KAINANTU GOLD MINE

Production commenced in mid-January with the commissioning of the process plant on ore.

The first gold concentrate has been produced and containerised for shipping to Japan.

The first shipment of concentrate is scheduled to depart Lae mid-February.

The Kainantu development was substantially complete at the end of the quarter. The main ore pass was connected to the upper levels at the end of December.

Underground development continued to improve over the quarter with the completion of 2,216m, an increase of nearly 30% over the previous quarter. The improvement was a result of an increase in the number of working faces available and improved equipment utilisation.

KAINANTU GOLD EXPLORATION

The access ramp being mined from the lower portal has intersected the Chinook lode at around 1,000 RL, some 250m below the bottom of the mine ore reserve block.

The intersection, which is approximately two metres wide is well mineralised and is gold-bearing. This is a new discovery and adds significant potential for additional gold resources and reserves in the mine and confirms the potential of this untested area.

An underground drill programme to test the Mill, Judd and Chinook veins at depth will commence in the March quarter.

Drilling commenced at Eutompi in December to test the potential between the high grade Irumafimpia and Kora resource areas. No results are to hand.

RAMU

During the quarter MCC took over the operation and management of the joint venture.

The Company received the Development Funding Award for Ramu at the 2005 Mining Journal Awards for Outstanding Achievement.

FRIEDA

Falconbridge have approved a US$3.3 million budget for 2006.

The 2006 work program will include exploration drilling at Frieda along with a continuation of the QEM-SEM metallurgical studies at Sudbury, Canada, and initiation of hydrometallurgical investigations.
KAINANTU MINE DEVELOPMENT  
(Highlands Pacific: 95%)

Production commenced in mid-January with the commissioning of the process plant on ore. The first gold concentrate has been produced and containerised for shipping to Japan for smelting and refining. The first shipment of concentrate is scheduled to depart Lae mid-February.

At the end of the fourth quarter the project was substantially complete, the main ore pass was connected to the upper levels at the end of December.

Mine Underground Development

The quarter saw continued improvement in the rate of underground development with the completion of 2,216m, an increase of nearly 30% over the previous 3 months. This was achieved as a result of an increase in the number of working faces available and improved equipment utilisation.

As previously announced a Filipino miner was fatally injured by a fall of ground in the 21Level north cross-cut. The accident has been investigated by the Department of Mines.

As a consequence of the rock fall, part of the cross cut was abandoned which delayed the completion of the exhaust ventilation circuit and access to the top of the ore pass. These problems have now been overcome.

Upper portal (1300 RL)

Lateral development on the 20Level has extended beyond the southern limits of the mining reserve, and into an adjacent resource block. The development has confirmed the continuation of high grade mineralisation to the south within the main lode structure.

The continuity of the high grade mineralisation has been further defined by development work on the higher 19 and 18 Levels. This work has also enhanced the understanding of the geological model, and importantly confirmed the continuity of high-grade mineralisation outside the mine reserve.

A third outlet to surface has been established on the 18Level which has allowed the completion of the ventilation circuit required for the stoping operations.

Lower portal (840 RL)

The connection of the main ore pass with the 21Level was established at the end of December and transfer of ore commenced in early January following the installation of the tipping arrangements and removal of the Alimak mining equipment.

Development of the incline ramp advanced 465m for the quarter, which was greater than the previous quarter and exceeded plan.

The development drive has intercepted the Chinook vein at about 1,000 RL, which is 250m below the bottom of the mine reserve block. Where intercepted the vein is
about 2m wide and is gold bearing. This is the first significant intercept of gold mineralisation in the Chinook system and is encouraging in terms of the extension of the mineralisation at depth at Kainantu.

**Process Plant**

The crushing and screening sections of the process plant were commissioned on development waste during the quarter. The crushing circuit provided road base and aggregate on an as required basis during the quarter.

Commissioning on ore commenced in January and the first gold concentrate has been produced and packed ready for shipment. The commissioning of the plant has gone well with the plant performing to expectations.

