GROWTH: DISCOVERY, ACQUISITION & DEVELOPMENT

ANNUAL REPORT 2011

PanAust

PanAust

PanAust Limited

ABN 17 011 065 160

Directors

Garry Hounsell (Chairman)
Gary Stafford (Managing Director)
Nerolie Withnall
Andrew Daley
Geoffrey Handley
Geoffrey Billard
Zezhong Li
John Crofts
Ken Pickering (appointed 28 October 2011)

Company Secretary

Paul Scarr

Registered Office

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Postal Address

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Stock Exchange Listing

PanAust Limited Shares are listed
on the Australian Securities Exchange
(Home Branch – Brisbane)
ASX Code: PNA

Auditors

Australia
PricewaterhouseCoopers
Riverside Centre
123 Eagle Street
Brisbane QLD 4000

Laos
PricewaterhouseCoopers (Laos)
Unit 1-3, 4th Floor
33 Lane Xang Avenue
Vientiane, Lao PDR

Bankers

ANZ Banking Group Limited
324 Queen Street
Brisbane QLD 4000

Share Register

Computershare Investor Services Pty Limited
117 Victoria Street
West End QLD 4101
Telephone: 1300 850 505
Telephone outside Australia: + 61 3 9415 4000

Annual General Meeting

The 2012 Annual General Meeting of PanAust Limited
will be held at the Hilton Brisbane Hotel
190 Elizabeth Street, Brisbane QLD 4000,
at 10am on Friday 18 May 2012.

Cover photography: The open pit at PanAust's flagship
Phu Kham Copper-Gold Operation in Laos.

PanAust Limited ABN 17 011 065 160
Annual report - 31 December 2011

Contents

Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of PanAust Limited and the entities it controlled at the end of, or during, the year ended 31 December 2011 (the "reporting period").

Directors

Garry Hounsell, Chairman
Gary Stafford, Managing Director
Nerolie Withnall
Andrew Daley
Geoff Handley
Geoff Billard
Zezhong Li
John Crofts
Ken Pickering (appointed 28 October 2011)

Information on directors

Garry Hounsell B.Bus. (Accounting) FCA CPA FAICD. (Chairman, Non-Executive Director). Age 57.
Mr Hounsell is an accountant with significant experience as a director of large listed public companies. He is a Fellow of The Institute of Chartered Accountants in Australia and a Fellow of The Australian Institute of Company Directors. Prior to accepting positions as a public company director, Mr Hounsell was a senior partner of Ernst & Young and Country Managing Partner and Chief Executive Officer of Arthur Andersen. He was the 'signing partner' for the audit of BHP Billiton Limited from 2000 to 2002. From 2005 to 2007, he was an executive of Investec Bank (Australia) Limited.

During the past three years, Mr Hounsell has also been a Director of the following ASX listed companies:

- Qantas Airways Limited*
- Orica Limited*
- Dulux Group Limited*
- Nufarm Limited*
- Mitchell Communications Group Limited

** denotes current directorship*

Appointed Director and Chairman of PanAust on 1 July 2008, Mr Hounsell was also appointed as Chairman of the Remuneration Committee and the Nominations Committee. He is also a member of the Audit Committee.

Interests in shares and options
Mr Hounsell has a direct interest in 160,535 ordinary shares in PanAust.

Gary Stafford B.Sc. (Hons, Mining Engineering) MAusIMM. (Managing Director). Age 51.
Mr Stafford is a mining engineer with 30 years experience in the mining industry, initially in engineering and management positions at coal and gold mines with CRA, BHP and Barrack Mine Management before moving into company management with Saracen Minerals Limited (a subsidiary of Crusader Limited) and then PanAust. Gary Stafford has been Managing Director since 7 March 1996 and has presided over the Company's growth from a junior exploration company to an S&P/ASX 100 mining company.

Mr Stafford is also a member of the Nominations Committee.

Information on directors (continued)

Interests in shares and options
Mr Stafford's interest in PanAust securities comprises: a direct interest in 1,236,506 ordinary shares; 4,718,480 vested executive options; and, 1,931,812 shares issued under the PanAust Long Term Share Plan, which are held in trust until vesting. Mr Stafford also has an indirect interest in PanAust of 925,723 ordinary shares held by The Spellbrook Superannuation Fund of which Mr Stafford is a beneficiary.

Nerolie Withnall BA, LLB. FAICD. (Non-Executive Director). Age 67.
Mrs Withnall is a former commercial lawyer with specialist skills in the areas of corporate advice, capital raisings, securities and corporate trusts. Mrs Withnall is a former partner of the national law firm Minter Ellison. Mrs Withnall has previously served as a member of the Takeovers Panel and the Corporations and Markets Advisory Committee. Mrs Withnall is also a former member of the Senate of the University of Queensland.

During the past three years, Mrs Withnall has also served as a Director of the following ASX listed companies:

- Campbell Brothers Limited*
- Alchemia Limited*
- Computershare Limited*
- Redcape Property Fund Limited (formerly Hedley Leisure & Gaming Property Partners Limited)

** denotes current directorship*

Appointed Director on 21 May 1996, Mrs Withnall is also the Chairman of the Audit Committee and is a member of the Remuneration Committee and the Nominations Committee.

Interests in shares and options
Mrs Withnall has a direct interest in 76,000 ordinary shares in PanAust.

Andrew Daley BSc (Hons, Mining Engineering) FAusIMM. (Non-Executive Director). Age 63.
Mr Daley is a Chartered Engineer (UK) and a Member of IOM3. Mr Daley commenced his career on the Zambian Copperbelt with Anglo American and subsequently worked with Rio Tinto and Conoco Minerals in Africa, before relocating to Australia with Fluor Australia in early 1981. Since late 1983, Mr Daley has primarily worked in the resource finance sector, initially with National Australia Bank, then Chase Manhattan and as a director of Barclays Capital mining team in London and Sydney. Returning to Australia in early 2003, Mr Daley became a director of Investor Resources Finance Pty Ltd, a company based in Melbourne that provided financial and corporate advisory services to the global resource industry.

During the past three years, Mr Daley has also served as a Director of the following listed companies:

- Kentor Gold Limited* (listed on the ASX)
- Dragon Mining Ltd
- Minerva Resources plc
- Uranex NL

** denotes current directorship*

Appointed Director on 3 August 2004, Mr Daley is also a member of the Audit Committee.

Interests in shares and options
Mr Daley has an indirect interest in 121,681 ordinary shares in PanAust held by The Motherlode Superannuation Fund of which Mr Daley is a beneficiary.

Geoff Handley BSc (Hons, Geology and Chemistry) MAusIMM FAICD. (Non-Executive Director). Age 62.
Mr Handley is a geologist with over 30 years experience in the mining industry. Mr Handley worked as a geologist for BHP Exploration Ltd., as a chemist and geologist for Placer Exploration Ltd. and as an analyst for the AMP Society. In 1981, he joined Placer Pacific Ltd. as a senior geologist and was responsible for the exploration and feasibility work at the Porgera, Granny Smith, Osborne and Big Bell mines. Most recently, Mr Handley was Executive Vice President, Strategic Development with Placer Dome where he was responsible for global exploration, acquisitions, research and development and strategic planning.

Information on directors (continued)

During the past three years, Mr Handley has also served as a Director of the following listed companies:

- Eldorado Gold Corp.* (listed on the TSX, NYSE and the ASX)
- Endeavour Silver Corp.* (listed on the TSX and the NYSE)
- Mirabela Nickel Limited (appointed Chairman with effect from 1 January 2012 having been first appointed as a Director in 2011)* (listed on the ASX and the TSX)

** denotes current directorship*

Appointed Director on 29 September 2006, Mr Handley is also the Chairman of the Sustainability Committee.

Interests in shares and options
Mr Handley's spouse, a related party of the Company for the purposes of the Corporations Act 2001, holds 54,202 ordinary shares in PanAust.

Geoff Billard B.Econ, B.Com. (Hons, Economics) FCPA FAICD. (Non-Executive Director). Age 67.
Mr Billard is an economist who has achieved wide career experience in the mining industry. This included some 20 years with CRA (now Rio Tinto) at Bougainville Copper, Argyle Diamonds and as Managing Director (Group Financial Services) before taking up senior executive positions with Pasminco and M.I.M. Holdings Limited in operational, marketing, finance, new project development and technology roles. From 1998 until 2008, Mr Billard operated his own consulting business providing specialist advisory services on strategic projects for both corporate and government clients. In this capacity, he has previously assisted PanAust in forming and implementing corporate strategy and organisational change.

Mr Billard previously served as a Director of the following ASX listed companies:

- Bougainville Copper Limited
- Metal Manufacturers Limited

** denotes current directorship*

Appointed Director on 1 July 2008, Mr Billard is also a member of the Sustainability and Remuneration Committees.

Interests in shares and options
At the date of this report, Mr Billard has an indirect interest in 25,027 ordinary shares through a Macquarie Investment Management Limited fund.

Zezhong Li M.Laws, M.Public Administration International Development (Non-Executive Director). Age 41.
Mr Zezhong Li is the Vice President of Guangdong Rising Assets Management (GRAM), a position which he has held since November 2008. Mr Zezhong Li is GRAM's nominee Director on the Board of PanAust. GRAM is a cornerstone investor in PanAust. Mr Zezhong Li joined the Board following the completion of the share placement to GRAM in September 2009.

Prior to joining GRAM, Mr Zezhong Li worked for the Poverty Alleviation Office of the State Council and was a consultant to the United Nations Development Program.

During the past four years, Mr Zezhong Li has also served as a Director of the following Shenzhen Stock Exchange listed company:

- Shenzhen Zhongjin Lingnan Nonferrous Metal Co.*

** denotes current directorship*

Shenzhen Zhongjin Lingnan Nonferrous Metal Co. is China's third-largest zinc producer.

Appointed Director on 18 September 2009, Mr Zezhong Li is also a member of the Sustainability Committee.

Information on directors (continued)

Interests in shares and options
At the date of this report, Mr Zezhong Li did not have a direct or an indirect interest in PanAust.

John Crofts B.Bus (Transport, Economics & Accounting) (Non-Executive Director). Age 47.
Mr Crofts brings to the Board over 20 years experience in the resources industry and valuable knowledge of the global copper sector.

Mr Crofts worked with BHP / BHP Billiton from 1987 to 2010 where he held senior roles in metals marketing and business development. In particular, between 2001 and 2007, Mr Crofts was the Marketing Director, Base Metals where he was responsible for global marketing for one of BHP Billiton's largest business units which had a leadership position in sales of copper, lead concentrates and substantive positions in the copper cathodes and zinc concentrates markets. He has diverse geographical experience including ten years based in Chile, four years in The Hague, five years in Singapore, and he has been a member of several BHP Billiton Executive Committees.

Mr Crofts served as an invited Director to the London Metal Exchange from 2007 to 2011. From 2000 to 2007, Mr Crofts was an Advisory Committee Member for the International Copper Association. From 2003 to 2006, he was the Chairman of the European Copper Institute. Mr Crofts was also a Director of The Copper Club from 2006 to 2010.

Appointed Director on 17 September 2010, Mr Crofts is also a member of the Sustainability Committee.

Interests in shares and options
At the date of this report, Mr Crofts did not have a direct or an indirect interest in PanAust.

Ken Pickering B.A. Science (Mineral Engineering) (Non-Executive Director). Age 64.
Mr Pickering has 35 years experience in the resources industry in Canada, Chile, Australia, Peru and the United States of America with particular skills in major project development and mine management.

Mr Pickering has held senior executive positions with BHP Billiton Base Metals. From 2004 to 2010, Mr Pickering was Vice-President Major Projects, Closed Mines and North American Assets, BHP Billiton Base Metals. In this position, he was responsible for the planning and execution of various major projects in Chile costing over US$3 billion which resulted in 700,000 tonnes of additional annual copper production. During this time, Mr Pickering also served as a Director of the Resolution Copper Joint Venture with Rio Tinto, was responsible for the Pinto Valley Copper Operations and oversaw the management of over thirty closed mine sites in Canada, the USA and South Africa.

Mr Pickering was intimately involved in the development, operation and expansion of the Escondida Copper Mine from inception of the project. At various times between 1986 and 2002, Mr Pickering served as the Mine Development Manager, the Mine General Manager, the President of the Escondida Joint Venture, and the Executive Chairman of the Escondida Joint Venture. From 2002 to 2004, in his capacity as President Major Projects, Business Development and Corporate Affairs (Chile), Mr Pickering was responsible for the completion of the US$1 billion Escondida Phase Four Project which resulted in an increase in annual copper production of 400,000 tonnes.

Mr Pickering currently serves as a non-executive Director of the following listed companies:

- Enaex S.A * (listed on the SSE)
- THEMAC Resources Group Ltd.* (listed on the TSX)

** denotes current directorship*

Appointed Director of PanAust on 28 October 2011, Mr Pickering is also a member of the Sustainability and Remuneration Committees.

Interests in shares and options
At the date of this report, Mr Pickering did not have a direct or an indirect interest in PanAust.

Information on directors (continued)

Company secretary

Paul Martin Scarr B.Com, LLB (Hons), Grad. Dip. App. Corp. Gov., ACIS.
Mr Scarr is a Chartered Secretary and associate member of the Chartered Secretaries Institute of Australia. He has over 20 years experience as a lawyer. Prior to joining PanAust, he worked in private practice with both Allens Arthur Robinson and Mallesons Stephen Jacques. During that period, he advised publicly listed companies in relation to their obligations under the Corporations Act and the ASX Listing Rules. He has particular expertise in advising clients in the mining industry in Australia, Papua New Guinea and Southeast Asia. Mr Scarr is responsible for the company secretarial function, corporate governance issues and the legal function of the Company.

Appointed Company Secretary on 23 February 2007.

Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 31 December 2011 and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees							
			Nominations		Remuneration		Sustainability		Audit	
	A	B	A	B	A	B	A	B	A	B
Garry Hounsell	6	6	3	3	6	6	*	*	5	5
Gary Stafford	6	6	3	3	*	*	*	*	*	*
Nerolie Withnall	6	6	3	3	6	6	*	*	5	5
Andrew Daley	6	6	*	*	*	*	*	*	5	5
Geoff Handley	6	6	*	*	*	*	4	4	*	*
Geoff Billard	6	6	*	*	6	6	4	4	*	*
Zezhong Li	6	6	*	*	*	*	4	4	*	*
John Crofts	6	6	*	*	*	*	4	4	*	*
Ken Pickering (appointed 28 October 2011)	1	1	*	*	2	2	1	1	*	*

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a member of the relevant committee

Principal activities

During the year the principal continuing activities of the Group consisted of:

(a) Production and sale of copper-gold concentrate from the Phu Kham Copper-Gold Operation, Laos;
(b) Construction and development of the Ban Houayxai Gold-Silver Project, Laos;
(c) Site development work for the Phu Kham Upgrade Project; and
(d) Exploration and evaluation of projects in Laos, Thailand and Chile.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

- Construction of the Ban Houayxai Gold-Silver Project in Laos was substantially completed;
- Acquisition of a majority interest in Inca de Oro S.A., the owner of the Inca de Oro Copper-Gold Project in Chile was concluded and exploration and evaluation activities commenced at the Project;
- Phu Bia Mining Limited completed an inaugural income tax payment in Laos early 2011 based on 2010 profits after the utilisation of carried forward tax losses;
- The debt facilities were increased with the inclusion of another bank to lift the commitments to a total of US$120 million, with US$45 million drawn upon at year end;

Significant changes in the state of affairs (continued)

- First drawdown on a new US$65 million mining equipment lease for the Phu Kham Upgrade Project and the Ban Houayxai Gold-Silver Project;

- Reflecting PanAust's growth, the Company become a constituent of the S&P/ASX 100 index in April 2011; and

- At the Annual General Meeting held on 20 May 2011, PanAust Shareholders approved the consolidation of ordinary shares on a 1 for 5 basis, in accordance with section 254H(1) of the Corporations Act 2001 (Cth).

Review of operations

The significant operational achievements of the Group during the year ended 31 December 2011 were as follows:

- Earnings before interest, tax, depreciation and amortisation (EBITDA) for the 2011 year were US$284 million and a profit before tax of US$204 million (refer note 4 of the Notes to the consolidated financial statements for further details);

- As at 31 December, cash balance of US$156 million and debt (non-current) of US$45 million (excluding equipment lease facilities);

- Phu Kham produced 250,154 tonnes (t) of concentrate containing 59,897t of copper, 53,590 ounces (oz) of gold and 538,123oz of silver;

- Average cash cost of US$1.01 per pound (lb) of payable copper produced, net of gold and silver by product credits (C1, Brook Hunt Convention);

- The Phu Kham mine life was extended to over 14 years (from 1 January 2011) due to additional mineralisation being identified through successful infill and resource drilling;

- The Ban Houayxai mine life was extended to over 9 years (from 1 January 2011) due to additional mineralisation being identified through ongoing infill and resource drilling;

- PanAust's commitment to sustainable development continued to receive international recognition with the following awards having been received: (a) The 'Best Community Development Initiative' at the Asia Mining Congress for the second consecutive year; (b) The 'Social – Community' category award at the Ethical Investor Magazine's 11th Sustainability Awards in recognition of its Livelihood Improvement Program in Laos; and (c) the Labour Order Class 1 Award for 'Best Development in a Rural Area' from the Government of Laos in recognition of the "outstanding contribution to rural socio-economic development and poverty eradication between 2006 and 2010"; and

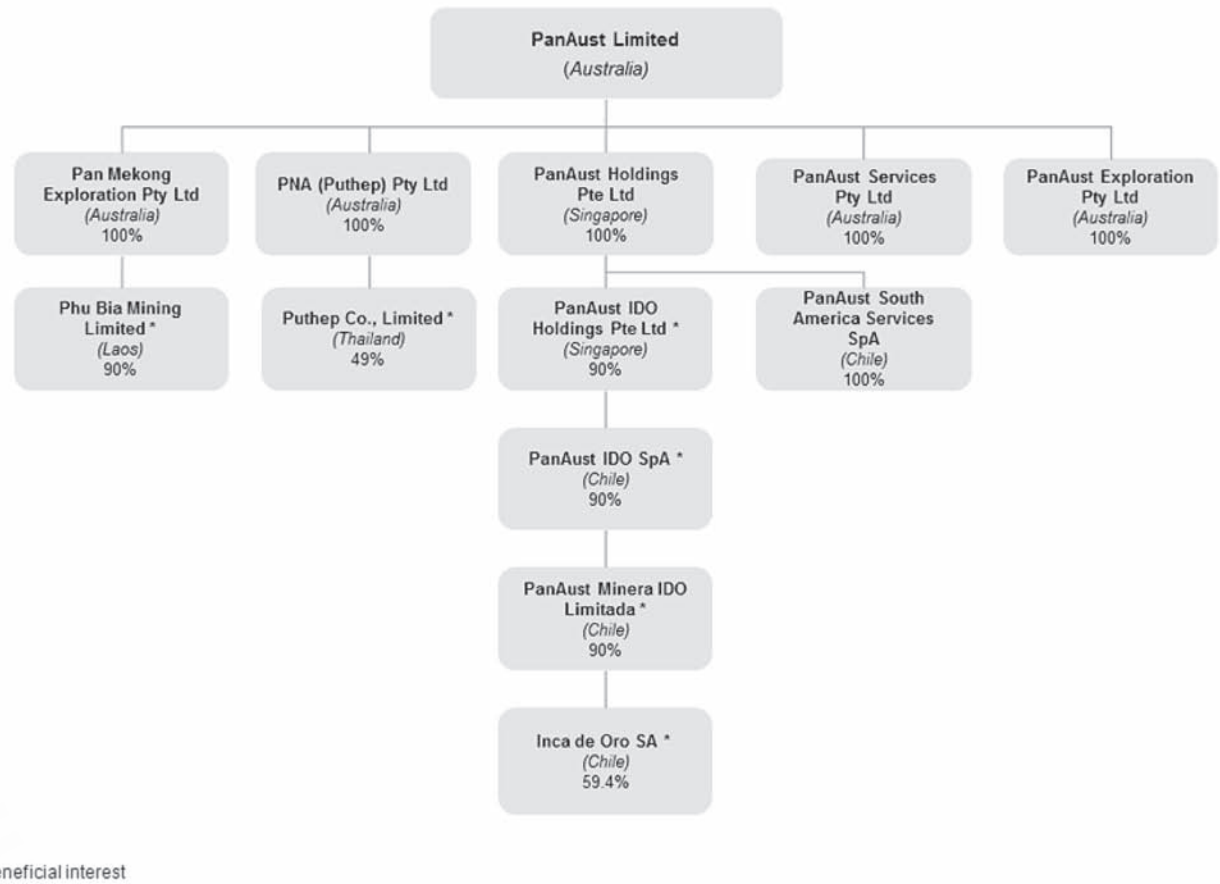
- The Company's safety record remains excellent. The Safety Spotlight completed by Citigroup in January 2012, which analysed the safety performance of ASX100 Companies (based on 2011 data), ranked PanAust 3rd out of the 75 participating ASX100 Companies for Lost Time Injury (LTI) frequency rate.

Review of operations (continued)

PanAust continues to focus on growth by discovery, acquisition and development. The following key growth project events occurred during 2011:

- Construction and development of the Ban Houayxai Gold-Silver Project in Laos was largely completed with the Project scheduled to commence gold-silver production in March 2012;
- The Phu Kham Upgrade Project remains on track for commissioning during the June quarter 2012 with production ramp-up during the June and September 2012 quarters;
- Work commenced on the Feasibility Study for the Inca de Oro Copper-Gold Project in Chile; and
- Exploration and evaluation activities continued in Laos, Thailand and Chile with a focus on high priority targets within the Company's Contract Area in Laos.

Group Legal Structure



Review of operations (continued)

Corporate Structure in Laos

PanAust owns a 90% interest (2010: 90%) in the Lao registered company, Phu Bia Mining Limited (Phu Bia Mining), through the Company's wholly owned subsidiary, Pan Mekong Exploration Pty Limited. Phu Bia Mining has a Mineral Exploration and Production Agreement (MEPA) with the Government of Laos. This agreement regulates exploration and mining within a contract area of 2,636 square kilometres (the 'Phu Bia Contract Area') in Laos.

In 2007, the Government of Laos exercised its option to acquire a 10% interest in Phu Bia Mining Limited. The price may be paid from future dividend flows. A Shareholders Agreement, which includes a purchase price calculated in accordance with the MEPA, was executed in May 2011, however, the transfer of the shares has not yet been completed. Given the exercise of the option, it is considered appropriate to recognise the interest in Phu Bia Mining of the Government of Laos.

Corporate Structure in Thailand

PanAust holds a shareholding interest of 49% (2010: 49%) in the Thai registered company, Puthep Co., Limited (Puthep), through the Company's wholly owned subsidiary, PNA (Puthep) Pty Limited. Padaeng Industry Public Company Limited (Padaeng) owns the other 51% (2010: 51%) interest in Puthep. Puthep has a concession agreement with the Government of Thailand. The concession covers the two deposits (the PUT1 and PUT2 deposits) that comprise the Puthep Copper Project.

The joint venture is undertaking a strategic review of the Puthep Copper Project including investigating the potential for selling the asset. From PanAust's perspective, the Project does not rank as highly as other growth opportunities the Company has in its pre-development portfolio.

Corporate Structure in Chile

During the March quarter of 2011, the Company completed the acquisition of a majority interest in Inca de Oro S.A., the owner of the Inca de Oro Project in Chile. PanAust's interest in Inca de Oro S.A. is held through a 90% interest in PanAust Minera IDO Limitada. The remaining 10% in PanAust Minera IDO Limitada is held by an independent private company. PanAust Minera IDO Limitada holds a 66% interest in Inca de Oro S.A. (giving PanAust a 59.4% beneficial interest) with Codelco retaining the remaining 34% interest (refer to the Group Legal Structure illustrated on page 7).

The significant commercial terms of the Shareholder Agreement between PanAust Minera and Codelco include:

- Inca de Oro S.A. will be run as a commercial business entity that will principally manage the IDO Project and also consider other mine development opportunities in Chile;
- If PanAust Minera and Codelco as the shareholders of Inca de Oro S.A. decide to develop the Inca de Oro Project, then Codelco may require PanAust Minera to make available to Inca de Oro S.A. a shareholder loan of up to US$100 million to facilitate project financing;
- In the event that a shareholder wishes to transfer its shareholding interest in Inca de Oro S.A. whilst the company remains a closed corporation, the remaining shareholder has a pre-emptive right to acquire the departing shareholder's shareholding interest;
- In the event of a change in control of PanAust, Codelco will have the option to acquire PanAust Minera's interest in Inca de Oro S.A. at fair market value;
- Assuming that the Inca de Oro deposit is developed into a mining operation and following financial completion, Codelco has the right to cause Inca de Oro S.A. to list on the Santiago Stock Exchange; and
- Assuming that the Inca de Oro deposit is developed into a mining operation, PanAust Minera has agreed that Inca de Oro S.A. will pay a net-smelter return royalty to Codelco from revenue generated by the Inca de Oro Project, capped at a present value of US$30 million (as determined in February 2011 being the month of receipt of Presidential Decree).

