



HIGHLANDS PACIFIC LIMITED ARBN 078 118 653
Incorporated in Papua New Guinea

Registered Office

PO Box 1486, Port Moresby NCD 121
Papua New Guinea
Level 9 Pacific Place, Musgrave Street
Port Moresby NCD 121
Papua New Guinea

Telephone: (675) 321 7633

Facsimile: (675) 321 7551

Website: www.highlandspacific.com

Registered Office in Australia

GPO Box 3086, Brisbane QLD 4001
Australia
Level 4, 167 Eagle Street
Brisbane Qld 4000
Australia

Telephone: (617) 3239 7800

Facsimile: (617) 3221 6727

Email: info@highlandspacific.com

CHAIRMAN'S ADDRESS

Annual General Meeting

Ladies and Gentlemen

Firstly let me welcome you all to the 9th Annual General Meeting of Highlands Pacific Limited. 2005 has been a “watershed year” for Highlands Pacific involving: the commissioning of the Kainantu Gold Mine which will provide the main platform to grow the Company; the exercise by the Chinese Metallurgical Construction (Group) Corporation of their option to participate in the Ramu Nickel/Cobalt Project; and the continued encouraging exploration results from the drilling at the Frieda River Copper/Gold Project.

The Kainantu Gold Mine was opened on the 21st March 2006 by the Prime Minister, the Grand Chief Sir Michael Somare. This was a very festive occasion and got the Mine off to a great start. We greatly appreciated the support of all concerned.

The dampener came some three weeks later when threats to personnel and property from the Barola Kafe clan forced us to shut down the mine for several days. The actions of the Barola Kafe – whilst being totally out of order – had its roots in an issue we could all relate to.

Back in 2004, the Lands Title Commission (LTC) commenced hearing land title claims of competing groups at Kainantu, but left the issues unresolved when the LTC went into remission 6-months later – having run out of funds. After a brief spurt of activity in late 2005 the LTC went into remission again due to lack of funds.

Not surprisingly this situation led to all sorts of frustration, and in the end the Barola Kafe took matters into their own hands.

I am pleased to report that matters have now settled down, with the LTC resuming hearings on the 1st May. We all hope that the LTC has now been funded to the extent necessary to complete the job at Kainantu.

Sadly, this is an issue quite out of the control of Highlands Pacific, as the LTC is funded by the National Government. But I would remind the relevant Ministers that failure to sort out landholder issues probably poses the biggest single risk to the resources boom that PNG is presently enjoying.

Reverting back to the Kainantu Gold Mine, the commencement of gold production is a very significant milestone in the growth of Highlands Pacific, as it marks the Company's transition from an explorer to a producer.

Kainantu is in the "ramping up" stage of development as a high-grade underground gold mine. Early production, however, has shown the orebody to be more complicated than originally envisaged. Mine development and stope extraction have shown the gold mineralisation to consist of a main mineralised shear with a network of gold bearing veins of variable thickness in the hanging wall. Currently, the technical team at the mine is working to clearly establish the gold distribution and to ensure that future stopes are designed to take full account of the mineralised system. This could involve the use of bulk mining techniques in the wider mineralised areas.

The ore is processed by flotation, and the gold is extracted as a high-grade concentrate, which is shipped to Japan for the final recovery of the gold. As well as offering a simplified processing of the ore, the export of concentrate has significant environmental benefits to PNG.

The Kainantu gold resource is currently estimated to contain 1.8 million ounces of gold, but our advice is that there is the potential for the discovery of an additional 6.5 million ounces of gold in what could be described broadly as the Kainantu Goldfield held under exploration titles by Highlands Pacific.

There would be a huge economic benefit for Highlands Pacific in extending the mine life at Kainantu, given the surplus capacity that has been built into the process plant, and the economies of scale that would be available across the board. But beyond this, the Company is seeking to define more reserves and resources, with the objective to support an expanded output of more than 250,000 ounces per year. The Company has set a target for identifying these additional resources by 2009.

Significant progress has also been made with the Ramu Nickel/Cobalt Project. In March 2005 the Company concluded negotiations with China Metallurgical Construction (Group) Corporation (MCC) and the Master Agreement covering Ramu was signed. In September MCC advised that they would be exercising their right under the Master Agreement and in October 2005 the Joint Venture Agreement was signed and MCC became the Manager and Operator of the Ramu Nickel/Cobalt Joint Venture.

