



HIGHLANDS PACIFIC LIMITED ARBN 078 118 653
Incorporated in Papua New Guinea

Registered Office

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Papua New Guinea
Level 9 Pacific Place, Musgrave Street
Port Moresby NCD 121
Papua New Guinea

Telephone: (675) 321 7633

Facsimile: (675) 321 7551

Website: www.highlandspacific.com

Registered Office in Australia

GPO Box 3086, Brisbane QLD 4001
Australia
Level 4, 167 Eagle Street
Brisbane Qld 4000
Australia

Telephone: (617) 3239 7800

Facsimile: (617) 3221 6727

Email: info@highlandspacific.com

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Notice is hereby given that a Special Meeting of members of Highlands Pacific Limited will be held in Ballroom 1 Crowne Plaza Hotel, Cnr Hunter & Douglas Streets, Port Moresby, Papua New Guinea on Thursday, 27th September 2007, at 4.00pm.

AGENDA

ORDINARY BUSINESS

1 Approval of issue of executive options to Managing Director

To consider and, if thought fit, pass the following resolution:

"That, in accordance with Listing Rule 10.14 of the ASX, the issue of 10,000,000 executive options to Mr John Gooding, the Managing Director of the Company, under the Executive Share Plan in accordance with the terms described in the Explanatory Memorandum is approved."

The Company will, in accordance with Rule 14.11 of the Listing Rules of the Australian Stock Exchange Limited disregard any votes cast in respect of this resolution by Mr John Gooding or any associates of Mr Gooding.

However, the Company will not disregard any votes on the resolution if:

- It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Proxy

As a member of the Company you are entitled to appoint a proxy to attend this meeting on your behalf. The proxy does not need to be a member of the Company. If you are entitled to cast two (2) or more votes, you are entitled to appoint not more than two (2) proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

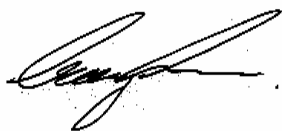
If you wish to appoint a proxy, please fill out, sign and return the attached proxy form as directed by the notes on the proxy form.

For the purposes of the meeting, shares will be taken to be held by the persons who are the registered holders at 4.00pm (Port Moresby and Brisbane time) on Tuesday 25 September 2007. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Incorporation of Explanatory Memorandum

The Explanatory Memorandum to Shareholders attached to this Notice of Special Meeting, is hereby incorporated into and forms part of this Notice of Special Meeting.

By Order of the Board



C.T. LENNON
COMPANY SECRETARY

5 September 2007

Highlands Pacific Limited

ARBN 078 118 653

EXPLANATORY MEMORANDUM

The purpose of this Explanatory Memorandum is to provide shareholders with information to assist them in assessing the merits of the resolutions contained in the accompanying Notice of Special Meeting of Highlands Pacific Limited (**Highlands**).

The Directors recommend that shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolution.

Resolution 1 – issue of options to Managing Director

Background and reason for the proposal

The Board wants to ensure that the remuneration of Highland's executives is in line with the market perceptions of Highland's performance and that there is an effective incentive for the executives to improve Highland's performance and the value of investments of the shareholders.

The Board engaged a remuneration consultant to review the remuneration packages of Highlands' executives, including the offer to the recently appointed Managing Director. As a result of this review the Directors (other than Mr Gooding), agreed to offer Mr Gooding as part of his initial employment contract, subject to shareholders' approval, new options in accordance with the Highlands Executive Share Option Scheme.

Shareholder approval and the proposal

The Directors believe that the granting of these options to Mr Gooding under the scheme could be regarded as the giving of a financial benefit to a related party of the Company which requires approval of shareholders in a general meeting.

The Australian Securities Exchange ("ASX") also require Highlands to obtain the approval of shareholders for the issue of options to a director under an employee incentive scheme.

Approval is sought under ASX Listing Rule 10.14, for the issue to Mr Gooding, the Managing Director of Highlands, of 10 million options as follows:

No. of Options	Price Hurdle – VWAP (AUD)	Exercise Price – (AUD)	Value AUD*	Vesting Date	Expiry Date
1,500,000	0.25	0.155	99,600	21 May 07	21 May 2010
3,500,000	0.35	0.155	203,000	21 May 08	21 May 2010
5,000,000	0.50	0.155	204,500	21 May 09	21 May 2010

* The values were calculated independently using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate of the term of the option. The Board draws Shareholders' attention to the fact that the stated valuation does not constitute and should not be taken as audited financial information. The Board believes that the method of valuation to be appropriate in these circumstances.

VWAP – means the volume weighted average share price for Highland's shares on the ASX in ten consecutive trading days.

The full terms of the options are set out in the Executive Share Option Scheme, a summary of which is set out in Attachment A.

Effect of the proposal

If all of Mr Gooding's options are exercised, based on the current number of issued shares in Highlands, he would hold approximately 1.5% of the issued shares in Highlands.

Shareholders should note that if Mr Gooding exercises all of his options, it will have a small dilutionary effect on existing shareholders' interest.

Use of funds raised

There is no issue price for the new options. The funds raised by the exercise of the new options will be used by Highlands for working capital.

