



19 January 2017

Frieda River Feasibility Study Review Received

Highlands Pacific Ltd (ASX:HIG) has received the independent peer review of the feasibility study (FS) for the Frieda River copper gold project proposed for development in Papua New Guinea.

The peer review was conducted by international minerals industry consulting group Behre Dolbear Australia (BDA), following the preparation of the FS by PanAust Limited (PanAust), a wholly-owned subsidiary of Chinese company Guangdong Rising Assets Management Co Ltd.

PanAust, the manager and majority owner (80%) of the Frieda River project, released the project FS in May 2016.

BDA was engaged to provide feedback and peer review of the FS in accordance with the Frieda River joint venture agreement between PanAust and Highlands. Following the initial review, BDA also considered information subsequently provided by PanAust in November 2016 covering various aspects of the proposed development and dealing with deficiencies identified by BDA in the May 2016 project FS. BDA states that it has been advised of additional information that PanAust is working on and intends to provide when completed as part of the update to the FS report.

(Refer announcement dated 19 May 2016 for full details of the FS).

In its review of the FS, BDA reached the following conclusions:

- the proposed mining is conventional and has been reasonably estimated and costed and sufficient metallurgical testwork has been conducted to provide reasonable confidence in the proposed flow-sheet design and projected performances and costs;
- environmental and community issues and risks have been identified and, subject to project and Environmental Impact Study approval, reasonable measures and strategies have been provided to deal with them appropriately;
- facilities designed for the storage of waste materials and mine tailings have been proposed and reasonable options provided for disposal, generally consistent with industry practice;
- infrastructure components, including site access, power and water have been designed to service the proposed mining and processing facilities, and the facilities are sized appropriately for the scale of operations proposed, similar to provisions in comparable operations elsewhere;
- the FS demonstrates technical feasibility and (subject to completion of amendments and updates currently being worked on by PanAust), is of a standard that could be presented to financial institutions for expressions of interest in funding the project albeit subject to numerous condition precedents which would cover the satisfactory completion of further detailed definition (and de-risking of the project). Highlands is of the view that this additional detail definition and de-risking work is required in the current FS and until this work is completed the FS is incomplete; and



- the submission of the full Addendum report and all supporting documentation would mark the completion of the FS as required under the terms of the joint venture agreement. Highlands disagrees with this conclusion as detailed above and also based on the points raised below.

The report stated that there remained areas of significant uncertainty and risk, primarily related to infrastructure and utilities, and principal amongst these the proposed integrated storage facility (ISF) and hydro dam.

- BDA stated that the 12.5% capital cost contingency allowance included in the capital estimate, which cannot be reconciled to the external management consultant report on overall contingency, may be insufficient as the standard of engineering on which the estimate is based is not consistent with industry standards for final feasibility studies. External management consultants recommended a significant increase in the contingency, however this has not been included in the current FS by PanAust, and BDA has recommended the contingency estimate be reviewed;
- BDA said the currently proposed six year project schedule was considered to be tight, due to remoteness and difficulty of the Frieda River site and the complexity in managing the project. BDA believes that a schedule contingency is warranted, as external consultants had suggested that the most likely outcome was a schedule of around 7.5 years; and
- BDA identified that the principal risk associated with the ISF location is the embankment foundation conditions and the possible remediation works required. They suggested that further site investigations are required to better define these foundation works and the costs involved.

However, BDA is of the view that it is possible that more attractive or lower risk starter-projects could be investigated to provide a more readily-financeable, economically robust project with lower levels of risk. The identification and definition of such alternatives will in their view likely be the subject of ongoing studies that would be designed to move the project to a more compelling development option.

BDA suggested that there are possible alternatives that may have the potential to significantly improve the economics of the project, including;

- “third party” construction of the integrated storage facility (ISF), providing toll hydro power to the project, as well as tailings containment and storage;
- alternative third party-provided power supply solutions;
- a significantly smaller initial project, designed to establish operations at minimal capital and risk, expandable in the future; and
- development of the Nena deposit as a low impact, small footprint “starter” operation.



Highlands Pacific Managing Director Craig Lennon welcomed the BDA review as an important contribution to the ongoing development of the proposed Frieda River project.

“Through this process BDA has identified a range of initiatives to improve the quality and completeness of the FS, as well as raising a number of possible alternative development options that may potentially improve the economics of the project.”

“We will be working with our joint venture partner to explore ways to extract maximum value from the Frieda River project for the benefit of all the stakeholders.”

“While progress continues to be made in the completion of the FS, Highlands remains of the view that the document still requires further work to achieve the required standard obligated by the joint venture agreement and expected for a project of the complexity of Frieda River,” he said.

Highlands will be seeking to resolve issues with PanAust regarding the funding of project development and the effective completion of work required under the FS as defined in the joint venture agreement.

**For further information, please contact:
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ASX Code: HIG

PoMSox Code: HIG

Shares on Issue: 933 million

Performance Rights: 22 million

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Craig Lennon, Managing Director
Mike Carroll
Dan Wood
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About Highlands Pacific Limited

Highlands Pacific is a mining and exploration company registered and incorporated in PNG and listed on the Australian and Port Moresby stock exchanges. Highlands has a long history of successful exploration and project development in PNG. The Company was formed in 1997 and has since established an impressive suite of projects providing investors with leveraged exposure to copper, nickel and gold. Its major assets are interests in the producing Ramu nickel cobalt mine and the Frieda River copper gold project, with exploration in progress at the highly prospective Star Mountains tenements. Highlands also has exploration territory on Normanby Island (Sewa Bay), at the south eastern tip of PNG. Through the efforts of its highly experienced staff, the Company is committed to the responsible development of mining projects for the benefit of all its stakeholders, including shareholders, landowners, business partners and the broader PNG community.

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. The Star Mountains project is held within a joint venture with partner Anglo American plc.

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.

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.) 80%.