

IMPORTANT SHAREHOLDER INFORMATION – PLEASE READ

- Latest Highlands Pacific losses totally unacceptable, like those that came in previous years
- **Highlands Pacific’s directors must be held accountable - change at Board level urgently needed**
- Don’t be fooled, PanAust is NOT proposing a takeover – we want an independent board who will act in the best interests of ALL shareholders
- **Take action NOW and put a STOP to a corporate culture of excessive remuneration, poor performance and destruction of shareholder value**

**Have your say - Vote “For” all resolutions at the Shareholder Meeting on Thursday
18 May 2017**

Fellow Shareholder/s,

Following the release of Highlands Pacific Limited (Highlands) latest financial results on 28 March 2017, it is evident changes must be made NOW given the company’s continued unacceptable performance.

2016 performance: More losses

As a major shareholder, PanAust Limited (PanAust), is profoundly disappointed with these latest results as are many of you. The poor performance shows that this is clearly a board lacking any clear strategy to create long term shareholder value. Claims by Highlands of “solid progress” are truly alarming, particularly given the losses generated and low cash balance reported.

It seems your current board is satisfied, even pleased to report that for the 12 months ending 31 December 2016 the company recorded another **massive loss** of more than **US\$15.8 million**. This follows the **\$US68 million loss** in 2015 which brings the **total loss** to almost **US\$84 million** over the past two years alone and almost US\$150 million since 2010.

All shareholders should be disappointed that the current board encouraged you to vote for them BEFORE releasing the disappointing 2016 results. **WE DESERVE BETTER!**

We continue to raise material concerns about Highlands’ current and future strategic direction given these latest financial results. We are obligated to speak out and initiate firm action on behalf of ALL shareholders to protect the value of our shares.

We believe the only positive news that came from these financial results relates to cost cutting initiatives which were only implemented following our vote against Highlands’ outrageous and excessive remuneration at the Company’s 2016 Annual General Meeting.

<p>2015 WINNER AUSTRALIAN CLIMATE LEADERSHIP AWARDS MOST PROFITABLE CARBON REDUCTION ACTIVITY</p> 	<p>2013 WINNER PROJECT DEVELOPMENT OF THE YEAR</p> 	<p>2013 WINNER SUSTAINABILITY LEADERSHIP 2010/11 WINNERS BEST COMMUNITY DEVELOPMENT</p> 	<p>2011 LAO PDR LABOUR ORDER CLASS 1 BEST RURAL DEVELOPMENT</p> 	<p>2011 WINNER SOCIAL/COMMUNITY PRESENTED BY ETHICAL INVESTOR</p> 
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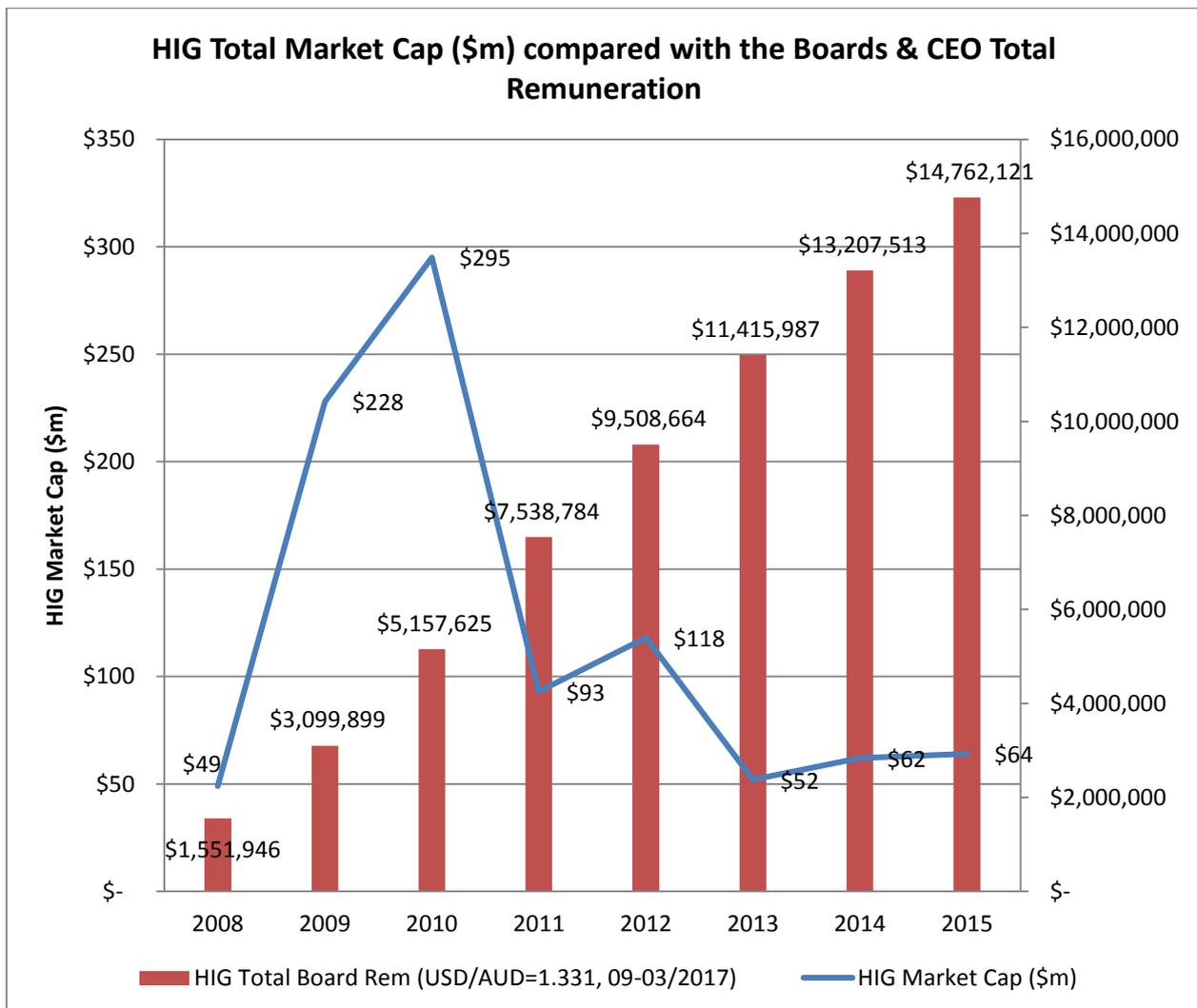
We remain very concerned that Highlands has a culture of excessive remuneration practices which has not changed, with previous management being paid more than \$US1 million in the past 12 months.

