

26 April 2017

### Important information for Highlands Pacific shareholders

PanAust wishes to convey to Highlands Pacific shareholders a letter from Mr Andrew Daley, a nominee for the position of Chairman of Highlands Pacific at the forthcoming special meeting of shareholders, setting out his proposed strategy for the Company.

A copy of this letter will be sent to all Highlands shareholders.

PanAust welcomes the proposed new strategic direction set out by Mr Daley which defines a clear pathway for growth of Highlands for the benefit of all shareholders.

### How to vote

PanAust urges all Highlands shareholders to have their say and vote 'FOR' all resolutions at the Special Meeting at 11.00 am on Thursday 18 May 2017.

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](http://www.investorvote.com.au) using Control Number 139303.

### For further information

Please contact the information line: Australian Investors: 1300 399 491 or if calling from Papua New Guinea: +61 2 8022 7947.



Dr Fred Hess  
Managing Director  
PanAust Ltd  
Level 1/15 James Street  
Fortitude Valley Q 4006

Dear Fred,

I am writing to you in response to your recent request for me to provide an outline of the strategy the new Board of Highlands Pacific intends to adopt, if I and the other two director nominees are duly appointed at the shareholder meeting scheduled for 18 May 2017. I understand that your request arises from some queries to that effect that you have received from a number of other shareholders in the company.

As I have previously advised, the other two nominees and I have met on several occasions over the last couple of months, to discuss how we might proceed post our election.

As it stands at present, Highlands Pacific can be classified as a junior resource company. It has a market capitalisation of only around \$60m and currently no operating cash flow. Therefore, the board and senior management need to be focussed not only on keeping costs down, but also developing a future business model that has upside prospectivity, that in turn will grow shareholder wealth.

You will appreciate that at this time we only have access to information regarding the company that is in the public domain and therefore our proposals can only be considered preliminary at this time.

Notwithstanding, it is clear to us that if we are appointed to the board, a complete and detailed review of all of the company's existing activities, operations and commitments is warranted. To be a little more specific, we believe at least the following will be required:

1. An immediate detailed review of the current approved company annual budget, with a view to minimising all expenditure until the current status and future business strategy for the company has been reviewed and the way forward for the company agreed by the new board;
2. A thorough review of all of the company's current and future financial commitments and associated obligations;
3. A review of the current technical and commercial status of each of the company's projects. Will the Ramu Project ever generate positive cash flow? What are the issues with the Frieda River Project? What is a realistic timetable at Star Mountains and what is the likely prospectivity of the company's other projects?

4. A complete review of all current and any proposed joint venture arrangements;
5. An assessment of the future prospectivity of all current exploration activities with a view to disposing of any tenements that are considered to have a low probability of success; and
6. A review of current management and staffing levels with a view to streamlining reporting lines where it is prudent to do so.

The aim of the above reviews will be for the new board to be confident that the company's immediate future is secure and that all administrative costs have been minimised.

At the same time as the reviews of the current status of the company are being carried out we will also need to look closely at the future direction of the company and assess what alternatives are available. The company's current cash position and apparent lack of any positive cash flow in the near future suggests strongly, that a refocus is overdue.

Based on my experience with other junior companies over the last 18 years or so and, depending on the outcome of that process and on the decisions made, I foresee that we may need to make changes to staff, senior management and even to the board composition. We will need to ensure that we have an appropriate mix of experience and skills and in that regard nothing should be considered to be "off the table".

As noted above, until the new board is appointed we are not in a position to be more specific with regard to exactly what we will do or how long that process will take. However, what we can be sure of is that, under the new board, the company will engage with its shareholders on a more frequent basis than appears to have been the case in the past.

In that regard, if we are appointed on 18 May, then we will take steps soon after to advise all shareholders of our intentions (as outlined above) and confirm to them that their new board is indeed comprised of a majority of independent directors and that we are representing the interests of all shareholders. Further I will also advise them whilst I remain in the position of chairman it will remain that way.

I trust that the above answers all of your questions.

We are happy for you to share the contents of this letter with any Highlands Pacific shareholders who might be enquiring as to our proposals post appointment and am also happy to take any phone calls to discuss further if required.

Best regards

A handwritten signature in black ink, appearing to read 'A. Daley', with a large, sweeping underline that loops back under the first part of the signature.

Andrew Daley FAusIMM, MIOM3, C.Eng, Grad Dip(Geos), BSc(Hons)