As at the date of this report, PanAust has invested a total US$55.3 million of equity into Inca de Oro S.A.

Review of operations (continued)

Employees

The Group had 3,368 permanent employees, including staff on fixed term contracts, as at 31 December 2011 (2010: 2,332 employees).

Operating Review for the year

To ensure the optimal structure for a rapidly growing and geographically diverse business, PanAust is structured into three business units: PanAust Asia, PanAust South America, and Corporate, which includes Project Development and Operational Improvement. The corporate head office in Brisbane provides the business units with support in relation to finance, commercial and technical services, risk management, human resources, governance and public reporting.

At 31 December 2011, the Company had cash of US$156 million, debt of US$45 million (non-current), undrawn debt facilities of US$55 million (excluding the US$20 million guarantee facility), and mobile equipment lease facilities drawn to a total of US$64 million (undrawn lease facility US$46.5 million). PanAust's cash balance, supported by strong cash flow from the Phu Kham Copper-Gold Operation and existing undrawn debt facilities, places the Company in a strong position to meet its anticipated major cash commitments over the first half of 2012. Those cash commitments include the balance of project expenditure for the Ban Houayxai Gold-Silver Operation and the Phu Kham Upgrade together with an estimated net payment of approximately US$30 million due to the Government of Laos for the 2011 tax year.

Phu Kham Copper-Gold Operation, PanAust Asia, Laos

For the year ended 31 December 2011, the Phu Kham Copper-Gold Operation ('Phu Kham') processed 13.1 million tonnes (Mt) of ore to produce 250,154t of concentrate containing 59,897t of copper, 53,590oz of gold and 583,123oz of silver (2010: 274,907t of concentrate containing 67,806t of copper, 58,152oz of gold and 507,590oz of silver). The average cash cost, net of by-product credits (C1, Brook Hunt Convention) for the 2011 year was US$1.01/lb of copper (2010: US$0.87/lb of copper).

The lower year-on-year production reflects the impact of severe rainfall events which occurred in mid-2011 and caused flooding of the lower benches of the open-pit, restricting access to higher grade ores as well as impacting road infrastructure. Phu Kham production returned to normal levels in November 2011 and the Operation achieved a record monthly copper production of 6,639 tonnes in December 2011.

On 4 May 2011, the Company reported to the ASX an extended mine life of over 14 years (from 1 January 2011), which includes increased mill throughout from 12Mtpa to 16Mtpa from mid-2012. The extension to the mine life was largely due to additional mineralisation being identified by infill and resource extension drilling.

Phu Kham Upgrade Project, PanAust Asia, Laos

Implementation of the Phu Kham Upgrade Project will allow design ore processing rates to increase from 12Mtpa to 16Mtpa and lead to improved metal recoveries through an increase in grinding and flotation capacity. The completion of the Upgrade is timed to coincide with a scheduled decline in ore head grade during 2012.

As at 31 December 2011, detailed engineering and procurement for the project were largely finalised and off-site fabrication of long lead items was nearing completion. Commissioning is scheduled for the June quarter 2012 with ramp-up to continue into the following quarter.

The estimated capital cost for the Phu Kham Upgrade Project is US$95 million (incorporating a contingency of US$14 million). As at 31 December 2011, Project expenditure totalled approximately US$29 million.

Ban Houayxai Gold-Silver Project, PanAust Asia, Laos

The Ban Houayxai Gold-Silver Project is located approximately 25 kilometres west of the Phu Kham Copper-Gold Operation. The Project, which is scheduled to commence production in March 2012, will comprise an open pit mine feeding ore to a conventional 4Mtpa Carbon In Leach (CIL) process plant with a nominal production profile of 100,000oz of gold and 700,000oz of silver per annum.

As at 31 December 2011, project expenditure totalled approximately US$168 million with overall progress standing at 93% complete. The capital cost of the Project, including contingency is expected to be approximately US$195 million. An estimated US$5 million of deferred capital (included in the capital estimate) will be required to fund the second lift to the Tailings Storage Facility (TSF) after operations commence during 2012.

Operating Review for the year (continued)

Ban Houayxai Gold-Silver Project, PanAust Asia, Laos (continued)

Since the end of the financial year, the 115kV HV power line to site has been energised and progressive commissioning of equipment has commenced.

The International Cyanide Management Institute has also announced that the Ban Houayxai Gold-Silver Operation has been pre-operationally certified in compliance with the International Cyanide Management Code. The Code is a voluntary industry program for companies involved in the production of gold using cyanide and companies producing and transporting cyanide and is intended to complement an operation's existing obligation to comply with the applicable laws and regulations of the political jurisdictions in which the operation is located.

In May 2011, the Company announced an increase to the Ban Houayxai mine life of nine years at the current design ore processing rate of 4Mtpa. Resource development drilling continues at Ban Houayxai aimed at defining a pervasive, relatively high-grade, gold-silver zone that extends from surface through the oxide and primary zones of the deposit.

Pre-development and exploration projects

Inca de Oro Copper-Gold Project, PanAust South America, Chile

PanAust is managing the feasibility study for the Inca de Oro Copper-Gold Project. The full study is scheduled for completion during the June quarter 2012 for consideration by the joint venture and PanAust Boards in the September quarter 2012.

The Inca de Oro Copper-Gold Project pre-feasibility study completed by Codelco, has confirmed the potential for a conventional open-pit mining and flotation operation to support annual production of approximately 50,000t of copper and 40,000oz of gold in concentrate at a competitive cash cost over a plus ten-year mine life.

Phu Kham district, PanAust Asia, Laos

PanAust has established a brown-fields exploration team to investigate potential extensions to the Phu Kham mineral resource envelope and repeats of Phu Kham-style mineralisation along a highly prospective corridor, which runs at least seven kilometres due north and along strike of the northern boundary of the Phu Kham deposit.

Drilling results received in late 2011 confirmed the discovery of the high-grade “Nam San” copper-gold deposit adjacent to the Phu Kham open-pit. Drilling to date has confirmed the lateral continuity of mineralisation over at least 400 metres and the zone remains open to the east, northwest and at depth.

The mineralisation coincides with a deep geophysical target and is contained within a sequence of volcanic rocks similar to those which host the Phu Kham orebody. Nam San is covered by a sequence of limestone and granite and is interpreted as a fault-displaced extension of the Phu Kham deposit.

Drilling at the Nam San deposit will be accelerated during the first half of 2012, with the objective of defining an inferred mineral resource in the second half of 2012. In addition, conceptual studies have commenced to investigate possible portal locations for underground access, mining methods and mining rates.

The discovery, as announced in May 2011, of primary mineralisation approximately six kilometres northwest of Phu Kham at Long Chieng Track (LCT), together with the Nam San deposit, will influence the exploration and development strategy for the Phu Kham district. Should sufficient inferred resources be identified during 2012, then PanAust will commence a scoping study to investigate opportunities for increasing copper and gold production from the Phu Kham district either: through blending high-grade feed from the Nam San deposit with ore from the current open-pit; or, through the development of new processing facilities.

Phonsavan Copper-Gold Project and Tharkhek Gold Project, PanAust Asia, Laos

The Project comprises two copper-gold deposits: KTL and Tharkhek, located five kilometres apart and close to existing road and power infrastructure.

A scoping study is underway on the development concept for the Project which contemplates two open pit mines (KTL and Tharkhek) feeding a central processing plant.

Pre-development and exploration projects (continued)

Phonsavan Copper-Gold Project and Tharkhek Gold Project, PanAust Asia, Laos (continued)

In February 2011, PanAust reported an inaugural mineral resource estimate for the KTL copper-gold deposit. Drilling programs continued through the year at both KTL and Tharkhek. Drilling at KTL focused on infill and down-dip extensions to mineralisation. Mineralisation dips moderately to the south at between 30 degrees and 40 degrees and has a strike length of two kilometres. Drilling at the Tharkhek copper-gold deposit has intersected broad zones of skarn mineralisation in a structurally complex setting. Drilling also tested extensions to the high-grade gold skarn discovery at Tharkhek (announced in June 2010), which is adjacent to the copper-gold deposit.

Regional Exploration, PanAust Asia, Laos

In addition to the exploration initiatives referred to above, PanAust is undertaking regional exploration activities at several identified prospects within the Company's 2,636 square kilometre Contract Area in Laos. The Contract Area remains under-explored and is highly prospective for copper and gold, offering excellent potential for the discovery of significant new resources as the basis for organic growth of the business.

Puthep Copper Project, PanAust Asia, Thailand

The parties are undertaking a strategic review of the Puthep Copper Project including investigating the potential for selling the asset. From PanAust's perspective, the Project does not rank as highly as other growth opportunities the Company has in its pre-development portfolio.

Sustainability

PanAust's commitment to sustainable development continued to receive international recognition. For the second consecutive year, PanAust received the award for the 'Best Community Development Initiative' at the Asia Mining Congress which was held in Singapore in April 2011. This award recognises the positive contribution that PanAust Technical Trades Training program is making to local communities and the greater Lao community. In December 2011, the Company was also awarded the 'Social - Community' category award at the Ethical Investor Magazine's 11th Sustainability Awards in recognition of its Livelihood Improvement Program in Laos; and, the Labour Order Class 1 Award for 'Best Development in a Rural Area' from the Government of Laos in recognition of the "outstanding contribution to rural socio-economic development and poverty eradication between 2006 and 2010".

Local Community Projects

In the vicinity of the Phu Kham Copper-Gold Operation, PanAust continues to advance a number of community development projects mainly in the neighbouring villages of Ban Nam Mo and Ban Nam Gnone.

The Livelihood Improvement Program is part of PanAust's overarching community development plan and is jointly managed by the Company's community officers and village development committees in Laos. The program comprises 44 projects in various sectors including agriculture, infrastructure, education, health, micro-finance and small business development.

The program benefits more than 150 farmers; empowers ethnic minority and women's groups (98 per cent of participants are women); builds the skill base of participants; and, provides improvement and variety to traditional nutrition and diet. Local businesses, funded by the program, now supply 10 tonnes of fresh produce each month to the Phu Kham Operation's camp.

With development activity increasing at Ban Houayxai and Phonsavan, community development funds have been established, similar to that established at Phu Kham, to support local community development initiatives in those areas.

The Company's 2010 Sustainability Report was published during the year. Refer to the Company's website for a copy of the report.

Safety

The Company's safety record remains excellent. A report completed by Citigroup in January 2012, analysed the safety performance of ASX100 Companies (based on 2011 data), ranked PanAust third out of the 75 participating ASX100 Companies for Lost Time Injury (LTI) frequency rate. The LTI frequency rate (LTI's per million man hours) as at 31 December 2011 on an annual rolling average basis was 0.06 (2010: 0.45), compared with the latest available data from the Minerals Council of Australia which reports an average LTI frequency rate of 3.0 (2010: 1.8) for the Australian Opencut Metalliferous mining industry.

Sustainability (continued)

As at December 2011, the Phu Kham Copper-Gold Operation had recorded 549 LTI free days (11 million man hours) and the Ban Houayxai Gold-Silver Project had achieved 95 LTI-free days, with one LTI incident occurring during the year.

Environment

There were no reportable environmental incidents during the year ended 31 December 2011 (2010: nil).

The Phu Kham Copper-Gold Operation is designed to withstand high rainfall events and as a result the integrity of the operation was not compromised by the exceptional rain events discussed earlier in this report. There were no breaches of environmental compliance guidelines.

Under the Corporations Act 2001, the Company is required to report on its performance in relation to Australian environmental regulations.

The Company owns a non-controlling interest in the Darlot South Joint Venture in Western Australia. The Darlot South Joint Venture is subject to the environmental laws of Western Australia and the Commonwealth of Australia. Barrick (Darlot) N.L., part of the Barrick Gold Corporation, is the operator of the Darlot South Joint Venture. The Company is not aware of any breach of any environmental laws by the operator and has fully complied with its obligations as a non-controlling holder of tenements.

The Company's policies with respect to compliance with environmental law in all countries in which it operates will by fully outlined in the Sustainability Report. The Sustainability Report for 2011 is due to be released in the second quarter of 2012.

Bank Debt Facilities

On 30 July 2010 PanAust entered into an amended and restated loan agreement for US$102 million of debt facilities with a syndicate of four banks. In February 2011, the debt facilities were increased with the inclusion of another bank to lift the commitments to a total of US$120 million.

The debt facilities are secured by the Group's assets in Laos and funds are used for general corporate purposes including the funding of working capital and operating expenses for the Phu Kham Copper-Gold Operation. Approval was granted by the banking syndicate in December 2011 to expand the allowable uses of funds to cover growth activities including the Phu Kham Upgrade Project and the development of the Ban Houayxai Gold-Silver Operation.

Equipment Lease Facilities

In addition to the above, during July 2010, the Company agreed to terms for another equipment lease facility for US$24.8m for a five year term. This facility was fully drawn upon in early 2011.

On 16 December 2011, PanAust entered into a new, five year, equipment lease facility for US$65m with a syndicate of four banks. The facility will be utilised for the provision of mining fleet for both the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation. The first drawdown on this facility, of US$18.5m, was completed on 22 December 2011.

The participants under the lease facilities have the benefit of security over the assets leased to Phu Bia Mining Ltd.

Operating results for the year

The consolidated operating profit for the financial year of the consolidated entity after providing for income tax was $146,562,000 (2010: $160,097,000).

Segment results are adjusted earnings before interest, tax, depreciation and amortisation, which is the measure of segment result that is reported to the Managing Director to assess the performance of the operating segments. For a reconciliation of segment results to operating profit before tax, refer to Note 4 of the consolidated financial statements.

Dividends - PanAust Limited

Since the end of the previous year, no amounts were paid or declared by way of dividend by the Company. The Directors have resolved not to declare a dividend for the year ended 31 December 2011.

Likely developments and expected results of operations

Future developments and business strategies of the Company are as follows:

- Commissioning of the Ban Houayxai Gold-Silver Project in March quarter 2012, to produce approximately 85,000oz of gold and 200,000oz ounces of silver during the remainder of 2012 (annualised nominal production profile of 100,000oz of gold and 700,000oz of silver);

- Completion of the Phu Kham Upgrade will increase the design copper-in-concentrate production capacity to between 65,000tpa and 70,000tpa after implementation through increased ore processing rates and improved metal recoveries. Completion of the Upgrade is scheduled for late June 2012. During 2012, the Operation is expected to produce between 63,000t and 65,000t of copper; and between 50,000oz and 55,000oz of gold and from 550,000oz to 600,000oz of silver.

- Completion of a feasibility study in 2012 at the Inca de Oro Copper-Gold Project;

- Ongoing assessment on the Phonsavan Copper-Gold Project in Laos; and

- Further drilling within the Phu Kham district, targeting both the Nam San and LCT deposits.

PanAust has a corporate strategy focused on growth by discovery, acquisition and development. Key components of this strategy are: a commitment to progressing capital efficient organic growth opportunities; the acquisition of producing or pre-development copper assets; and pursuit of an active exploration and resource development program.

The pipeline of growth projects, which are represented by the Ban Houayxai Gold-Silver Project, the Phu Kham Upgrade Project and Inca de Oro Copper-Gold Project, provide the basis for a strong growth profile over the next several years. Resource development at the Phonsavan Copper-Gold Project and the brown field successes in the Phu Kham district have the potential to secure further growth in the medium to longer term.

Indemnity and insurance of officers

The Company’s constitution provides, to the extent permitted by law, a general indemnity for officers of the Company against any liability incurred in their capacity as an officer of the Company to a third party (unrelated to the Company) unless the liability arises out of conduct by the officer which involves a lack of good faith or is contrary to the Company’s express instructions. The Company’s indemnity extends to any costs and expenses incurred by the officer in his or her capacity as an officer of the Company in defending proceedings in which judgement is given in favour of the officer or in which the officer is acquitted. “Officers” is defined in the Company’s constitution to include Directors, the company secretary, executive officers and full time employees as determined by the Directors.

Deeds of access, insurance and indemnity have been executed by the Company, consistent with the Company’s constitution, in favour of each Director. The Company has agreed to indemnify each Director against any liability incurred by the Director as an officer of the Company other than a liability for a pecuniary penalty order or compensation order under the Corporations Act, a liability owed to a group company or a liability specifically excluded by the Company’s constitution as noted in the above paragraph. Consistent with the Company’s constitution the indemnity extends to legal costs subject to certain exclusions.

During the financial year, the Company paid an annual premium of US$276,919 (2010: US$230,382) to insure the Directors, company secretary, and other officers of the Company and its subsidiaries (each an “Insured Party”). The liabilities insured are the loss suffered by the Insured Party and any amount payable by the Company in accordance with the indemnity together with defence costs in respect of a claim. The insurance policy does not cover liability arising out of conduct by an Insured Party referred to in section 199B Corporations Act and other customary exclusions including personal injury, fines and penalties and property damage. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Non-audit services

The Company has employed the auditor, PricewaterhouseCoopers, on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company were considered to be important.

The Board of Directors considered the issue of auditor independence and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they did not impact the impartiality and objectivity of the auditor; and

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for audit and non-audit related services provided by the auditor of the parent entity and its related practices:

	31 December 2011 US$	31 December 2010 US$
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work	**299,482**	264,471
Related practices of PricewaterhouseCoopers Australian firm:		
PricewaterhouseCoopers Laos firm:		
Audit and review of financial reports and other audit work	**147,549**	138,328
PricewaterhouseCoopers Chile firm:		
Audit and review of financial reports and other audit work	**24,023**	-
PricewaterhouseCoopers Singapore firm:		
Audit and review of financial reports and other audit work	**16,000**	-
Total remuneration for audit services	**487,054**	402,799
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Debt facility / debt instrument review	**-**	160,586
Other services	**6,498**	45,001
Total remuneration for other assurance services	**6,498**	205,587
3. Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax advice	**-**	22,242

Remuneration report

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporation Act 2001.

During the course of 2011, amendments were made to the Corporations Act 2001 in relation to the engagement and use of remuneration consultants. Additional reporting obligations were also introduced which will apply to PanAust's remuneration report for 2012. The Remuneration Committee has adopted a protocol governing the engagement of remuneration consultants to ensure that PanAust complies with the amended law.

A. Principles used to determine the nature and amount of remuneration

Background

PanAust's remuneration for senior executives and non-executive Directors in 2011 reflected the scale and complexity of the business and the Company's market capitalisation (A$1.9 billion as at 31 December 2011).
On 7 April 2011, the Company graduated into the S&P/ASX100 Index. This evidences the substantial growth of the Company over the last five years. PanAust competes with other companies in the global mining industry for senior executives and experienced non-executive Directors. It is in this context that the Company determines the appropriate nature and amount of remuneration.

Remuneration philosophy

The guiding philosophy is to benefit all stakeholders by attracting, motivating and retaining a highly skilled and experienced team of Board members and senior executives.

Role of the remuneration committee

The Remuneration Committee of the Board is responsible for reviewing and making recommendations to the Board in relation to a number of remuneration related matters, including:

- the remuneration policy of the Company;
- the remuneration arrangements for the Managing Director and other senior executives;
- the terms and conditions of long term incentives and short term incentives for the Managing Director and other senior executives (including performance targets);
- the terms and conditions of employee incentive schemes, and
- the appropriate remuneration to be paid to non-executive Directors.

The charter for the Remuneration Committee is available on PanAust's website.

In accordance with best practice, the Remuneration Committee is comprised solely of independent non-executive Directors; namely, Garry Hounsell (Chairman), Geoff Billard, Nerolie Withnall and Ken Pickering (appointed to the Remuneration Committee on 28 October 2011).

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

The Remuneration Committee considers survey data and obtains advice from expert remuneration consultants. In relation to matters dealt with in this report, the Remuneration Committee obtained advice from:

- KPMG in relation to senior executive remuneration and the valuation of long term incentives; and
- Deloitte in relation to the tax consequences of long term incentives for senior executives and the Company.

Non-executive Director remuneration

Objective
The objective is to set remuneration at a level which attracts and retains non-executive Directors of the highest calibre at a cost acceptable to shareholders.

Structure
The maximum aggregate remuneration of non-executive Directors is determined by the shareholders in a general meeting.

The Chairman is paid an all-inclusive fee which includes remuneration for serving on Board committees. Other non-executive Directors are paid a base fee and an additional fee for serving on Board committees (whether as chairman or member). A greater fee is payable for chairing a committee because the workload is greater.
From 1 July 2010, non-executive Directors' fees became inclusive of superannuation.

Additional fees may be paid to non-executive Directors for providing extra non-executive Director related services to the Group (for example, serving on the board of a PanAust related entity or being a member of a due diligence committee). The quantum of any such fee is determined by reference to the Board committee fee structure (in particular, whether the workload is comparable to that of a committee chairman or a committee member).

Non-executive Directors are not paid any short term incentives, long term incentives, equity based remuneration or retirement/termination benefits.

Directors' fees

The current maximum aggregate remuneration of non-executive Directors is A$1,200,000.

The annual fees paid in 2011 (with comparative data for 2010) were as follows:

	From 1 July 2010	**From 1 January 2010 to 30 June 2010**
Position		
Chairman	$260,000	$220,725
Other non-executive Directors	$110,000	$75,000
Committee fees		
Committee chairman	$20,000	$15,000
Committee member	$10,000	$7,500

The remuneration paid to each non-executive Director for the year ended 31 December 2011 is detailed on page 25 of this report.

There was no adjustment to non-executive Directors' fees in 2011. The last review of non-executive Directors' fees occurred in 2010 when the Remuneration Committee commissioned KPMG to undertake a detailed review in relation to both fee structure and amount. Consideration was given to fees paid to non-executive Directors of similar companies as evidenced by professional director remuneration publications, publicly available data and data specific to the mining industry (including the McDonald Gold & General Mining Industry Remuneration Survey).

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

Executive Director and senior executive remuneration

Objective
The objective is articulated in the PanAust Employee Policy (available on PanAust's website) which provides that PanAust will:

Cultivate a performance based culture whereby competitive remuneration, benefits and rewards are aligned with PanAust's objectives and where merit forms the basis of performance based pay and promotion.

The remuneration arrangements for the senior executive team are intended to encourage the growth of the Company and shareholder value in a sustainable way, optimising return on capital whilst being true to the Company's vision and values.

The Company aims to reward senior executives with a level and mix of remuneration commensurate with their positions and responsibilities within the Company. PanAust also seeks to maintain appropriate levels of internal relativity between senior executive positions in the Company.

Structure
Remuneration consists of the following key elements:

- Fixed Remuneration;
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

The amount and relative proportion of Fixed Remuneration, STI and LTI is established for each senior executive following consideration by the Remuneration Committee of market levels of remuneration for comparable senior executive roles. The Remuneration Committee then makes recommendations to the Board.

For the 2011 annual remuneration review, the Remuneration Committee received expert advice from its external remuneration consultant, KPMG. The Company also participated in and subscribed to the McDonald Gold & General Mining Industry Remuneration Survey and supplementary CEO Report.

Following its consideration of the above information and analysis, the Remuneration Committee then made recommendations to the Board. The Board approved remuneration for the Managing Director and the five highest remunerated senior executives is detailed in the tables on pages 24-25 of this report.

Fixed Remuneration

Objective
At PanAust, the purpose of Fixed Remuneration is to provide a base level of remuneration which is market competitive and appropriate.

Structure
Fixed Remuneration is inclusive of superannuation. Senior executives are given the opportunity to receive their Fixed Remuneration as either base salary (if based overseas) or base salary and superannuation.

Short Term Incentives (STI)

Objective
The objective of awarding an STI is to link the achievement of the Company's strategic targets with the remuneration received by the senior executives responsible for meeting those targets. The STI is intended to provide incentive to the senior executives to achieve the strategic targets whilst constituting a reasonable cost to the Company in all circumstances (including employment market conditions and overall financial performance).

Structure
At the beginning of each financial year, a number of critical tasks covering strategic, financial and non-financial measures of performance are established and approved by the Board as part of the annual planning process for the Managing Director and other senior executives. The extent that those targets are achieved determines the amount of STI paid.

