



# Highlands Pacific Limited

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**NOTICE OF ANNUAL GENERAL MEETING**

**EXPLANATORY MEMORANDUM**

**AND**

**PROXY FORM**

Thursday, 20 May 2010 at 10:00 am  
Crowne Plaza Hotel, cnr Hunter & Douglas Streets,  
Port Moresby, Papua New Guinea



# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 13<sup>th</sup> Annual General 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, 20 May 2010 at 10:00am.

## A G E N D A

### **ORDINARY BUSINESS**

#### **1. To receive accounts and reports**

To receive and consider the accounts (including balance sheet and income statement) for the year ended 31 December 2009, together with the reports of the Directors and the Auditors thereon, and if thought fit, pass the following resolution:

“That the accounts (including balance sheet and income statement) for the year ended 31 December 2009 are hereby adopted”.

#### **2. Election of Director – Drew Simonsen**

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

“That Mr Drew Simonsen, retiring in accordance with Regulation 10.6 of the Company’s Constitution and being eligible, be elected as a Director of the Company”.

#### **Retirement of Director – Rod Mitchell**

Mr Rod Mitchell will retire in accordance with Regulation 10.3(b) of the Company’s Constitution and will not be standing for re-election. Mr Mitchell has served the Company for over nine years and we thank him for his contribution. At the time of writing the company is in discussions with a new Director.

#### **3. Approval of Auditors**

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

“That Messrs PricewaterhouseCoopers be appointed as Auditors of the Company”.

### **SPECIAL BUSINESS**

#### **4. 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, the issue of 10,000,000 executive options to Mr John Gooding, the Managing Director of the Company, under the Executive Share Option Scheme 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, disregard any votes cast in respect of this resolution by Mr John Gooding who is eligible to participate in the scheme and any associate of Mr John 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 7.00pm (Port Moresby and Brisbane time) on Tuesday, 18 May 2010. 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 Meeting, is hereby incorporated into and forms part of this Notice of Meeting.

By Order of the Board



**C.T. LENNON**  
**COMPANY SECRETARY**

16 April 2010



# EXPLANATORY MEMORANDUM

## **INTRODUCTION**

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 Annual General Meeting of Highlands Pacific Limited (**Highlands**).

The Board recommends that shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolutions.

## **RESOLUTION 2 ELECTION OF DIRECTOR – DREW SIMONSEN**

Mr Drew Simonsen was appointed on 1 January 2010 and retires from his position as Director in accordance with Regulation 10.6 of the Company's Constitution.

Mr Simonsen has an extensive background in mining finance. He was the Global Head of Energy & Resources, Telecommunications & IT for Westpac Banking Corporation where he worked for over 15 years. Prior to Westpac, he worked for Bank of America in Australia, the USA and Hong Kong for 10 years including roles as Vice President Project Finance, Director of Investment Banking, Director of Corporate Banking and Director of Financial Markets. He has been involved with many resource project financings including those for the Ok Tedi and Bougainville mines. Mr Simonsen has also worked for CRA Ltd (now Rio Tinto) in mining engineering roles, and has previously lived in PNG.

Mr Simonsen brings to Highlands his knowledge of project financing at a time when this is becoming an important issue for the Group.

The Board recommends the re-election of Mr Simonsen as a Director.

## **RESOLUTION 4 APPROVAL OF ISSUE OF EXECUTIVE OPTIONS TO MANAGING DIRECTOR**

### **Background and reason for the proposal**

The purpose of Resolution 6 is to approve the grant of up to 10,000,000 options (**Options**) to Mr Gooding, the Managing Director of Highlands under the Executive Share Option Scheme (**Scheme**).

The Board wants to ensure that the remuneration of Highlands' executives is in line with the market and that there is an effective incentive for the executives to improve Highlands' performance and the value of investments of the shareholders. The initial 10,000,000 options issued to Mr Gooding on his acceptance to the role of Managing Director with Highlands in May 2007 expire on 21 May 2010 (the day after this Annual General Meeting), and while 5,000,000 have vested and will be able to be exercised by Mr Gooding, 5,000,000 will lapse as the hurdles have not been achieved.

Subject to approval by shareholders, the Board proposes that the Options be issued to Mr Gooding under the Scheme and on the terms summarised below. In the Board's view the share price performance hurdle, which must be satisfied before the Options are exercisable, link the ultimate value of the Options to the continued growth in Highlands' earning and further improvement in total shareholder returns.

## Shareholder approval and the proposal

The Board believes that the granting of the Options to Mr Gooding under the Scheme could be regarded as the giving of a financial benefit to a related party of Highlands which requires approval of shareholders in a General Meeting.