Issue of options since last approval

For the purpose of ASX Listing Rule 10.14 no persons have received securities under the Executive Share Option Scheme since the last approval (being the Annual General Meeting of 25 May 2005 – Resolution 6).

Voting exclusion

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast by Mr Gooding or his associates in respect of this resolution.

Issue Date

The Options, if approved, will be issued by the Company to Mr Gooding within three months of shareholders approval or in any event not later than 12 months of shareholder approval.

Recommendation

Each of the directors (other than Mr Gooding) recommends the issue of the new options to Mr Gooding for the reason set out above and recommends that you vote in favour of this resolution. None of the directors (other than Mr Gooding) have an interest in the outcome of the resolution.

Attachment A

Terms and Conditions of the Highlands Executive Share Option Scheme

- Each option will entitle the option holder to subscribe for 1 fully paid ordinary share in the Company ("Share") upon exercise of the option and payment of the exercise price.
- The options in each tranche will only be exercisable if the hurdle for that tranche is achieved by the required date.
- Each option will be exercisable at an exercise price calculated as the volume weighted average price of all trades of Shares on the Australian Securities Exchange ("ASX") during the period of 10 trading days ending on the day the employment contract was signed.
- The options in each tranche will only become exercisable ("vest") if and when the hurdle for that tranche is achieved by the required date.
- The exercise period for each tranche will commence on the day that the hurdle is achieved ("vesting date") and will end on the third anniversary of the grant date.
- Each option will be exercisable by giving notice of exercise to the Company, and paying the exercise price for the option.
- Options will not confer an entitlement to receive dividends declared and paid by the Company, nor an entitlement to vote at general meetings of the Company.
- Subject to the Company's constitution, each share issued on the exercise of an option will rank equally in all respects with other issued shares.
- The option holder will not be entitled to participate in new issues without exercising the options.
- The Company will not apply to ASX for official quotation of the options.
- The Company will apply for official quotation by ASX of the Shares issued upon exercise of options within the time period required by the ASX listing rules.
- Neither an option nor an option holder will be assignable or transferable except to a company controlled by the Executive or (in the case of death) to the deceased's personal representative.
- If the option holder holds unexercised options when the Executive's employment with the Company terminates the unexercised options will lapse as follows:
 - a) if the exercise period has not commenced, the options will lapse immediately upon termination of employment;
 - b) if the exercise period has commenced, the options will lapse at the end of the exercise period.
- Options not exercised prior to the expiry of the exercise period will lapse at the end of the exercise period.
- If a takeover bid is made for shares all options will be exercisable during the offer period regardless of the exercise period and exercise hurdles.
- In the event of a reorganisation of the capital of the Company, the rights of the option holder will be changed to the extent necessary to comply with the listing rules of the ASX applying to a reorganisation of capital at the time of the reorganisation.
- If the capital of the Company is reconstructed, the number of options and / or the exercise price of the options will be correspondingly reconstructed in a manner which will not result in any additional benefits being conferred on option holders which are not conferred on shareholders.



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Mark this box with an 'X' if you have made any changes to your address details (see reverse)

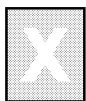
Proxy Form

All correspondence to:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia
Enquiries (within Australia) 1300 552 270
(outside Australia) 61 3 9415 4000
Facsimile 61 3 9473 2555
www.computershare.com



Appointment of Proxy

I/We being a member/s of Highlands Pacific Limited and entitled to attend and vote hereby appoint



the Chairman
of the Meeting
(mark with an 'X')

OR

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Special Meeting of Shareholders of Highlands Pacific Limited to be held at Ballroom 1, Crowne Plaza Hotel, Cnr Hunter & Douglas Streets, Port Moresby, Papua New Guinea on Thursday, 27 September 2007 at 4.00 pm and at any adjournment of that meeting.

Voting directions to your proxy - please mark to indicate your directions

ORDINARY BUSINESS

1. Approval of issue of executive options to Managing Director

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In addition to the intention advised above, the Chairman of the Meeting intends to vote undirected proxies in favour of each of the other items of business.

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Appointing a second Proxy

I/We wish to appoint a second proxy



Mark with an 'X' if you wish to appoint a second proxy.

AND

 %

OR

State the percentage of your voting rights or the number of securities for this Proxy Form.

PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1

Individual/Sole Director and
Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

In addition to signing the Proxy Form in the above box(es) please provide the information below in case we need to contact you.

Contact Name

Contact Daytime Telephone

Date

/ /



How to complete the Proxy Form

1 Your Address

This is your address as it appears on the company's Share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's Share registry or you may copy this form.

To appoint a second proxy you must:

- (a) indicate that you wish to appoint a second proxy by marking the box.
- (b) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (c) return both forms together in the same envelope.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

- Individual: where the holding is in one name, the holder must sign.
- Joint Holding: where the holding is in more than one name, all of the securityholders should sign.
- Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
- Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's Share registry or at www.computershare.com.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 24 hours before the commencement of the meeting at 4.00 pm on Thursday, 27 September 2007. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged using the reply paid envelope or:

IN PERSON Computershare Investor Services Pty Limited, Level 19, 307 Queen Street, Brisbane, Queensland 4000 Australia
BY MAIL Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001 Australia
BY FAX 61 3 9473 2555