



20 May, 2010

Highlands Pacific 2010 AGM

Managing Director's Address

Welcome everybody to our AGM here in Port Moresby. Our Chairman Ken MacDonald has mentioned a number of issues that we have had to deal with during 2009 and all of them have had an impact on Highlands in one way or the other. I intend to cover some important issues in this address and will then provide a summary of the operations and projects in a presentation after the formal part of the meeting is concluded. In that section I will also use the opportunity to talk about the issues surrounding the Ramu project and importantly the Deep Sea Tailings Placement or DSTP method of tailings disposal that has been referred to a lot recently, particularly in the press.

I mentioned in my address in the 2008 Annual Report that Highlands would soon have its day in the sun as investors recognized the value of the projects that we have a share in. These projects including Ramu and Frieda are world class projects that have long lives that will underpin the company for many years. Ramu is in the commissioning phase at present with some production expected by the end of the year with resources that may sustain operations for up to 40 years. This project is exciting and will contribute to the well being of many PNG people as well as the stakeholders and is testament to our partners who have worked hard to overcome many obstacles. It's very disappointing that we are seeing some members of the community and others who don't even live here trying to stop the project just as it is to be commissioned and after a huge amount of work done by our partners and ourselves, the local landowners and communities and the PNG Government. Be warned that everyone is watching this with interest as a number of other important resource developments are being considered for the future in PNG.

At Frieda we look forward to receiving the Pre-feasibility Study in August this year as Xstrata spends US\$78m during 2010 so that they can get the final Feasibility Study completed by January 2012. That is not long away and a significant amount of work is being done as early as possible so that the right information is available for the decision making process to proceed. We are very pleased with the way that this project is coming together and it has the potential to be one of the new generation of great copper and gold mines in the world. With 18.18% Highlands' equity is an important plank in our growth strategy and we intend to maintain that equity for maximum return to our shareholders. This mine will have a life in excess of 20 years and will produce around 200,000 tonnes of copper in concentrate and 300,000 ounces of gold per year, so it is of similar size to the Ok Tedi Mine but without creating the environmental legacies that occurred there from a different time.

Our Star Mountain Exploration programme which we have referred to previously as the Nong River tenements is at an exciting stage with the airborne Electro Magnet currently being flown and preparations for drilling very soon at our first target which is where Kennecott intersected 89 metres of copper and gold mineralization very close to the surface in 1972 when they were exploring the area. They eventually found the deposit at Ok Tedi which distracted them for a while so here we are finishing that work that was started over 38 years ago. This programme has the potential to identify alternate resources that may be viable for Ok Tedi to mill through their concentrator after the mine has it's scheduled close in 2013. We are hoping that a successful exploration program will identify enough so that Ok Tedi and the towns of Tabubil and Kiunga can continue to prosper on the back of the Ok Tedi infrastructure, while continuing to provide important funding and employment for the region and the country.



Your team at Highlands spends a lot of time and effort ensuring that the projects and exploration activities continue to drive growth opportunities for shareholders. We often get asked what it is that we do given that we don't manage either Ramu or Frieda in our own right. Well these projects were once Highlands projects so we have a lot of background information, expenditure and resources and blood sweat and tears invested in them. The 9 fulltime employees in the company including John Nanane and Rex Angelo here in PNG, are busy protecting our shareholders' interests by getting involved in all sorts of issues to do with the projects - from regular Joint Venture meetings with our partners, to site visits and inspections, data and engineering analysis, project specific input and many other things, while continuing to educate the market on our activities and satisfying all the regulatory and statutory obligations that we have as a publicly listed company. Our exploration activities also require a lot of organization given the limited infrastructure in many areas in which we operate. So we are busy and you can be sure that this very small team is working for your best interests, and I am pleased to say that the team remains excited about the future for the company.

While there are a number of day traders who trade our stock, there are also a large number of loyal and savvy long term investors who can see that the value in Highlands will significantly improve as the projects progress through to production. We value our shareholder's support very much, as we do the support of our partners who didn't really blink about the huge expenditure commitments that they had for the projects during the Global Financial Crisis last year. If you need to have big brothers to get these world class assets developed then we have chosen the right ones and our shareholders should be proud of the relationship that we have with them.

Although we have some wonderful projects that most small mining companies could only dream about, we continue to seek other opportunities that will improve the return to shareholders. Almost every week or two we are reviewing and analyzing potential mergers and acquisition opportunities in mostly the Asia/Pacific region and generally in the commodities of gold, copper and nickel, although from time to time we do extend our horizons if something appears as though it may be compelling. Our current financial position of US\$22m in the bank and absolutely no debt is a good place to be so any acquisition has to make a lot of sense at the end of the day.