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

Short Term Incentives (STI) (continued)

The STI performance hurdles (and weightings) for 2011 were:

Position	STI performance hurdle (weighting %)
The Managing Director	• Financial and operating performance of the Company by reference to EBITDA, sustaining capital and project expenditure (40%); • Sustainability performance (safety, environment and community) including both lead and lag indicators (15%); • Growth performance indicators, including resources and reserves, project development timelines, new opportunities and people/organisational goals (20%); and • Governance and relationship indicators, including relationships with key stakeholders, and other more discretionary factors (25%).
Operational senior executives with production focus	• Production performance achieved (30%); • Cost control (20%); • Sustainability performance (both lead and lag indicators, including identifying and managing risk) (20%); and • Governance and relationship indicators (including relationships with key stakeholders), quality assurance, quality control and other more discretionary factors (30%).
Operational senior executives with a project development and construction focus	• Sustainability performance (both lead and lag indicators, including identifying and managing risk) (20%); • Performance against budget capital cost and schedules (50%); • Implementation of feasibility studies and operational improvement initiatives (20%); and • Governance and relationship indicators (including relationships with key stakeholders) (10%).
Non-operational senior executives (depending on the role)	• Performance against annual achievement plan (85%); and • Sustainability outcomes for the PanAust Group (15%).

The importance of sustainability performance is emphasised by the following:

- Any fatality during the year involving an activity within the control of PanAust causes the STI attributable to safety to be forfeited; and
- Any environmental incident during the year involving an activity within the control of PanAust which was categorised under the Company’s Risk Consequence Table as a Level 4 (or above) high consequence environmental incident, results in the forfeiture of the STI attributable to the environment.

There were no such fatalities or incidents during 2011.

Sustainability performance relating to safety was measured by reference to statistics for lost time injuries, total recordable injuries, and days away/restricted/transferred. Environmental performance was measured by reference to the number and consequence of reportable environmental incidents.

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

Short Term Incentives (STI) (continued)

Once performance reviews of each senior executive were conducted, the Remuneration Committee made a recommendation to the Board with respect to application of discretion to take into account matters such as the overall performance of the Company for the year and any events that occurred which were outside the control of the senior executive; for example, the extreme rainfall events that occurred in Laos in mid-2011. After considering the recommendation, the Board then approved the final STI outcomes which are detailed in this report.

Long Term Incentives (LTI)

Objective
The objectives of the LTI are to provide an incentive to senior executives which promotes both the long term performance and growth of the Company and the retention of the Company's senior executives.

Types of LTI
For the 2011 year, the Company provided the following forms of senior executive LTI:

- the Long Term Share Plan (LTSP); and
- the Long Term Incentive Cash Bonus (LTI Cash Bonus).

In previous years, the Company provided the LTI under:

- the Executive Option Plan (EOP); and
- the Share Rights Plan (SRP).

Further information in relation to each of these plans is provided below.

Long Term Share Plan (LTSP)
The LTSP is a loan backed share plan which was introduced in 2010. Under the LTSP, the Company issues shares or a trustee transfers shares to the senior executive at market value. The purchase price of each share is funded by a loan from the Company.

The issue of shares and the advance of a loan to the Managing Director under the LTSP were approved by shareholders at the 2011 Annual General Meeting. During 2011, LTI offers were only made to the Managing Director and other senior executives under the LTSP.

Two changes were made to issues under the LTSP in 2011 from those made under the LTSP in 2010. First, the performance period for the 2011 issue is a minimum of three years with retesting dates occurring after the vesting date. Under the issues made in 2010, the retesting dates occurred prior to the vesting date. Secondly, the comparator group of companies was changed from the S&P/ASX 300 Metals and Mining Index to a peer group which more closely reflects the Company's peers. More information is provided below.

Under the terms of the LTSP:

- The Board may invite a person who is an executive with the Company or an associated Company to participate. Participation is voluntary. Participation is not open to non-executive Directors. Participation in the LTSP does not confer any right upon the participant to future issues of shares. A participant may nominate an associate (such as a personal superannuation fund) to hold the securities.

- The Board has the discretion to determine: (a) the number of shares to be issued under the LTSP (provided that the total number of shares under the LTSP does not exceed 5% of the total shares on issue at the time an offer to participate is made; (b) the price of the shares (being the amount of the cash or loan required to acquire the shares); (c) the amount of any loan to be extended to the participant to acquire the shares and the terms and conditions of such loan; and (d) any conditions attaching to the shares, including performance hurdles which must be satisfied before the shares vest.

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

Long Term Incentives (LTI) (continued)

- The amount of the loan advanced by the Company to the participant may not exceed the aggregate of the price of the shares acquired and any transaction costs. The loan is limited recourse. Accordingly, the participant is not required to pay any amount in excess of the value of the shares acquired through provision of the loan. The loan must be repaid prior to the sale of any shares or arrangements must be entered into with the Company such that the proceeds of any sale are applied in repayment of the loan. The after tax benefit of any dividends (based on the top Australian marginal tax rate) must be applied in repayment of the loan.

- Where the employment of the participant is terminated other than for retirement, retrenchment or death, any shares subject to conditions which have not been satisfied (including performance conditions) are forfeited. In the case of retirement, retrenchment, or death, shares which have not vested and are still subject to conditions will be immediately forfeited unless the Board exercises its discretion to the contrary. A participant is not taken to have retired until they reach the age of 60 or such other age as the Board may approve in a particular case.

- Subject to the conditions and restrictions attaching to the shares, the holder of the shares has the same rights as any other holder of shares. This includes voting rights, a right to dividends, bonus shares and capital disbursements. However, if the shares are subject to a loan, the after tax benefit of any monetary proceeds must first be applied in repayment of the loan.

- Upon the happening of a "Control Event" (for example, a takeover or demerger), all shares subject to conditions will be released immediately from such conditions and become unrestricted. Immediately prior to the Control Event, the Board must make appropriate arrangements to ensure that the holders of the shares are able to sell their shares on or prior to the relevant event. “Control Event” is defined as meaning (a) an offer is made by a person for the whole of the issued ordinary share capital of the Company (or any part not owned by the offeror) and after the announcement of the offer, the offeror acquires "Control" of the Company; (b) any other event which results in a change in “Control” of the Company; or (c) any other event which the Board reasonably considers should be regarded as a change in "Control". An entity acquires "Control" of the Company where it acquires the right to 50% or more of the votes to appoint or remove a director, or has 50% or more of the votes exercisable by all directors, or has the right to 50% or more of the profits or distributions of the Company.

- The Company issues new shares for the LTSP, it does not buy shares on market. Shares which are forfeited by the senior executive are available for future issues under the LTSP.

Comparator Group to assess performance

In relation to issues under LTI plans to the Managing Director and other senior executives, vesting of shares is subject to PanAust’s total return to shareholders (TSR), including share price growth, dividends and capital returns, compared to an appropriate comparator group.

For the 2011 issue, the comparator group was changed from the S&P/ASX 300 Metals and Mining Index (adopted for the 2010 issue) to a peer group consisting of 21 companies in the resources industry selected by the Remuneration Committee with the benefit of external advice (the “Comparator Group”). The selection of the Comparator Group was made on the basis that the companies were all mining companies with operating assets.

The constituents of the Comparator Group for the performance period commencing 1 January 2011 are: Newcrest Mining, Eldorado Gold Corp, Alumina, Oz Minerals, Equinox Minerals, MacArthur Coal, Iluka Resources, Aquarius Platinum, Mount Gibson Iron, Atlas Iron, Medusa Mining, Gindalbie Metals, Perseus Mining, Western Areas, Minara Resources, Kingsgate Consolidated, Independence Group, Grange Resources, Regis Resources, Anvil Mining and Oceana Gold.

A constituent of the Comparator Group must still be listed on the relevant test date for it to be included for the purposes of performance assessment.

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

Long Term Incentives (LTI) (continued)

The proportion of the LTI component which vests depends upon TSR performance. Vesting occurs after a period of three years and is subject to the Company's ranking with the Index as follows:

TSR Rank performance and proportion of shares that vest

TSR Rank	Proportion of shares that vest
Less than or at 50th percentile	Nil
Between 51st and 75th percentile	50% increasing linearly to 100% at 75th percentile
At or above 75th percentile	100%

LTI Cash Bonus

The LTI Cash Bonus was introduced for the Managing Director and other senior executives for the 2011 remuneration year.

The payment of the LTI Cash Bonus is dependent upon the achievement of a number of performance conditions which differ from those applying to the vesting of shares under the LTSP. The intention is to reward the Managing Director and other senior executives for achieving production and growth outcomes which meet the long term strategic objectives of PanAust.

The after tax benefit of any LTI Cash Bonus received must be applied in repayment of any loan outstanding under the LTSP for the relevant year.

For the 2011 award, whether or not the LTI Cash Bonus is paid to the Managing Director or the other senior executive depends upon the following outcomes to be assessed as at 31 December 2013:

- The Phu Kham Copper-Gold Operation is producing at an annualised rate of at least 65,000t of copper (40% of the LTI Cash Bonus);
- The Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Project are producing in aggregate at an annualised rate of at least 170,000oz of gold value in precious metal (gold and silver) (30% of the LTI Cash Bonus); and
- By 31 December 2013, PanAust commits to an increase in production through the Board of the Company approving the development of a further project within the Company's current portfolio of assets (which for this purpose includes the Puthep and the Inca de Oro joint venture projects) or an acquisition of superior value to those assets (30% of the LTI Cash Bonus).

If all of the conditions are satisfied, the LTI Cash Bonus is equal to the outstanding loan amount relating to the shares issued under the LTSP in 2011 which have vested. If some but not all of the conditions are satisfied, the proportion of the LTI Cash Bonus attributable to each satisfied condition is payable.

If PanAust does not achieve any or all of the conditions as at 31 December 2013, then the Remuneration Committee has the discretion to defer (for no more than nine months) testing of the conditions. This discretion may be exercised where there are reasonable circumstances for the production targets temporarily not being met on the relevant date or Board approval for development of a relevant project being delayed due to the extension of a feasibility study or fall in the copper price below US$3/lb.

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

Long Term Incentives (LTI) (continued)

Executive Option Plan (EOP) and Share Rights Plan (SRP)

Structure
Prior to 2010 and the implementation of the LTSP, the Managing Director and all other senior executives were offered a choice between options issued under the EOP or shares rights issued under the SRP. Given information in relation to those previous issues is contained in this report, a summary of the structure of the EOP and the SRP is provided below.

Under the terms of the EOP and SRP:

- The Board may invite a person who is a senior executive in permanent full time or permanent part time employment with the Company or on a fixed term contract with the Company to participate in the EOP. A participant may nominate an associate (such as a personal superannuation fund) to hold the options. Directors of the Company are ineligible to participate in the EOP, unless they are executive Directors.

- The Board may invite a person who is an employee of the Company to participate in the SRP. A participant may nominate an associate (such as a personal superannuation fund) to hold the share rights. Directors of the Company are ineligible to participate in the SRP, unless they are executive Directors.

- Participation in both the EOP and SRP is voluntary. The Board has the discretion to determine (a) the number of options and share rights to be issued under the EOP and SRP; (b) the exercise price (if any); and (c) other terms of issue of the options and share rights. The Board has the discretion to impose performance hurdles which must be satisfied before the options and share rights can be exercised.

- Where the employment of a participant in the EOP is terminated for any reason other than retirement, retrenchment or death, any unexercised options which have outstanding performance or other conditions will immediately lapse. Any unexercised options which have satisfied all conditions are not affected.

- Where the employment of a participant in the SRP is terminated for any reason other than retirement, retrenchment or death, any unvested share rights will immediately lapse. Any vested share rights are not affected.

- Where the employment of a participant in the EOP is terminated by reason of retirement, retrenchment or death, any unexercised options which have outstanding conditions will immediately lapse unless the Board exercises its discretion to the contrary. Any unexercised options which do not have any outstanding conditions are not affected.

- Where the employment of a participant in the SRP is terminated by reason of retirement, retrenchment or death, any unvested share rights will immediately lapse unless the Board exercises its discretion to the contrary. Any vested share rights are not affected.

- In the case of options or share rights, a participant will not be taken to have retired until they reach the age of 60 or such other age as the Board may approve in a particular case.

- Upon exercise of an option and payment of the exercise price, each option will convert into one ordinary fully paid share in the Company. Options must be exercised within the exercise period determined by the Board. The exercise period for an option must not exceed 5 years.

- Upon exercise of a share right, each share right will convert into one ordinary fully paid share in the Company. There is no exercise price payable. Share rights must be exercised within the exercise period determined by the Board. The exercise period for a share right must not exceed 10 years.

Remuneration report (continued)

A. Principles used to determine the nature and amount of remuneration (continued)

Long Term Incentives (LTI) (continued)

- Holders of options and share rights are not thereby entitled to participate in new pro rata or bonus issues of securities made by the Company. Upon a new pro rata or bonus issue of securities, adjustments are made to the number of shares over which the options and share rights exist and/or the exercise price (if any). The relevant formula to reflect changes to the capital structure that occur by way of pro rata and bonus issues is set out in the EOP and SRP. The formula is consistent with the ASX Listing Rules. In any reconstruction, options and share rights will be similarly reconstructed in accordance with the ASX Listing Rules.

- Options and share rights may not be transferred. In addition, the Board may impose disposal restrictions upon shares acquired through the exercise of share rights. There are no disposal restrictions on options issued under the EOP.

- Upon a change in the control of the Company (for example, a takeover) or a demerger, all unvested options and share rights will immediately vest and become exercisable. Immediately prior to the change in control or demerger, the Board must make appropriate arrangements to ensure that the holders of options and share rights are able to exercise the option or share right on or prior to the relevant event.

- Participation in both the EOP and SRP does not confer any right upon the participant to future issues of options or share rights.

Following vesting, options issued under the EOP may be exercised for a total period of five years from the grant date. Options are granted with cash consideration due on exercise of the options at the relevant exercise price. Share rights are granted under the SRP with no cash consideration due on exercise of the share rights. Share rights may be exercised for a period of up to ten years.

The vesting of share rights issued to employees other than senior executives is only subject to the employee being employed as at the vesting date. This reflects the retention objective of such issues.

Details of LTI grants

The tables on pages 26-30 provide details of LTI grants to the Managing Director and the other five highest remunerated senior executives. This includes all of the key management personnel (other than the non-executive Directors who do not receive LTI grants). The tables also detail the value, vesting periods and lapses under the LTSP, EOP and SRP.

Performance of PanAust Limited

The fundamental aim of PanAust is to benefit shareholders by out-performing its peers through growth of production from relatively low capital and operating cost operations. The Company is equally committed to: achieving excellence in sustainability practices; ensuring the safety, health and wellbeing of its employees; and responsibly managing the impacts to the communities and the environment within which it operates. Accordingly, remuneration is linked to sustainability performance at all levels of the organisation to reinforce sustainability as a top priority.

PanAust's share price has recovered strongly since the global financial crisis in 2008-09 though volatility in the 2011 financial markets led to a fall in the Company's share price over the course of the year (consistent with a fall in the copper price). During this period, PanAust still out-performed the median performance of the LTI comparator group of companies. In January 2012, the Company's share price rallied to peak at over $3.70.

The table below shows the performance for the Company as measured by its share prices and market capitalisation over the last five financial years.

Year	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11
A$ per share	4.95	0.425	2.825	4.45	3.20
A$ market capitalisation	1,419,037,120	122,405,770	1,656,873,935	2,630,107,369	1,900,774,992
US$ profit/(loss)	(13,054,830)	(39,959,278)	23,171,479	160,097,000	146,562,000

Remuneration report (continued)

Performance of PanAust Limited

The consolidation of shares on a 1 for 5 basis was approved by the shareholders at the Annual General Meeting held on 21 May 2011, the comparative value per share has been restated to enhance comparability.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and the five highest paid senior executives of the Company are set out in the following tables. The top five highest paid senior executives other than the Managing Director (which include all of the remaining key management personnel who are not Directors and one other senior executive (refer to note 30 to the accounts for a further discussion on key management personnel) are:

- Fred Hess - Executive General Manager Project Development & Operational Improvement;
- Rob Usher - Executive General Manager PanAust Asia;
- David Hairsine - Chief Financial Officer;
- Joe Walsh - General Manager Corporate Development;
- Francisco Tomic - Executive General Manager PanAust South America.

Total Fixed Remuneration is inclusive of superannuation and is reviewed annually by the Remuneration Committee. Total Fixed Remuneration is listed in the table below in the currency referred to in the service agreements which is the currency in which the salary is paid.

	Base salary (including superannuation)			
Name	**2011**		**2010**	
Managing Director				
Gary Stafford	$A	954,000	$A	900,000
Other senior executives				
Fred Hess	$A	476,986	$A	454,272
Rob Usher	$A	462,000	$A	440,000
David Hairsine	$A	412,630	$A	378,560
Joe Walsh	$A	397,488	$A	378,560
Francisco Tomic	$US	383,250	$US	365,000

Key management personnel and other senior executives of the company

Whilst payments to the non-executive Directors, the Managing Director and other senior executives are mainly paid in Australian dollars, the Company's functional currency is United States dollars (the only exception is Francisco Tomic, President & Executive General Manager PanAust South America). The table below details the reportable remuneration in United States dollars using the rate as at the date of payment or the rate as at the date the expense has been recognised. The AUD/USD average rate for 2011 was USD$1.0329. The rate as at 31 December 2011 was USD$1.0174.

The value for Long Term Incentives presented in the table below is calculated in accordance with AASB 2 Share Based Payments and represents securities issued under the LTI equity plans that have been expensed during the current year. Refer to the tables on pages 27-29 for full details of the fair A$ value at the grant date for long term incentive securities issued by the Company to the Managing Director and other senior executives in this, previous or future reporting periods and the number of securities issued to those senior executives during the reporting period.

Remuneration report (continued)

B. Details of remuneration (continued)

Long service leave and termination benefits represent amounts provided for long service leave and termination entitlements during the year ended 31 December 2011. Termination benefits are those referred to under Part C Service Agreements (audited) of this Remuneration Report. Termination benefits payable when the Managing Director leaves the employment of the Company (other than for gross misconduct) is included in the table.

		Short-term employee benefits			Sub-total	Non-cash benefits accrued	
Name		**Directors' Fees / Base Salary US$**	**Short Term Incentive US$**	**Retirement benefits / Superannu-ation US$**	**Cash benefits received US$**	**Long service leave / Termination benefits US$**	**Long Term Incentives US$**
Non-executive Directors							
Garry Hounsell	**2011**	**245,240**	**-**	**22,072**	**267,312**	**-**	**-**
	2010	202,533	-	18,228	220,761	-	-
Nerolie Withnall	**2011**	**135,945**	**-**	**12,235**	**148,180**	**-**	**-**
	2010	104,246	-	9,382	113,628	-	-
Andrew Daley	**2011**	**123,440**	**-**	**-**	**123,440**	**-**	**-**
	2010	82,186	-	-	82,186	-	-
Geoff Handley	**2011**	**93,975**	**-**	**39,680**	**133,655**	**-**	**-**
	2010	58,357	-	46,911	105,268	-	-
Geoff Billard	**2011**	**108,554**	**-**	**33,024**	**141,578**	**-**	**-**
	2010	74,434	-	31,142	105,576	-	-
Zezhong Li	**2011**	**142,063**	**-**	**-**	**142,063**	**-**	**-**
	2010	76,323	-	-	76,323	-	-
John Crofts	**2011**	**155,221**	**-**	**-**	**155,221**	**-**	**-**
	2010	24,828	-	-	24,828	-	-
Ken Pickering	**2011**	**23,159**	-	-	**23,159**	-	-
(appointed 28 October 2011)	2010	-	-	-	-	-	-
Sub-total	**2011**	**1,027,597**	**-**	**107,011**	**1,134,608**	**-**	**-**
	2010	622,907	-	105,663	728,570	-	-
Managing Director							
Gary Stafford	**2011**	**920,079**	**452,759**	**51,123**	**1,423,961**	**144,941**	**1,112,577**
	2010	835,264	514,437	45,992	1,395,693	214,029	1,222,274
Other senior executives							
Fred Hess	**2011**	**419,939**	**229,596**	**64,130**	**713,665**	**15,630**	**274,767**
	2010	534,137	233,385	12,472	779,994	12,717	272,890
Rob Usher	**2011**	**508,863**	**212,009**	**-**	**720,872**	**-**	**194,038**
	2010	381,329	172,469	-	553,798	-	168,380
David Hairsine	**2011**	**372,594**	**183,186**	**48,253**	**604,033**	**16,431**	**228,507**
	2010	306,192	143,507	47,558	497,257	17,872	218,771
Joe Walsh	**2011**	**379,684**	**167,869**	**25,562**	**573,115**	**13,690**	**227,023**
	2010	327,005	143,507	21,129	491,641	18,240	218,909
Francisco Tomic	**2011**	**375,723**	**151,767**	**7,527**	**535,017**	**-**	**59,798**
	2010	149,096	65,058	-	214,154	-	-
Total	**2011**	**4,004,479**	**1,397,186**	**303,606**	**5,705,271**	**190,692**	**2,096,710**
	2010	3,155,930	1,272,363	232,814	4,661,107	262,858	2,101,224

Remuneration report (continued)

B. Details of remuneration (continued)

The proportion of remuneration that is linked to performance and the proportion that is fixed are detailed in the table below:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2011 %	2010 %	**2011 %**	2010 %	**2011 %**	2010 %
Executive Directors of PanAust Limited						
Gary Stafford	**36**	31	**17**	18	**47**	51
Other senior executives						
Fred Hess	**48**	51	**23**	22	**29**	27
Rob Usher	**56**	53	**23**	24	**21**	23
David Hairsine	**49**	48	**21**	20	**30**	32
Joe Walsh	**49**	48	**21**	20	**30**	32
Francisco Tomic	**53**	71	**26**	29	**21**	-

C. Service agreements

On appointment to the Board, all non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter details the terms and conditions of appointment, including remuneration and the obligation to comply with policies of the Company.

The service agreements for the Managing Director and other senior executives may be terminated by either party with three months notice. For the Managing Director, the service agreement provides for a payment of a termination benefit, other than for gross misconduct, equal to one month's total remuneration for each year of service to a maximum of twelve months. The Managing Director has provided the required years of service to reach the maximum level of twelve months total remuneration upon termination. For other senior executives, the service agreements provide for a payment of a termination benefit when employment is terminated by the Company, other than for gross misconduct, equal to one month's total remuneration for each year of service to a maximum of six months.

D. Share-based compensation

At the Annual General Meeting held on 20 May 2011, PanAust Shareholders approved the consolidation of ordinary shares on a 1 for 5 basis, in accordance with section 254H(1) of the Corporations Act 2001 (Cth). The ordinary fully paid shares of the Company ('shares') have now been consolidated through the conversion of every five shares held by a shareholder into one share with any resulting fractions of a share rounded up to the next whole number of shares. The consolidation was effective from 31 May 2011.

In accordance with the terms and conditions of the share rights and ASX Listing Rule 7.21, share rights have been consolidated in a similar manner to ordinary shares. In accordance with the terms and conditions of the options and ASX Listing Rule 7.22, unlisted options on issue under the Executives' Option Plan have been consolidated on the same basis as the Company's shares with the effect that the number of shares the subject of each option and share right have been reduced by a factor of five. The exercise price of each option was increased by a factor of five.

The relevant comparative information has been restated by a factor of five where applicable.

Remuneration report (continued)

D. Share-based compensation (continued)

Information relating to issues under the LTSP

Details of the LTSP grants to the Managing Director and other senior executives are as follows:

Grant date	Date vested and exercisable	Loan expiry date	Fair value per share at grant date A$	Share price at grant date A$	Number of shares granted	Volume weighted average price per share A$	% Vested
18-Feb-2011	31-Dec-2013	31-Dec-2015	1.375	4.20	540,756	4.2845	nil
23-May-2011	31-Dec-2013	31-Dec-2015	1.124	3.75	501,312	3.7750	nil
21-May-2010	31-Dec-2012	21-May-2015	0.600	2.18	2,479,540	2.5465	nil

Issues made under the LTSP to the Managing Director and each other senior executive

In 2011, the Board, through the Remuneration Committee, determined the nominal value of the LTSP issue to the Managing Director and other senior executives and the number of shares issued by reference to the five day volume weighted average price (VWAP) of the Company's shares prior to the date of issue (2010: three month VWAP). The Company issues new shares rather than acquiring shares on market. Details of the LTSP issues to the Managing Director and other senior executives and the related loan amount are set out below.

	2011		2010	
Name	Number of shares granted during the year	Loan amount $A	Number of shares granted during the year	Loan amount $A
Managing Director				
Gary Stafford	501,312	1,892,452	1,430,500	3,642,768
Other senior executives				
Fred Hess	109,306	468,322	298,020	758,908
Rob Usher	105,872	453,609	226,500	576,782
David Hairsine	94,558	405,134	262,260	667,845
Joe Walsh	91,088	390,267	262,260	667,845
Francisco Tomic	139,932	599,539	-	-

The fair value attributed to LTSP at grant date was calculated using a model that takes into account the following:

Variable input	2011	2010
Dividend yield	Nil	Nil
Expected volatility	40%	40%
Risk-free interest rate	5.1% - 5.4%	5.03%
Staff turnover	0.00%	0.00%

LTI Cash Bonus

In 2011, the Managing Director and the other senior executives also became eligible for a LTI Cash Bonus provided the conditions referred to on page 21 have been met as at 31 December 2013. The valuation of the LTI Cash Bonus has been completed using a Monte Carlo simulation technique, incorporating assumed probabilities for the conditions being met as at 31 December 2013. The LTI Cash Bonus is not payable until after 31 December 2013. As at 31 December 2011, none of the conditions required to be met as at 31 December 2013 have been satisfied.