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

## Terms of issue of the Options

Approval is sought under ASX Listing Rule 10.14, for the issue to Mr Gooding, the Managing Director of Highlands, of 10,000,000 Options, the terms of which are set out below. On satisfaction of the relevant vesting conditions as referred to below, Mr Gooding will be entitled to exercise each Option at the Exercise Price and be issued with one fully paid ordinary share (**Share**) in Highlands (subject to the terms of issue of the Options relating to capital of Highlands and other matters required by the Listing Rules). The Options may be exercised in whole or in part.

No. of Options	Share Price Performance Hurdle – VWAP* per Share (AUD)	Exercise Price – per Share (AUD)**	Aggregate Value of the Options (AUD)***	Vesting Date****	Expiry Date
2,000,000	0.35	0.266	260,000	31 Mar 2013	31 Mar 2015
3,000,000	0.40	0.266	357,000	31 Mar 2013	31 Mar 2015
5,000,000	0.50	0.266	505,000	31 Mar 2013	31 Mar 2015

\*VWAP means the volume weighted average share price for Highlands' shares on ASX in 20 consecutive trading days.

\*\*Exercise price was set at the VWAP for the 20 consecutive days ending 30 March 2010.

\*\*\*The aggregate value of the Options was 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 the method of valuation is appropriate in these circumstances.

\*\*\*\*Vesting Date is the date by which the share price performance hurdle is required to be met in order for the Options to be exercisable. If the share price performance hurdle is met by this date, the Options can then be exercised up to the expiry date. If the share price performance hurdle is not met by this date, then the Option expires.

Mr Gooding currently holds 13,675,000 options previously issued under the Scheme (however 10,000,000 expire on 21 May 2010 with 5,000,000 lapsing unexercised), as follows:

No. of Options	Price Hurdle – VWAP (AUD)	Exercise Price – (AUD)	Vesting Date	Expiry Date
1,500,000	0.25	0.1546	21 May 2007	21 May 2010
3,500,000	0.35	0.1546	21 May 2008	21 May 2010
5,000,000	0.50	0.1546	21 May 2009	21 May 2010
2,000,000	0.30	0.135	28 Feb 2011	28 Feb 2013
1,675,000	0.156	0.078	29 Jan 2012	29 Jan 2014

## **Terms of the Scheme**

The full terms of the Scheme under which the Options may be issued are set out in Attachment A to this Explanatory Statement.

## **Other information relating to the proposed grant of Options**

In accordance with Listing Rules 10.14 and 10.15, the following information is provided for shareholders:

### **Identity of persons entitled to participate in the Scheme**

The Managing Director and other executives who are employed by Highlands on a full time or permanent part time basis are entitled to participate in the Scheme. However, any options issued to the Managing Director are subject to shareholder approval.

### **Maximum number of options that may be issued**

The maximum number of Options that may be acquired by Mr Gooding under this resolution is 10,000,000 Options.

### **Effect of the proposal**

If all of Mr Gooding's options which he currently holds and the Options currently under consideration are exercised, based on the current number of issued shares in Highlands, he would hold approximately 3.5% of the issued shares in Highlands or 2.8% after the lapsing of 5,000,000 options on 21 May 2010.

### **Use of funds raised**

The funds raised by the exercise of the Options will be used by Highlands for working capital.

### **Consideration of options**

The Options will be issued for no consideration.

### **How an issue of Shares will affect the Exercise Price**

If Highlands makes a pro rata issue of Shares to shareholders (other than a bonus issue), the Exercise Price of the Options is to be reduced in accordance with the formula set out in clause 6 of the terms of the Scheme (see Annexure A).

### **How an issue of bonus Shares will affect the number of Shares to be issued by the exercise of the Options**

If Highlands makes a bonus issue of Shares to shareholders, the number of Shares over which an Option is exercisable is increased by the number of bonus Shares which Mr Gooding would have received if the Option had been exercised before the record date of the bonus Shares.

**Issue of options since last approval**

No persons referred to in Listing Rule 10.14 have received securities under the Scheme since the last shareholder approval (being the Annual General Meeting of Shareholders of 21 May 2009 – Resolution 6).

**Terms of any loan in relation to the acquisition**

No loan will be provided by Highlands in relation to the grant or exercise of the Options.

**Voting exclusion**

In accordance with Listing Rule 14.11, Highlands will disregard any votes cast by Mr Gooding and any associate of Mr Gooding in respect of this resolution.

**Issue date of the Options**

The Options, if approved, will be issued by Highlands to Mr Gooding within three months of the date of shareholders approval.

