



ASX Release: 29 October, 2010

## Quarterly Activities Report - for the period ended 30 September 2010

ASX Code: HIG

Shares on Issue: 683 million

Options on Issue: 25 million

Shareholders: ~8,700

*60 Mtpa Frieda Copper Gold  
Pre-feasibility Study to be  
released in Sept quarter*

*Star Mountain drilling  
program underway*

*Ramu project DSTP  
construction progresses*

### Directors

Ken MacDonald, *Chairman*

John Gooding, *Managing Director*

Drew Simonsen

Mike Carroll

Dan Wood

Fiu Williame-Igara

### Management

Craig Lennon, *CFO & Co.Sec*

Terry Smith, *GM Mining & BD*

Larry Queen, *Chief Geologist*

Peter Jolly, *GM Technical*

### HIGHLIGHTS

#### ***Ramu Nickel (8.56% with potential to move to 20.55%)***

- Project fully funded with no recourse to Highlands.
- Project construction and commissioning nearing completion with work on Deep Sea Tailings Placement (DSTP) system to recommence following lifting of temporary injunction.
- Operation of DSTP subject to future PNG court hearing early next year.

#### ***Frieda Copper Gold Project (18.18%)***

- US\$22.5m expenditure for the quarter (US\$54.7 million 2010 year to date) with Highlands free carried.
- 14,662 metres drilled for the quarter (39,703m drilled 2010 year to date). A total of 11 drill rigs are currently drilling on the project.
- Drilling database closed off for December 2010 resource update – 111 new drill holes to be included for 38,205m of drilling.
- Xstrata-compiled Frieda Pre-feasibility Study nearing completion, with report due in coming weeks. Pre-feasibility Study to be based on a 60mtpa throughput model for the first eight years of production (compared to 40Mtpa in Scoping Study).

#### ***Exploration***

- Drilling at the Star Mountain area (Tifalmin EL 1392 and Nong River EL 1312) commenced in August 2010 at the Olgal prospect.
- First hole reached 302m (assays due in mid November) while second hole reached 500m (assays pending late November).
- Airborne electromagnetic and LIDAR surveys to commence in November weather permitting.

#### ***Corporate:***

- Cash reserves at the end of the quarter of US\$21.4 million (or AU\$22.1 million).



***For further information, please contact:***

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**Website: [www.highlandspacific.com](http://www.highlandspacific.com)**

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**SUMMARY COMMENTS by Managing Director John Gooding**

“The start of drilling at the Olgal prospect in the Star Mountains has been a real highlight for the quarter. There will be a steady flow of drilling results over the next quarter as the company now awaits assays for the first two holes.

We plan to release the results from the Frieda Pre-feasibility Study in early November once it has been officially completed by the manager, Xstrata Copper. This will be a significant step for the project and Highlands.

For Ramu, the lifting in late September of the interim injunction on the construction of the DSTP system means construction and commissioning can now be completed of this world class nickel project. Full operation, pending a successful legal hearing in January 2011, could see production in March next year.

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## About Ramu Nickel Cobalt Project

**Location:** Ramu is located 75 km west of the provincial capital of Madang, PNG.

**Resource:** An updated feasibility study released in 2007 showed 3.4 mtpa at 1.01% Nickel and 0.10% cobalt to sustain a minimum 20 year mine life. The mineral resources at Ramu have the potential to increase the mine life by a further 15-20 years.

**Production:** The Basamuk treatment plant will have an annual production of 31,150 tonnes of nickel and 3,300 tonnes of cobalt.

**Share:** Highlands' share of product based on its 8.56% share is 2,666 tpa of nickel and 282 tpa of cobalt, rising to 3,520 tpa of nickel and 373 tpa of cobalt when equity increases to 11.30%.

**Equity:** Highlands has an 8.56% interest in the Ramu project which will increase to 11.3% at no cost to the Company after repayment of the debt raised to finance the project has been completed from operating cash flow (estimated to be 8 years). Highlands also has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%.

It should be noted that the development of the Ramu project will be non-recourse to Highlands with respect to the debt funding and Highlands' equity interest is free carried.

From commissioning, Highlands is able to have access to its pro-rata 8.56% share of Ramu's post-debt servicing net cash flow.

