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25 September 2003

Board Gives Conditional Development Approval for the Kainantu High Grade Gold Project

Yesterday, the Board of Highlands Pacific Limited, meeting in Port Moresby, gave conditional approval for the development of the Kainantu Goldmine, located close to the Ramu valley 180km by road from Lae in Papua New Guinea. The project has been shown to be robust with low cash costs and strong economics.

The final development approval awaits the execution of the agreements with the landowner groups expected in October, and finalisation of the funding package with ABN AMRO.

Kainantu will be developed as a high grade underground operation extracting gold from a series of narrow steeply dipping lodes. Estimated mine grade will be 21.8g/t gold and mining and treatment costs are estimated at USD 108 per ounce.

The mine will produce and ship a gold concentrate totalling 21,500 tonnes and averaging 180g/t gold annually, containerised through the port of Lae. The total cash costs including freight, smelting, refining and royalty are estimated to be USD142 per ounce.

Development of Kainantu will take approximately 15 months, and first production can be expected in early 2005. It will produce approximately 115,000 ounces of gold annually and has been financed on the basis of a 4½ year mine life. However, the Board is confident that the ongoing conversion of identified mineral resources to mining reserves during the mining operation will add at least a further 6 years of mine life. In addition, other known high grade gold mineralisation within the mine area has the potential to further extend the mine life or provide the basis for future expanded production.

The design of the project will minimise potential environmental impacts. The underground mining operation will have a very restricted surface expression. Mine water will be captured and used in the treatment plant. Both the treatment plant and the supporting infrastructure have been located away from the mine in an area of flat degraded land. No cyanide will be used in the treatment of the ores and all sulphide material will be recovered to the concentrate for export off site. The benign tailings material will be permanently stored in an engineered facility. No villages or hamlets are required to be relocated.

The project capital cost to bring Kainantu to full production is estimated to be USD 39.6 million, which will be incurred across the 15 month construction period. A gold hedging program will be

adopted to protect the debt component of the capital costs. This would represent approximately 25% of the current resource base. At a gold price of USD 350 per ounce payback of the investment will be achieved after 21 months of production.

Landowner agreements are largely agreed and are expected to be executed by the end of October. Highlands Pacific has offered to sell, and the landowners have agreed to purchase a 5% equity in the project. Landowner equity participation in the project recognises the landowners' traditional attachment to the land and will ensure a strong benefit flow to the local communities from the project. The sale will be at 5% of costs incurred since the grant of the mining lease.

The development of the Kainantu Goldmine has been structured as a win win for the various stakeholders. Kainantu will represent the first new major mine development in PNG since Lihir in 1995 and will boost the country's revenue base as well as investor confidence. Highlands Pacific shareholders can have the expectation of handsome returns from the company's first mining operation.

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Kainantu Development - Supporting Information

The Kainantu gold project is located in the Eastern Highlands of Papua New Guinea where Highlands Pacific holds three exploration licences totalling 261 square kilometres encompassing the high-grade Kainantu goldfield. The project is located off the sealed Lae-Madang highway approximately 180km from Lae the major industrial city and port in Papua New Guinea.

A mining lease was granted over the Irumafimpa gold resource area in July 2002. The Environmental Plan was approved at the same time.

Definitive Feasibility Study

The Definitive Feasibility Study (DFS) was prepared by Highlands Pacific in conjunction with EPAC (project management services), Ausenco (process plant design and costs), Action Mining (mine plan, ore reserves and mine costs) and Barclay Bros. (PNG) Limited (road). A number of other consultants were used in specialist areas.

Geology

Gold mineralisation is associated with well defined quartz sulphide veining controlled by large north west trending structures. The gold mainly occurs as a telluride mineral - calaverite. Locally the Irumafimpa zone has been mapped and demonstrated to be auriferous over 2km.

At least two major and two less extensive lodes have been identified within the Irumafimpa main zone which are known to continue at depth and along strike outside of the proposed mine area. These near vertical, sub parallel lodes are named from east to west, the Lama, Puma, Mill and Robinson veins. The Mill and Robinson are recognised as the most continuously developed and host the bulk of the resource.

The mineral resource estimate is reported in the table below and includes that portion of the resource that has been converted to reserves and reported in the mining section below.

