



GROWTH: DISCOVERY,
ACQUISITION & DEVELOPMENT
SUSTAINABILITY REPORT 2011



COMPANY PROFILE

PanAust Limited ('PanAust', 'the Company') is a leading copper and gold producer in Southeast Asia and has a portfolio of organic growth projects in both commodities in Laos and Chile.

PanAust's key producing assets are the flagship Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation (production commenced at Ban Houayxai in May 2012); both are located within the Company's highly prospective 2,636 square-kilometre Contract Area in Laos.

Copper production at Phu Kham is expected to progressively increase over the next three years following completion of the Phu Kham Upgrade Project in 2012, the Increased Recovery Project in the September quarter 2013, and a likely commitment to develop an underground operation to access the adjacent and relatively high-grade Nam San copper-gold deposit.

The Phu Kham district is a high-priority target for exploration and resource development. Drilling at the LCT deposit, six kilometres northwest of the Phu Kham Operation, has confirmed the continuity of high-grade copper-gold mineralisation and may represent an opportunity to develop new process facilities subject to further exploration success.

In March 2011, the Company acquired a majority interest in the Inca de Oro Copper-Gold Project in Chile from Corporación Nacional del Cobre de Chile (Codelco), the world's largest copper company. This provides PanAust with geographic diversity and a base for establishing a copper business in South America; the world's most prolific copper producing region.

The Phonsavan Copper-Gold Project in Laos is PanAust's most advanced pre-development project and is focused on the KTL copper-gold deposit. A pre-feasibility study has commenced with the objective of completing a feasibility study by mid-2013. The Project is located in the north of the Contract Area.

PanAust shares are listed on the Australian Securities Exchange (ASX:PNA) and the Company is a constituent of the benchmark S&P/ASX 100 Index. The Company's head office is located in Brisbane, Australia.

Company structure

PanAust has three business units: PanAust Asia, PanAust South America, and PanAust Project Development. PanAust's corporate office in Brisbane provides leadership and support across the Group in relation to growth, financial management, commercial and technical services, risk management, corporate communication, human resources, and governance and public reporting.

Cover image: Environmental Assistant, Mr Sith Southavong, tending seedlings at the Ban Houayxai plant nursery. The trees, locally known as mai-teen-ped, will be used in the Operation's vegetation rehabilitation program.

PanAust Asia

PanAust Asia has responsibility for existing operations in Laos and supporting the implementation of business development strategies within the region.

Corporate structure in Laos

PanAust owns a 90 per cent interest in the Lao-registered company, Phu Bia Mining Limited (Phu Bia Mining), through the Company's wholly owned subsidiary, Pan Mekong Exploration Limited. In May 2011, the Government of Laos exercised its option to take up a 10 per cent share in Phu Bia Mining. Although the transfer of shares is yet to be completed, the interest is recognised in the Company's accounts.

Phu Bia Mining has a Mineral Exploration and Production Agreement with the Government of Laos. This agreement regulates the taxation and royalty regime, as well as the exploration, development and mining activities within the Company's Lao Contract Area.

Corporate structure in Thailand

In Thailand, PanAust holds a shareholding interest of 49 per cent in the Thai-registered company, Puthep Company Limited (Puthep). A publicly listed Thai entity, Padaeng Industry Public Company Limited (Padaeng), owns the other 51 per cent interest. Puthep has a concession agreement with the Government of Thailand covering two deposits (PUT1 and PUT2) that comprise the Puthep Copper Project.

PanAust has commenced a trade sale process for the Puthep Copper Project on behalf of the joint venture. From PanAust's perspective, the Project does not rank as highly as other growth opportunities the Company has in its pre-development portfolio.

PanAust South America

PanAust South America is responsible for supporting the development of the Inca de Oro Copper-Gold Project in Chile and growing the PanAust business in the region.

Corporate structure in Chile

PanAust holds a majority interest in Inca de Oro S.A., the owner of the Inca de Oro Copper-Gold Project in Chile. PanAust's interest in Inca de Oro S.A. is held through a 90 per cent interest in PanAust Minera which holds a 66 per cent interest in Inca de Oro S.A. (giving PanAust a 59.4 per cent interest). Codelco holds the remaining 34 per cent interest.

PanAust Project Development

PanAust Project Development is responsible for the Company's development and operational improvement projects. It comprises two teams: Technical Studies and Project Implementation that, together, deliver capital and time-efficient project development and strategic improvement initiatives.

PanAust Limited, its subsidiaries and business units are collectively referred to as the 'PanAust Group' or 'the Group'.

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This is PanAust's sixth annual Sustainability Report and follows that produced during 2011 for the 2010 calendar year. This Report provides information about the Company's sustainability performance for the calendar year 2011 and some references to 2012. It conforms to PanAust's commitment to the Minerals Council of Australia's (MCA) Enduring Value: the Australian Minerals Industry Framework for Sustainable Development, and the Company's values with respect to sustainability, excellence in communication, and transparent dealings with stakeholders.

Image: The ball mill at the Phu Kham Copper-Gold Operation. The mine is located in a mountainous region of Laos and experiences a tropical climate with distinct wet and dry seasons.



REPORT SCOPE

PanAust uses the reporting requirements of the Global Reporting Initiative (GRI), and reports to an A+ Application Level. To achieve this rating, the data provided from operational sites and the written Report have undergone external verification prior to publication. The GRI A+ 2011 Assurance Statement provided by the external agency can be found on PanAust's website, www.panaust.com.au/reports.

Where possible, data collected is determined through measurements following GRI protocols. To avoid errors of transposition, data is entered into electronic intranet-based reporting systems by employees.

About materiality (process for defining content of this Report)

The GRI describes the scope of materiality as: "The information in a report should cover topics and indicators that reflect the organisation's significant economic, environmental and social impacts that would substantively influence the underlying value of the company, and the assessments and decisions of stakeholders."

PanAust defines materiality as a level 4 or 5 incident using the PanAust Enterprise Risk Management (ERM) consequence table (refer pages 84 and 85). The ERM process provides the basis for selecting the information disclosed in this Report.

The Consequence Table classifies the severity of incidents according to five levels of consequence (with Level 1 representing the least consequence and Level 5 representing the highest) under the categories of health and safety, environmental, social, security, regulatory, production, and financial.

PanAust recognises that incidents of a significant nature may, if not managed adequately, have a negative long-term material, strategic, business and/or reputational implication for the Company and its stakeholders. Risk management processes are therefore designed to proactively manage such incidents through identification of high risks and mitigation strategies to prevent occurrence.

Level 3 incidents receive close attention as they often forerun more material incidents. PanAust has determined that Level 4 or 5 incidents have the potential to influence the assessment and decisions of stakeholders and has determined that the Company will report any such incidents as material. Throughout this Report, incidents are referred to by their consequence level.

With the exception of financial, safety and employee-related information, and unless otherwise stated in the data tables and/or their footnotes, this Report excludes exploration programs, PanAust's corporate office in Brisbane (Australia), PanAust Asia's or PanAust South America's support offices in Vientiane (Laos) and Santiago (Chile) respectively.

Changes and/or restatements

Most of PanAust's reporting relates to the material aspects of the Phu Kham Operation. During 2011, the Company commenced, where relevant and possible, reporting on material activities related to the construction of the Ban Houayxai Gold-Silver Operation and

preparations towards its commissioning in early 2012 and steady-state production during the June quarter 2012.

The Inca de Oro and Phonsavan Projects are not yet operating, however some community development programs have commenced in communities affected by exploration activities at Phonsavan and are included in this Report. PanAust is establishing systems and structures to enable reporting once commissioning commences at these sites. Tables in this document advise where reporting includes data from sites other than Phu Kham.

With the exception of new reporting items, this Report will present data from a three-year period.

During the reporting period, the following significant changes in the state of PanAust's affairs occurred.

- Construction of the Ban Houayxai Gold-Silver Operation in Laos was substantially completed during 2011. Commissioning commenced in early 2012, and production commenced in May 2012.
- 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 in March 2011 and exploration and evaluation activities commenced.
- Phu Bia Mining Limited completed an inaugural income tax payment in Laos in early 2011 based on 2010 profits after the utilisation of carried forward tax losses.
- The Company graduated into the S&P/ASX 100 index.
- PanAust shareholders approved the consolidation of ordinary shares on a 1-for-5 basis. The consolidation was effective from 31 May 2011 with any resulting fractions of a share rounded up to the next whole number of shares.
- The Government of Laos exercised its option to take up a 10 per cent interest in Phu Bia Mining (although the transfer of shares is yet to be completed, the interest is recognised in the Company's accounts).

Currency

Unless otherwise stated, all monetary amounts in this Report are expressed in United States Dollars (US\$).

Forward-looking statements

This Report includes certain 'forward-looking statements'. All statements, other than statements of historical fact, included herein, including, without limitation, statements regarding forecast cash operating costs and financial performance, exploration results and future expansion plans and development objectives of PanAust Limited, are forward-looking statements that involve risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. All such statements in this Report are reflective of PanAust's position at the time of publishing.

Image: Primary school teacher, Mrs Phoudsadee Phanthapha, with a student, Miss Ting, at the Nam Mo Village Primary School. During 2011, PanAust constructed a new building at the school to ease overcrowding.

This Report conforms to PanAust's commitment to the Minerals Council of Australia's Enduring Value and the Company's own Vision and Values with respect to sustainability, excellence in communication, and transparent dealings with stakeholders.



CHAIRMAN AND MANAGING DIRECTOR'S REVIEW

Sustainability strategy

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 the pursuit of an active exploration and resource development program in Laos and Chile.

Underpinning the strategy is PanAust's recognition that sustainable business development is essential for success. As a Company with a significant presence in a developing country such as Laos, we have an essential role to play in improving the living standards of current and future generations.

PanAust's approach to sustainability stems from a Group-wide set of Values, high standards of corporate governance, and a well-established sustainability framework that fosters an environment of continual improvement. The sustainability framework includes an overarching Sustainability Policy and support structures including an integrated Enterprise Risk Management system to identify material risks and ensure relevant control measures are in place. PanAust's activities in Laos are carried out in accordance with the Company's Mineral Exploration and Production Agreement (MEPA) with the Government of Laos.

PanAust measures its sustainability performance against the International Finance Corporation's (IFC) Performance Standards on Social and Environmental Sustainability for operating projects. The Company is guided by external standards, systems and principles provided by the ASX, the MCA, the International Council on Mining and Metals (ICMM), and the International Cyanide Management Institute (ICMI).

Business performance

In 2011, the Phu Kham Copper-Gold Operation produced nearly 60,000t of copper in concentrate at an average C¹ cash cost of US\$1.01/lb after precious metal credits. The average copper price realised for sales was US\$3.98/lb.

The consolidated Group net profit after tax (NPAT) for the 12 months to 31 December 2011 was US\$146.6 million. The Company's progress was reflected by the graduation of PanAust into the S&P/ASX 100 Index in April 2011.

¹ Brook Hunt convention for reporting of direct cash costs comprising: mine site, concentrate transportation and freight, treatment and refining charges and marketing costs. Based on payable copper in concentrate produced.

In late June and early July 2011, northern and central Laos was struck by two 1-in-50-year rainfall events that occurred only days apart. The extreme weather caused widespread flooding and extensive damage to farmlands, infrastructure and homes across the region, as well as disruption to day-to-day life. The Phu Kham Operation lost four days of production, and excess water in the open pit postponed access to higher grade ore for several months. Production returned to normal levels in November 2011; however, Phu Kham's copper production for the year was lower than the original guidance provided to the market.

Despite weather-related setbacks, 2011 was a year of progressing PanAust's plan for growth. Strong cash-flow generated by Phu Kham funded the capital required for the construction and commissioning of the Ban Houayxai Operation and works associated with the Phu Kham Upgrade Project without the need to draw down debt facilities. Work commenced on 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.

Sustaining the business

Capital investment at Phu Kham will see copper production progressively increase over the next three years with the Phu Kham Upgrade Project, which is on track for commissioning in mid-2012, and the Increased Recovery Project that is scheduled for completion in the second half of 2013.

A key to sustainable growth of the business is exploration and the identification of new development projects. In terms of priorities, better returns are usually realised from brown-field development close to existing operations and infrastructure. Accordingly, the Phu Kham district became a priority focus for exploration activities during 2010 and this initiative led to the discovery of the Nam San copper-gold deposit and the discovery of significant gold and gold-copper mineralisation at the Long Chieng Track (LCT) deposit in 2011.

The Phonsavan Copper-Gold Project, in the north of the Company's Contract Area in Laos, was the subject of a scoping study based on an inaugural mineral resource estimate for the KTL copper-gold deposit during 2011.

Chairman, Garry Hounsell (left)
Managing Director, Gary Stafford (right)



PanAust continues to undertake regional exploration activities at several identified prospects within the Company's 2,636 square-kilometre Contract Area in Laos. The Contract Area is highly prospective for copper and gold and offers excellent potential for the discovery of significant new resources as the basis for organic growth of the business.

Managing risk

PanAust's risk registers continue to identify contractor management, transport of personnel, and light vehicle/heavy vehicle interactions as the key safety challenges for operations in Laos. During 2011, a team dedicated to the implementation of the contractor safety management plan was established within PanAust Asia to embed the desired safety standards within local contractor groups. By year end, the Company decided to take full control of concentrate haulage activities along the section of haulage road that has been identified as having the highest risk. The direct employment of drivers, and maintenance of a new truck fleet aims to significantly reduce this risk.

Overall safety programs focused on developing travel and aviation standards, purchasing new light vehicle transport for operational sites, improving driver skills and behaviours, as well as continuing road improvements and maintenance programs.

PanAust reported a strong safety performance in 2011 with a Lost Time Injury Frequency Rate (LTIFR) of 0.06, down from 0.47 in 2010. The Company also reported an improved Total Recordable Injury Frequency Rate for 2011; down to 2.8 from 3.57 recorded in 2010. 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 81 companies that reported LTIFR. Collectively, these achievements highlight PanAust's ongoing commitment to Zero Harm safety objectives.

During the mid-year extreme weather, a contractor employee working external to our controlled operating site on the public access road to Phu Kham was fatally injured in a landslide incident. This regrettable event highlights the ongoing need for the Company to work with and influence contractors to improve their safety standards and systems.

The key environmental risk for PanAust is surface water management including cyanide and acid rock drainage (ARD) at operational sites. The mid-year rainfall event triggered a review of the Company's water management assumptions and strategy for the tailings storage facility (TSF) at Phu Kham. As an interim measure, the Company sought and received Government of Laos approval to discharge excess water from the TSF. The discharge commenced in August 2011 and is monitored by the Company's environmental team in close liaison with site-based representatives of the Lao Ministry of Natural Resources and Environment.

Managing ARD involves strict engineering and process controls, which are externally audited twice each year; it has been internationally recognised as industry leading practice.

Contributing to our communities


To date, PanAust has invested around US\$900 million into the Lao economy through the development, construction and operation of projects, and building supporting infrastructure. During 2011, the Company generated almost US\$89 million in royalties, taxes and tenement fees payable to the Government of Laos and provided 2,732 Lao nationals with employment. In May 2011, the Government of Laos exercised its option to take up a 10 per cent share in Phu Bia Mining. Although the transfer of shares is yet to be completed, the interest is recognised in the Company's accounts.

PanAust's community development programs received international recognition during 2011 with the receipt of three separate awards. In April, PanAust received the Award for Best Community Development Initiative in the Southeast Asia category at the Asia Mining Congress in Singapore in recognition of the positive social and economic contribution that PanAust's Technical Trades Training Program makes to local communities and the greater Lao economy. This is the second consecutive year that PanAust has received the award with the Company's Livelihood Improvement Program receiving the award in 2010.

The Livelihood Improvement Program was again recognised in December 2011 when the Company received the category award for 'Social – Community' at the Ethical Investor magazine's 11th Australian Sustainability Awards.

Also in December, PanAust was presented with the Labour Order Class 1 medal 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".

We are very pleased that the Company's contribution towards sustainability continues to be recognised by our stakeholders and that through the independent external assurance process, this Report has achieved a GRI A+ Application Level; an improvement on last year's B+. We thank people from across the PanAust Group for their professionalism and tireless commitment to high-performance outcomes, zero harm, and world-class sustainability standards.



Chairman, Garry Hounsell



Managing Director, Gary Stafford

We look to the future with optimism and confidence and thank our employees and everyone concerned with PanAust for their contribution over the course of 2011.

VISION

PanAust is a growth-oriented mining company determined to excel.

PanAust will outperform its competitors through:

- ▶ growth by discovery, acquisition and development, and operations that consistently meet performance targets;
- ▶ optimising returns on capital; and
- ▶ adherence to core values.

VALUES

- ▶ **High performance outcomes** in all that we do.
 - Our employees are performance-focused with clear task definition, measurement and accountability. We constantly seek to improve performance and are committed to supporting employee development. Individual results and merit form the basis for performance-based pay and promotion.
- ▶ **Respect for people.**
 - Respect through our commitment to our employees' health and safety through our Zero Harm safety objective and treating employees with consistency and fairness.
 - Respect for the environment through best practice environmental performance that reflects the expectations of the communities in which we operate and promotes an internal culture of environmental and social awareness.
 - Respect in the way we manage our daily business activities for the people and cultures of our host countries.
- ▶ **Integrity** in all of our dealings with employees, communities, government, suppliers and shareholders.
- ▶ **Excellence in communications** with all stakeholders but especially with our employees. We seek fair, honest and transparent dealings with our employees and stakeholders through open, two-way communication.
- ▶ Recruitment of **high-calibre people**, recognising the key to our success will be leaders who earn the authority of their position by gaining the respect of their team. We offer an encouraging and stimulating work environment, providing the necessary individual training and development to enable all employees to operate effectively.
- ▶ **Alignment of employees** to Company objectives through good leadership and systems that drive the right behaviour.

Image: Mr Sengaloun Sisomvang, Mine Geology Field Supervisor, in the open pit at the Phu Kham Copper-Gold Operation.



GOVERNANCE

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 PanAust's *2011 Annual Report* (available on PanAust's website), the Company provides a comprehensive corporate governance statement detailing compliance with the ASX Corporate Governance Council's best practice recommendations. Should the Company depart from the recommendations, the reasons for the departure are explained.