Remuneration report (continued)

D. Share-based compensation (continued)

Options

The terms and conditions of each grant of options during previous reporting periods for the Managing Director and other senior executives are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price A$	Fair value per option at grant date A$	Unissued shares under option	% vested
23-Mar-07	01-Apr-10	29-Feb-12	1.900	0.405	260,000	100 %
29-May-07	01-Apr-10	29-Feb-12	1.900	0.405	490,000	100 %
23-May-08	31-Dec-10	31-Dec-12	4.400	1.490	788,480	89.6% *
27-Apr-09	31-Dec-11	31-Dec-13	1.525	0.425	580,000	100 %**
22-May-09	31-Dec-11	31-Dec-13	2.106	0.470	3,440,000	100 % **

* Given PanAust's total shareholder return over the performance period for securities issued under the EOP and SRP in 2008, 89.6% of securities vested. This is because the Company performed at the 70th percentile in comparison to the comparator group for the performance period ending on 31 December 2010. The balance of the securities (10.4%) lapsed.

** In relation to securities issued under the EOP and SRP in 2009, PanAust performed at the 94th percentile in comparison to the comparator group for the relevant performance period. Accordingly, 100% of the securities vested.

The exercise price is determined by the Remuneration Committee with reference to the market weighted price at the date of offer. Options granted under the EOP carry no dividend or voting rights. Options held under the EOP do not have a right to participate in any share issue of the Company.

When exercisable, each option is convertible into one fully paid ordinary share of PanAust. No options have been granted since 2009.

Options vested
Details of options over ordinary shares in the Company provided as remuneration to the Managing Director and other senior executives of the Company in prior years that have vested are set out below.

Name	Number of options vested during the year	
	2011	2010
Managing Director		
Gary Stafford	3,440,000	1,488,480
Other senior executives		
Fred Hess	-	160,000
Rob Usher	580,000	100,000
David Hairsine	-	-
Joe Walsh	-	260,000
Francisco Tomic	-	-

Remuneration report (continued)

D. Share-based compensation (continued)

Shares issued on exercise of options
Details of ordinary shares in the Company issued as a result of the exercise of options to the Managing Director of PanAust and other senior executives of the Group are set out below.

Name	Date of exercise of options	Exercise price per share A$	Number of options vested during the year 2011	2010
Managing Director				
Gary Stafford	13-Jul-11	1.90	210,000	-
Other senior executives				
Fred Hess	01-Nov-10	1.90	-	160,000
Rob Usher	22-Dec-11	1.90	100,000	-

No amounts are unpaid on any shares issued on the exercise of options.

Share Rights Plan
The terms and conditions of each grant of share rights to other senior executives in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Number of shares right granted	Exercise price A$	Performance hurdle	Fair value per share right at grant date A$	% Vested
27-Apr-09	31-Dec-11	31-Dec-18	1,040,000	nil	TSR	1.020	100 %
25-Feb-08	31-Dec-10	31-Dec-17	344,000	nil	TSR	2.205	89.6 %
02-Apr-07	01-Apr-10	31-Mar-17	210,000	nil	TSR	0.795	100%

No share rights have been granted to the Managing Director or other senior executives since 2009.

Fair value of share rights
The fair value attributable to share rights in the table above was calculated using a model with the following inputs:

	Dec 2009	Dec 2008
Dividend yield	Nil	Nil
Expected volatility	40%	40%
Risk-free interest rate	2.75% - 5.10%	6.15% - 6.70%
Staff turnover	0.00%	16.70%

Details of share rights issued under the SRP provided as remuneration to the other senior executives of the Company are set out below. When exercised, each share right is convertible into one ordinary share of PanAust.

Name	Number of share rights vested during the year 2011	2010
Other executives		
Fred Hess	400,000	178,560
Rob Usher	-	59,136
David Hairsine	320,000	205,264
Joe Walsh	320,000	75,264

No share rights were issued to the Managing Director.

Remuneration report (continued)

E. Additional information

This section of the remuneration report details matters required to be reported by the Corporations Act 2001 which have not been dealt with elsewhere in this report.

Details of remuneration of the Managing Director and other senior executives
For each cash bonus and grant of LTSP securities included in the tables on pages 26-29, the percentage of the available bonus or grant that was paid, or that vested (pertaining to all LTI plans), in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. Bonuses for services performed during 2011 are paid in 2012, no portion is payable in future years. The percentage which was not paid was forfeited. The LTSP securities vest after three years, provided the vesting conditions are met. No LTSP securities will vest if the conditions are not satisfied, hence the minimum value of the LTSP securities yet to vest is nil. The maximum value of the LTSP securities yet to vest is calculated by taking the fair value of the securities as at the grant date and deducting that component of the fair value of the LTSP securities which has already been expensed.

		Cash bonus	**LTSP Securities**		
Name	**Year granted**	**Paid %**	**Financial years in which securities may vest**	**Minimum total value of grant yet to vest US$**	**Maximum total value of grant yet to vest US$**
Managing Director					
Gary Stafford	**2011**	**67%**	**2013**	**nil**	**773,967**
	2010	94%	2012	nil	612,970
Other senior executives					
Fred Hess	**2011**	**79%**	**2013**	**nil**	**176,516**
	2010	96%	2012	nil	127,702
Rob Usher	**2011**	**75%**	**2013**	**nil**	**156,426**
	2010	99%	2012	nil	97,055
David Hairsine	**2011**	**87%**	**2013**	**nil**	**153,742**
	2010	99%	2012	nil	112,379
Joe Walsh	**2011**	**83%**	**2013**	**nil**	**150,352**
	2010	90%	2012	nil	112,379
Francisco Tomic	**2011**	**66%**	**2013**	**nil**	**136,700**
	2010	81%	2012	n/a	-

Remuneration report (continued)

E. Additional information (continued)

Share-based compensation: Long Term Incentives
Further details relating to long term incentives are set out below.

Name	A Remuneration consisting of LTI %	B Value at grant date US$	C Value at exercise date US$	D Value at lapse date US$
Managing Director				
Gary Stafford	41%	1,112,577	375,278	-
Other senior executives				
Fred Hess	27%	274,767	932,000	-
Rob Usher	21%	194,038	43,000	-
David Hairsine	27%	228,507	745,600	-
Joe Walsh	28%	227,023	745,600	-
Francisco Tomic	10%	59,798	-	-

A = The percentage of the value of remuneration consisting of long term incentives, based on the value of the securities expensed during the current year.
B = The value at grant date calculated in accordance with AASB 2 Share Based Payment of the securities granted as part of remuneration that has been expensed during the current year.
C = The value at exercise date of the securities that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the securities at that date.
D = The value at lapse date of the securities that were granted as part of remuneration and that lapsed during the year.

Risk management products

The Company's securities trading policy applies to shares and also to debt securities and financial products issued or created over its share rights or options by third parties and associated products which executives or directors may procure to limit the risk of a holding in the Company.

Corporate governance statement

In recognising the need for the highest standard of corporate behaviour and accountability, the Directors of PanAust support, and have adhered to, principles of corporate governance appropriate for a company such as PanAust. The Company’s corporate governance statement is contained after the auditor’s independence declaration in this financial report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors.

Garry Hounsell
Director

Gary Stafford
Director

Brisbane
23 February 2012

Auditor's Independence Declaration

As lead auditor for the audit of PanAust Limited for the year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of PanAust Limited and the entities it controlled during the period.

D. G. Smith

Debbie Smith
Partner
PricewaterhouseCoopers

Brisbane
23 February 2012

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Corporate governance statement

PanAust is committed to best practice corporate governance practices appropriate for a company of its size and type. This commitment is founded on a culture of integrity rather than a "tick a box" mentality.

In accordance with Listing Rule 4.10, this statement discloses the extent to which the Company has followed the recommendations (the "Recommendations") made by the ASX Corporate Governance Council (the "Council"). The relevant Recommendations are considered under each of the corporate governance principles identified by the Council. It should be noted that the Council recognises that not all of the Recommendations will be suitable for all companies at all times in their corporate development.

Where a Recommendation has not been followed, the Company is obliged to disclose the reasons why the Recommendation has not been followed. This is referred to as "if not, why not" reporting. Unless otherwise stated, the Company has adhered to the Recommendation for the full period of this report.

Principle 1: Lay solid foundations for management and oversight

In accordance with the Recommendations, the Company has adopted a Board Charter setting out the functions reserved to the Board. This Board Charter is available on the Company's website.

The Company has in place a Financial Delegated Authorities Manual which clearly sets out the authorities delegated to each level of management and staff. This Financial Delegated Authorities Manual is approved by the Board and promulgated throughout the PanAust Group and makes clear to every employee what is or is not within the scope of their authority. This is supplemented with a Projects Delegated Authorities Manual which deals with specific issues arising in the context of major projects. The manuals are reviewed by the Board on an annual basis.

Each Director of the Company has entered into a formal letter of appointment. The letter of appointment deals with all of the matters recommended by the Council. It clearly sets out what is expected of each Director.

The performance of senior executives is evaluated on an annual basis. Senior executives prepare annual achievement plans which reflect their role and the strategic plan of the Company. Senior executives are also expected to meet a number of "key behavioural indicators". Performance against these annual achievement plans and key behavioural indicators is assessed by the Managing Director with oversight provided by the Remuneration Committee. The process has been completed for the 2011 year.

The Chairman and the Remuneration Committee consider the performance of the Managing Director. Again, the assessment of performance is made against an annual plan prepared in the context of the strategic plan of the Company. This review has also been completed for the 2011 year.

The outcomes of the performance reviews of the Managing Director and the other senior executives are considered in the annual remuneration review process. Further information is contained in the Remuneration Report.

Principle 2: Structure the board to add value

The structure of the Board fully complies with the Recommendations. A majority of the Board are independent non-executive Directors. The Chairman is an independent non-executive Director. The roles of the Chairman and Managing Director are not exercised by the same person.

The Board has adopted specific principles with respect to assessing the independence of directors. In order to be considered "independent", the relevant Director must be independent of management and free from any business or other relationship that could materially interfere with - or could reasonably be perceived to interfere with - the exercise of their independent judgment. Materiality is considered from the perspective of both the Company and the Director. Both quantitative and qualitative elements are considered. An item is presumed to be immaterial from a quantitative perspective if it is equal to or less than 5% of the relevant base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors include the competitive landscape and the nature of a relationship, including its strategic importance.

Principle 2: Structure the board to add value (continued)

On the basis of these principles, the following Directors are considered to be independent: Garry Hounsell (Chairman), Nerolie Withnall, Andrew Daley, Geoff Handley, Geoff Billard, John Crofts and Ken Pickering. The only two Directors who are not considered independent are Gary Stafford, the Managing Director of the Company, and Zezhong Li who is the non-executive Director nominated by Guangdong Rising Assets Management (GRAM) (a cornerstone investor in the Company). The placement agreement entered into with GRAM provides that the Board of the Company must have a majority of independent non-executive Directors and an independent Chairman.

In accordance with the Recommendations, the Company has a Nominations Committee with a majority of independent non-executive Directors; namely, Garry Hounsell as Chairman and Nerolie Withnall. The Managing Director is also a member of the Nominations Committee. The charter for the Nominations Committee is available on the Company's website. Its responsibilities include the duties listed in the Recommendations. Details of the number of meetings of the Nominations Committee (and other Committees) and attendance by members are provided in the Directors' report.

During the course of the year, the Board adopted a skills matrix to identify the desirable mix of skills and competencies to be held by members of the Board as a whole. The relevant skills identified were as follows: financial qualifications (experience as a chief financial officer, in accounting, audit or economics); operational mining industry experience; finance or banking experience; engineering or geology expertise; in-depth recent international/global experience; former chief executive officer or equivalent experience; experience managing large capital projects; mergers and acquisitions experience; mid/large company non-executive director experience; and corporate governance expertise. The skills matrix was applied by the Board in the course of selecting and appointing Ken Pickering as an additional non-executive Director on 28 October 2011. The skills, expertise and date of appointment of all Directors are detailed in the Directors' report.

The Board has also considered the issue of diversity at a Board level. The Board has adopted a measurable objective of increasing the number of women serving as non-executive Directors from one to two by 31 December 2014. Further discussion is provided below under Principle 3.

The Chairman annually reviews the performance of all Directors. If the performance of a Director had been unsatisfactory, that Director would be asked to retire. The Board has a programme of performance evaluation which includes both externally facilitated evaluation and internal self-evaluation. The last externally facilitated evaluation was for the 2010 year. The facilitator was SpencerStuart, a firm with particular expertise in the area of Board and senior executive leadership, recruitment and performance assessment. For the 2011 year, the Board undertook a process of self-evaluation managed by the Chairman and the Company Secretary. This involved the circulation and completion of a detailed questionnaire which considered, amongst other things, progress in addressing any issues identified in the previous externally facilitated evaluation. The results are discussed at a Board meeting.

The Company has an induction kit to assist new Directors to familiarise themselves with the Company. This is updated on a regular basis.

There is a procedure in place for Directors to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but will not be unreasonably withheld.

Principle 3: Promote ethical and responsible decision making

PanAust has adopted a "Vision and Values" statement which provides that PanAust's business affairs are to be conducted legally and ethically with integrity. The statement is available on the Company's website. In addition, the Company is a signatory to the "Enduring Values" framework developed by the International Council on Mining and Metals in 2003.

The Company has a Code of Conduct that meets the requirements of the Recommendations. It provides a lynchpin between the "Vision and Values" statement of the Company and the other more detailed practices and procedures in place in the Company. The Code of Conduct is available on the Company's website.

The Company has adopted a Sustainability Policy. A copy is available on the Company's website. The Board of the Company has established a Sustainability Committee. The charter of the Sustainability Committee is also available on the Company's website. Its purpose is to satisfy itself that the Company has in place effective measures, systems and controls in relation to the environment, community, occupational health and safety, and other sustainability matters. It monitors the reporting of the Company in relation to the Global Reporting Initiative sustainability reporting guidelines.

Principle 3: Promote ethical and responsible decision making (continued)

During the course of 2011, the Company was awarded:

- the Ethical Investor's 11th Sustainability Award within the social and community category. The award recognises Phu Bia Mining's Livelihood Improvement Program which is designed to assist the sustainable development of the communities around the Phu Kham Copper-Gold Operation in Laos;

- the Best Community Development Initiative Award at the Asia Mining Congress in Singapore for the second year in succession. The award recognises the positive contribution which Phu Bia Mining's Technical Trades Training program is making to local communities and the greater Lao economy; and

- the Government of Laos' "Labour Order Class 1 Award" for "outstanding contribution to rural socio-economic development and poverty eradication between 2006 and 2010".

The Company has adopted an Employee Policy which provides that PanAust will implement diversity strategies to maximise the talent pool available to the PanAust Group and the retention of a diverse workforce free from discrimination. Merit is the basis of performance based pay and remuneration.

During the course of the year, the Company adopted a Diversity Standard. In a PanAust Group context, diversity means differences based on the following attributes: gender, age, religion and ethnicity. The Diversity Standard complies in all respects with the Recommendations. Both the Employee Policy and the Diversity Standard are available on the Company's website.

In accordance with the Diversity Standard, the Board adopted a number of measurable objectives, including objectives for the year ending 31 December 2011. All of these objectives have been satisfied, including:

- The establishment of a Diversity Committee to monitor the performance of the PanAust Group with respect to diversity and having responsibility to implement objectives adopted by the Board and to generate new initiatives for consideration. The Diversity Committee has a diverse membership by reference to gender and ethnicity.

- The Development of a Diversity Education Programme to promote the objectives and principles of the new Diversity Standard and the measurable objectives adopted by the Board.

- Updating recruitment and selection strategies and practices to remove any barriers to diversity. In particular, the Company has instructed all recruiters (both internal and external) to seek applications from women and ethnic groups. In the processing of applications, the PanAust Group's aim is to interview at least one woman who meets the requisite key selection criteria (qualifications, skills and personal attributes) for each position.

- The adoption of a Board skills matrix to provide transparency with respect to Board selection processes. As stated above, the Company has adopted a measurable objective of increasing the number of women serving as non-executive Directors from one to two by 31 December 2014. The timeframe has been adopted taking into account the Board's succession planning processes.

Further objectives have been set for longer time periods which extend into the 2012 year, including:

- Consideration of parental leave standards, revision of all cultural awareness programmes and expanded reporting of diversity information in the Company's Sustainability Report; and

- In the Lao context, the conduct of interviews with a cross selection of employees to obtain a baseline understanding of workforce perception, the adoption of localisation plans for each department, continued provision of technical trades training, scholarships and graduate programmes for Lao (with applications from Lao women to be encouraged for the 2012 intake), and at least 20% of employees who are Lao women at stratum level 2 (manager/principal/superintendent/senior advisor level) to have completed PanAust Asia Leadership programmes by 31 December 2012.

Principle 3: Promote ethical and responsible decision making (continued)

The current proportion (and number) of women at various levels in the organisation is as follows: Board level: 11.1% (one), senior executive team: nil, manager/principal/superintendent/principal advisor: 9.9% (twenty five) and throughout the entire Company: 15.5% (522). In relation to ethnicity, 82.49% of the workforce of the Company's Lao operating subsidiary, Phu Bia Mining, is Lao. This includes representation from each of the three Lao ethnic groups (Lao Loum, Hmong and Khmu). Further information will be provided in the Company's Sustainability Report for 2011.

The Company has a policy relating to the trading of securities by Directors, senior executives, employees and contractors which fully complies with ASX Listing Rule 12.12. A copy of the policy is available on the Company's website.

Principle 4: Safeguard integrity in financial reporting

The Company has an Audit Committee comprising three independent non-executive Directors (Nerolie Withnall, Andrew Daley, and Garry Hounsell). The qualifications of the members of the Audit Committee are contained in the Directors' Report. There is a different chairman for the Audit Committee and the Company. Accordingly, the Audit Committee is constituted in accordance with the ASX Listing Rules and the Recommendations. The Audit Committee has a formal charter which is available on the Company's website. The number of meetings of the Audit Committee is detailed in the Directors' Report.

Principles 5: Make timely and balanced disclosures

PanAust complies with its continuous disclosure obligations in accordance with the requirements of the ASX Listing Rules and the Corporations Act. The Managing Director has primary responsibility for ensuring the market is properly informed. The Company has a continuous disclosure policy which complies with the Recommendations. The policy provides details of the information required to be disclosed, the policy of the Company with respect to disclosure and the procedures in place to ensure compliance with the Company's continuous disclosure obligations. A copy of the policy is available on the Company's website.

In accordance with the JORC Code, PanAust has in place procedures to ensure it obtains relevant "form and context" consent from relevant experts in relation to the disclosure of exploration results, mineral resource and ore reserve information.

Principle 6: Respect the rights of shareholders

The Board of Directors aims to ensure that shareholders are provided all information necessary to assess the performance of the Company and the Board. This reflects the core value of the Company to strive for excellence in communications with all stakeholders.

The Company has a Shareholders' Communication Policy which complies with the Recommendations. The policy provides that the Company will be fair, honest and transparent in its dealings with shareholders. The policy details the arrangements to maximise the participation of shareholders at the Annual General Meeting. It also specifies the information to be made available on the Company's website, including presentations given by PanAust to meetings of shareholders, investors and at conferences over the previous three years. A copy of the policy is available on the Company's website.

Principle 7: Recognise and manage risk

The Recommendations provide that companies should establish policies for the oversight and management of material business risks. In addition, the Recommendations provide that the Board should require management to design and implement the risk management and internal control systems to manage the Company's material business risks.

PanAust has adopted an Enterprise Risk Management Policy which provides details of the Company's policy, procedures, responsibilities and authorities. A copy of the policy is provided on the Company's website. This policy is supported by a detailed internal procedure.

Principle 7: Recognise and manage risk (continued)

PanAust deploys a risk management system based on ISO - AS/NZS 31000. This system integrates risk management principles into PanAust's policies, organisational culture, governance, management and reporting processes. Risk assessments are used to inform decision making processes at both a corporate and operational level. PanAust utilises the ALARP ("as low as reasonably practical") method of appropriately treating risk. PanAust has risk registers in place across the business developed utilising common tools. Identification of risk utilises a risk evaluation process which incorporates the application of a common consequence and likelihood table and evaluation matrix. Further information is provided in PanAust's Sustainability Report for 2010 which is available on the Company's website.

The Board, the Audit Committee and the Sustainability Committee receive reports from management with respect to the effectiveness of management of the Company's material business risks with presentations being regularly made by senior management. Once a year, the Board has a meeting with a particular focus on the issue of risk management.

The Board has received assurance from its Managing Director and Chief Financial Officer that the declaration as to the financial records and statements made under section 295A of the Corporations Act 2001 has been founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

PanAust has a Remuneration Committee which comprises four independent non-executive Directors; namely, Garry Hounsell as Chairman, Nerolie Withnall, Geoff Billard and Ken Pickering (who joined the Committee on 28 October 2011). The structure of the Remuneration Committee fully complies with the Recommendations. A charter of the Remuneration Committee is available on the Company's website. The Remuneration Report provides details with respect to the Company's remuneration policies and practices.

The Employee Policy of the Company prohibits any difference in remuneration based on gender.

There is a clear distinction made between the structure of remuneration paid to non-executive Directors and the structure of remuneration paid to the Managing Director and other senior executives. The non-executive Directors do not receive short term or long term incentives, equity based remuneration or retirement benefits (other than superannuation).

At the last annual general meeting of the Company, the Company's Remuneration Report for 2010 was overwhelmingly supported by the Company's shareholders (98.52% of all lodged proxies were in favour of adopting the report). This is the fourth consecutive year in which the Company has received a vote of over 90% in favour of adoption of the Remuneration report (2009: 95.14%, 2008: 94.56%, and 2007: 96.03%).

PanAust Limited ABN 17 011 065 160
Annual report - 31 December 2011

Contents

These financial statements are the consolidated financial statements of the consolidated entity consisting of PanAust Limited and its subsidiaries collectively referred to as the "Group". The financial statements are presented in United States dollars, which is the parent entity's functional and presentation currency.