***Directors recommendation***

Each of the Directors (other than Mr Gooding) recommends the issue of the Options to Mr Gooding for the reason set out above and recommends that you vote in favour of this resolution. Mr Gooding makes no recommendation in view of his personal interest in the outcome. None of the Directors (other than Mr Gooding) have an interest in the outcome of the resolution.

# Attachment A

## EXECUTIVE SHARE OPTION SCHEME

### TERMS AND CONDITIONS

#### 1. INTERPRETATION

1.1 The following words have these meanings in this Scheme unless the contrary intention appears.

“**ASX**” means Australian Stock Exchange Limited.

“**Business Day**” has the meaning given to that term in the Listing Rules.

“**Companies Act**” means Companies Act Chapter 196 of the Revised Laws of Papua New Guinea.

“**Company**” means **HIGHLANDS PACIFIC LIMITED**.

“**Directors**” means the Directors of the Company from time to time.

“**Eligible Person**” means an Executive.

“**Executive**” means an Executive who is employed by the Company on a full time or permanent part time basis.

“**Exercise Notice**” means a notice in substantially the same form as that contained in the Schedule.

“**Exercise Price**” as defined by the Board.

“**Listing Rules**” means the official listing rules from time to time of ASX.

“**Option**” means an option to acquire a Share at the Exercise Price.

“**Option Period**” as defined by the Board.

“**Participant**” means an Eligible Person who has been issued and presently holds Options.

“**Record Date**” has the meaning given to that term in the Listing Rules.

“**Scheme**” means the executive share option scheme of the Company comprising the terms and conditions herein set out.

“**Share**” means a fully paid ordinary share in the capital of the Company.

“**Takeover Offer**” means a take-over offer as defined in the Companies Act.

1.2 The singular includes the plural and vice versa.

1.3 The masculine includes the feminine and neuter; the feminine includes the masculine and neuter, the neuter includes the masculine and feminine.

## **2. ISSUE OF OPTIONS**

- 2.1 The Directors may issue Options to Eligible Persons.
- 2.2 The number of Options on issue at any time pursuant to this Scheme shall not exceed the number equivalent to 5% of the number of Shares then on issue.
- 2.3 The Directors may in their sole discretion select Eligible Persons to whom Options shall be offered and determine the number of Options to be offered to an Eligible Person.
- 2.4 The number of Options to be offered to an Eligible Person under the Scheme shall be notified in a letter of offer from the Company. Acceptance of such offer shall be in writing in a form acceptable to the Directors.

## **3. EXERCISE**

- 3.1 Each Option shall entitle the Participant to subscribe for one Share upon exercise of the Option.
- 3.2 Subject to clause 3.7, the Options may be exercised during the Option Period at the times and subject to any share price performance hurdles determined by the Directors and notified in the letter of offer issued pursuant to clause 2.4.
- 3.3 The Options shall be exercisable wholly or in part by delivering to the Company at its registered office a duly completed and executed Exercise Notice.
- 3.4 Shares issued pursuant to the exercise of Options will be allotted not more than 15 Business Days after (but not including) the date of receipt by the Company of:
  - (a) the Exercise Notice;
  - (b) the option certificate; and
  - (c) payment of the Exercise Price.
- 3.5 The Participant's right to exercise the Options shall continue until the expiration of the Option Period, subject to the following conditions:
  - 3.5.1 In the event of a Participant ceasing to be an Eligible Person (except in the case of normal retirement, retrenchment or death), any Options held by the Participant and not at that time exercised shall, if the option period has not commenced, lapse immediately upon termination of employment; if the exercise period has commenced, the options will lapse at the end of the exercise period, unless the Directors in their absolute discretion determine otherwise.
  - 3.5.2 If a Participant ceases to be an Eligible Person due to normal retirement or retrenchment prior to the expiration of the Option Period, the Participant's rights to exercise Options shall continue in accordance with this Scheme.
  - 3.5.3 If a Participant dies whilst an Eligible Person prior to the expiration of the Option Period, the Participant's Options shall vest in the Participant's executor and/or administrator, as the case may be.
- 3.6 Each Option may be exercised at the Exercise Price.
- 3.7 Notwithstanding any other provision of this Scheme, each Option shall become exercisable immediately upon any person making a Takeover Offer in relation to the Shares.

#### **4. SHARE RANKING AND QUOTATION**

- 4.1 Options will not confer an entitlement to share in dividends declared and paid by the Company.
- 4.2 Options will not be quoted by ASX.
- 4.3 Each Share issued pursuant to the exercise of an Option shall rank equally in all respects with the issued Shares.
- 4.4 The Company shall apply for official quotation by ASX of Shares issued pursuant to the exercise of Options within the period required by the Listing Rules.