	Indicated		Inferred		Total		Contained ozs Au
	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	
Irumafimpa							
Puma Lode	170,000	18			170,000	18	94,000
Mill Lode	330,000	26	370,000	27	700,000	26	590,000
Robinson Lode	180,000	14	370,000	15	550,000	15	260,000
Kora							
Mill Lode			160,000	36	160,000	36	190,000
Robinson Lode			150,000	23	150,000	23	110,000
Total	670,000	21	1,000,000	24	1,700,000	22	1,240,000

Resource Estimate 5 g/t gold lower cut-off grade

NOTES ON RESOURCE REPORTING

The information in this report on the Irumafimpa Mineral resource is based on information compiled by Mr. Peter Stoker, who is a Fellow of the Australasian Institute of Mining and Metallurgy, and who is employed by Hackchester Pty Ltd. Mr. Stoker has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr. Stoker consents to the inclusion in the report of the matters based on the information compiled by him in the form and context in which it appears.

The following statements apply with respect to the Irumafimpa February 2003 Inverse Distance Squared Mineral Resource Estimate:

- Diamond drill core split by diamond saw and half core dispatched for assay.
- Metal Factor Cut of 150 gXm was applied to the composite true width intercept, four holes were affected.
- Gold assays by fire assay using one 50g or two 25g charges, by ALS, Australia and Astrolabe, Madang. Duplicate and check assays confirm the tenor of the assay database.
- Bulk density of 2.9 g/cc, derived from water displacement measurements with void correction applied, used throughout the deposit
- Drill hole 023BD2000 penetrated an old stope. For this resource estimate the hole was assigned a grade of 15 g/t Au.
- Cells in the gridded seam model on the near vertical veins are 10 metres north-south by 10 metres in elevation with the thickness determined from hanging wall and footwall wire frames.
- Cells classified as "Indicated Mineral Resource" have a maximum distance from a drill hole of 37.5 metres.
- Cells classified as "Inferred Mineral Resource" have a maximum distance from a drill hole of 125 metres.
- The estimate has been compared against a series of polygonal estimates to support the reported Mineral Resource.

The following statements apply with respect to the Kora February 2003 Resource Estimate:

- The Kora component of the resource estimate was estimated by the drill hole centered polygonal method.
- Diamond drill core split by diamond saw and half core dispatched for assay.
- Metal Factor Cut of 150 gXm was applied to the composite true width intercepts.
- Gold assays by fire assay using one 50g or two 25g charges, by ALS, Australia. Duplicate and check assays confirm the tenor of the assay database.
- Bulk density of 2.90 g/cc, derived from water displacement measurements with void correction applied, used throughout the deposit

Mining

The mining schedule will extract 714,841 tonnes of ore at 21.8g/t Au over a 4.5 year period. This schedule includes both probable reserves and an area of well defined resource for which mining and dilution parameters have been applied as per the table below.

<i>Probable Reserves</i>	<i>Tonnes</i>	<i>Grade g/t Au</i>	<i>Contained ozs</i>
Lode			
Puma	140,528	17.0	76,911
Mill	339,584	22.2	242,465
Robinson	134,089	12.8	54,982
<i>Scheduled Resource</i>			
Lode			
Mill	100,640	39.4	127,442
Total mine schedule	714,841	21.8	501,799

Notes:

- The information above was compiled by Mr. Graeme Fulton a competent person as defined by the Australasian Code for reporting Mineral Resources and ore Reserves (1999). Mr. Fulton is employed by Terra Mining Consultants

The mine is designed at a nominal capacity of 170,000 tpa. On average 158,000 t will be mined per annum with average payable gold production of 115,000 ozs.

Ore will be mined using the full shrink stope method to minimise dilution and maximise control. Ground conditions have been shown to be good. Access to the mine will be provided at two points,

the main haulage access at RL840 which will incline up onto the ore and an upper access level at RL1315 which will drive directly onto ore. Development will occur simultaneously from both points. Mine waste will be used to backfill exhausted stopes.

Ongoing definitional and exploration drilling during development and operations is expected to convert defined gold resources to mining reserves to extend the life of the operation by in excess of 6 years.