As outlined in its Member’s Statement, it is PanAust’s view that the current Highlands Board has not diligently applied itself to increasing shareholder value.

Don’t be fooled - The FACTS are:

1. Highlands has substantially underperformed the S&P/ASX 300 Metals and Mining Index and as a result of the company’s declining share price it was removed from this index.
2. The Highlands Board’s practice of paying excessive remuneration is not aligned to generating long term positive returns for ALL shareholders.

To illustrate this point, the following graph shows Highlands’ total market capital (A\$) compared with the Boards’ and CEO total remuneration’ since 2008.



The total remuneration paid is a staggering A\$14,700,000 whilst over this same period the Company’s total market capitalisation’ has fallen from a high of A\$295 million in 2010 to now sit at only A\$64 million – this is a decline of more than 78 per cent!

The current Board is not responding to shareholder concerns:

The voting record at Highlands' Annual General Meetings clearly demonstrates broad shareholder discontent with the current board, its remuneration practices and its strategic direction. Despite shareholder dissatisfaction the Board has NOT responded and shareholders continue to suffer from unsatisfactory returns.

The Board has not put forward a compelling case for continuing its current, failed strategic direction – whatever that is. Rather it has sought to attack PanAust which has been a supportive and constructive substantial shareholder since we first acquired our interest in August 2014.

We are alarmed that the Notice of Special Meeting issued on 7 March 2017 by Highlands contains misleading and erroneous information about the motives of PanAust. The facts are:

- PanAust is proposing the appointment of new, INDEPENDENT directors committed to reinvigorating the Highlands Board for the benefit of ALL shareholders.

Importantly, Highlands Pacific will continue under the same ownership but with an experienced, competent board capable of implementing change and a fresh, value-creating approach. We consider the proposed candidates to have the relevant blend of skills, knowledge, corporate governance expertise and experience to govern the Company and work towards building value for all shareholders. The candidates are experienced Company Directors who fully appreciate that their obligations are to act in the interests of ALL shareholders.

- The nominated directors have no connection to PanAust or its owner, Guangdong Rising Assets Management (GRAM).

There is no arrangement or understanding that the proposed independent directors will act at the direction of, or report to, PanAust or GRAM. It is our view that each nominee meets the test of independence as set out in the ASX Corporate Governance Principles and Recommendations.

- Should the resolutions be approved by Highlands shareholders, there will be NO change of control. Therefore the misleading reference by Highlands to any foregone “payment or premium for a change of control” is irrelevant and misleading.

We believe this is a desperate attempt from the Board to distract shareholders from the real issues which are: excessive remuneration, poor corporate governance practices and destruction of shareholder value.

Moving Forward - How to vote:

ENOUGH IS ENOUGH! The Highlands Board has had ample time to improve performance and it is now time for change. As your fellow shareholder we ask for your support to help bring about necessary change that is in the best interests of ALL shareholders and will benefit you.

For your convenience, we have attached a completed proxy form to vote in favour of the resolutions together with a pre-paid envelope. If you have already voted and wish to change your vote, you can easily do so by completing and returning the form. You can also fax your completed form to +61 2 8569 1577.

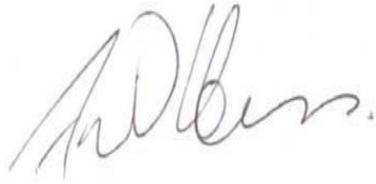
So that your vote counts, please ensure that your signed proxy form is returned by no later than 11.00 am (Port Moresby / Brisbane time) on 17 May 2017.

You can also vote online at www.investorvote.com.au using Control Number 139303.

For further information please contact our information line:

Australian Investors: 1300 399 491 or if calling from Papua New Guinea: +61 2 8022 7947

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Fred Hess', written in a cursive style.

Dr Fred Hess

PanAust Managing Director