## RAMU NICKEL PROJECT (8.56% with potential to move to 20.55%)

In March the National Court of Madang, PNG, issued an interim injunction preventing the project from installing and operating a Deep Sea Tailings Placement (DSTP) system. Some six months later in late September this interim injunction was lifted when the plaintiffs discontinued their proceedings.

A further application for the same interim injunction was made in September by a new party; however the court refused this application on 22 October. The court ruled that the project can build and commission the DSTP system; however no tailings are to be discharged until the outcome of a substantive hearing in January 2011.

The project is fully funded and any increase in final costs due to the court case has no recourse to Highlands.

MCC Ramu NiCo Limited owns 85% of the Ramu Nickel Cobalt project and is a 61% owned subsidiary of the Hong Kong and Shanghai listed Metallurgical Corporation of China Limited (MCC) which through its 100% owned Ramu NiCo Management (MCC) Limited is the project manager.

Metallurgical Corporation of China Limited (MCC) (Fortune 500 Company) is China's multidisciplinary multinational company, well known for its significant experience and strength in scientific research, industrial engineering practice and international trading. MCC are engaged in engineering, procurement and construction activities, mining, papermaking, equipment fabrication, real estate development and the provision of related services.

MCC 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, including Australia. In 2009, the company had total assets of approximately US\$8 billion, revenues of US\$23 billion and 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 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.



## About Frieda River Copper Gold Project

**Location:** The Frieda River project is one of the world's largest undeveloped copper/ gold resources.

**Owners:** The project owners are Xstrata Frieda River Limited (81.82%) and Highlands (18.18%). Highlands has a free-carried interest in the Frieda project through to completion of a Bankable Feasibility Study (required to be completed by January 2012).

The adjacent Nena project is 100% owned by Highlands, however Xstrata have an option to move to the same percentage as above by paying Highlands US\$10.8m.

**Studies:** The project has currently completed an 18-month pre-feasibility study with the next step being a bankable feasibility study.

Studies to support an Environmental Impact Assessment are nearing completion.

**2009:**  
Xstrata's actual expenditure for 2009 was US\$38.0 million.

37,388m drilled in the 2009 year.

**2010:**  
Budgeted expenditure US\$77.5 million with 50,000m of drilling planned.

## Frieda River copper / gold project (18.18%)

- Pre-feasibility Study nearing completion. The multi volume study is due to be released shortly by the manager, Xstrata Copper, and Highlands will then prepare the key points for release to the market.
- US\$22.5m expenditure for the quarter (US\$54.7 million 2010 year to date) with Highlands free carried. Budget US\$77.5m for the 2010 year.
- 14,662m drilled for the quarter (39,703m 2010 year to date).
- A total of 11 drill rigs are currently drilling on the project – five rigs are working on resource drill out, three on the infrastructure geotechnical drilling and three on the in-pit geotechnical drilling.
- Drilling database closed off for December 2010 resource update 111 new drill holes (38,205m) since the January 2010 estimate.
- Pre-feasibility Study execution model based on a 60Mtpa plant throughput for the first eight years of production up from the 40Mtpa throughput used in the earlier studies. At the higher throughput rates copper production is expected to average 260,000 tonnes of copper metal and 390,000 ounces of gold contained in concentrate for the first eight years. Future optimisation work, post the current study, will look at the viability of maintaining those higher rates of production for a longer period.

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 **2009-10 Pre-Feasibility Study program** has progressed the following activities:

- Review mill throughput at 60Mtpa rate for the first eight years of the project.
- The 2009 year had 37,388m of drilling in 132 holes consisting of 25,706m of resource infill drilling and 11,682m of sterilization and geotechnical drilling.
- Revised resource estimate completed in mid January 2010 – increasing resource tonnage by 26%.
- Appointment by Xstrata (as the manager of the project) of Bechtel to provide technical services in relation to the overall project evaluation.
- Potential hydroelectric power generation.
- Environmental baseline monitoring and commence Environmental Impact Assessment studies.
- Land ownership studies.
- Community and Government engagement.

The Frieda River project covers Exploration Licences 58 and 1212, with the Nena Deposit subject to Xstrata making a further option payment of US\$10.8million to Highlands for it to be included. The Frieda River project is a Joint Venture between Xstrata 81.82% and HPL 18.18%. To retain its interest in the project, Xstrata must complete a Bankable Feasibility Study by January 2012.



