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CHAIRMAN'S ADDRESS

Annual General Meeting

Ladies and Gentlemen

Firstly let me welcome you all to the 8th Annual General Meeting of Highlands Pacific Limited. There is good reason for the tone of this year's meeting to be upbeat, as we work to bring the Kainantu gold mine into production; but it is tinged with sadness at the sudden death of Dr Moseley Moramoro OBE who had served as a director of Highlands Pacific these past four years.

Moseley Moramoro was a very distinguished Papua New Guinean who provided wise counsel to the Company as a director, and a member of both the Audit and Business Development Committees. He will be sorely missed.

However we have been very fortunate to attract a very well qualified replacement in Ms Fiu Williame-Igara. With broad experience in both the government and corporate sectors as well as a knowledge of the diversity of needs and competing interests in Papua New Guinea, Ms Williame-Igara will bring a new perspective to the Board, that should suit our times very well.

The decision has also been taken to appoint the Company's General Manager – Finance Mr Jeff Forbes to the Board as an executive director. Jeff has served Highlands Pacific with distinction, and this appointment will strengthen management and its linkage to the Board.

As required in our Constitution, both Ms Williame-Igara and Mr Forbes have resigned and offer themselves for re-election at this meeting. I trust that their re-nomination will receive strong support.

The front cover of this year's Annual Report clearly shows our priority at this time – Kainantu. Not surprisingly, in the face of massive resource development around the world, we have experienced some delays and cost over-runs at Kainantu, as we have competed for scarce materials and skilled manpower. We anticipate that gold production will commence in the fourth quarter of 2005.

The development of the Kainantu project began in March 2004 with the commencement of the access road; and at the present time the project is approximately 60% complete. Kainantu is being developed as a high-grade underground gold mine producing ore at an average grade of 21.8 g/t gold for treatment by simple metallurgical processing to produce a high-grade gold-bearing concentrate. The concentrate totalling 21,500 tonnes per year will be containerised and exported through Lae to Japan. In Japan the on-sold concentrate will undergo smelting and refining to recover the gold.

Initially the Kainantu mine will produce around 115,000 ounces per annum, and has been funded on the basis of a mine life of 4.5 years. However, Highlands Pacific is confident that sufficient additional reserves will be found, both to extend the mine life and present the opportunity for future expanded production.

These goals will be achieved through the continuing conversion of current "resources" to "reserves" in the main Irumafimpa ore-body, together with exploration at depth and along parallel lodes.

To date Highlands Pacific has only drilled one prospect close to the mine development at Kora about 1km to the south. The result exceeds our expectations. An 18 hole drilling program at Kora effectively added some 520,000 ounces of gold to the Kainantu project resource base at a comparable grade. This illustrates the potential in the immediate vicinity of the new mine development - that could be accessed from extensions of the Kainantu mine workings now being developed.

Recent mapping and surface sampling of the adjacent Karempa and Mati Ridge vein systems has also provided strong encouragement. At Karempa sampling of a 2,300 metre vein system produced average gold values from 50.8 g/t down to 6.7 g/t gold in four 100m long zones of sub-outcropping reef material; and at Mati Ridge, average values of 28 g/t and 17 g/t gold were obtained from two zones of sub-outcropping reef material. These prospects together with Maniape and Arakompa will be tested by drilling this coming dry season.

The Kainantu gold resource base is now estimated to contain some 1.8 million ounces of gold including the reserves scheduled to be mined. Significantly, the area between the Irumafimpa and the Kora area remains to be tested, as does the depth and strike extension of both these areas.

The premium associated with Kainantu lies in its high grade and low operating costs. With a grade at both Irumafimpa and Kora lode systems running over 20 g/t gold (about $\frac{3}{4}$ oz gold per tonne), the mining operation will be highly profitable.

