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*Incorporated in Papua New Guinea*

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## CHAIRMAN'S ADDRESS

### Annual General Meeting

Ladies and Gentlemen

Let me welcome you all to the 10<sup>th</sup> Annual General Meeting of Highlands Pacific Limited. The past year has truly been a case of "the agony and the ecstasy". Excitement over the commissioning of the Kainantu Gold Mine and the formal launching of the Ramu development programme; and frustration and disappointment over operational problems and the slow ramp-up of gold production at Kainantu. The end result has been a stressful time for the Company this past year.

But I am pleased to report that the Kainantu issues are being confronted and addressed. A very experienced mining engineer, John Gooding, has been appointed Highlands' new Managing Director, taking over from Ian Holzberger who has taken early retirement. Already I detect a lift in spirits, as John's very wide underground mining experience is brought to bear on the issues weighing down on Kainantu. We wish John Gooding every success in his new position.

I am also advised that the appointment of a new General Manager for Kainantu is imminent. The new man will be a specialist in underground mining, and renowned for his "turn-around record"! He will be teaming up with the recently appointed Chief Geologist and Maintenance Managers, and we can expect new Mine and Process Plant Managers to be appointed shortly. This new "turn-around team" will focus on developing a new mine plan going forward, and I am confident that they will deliver the goods.

To cover additional costs incurred at Kainantu, Highlands recently raised a further USD20 million as new equity with associated options, from Resource Capital Fund IV L.P. (RCF IV). This was a major boost to the Company's working capital, and a timely show of confidence by RCF IV. This equity injection, when combined with the re-scheduled gold forwards, is giving the Company the breathing space it needs to get the Kainantu performance back on track.

As shareholders may be aware, our bankers have also agreed to re-schedule the gold forward sales tied to the Kainantu production. Led by ABN AMRO, the banks worked with Highlands to restructure the forward sales program out to 2010, relieving much of the immediate pressure. One aspect of the re-scheduling of the gold forward sales which may have been overlooked, is that it tacitly recognizes that the gold resource base at Kainantu has been increased substantially - thus justifying a longer payback period for the banks to recover their investment.

The Company has been criticized in some quarters for using gold forward sales to secure debt to cover the Kainantu development; but realistically it was the only way that Highlands could bring Kainantu into production quickly. The Board judged this to be the key priority at the time. We were however punished by the quite unexpected surge in gold price combined with the operational problems at Kainantu. When we work through the current issues at Kainantu, the Company should be in a position to reap the benefits that accrue from being a producer rather than simply a minerals explorer.

The Kainantu gold resource is currently estimated to contain 2.0 million ounces of gold, and our record of converting resources to reserve in the past has been very positive. Exploration will be stepped up both within the mine area at Kainantu and on other gold bearing structures within the Goldfield to further extend mine life as well as increasing the level of production.

Turning to the Ramu Project, a lot seems to have happened since the launch of this major nickel-cobalt development by the Prime Minister of Papua New Guinea, Grand Chief Sir Michael Somare at Basamuk – the site for the processing plant and export point. The senior partner and operator of the project, China Metallurgical Construction (Group) Corporation – better known as MCC – is working hard to bring on production at Ramu as soon as possible; and despite the very tight timetable, MCC are targeting a 2009 commencement of nickel and cobalt production.

This is great news for Highlands' shareholders who have an 8.56% interest in the Ramu Project, carried to production, and the opportunity to boost this interest to 20.55% down the track.

Underpinned by the fantastic programme of industrialization in China, the demand – and therefore the price – of nickel, has soared in recent years. This is all to do with the demand for stainless steel, in response to the increasing standard of living in China. From an average of around USD15,000 per tonne during the 2005 year, nickel is now fetching USD50,000 per tonne on the world's markets today. The implication for Highlands is that its interest in Ramu is looking more attractive by the day.

Over the last few months there has been some criticism of MCC in PNG over working conditions onsite at both the mine site at Kurumbakari, and at the plant site / port at Basamuk. While responsibility clearly rests with the Joint Venture Operator MCC, Highlands has been monitoring the position very closely, and where possible advising MCC on these matters. It is pleasing to note the overall improvement in these areas and the commitment of MCC to strengthening its ongoing relationships with the project landowning community, the business community, and all levels of government.

Good progress has also been made on the Frieda River Project, where Xstrata has assumed management of all operations, following its earlier takeover of Falconbridge. Xstrata has exercised its option to earn 73% equity in the Frieda River project proper, but has deferred the exercising of the Nena option.