Highlands Pacific will have an initial 8.56% carried interest in Ramu, increasing to 11.30% after the debt associated with the financing of the Project has been repaid – at no further cost to Highlands Pacific. At that time Highlands will also have the option to purchase an additional 9.25% of the Project from MCC at market value, and if exercised, this would take Highlands Pacific's total interest in Ramu to 20.55%.

The Company believes the introduction of MCC to the Joint Venture will accelerate the development of Ramu to the benefit of all stakeholders in the project. We have been advised by the Operator that a commencement of construction is planned for 2006 and that MCC hopes to be producing nickel by 2009.

Turning to the Frieda River Copper/Gold Project, Falconbridge continued to fund all exploration during the year, with very encouraging results. The focus has been on: additional drilling at Nena and a review of that resource; metallurgical testwork on the Nena ore; and drilling other high-grade copper targets on the Frieda property.

The diamond-drilling program at the Nena deposit was particularly significant from Highlands Pacific's standpoint. The goal was to assess mineralised extensions and to more fully delineate the copper/gold resource – and the results were nothing short of outstanding.

The end result is that Frieda now represents a very attractive development prospect, despite its remote location. Highlands Pacific believes that Nena now has the grade and scale to be the attractive “starter operation”; and Horse/Ivaal has the huge resource of lower grade copper and gold to give Frieda the “long life” required to underpin the infrastructure required for a mine in this remote location.

Falconbridge have not surprisingly advised that they now intend to expand their drilling programme in 2006, hoping to add further to the resources of copper and gold. It is relevant to note that Falconbridge have until January 2007 to exercise their option to earn a 72% interest in the Frieda River Project by committing to the funding of a bankable feasibility study; and should Falconbridge want to include the Nena deposit in the package, an additional cash payment of US\$10.8 million is required to be made to Highlands Pacific.

All of Highlands Pacific's activities are in Papua New Guinea, and the Company is committed to providing a safe and healthy working environment for its employees and contractors; and to design and operate all its projects to very high environmental standards.

Despite these initiatives we are reminded by last year's fatal accident that mining is not free of work place risks; an experienced miner was killed underground at Kainantu as a result of a major rock fall in October 2005. The accident was fully investigated by the Department of Mining's Inspector of Mines, as well as by Highlands Pacific, and further precautions have been put in place to reduce the likelihood of such an accident happening again. We of course extend our sympathy to the family of Melecio Macario.

Throughout rural Papua New Guinea, the lack of health services to the local communities is an issue of concern. Highlands Pacific and its joint venturers are actively involved in assisting the communities near its operations and projects, by providing medical supplies and regular health extension visits by the Company's community health workers. These programs have tended to focus on the pressing health issues of HIV/AIDS, malaria, tuberculosis and typhoid. The Company also provides health education aimed at improving the health standards within the communities with the emphasis on disease eradication and prevention, nutritional awareness, and general hygiene.

Highlands Pacific is also fully committed to minimising any negative impact of exploration, mining and mineral processing on the environment, by integrating environmental considerations with community interests, when planning ongoing activities.

And for those who equate gold mining with the risk of cyanide contamination, let me remind you that no cyanide whatsoever is used in the processing of the gold at Kainantu.

In all aspects of our mining activities, Highlands Pacific continues to work closely with local communities and government institutions. Open and transparent communication

with all stakeholders is pivotal to this process, and this calls for regular consultation, and a participative decision making process. As an example, Highlands Pacific is committed to building the capacity of the local business groups to enable them to play an increasing role in the Company's field operations.

Turning to the 2005 financial outcome, Highlands Pacific reported a net loss before income tax of US\$5,399,000, with the principal components being Kainantu operating costs of US\$1,598,000, unrealised foreign exchange losses of US\$997,000 and provision for exploration expenditure US\$990,000.

In March 2006 Highlands Pacific made a major placement of AUD41 million at a price of AUD 0.67 per share and also launched a share purchase plan pitched to all shareholders at the same price. The share purchase plan has been well supported with 3,064 shareholders applying for shares and AUD 13.6 million has been raised. In the main, these funds will be directed towards optimising the Kainantu operation.

The continued support of the Company and its projects received from the National Government of Papua New Guinea, the Governments of the Provinces which host the projects, and the communities in which we operate, is critical to future expansion plans, as well as to the smooth running of our operations. We acknowledge and thank these parties for their support.

As usual, I reserve my final comments and thanks to the people who have underpinned the success of the Company itself; Highlands Pacific's board, staff, consultants and contractors who have put in a fine job this past year; and of course our shareholders, who continue to extend their strong support. I believe we all have good reason to be well pleased by the results achieved in 2005.

Robert Bryan
CHAIRMAN