### **Exploration Focus**

*A number of highly prospective exploration leases.*

*Star Mountain US\$3m exploration program. Both only 20km from Ok Tedi mine.*

*Drilling underway at Star Mountain area with first two holes completed.*

### **Corporate Focus**

*A Papua New Guinea (PNG) based diversified mineral resource company.*

### **EXPLORATION**

- Drilling for the US\$3m exploration program over the known copper gold porphyry prospects covered by the Star Mountain area (Nong River and Tifalmin exploration licences) commenced in August with the first two holes being drilled at the Olgal prospect.
- Reported on 22 September that the first hole reached a depth of 302m with 230m of encouraging porphyry copper host rock. Assays for this hole are expected in mid November. The second hole reached a target depth of 500m and assays for this hole are expected in late November. Again encouraging porphyry copper host rock was present for a significant portion of this hole.
- The airborne electromagnetic and LIDAR surveys will commence in November.
- The program is fully helicopter supported and this represents a challenge to achieve sufficient flying hours in order to place the drilling equipment together and support at 2400m RL (check) it with enough ongoing supplies at site, however with weather now improving this should be less of a problem.
- The complete program will consist of 2,500km of airborne electromagnetic survey over both Tifalmin and Nong River licences, LIDAR survey and 2,400m of diamond drilling.
- The Tifalmin EL is 100% owned by Highlands while the Nong River EL is subject to a joint venture agreement with Xstrata where they have the ability to earn a 72% interest in the joint venture by producing a Bankable Feasibility Study by the year 2019. During 2009 Highlands exercised its right to sole fund its own exploration program and retain 100% of the joint venture relating to the Nong River EL in the absence of an Xstrata exploration program. Xstrata has the right to reclaim a 72% interest by paying Highlands three (3) times the exploration expenditure incurred by Highlands at the time Highlands presents a Pre-feasibility Study. There are no time deadlines on when Highlands must produce a Pre-feasibility Study to Xstrata.
- There was no activity at the exploration license at Wau-Bulolo area (EL 1340 – 100% owned) containing the Yangalemu and Kobiak prospects.

### **CORPORATE – Cash Reserves \$US21.4 Million**

- Cash reserves at the end of the quarter of US\$21.4 million (or AU\$22.1 million) – funds held in both AUD and USD holdings.



## 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)		
EL 1340	100% Note 1	100% Note 1
EL 1312	100% Note 1, 3	100% Note 1, 3
EL 1392	100% Note 1	100% Note 1
ELA's 1761, 1780, 1781 and 1880	100% Note 1	100% Note 1
Frieda River Project (Highlands Frieda Limited)		
ELs 0058, 1212, 1654, 1655, 1656, 1657, 1658, 1659, 1744, 1745 and 1746.	18.18% Note 1, 2	18.18% Note 1, 2
Ramu Project (Ramu Nickel Limited)		
SML 8	8.56%	8.56%
ML 149	8.56%	8.56%
LMPs 42, 43, 44, 45, 46, 47, 48 and 49	8.56%	8.56%
MEs 75, 76, 77, 78 and 79	8.56%	8.56%
ELs 193 and 1178	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 a 100% interest in the Nena Deposit (part of EL 0058), which is subject to an Option Agreement with Xstrata.
- Xstrata was the right to claw back 72%.
- 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 SEPTEMBER 2010

**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 0.9667.

### CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter \$US'000	Current quarter \$A'000	Year to date (9 months) \$US'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>				
1.1 Receipts from product sales and related debtors	3	3	9	9
1.2 Payments for:				
(a) exploration and evaluation	(514)	(532)	(1,448)	(1,498)
(b) development	-	-	-	-
(c) production	-	-	-	-
(d) administration	(950)	(983)	(3,421)	(3,539)
1.3 Dividends received	-	-	-	-
1.4 Interest and other items of a similar nature received	135	140	442	457
1.5 Interest and other costs of finance paid	-	-	-	-
1.6 Income taxes paid	-	-	-	-
1.7 Other	-	-	-	-
<b>Net Operating Cash Flows</b>	<b>(1,326)</b>	<b>(1,372)</b>	<b>(4,418)</b>	<b>(4,570)</b>
<b>Cash flows related to investing activities</b>				
1.8 Payment for purchases of:				
(a) prospects	(258)	(267)	(623)	(644)
(b) equity investments	-	-	-	-
(c) other fixed assets	(12)	(12)	(23)	(24)
1.9 Proceeds from sale of:				
(a) prospects	-	-	-	-
(b) equity investments	-	-	-	-
(c) other fixed assets	-	-	-	-
1.10 Loans to other entities	-	-	-	-
1.11 Loans repaid by other entities	-	-	-	-
1.12 Other	-	-	-	-
<b>Net investing cash flows</b>	<b>(270)</b>	<b>(279)</b>	<b>(646)</b>	<b>(668)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,596)</b>	<b>(1,651)</b>	<b>(5,064)</b>	<b>(5,238)</b>