No doubt this deferral of the Nena option was related to the US\$10 million price tag payable to Highlands on the exercise of that option; but the reality is that Nena represents the high grade "starter" for the project, and it is difficult to see Frieda River being developed without Nena.

Especially pleasing from Highlands' standpoint was the decision by Xstrata to spend US\$12 million during the current year at Frieda River to carry the project forward to the point of identifying the appropriate project execution model, to enable the project to be advanced into pre-feasibility. Given the shortage of world-class copper deposits identified for development, the prospects for Frieda River have improved markedly in recent years, especially given its proximity to the centre of world growth – China.

Underpinning this forecast for Frieda River is the massive upturn in copper prices. From USD3,700 per tonne in 2005, copper is today selling for around USD7,900 per tonne. And Frieda River contains a copper resource of 7.6 million tonnes, together with 14.3 million ounces of gold.

Switching to the social issues throughout regional Papua New Guinea, the availability of health services to the local communities continues to be a concern. Highlands Pacific and its joint venturers are actively involved in supporting the communities near its operations.

Not surprisingly the present focus is on HIV/AIDS, which I fear is far more rampant across the country than many people recognise. Therefore we were particularly pleased to see the Nasfund-sponsored PNG business initiative launched to help fight HIV/AIDS. We extend congratulations to Nasfund and in particular, its Managing Director, Mr Rod Mitchell who is also a long serving director of Highlands Pacific. We wish the initiative every success.

As shareholders would be aware, the Company is also committed to minimising any negative environmental impacts of exploration, mining and mineral processing flowing from our operations. This commitment is clearly evident at Kainantu where the Company practices continuous rehabilitation, effected mainly through the planting of vetiver grass and indigenous trees in a collaborative initiative with the local communities.

Highlands is also doing everything it can to boost the capacity of the local business groups so that they can play an increasing role in supporting the Company's field operations. Specifically, Highlands is providing training and assistance as well as working with the communities to identify new and innovative business opportunities.

On the financial side, shareholders would be well aware that we've been doing it tough this past year, largely as a result of the problems at Kainantu. Highlands reported a net loss from operations of USD27.5 million over the past year, and the Company has also been required, under the hedge accounting standards, to bring forward a loss of USD36.2 million (non-cash) related to its gold forward sales contracts, resulting in a reported loss of USD63.8 million. We have deferred a number of the forward gold sales contracts for 2006 and 2007 as well.

Management's current target is to meet all current forward sales commitments and to be selling a share of production at world spot prices within the next twelve months.

In the course of the past financial year the Company raised US\$41.3 million through a share placement and share purchase plan; and as noted earlier, in a post-year transaction, a further US\$20 million through a placement to RCF IV.

Clearly a Kainantu resurgence holds the key to Highlands' future, despite the obvious progress made at both Ramu and Frieda River. And with John Gooding orchestrating that resurgence, I am confident of the outcome. Be assured that both the Board and Management will be working in single-minded fashion towards this end.

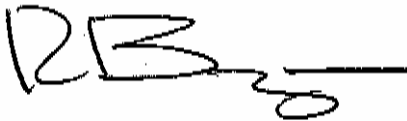
The continued support of the National Government of Papua New Guinea, the Governments of the Provinces which host the projects, and the communities in which we operate, is also critical to the continued advancement of the Company's projects and prospects. We acknowledge and thank these governments and local communities for their support.

I have made mention indirectly of Mr Ian Burvill's appointment to the Board earlier this year, at the time of the RCF IV equity injection. I have worked in just this sort of situation with Ian at another time and in another company, and the outcome of that association was very satisfactory to all concerned. I look forward to replicating that outcome at Highlands.

Before winding up I would like to thank our retiring Managing Director, Ian Holzberger, for his 16 years of dedicated service with Highlands Pacific and its fore runner Highlands Gold. We wish Ian every success in his future endeavours.

To Highlands' management, staff, consultants and the like we express thanks for their commitment during a tough year. And for John Gooding's new team going forward, we wish you every success in the year ahead. And to our shareholders we ask for the patience to give us time to turn around the fortunes of the Company.

Thank you

A handwritten signature in black ink, appearing to read 'RB' followed by a stylized flourish.

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ROBERT BRYAN  
CHAIRMAN OF DIRECTORS