The PanAust Board of Directors

The structure of PanAust's Board fully complies with the ASX Corporate Governance Council's corporate governance recommendations including that:

- A majority of the Directors are independent.
- The positions of Chairman and Managing Director are held by different persons, and the Chairman is independent.
- The Board has established a number of committees: Nominations, Audit, Remuneration and Sustainability.
- Directors may follow a process to seek independent professional advice at the Company's expense.
- Non-Executive Directors do not receive any short- or long-term incentives, equity-based remuneration, or retirement/termination benefits.

Directors must declare any interests that may result in a conflict of interest. Should a conflict-of-interest situation arise at a Board meeting, the relevant Director must not vote on the resolution, and is required to be absent during deliberation on the matter in question.

The Board reviews its composition periodically to ensure its members hold an appropriate range of expertise required by the Company's operations. The Nominations Committee has within its Charter the requirement to consider and make recommendations to the Board regarding the necessary and desirable skills and experience of Non-Executive Directors, selection criteria for Non-Executive Directors, and Board succession planning with a view to maintaining an appropriate level of experience, skills and expertise within the Board.

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 skills matrix is outlined in PanAust's *2011 Annual Report* and 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 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.

The Chairman annually reviews the performance of all Directors. The Board has a program of performance evaluation which includes both externally facilitated evaluation and internal self-evaluation. The last externally facilitated evaluation was for the 2010 year and was facilitated by 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, among other things, progress in addressing any issues identified in the previous externally facilitated evaluation. The results are discussed at a Board meeting.

In addition to evaluation of performance, the Company also seeks to ensure the retention of the appropriate mix of skills on the Board, diversity of its composition, and renewal of its membership.

During 2011, the PanAust Board of Directors met in January, February, May, August, October and December. The October meeting was held in Chile; at this time the Board also visited the Inca de Oro Project site and the town of Inca de Oro, as well as meeting with prominent community members to better understand the community context of the Inca de Oro Project.

Profiles of each Director are available in the Company's *2011 Annual Report* and on the website: www.panaust.com.au/directors.

The charter of each Board sub-committee is available on the PanAust website: www.panaust.com.au/corporate-governance.

Image: The PanAust Board of Directors during their visit to Chile in October 2011.

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.



GOVERNANCE continued...

Board of Directors – status of each member as at 31 December 2011

BOARD MEMBER	POSITION	DATE APPOINTED	COMMITTEE FUNCTION/S	STATUS
Mr Garry Hounsell	Chairman and Non-Executive Director	1 July 2008	Chairman of the Remuneration and Nominations Committees, member of the Audit Committee	Independent
Mr Gary Stafford	Managing Director	7 March 1996	Member of the Nominations Committee	Executive Director
Mrs Nerolie Withnall	Non-Executive Director	21 May 1996	Chairman of the Audit Committee, member of the Remuneration and Nominations Committees	Independent
Mr Andrew Daley	Non-Executive Director	3 August 2004	Member of the Audit Committee	Independent
Mr Geoffrey Handley	Non-Executive Director	29 September 2006	Chairman of the Sustainability Committee	Independent
Mr Geoffrey Billard	Non-Executive Director	1 July 2008	Member of the Sustainability and Remuneration Committees	Independent
Mr Zezhong Li	Non-Executive Director	18 September 2009	Member of the Sustainability Committee	Nominee of GRAM*
Mr John Crofts	Non-Executive Director	17 September 2010	Member of the Sustainability Committee	Independent
Mr Ken Pickering	Non-Executive Director	28 October 2011	Member of the Sustainability and Remuneration Committees	Independent

* Under the Placement Agreement between PanAust and Guangdong Rising Assets Management (GRAM) dated 26 May 2009, GRAM has agreed that a majority of the Directors and the Chairman will continue to be independent.

Sustainability Committee

Established in 2008, the Sustainability Committee is responsible for satisfying itself that effective measures, systems and controls are in place in relation to managing the following.

- Environmental, community, occupational health and safety, human resources and other sustainability issues and incidents that may have material strategic, business and reputational implications for the PanAust Group and its stakeholders.
- Reporting by PanAust in accordance with the GRI sustainability reporting guidelines or other reporting standards approved by the Board of Directors.

The Charter of the Sustainability Committee can be found on the PanAust website www.panaust.com.au/corporate-governance.

The Sustainability Committee reports to the Board of Directors on a regular basis in relation to the discharge of its responsibilities. During 2011, the Committee met in March, May, August and November.

Reflecting the growth of the Company, Non-Executive Director, Mr Ken Pickering joined the Sustainability Committee upon his appointment to the PanAust Board of Directors in October 2011.

Mechanisms for shareholders and employees to provide recommendations to the Board

The main forum for shareholders and employees to formally interact with the Board – ask questions, provide recommendations, and make comments – is the Annual General Meeting (AGM). Other meetings may be convened by the Company when appropriate. At the AGM, shareholders vote on resolutions relating to such matters as the election of Directors, the approval of the remuneration report and, in certain cases, the issue of new equity in the Company.

As an Australian incorporated company, PanAust must comply with the *Corporations Act 2001*. This Act provides a process whereby shareholders constituting at least five per cent of the votes, or at least 100 shareholders, that may be cast on a resolution, may require the Company to consider a resolution at a general meeting or to circulate a statement to all shareholders.

The Board has encouraged a culture that welcomes shareholder feedback.

Remuneration strategy

PanAust's remuneration for Non-Executive Directors and senior executives in 2011 reflected the scale and complexity of the business, the Company's market capitalisation, and the competition for talent within the global mining industry. Within this context, the Company seeks to attract, retain and motivate a highly skilled, high quality and experienced team of Non-Executive Directors and senior executives.

In PanAust's 2011 *Annual Report*, the Company provided a detailed report outlining the principles used to determine the nature and amount of remuneration provided to key personnel.

External standards, principles and guidelines

PanAust measures its sustainability performance against international standards and commissions independent audits to evaluate its performance.

PanAust applies the following external standards, systems and principles.

- The IFC Performance Standards on Social and Environmental Sustainability for operating projects – www.ifc.org.
- The ASX's Corporate Governance Principles and Recommendations – www.asx.com.au.
- The MCA's Enduring Value* – www.minerals.org.au, incorporating global industrial sustainability initiatives and providing guidance on the International Council on Mining and Metals' (ICMM) Sustainable Development Framework Principles – www.icmm.com.
- Alignment with the ICMM's policy on climate change. During 2011, a carbon footprint analysis for Phu Kham was carried out – www.icmm.com/climatechange/policy.
- The International Cyanide Management Code (ICMC) is a voluntary industry program for the gold-mining industry that promotes the responsible use of cyanide. PanAust is a signatory to this code for its Ban Houayxai Gold-Silver Operation in Laos – www.cyanidecode.org.
- The GRI sustainability reporting framework and guidelines. PanAust has reported the GRI indicators that are material to its business as determined through its risk management approach and feedback from stakeholders – www.globalreporting.org.

PanAust adheres to the standards inherent in the Voluntary Principles of Security and Human Rights, an internationally recognised industry initiative. In 2012, PanAust will be working to become a full signatory to the Voluntary Principles.

* PanAust is an associate member of the MCA and a signatory to its 'Enduring Value – The Australian Minerals Industry Framework for Sustainable Development'. The Enduring Value framework commits companies to upholding fundamental human rights and respecting cultures, customs and values in their dealings with people affected by their activities. As an associate member of the MCA, PanAust is committed to applying operational standards globally that are consistent with Australian operational standards, while accommodating variations as a result of cultural, geographical or environmental circumstances in Laos, Thailand and Chile.

Building a sustainability culture

PanAust's Sustainability Policy (available on the Company website www.panaust.com.au/sustainability) outlines the Company's high-level commitment to preserving and enhancing the environmental, social, technical and financial elements of the business. Fourteen Sustainability Standards relating to key outcome areas are used across the Group.

PanAust's approach to sustainability has its foundations in the Company's Vision and Values and Code of Conduct, and is implemented through strict observance of high-quality corporate governance standards, excellence in financial management, outstanding technical expertise, and supportive processes and systems. The Sustainability Committee, a sub-committee of the PanAust Board, provides oversight for the Company's sustainability outcomes.

In 2011, the Company's Vision and Values, and Code of Conduct were both formally rolled out across the organisation supported by language-specific collateral (English, Lao, and Spanish). The Vision and Values state that PanAust's business affairs are to be conducted legally, ethically and with integrity.

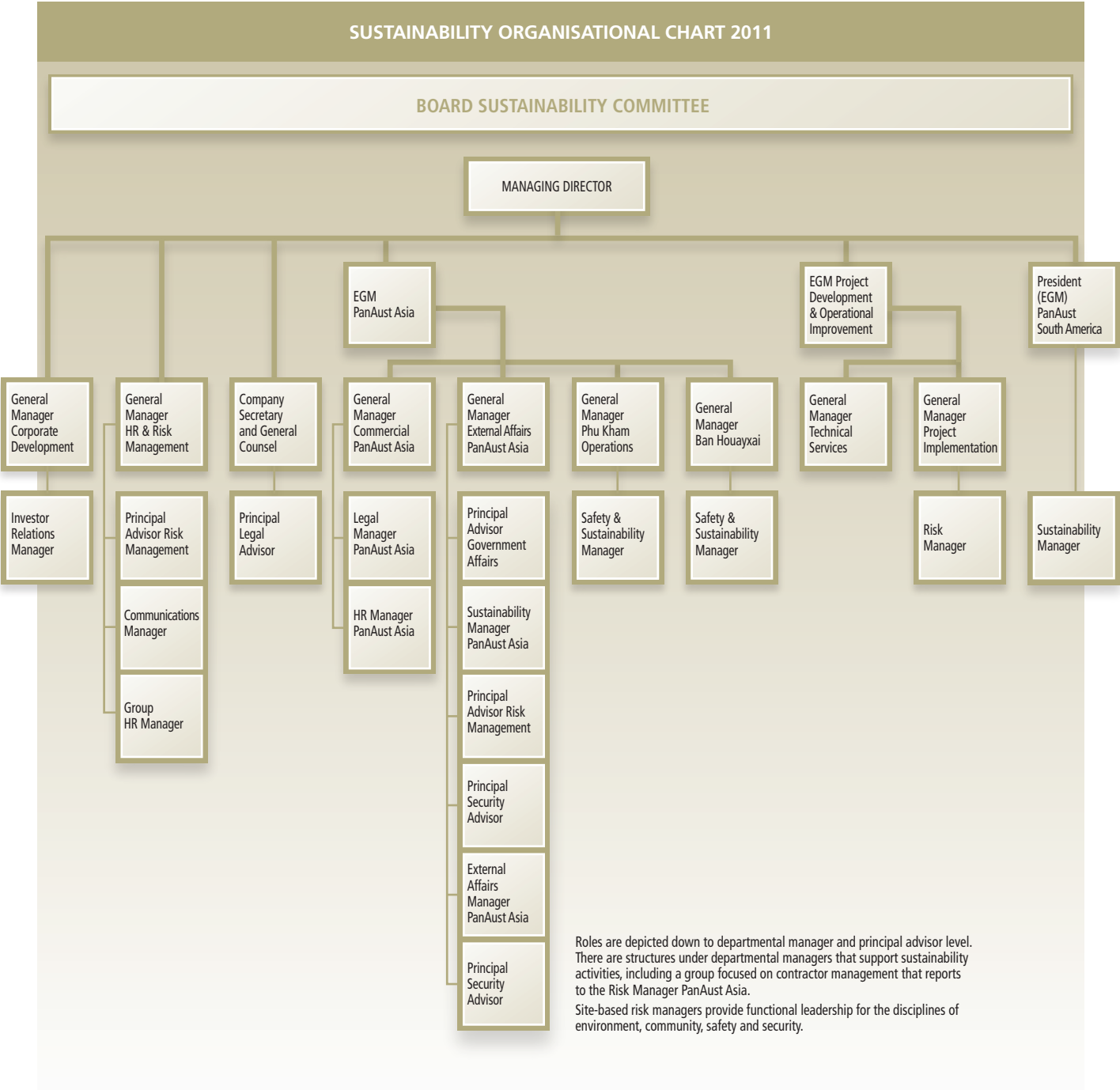
The Company's Code of Conduct provides a lynchpin between the Vision and Values and more detailed practices and procedures. The purpose of the Code is to provide guidance as to the standard of behaviour required of all PanAust Directors and employees (including all business units and subsidiaries). The Vision and Values statement and Code of Conduct are available on the PanAust website, www.panaust.com.au/corporate-governance, and included in new employee induction sessions and information packs.

Within the Vision and Values statement and the Sustainability Policy, the Company's Board of Directors and executive management team have a responsibility to carry out their functions to maximise the financial performance of the PanAust Group.

Sustainability forms part of the executive management team's Five-Year Strategic Plan and critical tasks. The General Manager Human Resources and Risk Management facilitates annual workshops with key operational personnel and sustainability support staff from across the Group to drive Company-wide alignment with PanAust's approach to sustainability, and continual improvement through the setting of targets and objectives. Similarly, Group Human Resources and Group Safety workshops are held.

Sustainability and Human Resources workshops were held in March 2011 and February 2012. Group-wide risk and safety workshops were held in February and August 2011. The workshops are attended by operational management, and risk and sustainability professionals to review environmental and social progress, discuss challenges and develop annual plans.

GOVERNANCE continued...



PanAust fosters a sustainability culture that strives for continual improvement by rewarding sustainability achievements and communicating those achievements across the Group.

The 'Sustainability Organisational Chart' shows the key resources associated with delivering sustainability outcomes.

Management systems and processes

PanAust uses risk and incident management systems, combined with auditing and benchmarking processes to proactively identify, prioritise and manage risks to track and continually improve sustainability performance.

Risk management

PanAust's ERM Policy outlines the requirement for an effective ERM system to identify and manage all material risks across the Company. The policy is publicly available through the Company website. In 2011, the Company focused on further integration of risk management processes in line with organisational change and project development.

The Company's Risk Management Procedures align with the International Organization for Standardization's (ISO) ISO 31000 Standard on Risk Management; ASX Corporate Governance Principles and Recommendations, Principle 7; the Company's Sustainability Standard 4, Risk and Change Management; and Principle 15 of the Rio Declaration, the Precautionary Principle. Procedures include clear parameters for materiality and guidance on treatment and reporting measures. The risk management methodology is applied uniformly across all of its activities.

The Board of Directors is responsible for reviewing, ratifying and monitoring PanAust's systems of risk management and internal control. While overall responsibility in this regard rests with the Board, the Audit Committee and the Sustainability Committee have each been delegated particular responsibilities under their respective Charters.

The PanAust Group Executive Committee guides corporate risk strategy and provides senior management oversight of strategic issues. It has responsibility for a high-level risk register that identifies key material business risks relevant to PanAust at the Group level.

Each of the Company's business units, namely, PanAust Asia, PanAust South America and PanAust Project Development, has responsibility for a high-level risk register relevant to the business unit. In addition, each manager has responsibility for department or project risk registers and is required to have in place a plan for significant risk issues.

In 2011, the organisation continued its ERM program implementation providing a more consistent approach and application of risk management strategies across the organisation. An internal audit process has been established to track compliance against the Company's risk management procedures.

The approach strives for the following.

- Simplicity – avoidance of unnecessarily complicated processes.
- Uniformity – a Group-wide process based on a single uniform set of tools.
- Clear ownership – risk registers for each operating department and for each special project that take account of all supporting risk processes falling within their operational area (for example, audits, studies, technical reviews, plans and inspections).
- Short interval reviews – strictly applied monthly reviews for all high risks and quarterly reviews of registers.
- To capture and address high-consequence/low-probability events in operational areas to ensure the precautionary approach recognises the potential of the area.
- Clear identification of materiality – the level of significance that is reflected in Levels 4 and 5 of the Consequence Table on pages 84 and 85.

This process identifies risks of a very high consequence that, while less likely to occur, would have a damaging impact on the Company were they to eventuate. An inbuilt mechanism elevates these risks to the 'high' category to ensure they are constantly reviewed.

In addition to developing Group-level and business unit registers, in 2011 a full review of operational registers was undertaken in line with changes to organisational structure. To date, the areas of risk that have been identified as material or potentially material are contractor management, mobile equipment and surface water management (including cyanide and ARD management), and security of personnel carrying out remote work activities. Each issue is receiving special attention and is addressed in this Report.

Precautionary Principle

PanAust's approach and preference is to use evidence-based decision making. The Company uses its ERM process to evaluate the environmental, social and economic impacts of mining projects approved by the Board. The relative merits of development are assessed and, when necessary, management plans are implemented in accordance with the Precautionary Principle. The Precautionary Principle is only used if evidence-based decisions cannot be made and it makes good sense to err on the side of caution.

Impact assessments are completed prior to operations; guided by statutory frameworks and international consultants. To date, impact assessments have been completed for the Phu Kham and Ban Houayxai Operations. Issues identified through the impact assessments are incorporated in the organisation's risk registers.

GOVERNANCE continued...

Sustainability Standards

PanAust's operational performance is regularly audited against the Company's Sustainability Standards and external commitments.

Annual internal benchmarking audits against PanAust's 14 Sustainability Standards are completed for each worksite. In 2011, notable improvements were seen in the areas of risk management and social and environmental management. Most notable deficiencies were found in compliance with the following standards.

- Suppliers and Contractors
- Risk and Change Management for Development Projects
- Leadership and Accountability for Development Projects
- Health and Hygiene

Dedicated resources are in place to address the contractor management issues and to coordinate comprehensive audits of 10 major contractors against the Company's contractor management standards. Actions are also well underway to address the deficiencies in leadership and accountability, and risk management for Project Development. Restructuring of business units and risk resources have progressed aspects of safety, however additional focus on health and hygiene will continue to be required throughout 2012.

Follow-up audits will be completed in 2012 to assess implementation progress.

PanAust's Sustainability Standards

- | |
|--|
| 1. Leadership and Accountability |
| 2. Legal Requirements and Commitments |
| 3. Planning, Objectives and Targets |
| 4. Risk and Change Management |
| 5. Health and Hygiene |
| 6. Environmental Management |
| 7. Community, Social and Human Rights |
| 8. Training and Competency |
| 9. Communication, Consultation and Participation |
| 10. Suppliers and Contractors |
| 11. Incident Reporting and Management |
| 12. Crisis and Emergency |
| 13. Monitoring, Audit and Review |
| 14. Stakeholder Engagement |

Auditing and benchmarking

The Company has established a corporate audit program to support its ERM programs. Some audits are carried out internally while others require external or independent auditors. The main external audits and benchmarking studies that took place in 2011 are each outlined in the following section.