We can all take pride in the fact that Kainantu has been designed to very high environmental standards, and will have only a very limited impact on the local environment. The underground mining style will result in a restricted surface footprint, and the production of a concentrate by simple processing will avoid any need for cyanide to be used. Careful management of the mine waters, and the storage of the residual benign tailings in a permanent engineered facility, enhance the overall environmental performance.

In line with its commitments in the Memorandum of Agreement with the State and the local communities, Highlands Pacific is implementing an infrastructure development package and undertaking a major occupational training program at Kainantu. The project is already a significant employer of Papua New Guineans with around 45% of the total workforce of 518 being local people and a further 43% being sourced from elsewhere in Papua New Guinea.

Highlands Pacific is also actively working with the local communities around Kainantu to ensure that the maximum business benefits are available to these communities. To date these communities have participated in three major ongoing contracts with the mine, and have won numerous smaller construction-oriented contracts.

We are also pleased that we have been able to reach an agreement with the landowners from the mine area, which will result in the community owning a 5% shareholding in Highlands Kainantu Limited, the Project Company. This initiative along with the landowner benefits as provided for in the Memorandum of Agreement will ensure that a strong benefit stream from the operation flows into the local community.

Turning to Ramu I am pleased to be able to report that your Company and its current Joint Venture partner Mineral Resources Development Corporation (MRDC) have negotiated a further joint venture agreement with the State-owned Chinese Metallurgical Construction (Group) Corporation (MCC). Indeed our Managing Director, Ian Holzberger, has only just returned from Beijing where he presented a paper at a technical seminar on Ramu, held by MCC, and attended by potential Chinese financiers, joint venture participants and government officials. The agreements provide for MCC to acquire an 85% interest in the Ramu project. Highlands Pacific Group will retain a right to an 8.56% interest, carried to the commencement of commercial production. Following the repayment of debt by the project, the Company's interest will be increased to 11.3% free; and at that time, Highlands Pacific can also elect to increase its equity further to a maximum of 20.55%, by purchasing the balance at a fair market value.

Your Board is very happy with this outcome, which provides a development path for Ramu, tapping into the burgeoning Chinese economy and its demand for nickel and cobalt. At the same time it is important to note that there would be no further exposure for Highlands Pacific until commercial production had been achieved.

International mining group Noranda remain fully committed to the Frieda River copper-gold project located in the Sandaun Province, where Noranda has the right to earn a 72% interest in the project by funding to the completion of a bankable feasibility study. Highlands Pacific would retain a 16% interest. During the past year, the focus has been on the Nena high-grade copper resource at Frieda River, where there have been some excellent drill intercepts. This year Noranda will increase its commitment both on the ground and in carrying out metallurgical and engineering studies to optimise the development of the orebody.

The development at Kainantu has required the Company to secure both debt and equity. A USD31 million debt package was arranged through ABN AMRO and equity totalling USD29.8 million has been raised through three separate initiatives. In early 2004 a Share Purchase Plan (SPP) raised USD11.8 million net of costs. This was followed by an institutional placement that raised USD13.0 million and a further SPP

that has just closed raising a further USD 5 million. This will provide the necessary funding to see Kainantu into production as well as underpinning the very important exploration program in the vicinity of the mine.

While a great number of current and new shareholders contributed to the equity funding, I would like to highlight the role played by PNG institutions. Their support of our work at Kainantu is very much appreciated, and in the funding mix PNG support was very important indeed.

The continued support of the Company and its projects by 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 the continued advancement of the Company's projects and prospects. We acknowledge and thank these governments and local communities for their support.

My thanks go out to the Company's management, staff, consultants and contractors; for as in most successful businesses, success is dependent on the quality and commitment of its people. And of course the same applies to our Board of Directors who have served the Company with distinction this past year.

But my final thanks are reserved for our shareholders, many of whom have stuck with us through good times and bad. I'd like to think that we'll all have cause to celebrate this time next year, as Kainantu gold delivers the Company's first profit stream.

Robert Bryan
CHAIRMAN