



**HIGHLANDS PACIFIC LIMITED** ARBN 078 118 653

**Registered Office**

GPO Box 1486  
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  
Level 4 Telstra House  
167 Eagle Street  
Brisbane Qld 4001  
Australia  
Telephone: (617) 3239 7800  
Facsimile: (617) 3221 6727  
Email: info@highlandspacific.com

13 May 2004

## **CHAIRMAN'S ADDRESS Annual General Meeting**

It is pleasing to be able to report that 2003 was an upbeat year for Highlands Pacific, a year that saw the Kainantu gold project advanced to development-ready status, and significant progress made at Ramu. And it is clear to see that this trend has continued into 2004 with construction activities having now commenced at Kainantu and a Heads of Agreement entered into over Ramu.

A little over a year from now we should see the first gold production from Kainantu, and see Highlands Pacific move into the lists of significant mining companies. This will represent a landmark achievement.

Yesterday your Board had the opportunity of visiting the Kainantu mine development, and see at first hand the progress being made. And it is impressive. Despite record rains, excellent progress has been made and there was an un-mistakeable air of confidence and commitment from all concerned on site.

Physical construction at Kainantu commenced in March 2004 with work beginning on the access road and on the rehabilitation and enlargement of the portal to the original exploration adit. The tempo of work will increase over the next few months as full access to the site is provided and more mining and construction equipment is mobilised to site. First production is scheduled for mid – 2005.

Kainantu is being developed as a high-grade underground mine initially producing 115,000 ounces of gold per annum but sold as a high grade gold concentrate. The concentrate will be exported through the port of Lae to a Japanese smelter/refiner for the final gold recovery.

The mining project is being developed on the basis of an initial mine life of 4½ years. However, on the basis of the reported mineral resources and the identified potential within this major undeveloped gold field, it is expected that the mine life will be extended significantly. Also there will also be the potential to expand production in the future. Indeed, as I have commented previously to shareholders, my personal experience is that gold mines, once established, commonly operate for much longer than is initially envisaged and at higher rates of production. Over the next 12 months in parallel with the construction phase, exploration will be stepped up to test some of this potential, initially drilling from the surface at Kora. Later when access is available, exploratory drilling will be carried out from underground sites along the main adit.

Highlands Pacific made it a priority to design the project to very high environmental standards. The fact that the mine is an underground operation, with the location of the processing plant and associated infrastructure on degraded flat land, ensures that the project foot print is small, with the minimum impact on the environment. Careful management of mine waters to be used in the processing plant, and the disposal of mine development waste underground in the mined out areas, further enhance the project's environmental credentials.

One of the most striking aspects of the Kainantu development is that no cyanide will be used in the processing of the ore. Additionally, all sulphidic material will be shipped off-site forming part of the high-grade gold concentrate. This leaves a benign tailing product at the mine site, which will be permanently stored in an engineered facility built on flat ground. In this situation the tailings will not be subject to extremes of weather, and will of course be fully rehabilitated at the end of the mining operation.

Highlands Pacific is pleased to have reached an agreement with the Landowners from the mine area, which will result in the local community holding a 5% shareholding in Highlands Kainantu Limited, the Project Company. This initiative along with the Landowner benefit flows defined in the Memorandum of Understanding, will ensure that both direct and indirect benefit streams from the operation flow into the local community.

Despite the project only being in the early stages of construction, a number of these benefit flows have already started. Programs directed towards the development of infrastructure in the project area villages have begun and the Company continues to support education, health and agricultural initiatives at village level. Community owned businesses are being established to provide contracting services and goods for construction, and a number of contracts have already been awarded.

However at this time, employment provides the most direct benefit to the project communities. Currently, around 173 people are employed in construction of which 65% are from the project communities, 24% are from elsewhere in PNG and 12% are expatriates. Whilst these ratios will vary during the various stages of construction - especially as specialist skills are required short term - Highlands Pacific is committed to maximising local employment. Much of this will be achieved through the vocational training of local people.