Cash flows related to financing activities					
1.14	Proceeds from issues of shares, options, etc	2,590	2,679	3,500	3,621
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>2,590</b>	<b>2,679</b>	<b>3,500</b>	<b>3,621</b>
	<b>Net increase (decrease) in cash held</b>	<b>994</b>	<b>1,028</b>	<b>(1,564)</b>	<b>(1,617)</b>
1.20	Cash at beginning of quarter/year to date	20,691	24,277	23,689	26,412
1.21	Exchange rate adjustments to item 1.20 - unrealised	(328)	(3,212)	(768)	(2,702)
1.22	<b>Cash at end of quarter</b>	<b>21,357</b>	<b>22,093</b>	<b>21,357</b>	<b>22,093</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	93	96
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	Nil	Nil	n/a	n/a
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	-	-
Nong River / Talifmin	750	776
Frieda (to be funded by joint venture)	-	-
Total Exploration and evaluation	750	776
4.2 Development		
Ramu (to be funded by joint venture)	-	-
Other	-	-
Total Development	-	-
4.3 Production	-	-
4.4 Administration	1,100	1,138
<b>Total</b>	<b>1,850</b>	<b>1,914</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	2,025	2,095	856	1,004
5.2	Deposits at call	-	-	-	-
5.3	Bank overdraft	-	-	-	-
5.4	Other short-term deposits	19,332	19,998	19,835	23,272
	<b>Total cash at end of quarter (Item 1.22)</b>	<b>21,357</b>	<b>22,093</b>	<b>22,376</b>	<b>24,277</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	683,112,148	683,112,148		
7.4 Issued during quarter	15,000,000	15,000,000		
+ 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>	
Directors' and Executives' Option Incentive Scheme	25,440,000	Nil	Refer attached	Nil
7.8 Issued during quarter	-	n/a	Refer attached	Nil
7.9 Exercised during quarter	15,000,000	n/a	n/a	n/a
7.10 Expired & lapsed during quarter	2,350,000	n/a	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: 29 October 2010

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

Details	Issued	Exercised
Exercise Price	A\$0.175	
Number of Options	3,800,000	1,250,000
Expiry Date	12 Dec 2010	
Exercise Price	A\$0.135	
Number of Options	3,390,000	350,000
Expiry Date	28 Feb 2013	
Exercise Price	A\$0.13	
Number of Options	2,000,000	1,000,000
Expiry Date	4 June 2011	
Exercise Price	A\$0.078	
Number of Options	1,360,000	635,000
Expiry Date	29 Jan 2014	
Exercise Price	A\$0.078	
Number of Options	2,000,000	325,000
Expiry Date	29 Jan 2014	
Exercise Price	A\$0.117	
Number of Options	1,000,000	Nil
Expiry Date	26 June 2012	
Exercise Price	A\$0.266	
Number of Options	10,000,000	Nil
Expiry Date	31 Mar 2015	
Exercise Price	A\$0.266	
Number of Options	5,450,000	Nil
Expiry Date	31 Mar 2015	



**Options lapsed during the quarter**

<b>Details</b>	<b>Issued</b>
Exercise Price	A\$0.435
Number of Options	1,000,000
Expiry Date	31 July 2010
Exercise Price	A\$0.175
Number of Options	1,250,000
Expiry Date	19 July 2010
Exercise Price	A\$0.175
Number of Options	100,000
Expiry Date	31 July 2010

**There were no options issued during the quarter**

**Options exercised during the quarter**

<b>Details</b>	<b>Issued</b>
Exercise Price	A\$0.20
Number of Options	14,000,000
Expiry Date	21 Aug 2010
Exercise Price	A\$0.175
Number of Options	950,000
Expiry Date	19 July 2010
Exercise Price	A\$0.175
Number of Options	50,000
Expiry Date	12 Dec 2010