

## **CHAIRMAN'S ADDRESS**

As shareholders would be aware, Highlands Pacific is in a tough financial position; having just reported a USD114 million loss for the half year ended 30 June 2007. This included a loss of USD16.2 million at the Kainantu Gold Mine, which is a very disappointing outcome for all concerned.

The key to returning value to Highlands' shareholders is to improve the performance of the Kainantu Mine and towards this end, the Board has replaced most of the Highlands management team, including the Managing Director.

John Gooding took up duties as Highlands' new Managing Director on 21 May 2007 and over the next month he appointed a new General Manager at Kainantu - David Whittle, Mine Manager - Gary Varley, Mill Manager - Bill Reid and Maintenance Manager - Peter Scerri. Dennis Farlow has also recently joined the management team as the Safety Manager and along with Chris Huddy the Chief Geologist, and Dave Wissink the External Affairs and Sustainable Development Manager, make up the full complement of senior personnel on site.

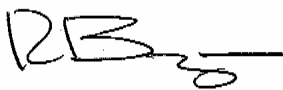
Already, many changes have been made to the operations at Kainantu but turning an underperforming mine around takes time. Clearly our interests will be served by being patient and giving our full support to John Gooding and his team.

All of our new team, including John, came from very responsible positions elsewhere in the mining industry and it was the challenge at Kainantu as much as anything else, which prompted them to join Highlands. Obviously they will expect to be rewarded if they can turn Kainantu and the company around - as well they should.

In arriving at the style of incentives offered to John Gooding and his team, the Board sought expert advice and the package for John presented to shareholders today is consistent with that advice.

All the key members of the new Highlands team are on incentive salary packages, identical in structure to that applying to the Managing Director's Options package. However, in John Gooding's case, being a director, his incentive package involving options, has to be endorsed by shareholders.

Since joining the company, John Gooding has put in a very strong performance and I would ask shareholders to endorse the package of Options offered to him, as detailed in the accompanying Explanatory Memorandum.



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**ROBERT BRYAN**  
**CHAIRMAN**