Highlands Pacific undertook an equity raising via a Placement to Institutions last December, and a Share Purchase Plan for shareholders was completed in January 2004. The funds raised cover the Company's equity share of the Kainantu development.

The overwhelming support for these two equity raisings both from institutions and our own shareholders was very gratifying, and demonstrates the strong support that Highlands Pacific enjoys in the market place.

I was especially pleased by the strong support of shareholders to the Share Purchase Plan - a total of 5,761 shareholders subscribed, many of whom were residents of PNG. This is a great support base on which to build.

At the close of the formal meeting today, the Managing Director will provide an illustrated update on Kainantu, and I would encourage you to stay for that presentation. I know that Ian Holzberger will be more than happy to answer questions that you may have on this exciting project.

The resolution of the debilitating legal dispute over the Ramu nickel and cobalt project, involving Orogen Minerals and others, was hugely important from the Company's standpoint. With this major distraction behind us, the focus can be on progressing the development of Ramu.

Coinciding with the settlement of the Ramu dispute came a change in joint venturers in the Ramu project. The State-owned Mineral Resources Development Corporation (MRDC) reached agreement to purchase Orogen's 31.5% interest in Ramu, and Highlands Pacific and MRDC immediately set about promoting Ramu to potential new partners, who had the technical and financial ability to develop this huge project.

As a direct result of this initiative Highlands Pacific's subsidiary, Ramu Nickel Limited (RNL) and MRDC have now entered into a Heads of Agreement with the Chinese Metallurgical Construction (Group) Corporation (MCC) to develop Ramu. Given the rapidly growing demand for nickel in China (principally used in stainless steel manufacture), this Agreement represents an excellent development option for Ramu.

The Ramu Heads of Agreement with MCC provides for RNL to retain an initial 8.56% interest in the project free carried to commercial production. Following repayment of the project debt, Highlands Pacific will increase its equity to 11.3% free of cost, with the right to increase it further to 15% with that incremental equity acquired at fair market value. This would be a sound outcome for the Company. The Heads of Agreement is subject to a full joint venture agreement, which is currently being negotiated.

MCC has commenced a detailed project review and is assembling all of the data relating to the project. We are pleased with the professionalism being shown by the review team, and by the progress made to date.

The further commitment by Noranda to the evaluation of the massive Frieda River copper and gold deposit is very pleasing. Highlands Pacific continues to manage the field operation while Noranda funds the works. A very much expanded program of activities is being undertaken in the course of the current year.

The continued support of the Company and its projects provided by the Government of PNG, the Governments of the Provinces and the communities in which we operate, is critical to the advancement of the Kainantu, Ramu and Frieda projects. We acknowledge and thank these governments, their Ministers and officers and landholders for their continued support.

Of particular importance to Highlands Pacific is the much improved business environment in PNG, which is a positive for the Company and for the broader mining industry. This is the direct result of the policy direction of the Somare Government, and specific initiatives of the Mines Minister, the Hon. Sam Akoitai. It is also pleasing to see that the international community is now beginning to recognise the significance of the Government's firmer fiscal management.

The major focus of the Company in the year ahead will be the development of the Kainantu gold mine, as well as exploration in the immediate area that could extend mine life. Additionally, the Company will work closely with the Ramu Joint Venture with a view to commencing construction at Ramu as soon as possible.

Highlands Pacific has reported a net profit for the year of USD2.5 million. A principal component of this profit is a net unrealised foreign exchanged gain of USD3.3 million mainly due to the weaker US dollar against both the Australian dollar and the PNG kina. The underlying operating loss for the year was USD0.8 million.

My final comments relate to the Company's staff, consultants and contractors. From the management through to our operational people at Kainantu, Ramu and Frieda I extend congratulations on a job well done. And of course the same applies my colleagues on the Board of Directors all of whom have served the Company with distinction this past year.

**Robert Bryan**  
**CHAIRMAN**

**For further information contact:**

Ian Holzberger, Managing Director  
Phone: (617) 3239 7800  
Mobile: 0418 886 165  
Email: [irh@highlandspacific.com](mailto:irh@highlandspacific.com)