At present PNG is our base and it is a wonderful country geologically as many of the largest miners in the world are now recognizing as they get involved here. But it's not the only place where companies can invest as there are many countries that have very good mineral and energy endowments that can attract resource companies also. It all boils down to the risk/reward equation and I think I would be remiss in not stating that companies need stability and security of tenure and agreements that are adhered to so that the eventual outcomes are achieved and all stakeholders are rewarded. Just look at the effect that Australia's Government recent Resource Super Profits Tax has had on the level of investment in Australia over the last month and the consequent reduction in confidence in Australia as a place to invest by mining companies.

During the last year we have seen many occasions where there has been disruption of projects in PNG. A lot of the issues are to do with land issues which are becoming more litigious and demanding. The frustrations felt by landowners in these areas are due to some PNG Government agencies not providing the appropriate systems and support to get these issues sorted out. At the same time there is also frustration due to the lack of transparency associated with the use of benefits generated from resource development. These issues must be fixed to allow all parties to regain the confidence in the industry.

Time delays always cost money in any project so it is important that once parties have agreed on issues, resource companies are allowed to proceed unhindered. In this way the projects can be commissioned on time which means that the financial, employment and business benefits can then flow through to the stakeholders. With the important and immediate support of the PNG Government and the local government bodies as well as the landowners, PNG will once again gain a reputation for being a safe place to invest with the benefits following through to all.

So thank you for making the time to come today and I hope you will leave feeling confident that your company is in good hands and that the projects that we have are very real and will add great value in the near term. For those of you who have been shareholders for a long time these projects are now right on the doorstep of production and development but it has been disappointing that the worlds many events continue to create uncertainty in the markets. That will always continue to happen but the progress of our projects and our companies growth will go hand in hand.



Finally I would like to wish Rod Mitchell all the best for the future and say thanks for all his guidance and support. PNG is lucky to have such a committed community and business leader here in its midst and we look forward to remaining in close contact with Rod. I'll also use this opportunity to welcome Dan Wood who will be taking Rod's place and also Drew Simonsen who joined earlier in the year. I have absolute faith that our new board members will add great value and I am looking forward to working with the Board as we fulfill our strategy and goals.

Thank you.



ASX Code: HIG
PoMSox Code: HIG
Shares on Issue: 665 million
Options on Issue: 35 million

Market Capitalisation **A\$176m**
Cash on Hand (31/03/10) **A\$24m**

Directors

Ken MacDonald, *Chairman*
John Gooding, *Managing Director*
Mike Carroll
Rod Mitchell
Drew Simonsen
Fiu Williame-Igara

Management

Craig Lennon, *CFO & Co.Sec*
Larry Queen, *Chief Geologist*
Terry Smith, *GM Mining & BD*
Peter Jolly, *GM Projects*

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About Highlands Pacific Limited

Highlands Pacific is listed on the ASX and PoMSox exchanges. Its major development assets include the US\$1.4bn Ramu nickel cobalt project, the Frieda River copper gold project and exploration on the highly prospective Nong River and Tifalmin licenses approximately 20km north of Ok Tedi. Highlands also holds exploration ground in the Wau/Bulolo close to the new Hidden Valley and Wafi gold projects and has cash reserves of A\$24 million with no debt.

Frieda Copper/Gold Project

The Frieda copper project is one of the world's largest undeveloped copper/gold resources. Frieda River is 170 kms NW of the giant Porgera gold mine. The project owners are Xstrata (81.82%) and Highlands (18.18%). Highlands has a free-carried interest through to completion of a bankable feasibility study (required by Jan 2012). Xstrata's spend for Frieda in 2009 was US\$38m and in 2010 will be US\$77.5m. A extended scoping study released in early 2009 indicated a 40Mtpa plant with a 27 year mine life averaging 160,000 tpa of copper metal and 240,000 ozpa of gold (with higher output in the first 10 years). The pre-feasibility study due in the third quarter of 2010 is currently considering larger throughput and production options. Subject to the project continuing to meet its project hurdles, a 12-month feasibility study would commence in 3Q 2010 with possible construction in 2012 and production in 2017.

Ramu Nickel Cobalt Project

The Ramu nickel project is located 75 km west of the provincial capital of Madang, PNG and will produce an annual output of 31,150 tonnes of nickel and 3,300 tonnes of cobalt contained in high grade concentrate over a 20 year mine life. The mineral resources at Ramu have the potential to increase the mine life by a further 15-20 years. Highlands 8.56% interest in the Ramu will increase to 11.3% at no cost after repayment of the project debt (estimated to be 8 years). From commissioning, Highlands has access to its pro-rata 8.56% share of Ramu's post-debt servicing net cash flow. Highlands also has an option to acquire an additional 9.25% at fair market value which could increase its interest to 20.55%. Progressive commissioning commenced late in the December quarter 2009 and is expected to continue through to June quarter 2010. Production is expected to commence after that with a staged ramp up through the December quarter 2010 and in 2011.