PanAust Limited is a company limited by shares, incorporated and domiciled in Australia. It's registered office and principal place of business is:

PanAust Limited
Level 2
99 Melbourne Street
South Brisbane Queensland, AUSTRALIA 4101

Telephone: +61 (0) 7 3117 2000

Postal Address is:
PO Box 3468
South Brisbane Queensland, AUSTRALIA 4101

The financial statements were authorised for issue by the Directors on 23 February 2012. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.panaust.com.au

PanAust Limited
Consolidated statement of comprehensive income
For the year ended 31 December 2011

	Notes	31 December 2011 US$'000	31 December 2010 US$'000
Sales revenue	5	**575,678**	591,166
Derivative gains/(losses)	5	**20,144**	(17,205)
Other income	5	**2,176**	1,394
Changes in inventories of finished goods and work in progress		**(2,587)**	722
Mining operations costs		**(155,628)**	(128,908)
Employee benefits expense		**(55,703)**	(44,310)
Royalties		**(33,904)**	(30,112)
Concentrate haulage		**(28,601)**	(30,752)
Treatment and refining charges		**(15,391)**	(13,922)
Marketing and realisation costs		**(12,987)**	(12,371)
Other expenses		**(7,556)**	(14,515)
		285,641	301,187
Interest and finance charges	6	**(13,808)**	(13,968)
Share based payment expense from acquisition	6	**(5,530)**	-
Put option premium expense	6	**(2,955)**	(16,947)
Depreciation, amortisation expense, and impairment	6	**(59,532)**	(54,285)
Profit before income tax		**203,816**	215,987
Income tax expense	7	**(57,254)**	(55,890)
Profit for the year		**146,562**	160,097
Other comprehensive income			
Cash flow hedges, net of tax		**14,248**	(8,250)
Total comprehensive income for the year		**160,810**	151,847
Profit is attributable to:			
Owners of PanAust Limited		**132,121**	143,353
Non-controlling interests		**14,441**	16,744
		146,562	160,097
Total comprehensive income for the year is attributable to:			
Owners of PanAust Limited		**144,944**	135,928
Non-controlling interests		**15,866**	15,919
		160,810	151,847

	Notes	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	39	**22.47**	24.47
Diluted earnings per share	39	**22.28**	24.32

The comparative earnings per share have been restated to take into account the 1 for 5 share consolidation completed in May 2011. The comparative financial information has been reclassified to improve the comparability of operating costs.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

PanAust Limited
Consolidated balance sheet
As at 31 December 2011

	Notes	**31 December 2011 US$'000**	31 December 2010 US$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**155,525**	184,759
Receivables and other assets	9	**15,668**	32,822
Inventories	10	**56,279**	45,903
Derivative financial instruments	11	**4,248**	1,442
Total current assets		**231,720**	264,926
Non-current assets			
Receivables and other assets	12	**56,311**	34,927
Investments accounted for using the equity method	13	**20,289**	6,021
Other financial assets	14	**-**	13,572
Property, plant and equipment	15	**525,264**	414,429
Exploration, evaluation, and mine development	16	**342,871**	139,828
Intangible assets	18	**13,965**	5,380
Derivative financial instruments	11	**2,431**	1,234
Total non-current assets		**961,131**	615,391
Total assets		**1,192,851**	880,317
LIABILITIES			
Current liabilities			
Trade and other payables	19	**84,495**	53,187
Lease liabilities	20	**14,961**	7,721
Provisions	21	**13,564**	9,975
Current tax liabilities	22	**30,418**	18,268
Derivative financial instruments	11	**-**	10,019
Total current liabilities		**143,438**	99,170
Non-current liabilities			
Trade and other payables	23	**3,334**	5,953
Borrowings	24	**92,019**	65,682
Deferred tax liabilities	25	**25,645**	15,633
Provisions	26	**34,426**	16,058
Total non-current liabilities		**155,424**	103,326
Total liabilities		**298,862**	202,496
Net assets		**893,989**	677,821
EQUITY			
Contributed equity	27	**542,617**	541,232
Reserves	28(a)	**21,941**	5,134
Accumulated gains	28(b)	**213,119**	80,998
Capital and reserves attributable to owners of PanAust Limited		**777,677**	627,364
Non-controlling interests	29	**116,312**	50,457
Total equity		**893,989**	677,821

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

PanAust Limited
Consolidated statement of changes in equity
For the year ended 31 December 2011

		Attributable to owners of PanAust Limited					
Consolidated entity	**Notes**	**Contributed equity $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance at 1 January 2010		**540,948**	**8,761**	**(62,355)**	**487,354**	**34,816**	**522,170**
Profit for the year		-	-	143,353	143,353	16,744	160,097
Changes in fair value of cash flow hedges, net of tax		-	(7,425)	-	(7,425)	(825)	(8,250)
Total comprehensive income for the year		**-**	**(7,425)**	**143,353**	**135,928**	**15,919**	**151,847**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs		284	-	-	284	-	284
Transactions with non-controlling interests		-	-	-	-	(278)	(278)
Employee share based payments	28	-	3,798	-	3,798	-	3,798
		284	3,798	-	4,082	(278)	3,804
Balance at 31 December 2010		**541,232**	**5,134**	**80,998**	**627,364**	**50,457**	**677,821**
Balance as at 1 January 2011		**541,232**	**5,134**	**80,998**	**627,364**	**50,457**	**677,821**
Profit for the year		-	-	132,121	132,121	14,441	146,562
Changes in fair value of cash flow hedges, net of tax		-	12,823	-	12,823	1,425	14,248
Total comprehensive income for the year		**-**	**12,823**	**132,121**	**144,944**	**15,866**	**160,810**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	27	1,385	-	-	1,385	-	1,385
Total changes in non-controlling interests		-	-	-	-	20,375	20,375
Non-controlling interest from acquisition		-	-	-	-	24,084	24,084
Share based payment expense from acquisition	6	-	-	-	-	5,530	5,530
Employee share based payment	28	-	3,984	-	3,984	-	3,984
		1,385	3,984	-	5,369	49,989	55,358
Balance at 31 December 2011		**542,617**	**21,941**	**213,119**	**777,677**	**116,312**	**893,989**

PanAust Limited
Consolidated statement of cash flows
For the year ended 31 December 2011

	Notes	**31 December 2011 US$'000**	31 December 2010 US$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**583,521**	605,961
Payments to suppliers and employees (inclusive of goods and services tax)		**(304,753)**	(274,313)
Receipts (payments) for derivatives		**13,967**	(22,298)
Payments for income tax		**(36,486)**	(6,498)
		256,249	302,852
Interest and fees paid (inclusive of hedge premium payments)		**(18,438)**	(14,446)
Interest received		**1,331**	457
Gold forward contract closed out		**-**	(23,615)
Net cash inflow from operating activities	38	**239,142**	265,248
Cash flows from investing activities			
Payments for property, plant and equipment		**(59,172)**	(57,622)
Payment of development costs		**(173,012)**	(53,578)
Payments of exploration and evaluation costs		**(41,633)**	(26,255)
Payments for investment in associate		**(688)**	(800)
Payments for investment in subsidiary, net of cash acquired		**(27,461)**	(5,000)
Net cash outflow from investing activities		**(301,966)**	(143,255)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**1,385**	284
Proceeds from borrowings		**43,338**	45,000
Repayment of borrowings		**-**	(63,000)
Finance lease payments		**(10,521)**	(7,721)
Net cash inflow (outflow) from financing activities		**34,202**	(25,437)
Net increase (decrease) in cash and cash equivalents		**(28,622)**	96,556
Cash and cash equivalents at the beginning of the financial year		**184,759**	88,203
Effects of exchange rate changes on cash and cash equivalents		**(612)**	-
Cash and cash equivalents at end of year	8	**155,525**	184,759

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

PanAust Limited
Notes to the consolidated financial statements
31 December 2011

Contents of the notes to the financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report pertains to the consolidated entity of PanAust Limited (Parent entity) and its subsidiaries (the “Company”, “Group” or “PanAust”).

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001.*

(i) Compliance with IFRS
The financial report of PanAust complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Basis of measurement
These financial statements have been prepared under the historical cost convention, except for derivative financial instruments measured at fair value.

(iii) Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2011 and the results of all subsidiaries for the reporting period then ended.

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposal are also recorded in equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and balance sheet respectively.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity. Such investments include both investments in shares issued by the subsidiaries and other parent entity interests that in substance form part of the parent entity's investment in the subsidiaries. These include investments in the form of interest-free loans which have no fixed repayment terms and which have been provided to subsidiaries as an additional source of long term capital. Other amounts advanced on commercial terms and conditions are included in receivables.

Advances provided to equity accounted investments, which are not repayable in the foreseeable future are classified as part of the total investment.

(ii) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's profit or loss, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

Investments in associates are accounted for at cost in the individual financial statements of the parent entity. Such investments include both investments in shares issued by the associates and other parent entity interests that in substance form part of the parent entity's investment in the associates. These include investments in the form of interest-free loans which have no fixed repayment terms and which have been provided to associates as an additional source of long term capital. Other amounts advanced on commercial terms and conditions are included in receivables.

(iii) Joint ventures
The interest in a joint venture is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss, and the share of movements in reserves is recognised in reserves in the balance sheet.

Profits or losses on transactions establishing the joint venture and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(iv) Employee Share Trust
The Group has formed a trust to administer the Group's employee Long Term Share Plan (LTSP). This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held on trust are disclosed as treasury shares and deducted from contributed equity.

1 Summary of significant accounting policies (continued)

(c) Segment reporting

The Company has adopted AASB 8 Operating Segments. This requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director.

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars, which is the parent entity's functional and presentation currency. All companies in the Group have a United States dollar functional currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available for-sale financial assets, are included in the fair value reserve in equity.

(e) Revenue recognition

Revenue from the sale of goods is recognised when persuasive evidence of an arrangement exists, usually in the form of an executed sales agreement, indicating there has been a transfer of risks and rewards to the customer, no further processing is required by the Company, the quantity and quality of the goods have been determined with reasonable accuracy, the price is fixed or determinable, and collectability is probable.

PanAust delivers concentrate to customers on the industry standard basis using the prevailing London Metal Exchange (LME) copper price or a pre-determined fixed price.

For those sales based on the prevailing LME copper price, the customer makes a provisional payment to PanAust against a provisional invoice for the contained copper and precious metal credits (for gold and silver) in the shipment. Final settlement is based on the average LME copper price over a subsequent pricing period specified by the terms of the sales contract or the pre-determined fixed price.

The period from the date of shipment to the end of the pricing period is known as the Quotational Period (QP). The QP often reflects the average time to elapse between the date of shipment and the date of processing by the smelter at final destination. This pricing methodology is normal for the industry.

For amounts at balance date still subject to price adjustments due to the quotational period remaining open, a final settlement price is estimated based on the closing LME copper price on the final day of the month. This revaluation is performed up until the final invoice is received. The actual settlement price may vary from this estimate.

Interest income is recognised on a time proportion basis using the effective interest method.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the relevant entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

(g) Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 15). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 33). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(ab)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in profit or loss, but only after a reassessment of the identification and measurement of the net assets acquired.

1 Summary of significant accounting policies (continued)

(h) Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the relevant entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(l) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Investments and other financial assets

The Group classifies its investments and other financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

1 Summary of significant accounting policies (continued)

(m) Investments and other financial assets (continued)

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in current receivables (note 9) and non-current receivables (note 12) in the consolidated balance sheet.

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- Derivatives that do not qualify for hedge accounting.

The Company documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 11. Movements in the hedging reserve in shareholders' equity are shown in note 28. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are recycled in profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within ‘finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

1 Summary of significant accounting policies (continued)

(n) Derivatives and hedging activities (continued)

(ii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

(o) Property, plant and equipment

All property, plant and equipment is shown at historical cost, less subsequent depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Economic life assets' depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Mining plant and equipment	3 - 10 years *
- Motor vehicles	3 - 5 years
- Office equipment	3 - 5 years
- Mine properties	units-of-production

* Except for life-of-mine assets which are depreciated on the units-of-production method. Depreciation is based on assessments of proven and probable reserves to be mined by the current production equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(p) Exploration and evaluation expenditure

Costs arising from exploration, and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. All costs carried forward are in respect of areas of interest in the exploration and evaluation phases and accordingly, production has not commenced.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

(q) Mine development expenditure

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure having a specific nexus with the development property.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the costs of development and classified under non-current assets as "mine development".

1 Summary of significant accounting policies (continued)

(q) Mine development expenditure (continued)

A development property is reclassified to “mining properties” at the end of the commissioning phase, when the production reaches a previously determined capacity.

When further development expenditure is incurred in respect of mining plant and equipment after the commencement of production, such expenditure is capitalised only when it is probable that the additional future economic benefits associated with the expenditure will flow to the consolidated entity. Otherwise such expenditure is recognised as part of the cost of production.

No amortisation is provided in respect of development properties until they are reclassified as mining plant and equipment, from which date they are amortised on the units-of-production method with separate calculations being made for each mineral resource. Amortisation is based on assessments of proven and probable reserves to be mined.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(s) Borrowings

Borrowings are initially recognised at fair value and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(u) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Restoration costs that are expected to be incurred are provided for as part of the cost of exploration, evaluation, development, construction or production phases that give rise to the need for restoration. The costs include obligations relating to reclamation, waste site closure, plant closure, platform removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs.

Mine closure and restoration costs are provided for at the present value of future expected expenditure required to settle the Group’s obligations discounted using a risk free rate. When the provision is recognised a corresponding asset is also recognised as part of the development costs of the mine to the extent that it is considered that the provision gives access to future economic benefits. On an ongoing basis, the closure liability is remeasured at each reporting period in line with the changes in time value of money (recognised as a finance expense in profit or loss and an increase in provision), and changes in estimates of future costs or methods of rehabilitation. Changes in the closure liability are recognised prospectively as additions or changes to the corresponding asset and liability. Additional restoration or other environmental costs arising from mine production activities are expensed. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant national or regional (Australian or overseas) legislation in relation to restoration of such sites in the future. The provisions referred to above do not include any amounts related to remediation costs associated with unforeseen circumstances.

1 Summary of significant accounting policies (continued)

(u) Provisions (continued)

Under Amendment No.3 to the MEPA entered into on 9 April 2007 held with the Government of Laos, Phu Bia Mining Ltd agreed to the establishment of an Environmental Protection Fund to be funded by Phu Bia Mining at the rate of US$1/ounce of gold sold and US$1/tonne of copper sold. The establishment of this fund does not limit the obligations of Phu Bia Mining Ltd under its environmental Social Management and Monitoring Plan (ESMMP) as approved by the Government of Laos. Phu Bia Mining Ltd must provide any additional funds required to complete the approved rehabilitation plan under the ESMMP. Amounts payable to the fund are provided for as sales are made, and are expensed in profit or loss.

(v) Employee benefits

(i) Short-term obligations
Liabilities for wages and salaries expected to be settled within 12 months of the reporting date are recognised in other payables and represent employees' services up to the reporting date which are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for long service leave and annual leave expected to be settled within 12 months of the reporting date are recognised in the current provision for employee benefits and represent employees' services up to the reporting date which are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Other long-term employee benefit obligations
The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on debt instruments with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The Managing Director is entitled to one month termination benefit for each year of service or a maximum of 12 months which is also included in the provision for employee benefits.

(iii) Share-based payments
Share based compensation benefits are provided to the Managing Director and other senior executives through the Company’s Executive Long Term Share Plan (LTSP). Share based compensation benefits are provided to a wider cross section of employees through the Share Right Plan (SRP). Information relating to these plans, including the Executive Option Plan (EOP) which was replaced in 2010 by the LTSP, is set out in note 40.

The fair value grants issued are recognised as an employee benefit expense with a corresponding entry to the share based payment reserve. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the relevant securities.

The fair value of the options granted under the EOP is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity. Upon the exercise of options, the cash payment is recognised as share capital.

The market value of shares issued to employees for no cash consideration under the SRP is recognised over the period during which the employees become unconditionally entitled to the shares. The expense is recognised as employee benefits expense with a corresponding entry to the share based payments reserve.

(iv) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

1 Summary of significant accounting policies (continued)

(w) Employee share trust

During the period the Company established a trust to administer the PanAust Executive Long Term Share Plan (LTSP). The trust to administer the PanAust Executive Long Term Share Plan is consolidated to reflect that the substance of the relationship is that the trust is controlled by PanAust.

(x) Contributed equity

Ordinary shares are classified as equity (note 27).

At the Annual General Meeting held on 20 May 2011, PanAust Shareholders approved the consolidation of ordinary shares on a 1 for 5 basis, in accordance with section 254H(1) of the Corporations Act 2001 (Cth). The ordinary fully paid shares of the Company ('shares') have now been consolidated through the conversion of every five shares held by a shareholder into one share with any resulting fractions of a share rounded up to the next whole number of shares. The consolidation was effective from 31 May 2011.

In accordance with the terms and conditions of the share rights and ASX Listing Rule 7.21, share rights have been consolidated in a similar manner to ordinary shares; and, in accordance with the terms and conditions of the options and ASX Listing Rule 7.22, unlisted options on issue under the Executives' Option Plan have been consolidated on the same basis as the Company's shares with the effect that the number of shares the subject of each option and share right will be reduced by a factor of five. The exercise price of each option will be increased by a factor of five.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(y) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at balance date.

(z) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(aa) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the theoretical cash flows arising if each subsidiary were to source each guarantee on market terms as an arm's length transaction.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

1 Summary of significant accounting policies (continued)

(ab) Intangible assets

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. The goodwill included on PanAust's balance sheet represents the excess of the cost of the acquisition of the 20% non-controlling interest held by Newmont SEA in Phu Bia Mining Limited over the book value of the non-controlling interest at the date of acquisition on 14 November 2005; and the excess of the cost of the acquisition of the 66% interest in Inca de Oro S.A. held by PanAust Minera IDO Limitada over the book value of the net assets acquired, that was approved by Presidential Decree on 22 February 2010. Goodwill on the acquisition is included in intangible assets (note 18).

(ac) Deferred waste asset

Stripping costs incurred during the production phase, to remove waste material, are deferred and charged to production costs on the basis of the average life-of-mine stripping ratio. The average stripping ratio is calculated as the number of tonnes of waste material removed per tonne of ore mined. The average life-of-mine ratio is reviewed annually in the light of additional knowledge and change in estimates. The cost of "excess stripping" is capitalised as mine property costs when the actual stripping ratio exceeds the average life-of-mine stripping ratio. Where the average life-of-mine stripping ratio exceeds the actual stripping ratio, the cost is charged to profit or loss.

(ad) Comparatives

Comparative information has been reclassified where appropriate to enhance comparability.

(ae) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(af) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)*

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 January 2012. The Group does not hold investment property.

(ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

1 Summary of significant accounting policies (continued)

(af) New accounting standards and interpretations (continued)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements but may impact the type of information disclosed in relation to the Parent entity's investments in the separate Parent entity financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. The Group is still assessing the impact of these amendments. The Group does not expect to adopt the new standards before their operative date. The new standards would therefore be first applied in the financial statements for the half-year reporting period ending 30 June 2014.

(iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards* arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

(iv) AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements* (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Group's current disclosures. The Group intends to adopt the standards from 1 January 2012.

1 Summary of significant accounting policies (continued)

(af) New accounting standards and interpretations (continued)

(v) Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards* arising from AASB 119 (September 2011) and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. Since PanAust Limited does not have any defined benefit obligations, the amendments will not have any impact on the Group's financial statements. The Group has not yet decided when to adopt the new standard.

(vi) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the consolidated balance sheets or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

(vii) AASB 2011-5 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* and AASB 2011-6 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation - Reduced Disclosure Requirements* (Effective from 1 July 2011 and 1 July 2013 respectively)

AASB 2011-5 and AASB 2011-6 provide relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances. They will not affect the financial statements of the Group. The amendments apply from 1 July 2011 and 1 July 2013 respectively.

(viii) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(ix) AASB Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20 (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the ore body) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body.

1 Summary of significant accounting policies (continued)

(af) New accounting standards and interpretations (continued)

This is different to the Group's current accounting policy which is to capitalise stripping costs based on a general waste-to-ore stripping ratio and amortise the costs over the life of the mine. The interpretation must be applied retrospectively and the Group will have to write off existing stripping cost asset balances to retained earnings on the date of transition, unless they relate to an identifiable component of the ore body. The Group has not yet undertaken a review of its existing stripping cost assets in light of the requirements of the interpretation and hence is unable to quantify the effect, if any, on the amounts recognised in the financial statements. The Group expects to adopt the interpretation from 1 January 2013.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Financial risk management

PanAust's activities, and the debt required to fund these activities, exposes it to a variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk.

Company Hedging Policy

The primary objective of the Company Hedging Policy (approved by the PanAust Board of Directors) is to provide a framework to investigate, recommend and (upon approval) execute appropriate strategies:

- Hedging positions will only be entered into if the Company is confident with the ability to be able to deliver under the contracts and the resulting cash position;
- The overall aim of any hedging entered into will be to ensure that PanAust remains in a position to meet its financial obligations in an orderly and timely manner and to achieve an acceptable return on its investments; and
- Management of cash flow risk will be undertaken through the forecasting of cash inflows and outflows using internally produced cash flow forecasts. Whilst there is a debt facility in place, forecasts will be in a form pursuant to the debt facility “waterfall requirements” (the order in which operating cash flow is applied) outlined in those facility agreements.

Mandatory Hedging Program

Consistent with the Company Hedging Policy, the banks which provided the project finance for the Phu Kham Copper-Gold Operation in 2007 required a hedging program to be implemented by the Company as a condition of the project debt financing (Mandatory Hedging Program). This program incorporated currency, interest rate and gold hedging with a view to minimise potential adverse effects on the ability of the Group to service its debt obligations.

Under the amended and restated facilities agreed on 30 July 2010, an updated hedging protocol was required by the banks as follows:

- The Company must hedge at least 50% of the copper in every shipment at the provisional copper price invoiced on the date of shipment; and
- The Company is required to hedge 20% of the Phu Kham copper production at a minimum copper price of US$2.25/lb on a rolling 24 month basis.

(a) Market risk

(i) Foreign exchange risk
PanAust operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar.

Foreign exchange risk arises from both future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the functional currency of the relevant Group entity. The risk is measured using sensitivity analysis and cash flow forecasting.

Sensitivity of pre-tax profit and equity to movements in US$ exchange rates by -/+15%, with all other variables held constant, are shown in the table below. The exposure is mainly as a result of foreign exchange gains/losses on translation of Australian dollar denominated cash and cash equivalents and payables.

2 Financial risk management (continued)

(a) Market risk (continued)

2011	Profit before tax 15 % weaker US$'000	Profit before tax 15 % stronger US$'000	Equity 15 % weaker US$'000	Equity 15 % stronger US$'000
Cash and cash equivalents	4,456	(3,293)	-	-
Trade and other payables	(2,127)	1,572	-	-
	2,329	(1,721)	-	-

2010	Profit before tax 15 % weaker US$'000	Profit before tax 15 % stronger US$'000	Equity 15 % weaker US$'000	Equity 15 % stronger US$'000
Cash and cash equivalents	687	(508)	-	-
Trade and other payables	(1,465)	1,083	-	-
	(778)	575	-	-

PanAust has a functional currency of United States dollars, however, due to the nature of its business and the location of its operations, the company deals in a number of currencies. The principal currencies dealt with are United States dollars, Australian dollars, Thai Baht, Lao Kip, and Chilean Peso. The above analysis has used a common sensitivity of -/+15% (2010: -/+15%).

(ii) Cash flow and fair value interest rate risk
PanAust's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest risk.

Sensitivity of pre-tax profit and equity to changes in interest rates by -0.25%/+0.5% from the 31 December 2011 (2010: -0.5%/+1%) rates of 1.51% for cash and 4.31% for borrowings with all other variables held constant, are shown in the table below. The exposure is mainly as a result of borrowings and cash at bank at floating rates.

2011	Profit before tax 0.25 % decrease US$'000	Profit before tax 0.5 % increase US$'000	Equity 0.25 % decrease US$'000	Equity 0.5 % increase US$'000
Cash and cash equivalents	(389)	778	-	-
Receivable from the Government of Laos	-	-	(129)	258
Put option premium payable	23	(46)	-	-
Borrowings	267	(535)	-	-
	(99)	197	(129)	258

2010	Profit before tax 0.5 % decrease US$'000	Profit before tax 1 % increase US$'000	Equity 0.5 % decrease US$'000	Equity 1 % increase US$'000
Cash and cash equivalents	(924)	1,848	-	-
Receivable from the Government of Laos	-	-	(156)	313
Put option premium payable	54	(108)	-	-
Borrowings	381	(761)	-	-
	(489)	979	(156)	313

2 Financial risk management (continued)

(a) Market risk (continued)

(iii) Price risk

PanAust is exposed to commodity price risk. This arises from the sale of copper, gold and silver that is priced on, or benchmarked to, open market exchanges. The Company had entered into forward contracts and put options to hedge the gold price as part of its Mandatory Hedging Program (as required under the project financing for the Phu Kham Copper-Gold Operation). These gold forward contracts were closed out during 2010, as a requirement under the amended and restated debt facilities. The updated hedging protocol under the amended and restated debt facilities has also led the Company to undertake a short term hedging program for copper concentrate sales subject to quotational period price adjustments and put options to cover future production.

(a) *Copper price sensitivity*

At 31 December 2011, had the copper price changed by -/+20% from the 31 December 2011 LME closing price of US$7,590/t (US$3.44/lb) (2010: -/+20% from the 31 December 2010, 3 month forward price of US$9,665/t (US$4.38/lb)), pre-tax profit and equity for the year would have been impacted due to the 13,548t of provisionally priced copper sales; 8,400t of copper swap derivatives; and 22,878t of copper put options, as per the table below:

	Profit before tax		Equity	
2011	**20 % decrease US$'000**	**20 % increase US$'000**	**20 % decrease US$'000**	**20 % increase US$'000**
Financial assets				
Accounts receivable	(17,126)	24,005	-	-
Derivatives - put options	5,714	(861)	-	-
Derivatives - copper swaps	9,261	(8,665)	-	-
	(2,151)	14,479	-	-

	Profit before tax		Equity	
2010	**20 % decrease US$'000**	**20 % increase US$'000**	**20 % decrease US$'000**	**20 % increase US$'000**
Financial assets				
Accounts receivable	(3,225)	3,225	-	-
Derivatives - put options	6,124	(1,676)	-	-
Financial liabilities	-	-	-	-
Derivatives - cash flow hedges	-	-	22,125	(22,163)
	2,899	1,549	22,125	(22,163)

2 Financial risk management (continued)

(a) Market risk (continued)

(b) *Gold price sensitivity*

At 31 December 2011, had the gold price changed by -/+15% from the year end price of US$1,565/oz (2010: US$1,408/oz), pre-tax profit and equity for the year would have been impacted as per the table below. This impact is as a result of the gold put options in place.

	Profit before tax		Equity	
2011	**15 % decrease US$'000**	**15 % increase US$'000**	**15 % decrease US$'000**	**15 % increase US$'000**
Financial assets				
Derivatives - put options	79	(16)	-	-
	79	(16)	-	-

	Profit before tax		Equity	
2010	**15 % decrease US$'000**	**15 % increase US$'000**	**15 % decrease US$'000**	**15 % increase US$'000**
Financial assets				
Derivatives - put options	315	(95)	-	-
	315	(95)	-	-

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only high-credit-quality counterparties are accepted, and the Group utilises ISDA agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and payable to individual counterparties. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Due to the immediate payment terms and nature of invoicing for the copper concentrate sales, the credit risk exposure is considered to be low.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial asset.

