

CHAIRMAN'S ADDRESS

Ladies and Gentlemen

Thank you Shareholders for attending today and showing an interest in your company. For the reasons I will outline I believe that interest is deserved. Your board is also working towards trying to see that the shareholders are well rewarded for their patience.

While the economy in Papua New Guinea has been relatively calm, be under no illusions that the world has been in turmoil and that affects especially an industry, like mining, which is truly international in its operations and in its markets. As a result of this turmoil, we now live in a more risk-averse world, but risk is at the heart of successful mining ventures. Many in a good position to know have said markets would remain "stronger for longer", They have been proved wrong. There are current signs of what some would like to call "green shoots" around the world, but if one looks one can also see burning embers waiting to be fanned as well. While it is a reasonable scenario to look forward to a stabilising world economy during the course of 2009 and a return to modest growth sometime in 2010, there are many quite foreseeable risks to that scenario and the risks remain overwhelmingly on the downside. We believe your company is well positioned to take advantage of the most likely scenario I have outlined, without being fatally exposed if the bushfires breakout around the world yet again.

Let me explain the reasons for this view.

Firstly, while Highlands Pacific has a share price we are not comfortable with, the market has not abandoned us.

Compared with similar resource companies, our price in relative terms has remained in the upper quartile. We have also performed more than 10% better than the ASX All Ordinaries Index over the last 12 months. Nevertheless, capitalised at approximately 65 million Australian dollars of which half of that is represented in cash backing, we have potential leverage to the upside when investors decide to take a renewed interest in Highlands Pacific.

This time next year it is my expectation to be reporting to you about the successful commencement of commercial operations at the world class Ramu Nickel Project. The nickel price is relatively low at the moment, lower indeed than

the cost of production of many nickel operations around the world, and as a result substantial nickel production is being closed down. The Australian Bureau of Agricultural and Resources Economics estimates that the nickel price will have to rise substantially before "shutdown production" could be justifiably reopened. Positively though, the Bureau also expects that the price of nickel will improve over the next two years. Fortunately for the Ramu project the cash costs as currently estimated, gives substantial margins at low price levels as well as great leverage to the upside. Highlands Pacific can also elect when it commences participation in the profits from the Ramu Operation and would obviously intend to do so once it was confident that operations were stabilised sufficiently to give us assurance of ongoing positive cashflow. Ramu is a huge project, with exciting economic prospects, being executed with commitment and vigour by the respected China Metallurgical Construction Corporation. I expect well before this time next year, the world will take greater notice of this extraordinary achievement.

Then there is Frieda River, a huge world class copper gold project on which Xstrata, even in these sombre economic times, is still in 2009 spending tens of millions of dollars advancing its pre-feasibility study. All indications are that the mining development at Frieda River if given the green light will operate with cash costs well to the left of the cost curve. Expectations are that, if Xstrata does proceed, Frieda River will be in operation sometime in the year 2016. We do not expect the market to give strong recognition to its value yet, but if all continues to go well, I have no doubt that it will. Highlands have 16.9% of this project and are carried through without cost until development, at which time Xstrata is obliged to either include us in any project financing they arrange, or provide us with a completion guarantee to enable your company to put in place its own finances. If Xstrata decides not to complete the Feasibility study by January 2012, then the project resorts back to Highlands together with all information gathered during the Joint Venture process. We are also aware that other major companies are very interested in Frieda River and are watching progress closely.

While your company maintains a minority interest in both the Ramu and Frieda River projects, let me assure you that John Gooding and his team make valuable contributions to the projects wherever they properly can, to ensure that shareholders interest are protected.

We have also during the year spent significant exploration dollars at Wau near Hidden Valley. The particular drill-hole results obtained confirm that there is substantial gold present. The results however have not yielded as yet strikes of sufficient length to confirm an economic resource target. Our people continue to believe there is a real prospect of value

in our field at Wau, if we can unlock the geological key. The drilling results have added valuable information about the structure and geology of the area and we are looking closely at a way forward with a view to ensuring that we don't walk away from an asset that could turn out to be of great value, while at the same time ensuring it does not eat up too much of our cash resources.

Strategically, your board believes that in our management team we have capabilities which can add real shareholder value if we can augment our existing interests with one or more suitable new projects. Management has looked at a number of possibilities and the board has spent some considerable time reviewing the most prospective of these. Our cash reserves While substantial, limit the possible number of acquisitions and the current market share price make the issue of equity quite expensive. Identifying and negotiating the right deal is not proving easy. The company is doing much work in this space, and hopefully we will find and successfully negotiate a deal which we can announce as the next leg underpinning the future growth of the company and hopefully bring with it, an improved share price.

Finally I would like to recognise the support of our shareholders during what can only be described as a testing operating environment. I have no doubt that your continued support will be rewarded in the future as Highlands takes advantage of it's unique space among the smaller mining companies.



**KEN MACDONALD
CHAIRMAN OF DIRECTORS**