

COMPANY ANNOUNCEMENT

24 June 2016

Special Mining Lease application submitted for the Frieda River Copper-Gold Project, PNG

PanAust Limited ('PanAust') is pleased to announce that a Special Mining Lease ('SML') application for the Frieda River Copper-Gold Project ('Project') in Papua New Guinea ('PNG') was registered today with the Mineral Resources Authority ('MRA') of PNG. The application follows completion of the Project feasibility study which was announced on 19 May 2016.

The lodgement satisfies a condition of the key Exploration Licence (EL58) that an application for an SML in respect of the Frieda River Mining Project be made on or before 30 June 2016.

The SML application comprises a Proposal for Development, which incorporates the feasibility study report and further supporting documents including an Employment and Training Plan; a Land Ownership Study; and a Business Development, Supply and Procurement Plan. The Land Ownership Study presents findings of extensive research into the customary ownership of land that will be included in tenements being sought for development of the Project. The Employment and Training Plan, and the Business Development, Supply and Procurement Plan outline the employment and business opportunities which prioritise landowning and other host communities located close to the proposed mine and associated logistics corridor.

PanAust Managing Director, Dr Fred Hess, said that lodgement of the SML application represents a crucial milestone in the pursuit of organic growth for the Company.

"Since taking control of the Project in 2014, PanAust has committed significant resources to complete the feasibility study and maintaining a site presence while engaging extensively with the Government of PNG and host communities. PanAust has devoted over 235,000 man-hours and invested US\$65 million to advance the Project. This has been achieved with no lost time injuries, an excellent outcome for a Project that is located in a remote area with limited access", Dr Hess said.

"We look forward to working with the PNG government, landowners and host communities to further advance the Project for the benefit of all stakeholders. The SML application gives us a good platform to secure support for major shared-use infrastructure, which would benefit the Project and the people of Sandaun and East Sepik provinces. A revised scope incorporating such infrastructure support would not only improve the Project's economics but lead to increased direct and indirect economic benefits for Papua New Guinea", added Dr Hess.



Economic benefits to PNG

It is anticipated that the Project will make a substantial positive economic contribution to PNG at both a national and provincial level. It will be the first major, large-scale natural resource project in the provinces of Sandaun and East Sepik, a least-developed area of PNG.

Development of the Project would increase national gross domestic product and export earnings and provide a long-term boost to government revenues. It has been estimated by ACIL Allen Consulting that the Project could increase PNG's real GDP by a cumulative total to the year 2040 of PGK39 billion¹ and increase real income by PGK11.8 billion. For the Sandaun and East Sepik provinces, the Project would increase real GDP by a cumulative total of PGK36 billion and increase real income by PGK5.2 billion.

The Project offers the potential to generate benefit streams to landowners and host communities, as well as create new employment and business development opportunities during implementation and operations. The Project would provide a large number of jobs during construction and operation. During operations, the Project would require around 1,950 full-time equivalent positions with a target of 95% for PNG national employees (the proportion of PNG national employees would likely be lower initially but grow over time through training and skills development programs). Preferential recruitment zones will ensure landowner and host communities are given priority and suitable training programs will ensure competency in required roles.

Landowner communities will benefit from royalty streams, compensation and community development projects which focus on skills development, local business opportunities, health and education.

Environment

PNG has a well-established legislative framework for the approval and regulation of mining projects. An Environmental Impact Statement is being prepared for the Project and is scheduled for submission in the December quarter 2016. PanAust is an internationally recognised leader in environmental management and sustainability and the Project's environment management programs will be guided by PanAust Group standards.

The Project is designed to limit fugitive sediment emissions from the mine site and the potential for acid rock drainage. Mine waste rock and tailings will be stored subaqueously within an engineered integrated storage facility designed to Australian National Committee on Large Dams Incorporated (ANCOLD) standards.

Key milestones

The future development of the Project will ultimately be subject to a final investment decision (FID) by the Project proponents, the grant of an SML and all necessary permits, approvals and agreements required from the Government of PNG, landowners and other stakeholders, including with respect to such matters as government infrastructure support and the declaration of the Government's intention with respect to its level of ownership in the Project. In addition to all such requisite approvals, FID will require a supportive commodity price outlook, secure finance, and legal and regulatory certainty.

¹ Assumes an exchange rate of US\$1.00 = PGK2.85.

Project description²

Frieda River represents one of the largest known undeveloped copper-gold deposits in the world and contains approximately 12 million tonnes (Mt) of copper and 19 million ounces (Moz) of gold. PanAust considers that the optimum approach to this substantial resource is via a multi-staged development that involves an initial project stage that forms the platform for subsequent phases of exploration, resource definition and development. This approach serves to de-risk subsequent investment and capitalises on the establishment of one-off fixed infrastructure developed during the initial stage that will support subsequent development phases.

The initial Project is based on the Project's Horse-Ivaal-Trukai, Ekwai and Koki (HITEK) copper-gold porphyry deposits and comprises a large-scale, open-pit mining operation that feeds ore to a conventional process plant nominally rated at 40 million tonnes per annum (Mtpa). Average annual production of metal in concentrate is 175,000 tonnes copper and 250,000 ounces gold. The initial mine life is estimated at 17 years with 700Mt of mill feed which represents approximately a quarter of the global Mineral Resource. The project will have a competitive C1 cost of US\$0.69/lb copper (average over the life of mine) which will place it within the first quartile of the global copper cost curve.

Project ownership

The Frieda River Project is held by the Frieda River Joint Venture, an unincorporated joint venture between Frieda River Limited, a PanAust subsidiary company, and Highlands Frieda Limited, a subsidiary company of Highlands Pacific Limited. Frieda River Limited manages the Project and holds an 80% interest; Highlands holds the remaining 20% interest.

State equity

The Independent State of PNG has a right, prior to the grant of a SML, to purchase up to 30% equity in the Project at a price prorated to the accumulated historical expenditure of the Project.

The Joint Venture Agreement provides that if the State exercises its right to acquire up to a 30% interest in the Project, Frieda River Limited will sell down the first 20% of any interest the State acquires. Thereafter, Frieda River Limited and Highlands Frieda Limited will each sell an equal interest to the State up to the maximum level of 30%. Should the State exercise its full entitlement to 30% of the Project, Frieda River Limited will sell down to a 55% controlling interest and Highlands Frieda Limited will sell down to a 15% interest.

For further information contact:

Mr Allan Ryan

PanAust Limited

Tel: +61 7 3117 2000

Email: info@panaust.com.au

Website: www.panaust.com.au

² PanAust Limited announcement , *Frieda River Copper-Gold Project feasibility study completed*, 19 May 2016

Forward-Looking Statements

This announcement includes certain 'Forward-Looking Statements'. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding forecast production performances, potential mineralisation, exploration results and future expansion plans and development objectives of PanAust Limited are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements.