	2,000,000	Nil
Expiry Date	29 Jan 2014	
Exercise Price	A\$0.117	
Number of Options	1,000,000	Nil
Expiry Date	26 Jun 2012	

Options expired or lapsed during the quarter

	Issued
Exercise Price	A\$0.435
Number of Options	100,000
Expiry Date	30 Jun 2009

Options issued during the quarter.

	Issued
Exercise Price	A\$0.078
Number of Options	2,000,000
Expiry Date	29 Jan 2014
Exercise Price	A\$0.117
Number of Options	1,000,000
Expiry Date	26 Jun 2012

No options were exercised during the quarter.