Additional reserve potential exists adjacent to the mine and within the greater tenement block. Ongoing testing of these areas, including the depth and strike extensions of the Irumafimpa system within the mine area, the parallel Judd and the Kerempi lodes and the Maniape and Arakompa structures are expected to further extend the life of the operation or provide the basis for future expansion of production.

Processing

The mined ore will be trucked approximately 8km to the treatment plant located on flat land.

Simple processing technology will be used to produce a concentrate containing the gold by flotation. Following crushing the ore will be ground in a ball mill and the sulphide bearing material separated from the tailing material by flotation.

Between 12-13% of the ore material will be recovered as a gold bearing concentrate. The balance will be permanently stored in the engineered tailings storage facility. No cyanide will be used in the processing of the ore and only limited amounts of biodegradable flotation agents will be used. The average throughput in the plant will be 21 tonnes per hour.

The gold bearing concentrate will be packed in containers for transport to Lae and shipped to the smelter/refiner for the recovery of the gold. Gold recovery including flotation, smelting and refining will average 95.6%.

Capital Costs

The capital costs to bring Kainantu into production are estimated to be USD 39.6 million. The estimate has been built up using various specialist consultants and prices have been received for the larger items and significant contracts.

The major elements of the capital cost estimate are:

Description	USD 000's
Mining	14,142
Process plant	7,447
Infrastructure and utilities	7,570
EPCM and owners costs	7,360
Contingency	3,104
Total	39,623

Operating Costs

The total mine and treatment costs will average USD 108 per ounce. The mine operating costs have been built up from first principles by specialist consultants.

Description	USD/oz
Geology and mining	64
Processing	15
Administration and contingency	29
Total	108

Smelting/Refining

A high grade gold bearing sulphide concentrate will be produced at Kainantu for sale to a third party. The grade of the concentrate will average 180 g/t gold.

The concentrate will be bagged and loaded into 20t containers and sent by road to Lae. The containers will be consolidated in Lae and dispatched to the third party smelter/refiner for gold recovery.

On average 21,500 dry tonnes of concentrate will be shipped annually. The material will be sampled at the mine and by the smelter on arrival. An umpire sample will be taken at the arrival port.

The cost of freight, insurance, handling and smelting is estimated at USD28 per ounce based on the shipment to a smelter/refiner in Japan. Indicative pricing has been received from smelters, road freight and shipping companies.

Landowners

Landowner agreements have been substantially agreed. The Compensation Agreement has been agreed and will be signed at a common signing ceremony. The Memorandum of Agreement which will manage the integrated benefits package flowing to the local area landowners has been significantly advanced and is near completion. It is expected that these documents will be signed at a major ceremony in October.

Disputes over land ownership in some areas of the project are being managed through the Papua New Guinea land court system and are not expected to impact on the development of the project.

Highlands Pacific has offered to sell and the landowners have agreed to purchase 5% equity in the project. The sale price of this interest is the pro-rata share of sunk costs incurred since the grant of the mining lease. Highlands Pacific has undertaken to arrange a single financing package for the project and will fund the landowners' development equity which will be recovered from their share of project cash flows.

Equity participation in the project recognises the landowners' traditional attachment to the land and will ensure a strong benefit flow into the local community from the project.

Environment

The Kainantu project has been designed to minimise its impact on the environment.

An Environmental Plan was prepared after a baseline investigation. It was approved in June 2002. Changes made to the project design since that time will considerably enhance its environmental performance.

The key features of the environmental planning are:

- A small footprint – the underground mine, treatment plant, tailings storage facility, accommodation camp and the access road cover a small area; less than 50ha.
- No relocation of villages or hamlets is required.
- The majority of the area used is on previously disturbed land or Kunai grassland. Little forest area is cleared.
- No cyanide is used in ore treatment. Limited biodegradable flotation agents will be used.
- Sulphide materials report to the concentrate so that a benign tailings is produced. The tailings storage facility, will retain all of the tailings in an area that can later be closed and rehabilitated.
- Mine water will be used in the treatment plant and then pass to the tailings storage facility. It will then be treated before release.
- The development will result in improved infrastructure in the area, particularly education, health services, employment and business.

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