#### **5. ASSIGNMENT**

- 5.1 Options are not assignable or transferable except in the case of the death of a Participant when Options may be transmitted to the personal representative of the deceased.

#### **6. NEW ISSUES**

- 6.1 Option holders are not permitted to participate in new issues of securities made by the Company.
- 6.2 In the event that the Company makes a pro rata issue of Shares to its shareholders (other than a bonus issue), the Exercise Price of Options shall be reduced in accordance with the following formula:

$$E = \frac{P - (S + D)}{N + 1}$$

where:

- E = The new exercise price (which shall not be less than the par value of the Shares).
  - P = the weighted average market price of Shares sold in the ordinary course of trading on ASX during the 5 trading days ending on the day before the ex rights date or ex entitlements date.
  - S = the subscription price for securities under the pro rata issue.
  - D = any dividends due but not yet paid on existing Shares (except those to be issued under the pro rata issue).
  - N = the number of securities with rights or entitlements required to be held to receive a right to one new security.
- 6.3 In the event that the Company makes a bonus issue of securities to the holders of Shares, the number of Shares over which an Option is exercisable shall be increased by the number of bonus Shares which the Option holder would have received if the Option had been exercised before the Record Date.

## **7. RECONSTRUCTION**

7.1 In any reconstruction, Options shall be treated in the following manner:

- (a) in the event of a consolidation of the share capital of the Company, the number of Options shall be consolidated in the same ratio as the ordinary share capital and the Exercise Price shall be amended in inverse proportion to that ratio;
- (b) in the event of a subdivision of the share capital of the Company, the number of Options shall be subdivided in the same ratio as the ordinary share capital and the Exercise Price shall be amended in inverse proportion to that ratio;
- (c) in the event of a reduction of par value by return of share capital, the number of Options shall remain the same and the Exercise Price of each Option shall be reduced by the same amount as the reduction of the par value of each ordinary Share;
- (d) in the event of a reduction of par value of each Share by a cancellation of share capital that is either lost or not represented by available assets the number of Options and the Exercise Price of each Option shall remain unaltered;
- (e) in the event of a pro rata cancellation of Shares, the number of Options shall be reduced in the same ratio as the ordinary share capital and the Exercise Price of each Option shall be amended in inverse proportion to that ratio;
- (f) in the event of any other reconstruction of the share capital of the Company, the number of Options or the Exercise Price of the Options or both shall be reorganised in a manner which will not result in any benefits being conferred on Option holders which are not conferred on shareholders; and
- (g) nothing in this clause presents a rounding up of the number of Shares to be received on exercise of an Option if the rounding up is approved at the meeting of security holders which approves the reconstruction.

## **8. ADMINISTRATION AND AMENDMENT OF PLAN**

The Scheme shall in all respects be administered by the Directors, who may make such rules for the conduct of the Scheme consistent with its terms and conditions as they see fit.

The terms and conditions of the Scheme may be altered by special resolution of the Company in general meeting. At any meeting called to approve an alteration of the Scheme, the shareholders who are eligible to participate in the Scheme and their associates shall not vote on the matter.

000001 000 HIG  
MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

**Lodge your vote:**



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Victoria 3001 Australia

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(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only  
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**For all enquiries call:**

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(outside Australia) +61 3 9415 4000

**Proxy Form**



Vote online or view the annual report, 24 hours a day, 7 days a week:

**www.investorvote.com.au**



**Cast your proxy vote**



**Access the annual report**



**Review and update your securityholding**

*Your secure access information is:*

**Control Number: 999999**

**SRN/HIN: 1999999999**



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

**For your vote to be effective it must be received by 10.00am (Port Moresby and Brisbane time) 19 May 2010**

**How to Vote on Items of Business**

All your securities will be voted in accordance with your directions.

**Appointment of Proxy**

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

**Signing Instructions for Postal Forms**

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, 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 sign in the appropriate place to indicate the office held.

**Attending the Meeting**

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,  
or turn over to complete the form** ➔

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

# Proxy Form

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Highlands Pacific Limited hereby appoint

the Chairman of the meeting OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

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 Annual General Meeting of Highlands Pacific Limited to be held in Ballroom 1, Crowne Plaza Hotel, cnr Hunter & Douglas Streets, Port Moresby, Papua New Guinea on Thursday, 20 May 2010 at 10:00am and at any adjournment of that meeting.

## STEP 2 Items of Business

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

### ORDINARY BUSINESS

For Against Abstain

1. To receive accounts and reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Election of Director – Drew Simonsen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Approval of Auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### SPECIAL BUSINESS

4. Approval of issue of executive options to Managing Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

## SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date \_\_\_\_/\_\_\_\_/\_\_\_\_