• Audit against IFC Performance Standards

An external audit against the Equator Principles and the IFC Performance Standards on Social and Environmental Sustainability was completed for the Phu Kham Copper-Gold Operation (including concentrate logistics and port facility) and the Heap Leach Gold Operation by KASA Consulting in May 2011. The audit also included verification of progress against the 2010 non-conformances.

The audit was in accordance with the ISO 19011: 2002 Guidelines for Quality and/or Environmental Systems Auditing and the IFC Performance Standards. The audit demonstrated 78 per cent compliance against the Performance Standards, and showed excellent progress in the risk reduction program for product haulage.

The audit identified poor utilisation of centralised training services, including poor compliance to mandatory health, safety, environment and community training, and the need for a systematic baseline survey to support the Occupational Hygiene program. Actions have been undertaken to address these findings and the 2012 audit will determine progress against them.

During the year, PanAust elected to undertake a baseline IFC audit ahead of production at the Ban Houayxai Gold-Silver Operation. The audit achieved 56 per cent compliance against the Performance Standards, which reflects that systems have largely been established to manage environmental sustainability issues, but require further work. Two critical gaps were identified and addressed during 2011: the systematic implementation of emergency preparedness and improvements to ad-hoc hydrocarbon and chemical storage facilities.

• e3 Plus Principles for Responsible Exploration

PanAust's exploration group commissioned its second voluntary external audit against the e3 Plus Principles for Responsible Exploration developed by the Prospectors and Developers Association of Canada (PDAC). The e3 Plus Principles align closely with the IFC standards, but are more specific to all phases of exploration. The audit identified 10 critical findings to support the consistent implementation of health, safety, and environmental management systems. The group will measure progress against implementation in mid-2012.

Image: Mr Keoudone Keomanikhot, Fleet Management System Officer, guiding haul trucks in the open pit at Phu Kham.

PanAust uses risk and incident management systems, combined with auditing and benchmarking processes to proactively identify, prioritise and manage risks to track and continually improve sustainability performance.



GOVERNANCE continued...

- **Insurance audit**

The principal audit for operational risk was undertaken by the International Mining Industry Underwriters (IMIU). Both the Phu Kham and Ban Houayxai Operations received excellent results. In 2011, the Company's exposure improved and was rated in the low-to-moderate range and is now considered better than world average for the mining industry globally. Principally, this was the result of purchasing a steel billet to limit the consequence of risks related to not having a spare SAG mill girth gear, and improving fire emergency response systems at the Phu Kham Operation.

IMIU also recognised that PanAust's maintenance systems are at a world-class level, and that the Ban Houayxai Operation's proposed risk strategies align with achieving a low-risk rating.

- **Tailings Storage Facility and Acid Rock Drainage**

Quarterly design and construction reviews were undertaken by consulting engineers, Knight Piésold, designers of the Phu Kham and Ban Houayxai TSFs. In addition, Phu Kham is supported by an annual audit by Golder Associates as part of its financiers' obligations under the IFC Performance Standards. In December 2009, during routine inspections, surface cracks in earthworks were identified (differential settlement of fill materials) and, on advice from Knight Piésold, remediation and moderating were implemented. It is believed that the integrity of the TSF was not compromised, and monitoring carried out during the past two years is consistent with this belief.

Following extreme rainfall patterns that Laos experienced in 2011, consultants recommended the Phu Kham Operation adopt a more flexible water management strategy, including the ability to remove excess water from the system. The recommendation was accepted and is being implemented by the Company in close cooperation with the Government of Laos. The strategy is addressed in the environmental performance section of this Report.

Environmental Geo-chemical International (EGi) undertook an external audit of ARD at the Phu Kham Operation. No material issues were identified and recommendations have been included as part of a continual improvement plan. EGi have also been commissioned to review the operational plan for managing ARD at Ban Houayxai as well providing guidance on baseline monitoring requirements to be progressed for Phonsavan.

The operation of the Company's TSF has been independently evaluated as industry best practice following a number of independent reviews of the management of acid-generating material by EGi.

- **Socio-economic and health survey**

Every two years, the Company conducts socio-economic and health surveys for its operations in Laos to continually improve its understanding of local issues and guide its community development programs. The most recent survey was undertaken by external research company, Geo-Sys Lao PDR, in 2010, which was the fifth survey of its type. The Company finds the surveys extremely beneficial to aid in the identification and prioritisation of community development programs throughout the year. The survey report is currently being finalised and the next survey is due in 2012.

- **18001/14001 audits**

The Company has committed to aligning its safety and environmental management systems with the ISO18001/14001 models. The Phu Kham and Ban Houayxai Operations completed a gap analysis against the relevant aspects of the standards in January 2012. The Company will consider a business case for certification to the standards in 2012, and develop an action plan to close the non-conformances identified during the next two years. The Company's objective is to be positioned for consideration of certification by the end of 2014.

- **International Cyanide Management Institute's International Cyanide Management Code**

PanAust is a signatory to the ICMI's Code. In January 2012, Ban Houayxai achieved pre-operational certification to the Code ahead of production commencing in May 2012. An operational certification audit will be completed within 12 months of the Operation commencing, and three-yearly independent audits as per ICMI requirements. Additional information on the Code and cyanide management is provided in the environmental section of this Report.

Sustainability audit plan progress 2011

EXTERNAL	STATUS
Socio-economic and health survey (villages adjacent to Phu Kham Operation)	Completed 2011, next audit 2012
Phu Kham ARD – half-yearly external audit by EGi	Completed 2011, good progress made on this aspect, next audit 2012
TSF design and construction review by Knight Piésold – quarterly audits	Completed 2011, progress on recommendations, next audit 2012
TSF external geo-technical audit by Golder Associates	Completed 2011, recommendations in progress, next audit 2012
Independent Tailings and Geotechnical Panel review	To commence in 2012
IMIU external insurance audit	Completed 2011, significant risk management progress, next audit 2012
International Cyanide Management Code	Pre-operation certification audit completed 2011, next audit 2012
Independent Closure Review	Completed 2011, next audit 2012
INTERNAL	STATUS
Sustainability Standards internal benchmarking – Phu Kham, Ban Houayxai, Ban Phonxai, and Phonsavan Projects	Completed for Phu Kham, Ban Houayxai and Phonsavan Projects 2011, next audit 2012
Gold Security Standard – Ban Houayxai internal audit against design	Completed 2011, next audit 2012
Independent Security Review	Completed 2010, agreed recommendation implemented
Contractor Management Audits	Completed 2011, significant progress in third and fourth quarters, next audit 2012
Half-yearly Safety Management Plan	Not completed 2011 due to delay in appointment of regional Risk Manager PanAust Asia, next audit 2012

Sustainability audit performance 2011

AUDIT TYPE	PERFORMANCE 2011	TREND AND SPECIFIC TARGETS	TARGET 2012
IFC audit Phu Kham	78%	81% improvement	81%
IFC audit Ban Houayxai	56%	65% improvement	65%
Ban Houayxai Projects Safety Management Plan	NA	Year-on-year improvement	Gap analysis of the Project's implementation safety management system
e3 audit Exploration	51%	Year-on-year improvement	60%
H&S OHSAS 18001/14001 Phu Kham	Deferred	Completed January 2012	Progress against close out of critical findings
H&S OHSAS 18001 Ban Houayxai	Deferred	Completed January 2012	Close out of critical findings

GOVERNANCE continued...

Conduct

PanAust's Code of Conduct directs the Company's position in relation to issues including bribery and corruption, anti-competitive behaviour, compliance with the law and endorses commitments outlined in PanAust's Sustainability Policy. The Code states: *"The PanAust Group will not pay any bribes or corrupt payments to government officials to obtain any improper or illegitimate benefit or advantage, including the securing of any development approval or licence. All Directors and employees are strictly prohibited from offering or making any such payments."*

PanAust has roles, responsibilities and processes in place to ensure the Company liaises with government agencies in a manner that provides sufficient time and information to allow mutual consideration of the impacts of business activities, and proposed legislative and regulatory changes.

In 2011, the PanAust corporate office and PanAust Asia were assessed through the Company's ERM process for risks related to corruption. Twenty-seven management level staff were trained and participated in Code of Conduct/corruption risk workshops, and all new employees (a total of 879) were introduced to the Code of Conduct through induction training.

During 2011, there were no material instances of Company-related bribery or corruption reported to the Board or management. There were no fines or legal actions for anti-competitive behaviour, anti-trust or monopoly practices, nor did the Company attract any significant fines or non-monetary sanctions for non-compliance with law and regulation.

PanAust's Code of Conduct includes a mechanism to raise concerns about inappropriate conduct in a confidential manner directly to the Company Secretary and General Counsel without fear of victimisation. A Whistle-blowers Policy and independent reporting body is currently being developed by the Company.

The Company provides sponsorship and donations to particular programs, organisations or causes that build goodwill in operational areas and/or enhance relationships with key stakeholders. The following principles are applied in determining donations and sponsorships.

- Transparency: details of donations must stand up to internal and external scrutiny.
- Independence: a donation must not create any sense of obligation for the recipient.
- Integrity: a donation must enhance the image and uphold the integrity of PanAust.

Donations have been prioritised as follows.

- Activities of national importance and symbolism.
- Projects benefiting the people of the Provinces and Districts in which the Company is operating or present.

- Projects promoting Lao culture, history, society and ethnic minorities representative of the areas in which the Company operates.
- Projects that support relevant sector government agencies capacity building.

PanAust supports government national capacity-building measures and in 2011 supported the public policy process through donations to the single-party government, the Lao People's Revolutionary Party, totalling US\$38,695 comprising:

1. A US\$25,000 donation to the Ninth Party Congress.
2. A donation of office equipment and office restoration work (ex-Phu Bia Mining office in Vientiane) to the value of US\$13,695.

Furthermore, in Laos and Thailand, during 2011 the Company made donations to projects that focused on the alleviation of poverty, the fostering of community development, and the provision of emergency response, to a total of US\$307,252.

In response to the January 2011 floods that affected the city of Brisbane, PanAust made an AUD\$121,820 donation to the Queensland Premier's Disaster Relief Appeal.

In line with the Company's growth, a sponsorship and donations procedure is currently being developed.

Human rights

Respect for human rights is essential to the Company's continued success. The focus on partnerships with Lao contractors to supply a wide range of services to Phu Bia Mining broadens the scope for monitoring human rights issues.

The Company is required to have the Lao People's Army (LPA) present for certain activities as well as the Lao Police for any police investigations. By the nature of their roles and the laws of the Lao PDR, both of these agencies carry firearms.

A signed Memorandum of Understanding has been established between the Company and the LPA which outlines the Company's intent to align with the Voluntary Principles on Security and Human Rights and further outlines the Company's 'use of force' expectations while the LPA are supporting selected operational activities. Prior to being utilised in a supporting function, members of the LPA undergo an induction program which covers the areas of safety, use of force as it relates to the laws of Lao PDR, and key components of the Voluntary Principles on Security and Human Rights. Policies and procedures are in place to regulate the carriage of firearms on site, and the functions in which the LPA are used. Members of the Lao Police are not utilised by the Company in a site security function; they attend work sites if a criminal offence that warrants their attention has been committed.

PanAust also employs private security guards, Lao Security Services (LSS), to perform an unarmed access control and static security function across the Phu Kham and Ban Houayxai Operations.



Image: The Inca de Oro deposit in Chile overlooking the Project area and the town of Inca de Oro.

All new security personnel are trained in the organisation's policies and procedures (including human rights) that are relevant to their role as part of their three-day security-specific induction. During 2011, Phu Bia Mining asset protection staff (including LSS and those security personnel required to be present for certain activities such as the LPA) received 2,772 hours of security-related training including the following: use of force, Voluntary Principles on Security and Human Rights, site security procedures, foot patrol, methods of restraint, person and vehicle search, and crowd control.

Incorporated into the risk management process is a module that assesses human rights impacts against the 1948 Declaration of Human Rights across operating sites.

There is a standard clause in all (100 per cent) Phu Bia Mining contracts that states 'The Supplier must comply with all of Phu Bia Mining's policies, procedures and reasonable directions in relation to the provision of the Services, and ensure that the Supplier's employees, agents and subcontractors also comply'. This includes the Operation's policy in relation to 'human rights'.

The risk registers assist in identifying the potential for any human rights violations and plans are developed to mitigate against any such violations. In 2011, the risk registers indicated a low potential for any violations and there were no human rights incidents or violations including discrimination, child labour, forced labour, freedom of association, or those relating to indigenous people within the Company or among its associated activities.

In 2011, 2,416 employees and contractors completed 1,429 hours of training incorporating aspects of human rights including discrimination, fair treatment, Code of Conduct, and cross cultural respect.

Child and forced labour

PanAust's operations have a low risk of child labour issues due to the implementation of rigorous human resource recruitment processes.

Clauses to the following effect are included in all standard Phu Bia Mining supplier contracts.

Child Labour

The Supplier shall not employ, use or benefit from children in a manner that is economically exploitative, or is likely to be hazardous to, or interfere with, the child's education, or be harmful to the child's health, physical, mental, spiritual, moral and social development. The Supplier shall comply with national laws on the minimum age for employment. Children below the age of 18 must not be employed in dangerous work.

Forced Labour

The Supplier shall not employ, use or benefit from forced labour, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty. This covers any kind of involuntary or compulsory labour, such as indentured labour, bonded labour or similar labour-contracting arrangements.

TARGETS

Review of 2011 performance and 2012 targets

PANAUST 2011 TARGETS (INCLUDES OVERARCHING PANAUST TARGETS, AND REGIONAL AND OPERATIONAL TARGETS)		RESULT	TREND	COMMENTARY/REVISED TARGET 2012	TARGET YEAR
PanAust	Zero Levels 4 (high) and 5 (extreme) incidents	Achieved	Improvement	Target continued	2012

REDUCTION OR IMPROVEMENT TARGETS		RESULT	TREND	COMMENTARY/REVISED TARGET	TARGET YEAR
PanAust	<0.31 Lost Time Injury Frequency Rate	Achieved	Improvement	Achieved (0.06). Target 0.25	2012
PanAust	Target <3 (medium) environmental incidents	Achieved	Improvement	Maintain	2012
PanAust	Reduce Total Recordable Injury Frequency Rate by 15%	Achieved	Improvement	2.51	2012
PanAust Asia	Improve annual IFC-based audit scores >81%	Not achieved	Improvement	Achieved (77%) Targets >81% Phu Kham and >70% for Ban Houayxai	2012
PanAust Asia	Achieve 80% for all close out of INX^ registered incidents	65%	Improvement	Target continued	2012
PanAust Asia	Achieve 90% implementation of Lao Contractor Management Plan	80%	Improvement	Target continued	2012

STRATEGIC PRIORITIES AND CONTINUAL IMPROVEMENT OBJECTIVES		RESULT	TREND	COMMENTARY/REVISED TARGET	TARGET YEAR
PanAust	Implement Cardinal Rules fully across the Group	Not achieved	Improvement	Implement Cardinal Rules across contractors and Projects business unit	2012
PanAust	Implement ICAM# program with 12 trained investigators as per requirements of the Incident Reporting Procedure	Achieved	Slight improvement	ICAMs conducted in accordance with the Group standard for Incident Investigation	2012
PanAust	Complete two simulations events to the crisis management plan in 2011	Achieved	Improvement	Complete additional training and a coordinated simulation	2012
PanAust	Implement a fully integrated ERM System including development of PanAust Group and business unit risk register and mitigation plans	Achieved	Improvement	Mature the risk management system and training to support the internal audit program	2012
PanAust Asia	Undertake baseline Carbon Footprint Analysis	Achieved	Improvement	Identify and implement energy improvement programs	2012
PanAust Asia	Complete road sealing in all villages on the Phu Kham to Ban Thouy access road	Achieved	Improvement	Annual road campaigns to progressively seal public road between Phu Kham and Ban Thouy	2013
PanAust Asia	Establish Water Resources Environment Agency environmental monitoring unit	Achieved	Improvement	Completed	Closed
PanAust Asia	Undertake baseline OHSMS 18001 external audit	Not achieved	Improvement	Year-on-year improvement in closing gaps against critical non-conformances	2012
PanAust Asia	Receive GoL agreement (annually) for CDF* expenditure plan and revised implementation procedures that support 70% of funds committed and spent by year end	57% of funds committed	Slight improvement	Delayed due to focus on new CDF plan developed and agreed with stakeholders. Continue target	2012
PanAust Asia	Improve Lao nationals' development to enable promotion into roles previously filled by expatriates	Achieved	Improvement	Continue target	2012
PanAust Asia	Improve technical training programs for future growth projects in the region	Achieved	Improvement	Continue target	2012
PanAust Asia	ICMI+ formal pre-operational audit scheduled for November 2011	Achieved	Improvement	Achieve Operational Certification	2013
PanAust Asia	ESIA~ for Ban Houayxai complete and submit ESSMP@ for operations	Achieved	Improvement	Completed	Closed
PanAust Asia	Complete independent review of CDF programs	New			2013
PanAust South America	ESIA for Inca de Oro submitted for approval	New			2013

^ PanAust's electronic reporting and corrective action event management system InControl Software (INX)

* Community Development Program (CDF)

Incident Cause Analysis Method (ICAM)

+ International Cyanide Management Institute (ICMI)

~ Environmental and Social Impact Assessment (ESIA)

@ Environmental and Social Monitoring and Management Plan (ESMMP)

Image: Mr Sommai Inthanaphone, Mine Safety and Training Officer, overlooking the Ban Houayxai mining pit area from the run-of-mine bin access platform.

Underpinning PanAust's corporate strategy of growth by discovery, acquisition and development, is recognising that sustainable business practices are essential for success. As a company with a significant presence in a developing country such as Laos, PanAust has an essential role to play in improving the living standards of current and future generations.



ECONOMIC PERFORMANCE

PanAust's Vision and Values provide the foundation for its economic objectives. The Company develops and operates mines with a highly experienced, proficient management team who are aligned with the Vision and Values and engender them among the organisation's people (refer page 6 for Vision and Values).

For a complete overview of PanAust's economic and financial performance, this report should be read in conjunction with the Company's *2011 Annual Report* and *2011 Annual Review* (both documents can be found on PanAust's website www.panaust.com.au or hardcopies can be requested via the contact details provided on the inside back-cover page of this report).

The *2011 Annual Report* was prepared in accordance with the *Corporations Act 2001*. PanAust's Audit Committee has within its Charter the responsibility to satisfy itself that effective measures, systems and controls are in place for financial control and financial reporting (including the independent audit process) and the management of material business risks.