PanAust also has a policy in place to ensure that surplus cash is invested with financial institutions of appropriate credit worthiness, and is spread across a number of financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's treasury function aims at flexibility in funding by maintaining committed credit lines available at a prudent level.

The table below analyses the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2 Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2011	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000
Bank loans	-	45,000	-
Trade and other payables	78,653	-	-
Put option premium payable	5,842	3,334	-
Finance lease liabilities	14,961	22,925	26,058
	99,456	71,259	26,058

As at 31 December 2010	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000
Bank loans	-	-	45,000
Trade and other payables	48,588	-	-
Put option premium payable	4,599	5,842	390
Finance lease liabilities	7,721	7,721	15,685
	60,908	13,563	61,075

As at the date of this report, US$45 million has been drawn from the Revolving Facility, with US$55 million remaining undrawn. The interest rate on this facility was 4.775% as at 31 December 2011 (2010: 4.758%).

The equipment lease facilities have variable interest rates and are repayable in quarterly installments. The average interest rate, as at 31 December 2011, on funds drawn from the facilities was 3.65% (2010: 2.98%).

The parent entity has provided a guarantee with respect to the obligations of Phu Bia Mining Limited under equipment leases amounting to US$23.4 million (2010: US$31.1 million) (refer to note 41 for further detail).

(d) Fair value hierarchy

The Group has adopted the amendment to AASB7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level following a fair value measurement hierarchy as detailed below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All derivative financial instruments measured at fair value use Level 2 valuation techniques. There has not been any transfer between fair value hierarchy levels during the periods reported.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Critical judgements in applying accounting policies

(i) Determination of Ore Reserves, Mineral Resources, and units of Production Method of Depreciation and Amortisation

The Group estimates its ore reserves and mineral resources based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves of December 2004 (the JORC code). Reserves determined in this way are used in the calculation of depreciation, amortisation and impairment charges, the assessment of mine lives and for estimating the timing of the payment of close down and restoration costs.

When a change in estimated recoverable copper or gold contained in proved and probable ore reserves is made, the change in amortisation and depreciation is accounted for prospectively.

The Group applies the units-of-production method for depreciation and amortisation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and the production capacity of the plants to be depreciated under this method. Factors that are considered in determining reserves, resources and production capacity are the Group's history of converting resources to reserves and the relevant timeframes, the complexity of metallurgy, markets and future developments. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying value of assets.

(ii) Mine restoration provisions estimates

The calculation of rehabilitation and closure provisions (and corresponding capitalised closure cost assets where necessary) rely on estimates of costs required to rehabilitate and restore disturbed land to its original condition. These estimates are regularly reviewed and adjusted in order to ensure that the most up to date data is used to calculate these balances. Restoration provisions are disclosed in Note 26.

Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate costs required to rehabilitate the mine site. During 2011, an independent consulting firm was engaged to assist with the calculation of the provision estimates. Factors that will affect this liability include future development, changes in technology, price increases and changes in interest rates.

(iii) Production start date

Various factors are considered in order to assess when the mine is substantially complete and ready for its intended use and begins a steady state of production. Some of the criteria would include but are not limited to: the level of capital expenditure in comparison to the total estimated project cost; the ability to produce a saleable quantity of end product; and, the ability to sustain ongoing production.

3 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying accounting policies (continued)

(iv) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management has to exercise judgement with regards to deferred tax assets. Where the possibility exists that no future taxable income may flow against which these assets can be offset, the deferred tax assets are not recognised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. When different tax rates apply, deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the taxable profit or loss of the periods in which the temporary differences are expected to reverse.

Income tax returns in Laos are reviewed in detail by the relevant authorities on a regular basis with reference to both the tax legislation and the Mineral Exploration and Production Agreement (MEPA), held with the Government of Laos, which supersedes the tax legislation of Laos on various matters. Such reviews could potentially result in additional tax payments or potential refunds being necessary. This would result in the payment or refund being recognised as income tax expense, in profit or loss, in the period in which the transaction is completed.

(v) Fair values of derivative financial instruments

The Group assesses the fair value of its gold and copper put options and forward contracts, currency options and interest rate swaps in accordance with the accounting policy stated in note 1(n). Fair values have been determined based on well-established option pricing models and market conditions existing at the balance date, or using discounted cash flows. These calculations require the use of estimates and assumptions. Changes in assumptions concerning interest rates, copper prices, gold prices and volatilities and the period to maturity could have a significant impact on the fair valuation attributed to the Group's derivatives. When these assumptions change in the future, such differences will impact asset carrying values and the hedging reserve and / or profit or loss in the period in which they change or become known.

(vi) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, units operating costs, future capital requirements and future operating performance.

Impairment of mining assets
The recoverable amount of mining assets and goodwill is generally determined utilising discounted future cash flows. Other considerations also include the ore reserves and life of mine, market risk and asset specific risks in determining the fair value.

Impairment of exploration and evaluation assets
The recoverability of exploration and evaluation expenditure is assessed at the end of each reporting period. Significant judgment is required as to whether an area of activity is to be carried forward on the balance sheet, or written off through the identification of areas of activity which have not yet reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves, where there is no continuing significant activity plan in relation to the area.

Impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(ab). (Refer to note 18 for further detail).

3 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying accounting policies (continued)

Impairment of investment in associates
The investments in associates are evaluated annually for impairment by comparing the entire carrying value of the investment to the recoverable amount, which is the higher of value in use or fair value less costs to sell. As at 31 December 2011, the joint venture is undertaking a strategic review of the Puthep Copper Project including investigating the potential for selling the asset. Due to the preliminary and indeterminate nature of discussions, the investment for Puthep has not been classified as held for sale, and no impairment recognised due to the assessed likelihood of realising the full investment value in future financial periods. (Refer to note 13 for further detail).

(vii) Quotational period price adjustments

For amounts at balance date still subject to price adjustments due to the quotational period remaining open, a final settlement price is estimated based on the relevant forward price curve. The actual settlement price may vary from this estimate. The extent of the variation due to the quotational period price adjustment is disclosed in the accounts. (Refer to note 5 for further detail).

(viii) Share based payments

The fair value at grant date of securities issued under the LTSP, EOP and SRP is independently determined using a pricing model that takes into account the exercise price (if any), the term of the option or share right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. (Refer to note 40 for further detail).

(ix) Non-controlling interest receivable
The receivable amount from the Government of Laos to acquire 10% interest in Phu Bia Mining Limited represents the fair value of estimated future cash flows (discounted) required to obtain the interest based on 10% of current equity invested by PanAust as at the end of the financial year. The amount receivable has been calculated in accordance with the terms of the Mineral Exploration and Production Agreement (MEPA). The actual settlement price may vary from this estimate.

4 Segment information

(a) Description of segments

(i) Business segments

The consolidated entity operates solely in the mining and mineral exploration industry.

(ii) Operating segments

Operating segments have been determined based on the analysis provided in the reports reviewed by the Chief Operating Decision Maker (CODM), being the Managing Director, in assessing performance and determining strategy. The CODM considers the business from a geographic basis represented by: PanAust Asia; PanAust South America; and Corporate, which includes Project Development and Operational Improvement. The corporate head office in Brisbane provides the business units with support in relation to finance, commercial and technical services, risk management, human resources, governance and public reporting. The Corporate and PanAust South America segments are currently disclosed as "Other".

The performance of each segment is based on an adjusted measure of earnings before interest, taxes, depreciation and amortisation (EBITDA). This measurement basis excludes from profit before tax the effects of profit or loss items such as depreciation, amortisation, and impairment, interest revenue and expense and equity-settled share-based payments.

4 Segment information (continued)

(b) Segment information

2011	**Other US$'000**	**PanAust Asia US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Sales revenue		575,678	-	575,678
Derivative gains/(losses)		20,144		20,144
Interest income	1,163	250	-	1,413
Other income	1	762	-	763
Total segment revenue	**1,164**	**596,834**	**-**	**597,998**
Segment result	**(279)**	**284,507**	**-**	**284,228**
Segment assets	**502,864**	**1,002,219**	**(312,232)**	**1,192,851**
Segment liabilities	**28,846**	**582,248**	**(312,232)**	**298,862**
Other segment information				
Investments in associates and joint venture partnership	20,289		-	-
Acquisitions of property, plant and equipment, and other non-current segment assets	2,022	160,956	-	162,978
Increase in deferred exploration, evaluation and development costs	60,875	149,557	-	210,432
Income tax expense	-	57,254	-	57,254
Income from associates	-	-	-	-

2010	**Other US$'000**	**PanAust Asia US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Sales revenue	-	591,166	-	591,166
Derivative gains/(losses)		(17,205)		(17,205)
Interest income	915	158	-	1,073
Other income	2	319	-	321
Total segment revenue	**917**	**574,438**	**-**	**575,355**
Segment result	**(8,084)**	**308,198**	**-**	**300,114**
Segment assets	**534,609**	**757,623**	**(411,915)**	**880,317**
Segment liabilities	**4,443**	**609,968**	**(411,915)**	**202,496**
Other segment information				
Investments in associates and joint venture partnership	6,021		-	6,021
Acquisitions of property, plant and equipment, and other non-current segment assets	317	56,138	-	56,455
Increase in deferred exploration, evaluation and development costs	6,000	74,872	-	80,872
Income tax expense	-	55,890	-	55,890
Income from associates	-	-	-	-

4 Segment information (continued)

(b) Segment information (continued)

31 December 2011	Note	**Other US$'000**	**PanAust Asia US$'000**	**Consolidated US$'000**
Adjusted EBITDA		(279)	284,507	284,228
Interest income		1,163	250	1,413
Interest expense and finance charges		(9)	(13,799)	(13,808)
Share based payment expense from acquisition	6(c)	(5,530)	-	(5,530)
Put option premium expense		-	(2,955)	(2,955)
Depreciation, amortisation and impairment		(470)	(59,062)	(59,532)
Profit/(loss) before income tax		**(5,125)**	**208,941**	**203,816**

31 December 2010	**Other US$'000**	**PanAust Asia US$'000**	**Consolidated US$'000**
Adjusted EBITDA	(8,084)	308,198	300,114
Interest income	915	158	1,073
Interest expense and finance charges	-	(13,968)	(13,968)
Put option premium expense	-	(16,947)	(16,947)
Depreciation and amortisation	(176)	(54,109)	(54,285)
Profit/(loss) before income tax	**(7,345)**	**223,332**	**215,987**

(i) *Segment revenue*

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1(c).

The revenue from external parties reported to the CODM is measured in a manner consistent with that of the statement of comprehensive income.

Revenues from external customers are derived from the sale of copper-gold concentrate (and gold doré in 2010) from production sites in Laos, and as such, all of the revenue generated is attributable to the PanAust Asia segment. The revenue from external customers attributable to the PanAust Asia segment are from customers in various countries. Most of the product is sent to China for processing (68%) with 28% sent to India and 4% sent to Korea.

During 2011, over half of the sales revenue was attributable to two major customers (30% and 23%), while all other customers accounted for less than 10% each.

(ii) *Segment assets and liabilities*

The amounts provided to CODM with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

5 Sales revenue, derivative gains/(losses) and other income

	31 December 2011 US$'000	31 December 2010 US$'000
From continuing operations		
Sales revenue		
Copper in concentrate	**483,363**	484,832
Copper in concentrate price adjustment	**(2,996)**	26,584
Gold in concentrate	**85,451**	71,849
Realised losses on gold hedges	**(6,764)**	(7,416)
Gold doré	**-**	5,765
Silver in concentrate	**16,624**	9,552
	575,678	591,166
Derivative gains/(losses)		
Copper sales realised derivative gains/(losses)	**15,839**	(18,692)
Copper sales unrealised derivative gains	**1,560**	-
Gold and silver sales realised derivative gains	**298**	-
Gold and silver sales unrealised derivative gains	**1,870**	-
Copper and gold put options unrealised net derivative gains	**577**	1,487
	20,144	(17,205)
	595,822	573,961
Other income		
Interest income	**1,413**	1,073
Sundry income	**636**	321
Net gain on disposal of property, plant and equipment	**127**	-
	2,176	1,394

(a) Copper in concentrate

PanAust delivers concentrate to customers on the industry standard basis using the prevailing London Metal Exchange (LME) copper price or a pre-determined fixed price.

For those sales based on the prevailing LME copper price, the customer makes a provisional payment to PanAust against a provisional invoice for the contained copper and precious metal credits (for gold and silver) in the shipment. Final settlement of the payment is based on the average LME copper price over a subsequent pricing period as specified by the terms of the sales contract.

The period commencing on the date of shipment to the end of the pricing period is known as the Quotational Period (QP). The QP historically reflects the average time to elapse (usually 3 to 4 months) between the date of shipment and the date of processing by the smelter at final destination. This pricing methodology is normal for the industry.

The Company hedges between 50% to 90% (but no less than 50%) of the copper price exposure based on the provisional invoice pricing to minimise any potential for a liability (refund of proceeds to the customer) resulting from a lower price being realised during the QP (compared to the prevailing price applied to determine the provisional payment). Accordingly, a lower copper price at the end of the QP compared to the provisional invoice will result in a hedging gain, which will be offset by any decrease in the revenue recognised on final invoice. A higher copper price at the end of the QP compared to the provisional invoice will result in a hedging loss, which will be offset by any increase in the revenue recognised on final invoice.

5 Sales revenue, derivative gains/(losses) and other income (continued)

At balance date, provisional invoices issued with an open QP have been revalued at rates which provide an estimate of the average settlement price. This has resulted in 13,548t of copper (2010: 14,179t) being revalued using the LME closing copper price as at 30 December 2011 of US$7,590/t (US$3.44/lb) (2010: US$9,665/t (US$4.38/lb)).

The aforementioned have resulted in an unfavourable US$3 million (2010: US$ 10.3 million favourable) mark-to-market adjustment to profit or loss for outstanding provisional pricing of sales at balance date.

(b) Realised losses on gold hedges

In 2010, the project financing was renegotiated and, as a result, the gold forward contracts were closed out in August 2010 at an average rate of US$1,244 per ounce. The unrealised losses recognised in the hedging reserve at the time of the close out of these gold forwards will remain in the hedging reserve and be recognised as realised hedge losses in line with the original gold forward maturity profile. In the year ended 31 December 2011, a loss of US$6.8 million (2010: US$7.4 million loss) was recognised as realised on gold forwards. A further US$8.5 million will be expensed over the remaining eight quarters through to December 2013.

(c) Copper sales derivative gains/(losses)

During 2011, the Company discontinued the application of hedge accounting for provisional price copper exposure. The accounting treatment now closely aligns the mark-to-market movement through the profit or loss of both the revalued provisional invoices, and the copper swaps undertaken to hedge the exposure to movements in the copper price. The realised gains from settlement of copper derivatives in 2011 is US$15.8 million (2010: US$18.7 million loss), while unrealised gains on outstanding copper derivatives over 8,400t of copper at an average hedge price of US$8,102/t (US$3.68/lb) were US$1.6 million (2010: US$0.1 million gain), partially offsetting the US$3 million unfavourable mark-to-market adjustment on the related provisional invoicing.

(d) Gold and silver derivative gains

During 2011, additional gold and silver forwards were taken out over 35,565oz gold and 166,602oz silver. These forwards were subsequently closed out, resulting in a gain of US$2.2 million, with US$0.3 million realised in 2011. The remaining US$1.9 million of this gain was recognised in 2011 as unrealised gains, but the cash settlement was paid upon maturity of the contracts in early 2012.

6 Expenses

	31 December 2011 US$'000	31 December 2010 US$'000
Profit before income tax includes the following specific expenses:		
Depreciation and amortisation		
Mining plant and equipment, including disposal losses	**32,309**	34,660
Mine properties	**17,617**	18,050
Motor vehicles	**1,361**	995
Office equipment	**856**	580
Total depreciation and amortisation	**52,143**	54,285
Impairment expense		
Exploration Impairment (a)	**7,389**	-
Total impairment expense	**7,389**	-
Total depreciation, amortisation and impairment	**59,532**	54,285
Finance costs		
Unwinding of discount	**1,570**	1,229
Interest charges	**12,238**	12,739
	13,808	13,968
Put option premium expense (b)	**2,955**	16,947
Share based payment expense from acquisition (c)	**5,530**	-
Defined contribution superannuation expense	**712**	592
Rental expense relating to operating leases		
Minimum lease payments	**545**	660
Foreign exchange losses (net)	**1,220**	1,517

6 Expenses (continued)

(a) Exploration impairment

The recoverability of exploration and evaluation expenditure is assessed at the end of each reporting period. The impairment expense recognised in 2011 represents the accumulated costs incurred in exploration of areas where there is no continuing significant activity planned in relation to the area.

(b) Put option premium expense

Put options have been established to protect the Company against the downside copper risk. The related put option premium expense is immediately recognised in profit or loss.

(c) Share based payments expense from acquisition

On 17 March 2011, a shareholders agreement was signed between the Company and Victory Mining Finance Ltd ('Victory') in relation to the management and control of PanAust IDO Holdings Pte Ltd. Victory has a 10% shareholding in PanAust IDO Holdings Pte Ltd, with the Company through its wholly owned subsidiary, PanAust Holdings Pte Ltd, holding the remaining 90% of shares. A non-cash accounting expense of US$5.53 million (10% of the purchase price for a majority interest in Inca de Oro S.A.) has been recognised to represent the fair value of the non-controlling interest shares granted to Victory, in exchange for services provided in identifying an acquisition target.

7 Income tax expense

(a) Income tax expense

	Note	**31 December 2011 US$'000**	31 December 2010 US$'000
Current tax		**47,446**	30,152
Adjustment for current tax of prior periods		**1,191**	-
Deferred tax		**8,617**	25,738
		57,254	55,890
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease in deferred tax assets	25	**4**	19,836
Increase in deferred tax liabilities	25	**8,613**	5,902
		8,617	25,738

7 Income tax expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	31 December 2011 US$'000	31 December 2010 US$'000
Profit from continuing operations before income tax expense	**203,816**	215,987
Tax at the Australian tax rate of 30.0% (2010 - 30.0%)	**61,145**	64,796
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Adjustment for current tax of prior periods	**1,191**	-
International tax rate differential	**(10,418)**	(11,166)
Share based payment expense from acquisition	**1,659**	-
Foreign exchange translation	**(46)**	1,935
Other permanent differences	**3,283**	1,868
Tax gains (losses) not recognised	**440**	(1,543)
Income tax expense	**57,254**	55,890

(c) Tax losses

	31 December 2011 US$'000	31 December 2010 US$'000
Unused tax losses for which no deferred tax asset has been recognised	**19,302**	20,768
Potential tax benefit @ 30.0%	**5,791**	6,231

All unused tax losses relate to the Australian tax consolidated group.

(d) Tax consolidation legislation

Effective 1 January 2004, for the purposes of Australian income taxation, PanAust Limited and its 100% Australian owned subsidiaries have formed a tax consolidated Group. The head entity of the Group is PanAust Limited.

8 Current assets - Cash and cash equivalents

	31 December 2011 US$'000	31 December 2010 US$'000
Cash at bank and in hand	**126,633**	156,842
Deposits at call (a)	**28,892**	27,917
	155,525	184,759

(a) Cash at bank and on hand

These are interest bearing with floating interest rates between nil% to 4.89% (2010: nil% to 3.5%).

9 Current assets - Trade and other receivables

	31 December 2011 US$'000	31 December 2010 US$'000
Trade and other receivables		
Trade receivables	**141**	16,123
Other receivables	**4,281**	1,839
	4,422	17,962
Prepayments		
Prepayments - general	**10,562**	9,541
Prepayments - lease facility fees	**684**	319
	11,246	9,860
Cash restricted or pledged		
Funds held in escrow for acquisition (a)	**-**	5,000
	-	5,000
	15,668	32,822

As at 31 December 2011, no trade receivables or other receivables were past due or impaired (31 December 2010: nil). It is expected that these amounts will be received when due. The Company does not hold any collateral in relation to these receivables.

(a) Funds held in escrow for acquisition

On 1 March 2010, PanAust announced that it had made a binding offer to Corporación Nacional del Cobre de Chile (“Codelco”) for PanAust to acquire a majority interest in the Chilean registered company Inca de Oro S.A.. As at 31 December 2010, the acquisition was subject to the issue of a Presidential Decree, and the US$5 million represented a deposit paid by the Company. The approval was confirmed to PanAust on 22 February 2011, and the deposit has now formed part of the total purchase price of US$55.3 million (refer to note 35 for further detail).

10 Current assets - Inventories

	31 December 2011 US$'000	31 December 2010 US$'000
Raw materials		
Raw materials and consumables - at cost	**48,180**	34,917
Provision for obsolete stores	**(936)**	(636)
	47,244	34,281
Work in progress		
Work in progress - at cost	**2,875**	3,813
	2,875	3,813
Finished goods		
Copper-gold concentrate - at cost	**6,160**	7,809
	6,160	7,809
	56,279	45,903

11 Derivative financial instruments

	31 December 2011 US$'000	31 December 2010 US$'000
Current assets		
Gold and silver forward contracts	**1,870**	-
Copper forward contracts	**1,560**	-
Copper put options	**818**	1,441
Gold put options	**-**	1
Total current derivative financial instrument assets	**4,248**	1,442
Non-current assets		
Copper put options	**2,409**	1,086
Gold put options	**22**	148
Total non-current derivative financial instruments	**2,431**	1,234
Current liabilities		
Cash flow hedge - copper forward contracts	**-**	10,019
Net derivative financial instrument assets/(liabilities)	**6,679**	(7,343)

The Company is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in the copper price and gold price in accordance with the Company Hedging Policy and the hedging protocol for the project financing for the Phu Kham Copper-Gold Operation (refer to note 2).

11 Derivative financial instruments (continued)

Under the Phu Bia Mining Amended and Restated Facilities Agreement executed on 30 July 2010, consistent with the Company Hedging Policy, the hedging protocol as required by the banks is as follows:

- The Company must hedge at least 50% of the copper in every shipment at the provisional copper price invoiced on the date of the shipment; and
- The Company is required to hedge 20% of the Phu Kham copper production at a minimum copper price of US$2.25/lb on a rolling 24 month basis.

(i) Copper price risk hedging

The Company manages the copper provisional price risk on sales contracts (over the quotational period) and short term production (6 to 12 months) with a combination of bank hedging facilities and negotiated fixed price terms with customers.

PanAust's current hedging program, which is in accordance with the hedging protocol under the Facilities Agreement, seeks to maximise the Company's exposure to the prevailing copper price, but protect the Company against near term falls in the copper price and revenue loss over the quotational period on provisionally priced copper concentrate sales.

As at 31 December 2011, the Company had entered into several copper swap contracts and fixed price agreements as part of its short term hedging program for copper concentrate sales which are subject to quotational period price adjustments. As at 31 December 2011, a total of 8,400t of copper, which has been sold, was hedged at a price of US$8,102/t (US$3.68/lb) (2010: 11,535t of copper at a price of US$8,738/t (US$3.96/lb)).

During 2011, the Company opted to no longer hedge account for the copper swap contracts and therefore any gain or loss from remeasuring the copper swap contracts at fair value is recognised directly in the profit or loss statement, rather than deferred in equity in the hedging reserve as was the case in 2010 (refer note 5 for further detail).

To protect the Company against the downside copper price risk on future production, as at 31 December 2011, put options have been established to cover 22,878t of copper, deliverable through to July 2013, at an average strike price of US$5,034/t (US$2.28/lb). The premiums payable for these put options have been deferred until maturity of the put options (refer to notes 19 and 23).

The copper put options do not qualify for hedge accounting and the mark-to-market movement of these put options is recognised in profit or loss immediately with a gain of US$699,482 recorded during 2011 (2010: US$2,431,273 gain - refer to note 5).

(ii) Gold and silver price risk hedging

Phu Bia Mining agreed to establish a gold hedging program as part of the original project financing for the Phu Kham Copper-Gold Operation. This program comprised a stream of gold forward contracts and deferred premium puts options for the sale of gold produced during the period from 2007 to 2013.

The remaining gold put options cover approximately 27,500oz of gold at a strike rate of US$700/oz through to 31 December 2013. The put options do not qualify for hedge accounting and the mark-to-market movement of these put options is recognised in profit or loss statement immediately, with a loss of US$127,297 recorded during the year ended 31 December 2011 (2010: US$1,028,799 loss - refer to note 5). The deferred premiums were paid out during 2010.

12 Non-current assets - Receivables and other assets

	31 December 2011 US$'000	31 December 2010 US$'000
Prepayments	**1,806**	798
Other receivable from associates	**2,862**	2,861
Government of Laos receivable (a)	**51,643**	31,268
	56,311	34,927

The value of non-current receivables and other assets approximates their fair value.

(a) The receivable amount from the Government of Laos to acquire 10% interest in Phu Bia Mining Limited represents the fair value of estimated future cash flows (discounted) required to obtain the interest based on 10% of current equity invested by PanAust as at the end of the financial year. The amount receivable has been calculated in accordance with the terms of the Mineral Exploration and Production Agreement (MEPA).

13 Non-current assets - Investments accounted for using the equity method

	31 December 2011 US$'000	31 December 2010 US$'000
Shares in associates	**6,021**	6,021
Advances to equity accounted investment (a)	**14,268**	-
	20,289	6,021

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity (refer to note 14 for further detail).

PanAust holds a shareholding interest of 49% (2010: 49%) in the Thai registered company Puthep Co., Limited (Puthep) through the Company's wholly owned subsidiary, PNA (Puthep) Pty Limited. Padaeng Industry Public Company Limited (Padaeng) owns the other 51% (2010: 51%) interest in Puthep. Puthep has a concession agreement with the Government of Thailand. The concession covers the two deposits (the PUT1 and PUT2 deposits) that comprise the Puthep Copper Project.

(a) During 2011 the Company resolved to not demand repayment in the foreseeable future of a loan which represents advances for exploration expenditure to Puthep Co., Limited. The outstanding balance of this loan has therefore been transferred from other financial assets (note 14) to investments.

14 Non-current assets - Other financial assets

	31 December 2011 US$'000	31 December 2010 US$'000
Other unlisted securities		
Equity securities	**7**	7
Provision for impairment of unlisted shares	**(7)**	(7)
Total	**-**	-
Other investments		
Loan to equity accounted investment (a)	**-**	13,572
	-	13,572

(a) Represents advances for exploration expenditure to Puthep Co., Limited. The amounts are not past due or impaired. Total advances as at 31 December 2011 have been classified as an investment (refer to note 13 for further detail).

The fair value of the loan to the equity accounted investment and of loans to subsidiaries approximates their fair value.

15 Non-current assets - Property, plant and equipment

Consolidated entity	Note	Office equipment $'000	Mine properties $'000	Mining plant and equipment $'000	Motor vehicles US$'000	Total $'000
At 1 January 2010						
Cost or fair value		3,005	134,707	338,069	3,862	479,643
Accumulated depreciation and amortisation		(1,550)	(32,849)	(49,008)	(1,161)	(84,568)
Net book amount		1,455	101,858	289,061	2,701	395,075
Year ended 31 December 2010						
Opening net book amount		1,455	101,858	289,061	2,701	395,075
Additions		721	34,800	19,997	936	56,454
Depreciation and amortisation charge		(580)	(18,050)	(34,660)	(995)	(54,285)
Transfers in	16	-	17,185	-	-	17,185
Closing net book amount		1,596	135,793	274,398	2,642	414,429
At 31 December 2010						
Cost or fair value		3,725	186,692	358,066	5,221	553,704
Accumulated depreciation and amortisation		(2,129)	(50,899)	(83,668)	(2,579)	(139,275)
Net book amount		1,596	135,793	274,398	2,642	414,429
Year ended 31 December 2011						
Opening net book amount		1,596	135,793	274,398	2,642	414,429
Additions		3,904	62,024	92,076	4,974	162,978
Asset write-off		-	-	(1,312)	-	(1,312)
Depreciation and amortisation charge		(856)	(17,617)	(30,997)	(1,361)	(50,831)
Closing net book amount		4,644	180,200	334,165	6,255	525,264
At 31 December 2011						
Cost		7,629	248,716	448,830	10,195	715,370
Accumulated depreciation and amortisation		(2,985)	(68,516)	(114,665)	(3,940)	(190,106)
Net book amount		4,644	180,200	334,165	6,255	525,264

The comparative information for mine properties has been restated due to the reclassification and grouping of mine property assets.

(a) Leased assets

Mining plant and equipment includes the following amounts where the Group is a lessee under a finance lease:

	31 December 2011 US$'000	31 December 2010 US$'000
Opening net book amount	**22,673**	31,637
Addition	**36,603**	-
Depreciation charge	**(12,540)**	(8,964)
Net book amount	**46,736**	22,673

15 Non-current assets - Property, plant and equipment (continued)

(b) Security

Phu Bia Mining Limited's property, plant and equipment has been pledged as security under the finance facilities held by Phu Bia Mining, refer to note 24.

16 Non-current assets - Exploration, evaluation, and mine development

Consolidated	Note	Preproduction exploration & evaluation US$'000	Mine pre-production US$'000	Mine development US$'000	Total US$'000
Year ended 31 December 2010					
Carrying amount at start of year		52,835	23,306	-	76,141
Additions		17,246	3,132	60,494	80,872
Transfers out	15	(17,185)	-	-	(17,185)
Carrying amount at year end		52,896	26,438	60,494	139,828

Consolidated	Preproduction exploration & evaluation US$'000	Mine pre-production US$'000	Mine development US$'000	Total US$'000
Year ended 31 December 2011				
Carrying amount at start of year	52,896	26,438	60,494	139,828
Additions	87,203	2,572	120,657	210,432
Impairment charge	(7,389)	-	-	(7,389)
Carrying amount at year end	132,710	29,010	181,151	342,871

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. The impairment expense recognised in 2011 represents the accumulated costs incurred in exploration of areas where there is no continuing significant activity planned in relation to the area.

17 Non-current assets - Deferred tax assets

	31 December 2011 US$'000	31 December 2010 US$'000
The balance comprises temporary differences attributable to:		
Property, plant & equipment, and mine pre-production	**7,284**	4,903
Payables	**2,493**	2,638
Cash flow hedges	**-**	2,504
Provisions	**2,332**	2,093
	12,109	12,138
Other		
Set-off of deferred tax liabilities pursuant to set-off provisions	**(12,109)**	(12,138)
Net deferred tax assets	**-**	-

18 Non-current assets - Intangible assets

Consolidated entity	**Goodwill US$'000**
Year ended 31 December 2010	
Opening net book amount	5,380
At 31 December 2010	
Cost	5,380
Accumulated amortisation and impairment	-
Net book amount	5,380
Year ended 31 December 2011	
Opening net book amount	5,380
Additions - Acquisition of Inca de Oro S.A.	8,585
Closing net book amount	13,965
At 31 December 2011	
Cost	13,965
Accumulated amortisation and impairment	-
Net book amount	13,965

Goodwill of US$5,380,000 has been allocated to the PanAust Asia segment and US$8,585,000 to PanAust South America, currently disclosed as "Other". As at 31 December 2011 the recoverable amount exceeds the carrying value. In determining the recoverable amount, the goodwill balances have been tested at segment level on a value in use basis.

The value in use has been determined by estimating the cash flows for the current life of mine based on current reserves assessments. The cash flow projections are based on long term mine plans (which exceed five years, as is typical in the mining industry) for the Phu Kham Copper-Gold Operation, reflecting estimated reserves and production profiles.

18 Non-current assets - Intangible assets (continued)

In arriving at a value in use, a pre-tax discount rate of 12% has been applied to cash flows expressed in nominal terms. A key assumption to which the calculation of value in use of the Phu Kham Copper-Gold Operation is sensitive is a change to operating margins as a result of movements in the long term copper price. The long term copper price has been assessed at $3.20/lb. Management determined this long term copper price based on a range of commodity price forecasts prepared by recognised independent analysts.

Should the copper price vary materially from this long term estimate then a change would be made to the life of mine plan with corresponding impacts on production levels and associated operating cost structures.

19 Current liabilities - Payables

	31 December 2011 US$'000	31 December 2010 US$'000
Trade payables	**37,542**	34,606
Accrued capital and operating expense	**41,111**	13,982
Put option premium payable	**5,842**	4,599
	84,495	53,187

20 Current liabilities - Borrowings

	31 December 2011 US$'000	31 December 2010 US$'000
Lease liabilities (secured)	**14,961**	7,721

21 Current liabilities - Provisions

	31 December 2011 US$'000	31 December 2010 US$'000
Employee benefits	**10,102**	8,681
Restoration (i)	**2,938**	881
Environmental protection fund	**464**	354
Other provisions	**60**	59
	13,564	9,975

(i) Operations at the Phu Kham Heap Leach Operation ceased in April 2010. Restoration and rehabilitation processes are continuing. For further detail, refer to note 26.

21 Current liabilities - Provisions (continued)

	Environmental protection fund US$'000
2011	
Carrying amount at start of year	354
Additional provisions charged to profit or loss	110
Carrying amount at end of year	464

22 Current liabilities - Current tax liabilities

	31 December 2011 US$'000	31 December 2010 US$'000
Income tax payable	**30,418**	18,268

Tax prepaid by Phu Bia Mining Limited is able to be offset against future income tax payments. Given that Phu Bia Mining Limited is now in an income tax payable position, these prepaid taxes have been offset against the current tax liability.

23 Non-current liabilities - Payables

	31 December 2011 US$'000	31 December 2010 US$'000
Put option premium payable	**3,334**	5,953
	3,334	5,953

24 Non-current liabilities - Borrowings

	Note	**31 December 2011 US$'000**	31 December 2010 US$'000
Secured			
Bank loans		**43,036**	42,276
Lease liabilities	33	**48,983**	23,406
Total secured non-current borrowings		**92,019**	65,682

The fair values of non-current borrowings approximate their book values because the interest rates applicable to the borrowings are not materially different to market rates.

24 Non-current liabilities - Borrowings (continued)

(a) Bank loans

On 30 July 2010, the Group entered into an amended and restated loan agreement for a total US$102 million of debt facilities with a syndicate of four banks. In February 2011, the debt facilities were increased with the inclusion of another bank to lift the commitments to a total of US$120 million. The debt facilities have a three year term (expiring 30 July 2013) and comprise:

- Tranche A: US$100 million Revolving Facility for general corporate purposes including funding of working capital and operational expenditure (but excluding the development of growth and expansion projects unless prior approval is received), funding of working capital for the Phu Kham Copper-Gold Operation and repayment of any existing outstanding bank debt (including the repayment of 'out of the money' gold hedging positions);
- Tranche B: US$20 million guarantee facility, for general corporate purposes but limited to the issue of letters of credit, bank guarantees and performance bonds; and
- extensive hedging lines for commodity, currency and interest rates (refer to note 2 for further detail on the mandatory hedging program).

The key terms for the debt facilities are as follows:

- Repayment in full at expiry of the three year term;
- Secured by charges over Phu Bia Mining Limited production assets in Laos and key contractual rights, except for mobile plant which is subject to equipment leasing arrangements;
- Secured by shares held by PanAust Limited in Pan Mekong Exploration Pty Ltd and shares held by Pan Mekong Exploration Pty Ltd in Phu Bia Mining Limited; and
- An interest rate of LIBOR plus a fixed margin of 4.5% p.a.

In December 2011, approval was granted by the banking syndicate to extend the debt facility to now include the funding of the development of the Ban Houayxai Gold-Silver Operation and the Phu Kham Upgrade.

At the date of this report, US$45 million has been drawn from the Revolving Facility.

(b) Lease liabilities

The Company has entered into 3 equipment lease facilities to finance the acquisition of a variety of mining, haulage and miscellaneous equipment for the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation as follows:

Equipment lease facility	Date	Facility limit	Amount drawn	Expiring date
1	26-Jun-2007	US$48.5 million	Fully drawn	31-Dec-2013
2	21-Jan-2011	US$24.8 million	Fully drawn	25-Jan-2016
3	16-Dec-2011	US$65 million *	US$18.5 million	21-Dec-2016

* Maximum indebtedness at any time must not exceed US$60 million.

The equipment lease facilities have variable interest rates and are repayable in quarterly installments. The average interest rate at reporting date on funds drawn from the facilities is 3.65% (2010: 2.98%).

25 Non-current liabilities - Deferred tax liabilities

	Note	**31 December 2011 US$'000**	31 December 2010 US$'000
The balance comprises temporary differences attributable to:			
Exploration and evaluation		**30,509**	24,951
Property, plant and equipment		**5,576**	2,151
Cash flow hedges		**1,669**	669
		37,754	27,771
Other			
Set-off of deferred tax assets pursuant to set-off provisions	17	**(12,109)**	(12,138)
Net deferred tax liabilities		**25,645**	15,633

	Consolidated	
Movements:	**31 December 2011 US$'000**	31 December 2010 US$'000
Opening balance at start of year	**15,633**	(12,466)
Opening balance attributable to acquisition	**(1,107)**	-
Charged to the income statement	**8,617**	25,738
Credited to other comprehensive income	**2,502**	2,361
Closing balance at end of year	**25,645**	15,633

26 Non-current liabilities - Provisions

	31 December 2011 US$'000	31 December 2010 US$'000
Restoration (i)	**32,517**	14,145
Employee benefits - long service leave	**1,909**	1,913
	34,426	16,058

(i) A provision for restoration is recognised in relation to the mining activities for costs such as reclamation, waste site closure, plant closure and other costs associated with the restoration of a mining site. Estimates of the restoration obligations are based on anticipated technology, legal requirements and future costs which have been discounted to their present value. In determining the restoration provision, the Company has assumed no significant changes will occur in the relevant country legislation in relation to restoration of such mines in the future.

26 Non-current liabilities - Provisions (continued)

(a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Note	Restoration US$'000
Non-current		
Carrying amount at start of year		**14,145**
unwinding of discount		**1,570**
amount used during the year		**-**
amounts classified as current	21	**(2,938)**
additional provision during the year		**19,740**
Carrying amount at end of year		**32,517**

A significant proportion of the additional provision recognised as at 31 December 2011 represents the estimated cost of rehabilitation for the Ban Houayxai Gold-Silver Operation and the Phu Kham Upgrade Project.

27 Contributed equity

(a) Share capital

	31 December 2011 Shares	31 December 2010 Shares	**31 December 2011 $'000**	31 December 2010 $'000
Ordinary shares - fully paid	**593,992,185**	591,038,049	**542,617**	541,232
Treasury shares	**(5,296,792)**	(3,826,640)	**-**	-
	588,695,393	587,211,409	**542,617**	541,232

(b) Movements in ordinary share capital

Date	Details	Number of shares	US$'000
1 January 2011	Opening balance	591,038,049	541,232
	Executive options exercised (e)	700,000	1,385
	Executive Long Term Share Plan (f)	1,470,147	-
	Employees share rights exercised (g)	783,989	-
31 December 2011	Balance	593,992,185	542,617
	Treasury shares	(5,296,792)	-
31 December 2011	Balance excluding treasury shares	588,695,393	542,617

(c) Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the Company.

27 Contributed equity (continued)

(c) Ordinary shares (continued)

The comparative number of shares has been restated to take in to account the 1 for 5 share consolidation which took effect on 31 May 2011.

(d) Cornerstone Investment Agreement

Under the Placement Agreement and consistent with the status of Gaungdong Rising Assets Management Co. Ltd (GRAM) as a strategic cornerstone investor, GRAM has a right to participate in future issues of shares in order to enable it to maintain its percentage interest in the Company (the “Top Up Right”). The Top Up Right does not apply to: the issue of shares under any employee incentive schemes; if GRAM and its related bodies corporate hold less than 10% of the shares in PanAust; the issue of shares or options by the Company in the context of a takeover or scheme of arrangement; or an issue of new shares to GRAM that requires the approval of shareholders under applicable law or the ASX Listing Rules and where such approval is not obtained.

(e) Share Options

Information relating to the PanAust Executives’ Options Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 40.

(f) Long Term Share Plan (LTSP)

The Group has formed a trust to administer the Group's employee Long Term Share Plan (LTSP). This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held on trust are disclosed as treasury shares and deducted from contributed equity.

The Company issues new shares for the LTSP, it does not buy shares on market. Shares which are forfeited by the senior executive are available for future issues under the LTSP.

Information relating to the PanAust LTSP, including details of shares issued under the plan is set out in note 40.

(g) Share Rights Plan

Information relating to the PanAust Share Rights Plan, including details of shares issued under the plan is set out in note 40.

(h) Capital risk management

The Company's objectives when managing capital are to safeguard the ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, PanAust monitors capital on the basis of the gearing ratio. This ratio is calculated as debt (total borrowings) divided by total capital. Total capital is calculated as ‘equity’ as shown in the balance sheet (including non-controlling interest) plus debt.

The Company has complied with the covenant requirements on the loan facilities agreements throughout the periods reported.

The gearing ratios at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011 US$'000	31 December 2010 US$'000
Total borrowings	**106,980**	73,403
Total equity	**893,989**	677,821
Total capital	**1,000,969**	751,224
Gearing ratio	**11%**	10%

28 Reserves and accumulated losses

(a) Reserves

	31 December 2011 US$'000	31 December 2010 US$'000
Hedging reserve - cash flow hedges	**(8,153)**	(20,976)
Share-based payments reserve	**30,094**	26,110
	21,941	5,134

	31 December 2011 US$'000	31 December 2010 US$'000
Hedging reserve - cash flow hedges		
Balance at beginning of year	**(20,976)**	(13,551)
Revaluation - gross	**861**	(28,798)
Transfer to net profit - gross	**14,216**	23,498
Deferred tax	**(2,254)**	(2,125)
Balance at end of year	**(8,153)**	(20,976)
Share-based payments reserve		
Balance at beginning of year	**26,110**	22,312
Valuation of employee long term incentives	**3,984**	3,798
Balance at end of year	**30,094**	26,110

(b) Retained earnings

	31 December 2011 US$'000	31 December 2010 US$'000
Balance at beginning of year	**80,998**	(62,355)
Net profit for the year	132,121	143,353
Balance at end of year	**213,119**	80,998

(c) Nature and purpose of reserves

(i) Share-based payments reserve
The share based payments reserve is used to recognise the fair value of executive options, other unlisted options and employee share rights issued.

(ii) Hedge reserve
The hedging reserve is used to record gains or losses on hedging instruments accounted for as cash flow hedges that are recognised directly in equity, as described in notes 1(n) and 11. Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

29 Non-controlling interests

	31 December 2011 US$'000	31 December 2010 US$'000
Interest in:		
Share capital	**81,277**	31,288
Minority interest - hedge reserves	**(330)**	(1,755)
Retained earnings	**35,365**	20,924
	116,312	50,457

In 2007, the Government of Laos exercised its option to acquire a 10% interest in Phu Bia Mining Limited. The price may be paid from future dividend flows. The issue of shares to the Government of Laos is yet to be completed. The Shareholders Agreement was signed on 6 May 2011 and includes the purchase price which has been calculated in accordance with the MEPA. However, the transfer of the shares has not yet been completed. Given the exercise of the option, it is considered appropriate to recognise the interest in Phu Bia Mining of the Government of Laos.

The issue of shares in Inca de Oro S.A. was completed during the first half of 2011 (refer to note 35 for further detail).

30 Key management personnel disclosures

(a) Directors

The following persons were Directors of PanAust during the financial year:

Non-executive Directors: Garry Hounsell
Nerolie Withnall
Andrew Daley
Geoff Handley
Geoff Billard
Zezhong Li
John Crofts
Ken Pickering (appointed 28 October 2011)

Executive Director: Gary Stafford

(b) Other key management personnel

Detailed remuneration disclosures are provided in the remuneration report on pages 15 to 31.

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	*Position*
Fred Hess	Executive General Manager Project Development & Operational Improvement
Rob Usher	Executive General Manager PanAust Asia
David Hairsine	Chief Financial Officer
Francisco Tomic	Executive General Manager PanAust South America

The key management personnel of the Group are the Directors of PanAust Limited and those executives that have the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly.

30 Key management personnel disclosures (continued)

(c) Compensation

	31 December 2011 US$	31 December 2010 US$
Short-term employee benefits	**4,854,112**	3,957,781
Share-based payments	**1,869,687**	1,882,315
Long-term benefits	**177,002**	244,618
Post-employment benefits	**278,044**	211,685
	7,178,845	6,296,399

(d) Equity instrument disclosures

(i) Securities provided as remuneration and shares issued on the exercise of such securities
Details of long term incentives (LTIs) securities granted as remuneration and shares issued on the exercise of these securities, together with terms and conditions of the options and share rights detailed in the Remuneration Report and note 40.

(ii) Long term incentives
The numbers of securities issued as LTIs granted by the Company under the LTSP, EOP and SRP held during the year by the Managing Director and other key management personnel of the Company, including their personally related parties, are set out below.

Name		Balance at start of the year	Granted as compensation (a)	Exercised during the year (b)	Lapsed during the year (c)	Balance at the end of the year	Vested and exercisable (d)	Unvested (e)
Managing Director								
Gary Stafford	**2011**	**6,450,500**	**501,312**	**(210,000)**	**(91,520)**	**6,650,292**	**4,718,480**	**1,931,812**
	2010	5,020,000	1,430,500	-	-	6,450,500	788,480	5,662,020
Other executives								
Fred Hess	**2011**	**808,020**	**109,306**	**(98,560)**	**(11,440)**	**807,326**	**400,000**	**407,326**
	2010	750,000	298,020	(240,000)	-	808,020	98,560	709,460
Rob Usher	**2011**	**972,500**	**105,872**	**(159,136)**	**(6,864)**	**912,372**	**580,000**	**332,372**
	2010	746,000	226,500	-		972,500	159,136	813,364
David Hairsine	**2011**	**666,260**	**94,558**	**(75,264)**	**(8,736)**	**676,818**	**320,000**	**356,818**
	2010	534,000	262,260	(130,000)	-	666,260	75,264	590,996
Francisco Tomic	**2011**	**-**	**139,932**	**-**	**-**	**139,932**	**-**	**139,932**
	2010	-	-	-	-	-	-	

(a) Securities granted as compensation relate to the LTSP, after the introduction of the plan in 2010;
(b) Securities which were exercised relate to the EOP and SRP;
(c) Securities which lapsed during the periods relate to the EOP and SRP;
(d) Securities which have vested and are exercisable relate to the EOP and SRP; and
(e) Unvested securities as at 31 December 2011 relate to the LTSP.

30 Key management personnel disclosures (continued)

(d) Equity instrument disclosures (continued)

(iii) Share holdings
The numbers of shares in the Company held during the financial year by each Director of PanAust and other key management personnel of the Company, including their personally related parties, are set out below.

Name		Balance at start of the year	Received during the year on the exercise of options and share rights	Other changes during the year	Balance at the end of the year
Directors of PanAust Limited					
Garry Hounsell	**2011**	**120,535**	**-**	**40,000**	**160,535**
	2010	120,535	-	-	120,535
Garry Hounsell (indirect)	**2011**	**46,000**	**-**	**(46,000)**	**-**
	2010	42,723	-	3,277	46,000
Gary Stafford	**2011**	**2,291,506**	**210,000**	**(1,265,000)**	**1,236,506**
	2010	2,431,506	-	(140,000)	2,291,506
Gary Stafford (indirect) (i)	**2011**	**660,723**	**-**	**265,000**	**925,723**
	2010	660,723	-	-	660,723
Nerolie Withnall	**2011**	**76,000**	**-**	**-**	**76,000**
	2010	113,049	-	(37,049)	76,000
Andrew Daley (indirect) (ii)	**2011**	**121,681**	**-**	**-**	**121,681**
	2010	101,681	-	20,000	121,681
Geoff Handley (indirect) (iii)	**2011**	**54,202**	**-**	**-**	**54,202**
	2010	54,202	-	-	54,202
Geoff Billard (indirect) (iv)	**2011**	**25,027**	**-**	**-**	**25,027**
	2010	25,027	-	-	25,027
Other executives					
Fred Hess	**2011**	**435,873**	**98,560**	**-**	**534,433**
	2010	495,873	240,000	(300,000)	435,873
Rob Usher	**2011**	**247,378**	**159,136**	**(200,000)**	**206,514**
	2010	247,378	-	-	247,378
David Hairsine	**2011**	**424,562**	**75,264**	**-**	**499,826**
	2010	444,562	130,000	(150,000)	424,562

(i) Gary Stafford has an indirect interest in 925,723 ordinary shares options in PanAust held by The Spellbrook Superannuation Fund of which Mr Stafford is a beneficiary.

(ii) Andrew Daley has an indirect interest in 121,681 ordinary shares in PanAust held by The Motherlode Superannuation Fund of which Mr Daley is a beneficiary.

(iii) Geoff Handley has an indirect interest in 54,202 ordinary shares in PanAust held by his spouse.

(iv) Geoff Billard has an indirect interest in 25,207 ordinary shares in PanAust through a Macquarie Investment Management Limited, of which Mr Billard is a beneficiary.

(v) During the periods reported, John Crofts, Zezhong Li, and Ken Pickering did not have a direct or an indirect interest in PanAust.

(e) Other transactions with key management personnel

(i) Assaying fees of US$1,715,457 (2010: US$1,408,410) paid to Australian Laboratory Services Pty Ltd (ALS) and subsidiaries on normal commercial terms. ALS is a wholly owned subsidiary of Campbell Brothers Limited of which Nerolie Withnall is a Director.

