



2 March 2017

Dear Shareholders,

We are writing to you because one of our shareholders, PanAust Ltd, a wholly-owned subsidiary of the Chinese government owned Guangdong Rising Assets Management Co Ltd (GRAM), has requisitioned a special meeting of Highlands Pacific Ltd, seeking to replace four of your five Independent Non-Executive Directors with three of its own nominees.

**This would effectively give GRAM, which owns just 14% of Highlands, control of the Highlands' Board.** PanAust is Highlands' 80% joint venture partner in the Frieda River development project and is also the manager. Highlands holds 20%. Therefore, if GRAM's proposals are approved by shareholders, it would gain absolute control over all decisions regarding the Frieda River joint venture.

The meeting is scheduled to be held on May 18 - the same day as the Annual General Meeting. Your current Directors, including the Chairman who is retiring in March, strongly believe that **GRAM's proposed changes to the Board are not in the interests of the Company.**

**All Directors, including the one Independent Non-Executive Director and Managing Director whom GRAM has not sought to remove, recommend that you vote against GRAM's proposed appointments** for reasons including the following:

- 1) GRAM's proposed Board spill would constitute a change of control of the Company, without any payment or premium for control being paid to our shareholders. Our shareholders deserve better. **If GRAM wants control, it should make a takeover offer and pay a full price.**
- 2) **Your Board has a clear strategy to protect and enhance the value of Highlands.** Your Board has implemented a rigorous cost reduction program and has commenced a Board renewal process with the appointment of a new Chairman. The Board renewal process that Highlands is undertaking is ongoing and involves an external recruitment organisation.

Your Board is committed to maximising the value of all assets of the company including Highlands' 20% interest in the Frieda River project. Highlands commenced a process in December 2016 to explore the options to maximise the value of its 20% Frieda River interest including a potential sale (over which GRAM holds a pre-emptive right). The current Board is focussed on maximising value for all shareholders of Highlands, not just GRAM.



- 3) **Neither GRAM nor its nominees have explained how the nominee directors would manage Highlands differently**, nor how they would deliver additional value to Highlands' shareholders.
  
- 4) **There is a clear danger that a GRAM dominated board would act to further GRAM's agenda in relation to Frieda River, rather than act in your interests.** Last year PanAust/GRAM released a "Frieda River Project Feasibility Study" that proposed a large scale development, with total development costs (pre-production and post-production) of nearly US\$5 billion. Highlands has disagreed with GRAM's approach and does not consider the feasibility study to be complete. Given the current status of the study, it is the position of the Highlands' Board that the company is not required to commence making cost contributions to the joint venture. GRAM is disputing Highlands' position. If GRAM were to win control of the Highlands' Board, then there would be a significant risk that Highlands would accept the GRAM position and start making cash contributions or elect to dilute its interest with the consequential value loss.

An independent Highlands will continue to advocate for a project focused on fundability and value for the benefit of all Highlands' shareholders and other PNG stakeholders, and for Highlands to only make cost contributions where required under the joint venture agreement.

We are absolutely focused on protecting **your** interests and achieving the best results **for you**. **We urge you to vote against the GRAM proposals at the special meeting in May.**

Your vote will be vital in determining the future of the Company. I encourage you to vote either by attending the special meeting or by voting by proxy prior to the meeting.

Your Board will shortly be sending you a Notice of Meeting and Explanatory Memorandum in relation to the special meeting. Please read them carefully, as they will contain essential information that will assist you in reaching an informed decision.

If you have any questions in relation to the special meeting, please contact Highlands Pacific on +61 7 3239 7800.

We would like to thank you for your ongoing support.

Yours sincerely

**Ken MacDonald (Chairman) and Ron Douglas (Chairman elect)**

**For further information, please contact:  
Joe Dowling, Stockwork Corporate Communications  
0421 587 755**