During the year, the principal continuing activities of the Group comprised:

- copper-gold production and sale of copper gold concentrate from the Phu Kham Operation
- construction and development of the Ban Houayxai Gold-Silver Operation
- site development work for the Phu Kham Upgrade Project
- exploration and evaluation of projects in Laos, Thailand and Chile.

Goals and performance 2011

Consolidated Group financial results 2011

PanAust's consolidated Group net profit after tax (NPAT) for the year ended 31 December 2011 was US\$146.6 million. The consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) were US\$284.2 million and include one-off costs relating to recovery work following the mid-year severe rainfall events.

The effects of lower production levels for copper and gold during 2011 were offset by higher prices for all commodities than those received in 2010. This resulted in sales revenue, after derivative gains and other income, rising nearly 4 per cent in 2011 to US\$598 million. This revenue included realised and unrealised hedge gains of US\$16.1 million and US\$4 million respectively.

Net cash-flow from operating activities was US\$239.1 million and was sufficient to fund all capital programs during the year and maintain a significant cash reserve at year end. Development projects expenditure included commitments to the Ban Houayxai Gold-Silver and the Phu Kham Upgrade Projects totalling US\$173 million (2010: S\$53.6 million). Sustaining capital expenditure was US\$59.2 million, of which US\$29.2 million was for the Ban Houayxai mining fleet and expanding that of Phu Kham's to provide for increased mining volumes, and US\$20 million was for the progressive construction of the TSF at Phu Kham. Exploration and evaluation expenditure was US\$41.6 million and included feasibility study work for the Inca de Oro Copper-Gold Project.

Capital demands will substantially reduce through the June half of 2012 with the completion of construction of the Ban Houayxai and Phu Kham Upgrade Projects. Thereafter, cash-flow will increase as design production levels are ramped up through the June and September quarters.

Financial position

At 31 December 2011, PanAust had cash of US\$156 million, debt of US\$45 million (non-current), undrawn debt facilities of US\$55 million, and mobile equipment lease facilities drawn to a total of US\$64 million. No non-lease debt was drawn down during the year.

PanAust's cash balance coupled with strong cash-flow from Phu Kham, modest gearing and existing undrawn facilities mean that the Company is well placed to meet remaining capital commitments during the first half of 2012. Commitments include the balance of project expenditure for Ban Houayxai and the Phu Kham Upgrade, and an estimated net tax payment of approximately US\$30 million to the Government of Laos for the 2011 tax year.

Distribution of PanAust Group revenue 12 months to December 2011 US\$

GROUP REVENUE 597,998,000	REGION	OPERATING COSTS BY REGION	EMPLOYEE WAGES AND BENEFITS BY REGION*	PAYMENTS TO PROVIDERS OF CAPITAL BY REGION	PAYMENTS TO GOVERNMENT BY REGION	GROUP ECONOMIC VALUE RETAINED 225,167,713 [^]
	Laos	251,764,783	38,467,522	12,229,049	88,933,508	
	Thailand	0.00	0.00	0.00	0.00	
	Chile	840,030	1,133,686	0.00	2,177,187	
	Australia	4,048,125	16,102,395	9,182	880,042	
	GROUP (TOTAL)	256,652,938	55,703,603	12,238,231	91,990,737	

* Operating costs only. Does not include capital projects.

[^] Group economic value retained calculated by Group Revenue less Group operating costs, employee wages, payments to providers of capital; and profit tax and value added tax only paid in Laos as other payments to government are included in Group operating costs and employee wages.

Image: Loading and hauling ore in the Phu Kham Copper-Gold Operation open pit.

PanAust develops and operates mines with a highly experienced, proficient management team who are aligned with the Vision and Values and engender them among the organisation's people.



ECONOMIC PERFORMANCE continued...

Summary of financial results for the 12 months to 31 December 2011

Net cash-flow from operating activities for 2011 was US\$239.1 million which was sufficient to fund all capital programs during the year and maintain a significant cash reserve at year end.

	12 MONTHS TO 31 DEC 2011	12 MONTHS TO 31 DEC 2010
	US\$ MILLION	US\$ MILLION
Sales revenue	575.7	591.2
Sales revenue, derivative gains/losses and other income	598.0	575.4
EBITDA	284.2	300.1
EBIT	224.7	245.8
Statutory consolidated NPAT	146.6	160.1
NPAT attributable to PanAust Limited	132.1	143.4
Underlying net profit from ordinary activities after tax attributable to PanAust Limited	137.7	143.4
Basic earnings per share (US cents) ²	22.5	24.5

² The comparative basic earnings per share have been adjusted to take into account the 1-for-5 share consolidation completed in May 2011.

Financial outlook

PanAust Group EBITDA for the 2012 year is expected to be between US\$340 million and US\$400 million, assuming copper prices between US\$3.50/lb and US\$4.00/lb.

Operational performance 2011

Phu Kham Copper-Gold Operation, Laos

PanAust's flagship Phu Kham Copper-Gold Operation generates strong cash-flow to support the Company's growth strategy.

The Operation comprises a large open-pit mine feeding ore to a process plant with recovery of copper and precious metals into a saleable concentrate using conventional flotation technology. The process plant, which has a design capacity of 12 million tonnes per annum (Mtpa) of ore, comprises a SAG mill and ball mill grinding circuit, each rated at 13 MegaWatts (MW).

The final product is a copper-gold concentrate, grading approximately 25 per cent copper, 7 grams per tonne (g/t) gold, and 60g/t silver.

Concentrate is trucked approximately 1,000 kilometres in covered containers to Sriracha Harbour, south of Bangkok in Thailand, for shipment to smelters in Asia.

Mining and Processing

Phu Kham recorded a solid production performance for 2011 and ended the year on a high after managing a difficult period mid-year caused by extreme weather events.

Open-pit material movements totalled nearly 30 million tonnes and approximately 13 million tonnes of ore was processed (nine per cent above design capacity). The Operation produced a total of 250,154 dry metric tonnes (dmt) of concentrate containing 59,897t of copper, 53,590oz of gold, and 538,123oz of silver. The average C1 cash cost for the year was US\$1.01/lb of copper after precious metal credits, placing Phu Kham in a competitive, second quartile position on the global copper mine cost curve.

Production of copper and gold in concentrate was lower than planned for the year due to the mid-year impact of the extreme weather. The open pit incorporates a sump to collect water during the wet season, however excessive inflows flooded the lower benches of the pit and prevented access to relatively high-grade ore. Although only four days of production were lost, the postponement of access to higher grade ore meant that the grades and quality of ore mined were poorer than scheduled.

Phu Kham returned to normal production levels in November as access to higher grade ore in the lower benches of the open pit was re-established. The Operation ended the year on a high with a monthly copper production record set in December 2011.

Sales of concentrate for 2011 totalled 256,347dmt with a payable content of 57,858t of copper, 53,582oz of gold, and 479,983oz of silver.

In the June Quarter 2012 Activities Report, PanAust updated Phu Kham guidance for 2012 with expected production of between 63,000t to 65,000t of copper in concentrate at an average C1 cash cost of between US\$1.05/lb and US\$1.15/lb copper after precious metal credits from approximately 55,000oz to 60,000oz of gold, and 400,000oz to 450,000oz of silver.

Ban Houayxai Gold-Silver Operation, Laos

Ban Houayxai is located approximately 25 kilometres west of the Phu Kham Copper-Gold Operation and comprises an open-pit mine feeding ore to a conventional 4Mtpa carbon in leach (CIL) process plant with a nominal production capacity of 100,000oz of gold and 700,000oz of silver per annum. Based on the current ore reserve, the Operation has a mine life of approximately nine years.

Ban Houayxai commenced production in May 2012 and commercial production was declared from 1 June 2012. The Project was completed within five per cent of the US\$200 million capital budget.

Ban Houayxai production for 2012 is expected to be approximately 80,000oz of gold at a cash cost of approximately US\$500/oz after a credit from between 200,000oz and 250,000oz of silver. The oxide ore that is scheduled to be mined in the first year is partly silver depleted and will result in silver production below the life-of-mine average. The silver grade of ore processed, and hence silver production, is scheduled to increase over the following two years as transitional ore becomes a greater proportion of the mill feed.

As a measure of PanAust's commitment to managing its environmental performance, in January 2012, the ICMI announced that Ban Houayxai had been pre-operationally certified in compliance with the ICMC. The ICMC is a voluntary industry program for companies involved in the production of gold using cyanide, and companies producing and transporting cyanide. It is intended to complement the legal and regulatory obligations of companies' operating environment.

Growth projects

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, the pursuit of an active exploration and resource development program in Laos and Chile. Ban Houayxai, together with the Phu Kham Upgrade Project, which will be completed by mid-2012, and the Phu Kham Increased Recovery Project, are the platform for a pipeline of pre-development and exploration projects that will maintain a strong growth profile for the Company over the medium to long term.

Phu Kham Upgrade Project, Laos

Completion of the Phu Kham Upgrade Project in mid-2012 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 Upgrade is timed to coincide with a scheduled decline in ore head grade during 2012.

The estimated capital cost for the Phu Kham Upgrade Project is US\$95 million.

Phu Kham Increased Recovery Project, Laos

In February 2012, the PanAust Board approved the Phu Kham Increased Recovery Project that, once implemented in the second half of 2013, is expected to result in increases in annual copper and gold production of approximately 5,000t and 7,500oz respectively.

The Project stems from a two-year evaluation of various technologies to improve metallurgical recoveries at Phu Kham. Plant-scale test work confirmed that a strategy of less selective rougher flotation, together with increased regrind, cleaner flotation and concentrate handling capacity, recovery rates for both copper and gold could be increased by more than six percentage points. Cash operating cost per pound of copper would correspondingly reduce by more than five per cent. The estimated capital cost of the Project is US\$45 million (includes a 20 per cent contingency). An order for the key long-lead item, a 3MW regrind mill, has been placed. Construction is scheduled to commence in the December quarter 2012 and be completed during the September quarter 2013.

Phu Kham district incorporating the Nam San and Long Chieng Track (LCT) deposits, Laos

The Phu Kham district is a high priority target for exploration and resource development for the Company and is focused on the Nam San and LCT deposits. At Nam San, engineering design work is

ECONOMIC PERFORMANCE continued...

nearing completion for the establishment of a decline to access the deposit and mineral resource blocks beneath the design base of the Phu Kham open pit by 2015.

Studies have also commenced to identify the requirements to achieve further increases in the capacity of the process plant at Phu Kham so that it can receive an additional circa 2-3Mtpa of crushed mill feed (running at circa one per cent copper) from the proposed underground operation at Nam San supplementing the scheduled 16Mtpa mill feed from the open pit. Success with these studies and successful implementation of the plans from these studies would see a substantial increase in copper production at Phu Kham from levels of 70,000tpa to 75,000tpa anticipated in 2013 (following implementation of the Increased Recovery Project) to +90,000tpa.

Drilling at Nam San is aimed at defining an inaugural mineral resource in the December half of 2012.

At the LCT deposit, results received during the June quarter 2012 confirmed the continuity of a broad zone of high-grade copper-gold mineralisation over at least 200 metres of strike within a broader envelope of primary gold and copper-gold mineralisation with a strike length of over 400 metres. The LCT deposit is located approximately six kilometres northwest of the Phu Kham Operation and may represent an opportunity to develop new process facilities subject to further exploration success.

Phonsavan Copper-Gold Project, Laos

The most advanced of Phu Bia Mining's exploration projects, the Phonsavan Copper-Gold Project, lies in the northern part of the Company's Contract Area in Laos and is focused on the KTL copper-gold deposit. The Project is close to existing road and power infrastructure, and the nearby town of Phonsavan will provide a source of labour. The Vietnamese coast is approximately 250 kilometres to the east by sealed road and provides a potential export route for concentrate product.

Ongoing drilling at KTL is focusing on infill and down-dip extensions to mineralisation which dips moderately to the south at between 30 degrees and 40 degrees and has a strike length of two kilometres.

Resource drilling at KTL has established an estimated Mineral Resource of 89 million tonnes (Mt) at 0.44 per cent copper and 0.18g/t gold containing approximately 392,000t of copper and 520,000oz of gold.

A pre-feasibility study is underway at the Phonsavan Copper-Gold Project with a view to completing a feasibility study in mid-2013.

Inca de Oro Copper-Gold Project, Chile

In March 2011, PanAust acquired a majority interest in the Chilean registered company, Inca de Oro S.A., which owns the Inca de Oro Copper-Gold Project, from Codelco, the world's largest copper company. Inca de Oro is a porphyry copper-gold deposit and is located near the town of Inca de Oro in the province of Chañaral, Region III of Atacama in Chile. The Project benefits from existing infrastructure such as roads, rail, power grid, and smelters.

This joint venture with Codelco provides the Company with geographic diversity and a base for growing the business in South America; the world's most prolific copper-producing region.

The Inca de Oro feasibility study, which was completed in June 2012, focused on the sulphide (supergene and primary) mineral resource and the development of a 12Mtpa open pit and flotation process operation. The study concluded that at a copper price of US\$3.00/lb, the Project would not provide a sufficient return. The study also concluded that: Project economics would be materially enhanced by the delineation of additional mineral resources and the processing of Inca de Oro oxide mineralisation, and by entering into a commitment for the supply of power at a competitive life-of-mine tariff.

The studies required to assess the opportunities for enhancing the Project economics, coupled with negotiations to secure a life-of-mine power tariff for the Project, are expected to be completed in late 2013.

Exploration, Laos

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 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, Thailand

PanAust has commenced a trade sale process for the Puthep Copper Project on behalf of the joint venture. PanAust holds a 49 per cent beneficial interest in the Project. From PanAust's perspective, the Project does not rank as highly as other growth opportunities the Company has in its pre-development portfolio.



Image: Aerial view of the Phonsavan copper-gold deposit.

Economic contribution to Laos

PanAust owns a 90 per cent interest in the Lao-registered company, Phu Bia Mining. In May 2011, the Government of Laos exercised its option to take up a 10 per cent share in Phu Bia Mining. Although the transfer of shares is yet to be completed, the interest is recognised in the Company's accounts.

PanAust is supportive of the Extractive Industries Transparency Initiative (EITI) including its use as an important risk management tool. Laos is not at this time a signatory to EITI. As a public company, PanAust makes public its revenue and other contributions in markets such as Laos.

Through Phu Bia Mining, PanAust contributes to the Lao economy in a number of ways: capital expenditure in exploration and project development and project operating costs, particularly through payments to Lao suppliers of goods and services; revenues from copper, gold and silver sales and payments of royalties on such sales; profit tax and other payments such as tenement rental fees to the Government of Laos; salaries paid to employees and salary taxes to provinces; investments in community development programs; and expenditure on sponsorships and donations.

To date, the Company has invested over US\$900 million into Laos. In 2011, Phu Bia Mining paid Lao suppliers of goods and services US\$133 million, and contributed almost US\$89 million to the Government through profit tax, VAT payments, royalties, salary taxes and tenement fees. The Company also contributed to capacity building programs and activities at district, province and central government levels. At year-end 2011, Phu Bia Mining employed 3,312 people, 82 per cent of whom were Lao nationals.

Phu Bia Mining revenues of US\$576 million for the sale (and export) of copper, gold and silver in 2011 represent approximately 21 per cent of total Lao goods exports (US\$2,801 million). Total Phu Bia Mining activity, taking into account investments and in-country operating expenditure, accounted for over eight per cent of real gross domestic product (US\$7.9 billion) in 2011. This does not take into account the indirect and induced impacts of the Company's presence, for which there is a widely accepted and typical multiplier effect of around 2.5 from mining projects in developing country economies such as Laos.

PanAust's position is to use local companies (Lao and international companies based in Laos) when they are deemed suitable and capable. Local companies are selected on contractor capacity, commercial competitiveness, risk, and environmental performance. This approach ensures that a significant amount of expenditure flows back into the local and regional economy.

ECONOMIC PERFORMANCE continued...

Government of Laos direct economic benefit*

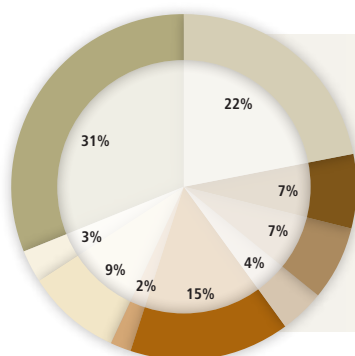
DESCRIPTION	2009 US\$	2010 US\$	2011 US\$
Income Tax	2,232,304	3,268,509	5,189,755
Customs Excise (import service fee)	210,061	1,030,632	1,544,859
Profit Tax	-	32,314,622	48,235,515
Royalties	17,336,059	29,769,152	33,904,463
Concession fees	58,916	58,916	58,916
Value Added Tax and Business Turnover Tax paid upfront	1,756,557	6,498,346	16,303,763
Value Added Tax and/or Business Turnover Tax deducted from Profit Tax	-	(11,882,545)	(16,303,763)
TOTAL CONTRIBUTION	21,593,897	61,057,631	88,933,508

* To align this Report with the Company's statutory annual reporting measures (accrual reporting), data from 2009 and 2010 have been amended from that presented on page 30 of PanAust's 2010 Sustainability Report.

Markets and customers

During 2011, three smelters in China and five large international traders purchased a total of 254,960dmt of PanAust-produced copper-gold concentrate. The three Chinese smelters would have sold the resultant refined copper in the Chinese domestic market. The traders, who do not have the facilities to process the concentrate, on-sold the material to smelters in China, India and South Korea. It is likely the refined copper from these sales by the traders would then be sold by the smelters domestically to their customers in each jurisdiction. The concentrate tonnages into each country was 173,081dmt for China, 71,879dmt for India, and 10,000dmt for South Korea. In 2011, PanAust copper concentrate averaged 23.9 per cent in contained copper.

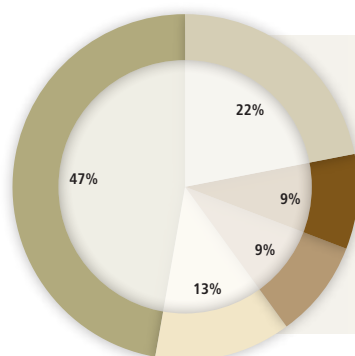
There is no domestic Lao or, at present, sub-regional (Thailand, Vietnam) market for copper-gold concentrate. The relatively low volume of concentrate production in the region, combined with the high capital costs and low margins associated with downstream processing of copper, mean that there is little incentive or rationale for the construction and operation of smelters and refineries in the region.



