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MD on Frieda Resource

Open Briefing with MD John Gooding



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*Highlands Pacific Limited (ASX: HIG) has emerging copper/gold and nickel cobalt projects in PNG with major global partners Xstrata Plc and China Metallurgical Construction Corporation (MCC).
Market cap \$178 million.*

In this Open Briefing[®] John discusses:

- Frieda River Project resource upgrade, implications
- Resource characteristics, development potential
- Time line for BFS

Open Briefing interview:

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Highlands Pacific Limited (ASX: HIG) and its joint venture partner Xstrata Copper today announced a new estimate of the total resource for three deposits at the Frieda River copper/gold project (HIG 18.18%, Xstrata 81.82%) of 2.09 billion tonnes at a grade of 0.45% copper and 0.22 g/t gold on a measured, indicated and inferred basis. This is an upgrade from the previous estimate of 1.9 billion tonnes. What are the implications of the updated estimate for the development of Frieda?

MD John Gooding

The resource equates to 9.4 Mt of contained copper and 14.8 Moz of contained gold from just the Horse, Ivaal and Trukai deposits, which are the subject of the Bankable Feasibility Study (BFS) being completed by Xstrata.

The resource is very significant on three levels. First, it showcases Frieda as one of world's largest near term copper projects. Second, it's one of the last elements required before the BFS is delivered in January 2012. And third, the highlight of the resource is the size of the measured resource category – the highest confidence resource category under the JORC code – which at 780 Mt, or effectively 13 years worth of operations, is I believe a differentiating factor among the host of emerging copper projects.

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How significant is the resource announced today for obtaining project finance for Frieda?

MD John Gooding

The size of the measured resource is vital if you want to show you have a robust resource model capable of being financed. To get to measured status can take tens of millions of dollars of drilling. In the case of Frieda, Xstrata has spent almost US\$250 million and free-carried Highlands through an extensive drilling program. The great thing about Frieda is that 780 Mt at a copper grade of 0.51% and gold grade of 0.28g/t are in this highest confidence resource category which means a financier can plan with confidence for at least 10 years of what I have little doubt will be a 30- plus year mine life.

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The Frieda resource upgrade is based on a “constrained” resource. What is the rationale for making this distinction?

MD John Gooding

The Horse, Ivaal and Trukai deposits stretch along a strike length of about 2 km and the resources have been calculated on the basis of an economic pit shell using copper and gold price assumptions. If you didn’t want to constrain the resource to an economic pit shell, it would be an “unconstrained” resource. This is important in comparing different projects that are yet to undertake such resource modelling.

At Frieda we’ve seen and reported copper intersections nearly 1 km from the surface, or some 300 to 400 m below or outside the current pit shell, but a number of these have been disregarded for the purposes of the resource model. This to some extent under-estimates the copper mineralisation envelope in the area.

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What are the implications of the Horse, Ivaal and Trukai resource for the potential of the broader Frieda project?

MD John Gooding

If you look beyond Horse, Ivaal and Trukai to the other deposits within a 15 km radius, there are another 300 Mt of indicated and inferred resource at the Nena and Koki deposits consistent with a copper porphyry cluster. This means the district resources stand at close to 12 Mt of contained copper and 18 Moz of contained gold. Deposits like Nena have not been drilled since 2006 and the last resource statement showed 51 Mt at 2.43% copper and 0.57 g/t gold.

We believe Frieda is the best near term major copper project in the world. Research suggests there are only 10 or so other undeveloped copper projects in the world with resources greater than 10 Mt of contained copper. Of these, three are lower in grade and three are underground and a number are in less supportive jurisdictions or are yet to jump the hurdles of pre-feasibility studies (PFS). In terms of annual production, based on PFS assumptions of 246,000 tpa of copper in the first eight years, Frieda could be in top 10 copper mines this decade.

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As part of its joint venture agreement on the Frieda project, Xstrata also has an option to acquire an 81.82% interest in the adjacent Nena deposit (HIG 100%) by paying Highlands US\$10.8 million. What are Xstrata’s intentions regarding this option and when does it expire?

MD John Gooding

Nena is a classic porphyry epithermal high grade system. At 2.43% copper, it provides optionality value for the project and could make a material difference to production in future years. Just 5 Mtpa from Nena could be an extra 100,000 tpa of copper. Xstrata can at any time before 23 January 2012 elect to exercise its option and incorporate Nena into the Highlands/Xstrata Frieda Joint Venture.

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What are the next steps in the development of the Frieda project?

MD John Gooding

With the resource now updated, Xstrata can look to finalise the BFS, which under the terms of the joint venture agreement must be completed by 23 January 2012 for Xstrata to maintain its 81.82% interest in the project.

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Highlands will be free-carried by Xstrata on the Frieda project up until the completion of the BFS. Post-BFS, how is Highlands planning to finance its share of the project?

MD John Gooding

The joint venture agreement is structured such that Xstrata is to provide funding assistance to us, either including Highlands in its project financing or providing a completion guarantee to our financiers. The PFS showed an economically robust project and one that we believe could target a funding structure incorporating 60 to 70% debt. We also have the ability to market our share of the concentrate which given its very clean nature has gained a lot of market interest to date and is potentially a very valuable asset.

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Thank you John.

For more information on Highlands Pacific, visit www.highlandspacific.com or call John Gooding or Craig Lennon on +61 7 3239 7800

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