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Chairman's Address, Annual General Meeting

Last year I described year 2001 as very much a "mixed bag" for Highlands Pacific. Despite year 2002 commencing in a very similar manner, I am pleased to be able to report that the year ended on a higher note with the resolution of the dispute between Highlands Pacific and Orogen in respect of the Ramu project; the completion of a very successful capital raising by the company; an improved share price performance and all signs being that 2003 will see Highlands Pacific well down the road to its first mine development at Kainantu.

Since acquiring 100% ownership of Kainantu, the Company has moved aggressively to capitalise on this outstanding gold mining opportunity. We have now delineated a mining resource containing in excess of 450,000 ounces of gold and with operating costs estimated to be in the range of USD 105 – 115 per ounce of gold. The total Kainantu gold resource is now estimated to contain around 1.15 million ounces of gold. Kainantu should be a highly profitable operation.

Because of the very high cost of reserve evaluation in high-grade gold deposits such as Kainantu, the focus has been on establishing sufficient resources of gold to justify the development of the mine – in this case to support a mine life of about seven years. This has now been achieved. However, the prospects of additional resources are excellent and Kainantu's mine life is likely to extend well beyond seven years. Indeed as I know from personal experience, gold mines once established, generally operate far longer than initially envisaged.

The issuance of the Mining and associated Leases at Kainantu and the approval of the Environmental Plan represent important landmarks in the development process. Highlands Pacific is working to finalise all landowner agreements in a timely manner. The Compensation Agreement has been agreed but remains to be signed. The Memorandum of Agreement, which will be used to manage the integrated benefit package, is being prepared by the Department of Mining who has carriage of this agreement. In addition, and consistent with its commitment to "sustainability practices", Highlands Pacific has offered to sell a 5% interest in the project to the impacted landowners. Discussions are ongoing.

Highlands Pacific regards these agreements to be of critical importance in light of our determination to see the development of Kainantu as a "win win" for all the stakeholders concerned.

The project has been designed to maximise its environmental performance and to follow the World Bank sustainability guidelines. The project will have a very small foot print with the mining operation being underground and the processing operation located away from the mining operation, on flat land. Most waste material will be disposed of into the old mine workings as fill, with the balance of the waste being disposed of into permanent surface structures. No waste material whatsoever will be released into the rivers. Continuous rehabilitation practices will be employed wherever possible; and to support this initiative a plant nursery has already been established.

Earlier this year we ran into a technical complication associated with high levels of soluble copper found in parts of the ore body and this delayed finalisation of the metallurgical process. However, we believe that this issue is now mostly behind us and our technical staff are working overtime to finalise the feasibility study. I will leave further technical comment to our Managing Director, Ian Holzberger, who will present a project update at the end of the meeting.

Suffice to say that we are now engaged in finalising the definitive capital and cost estimate for the project.

When completed, the costings will form the basis of a development decision to be made by Highlands Pacific and will support the financing of the project. We hope that the Company will be in a position to make this decision in the September quarter 2003.

The significance of Kainantu as a very attractive gold resource is apparent from the arrangement reached with ABN AMRO who were awarded the mandate to raise USD25 million in project finance in October 2002. There was also indirect recognition from the market place, where AUD27.8 million was raised in October and November last, through a combination of share placements and share purchase plan (SPP). These funds are being used to take the project to development and fund the Company's equity share of the development cost.

It was especially pleasing to see the placements to larger investors matched by the SPP offer to all shareholders, at the same price. We have a large number of shareholders – currently approximately 14,000 – many resident in Papua New Guinea. It was pleasing to see so many ready to invest further in Highlands Pacific, through participation in the SPP.

Late last year the Company reached a settlement with Orogen Minerals and others, in relation to a very debilitating legal dispute over the Ramu nickel and cobalt project. Settlement was on the basis that the parties agreed to release each other from all claims and counter claims and not to proceed with the action in the Federal Court; and to waive their rights under the Ramu Put Option Agreement. Under the agreement reached, no payments were made by either of the parties to any of the other parties. From our point of view it was an excellent outcome, but even better to have this issue behind us.

We are determined to move forward at Ramu and it is especially pleasing to note that agreement has been reached for the Government-owned Mineral Resources Development Company Limited (MRDC) to acquire the 31.5% interest in Ramu

project that was the subject of the dispute. Highlands Pacific is now working actively with MRDC to restructure the Ramu joint venture by introducing a major new participant who is committed to development of this world class mineral resource. The Standard Bank of London has been appointed jointly by Highlands Pacific and MRDC to advise them in this matter.

It is also pleasing to see the continuing commitment of Noranda to the massive Frieda River copper/gold project. Highlands Pacific continues to manage the field operations, while all the funding is coming from Noranda. This is surely another “win win” situation, where Highlands Pacific’s expertise in Papua New Guinea is put to good use in the interest of the broader joint venture.

During 2002, the State of Papua New Guinea announced some significant amendment to the tax laws relating to mining to boost exploration activity in the country. The key changes were: the abolition of the Additional Profits Tax; an easing of the “ring fencing” provisions so that there can be a 25% reduction in tax after taking account of new exploration expenditure; provision for the pre-development exploration costs to be double deducted against mine income for calculation the amount of tax to be paid; and a modification to the depreciation provisions. These changes were well received by the industry and it is pleasing to see that they are having a desired effect with an upturn in mineral exploration being reported by the Department of Mining. We congratulate the Minister for Mining, Hon. Sam Akoitai and the Somare-Marat Government for their commitment to the revitalisation of this most important mining sector, and we look forward to working with them on other proposed initiatives to further improve Papua New Guinea’s international competitiveness.

Highlands Pacific reported a net loss for the year of USD22.3 million. The principal component of the loss is a provision against the carrying value of Ramu and Frieda, reduced to some extent by a reversal of the provision against Kainantu. The future development of Ramu and Frieda projects is dependent upon Highlands Pacific securing appropriate joint venture partners and the necessary debt and equity funding. The Board remains confident that these assets will ultimately be developed. However, as the future timing of their development cannot be predicted with any certainty, the Board has decided to provide against the carrying value of Ramu and Frieda reducing them to USD16 million and USD10 million respectively.

The major focus of the Company during 2003 will be to progress the Kainantu gold project into development. This of course requires the satisfactory completion of the definitive feasibility study; project finance to be available for draw down; the finalisation of all landowner agreements; and the commitment of all stakeholders for the successful development of the project.

Our revised objective is to complete all technical studies by the end of June; and to be in a position to commit to the development of Kainantu in the September Quarter 2003. This will be contingent on finance and on finalising all landowner agreements. If this timetable can be met, first gold pour would be about twelve months later.

A final comment about where the real value of the Company lies – in its people. Without a dedicated team of geologists, engineers and their support staff, and of course the commitment of my colleagues on the Board, assets such as Kainantu

would never be developed. I thank all concerned with the management of Highlands Pacific's affairs, for a job well done.

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ROBERT BRYAN
CHAIRMAN

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