2011 total expenditure by PanAust Asia (US\$)

Total expenditure US\$808,695,201

Direct production costs	\$173,715,160 (22%)	Royalties	\$33,904,463 (4%)	Equipment and other assets	\$75,647,532 (9%)
Transport and selling costs	\$57,210,349 (7%)	Development costs	\$119,905,257 (15%)	Interest and other finance costs	\$22,309,382 (3%)
Salaries and wages (incl taxes and capital projects)	\$53,647,401 (7%)	Exploration costs	\$18,303,568 (2%)	Debt repayments	\$254,052,088 (31%)



2011 total expenditure on goods and services by PanAust Asia (US\$)*

Total expenditure US\$432,823,178

Lao companies	\$93,966,708 (22%)	Semi-government (electricity and explosives)	\$38,726,484 (9%)	International companies	\$202,519,941 (47%)
Lao-based international companies	\$39,548,150 (9%)	Thai companies	\$58,061,895 (13%)		

* Local companies are defined as 'Lao companies' and 'Semi-government (electricity and explosives)'.

Images: Sections of the Nam Mo Village Bridge were washed away during the two 1-in-50 year rainfall events that occurred only days apart in mid-2011. PanAust quickly constructed temporary pedestrian access then fully restored the bridge at a cost of US\$86,000 plus labour. The bridge is a key thoroughfare for all villagers providing access to essential services and local markets.

ECONOMIC PERFORMANCE CASE STUDY

PanAust played an important role in natural disaster relief in Laos

Typhoons Haima and Nokton brought two 1-in-50 year rainfall events only days apart to the northern and central regions of Laos in late June and early July 2011. The extreme weather caused widespread flooding and extensive damage to farmlands, infrastructure and homes across the region, as well as significant disruption to day-to-day life.

The Government of Laos reported up to 430,000 people from 1,790 villages were adversely affected by the storms and 30 lives were lost. Infrastructure damage close to the Phu Kham Operation alone rendered many roads unusable and included the failure of two bridges – the Nam Mo Village and the Nam Cha bridges.

Once the storms abated and it was safe to mobilise a workforce, the Company's first response focused on helping alleviate the immediate logistical impacts of the natural disaster. Phu Bia Mining officers worked with government agencies to assist with communications, restore essential services and provide emergency relief to ensure the safety, security and – as much as possible – the resumption of business and daily activities to enable wider and more ongoing relief efforts, including the reconstruction of infrastructure, to commence.

Following first response, Phu Bia Mining hosted a helicopter fly-over of affected districts for the Government of Laos Vice-Minister of Energy and Mines, and the Deputy Director General of the Mines Department.

Emergency food donations were made to 277 residents of Nam Mo and Nam Gnone villages and the Village Savings and Credit Fund was augmented with additional funding to allow villagers to take out disaster relief loans if required. Generators were supplied to village authorities until power mains were re-established, and free health care was provided in Nam Mo, Nam Gnone, and Nam Cha villages for one month after the storm events to help prevent spread of disease, particularly among displaced families.

Phu Bia Mining also helped restore the Nam Cha Bridge, which is part of an important public access road, within three days of it being damaged. A temporary causeway was built at the washed away Nam Mo Village Bridge to allow local access while a permanent solution was established. By the end of August 2011, the Company had re-built the Nam Mo Bridge at a cost of US\$86,000 plus labour expenses.

The Company donated a further US\$160,000 to national, provincial and local authorities for natural disaster recovery.



STAKEHOLDER ENGAGEMENT

PanAust's stakeholder engagement is guided by its commitment to the MCA's Enduring Value, Principle 10, which states *"Implement effective and transparent engagement, communication and independently verified reporting arrangement with stakeholders."*

Using risk management processes, PanAust has identified and classified primary and secondary stakeholders based on their potential to impact or be impacted by the Company's presence. Primary stakeholders have been classified as those most influential or directly impacted, in terms of member numbers and/or level of involvement (summarised in the table below).

PanAust regularly reports on its sustainability performance both internally and externally and provides accurate, transparent, consistent information to key stakeholders, in particular the investment community, employees, and local communities and governments of countries in which it operates through various channels outlined in the table below.

PanAust publishes information to the market via the ASX, including quarterly reports, half-year and full-year financial results, annual publications (Annual Report, Annual Review and Sustainability Report), and announcements as required. All material is posted to the Company website www.panaust.com.au. PanAust reports on a calendar-year basis.

STAKEHOLDER GROUP	INTEREST AND CONCERNS	COMMUNICATION/ENGAGEMENT CHANNEL
PRIMARY STAKEHOLDERS		
Australian and international investment community including: investors (retail and institutional shareholders and potential shareholders), brokers, banks and financiers	Financial returns, governance, growth, risk management	The Investor Relations Manager and the Communications Manager in Australia. The AGM, PanAust website, and industry and broker-hosted investor conferences, papers and presentations. Quarterly reports (including presentations and post-release conference calls Q&A), yearly and half-yearly financial results and events, annual publications and surveys. ASX announcements. Personal, tailored responses are provided to specific queries from relevant executive.
Government in areas of operations across various levels (central, provincial and district) and among country officials (legislators, embassy officials, government officials and agencies in Laos, Thailand, Chile and Australia)	Regulatory compliance, standards, socio-economic benefits, permitting and impact assessments, environmental performance, community engagement, closure planning and use of external consultants	Through PanAust's External Affairs Office based in Vientiane, various formal and informal meetings throughout the calendar year including structured weekly meetings with Government, regular reporting, workshops, site visits, and engagement through less formal events. Regular performance benchmarking carried out against the MEPA. Direct engagement with international financial institutions and other agencies. PanAust website and annual publications.
Local communities near PanAust's operations and projects in Laos, Thailand and Chile (ie. those at or near the Phu Kham and/or Ban Houayxai Operations; the Phonsavan, Puthap and/or Inca de Oro Projects)	Access to employment, business development, land access, sponsorships, environmental performance, partnerships, training and education	Dedicated community liaison staff in place at each location where the Company has a significant presence. Besides daily, often informal interaction and engagement, all operational sites maintain a schedule of formal monthly meetings with village authorities and regular formal meetings with district and provincial government. Written reports to local authorities, community site tours, Company participation in community/cultural events.
The Board of Directors and Executive Management Team	Growth, governance, risk management, balanced business performance, financial returns	Quarterly Board Papers and Meetings (of which one per year occurs in Laos or Chile), and site visits. PanAust website.
Employees	A wide range of internal and external issues and/or topics (external issues may be addressed under local communities)	Depending on the operating environment, team meetings are held daily, weekly and/or monthly. The Phu Kham Operations Bulletin is published every quarter. Company intranet, monthly reports, PanAust website and PanAust Asia Employee Award Program. Monthly Employee Briefings combining Company performance (including quarterly reports, half-year and annual financial results) and safety. Performance review processes. Board's and executives' annual visit to operational region.
Groups that share a business relationship with the Company including contractors, sub-contractors, suppliers and customers	Supply and contract agreements and conditions, reliable payments, business opportunities, and timely, reliable quality product and pricing information.	Contracts, regular meetings and briefings with relevant personnel, performance feedback processes, Phu Bia Mining's annual social function, and the Brisbane-based AGM. Participation in Company staff induction process when visiting operational sites. PanAust website.
Resources, finance and business journalists and other media commentators primarily in Australia, Laos, Thailand and South America	Financial performance, socio-economic, environmental and operational queries	Media (proactive and responsive) is managed by geographical location: the Investor Relations Manager and Communications Manager in Australia; PanAust Asia External Affairs Department in Asia; and PanAust South America President and Executive General Manager in South America. ASX announcements. Site visits, PanAust website, and annual publications.

Image: Nasaysavang Village residents, Mr Xiangkhong and his wife Mrs Nan, with Ban Houayxai Sustainability Coordinator, Mr Kongher Herjalearn, in the market-garden area of the village.

By the nature of their location and activities, mining operations impact on nearby communities. PanAust actively engages and maintains open and transparent dialogue with the communities close to its Operations and Projects through formal and informal channels of communication.



STAKEHOLDER ENGAGEMENT continued...

STAKEHOLDER GROUP	INTEREST AND CONCERNS	COMMUNICATION/ENGAGEMENT CHANNEL
SECONDARY STAKEHOLDERS		
Non-government organisations, community advocates, lobby groups, activists, and environment groups	Socio-economic contributions, environmental performance, governance, risk management, human rights	PanAust website. Where and when required, direct communication and/or personal, tailored responses from relevant executive. Site visits.
Industry organisations	Best practice, industry alignment	PanAust website, industry and broker-hosted conferences and market surveys. Site visits.
Any person, group or organisation that may be interested or affected by the Company's operations in Laos, Thailand and Chile	Wide range of specific interest issues	PanAust website. Personal, tailored responses are provided to specific queries from the relevant executive. Site visits.
Competitors and/or peers	Benchmarking, project information	PanAust website. Personal, tailored responses are provided to specific queries from the relevant executive.



Image: PanAust Managing Director, Mr Gary Stafford with the Lao People's Democratic Republic Deputy Prime Minister, His Excellency Somsavat Lengsavad, at the official opening of the Ban Houayxai Gold-Silver Operation.

PanAust's website provides a system for feedback to be provided to the Company from any interested stakeholder or member of the public via an email contact form. The Company has open lines of communication with its shareholders including the availability of investor relations and communications staff to answer any questions on a day-to-day basis (the names and direct telephone numbers of the Investor Relations Manager and the Communications Manager are on the website). Enquiries are usually responded to within one working day. All responses are limited to public information.

Shareholders and other interested members of the public can register for email alerts for when investor updates or employment opportunities are posted on the website.

The Investor Relations Manager commissions Australian and international surveys to gain an understanding of how shareholders and the market perceive PanAust. The most recent surveys were undertaken by Greenwich Research International in late 2009/early 2010. The next surveys have been budgeted to occur during 2012. The Investor Relations Manager also receives documented investor feedback, which is compiled by the hosting broker, following 'investor road-shows'.

The Company has mechanisms for employees and external stakeholders to raise concerns about any material 'wrong doings' occurring in the organisation. The Group-wide Code of Conduct outlines a process whereby employees must raise any breach of the Code with their manager, or in the case of Directors, with the Chairman. The Code provides a mechanism for complainants who have concerns about victimisation to report breaches to the Company Secretary and General Counsel who will maintain confidentiality and ensure that issues are appropriately addressed. The Company complies with the *Corporations Act 2001, Part 9.4AAA* which provides protection for whistle-blowers.

There are a number of formal procedures – such as the fair treatment process – and regular scheduled staff meetings, and informal avenues that allow employees and various stakeholders to interact.

During their working visit to Chile in October 2011, the Board of Directors interacted directly with various communities and PanAust South America employees.

Southeast Asian regional stakeholders

PanAust Asia's External Affairs Department plays an important role in representing the Company at a national level to ensure the Company's policy commitments and point of view are communicated to government agencies and other relevant authorities in the region and wider community.

PanAust's activities in Laos are carried out in accordance with the Company's MEPA with the Government of Laos. The MEPA defines PanAust's 2,636 square-kilometre Contract Area and outlines the Company's rights and obligations in relation to taxes and other financial obligations; employment and training of Lao nationals; regional cooperation with regard to the provision of additional infrastructure; environmental management and protection; and local business development. The External Affairs department based in Vientiane is responsible for overseeing compliance with the MEPA.

According to the MEPA reporting requirements, External Affairs provide monthly operational, exploration, human resources, and security reports. Additional reports are provided on request. There is a requirement in the MEPA for quarterly and annual reporting as well. Annually, the Company reports via the Annual Review and Sustainability Report. The Company's monthly reporting process covers the quarterly reporting requirements. In April 2011, an internal review found PanAust was compliant with MEPA reporting requirements.

PanAust Asia has resources in Vientiane in the areas of commercial, legal, human resources, communications and sustainability to ensure an appropriate focus on relationships with national and local governments and high-level stakeholders is maintained with the growth of the organisation and an increasing presence in the area.

Resolving community concerns

By nature of their location and activities, mining operations and projects impact on nearby communities. PanAust actively engages and maintains open and transparent dialogue with communities close to its Operations and Projects through formal and informal channels of communication (as outlined in the stakeholder table).

Requests and complaints, should they arise, are managed via a 'grievance and request' mechanism. As with safety and environmental issues, grievances and community requests are recorded and processed (followed up and closed out) through the incident management system, INX. In all cases, PanAust aims to prevent recurrence of events and incidents through remediation that addresses root causes.

During 2011, 156 community requests, proposals and grievances were processed by PanAust in Laos. There were no significant grievances; all were classified as Level 1 or 2 incidents (as per the Consequence Table on pages 84 and 85). A total of US\$407,400 was paid in compensation for land access and minor livelihood impacts associated with the Company's activities.

The frequency and severity of community incidents across the Group were comparable with those reported in previous years, despite a significant increase in development activities during 2011. The increase in the value of compensation payments relates largely to the construction of Ban Houayxai. Compensation payments at Phu Kham were similar to the previous year.

STAKEHOLDER ENGAGEMENT continued...

Grievances and/or requests via INX

	2009	2010	2011
Total events	155	186	156
Outstanding events	6	51	21
Closed out	96%	73%	86%
Requests consultation	48	66	70
Concerns, complaints, negotiations	107	120	86

Phu Kham Copper-Gold Operation

At the Phu Kham Operation, a process of regular formal and informal community engagement is managed by a team that has overall responsibility for community development activities. The Operation holds formal monthly meetings with community leaders to report on operational issues and to receive feedback from the community. Formal quarterly meetings are held with district government authorities. Additional meetings at all levels are conducted on an as-required basis.

Phu Kham places considerable importance on social interaction with the local community. Social and sporting events are staged on and off site, and the Company actively engages with and contributes to culturally important events. During 2011, this included activities to mark important Lao calendar days such as Lao New Year, Lao National Day, Hmong New Year, and World Environment Day, as well as friendly soccer games between Company staff and local community teams.

Recruitment policies, agreed to by local communities, are in place to limit in-migration for employment with the Company and to ensure delivery of a high level of benefits to people most affected by the Company's operations. In addition, well-established employee and community communication processes, ensure the local community is involved with the Operation and enables good working relationships.

Ban Houayxai Gold-Silver Operation

The area around the Ban Houayxai Operation is sparsely populated and there are no village settlements within the immediate operational area.

Key community stakeholders include seven villages situated along the main access road and electricity transmission line rights of way, as well as local authorities in the Districts of Vang Vieng and Xaysomboun within which these villages are located. Affected communities are prioritised in social management and mitigation strategies based on proximity and impact, and socio-economic development status/needs.

During 2011, to support the construction of Ban Houayxai and in preparation for commencement of operations, a program of structured community engagement activities began led by a team of community liaison personnel. Formal monthly meetings were held with local community leaders and quarterly meetings with district authorities to ensure open channels of communication and to keep stakeholders up to date with the Operation's development. Several site visits were also arranged to enable stakeholders to see progress for themselves.

Phonsavan Copper-Gold Project

The Phonsavan Copper Project is located close to the town of Phonsavan, the capital of Xiengkhouang Province in north-eastern Laos. While still at the early scoping study stage, the Project is actively engaging with local communities and local government authorities. A structured program of community engagement is in place and includes formal monthly meetings with local community leaders and quarterly meetings with district and province authorities. The aim is to maintain open channels of communication, keep stakeholders advised of Project development, and promptly address community grievances that may arise. In mid-2011, a Memorandum of Understanding was signed between the Company and Provincial Government to commence a community development program in Xiengkhouang Province. The Company also actively engages stakeholders through donations and sponsorships, collaborative planning regarding the rehabilitation of drill pads and access tracks, and through consultations as part of the Environmental and Social Impact Assessment (ESIA) process.

Puthep Copper Project

During 2011, the Puthep Copper Project near Loei in Thailand had community relations staff and senior supervision in Bangkok. Formal meetings were held regularly with host communities in two sub-districts around the Project development area covering 21 villages.

In late 2011, PanAust announced a strategic review of the Puthep Copper Project would be undertaken; 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. As a result of the review, activity at Puthep significantly reduced during the last quarter of 2011.

Incidents

No material (Level 4 or 5) community and/or stakeholder engagements incidents were reported in 2011.

Image (left): An activity at the 'Conference on Mining and Community Development in Lao PDR' was to identify future community development fund activities and was carried out by (clockwise from left) Mr Saman Aneka, Director MMG LXML; Mr Seemar Bounphommavong, Nam Gnong Village Party Secretary; and Mr Latsamy Voralath, Government of Laos Department of Mining.

Image (right): Phu Bia Mining Community Officer, Mr Louangtip Vilay (right), sharing information with local government participants about community development and market garden small businesses at the Conference on Mining and Community Development in Lao PDR.

STAKEHOLDER ENGAGEMENT CASE STUDY

Conference on Mining and Community Development in Laos: Community Development Funds

Central to the success of PanAust's sustainability initiatives, and the international recognition the Company has been receiving in recent years, is direct and meaningful engagement with key stakeholders.

Through its subsidiary company in Laos, Phu Bia Mining, PanAust proactively identifies and builds relationships with stakeholders including local communities, the Government of Laos, industry partners, international financial institutions, and development organisations.

In September 2011, the Company was a leading participant in a conference that was co-hosted by the World Bank and the Lao People's Democratic Republic Department of Mines: the Conference on Mining and Community Development in Laos.

The international conference was held in Vientiane and focused on the development of Community Development Funds (CDF). During the conference, delegates from government, the private sector, international agencies, as well as interested members of the public, studied international and local community development funds relating to the mining industry to better understand the legal and regulatory requirements for CDFs to enable the sharing of benefits. As such, delegates gained tremendous insight from PanAust's contribution to the conference outlining the Company's experiences in the pioneering efforts, and design and implementation of CDFs in Laos.

As part of the conference, Phu Bia Mining also hosted a three-day workshop for 35 delegates at the Phu Kham Copper-Gold Operation. The workshop offered participants a hands-on opportunity to gain a personal understanding of the Company's CDF programs and the improvements to living standards and economic opportunities that have been afforded to local communities. Workshop discussions were held in the Nam Mo Village Community Centre. This 'real-life' location enabled the engagement of community leaders in the workshop proceedings and the practical realities of development in rural Laos to be the focus of activities.