(ii) PanAust's long-term share service provider is Computershare Limited, of which Nerolie Withnall is a Director. Service fees of US$552,553 (2010: US$332,371), have been paid to Computershare during the year on normal commercial terms.

31 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

	31 December 2011 US$	31 December 2010 US$
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work	**299,482**	264,471
Related practices of PricewaterhouseCoopers Australian firm:		
PricewaterhouseCoopers Laos firm:		
Audit and review of financial reports and other audit work	**147,549**	138,328
PricewaterhouseCoopers Chile firm:		
Audit and review of financial reports and other audit work	**24,023**	-
PricewaterhouseCoopers Singapore firm:		
Audit and review of financial reports and other audit work	**16,000**	-
Total remuneration for audit services	**487,054**	402,799
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Debt facility / debt instrument review	**-**	160,586
Other services	**6,498**	45,001
Total remuneration for other assurance services	**6,498**	205,587
3. Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax advice	**-**	22,242

32 Contingencies

(a) Contingent liabilities

The parent entity had contingent liabilities at 31 December 2011 for a guarantee given in respect of the obligations of Phu Bia Mining Limited under equipment leases amounting to US$23.4 million (2010: US$31.1 million).

This guarantee may give rise to a liability in the parent entity if Phu Bia Mining Limited does not meet the obligations under the terms of the equipment lease facilities subject to the guarantee.

No material losses are anticipated in respect of any of the above contingent liabilities.

Included in the net assets of Inca de Oro S.A. is a contingent liability related to future royalties payable to Codelco as part of the sales agreement. At the time of acquisition, and at balance date, the Inca de Oro Copper-Gold Project was in the exploration and evaluation phase. It has yet to proceed to feasibility study stage.

33 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	31 December 2011 US$'000	31 December 2010 US$'000
(i) Mine Property, plant and equipment		
Within one year	**4,628**	4,396
	4,628	4,396
(ii) Mine development		
Payable:		
Within one year	**14,767**	18,128
	14,767	18,128

(i) The capital expenditure commitment for mining property, plant and equipment represents the upgrade of the Phu Kham Copper-Gold Operation.

The total estimated capital cost for the Phu Kham Upgrade Project is US$95 million (incorporating a contingency of US$14 million). As at 31 December 2011, Project expenditure totalled approximately US$29 million.

(ii) The capital expenditure commitment for mine development represents the construction of the Ban Houayxai Gold-Silver Project. As at 31 December 2011, project expenditure totalled approximately US$168 million with overall progress standing at 93% complete. The capital cost of the Project, including contingency is expected to range from US$183 million to US$195 million. An estimated US$5 million of deferred capital (included in the capital estimate) will be required to fund the second lift to the Tailings Storage Facility (TSF) after operations commence during 2012.

(b) Lease commitments: group as lessee

(i) Non-cancellable operating leases

	31 December 2011 US$'000	31 December 2010 US$'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**306**	474
Later than one year but not later than five years	**285**	79
Charged to profit or loss	**590**	553
Representing:		
Non-cancellable operating leases	**590**	553
	590	553

The Group leases various business premises, computer equipment and other plant and equipment under non-cancellable operating leases expiring within one to four years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

33 Commitments (continued)

(b) Lease commitments: group as lessee (continued)

(ii) Finance leases
The Group leases various plant and equipment with a written down value of US$46.7 million (2010: US$22.7 million) under finance leases expiring 31 December 2013 (refer to note 15).

	Notes	**31 December 2011 US$'000**	31 December 2010 US$'000
Commitments in relation to finance leases are payable as follows:			
Within one year		**16,846**	8,501
Later than one year but not later than five years		**69,386**	24,358
Minimum lease payments		**86,232**	32,859
Future finance charges		**(22,288)**	(1,732)
Total lease liabilities		**63,944**	31,127
Representing lease liabilities:			
Current	20	**14,961**	7,721
Non-current	24	**48,983**	23,406
		63,944	31,127

The weighted average interest rate implicit in the leases is 3.65% (2010: 2.89%).

34 Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is PanAust Limited.

(b) Directors and specified executives

Disclosures relating to Directors and specified executives are set out in note 30.

(c) Subsidiaries

Interests in subsidiaries are set out in note 36 .

(d) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2011 US$'000	31 December 2010 US$'000
Advances made to Puthep Co., Limited	**696**	800
Interest and administrative charges to associate, Puthep Co., Limited	**-**	617
	696	1,417
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	**712**	593

34 Related party transactions (continued)

(d) Transactions with other related parties (continued)

As at 31 December 2011, the Company had advanced loans to the Managing Director and other senior executives for the purchase price of shares issued to the Managing Director and other senior executives under the Long Term Share Plan (LTSP). The shares are held on trust and will be released to the Managing director and other senior executives once the shares have vested, and the loans to the Company have been paid or appropriate arrangements entered into for repayment of the loans. Further details with regards to the LTSP are included in the Remuneration Report and note 40.

(e) Outstanding balances arising from transactions with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	31 December 2011 US$'000	31 December 2010 US$'000
Advances to Puthep Co., Limited (i)	**14,268**	13,572
Other receivables from associates (ii)	**2,862**	2,863
	17,130	16,435

(i) Represents loans and advances to an associate for no fixed repayment term. The balance was reclassified as an investment in 2011 (refer to note13).

(ii) Represents administrative and finance related charges to associates.

35 Business combination

(a) Summary of acquisition

On 1 March 2010, PanAust announced that it had made a binding offer to Corporación Nacional del Cobre de Chile ('Codelco') for PanAust to acquire a majority interest in the Chilean registered company Inca de Oro S.A. which owns the Inca de Oro Copper-Gold Project.

Under Chilean law, the offer was subject to approval by Presidential Decree. This approval was confirmed to PanAust on 22 February 2011.

PanAust's interest in Inca de Oro S.A. is held through a 90% interest in PanAust Minera IDO Limitada. The remaining 10% in PanAust Minera IDO Limitada is held by an independent private company.

PanAust Minera IDO Limitada holds a 66% interest in Inca de Oro S.A. (giving PanAust a 59.4% beneficial interest) with Codelco retaining the remaining 34% interest.

35 Business combination (continued)

(b) Purchase consideration

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	US$'000
Purchase consideration	
Fair value of net identifiable assets acquired (refer to (c) below)	**70,780**
Cash paid	**55,300**
66% of fair value of net identifiable assets acquired	**(46,715)**
Goodwill	**8,585**

(c) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value US$'000
Cash	**22,839**
Mining information	**25,500**
Tenements	**19,300**
Intangible assets	**1,553**
Deferred tax assets	**1,107**
Current tax assets	**483**
Plant and equipment	**4**
Trade and other payable	**(6)**
Net identifiable assets acquired	**70,780**

Included in the net assets acquired is a contingent liability related to future royalties payable to Codelco as part of the sales agreement. At the time of acquisition, and at balance date, the Inca de Oro Copper-Gold Project was in the exploration and evaluation phase. It has yet to proceed to feasibility study stage.

The goodwill is attributable to the perceived future profitability from the potential development of the Inca de Oro Copper-Gold Project.

(i) Non-controlling interest
In accordance with the accounting policy set out in note 1, the Group elected to recognise the non-controlling interests at the proportionate share of the acquired net identifiable assets.

(ii) Revenue and profit contribution
The acquired business incurred net expenses of US$463,919 for the year ended 31 December 2011.

36 Subsidiaries and transactions with non-controlling interests

Name of entity	**Place of incorporation**	**Class of shares**	**Equity holding * 2011 %**	**Equity holding * 2010 %**
PanAust Services Pty Ltd	QLD	Ordinary	**100**	100
PanAust Exploration Pty Ltd	QLD	Ordinary	**100**	100
Pan Mekong Exploration Pty Ltd	QLD	Ordinary	**100**	100
Phu Bia Mining Limited (Subsidiary of Pan Mekong Exploration Pty Ltd)	Laos	Ordinary	**90**	90
PNA (Puthep) Pty Ltd	QLD	Ordinary	**100**	100
Puthep Co., Limited (Subsidiary of PNA (Puthep) Pty Ltd)	Thailand	Ordinary	**49**	49
PanAust Canada Ltd (incorporated)	Canada	Ordinary	**100**	100
Masons Hill Gold Limited (incorporated)	WA	Ordinary	**90**	90
Terra Firma Resources NL (incorporated)	QLD	Ordinary	**100**	100
PanAust Holdings Pte Ltd	Singapore	Ordinary	**100**	100
PanAust IDO Holdings Pte Ltd (Subsidiary of PanAust Holdings Pte Ltd)	Singapore	Ordinary	**90**	100
PanAust IDO SpA	Chile	Ordinary	**90**	100
PanAust Minera IDO Limitada	Chile	Ordinary	**90**	100
PanAust South America Services SpA	Chile	Ordinary	**100**	100
Inca de Oro S.A.	Chile	Ordinary	**59.4**	-
PanAust Executive Long Term Share Plan Trust	QLD	n/a	**n/a**	-

* Beneficial interest

37 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

38 Reconciliation of profit after income tax to net cash inflow

	31 December 2011 US$'000	31 December 2010 US$'000
Profit for the year	**146,562**	160,097
Depreciation, amortisation, and impairment	**59,532**	54,285
Executive and employee long term incentives	**3,985**	3,733
Share based payment expense from acquisition	**5,530**	-
Finance cost	**1,570**	1,229
Deferred hedge losses	**6,764**	(15,247)
Fair value gains on derivatives through profit or loss	**(4,007)**	(1,487)
Net exchange differences	**(999)**	602
Decrease in receivables	**12,907**	6,819
Increase in inventories and deferred waste	**(16,604)**	(8,757)
Decrease in prepayments	**1,285**	2,723
Increase in trade creditors	**(190)**	11,552
Increase in provision for income taxes payable	**12,150**	18,269
Increase in deferred tax liability	**10,011**	28,097
Increase in other provisions	**646**	3,333
Net cash inflow (outflow) from operating activities	**239,142**	265,248

39 Earnings per share

(a) Reconciliation of earnings used in calculating earnings per share

	31 December 2011 US$'000	31 December 2010 US$'000
The following reflects the income used in the calculations of basic and diluted earnings per share:		
Profit attributable to ordinary equity holders of the company	**132,121**	143,353

(b) Weighted average number of shares used as denominator

	31 December 2011 Number of shares	31 December 2010 Number of shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**588,002,186**	585,614,438
Adjustments for calculation of diluted earnings per share:		
Unlisted securities	**5,029,567**	3,801,456
Adjusted weighted average number of ordinary shares used in calculating diluted profit per share	**593,031,753**	589,415,894

The comparative earnings per share have been restated to take into account the 1 for 5 share consolidation which took effect on 31 May 2011.

40 Share-based payments

At the Annual General Meeting held on 20 May 2011, PanAust Shareholders approved the consolidation of ordinary shares on a 1 for 5 basis, in accordance with section 254H(1) of the Corporations Act 2001 (Cth). The ordinary fully paid shares of the Company ('shares') have now been consolidated through the conversion of every five shares held by a shareholder into one share with any resulting fractions of a share rounded up to the next whole number of shares. The consolidation was effective from 31 May 2011.

In accordance with the terms and conditions of the share rights and ASX Listing Rule 7.21, share rights have been consolidated in a similar manner to ordinary shares; and, in accordance with the terms and conditions of the options and ASX Listing Rule 7.22, unlisted options under the Executives' Option Plan have been consolidated on the same basis as the Company's shares, the subject of each option and share right, will be reduced by a factor of five. The exercise price of each option will be increased by a factor of five.

The comparative information has been restated to take into account the one for five share consolidated.

(a) Executive Long Term Share Plan

The Executive Long Term Share Plan (LTSP), was introduced by the Company in 2010. It is a loan backed share plan. Under the LTSP the company issues shares or a trustee transfers shares to the executive at market value. The purchase price of the share is funded by a loan from the Company. The issue of shares and the advance of a loan to the Managing Director was approved by shareholders at the Annual General Meeting.

Grant date	Loan expiry date	Fair value at grant A$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2011								
21-May-10	21-May-15	0.600	3,647,820				3,647,820	
18-Feb-11	31-Dec-15	1.375	-	1,147,660	-	-	1,147,660	-
23-May-11	31-Dec-15	1.124	-	501,312	-	-	501,312	-
			3,647,820	1,648,972	-	-	5,296,792	-

Grant date	Loan expiry date	Fair value at grant A$ cents	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2010								
21-May-10	21-May-15	60.00	-	3,826,640	-	178,820	3,647,820	-
			-	3,826,640	-	178,820	3,647,820	-

The fair value attributed to LTSP at grant date was calculated using a Monte Carlo simulation model that takes into account the following:

Variable input	2011	2010
Dividend yield	Nil	Nil
Expected volatility	40%	40%
Risk-free interest rate	5.1% - 5.4%	5.03%
Staff turnover	0.00%	0.00%

40 Share-based payments (continued)

(a) Executive Long Term Share Plan (continued)

LTSP Cash Bonus

In 2011, the Managing Director and the other senior executives also became eligible for a LTI Cash Bonus provided the conditions referred to on page 21 have been met as at 31 December 2013. The valuation of the LTI Cash Bonus has been completed using a Monte Carlo simulation technique, incorporating assumed probabilities for the conditions being met as at 31 December 2013. The LTI Cash Bonus is not payable until after 31 December 2013. This was the first year the LTI Cash Bonus was offered.

(b) Executives' Option Plan

The establishment of the Company's Executives' Option Plan (EOP) was approved by shareholders at the 1996 annual general meeting.

Set out below are summaries of options granted under the plan. There were no options granted during year ended (2010: Nil).

Grant date	Expiry date	Exercise price A$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
As at 31 December 2011								
23-Mar-07	29-Feb-12	1.900	750,000	-	(490,000)	-	260,000	260,000
29-May-07	29-Feb-12	1.900	700,000	-	(210,000)	-	490,000	490,000
05-Jul-07	07-Oct-12	4.050	142,500	-	-	-	142,500	142,500
22-Feb-08	31-Dec-12	4.400	396,000	-	-	(41,184)	354,816	354,816
23-May-08	31-Dec-12	4.400	880,000	-	-	(91,520)	788,480	788,480
27-Apr-09	31-Dec-13	1.525	840,000	-	-	-	840,000	840,000
22-May-09	31-Dec-13	2.106	3,440,000	-	-	-	3,440,000	3,440,000
Total			7,148,500		(700,000)	(132,704)	6,315,796	6,315,796
Weighted average price A$			2.444	-	1.900	-	2.463	2.463

Grant date	Expiry date	Exercise price A$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
As at 31 December 2010								
23-Mar-07	29-Feb-12	1.900	910,000	-	(160,000)	-	750,000	750,000
29-May-07	29-Feb-12	1.900	700,000	-	-	-	700,000	700,000
05-Jul-07	07-Oct-12	4.050	150,000	-	-	(7,500)	142,500	142,500
22-Feb-08	31-Dec-12	4.400	396,000	-	-	-	396,000	354,816
23-May-08	31-Dec-12	4.400	880,000	-		-	880,000	788,480
27-Apr-09	31-Dec-13	1.525	840,000	-	-	-	840,000	-
22-May-09	31-Dec-13	2.106	3,440,000	-	-	-	3,440,000	-
Total			7,316,000	-	(160,000)	(7,500)	7,148,500	2,735,796
Weighted average price A$			2.434	-	1.900		2.444	3.057

(i) Exercise price
Following the completion of the consolidation of ordinary shares on a 1 for 5 basis, the exercise price of each option increased by a factor of five in accordance with the terms and conditions of the EOP and ASX Listing Rule 7.22.

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2011 was A$1.90 (2010: A$1.90).

40 Share-based payments (continued)

(b) Executives' Option Plan (continued)

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.6 years (2010: 2.4 years).

(ii) Fair value of options granted
The assessed fair value at grant date is independently determined using a 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 expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Options are granted for no consideration and vest based on PanAust's TSR ranking within the S&P/ASX 300 Metals and Mining Index. Vested options are exercisable for a period of up to 5 years from the grant date.

(c) Share Rights Plan

Under the Share Rights Plan (SRP) established in 2007, eligible employees may be offered rights to acquire fully-paid ordinary shares in the Company annually for no cash consideration.

The number of share rights issued to participants in the SRP is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the date of the offer.

Set out below are summaries of share rights issued under the SRP:

Grant date	Expiry date	Exercise price A$ cents	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at the end of the year Number
26-Feb-08	31-Dec-17	nil	369,000	-	(330,624)	(38,376)	-	-
26-Feb-08	31-Jan-18	nil	49,996	-	(49,996)	-	-	-
30-Apr-08	31-Mar-18	nil	11,186	-	(10,620)	(566)	-	-
31-Jul-08	30-Jun-18	nil	6,920	-	(5,960)	(960)	-	-
31-Jul-08	30-Jun-18	nil	5,800	-	(5,800)	-	-	-
17-Nov-08	31-Oct-18	nil	28,338	-	(24,742)	(3,596)	-	-
25-Mar-09	28-Feb-19	nil	108,236	-	(49,730)	(19,152)	39,354	-
27-Apr-09	31-Dec-18	nil	2,012,000	-	-	-	2,012,000	2,012,000
18-Jun-09	30-Apr-19	nil	306,517		(306,517)	-	-	-
27-Oct-09	01-Sep-19	nil	43,690	-	-	-	43,690	-
29-Mar-10	31-Dec-11	nil	319,826	-	-	(53,963)	265,863	265,863
03-Sep-10	31-Dec-11	nil	4,217	-	-	(1,912)	2,305	2,305
04-Oct-10	31-Dec-11	nil	1,912	-	-	-	1,912	1,912
21-Dec-10	31-Dec-11	nil	1,912	-	-	-	1,912	1,912
03-Mar-11	31-Jan-12	nil	-	5,388	-	(3,551)	1,837	1,837
03-Mar-11	31-Jan-13	nil	-	281,685	-	(44,881)	236,804	-
			3,269,549	**287,073**	**(783,989)**	**(166,957)**	**2,605,677**	**2,285,829**

Set out below are the variable model inputs for share rights issued during the reporting periods:

Grant date	Vesting date	Exercise price A$	Number of shares granted	Fair value at grant date A$	Share price at grant date A$
29-Mar-10	31-Dec-11	Nil	319,826	2.5	2.6
03-Sep-10	31-Dec-11	Nil	4,216	2.5	3.2
04-Oct-10	31-Dec-11	Nil	1,912	2.5	3.4
21-Dec-10	31-Dec-11	Nil	1,912	2.5	4.2
03-Mar-11	31-Dec-11	Nil	5,388	4.2	4.2
03-Mar-11	31-Dec-12	nil	281,685	4.2	4.2

40 Share-based payments (continued)

Prior to the implementation of the LTSP, share rights subject to TSR performance hurdle were offered to the Managing Director, senior executives and senior managers for no cash consideration and vest based on PanAust's TSR ranking within the S&P/ASX 300 Metals and Mining Index. Share rights with no performance hurdles are offered to other employees for no cash consideration and vest based on terms of employment of up to three years. Vested share rights are exercisable for a period of 10 years from the grant date. The assumed share price volatility used in the fair value calculation is 40% and the dividend yield is nil.

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	31 December 2011 US$'000	31 December 2010 US$'000
Share rights issued under the SRP	**1,718**	1,905
Options issued under the EOP	**778**	1,383
Shares issued under the LTSP	**1,489**	510
	3,984	3,798

41 Parent entity financial information

(a) Summary financial information

	31 December 2011 US$'000	31 December 2010 US$'000
Balance sheet		
Current assets	**51,796**	69,276
Non-current assets	**463,020**	425,491
Total assets	**514,816**	494,767
Non-current liabilities	**205**	205
Total liabilities	**205**	205
Net assets	**514,611**	494,562
Shareholders' equity		
Contributed equity	**542,617**	541,232
Reserves	**30,094**	26,110
Retained earnings	**(58,100)**	(72,780)
	514,611	494,562
Profit/(loss) for the year	**18,864**	(225)
Total comprehensive income	**18,864**	(225)

41 Parent entity financial information (continued)

(a) Summary financial information (continued)

(b) Deed of cross guarantee

The Parent Entity and all its Australian domiciled subsidiaries are party to a Deed of Cross Guarantee. These Australian domiciled subsidiaries are listed in note 36.

(c) Contingent liabilities of the parent entity

The parent entity had contingent liabilities at 31 December 2011 for a guarantee given in respect of the obligations of Phu Bia Mining Limited under equipment leases amounting to US$23.4 million (2010: US$31.1 million).

This guarantee may give rise to a liability in the parent entity if Phu Bia Mining Limited does not meet the obligations under the terms of the equipment lease facilities subject to the guarantee.

No material losses are anticipated in respect of any of the above contingent liabilities.

Included in the net assets of Inca de Oro S.A. is a contingent liability related to future royalties payable to Codelco as part of the sales agreement. At the time of acquisition, and at balance date, the Inca de Oro Copper-Gold Project was in the exploration and evaluation phase. It has yet to proceed to feasibility study stage.

PanAust Limited
Directors' declaration
31 December 2011

In the Directors' opinion:

(a) the financial statements and notes set out on pages 44 to 103 are in accordance with the *Corporations Act 2001*, including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the financial year on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Garry Hounsell
Director

Gary Stafford
Director

Brisbane
23 February 2012

Independent auditor's report to the members of PanAust Limited

Report on the financial report

We have audited the accompanying financial report of PanAust Limited (the company), which comprises the balance sheet as at 31 December 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the PanAust group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
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T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of PanAust Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 15 to 31 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of PanAust Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

D. G. Smith

Debbie Smith
Partner

Brisbane
23 February 2012

PanAust Limited
Shareholder information
31 December 2011

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows, and is current as at 16 February 2012.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

			Class of equity security			
			Ordinary shares		Redeemable preference shares	% Issued Capital
Holding			Total Holders	Units		
1	-	1,000	4,923	2,327,387	-	0.39%
1,001	-	5,000	6,930	18,467,444	-	3.09%
5,001	-	10,000	2,483	18,555,675	-	3.11%
10,001	-	100,000	2,740	68,999,437	-	11.56%
100,001	-	and over	173	488,509,349	-	81.85%
			17,249	596,859,292	-	100.00%

There were 881 holders of less than a marketable parcel of 141 ordinary shares totalling 35,169 shares.

B. Shareholders

Twenty largest quoted shareholders

	Ordinary shares	
	Number held	Percentage of issued shares
Name		
Guangdong Rising H.K. (Holding) Limited	122,370,198	20.50%
JP Morgan Nominees Australia Limited	107,476,361	18.01%
National Nominees Limited	71,830,366	12.03%
HSBC Custody Nominees (Australia) Limited	65,281,344	10.94%
Citicorp Nominees Pty Limited	11,697,386	1.96%
AMP Life Limited	9,938,089	1.67%
Cogent Nominees Pty Ltd	9,723,968	1.63%
Mr Robert Bryan	7,333,334	1.23%
Leyshon Equities Pty Ltd	5,881,215	0.99%
Cogent Nominees Pty Limited <SMP Accounts>	5,750,781	0.96%
UBS Nominees Pty Ltd	4,801,833	0.80%
UBS Wealth Management Australia Nominees Pty Ltd	4,377,479	0.73%
Equity Trustees Limited <SGH20>	3,400,000	0.57%
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/C>	2,916,776	0.49%
DeBortoli Wines Pty Limited	2,794,440	0.47%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,609,939	0.44%
Australian Reward Investment Alliance	2,166,416	0.36%
RBC Dexia Investor Services Australia Nominees Pty Limited <GSAM A/C>	1,829,779	0.31%
Mr Gary Stafford	1,026,506	0.17%
K E Bryan No 2 Pty Ltd <K E Bryan No 2 A/C>	1,021,477	0.17%
	444,227,687	74.43%

A number of these shareholders are nominee companies which hold the legal interest in shares where others hold the relevant interest. For the purposes of the Corporations Act, Guangdong Rising Assets Management Co Ltd, being the ultimate holding company of Guangdong Rising H.K. (Holding) Limited, is a substantial holder of equity in the Company.

C. Voting rights

All ordinary shares issued by PanAust carry one vote per share without restriction.

PanAust Limited
Shareholder information
31 December 2011
(continued)

D. Holders of other equity securities

There are the following holders of unlisted equity securities issued by the Company:

Equity securities

	Total holders	Number of securities
Options under the Executives' Option Plan	5	5,795,796
Share rights under the Share Rights Plan, subject to performance conditions	1	43,690
Share rights under the Share Rights Plan, not subject to performance conditions	84	276,158

None of these equity securities have voting rights

E. On-market buy back

There is no current on-market buy back.

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PANAUST

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Stock Exchange Listing
Shares of the Company are listed on
the Australian Securities Exchange.
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PanAust