The first shipment of concentrate is scheduled to depart Lae for Japan in mid-February.

The reed bed filter pond system for treatment of the discharge water from the tailing storage facility has been established. Discharge of process plant tailings into the storage facility commenced in January.

**Infrastructure & Utilities**

The final standby generator capacity has been installed. All power and utilities are now in place. Fibre optic cable now links the plant, offices and lower portal. The laboratory was commissioned in January and is now operating.

**Community Relations**

Relationships with the local community continue to be cordial with no major concerns from any of the landowner groups. The local communities continue to benefit from: business development opportunities; the Company’s policy of prioritising employment and training of local people; and health and education assistance. These benefits have led to a significant increase in the disposable income in the surrounding areas.

It is pleasing to record that the Kainantu project received the “Best Peer Education Intervention” award for 2005 for its employee Behavioural Change Communication programme on AIDS at a recent AIDS Symposium on Port Moresby.

At the end of the quarter the Kainantu project provided direct employment to 425 people. A further 168 people were employed by contractors providing services to the project. A total of 81% of all positions were filled by Papua New Guinean nationals, and of these 41% were residents from within the immediate project area.

The Land Title Commission (LTC) has completed its deliberations on the ownership of lands covered by the Mining Lease. The outcome will not be known until the conclusion of the assessment of claims covering the associated Lease for Mining Purposes. The LTC has scheduled to complete its hearings by the end of the March quarter. Until the LTC hands down its decision all royalty and land rent payments accruing to the landowners will be deposited into a trust account.
Financing

Drawdown against the US$31 million project financing facility provided by ABN AMRO, SG Australia and RMB Resources continued during the quarter.

RMB Resources exercised 500,000 of its options in December. As required by the Financing Agreement these funds (USD200,000) are treated as a prepayment of the financing facility, thereby reducing it to USD30.8 million.

The detail of the hedging programme, which was required by the financiers is appended in Attachment 4.

Kainantu Gold Exploration

Highlands Pacific holds a 756 sq km area under four exploration licences surrounding the Kainantu gold mine development (refer Attachment 1). This area is being explored for high grade gold bearing veins similar to the Irumafimpa vein.

In-mine exploration

The access ramp being mined from the lower portal has intersected the Chinook lode at around 1,000 RL, some 250m below the bottom of the mine ore reserve block. The intersection, which is approximately two metres wide is well mineralised and is gold bearing. This is a new discovery and adds significant potential for additional gold resources and reserves in the mine area. It confirms the potential for extensions of the gold mineralisation at depth.

Underground exploration drilling is planned to follow up intersections of the Mill, Judd and Chinook lodes at depth. Each of these lodes has been intersected by the access ramp being constructed from the lower portal.

Drill testing of these lodes has been delayed from the December quarter as drilling resources were directed towards stope definition drilling in preparation for the commencement of mining. It is now expected that an underground drilling programme will commence in the March quarter.

Near-mine exploration

Surface diamond drilling commenced at the Eutompi prospect in December.

The target area (refer Attachment 2) is a zone of near surface untested resource potential within the Irumafimpa lode system and lies between the defined high grade resource areas at Irumafimpa (950,000 ozs gold) and Kora (820,000 ozs gold). Eutompi is adjacent to the Kainantu mine development and could be easily accessed by extension of the underground workings and from auxiliary surface openings.

To date three holes of the planned 2800m, 12-hole programme have been completed. The lode zone has been intersected, however, assay results are not yet to hand. The programme will continue through the March quarter.
Planned drilling at the Mati – Mesoen prospect has been postponed due to delays in securing landowner agreements for access to drill sites. Discussions with the landowners on access are continuing.

**RAMU PROJECT**  
*(Highlands Pacific: 8.56%)*

In October MCC formally became a participant in the Ramu nickel/cobalt project when the Ramu Joint Venture Agreement was signed. During the quarter MCC took over the operation and management of the joint venture.

It was pleasing to note that the Company received the Development Funding Award for Ramu at the 2005 Mining Journal Awards for Outstanding Achievement.

**FRIEDA RIVER PROJECT**  
*(Highlands Pacific: 89%)*

Highlands Pacific is exploring the Frieda porphyry copper/gold deposit in joint venture with Falconbridge and OMRD Frieda. Falconbridge (previously Noranda) has an option to acquire up to a 72% interest in the project by funding Highland’s share of expenditure towards further exploration including a bankable feasibility study. Falconbridge also has the option to acquire a 72% interest in the Nena property by paying Highlands Pacific an additional USD10.8 million.

No field work was carried out at Frieda during the December quarter following the completion of the drilling program earlier in the year. Falconbridge have approved a US$3.3 million budget for 2006.

The 2006 work program will include exploration drilling at Frieda along with a continuation of the QEM-SEM metallurgical studies at Sudbury, Canada, and initiation of hydrometallurgical investigations at Falconbridge’s Lomas Bayas operations in Chile. These metallurgical studies are focussed on determination of treatment options for samples from the Nena deposit (72Mt @ 2.0% copper, 0.5 g/t gold) collected from the metallurgical drilling program carried out in 2005. The cost of the 2006 exploration drilling program is estimated at $US 2,500,000 with another $US 800,000 allocated to the metallurgical program.

**Nong River (EL1312), Tifalmin (EL 1392),**  
*(HPL 100%, Noranda earning 72%)*

The Nong River and Tifalmin areas are prospective for porphyry copper/gold and related high grade skarn deposits covering an area of 920sq km some 40km north of the Ok Tedi mine.

In 2005 an airborne magnetic and radiometric survey was carried out over the entire area. Some fifty priority targets have been defined and an initial program of ground follow up was recently completed.

A preliminary review of the results suggests that of the seven areas visited two have
substantial potential with skarn related copper and gold mineralisation occurring in association with altered diorite porphyries. Channel sampling at two localities at the Rattatat anomaly gave 12m @ 0.74%Cu, 0.82g/tAu, and 17m @ 1.4%Cu and 1.74g/t Au respectively. These areas and other magnetic anomalies will be further assessed by follow up field inspections during 2006.

EXPLORATION & DEVELOPMENT EXPENDITURE

Development expenditure incurred by Highlands Pacific on the Kainantu project for the quarter was $US10,246,000.

Exploration expenditure managed by Highlands Pacific for the quarter was $US1,063,000 of which $US338,000 was spent on the Frieda River project with US$330,000 funded by Noranda. $US353,000 was spent on the Ramu Project and $US306,000 was spent on Kainantu all of which was funded by Highlands Pacific. There was $US66,000 spent on other exploration expenditure during the quarter of which $US26,000 was funded by Highlands Pacific.

For further information contact:

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Email: irh@highlandspacific.com Email: jif@highlandspacific.com
### List of Mining Tenements

<table>
<thead>
<tr>
<th>Tenement Reference</th>
<th>Beneficial Interest at Commencement of Period</th>
<th>Beneficial Interest at End of Period</th>
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<tr>
<td>Exploration (Highlands Pacific Resources Limited)</td>
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<td>ELs 1312, 1340, 1392, 1399 and ELA 1400</td>
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<td>100% Note 1</td>
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<td>LMPs 42, 43, 44, 45, 46, 47, 48 and 49</td>
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<td>Woyla River Contract of Work / Tripa Contract of Work</td>
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### Notes

1. Subject to the right of the Independent State of Papua New Guinea to acquire a 30% equity interest in any mining development in that country.

2. Definitions

   - EL  - Exploration License
   - ELA  - Exploration License Application
   - SML  - Special Mining Lease
   - ML  - Mining Lease
   - LMP  - Lease for Mining Purpose
   - ME  - Mining Easements
Hedging Program

As part of the financing agreements a 275,000 ounce hedging program has been undertaken using a fixed lease rate flat forward structure. The hedged ounces total 55% of the scheduled production and 23% of the current gold resource.

The details of the hedging program are:

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<th>Delivery Date</th>
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<td><strong>Total</strong></td>
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1 Deliveries may be rescheduled.