By sharing a working model for the design, implementation and governance of CDFs in Laos, the Company provided valuable input into a critical area of public policymaking. At the time of publishing this Sustainability Report, the Department of Mines was working with the World Bank and mining sector stakeholders on drafting national CDF guidelines to ensure mining activities in Laos make positive and long-lasting contributions to community development in areas in which they operate.



ENVIRONMENTAL PERFORMANCE

PanAust carries out its environmental activities in a manner consistent with international leading practices and in compliance with the Company's own Sustainability Policy, 14 Sustainability Standards, legal obligations (including ESAs for projects), and the IFC Performance Standards on Social and Environmental Sustainability. Policies, guidelines, obligations and standards are applied through the Company's Environmental and Social Management Systems, and all PanAust employees and contractors are obliged to operate to these requirements.

The PanAust Sustainability Committee provides governance over environmental issues and, as per its charter, monitors the Company's environmental management practices and ensures appropriate policies are in place. The General Manager Human Resources and Risk Management has responsibility for the Group's overall compliance to environmental standards, and for advising senior management and the Board on environmental performance. The PanAust Asia business unit and operational management team are responsible for environmental performance and are supported by a Sustainability Manager based within the region providing local governance and support.

ESAs and internal risk management processes are used to identify, prioritise, and develop appropriate environmental and social management plans for each site. External and internal audit programs monitor effective implementation and prioritise areas for continual improvement. An overview of the main external audits governing environmental and social risks are outlined in 'Governance' on page 17.

Risk management processes have identified the main environmental challenges for PanAust operations as: surface water management and sedimentation issues; Phu Kham mine waste management; Ban Houayxai cyanide management; and managing dust along the Phu Kham concentrate haulage route. Each issue is discussed in this section of the Report.

Construction of the Ban Houayxai Gold-Silver Operation continued throughout 2011 in line with a construction-phase Environmental and Social Monitoring and Management Plan (ESMMP) approved by the Government of Laos as part of an Environmental Compliance Certificate (ECC) issued in March 2011. An operations phase ESMMP and ECC were submitted ahead of production commencing in April 2012.

In January 2012, the ICMI announced that Ban Houayxai was pre-operationally certified in compliance with the ICMC. The ICMC is a voluntary industry program for companies involved in the production of gold using cyanide, and companies producing and transporting cyanide. Operational certification will be completed in line with ICMC requirements.

An environmental management system gap analysis was completed for the Phu Kham Operation in January 2012 as the first step in a process of working toward ISO14001 accreditation. The 'Governance' section of this report outlines PanAust's commitment to continual improvement against IFC performance standards and e3 exploration standards as part of the Company's ongoing commitment to best possible environmental performance.

In 2011, baseline characterisation studies commenced for the Phonsavan Copper-Gold Project in Laos. In addition, a well-advanced ESIA is being completed for the Inca de Oro Project in Chile and expected to be submitted for approval in the third quarter 2012.

A summary of 2011 environmental expenditure at Ban Houayxai and Phu Kham is presented below. Additional expenditure, in excess of US\$5 million, was spent in the design and construction stage of Ban Houayxai to comply with ICMC requirements.

Operational environmental expenditure*

EXPENDITURE CATEGORY	2009 US\$	2010 US\$	2011 US\$
Salaries, administration and training	257,056	500,009	568,566
External consultants	27,368	45,131	102,417
Environmental monitoring	224,157	271,842	311,386
Reclamation and rehabilitation	523,532	96,601	135,201
Prevention/emissions treatment	0	8,020	8,428
Governance and audits	88,061	163,081	173,442
ARD prevention and management	11,225,038	23,072,641	20,283,442
Other significant environment expenditure		679,820	141,629
TOTAL EXPENDITURE	12,345,212	24,837,145	21,724,511

* 2009 expenditure includes the Phu Kham Operation and the Heap Leach Gold Operation; 2010 and 2011 also include the Ban Houayxai Operation. Exploration costs are not included.

Image: The road between the Phu Kham Copper-Gold Operation and the Phu Kham Camp. The surrounding mountainous terrain and rice paddy in the foreground is typical of the environment in which the Operation is located.

PanAust's Sustainability Committee provides governance over the Company's environmental issues and, as per its charter, monitors environmental management practices and ensures appropriate policies are in place.



ENVIRONMENTAL PERFORMANCE continued...

Environmental incidents

PanAust reports that there were no significant (Levels 4 or 5) environmental incidents, spills, penalties, fines or non-monetary sanctions for any legal non-compliance during 2011.

Significant environmental incidents*

CLASSIFICATION	2009	2010	2011
Level 5 – Material	0	0	0
Level 4 – Material	0	0	0
TOTAL	0	0	0

* Significant environmental incidents are material incidents as defined in the PanAust consequence table on pages 84 and 85.

PanAust investigates (internally) and reports non-significant (Levels 1-3) environmental incidents in the INX reporting system. The reporting of lower level incidents is encouraged by the Company as it reinforces a risk-aware culture and ensures minor issues are investigated and appropriately addressed. In addition, low level reporting is particularly important in developing countries such as Laos to enable environmental awareness and reduce the risk of more serious events occurring.

Environmental training and awareness programs are provided to employees and contractors working at operations in Laos and include: training in environmental management systems, environmental monitoring, water management, waste management, emergency response, and mine rehabilitation. Local communities are also regularly engaged in environmental campaigns and collaborative programs on biodiversity management, environmental monitoring, artisanal mining impacts, environmental emergency response, and international environmental events.

Materials management

Most of the primary materials consumed by PanAust occur at Phu Bia Mining's Operations in Laos.

Materials use inventory for Phu Kham, the Heap Leach Gold Operation, and Ban Houayxai*

MATERIAL	UNIT	2008	2009	2010	2011
Diesel	GJ		2.67	4.56	5.41
Petrol	GJ		0.000	0.013	0.007
LPG	GJ			0.0114	0.0176
Electricity	GJ		819,842	882,614	927,090
Major bulk lubricants	GJ	0.002	0.004	0.005	0.006
Mined ore (PK+GMO)	t	7,392,115	10,591,671	12,242,248	12,223,401
Explosives	t	2,138	0	5,030	4,976
Cement	t	15,125	8,107	5,934	12,673
Carbon	t	45	9	0	0
Grinding media #	t	6,090	10,321	10,057	10,019
Cyanide	t	694	464	104	0
Other reagents	t	9,500	18,119	24,050	23,018

* Change in reporting methodology to use SI Units aligned with GRI. The Heap Leach Gold Operation decommissioned in the second quarter 2010 (reduction in cyanide usage is reflected). Ban Houayxai data presented from 2009.

Approximately 30 per cent of the major consumables used in the Phu Kham processing plant come from steel grinding balls which are a recycled source.

PanAust uses significant quantities of diesel and lubricants to support its mining and mobile equipment fleet, and for concentrate logistic activities between the Phu Kham Operation and Sriracha Port in Thailand. Grid power provides the main form of energy to the Phu Kham processing plant. In 2011, both diesel and power consumption increased. Increased diesel usage relates to increased haulage distance and fleet requirements as the Phu Kham pit deepens, as well as the use of mining equipment at Ban Houayxai for mine development and construction. Power demand also increased to support construction at Ban Houayxai, while at Phu Kham ore hardness increased resulting in additional power requirements for the processing plant's grinding circuit. In addition, there was increased consumption of other material such as cement for construction activities. There were no significant changes to overall reagent usages.

Cyanide management

PanAust recognises that the management of cyanide in gold extraction is an important and sensitive issue for stakeholders and that stringent operating and environmental controls are necessary to ensure the safe transportation, use and disposal of cyanide and cyanide-related products. As a signatory to the ICMC, PanAust views this Code as the minimum standard of practice for its operations requiring the use of cyanide as well as compliance with legal and regulatory obligations.

From commencement of production in April 2012, Ban Houayxai requires cyanide in its processing circuit for gold production. Cyanide risks were assessed early in the project life as part of the project feasibility. Over the past two years, Ban Houayxai has adopted a life-cycle approach to implementing the ICMC's nine principles and in January 2012 achieved pre-operational Code certification. All areas at Ban Houayxai where cyanide will be used or may be present have been designed, constructed and will be operated to ICMC requirements or better. Dedicated full-time specialist resources have been embedded in the Company to ensure that the Operation's management systems are adequately developed to address all aspects of the Code.

Cyanide for Ban Houayxai will be manufactured at the Kwinana plant, Western Australia through AGR who are certified for Principle 1 (Production) of the Code. AGR (consigner) and Pioneer Ocean Freight (transporter) are Code-compliant to transport cyanide from Sriracha Port (Thailand) to the Operation.

Ban Houayxai will be audited for full operational ICMC certification in accordance with scheduled requirements for compliance in the fourth quarter 2012.

Tailings and waste rock management

The management of waste rock was extensively reported in PanAust's *2008 Sustainability Report* (which can be found on the Company's website). Due to its tropical high-rainfall setting and the potential to form ARD at Phu Kham, waste rock and tailings management at the Operation continues to be the most significant environmental risk for the Group. A purpose built TSF is used to dispose of both waste rock and tailings generated from the Phu Kham pit. The facility is designed

and constructed using a risk-based approach that accounts for the best life-of-mine and closure-management strategy.

Phu Bia Mining has established a steering committee of internal management and external specialist ARD and tailings consultants to closely monitor the implementation of Phu Kham's ARD management plan, and to ensure appropriate performance and environmental monitoring is regularly reviewed. The committee also ensures that management strategies continue to be effective to minimise ARD during construction and placement of waste.

On a day-to-day operational basis, well-established controls and strict placement procedures manage mine waste movement. A simple traffic light management plan (red, amber and green) is used to classify each waste type and ensure it is managed and disposed of in the correct location. Fundamentally, the strategy is based on isolating sulphidic waste from atmospheric oxygen.

All 'red' material (>4 per cent sulphur) is considered high potential acid-forming (PAF) and is disposed of under water in the Operation's TSF. During 2011, 13Mt of red waste rock was mined and placed to tailings. All 'amber' material (0.4–4 per cent sulphur) is considered low to moderate PAF and is encapsulated in the TSF construction within 'green' (<0.4 per cent sulphur) material which is considered non acid-forming (NAF). Only 'green' material is used in general road construction and earthworks elsewhere.

The process is strictly controlled using the mining fleet management system to ensure that sulphur grades meet quality control standards. Blending of green and amber waste rock is used to ensure the sulphur grade in encapsulated cells does not exceed one per cent.

2011 monitoring results continue to confirm that the ARD management plan is operating effectively. Extensive surface and groundwater monitoring continues below the TSF embankment and monitoring to date indicates compliance with all discharge standards. Two reviews by tailings and ARD specialist consultants, Knight Piésold and EGi, were completed in 2011 to ensure ongoing performance and recommendations for improvement.

ENVIRONMENTAL PERFORMANCE continued...

Tailings/waste rock quantities for Phu Kham and Ban Houayxai

	UNIT	2009	2010	2011
Waste rock (total)	t	14,271,623	24,933,321	19,355,933
Red waste rock	t	10,798,850	12,571,281	12,869,228
Total amounts of solid tailings	t	11,433,271	4,954,026	3,849,964

In 2011, PanAust was a finalist in the Australian Ethical Investor magazine's 11th Australian Sustainability Award within the 'environmental category' after receiving an independent nomination for its effort in best practice ARD management at the Phu Kham Operation. The Company has also been invited to present at international forums on best practice ARD management.

At Ban Houayxai, mine pre-stripping, road construction and tailings construction commenced as part of the site's construction activities. Approximately 2Mt of overburden was moved during the year, some of which was reused for construction. Baseline characterisation for Ban Houayxai has determined that, based on current reserves, only 10 per cent of the total material from the pit is likely to have potential to generate ARD. In 2011, EGi commenced additional test work to support developing a long-term management strategy for this waste.

Tailings management is recognised as a long-term risk issue for the Company. In 2011, the Phu Kham Operation completed a lift to the Phu Kham TSF, while Ban Houayxai commenced construction of its own TSF. PanAust recognises the TSFs are high-risk, hazardous structures requiring comprehensive management and governance processes throughout the facility lifecycle. In 2011, PanAust commenced formalising an independent tailings review panel (consisting of two industry-leading tailings and geotechnical specialists) to periodically review each TSF's risk profile and performance, and report directly to the Company's senior management team in relation to tailings management.

General waste management

PanAust continued to apply its policy of recycling materials when environmentally safe. Recycling of waste oil, plastic, aluminium, steel, oil, cardboard and timber continued to be promoted through the Phu Kham Operation. These programs have also been extended to the Ban Houayxai Operation prior to the commencement of production.

Hazardous and non-hazardous waste from Phu Kham and Ban Houayxai by type and disposal method*

TYPE		2009	2010	2011
Non-hazardous waste to landfill	t	0.0	1,796.2	2,140.3
Hazardous waste to landfill	t	NR	1,660.4	1,660.3
Non-hazardous waste to landfill [#]	each	NR	NR	980.0
Non-hazardous waste recycled offsite (or in onsite storage) ⁺	t	122.9	1,434.3	3,181.0
Hazardous waste recycled offsite [^]	t	0.0	0.0	490.6

* 2009/10 data has been aggregated in this Report to conform with GRI requirements. Recyclable waste is directly weighed. Landfill waste is estimated in tonnes using default density factors.

[#] Used containers of varying wastes includes sizes where it is not practical to estimate weights.

⁺ Non-hazardous wastes: includes green waste, wood, food, tyres, cement.

[^] Hazardous wastes: oils and greases, sludge, clinic, and lab related wastes.

As prescribed by the Basel Convention, the Company does not recycle or ship any hazardous waste internationally.

Water management and water quality

Water is a necessary input to operations, and, once used, process waters and operational run-off can impact the quality and quantity of water available for other users. Communities local to Phu Kham and Ban Houayxai rely on clean, safe water to sustain their livelihoods. Issues associated with water are well recognised by PanAust and are key components of the Company's environmental risk management activities and its social licence to operate. Site-specific water management plans and monitoring requirements are established and reviewed frequently and adjustments made based on the level of operational control required.

A laboratory servicing day-to-day environmental requirements for Phu Kham and Ban Houayxai is established at Phu Kham and is certified to ISO17025.

In Laos, there is an inherent challenge in managing mine-water run-off in a tropical climate with surrounding steep topography within a distinct season hydrological setting. This creates a dichotomy of challenges where the wet season provides a highly positive water balance and in the dry season a negative balance. Water management requires close attention to ensure that water is used efficiently, and that appropriate holdings of water are maintained and discharged as necessary in a controlled manner.

Image: The Phu Kham Copper-Gold Operation's tailings storage facility is designed and constructed using a risk-based approach that accounts for the best life-of-mine and closure-management strategy.

PanAust has established a steering committee comprised of internal management and external specialists to closely monitor Phu Kham's acid rock drainage management plan, and to ensure appropriate performance and environmental monitoring is regularly reviewed.



ENVIRONMENTAL PERFORMANCE continued...

Rainfall quantity

ANNUAL RAINFALL *	2009 MM	2010 MM	2011 MM
Phu Kham	2,336	2,462	3,636
Ban Houayxai	2,928	3,309	4,181

* Annual average rainfall range for Phu Kham: 2,300-2,700mm

2011 created a number of water management challenges for Phu Kham and Ban Houayxai. Annual rainfall significantly exceeded the annual average for each location, which was primarily related to extreme rainfall patterns experienced across central northern Laos over a two-week period in June and July 2011. The intense rain events resulted in significant flooding and landslides throughout the region and tested Phu Bia Mining's water management and broader emergency response capabilities.

Both Phu Kham and Ban Houayxai weathered the storms well with no material environmental incidents reported. The site water balance at Phu Kham however, was compromised by the significant volumes of water entering the open pit and TSF. This resulted in the temporary loss of access to some higher grade ore zones in the pit for several months while a controlled dewatering program was implemented. As a result of the ingress of large volumes of water into the TSF, and based on specialist external review, the Company commenced a temporary discharge regime after engaging local communities and gaining approval from the Government of Laos (see Environmental Performance CASE STUDY on page 51).

A controlled discharge strategy was implemented in the Nam Mo River including a collaborative monitoring program with the Ministry of Natural Resources and Energy (MONRE) officials. Waters discharged from the Phu Kham TSF met all IFC water-quality guidelines, and Lao ambient water-quality guidelines for all parameters with the exception of Total Suspended Solids (TSS). During 2011, a permanent engineered discharge channel was constructed downstream of the discharge point at a cost of US\$141,600 to permanently resolve this issue. A total of 4.6 million cubic metres (Mm³) was discharged from Phu Kham TSF in 2011.

Following updates to hydrological information and a review of long-term water balance requirements, the Company is working with the Government of Laos on a revised water management strategy to come into effect during 2012.

A summary of water usage and discharge for Phu Kham and the Heap Leach Gold Operation is summarised in the table below.

Rainfall run-off from the open-pit and processing site is collected and discharged into the TSF. While water use is significant, the vast majority at Phu Kham is recycled. Ninety-five per cent of water for the Phu Kham Operation is recycled from the Phu Kham TSF. The small percentage of water not recycled is drawn from the Nam Mo River as filtered raw water for use in the process plant's hydraulic cooling systems and pump seals. The Nam Mo River is of low biodiversity value and is not a protected water source.

Several smaller water sources are also used to provide fresh-water for domestic uses on each project. Domestic grey-water reports to sewage treatment facilities for treatment prior to discharge to waterways with regular monitoring.

Water usage Phu Kham and the Heap Leach Gold Operation

	YEAR	2009	2010	2011
Fresh water domestic use	Mm ³ /yr	*	0.2	0.2
Fresh water to process	Mm ³ /yr	1.3	1.6	1.5
Total water use in process	Mm ³ /yr	25.2	30.6	30.5
Recycled water to process	Mm ³ /yr	23.8	29.0	28.9
Recycled water	%	94%	95%	95%
Operational waste waters discharged #	Mm ³ /yr	0.8	0.5	5.8

* Reporting commenced 2010.

Detoxified water from Heap Leach Operation and Phu Kham TSF.

Aquatic biodiversity

A decline in the overall background water quality on the Nam Mo River is evident in areas where artisanal and small-scale mining (ASM) activity became present in 2010. ASM activities extended both upstream and downstream of the Phu Kham Operation. In mid-2011, the Government of Laos worked with local communities to discontinue ASM activities in the lower reaches of the Nam Mo River, however activities continue to be present upstream. While some immediate improvement in water quality has been observed, given the scale of disturbance to the main river bed and banks, it is unlikely that background biodiversity and water quality will fully recover in the near term. This is evidenced in the ongoing ambient monitoring programs around the Operation which considers the current resource to be of low biodiversity value.

With a decline of water quality in the Nam Mo River, Phu Bia Mining has assisted local communities with offset programs to support

maintaining the presence of local aquatic diversity. Each year, the Company coordinates fingerling release programs to restock local water-ways and has actively developed an aquatic industry to decrease pressure on local waterways.

Terrestrial biodiversity

Laos is rich in wildlife and biodiversity. PanAust's operations are not located in world-heritage listed sites, international protected areas, or Laos National Biodiversity Conservation Areas (NBCA). The nearest NBCA is approximately 30 kilometres south of Phu Kham. ESIA processes have been used to determine the requirements for biodiversity management plans at Phu Kham and Ban Houayxai. Plans are incorporated into each site's ESMMP and impacts are carefully managed through formalised land-clearing programs, which aim to minimise unnecessary land disturbance and ensure that the placement of activities minimises impacts to local areas and water-ways that support biodiversity and community resources.

Biodiversity within the immediate operational areas at Phu Kham is locally and regionally common. However, the potential presence of endangered and vulnerable species in undisturbed areas external to the operating site, including access roads and exploration activities, requires appropriate habitat and vegetation clearance programs and measures to be implemented with all land disturbance activities.

A permitting system is used to assess risks on a case-by-case basis and develop site-specific management plans aligned with the ESMMP requirements. The main impacts to land and biodiversity may occur through the loss of habitat during land disturbance activities, the introduction of pests from international vehicles, and local hunting.

International Union for Conservation of Nature red-listed species identified in close proximity to operational sites as part of impact assessments

CATEGORY	PHU KHAM	BAN HOUAYXAI
Critically endangered	2	0
Endangered	1	5
Vulnerable	2	9
Near threatened	0	4
Least concerned	0	4

A 15,000-hectare national protection forest (Phu Kho/Phu So National Protection Forest) adjacent to Ban Houayxai has been proposed and is currently being evaluated.

The Phu Ban District Conservation Forest will be impacted by the Right of Way (ROW) for the proposed project transmission line from Vang

Vieng District to Ban Houayxai. Approximately six hectares of the conservation forest area occur within the ROW, with approximately 95 per cent of this being currently forested with secondary forest. No primary forest occurs in the area and it is considered to be of relatively low biodiversity value.

As part of the general induction process, Phu Bia Mining employees are instructed to protect native wildlife and forest resources, and discouraged from hunting or participating in wildlife trade activities. Breaches of the rules are recorded and investigated in line with other environmental incidents. No material incidents were reported during 2011.

To minimise transfer of invasive species during concentrate haulage, all international traffic, including the concentrate haulage fleet, is sprayed at the Vientiane vehicle wash station as a mandatory quarantine requirement prior to entering Laos. In addition, designated vehicles are used between Ban Thouy and Phu Kham including the section traversing the NBCA. Concentrate haulage maintenance requires truck washing and tyre cleaning each shift (twice daily).

Land rehabilitation and closure

Phu Kham and Ban Houayxai have plans in place to reclaim and progressively rehabilitate land to a standard which aims to minimise environmental impact and maximise use during and after mining and ore processing have ceased. Phu Kham has a well-established nursery to propagate native seedlings for use in rehabilitation and, in 2011, a nursery was established at Ban Houayxai. While annual campaigns to rehabilitate land are incorporated into the sites' operating plans, in most cases, achieving an end land-use will take several years to establish. Relinquishment does not become possible until all mining activities are complete so that other users may safely access these areas.

Phu Bia Mining operational land disturbance*

	2009 HECTARES	2010 HECTARES	2011 HECTARES
Land disturbed and not yet rehabilitated (opening balance)	433.00	656.00	1,058.34
Land disturbed in reporting year	249.00	408.70	308.78
Land rehabilitated in reporting year #	26.00	6.36	49.53
Total land disturbed and not yet rehabilitated (closing balance)	656.00	1,058.34	1,317.59

* Excludes remote drilling activities.

Change in reporting procedure from 2010 Report to align with GRI.

ENVIRONMENTAL PERFORMANCE continued...

Closure planning

Closure planning is considered at all stages of a project life-cycle and, particularly where significant risks are posed by ARD, operations are designed to minimise long-term closure risks. Provisions are made for closure in the balance sheet of PanAust's Operations and include the cost of rehabilitation, decommissioning and restoration.

Decommissioning of the Heap Leach Gold Operation continued in 2011. Where practical, most infrastructure was relocated to Ban Houayxai. Unsalvageable items were progressively removed through recyclers. An external specialist in cyanide waste management provided technical assistance to decommission the heap leach pad consistent with ICMI requirements. The process involves leaching cyanide and metals from the heap leach pad followed by a process of irrigation until run-off from the pad consistently meets site and international discharge criteria. Progress to date has been sound, and a targeted program to improve decontaminating lower levels of the pad commenced in 2011 with good results. The process is expected to take several years to complete and until passive discharge criteria is achieved, the active storage, treatment, discharge and monitoring facilities will remain in place. Extensive monitoring of the downstream river system is undertaken to confirm that excess water discharged in the wet season is within ambient limits. A detailed review of the Heap Leach Gold Operation Closure Plan has been established.

A Conceptual Closure Plan has been developed for the Phu Kham Copper-Gold Operation and in 2011 Golders Associates were commissioned to assist the Company with a third-party review of closure provisions for Lao operations and to review the closure plans against ICMM and IFC closure requirements. The updated plans will be completed in 2012, as will the development of a Group Level Standard for Closure. The plans provide the basis for broader community and Government of Laos engagement on closure. The review was an important step in formally identifying social and environmental requirements of closure. Community, government and other stakeholder requirements will be captured through ongoing consultation processes. Towards the end of 2011, a rehabilitation and closure workshop was held with affected Provincial and District officials.

Information on the Company's closure provisions is provided on page 53 within the notes to the consolidated financial statement in the PanAust 2011 Annual Report and incorporates provisions for Phu Kham, the Heap Leach Gold Operation, and Ban Houayxai.

Closure plan status as at December 2011

	DETAILED CLOSURE PLAN	CONCEPTUAL CLOSURE PLAN	ANNUAL PROVISIONS
Operations	1*	1	3

* Heap Leach Gold Operation detailed closure plan drafted

Energy and carbon management

PanAust aligns itself with the ICMM policy on climate change, and recognises that minimising human-caused climate change is an important international goal that is of increasing interest to many of its stakeholders. Future domestic and international climate change policies have the potential to present both risks and opportunities in the countries where PanAust operates and has the potential to affect future shareholder value.

PanAust addresses these risks and opportunities by considering the physical impacts of climate change within the organisation's business planning and risk management processes and by establishing appropriate contingency plans to adapt to potential impacts. Extreme weather events have the potential to impact personnel, production, and business continuity, as well as create additional stressors in local communities.

Operating sites promote the efficient use of renewable and non-renewable natural resources in the production process. Operating sites are required to understand their energy inventory, establish progressive targets to reduce greenhouse gas emissions, and to measure progress in efficient operations including regular reporting of program results in a transparent manner. In 2011, GHD Consultants assisted the Phu Kham Operation to undertake a baseline carbon inventory and develop a carbon management plan. The Operation is currently evaluating the potential opportunities identified by the study. PanAust has reported to the Carbon Disclosure Project in 2012. Ban Houayxai will undertake a similar assessment within its first 12 months of production.

In growing the PanAust business, it is anticipated that the Group's total carbon emissions will increase over time despite commitment to improve the energy efficiency of each operating site. Other constraints may also be present including the ready availability of natural resources and infrastructure at each geographic location. Host government environmental and infrastructure priorities will also affect PanAust's ability to consider efficient and low-emission alternatives during project design and operation. The Company recognises that different approaches to mitigate emissions will be required in each host country.

PanAust will continue to address climate change challenges by minimising business risks, capturing improvement opportunities, and taking action to address the physical aspect of climate change with full consideration of the social, environmental and economic value. Managing the physical aspect of climate change provides PanAust with opportunities to demonstrate its position as a company operating and providing a leadership role in a developing country.

Image: PanAust's second mine in Laos, the Ban Houayxai Gold-Silver Operation, commenced production in May 2012. This photograph shows the process plant with the ore-body ridge behind it. In January 2012, Ban Houayxai achieved pre-operational certification in compliance with the International Cyanide Management Code.

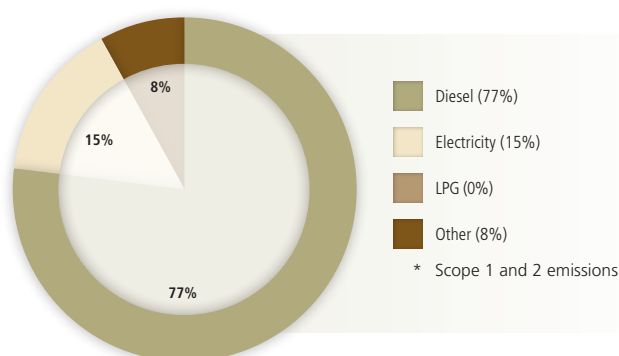
The Ban Houayxai Gold-Silver Operation has adopted a life-cycle approach to implementing the International Cyanide Management Code's nine principles. All components of the Operation where cyanide will be used or may be present have been designed, constructed and are/will be operated to Code requirements or better.



ENVIRONMENTAL PERFORMANCE continued...

Phu Kham uses a combination of direct and indirect energy sources to carry out its activities. Diesel provides the major source of direct energy used for mining and concentrate haulage activities. Hydroelectricity is the major source of electricity for the processing plant. Overall, the Phu Kham Operation continues to monitor its fuel usage practices with a focus on efficiency. Programs to improve road condition and general awareness campaigns were completed. This, coupled with the purchase of new concentrate haulage equipment for use between Ban Thouy and Phu Kham, has led to improved efficiency in fuel use and includes metering systems to monitor fuel burn efficiency rate. This has resulted in an estimated annual saving of 1,846t of carbon dioxide equivalent (tCO₂-e) or 0.052 gigajoules of fuel. In 2011, GHD Consultants were involved in identifying potential areas of improvement in carbon management at the Phu Kham Operation for full evaluation during 2012.

Phu Kham 2011 greenhouse gas emissions by source 1*



Phu Kham greenhouse gas emissions*

GREENHOUSE GAS EMISSION SCOPE	2010 (tCO ₂ -e)	2011 (tCO ₂ -e)
Scope 1 (direct greenhouse gas emissions from the Phu Kham Operation)	140,571	147,986
Scope 2 (indirect greenhouse gas emissions from the generation of purchased electricity for the Phu Kham Operation)	23,722	25,043
Scope 3 (greenhouse gas emissions from the broader project lifecycle including materials used, travel and transport)	109,611	109,479

* Measured according to the World Resources Institute/World Bank Council for Sustainable Development Greenhouse Gas Protocol.

Noise and air pollution

Mining, processing and transportation of concentrate generate air emissions, mainly dust. Phu Bia Mining works to limit these emissions by minimising land disturbance, road watering, using filters and dust suppression equipment on drills and conveyor systems, and by catalytic connectors on mining fleet, fuel monitoring systems, and transporting product in covered vehicles. Dispersion modelling carried out as part of the project impact assessment determined that waste disposal and processing of ores were unlikely to exceed ambient air-quality guidelines in surrounding villages. Air-quality monitoring, in the form of particulate and dust deposition rates, are monitored within the mine operating area and villages adjacent to the Phu Kham Operation and haulage route. There were no significant dust or noise complaints raised by local communities in 2011. During the 2010/11 dry season, the mine paid for the sealing of roads within local village boundaries adjacent to the Operation and along the public transportation route which has significantly reduced complaints. Improvements to traffic movements including escorts for haulage trucks, and personnel transport have also assisted in improving dust and noise management, and general village road safety.

PanAust did not use any ozone-depleting substances during 2011[#]. Impact assessments to date have not identified mono-nitrogen oxide (NOx) and sulphur oxide (SOx) emissions as material.

Products and services

During 2011, PanAust produced two principal products: copper-gold concentrate, and gold doré.

Copper-gold concentrate

Copper is a very common substance that occurs naturally in the environment. It is present in air, water and soils, and commonly found in water and food sources consumed by people. When unrefined copper mixes with water, the soluble copper compounds can be hazardous to natural eco-systems in relatively small concentrations. For these reasons, PanAust's concentrate product is transported in covered containers from the Phu Kham Operation to the port of Sriracha in neighbouring Thailand to prevent spillage or dust losses.

In 2011, PanAust decided to take full control of the haulage aspects on the mountainous and high-risk stretch of road between Phu Kham and Ban Thouy with the objective of moving toward taking direct control of concentrate logistics in Laos in 2012. DSG, a Lao-Thai based company, transports the Company's concentrate product, from Ban Thouy to Sriracha Port.

[#] In the 2010 Sustainability Report, PanAust incorrectly defined hydrochlorofluorocarbons (HCFCs) as ozone-depleting substances (refer page 48). PanAust promotes the use of HCFCs as preferred alternatives to ozone-depleting CFCs and has established their use through procurement and environmental systems.



Image: Road sealing in villages adjacent to and along the haulage route from the Phu Kham Operation reduces dust and noise impacts on residents while providing improved access to local services and markets.

PanAust has a regular program of road-safety user group meetings involving staff members from the Risk, Logistics, Projects and Sustainability departments as well as road haulage and freight contractors servicing Phu Kham. More than US\$9 million was spent in 2011 on road maintenance and road improvements along the access roads to Phu Kham. Phu Bia Mining continued to partner with Handicap International (a non-government organisation from Belgium) and the Laos Road Safety Authority to deliver road safety and incident response awareness in villages along the concentrate haulage route.

Gold doré

Production at the Phu Kham Heap Leach Gold Operation ceased in April 2010. Gold's lack of toxicity and its compatibility with living systems is why it is commonly used in the fields of dentistry and medicine. The environmental impact associated with the transport and packaging of gold doré is negligible, and during 2011, no incidents were reported by PanAust associated with these activities.

ENVIRONMENTAL PERFORMANCE continued...

Services

PanAust's principal suppliers and the commodities they supply are listed below. The Company's policy is to work with and support local suppliers and contractors within operational regions where and when possible.

- IP Fuel, Houkhong Trading – fuel
- Electricity Du Laos – electricity
- Boliver International, Magotteaux – grinding media
- Cytec, Chememan – reagents and chemicals
- TKPV, PV Explosives – explosives

Principal contractors to PanAust's operations are:

- ODR, MVDC – mining services
- Caterpillar, Komatsu – mining equipment and maintenance parts
- DSG, Vanh Transport – concentrate haulage
- Milsearch – Unexploded Ordnance (UXO) clearance
- Drillcorp, Indodrill, Boart-Longyear – drilling services

Environmental conditions are included in PanAust's contracts with key suppliers and contractors to ensure performance standards are understood. Environmental incidents for controlled and influenced activities along the Phu Kham haul road are investigated and managed to meet Company standards. In 2012, all transport and handling activities will be reviewed to ensure these activities are being performed at a level equivalent to the Australian Dangerous Goods Code.

Product stewardship

PanAust copper-gold concentrate and gold doré product is not traded directly with the general public. These products are processed and, by the time they are ready for public consumption, they are in the form of inert material. Additional general information on copper, including health, safety and environmental effects, is available through a website that is maintained by the Copper Development Centre: www.copper.com.au.

During 2011, there were no instances brought to the attention of PanAust for non-compliance with regulations concerning customer health, safety and environment.

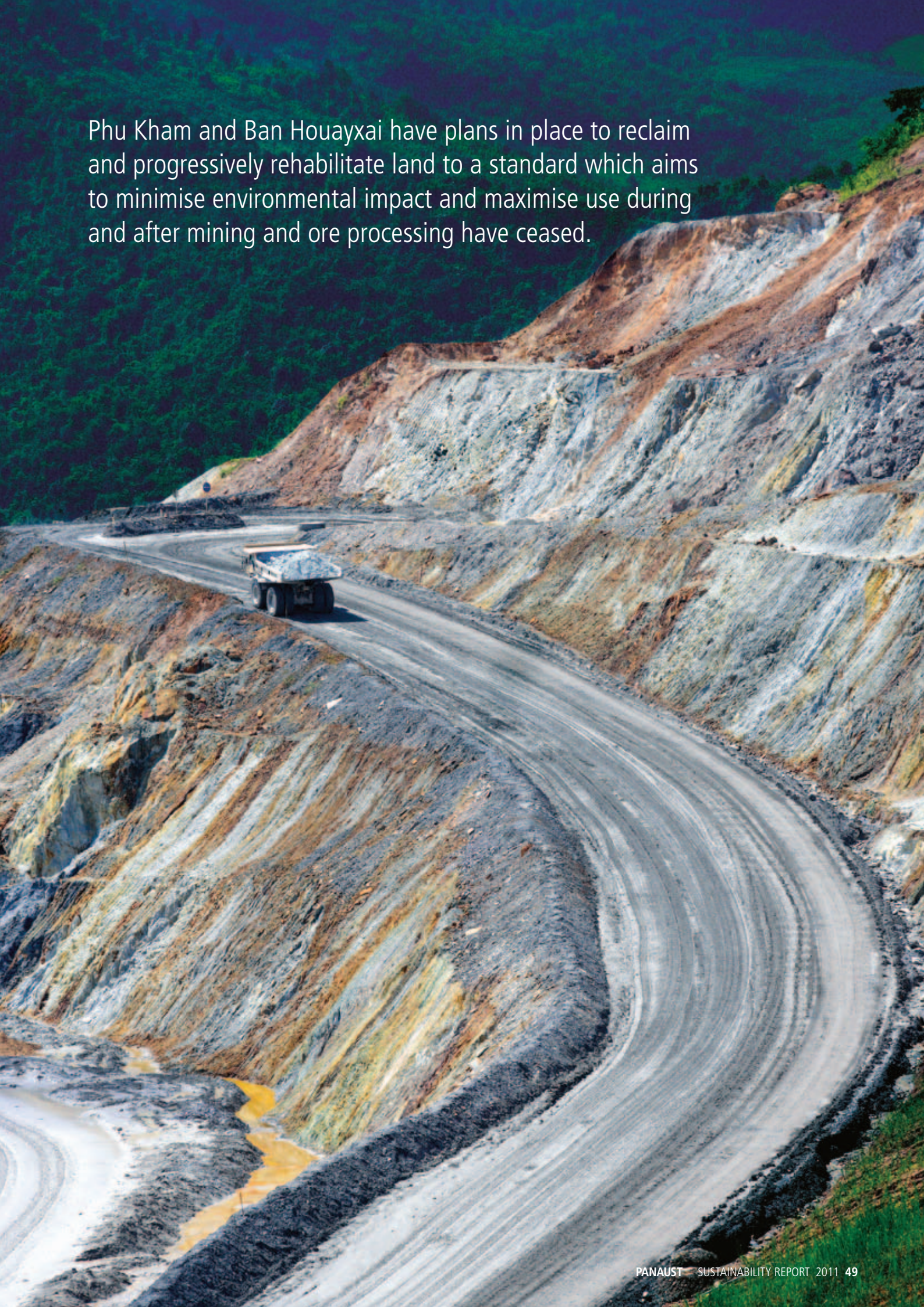
PanAust product is delivered to customers in bulk, and no conventional product labelling applies to the shipment of copper concentrate or gold doré. The International Maritime Bulk Solid Cargoes Code (IMBSC) requires that a Materials Safety Data Sheet (MSDS) is maintained for copper concentrate. The MSDS is made available on the PanAust website, and directly to customers and shipping authorities as requested. It includes requirements in relation to safe handling, storage, correct disposal, and emergency response. An IMBSC declaration is completed with each shipment of concentrate. PanAust experienced no instances of penalty warnings, breaches of voluntary codes, or non-compliance with regulations relating to product information or labelling and no associated fines during 2011.

PanAust's products are semi- or partially processed when sold to smelters or refineries. The Company, therefore, does not have any influence on the end purchaser or end product (copper cathode or refined precious metals).

PanAust sells its product to reputable companies. Principally, the Company ensures customers are satisfied with the product delivered by ensuring the shipped material meets the specifications set out in the sales contract for the full range of metals and other elements contained in the concentrate. The Company also meets any country-specific government regulation relating to where the concentrate is delivered. In addition, special requests from customers are always considered (for example, a change to the delivery period or samples of concentrate in advance of their delivery). Phu Bia Mining regularly provides opportunities for customers to attend a site visit. As a medium-sized producer in the global market, during 2011 PanAust maintained a formalised marketing partnership via an agency agreement with BHP Billiton.

Image: Hauling ore in the Phu Kham Copper-Gold Operation open pit.

Phu Kham and Ban Houayxai have plans in place to reclaim and progressively rehabilitate land to a standard which aims to minimise environmental impact and maximise use during and after mining and ore processing have ceased.



ENVIRONMENTAL PERFORMANCE continued...

PanAust's copper concentrate product is considered relatively clean and product metal specifications are put in place as part of contract terms and conditions with international customers. Penalties are enforced for products that do not meet these agreed specifications and may result in re-negotiation or refusal to receipt a shipment of product. Arsenic is the only potential trace element of concern in the Company's copper concentrate and is therefore carefully monitored. No penalties outside of agreed contract specifications were applied to any of PanAust's product shipments during 2011. PanAust did not receive any customer complaints in 2011.

PanAust adheres to all legal requirements regarding consumer privacy, including appropriate and lawful collection, use, disclosure, and maintenance of personal information. No incidents of substantiated complaints regarding breaches of consumer privacy or loss of customer data occurred during 2011. PanAust's privacy policy is available on the PanAust website. No product responsibility-related criminal and or civil fines, penalties, warnings or breaches of voluntary codes assessed against the Company or its officers and Directors when in their organisational capacity were reported during 2011.

Advertising, marketing and sponsorship of copper concentrate product or gold doré in the public domain is not an area relevant to PanAust's activities. As such, the Company had no instances of breaches of any such regulations during 2011.

Product recycling and sustainability

Copper concentrate

Copper has a long history of recycling and it is estimated that approximately 80 per cent of all copper ever produced is still in use today. Recycling brings significant environmental benefits including more efficient natural resource use, energy savings, waste reduction and preservation of the natural resource for future generations.

Copper is likely to contribute to future sustainable growth and development particularly as its excellent conductivity properties enable energy efficiency. Worldwide demand for copper cannot be met exclusively through secondary/recycled sources. Continued new production will be required to meet ongoing human needs.

Gold doré

Due to its inherent value, gold continues to be recycled at high rates. An estimated 85 per cent of all the gold ever mined can be accounted for with the missing 15 per cent either lost or used in industrial processes where it cannot be readily retrieved. Gold performs many vital functions in many areas of everyday life such as medical applications, pollution control, air bags, mobile telephones, laptop computers, space travel components, and many other things that are considered indispensable in modern life. Approximately 12 per cent of demand for gold comes from the industrial sector.

Images (clockwise from bottom right): During the mid-year extreme rainfall events, 800,000 cubic square-metres of water entered, was contained, and subsequently pumped out of the Phu Kham open pit.

Image (top right): Mr Tongxuevang Xaylorvang, Junior Environment Technician, measuring the health of the Nam Mo River and aquatic animals following approved discharge from the tailings storage facility. The monitoring program demonstrated all quality parameters for discharged water were within International Finance Corporation guidelines.

ENVIRONMENTAL PERFORMANCE CASE STUDY

Phu Kham meets the water management challenges of extreme rainfall

Between 25 June and 1 July 2011, Phu Kham experienced two high-intensity tropical storms causing a large influx of excess of rainwater to site.

Within the region, as a result of landslides and severe flooding, there was catastrophic failure of infrastructure such as roads and bridges. Phu Kham infrastructure was also impacted and the site was physically isolated for several weeks due to public access bridges being swept away and landslides blocking the access route. There were significant disruptions to 22 kilovolt power and communications; and food, water, and other critical supplies ran short as a result of blocked access roads.

PanAust's operations in Laos are designed for heavy rainfall and overall, the integrity of the Phu Kham Copper-Gold Operation and the Gold Heap Leach Operation was not compromised. Storm waters were largely diverted away from the mine through an established network of drainage channels. Although mining operations lost four days of production, the open pit was effective in containing the additional 25 metres (800,000 cubic metres) of water. Although there were a number of controlled clean-water discharges from various locations across the site, no discharges from the pit occurred. Over the course of several months, water contained in the pit was discharged to the TSF for pH remediation and settling.

In the short term, the TSF was able to manage the emergency-related volumes of water and ensured no non-compliant discharge to the surrounding environment.

These events triggered a review of the Company's water management assumptions and strategy for the TSF at Phu Kham and, as an interim measure, the Company sought and received Government of Laos approval to discharge excess water from the TSF. The discharge commenced in August 2011 and is monitored by the Company's environmental team in close liaison with site-based representatives of the Ministry of Natural Resources and Environment. The stored waters have been remediated effectively and meet discharge requirements. To date, all parameters for water discharged from the TSF have been within IFC guidelines.

Good emergency preparedness, robust systems, and effective management of tailings, waste rock and TSF reservoir chemistry, enabled effective management of water during this extremely challenging rainfall event at the Phu Kham Copper-Gold Operation. No reportable environmental incidents occurred during the storms or throughout the recovery effort.



COMMUNITY

PanAust is part of an industry that has an important role to play in improving the standard of living of current and future generations through meeting the global demand for copper and precious metals in a socially responsible manner.

PanAust respects the diverse cultures, and upholds the human and traditional rights and values of the communities in which it operates. These commitments are outlined in the Company's Sustainability Policy and Sustainability Standards and include a requirement to improve the socio-economic wellbeing of local communities through employment and training, and supporting commercial development and health initiatives.

Furthermore, as a signatory to the MCA's Enduring Value Guidelines, PanAust strives to bring about real and long-lasting improvements to the people of host countries through its community development programs, and ensure its 'social licence' to operate is maintained. The Company aims to build long-term capacity within communities affected by its activities so that local people are empowered to take ownership of and determine their own development priorities.

The External Affairs department (within the PanAust Asia business unit) is based in Vientiane and supports the engagement of national stakeholders and provides oversight of sustainability issues across all locations. Specialist community affairs staff are based at each site.

Social risk issues at Phu Kham are managed through the implementation of the Company's Environmental and Social Management Systems with commitments, standards and objectives as detailed within the Environment and Social Management and Monitoring Plans (ESMMPs). Construction of the Ban Houayxai Gold-Silver Operation, which was largely completed by year end 2011, was in line with a construction-phase ESMMP approved by the Government of Laos as part of an Environmental Compliance Certificate issued in March 2011. An operations-phase ESMMP was approved in April 2012.

The Company aims to minimise impacts on local communities due to land disturbance, mine traffic and other aspects of the Operation. Where exploration and mining activities unavoidably impact local livelihoods, compensation and mitigation schemes are put in place.

Defining the local community

PanAust considers local communities to be those directly and indirectly affected by Company operations, which generally relates to their proximity to site and the degree of impact. Local communities are prioritised for employment opportunities and community development programs in order to ensure benefits are proportional to the impact.

Communities local to the Phu Kham Copper-Gold Operation include two villages immediately adjacent to the mine site, Nam Gnong Village and Nam Mo Village, and a further 18 rural communities situated along the main transport route.

At Ban Houayxai, priority is given to seven local communities situated along the main transport route to site and on the path of newly constructed electricity transmission lines supplying the Operation. Unlike the Phu Kham Operation, there are no villages adjacent to or in the immediate vicinity of Ban Houayxai.

At Phonsavan, where advanced exploration is currently underway, the focus is on seven local communities that are impacted by the Company's exploration activities.

Learning about the local community

PanAust regularly commissions socio-economic surveys to understand the local population. As well as economic and health data, the surveys provide comprehensive information about the cultural and gender mix, population movements in the area, and positive and negative impacts of the Company's presence. Survey data and analysis are then used to help identify and prioritise community development programs and opportunities for improvement of existing programs. A socio-economic survey was undertaken at Phonsavan in early 2012 as part of an ESIA process and, once operational, surveys will be undertaken every two years. The socio-economic surveys are scheduled to occur at Phu Kham and Ban Houayxai in 2012 with the most recent completed in 2010 (ie. every two years).

Community programs

PanAust funds community development activities in areas directly and indirectly impacted by the Company's activities and operations. The overall goal is to reduce poverty, improve living conditions, and develop and improve livelihoods that are sustainable beyond the life of the mine.

In 2011, new community development programs were established at Ban Houayxai and Phonsavan modelled on an established program at Phu Kham. In 2011, the Community Development Fund (CDF) budget allowed for US\$300,000 to villages impacted by the Phu Kham Operation, and US\$80,000 each for villages affected by the Ban Houayxai Gold-Silver Operation and the Phonsavan Copper-Gold Project. In addition to the formal funding and associated programs, PanAust provides significant amounts of 'in-kind' support and other financial contributions including, in 2011, a significant amount of resources towards natural disaster relief following the mid-year extreme rainfall events (see Economic CASE STUDY on page 29).

Image: Mrs Nhia Lor and her baby boy, Lee Xiong, at the Nam Gnong Village Health Centre awaiting a general health check-up and vaccinations to be carried out by Nurse Miss Exenglee. The clinic is part of the newly constructed Nam Gnong Community Centre, which was built and opened in 2011 through support from PanAust. A similar centre also opened in Nam Mo Village in 2011.

PanAust respects the diverse cultures, and upholds the human and traditional rights and values of the communities in which it operates. Furthermore, the Company aims to bring real and long-lasting improvements to the people of host countries through its community development programs.



COMMUNITY continued...



Image: Mr Vanphone (left), Nam Mo Village veterinarian, carrying out PanAust-sponsored livestock vaccination to an animal belonging to Mr Sonexay (right), Vice-Village Chief Nam Mo Village. Company vaccination programs have, to date, helped protect around 20,000 animals from disease and improved agri-business outcomes for local people.

Community development focuses on five main areas: education, health, agriculture, infrastructure, and microfinance and small business development. Community development programs are managed and implemented by the Company in partnership with local government and local communities. This partnership arrangement is covered by Memorandums of Understanding (MoU) between the Company and the Government of Laos for community development programs at Phu Kham, Ban Houayxai and Phonsavan. To ensure programs address real local needs, plans are developed in consultation with local communities with reference to data from socio-economic surveys and other sources. Annual plans are agreed to in consultation with local government to ensure alignment with national development strategies and goals, and to avoid duplication with existing government programs. During 2011, considerable effort was spent in updating and seeking agreement with all stakeholders on a revised MoU and CDF implementation procedures.

Annual audits against the IFC Performance Standards on Social and Environmental Sustainability provide a check that programs and outcomes are of a high standard and meet the development aspirations of local communities.

2011 education programs

During 2011, PanAust constructed a new primary-school building in Nam Mo Village to ease overcrowding in the existing school. A lower-secondary school was built in Napho Village to enable children from five local villages to continue their studies beyond primary level. School books, stationery, and uniforms were provided to 150 students from disadvantaged families in 14 villages close to the Phu Kham Operation.

Two-month summer-school programs organised in Nam Mo Village and Nam Gnone Village were attended by approximately 300 children.

In 2011, the Company invited students from three schools near to their Operations in Laos to participate in a 'sustainability' themed drawing competition. The illustrations aimed to reflect what the Company means to the students, and was based on key themes including environment, safety, community, training, equipment and employment. Twelve of the best illustrations were selected to feature in the PanAust 2012 Sustainability calendar, and each was framed and auctioned at the Company's AGM in Brisbane. The dollar amount raised was matched by PanAust and the total is being dispersed back to the schools through educational and sporting supplies.

In October, a one-week training course was held for Grade Three primary school teachers from 24 schools across Xaysomboun District, focusing on improved teaching methodologies. A separate one-week training course was organised for school directors from 25 schools to improve their capacity for school administration, planning, and reporting educational statistics. The training was organised in conjunction with Provincial Education authorities.

In May 2011, 25 adult learners (24 of whom were women) completed a three-month literacy and numeracy course in Nam Gnone Village. The course is part of a government drive to reduce the high rates of adult illiteracy common in rural parts of the country where educational opportunities have traditionally been limited.

2011 community health programs

A highlight of 2011 was the opening of health clinics at Nam Mo and Nam Gnone villages. PanAust funded initial start-up costs of the clinics including construction, supply of equipment and staffing. Under an agreement with the District Health Authority, the day-to-day management and supervision of staff has moved to the Authority, and after three years, responsibility for the clinics will be fully transferred.

A 4-wheel drive ambulance was provided to the Xaysomboun District Hospital by the Company; replacing a vehicle that was more than 10 years old. The new ambulance will enable remote communities to better access the District hospital, as well as patient transfer to other better-equipped hospitals when required. To improve the diagnostic capabilities within the District, an x-ray machine underwent repair.

Community health and wellbeing awareness sessions were held in local villages on topics including general health and hygiene, HIV prevention, mother and child health, malaria and dengue fever prevention, and road safety. Also in 2011, PanAust supported a campaign to fund free proactive health check-ups to local communities; 1,650 people used the service.

At Ban Houayxai, programs included awareness sessions on the transport of dangerous goods in readiness for commencement of gold-silver production (see Health and Safety CASE STUDY on page 69).

In 2011, the PanAust corporate office in Brisbane commenced a process in partnership with a local Lions Club to acquire and ship surplus medical equipment from Queensland hospitals for use in hospitals in Laos. One forty-foot container of medical equipment and supplies was delivered in the first quarter 2012.

2011 agriculture programs

2011 community agriculture programs continued to promote the development of sustainable livelihoods involving aquaculture, horticulture, and animal husbandry with the intention of creating a balanced local economy that is not overly dependent on the mine and can continue to function after mine closure.

In the field of aquaculture, training was provided to local villagers on fish breeding and fish-food production to reduce farm input costs; consequently boosting returns. Fish farmed in local villages continued to be purchased by the Phu Kham Operation.

Livestock vaccination programs focused on training and assistance for village vets to help protect around 20,000 animals from disease. A total of 500 families from five villages benefited from this program.

To help increase the quality, quantity and diversity of agricultural production, training was provided on wet-season vegetable cultivation, improved methods of rice farming, and production of organic insecticides. Large quantities of local vegetables were purchased from local communities by the Phu Kham Operation which provides a valuable source of cash income to participating families. In the longer term the Company will establish programs to help local farmers find alternative markets for agricultural products in order to reduce dependency on the mine.

At Ban Houayxai, training has been provided to local villagers to help establish a market garden farmers cooperative in preparation for selling vegetables to PanAust during 2012.

2011 infrastructure programs

During 2011, 272 families were assisted to construct household latrines in Nam Mo and Nam Gnone villages, thereby lifting the coverage rate of household latrines to 100 per cent from less than 50 per cent. The Company provided a basic set of construction material, with villagers contributing additional material and all labour.

To reduce dust impacts and improve road drainage, road sealing in all villages along the concentrate haulage route from Phu Kham to Ban Palai was completed in 2011. Following the extreme mid-year rainfall events, the Company carried out major repairs to approximately 38 kilometres of roadway to assist local communities recover from the natural disaster. These included removing landslides and slips, repairing bridges and re-building washed-out sections of road (see Economic CASE STUDY on page 29).

2011 small business development (including micro-finance)

The Phu Kham Operation purchased almost US\$360,000 worth of local products in 2011, almost double the amount of the previous year. Products purchased included fresh vegetables, farmed fish, oranges, geo-sample bags and drinking water. The Company provides villagers involved in these small-scale commercial activities with training and advice to help maximise revenues. The Company favours small businesses that provide benefit to a large number of villagers. By year end 2011, approximately 150 families benefited from Phu Kham's purchasing activities.

COMMUNITY continued...

The Phu Kham community development program has established a community micro-finance scheme, the Village Savings and Credit Fund (VS&CF), to assist local people overcome some of the difficulties of accessing credit in remote rural villages. During 2011, VS&CF support continued to be provided to two villages, and new funds were established in three additional villages. All five Funds recorded strong performance during 2011 as measured by membership, savings deposited, loan disbursement, and on-time loan repayments. By year end 2011, a total of 615 villagers, predominantly women, gained access to financial services through the program (up from 217 people in 2010 and is due to expansion into three additional villages).

Income generated from small business initiatives

PRODUCT	2010 US\$	2011 US\$
Vegetables	95,532	131,060
Fish	29,445	95,782
Oranges	6,625	8,400
Calico bags	41,831	55,966
Drinking water	10,273	66,998
TOTAL	183,706	358,206

The Company's immediate goal is to boost local food production to meet demand from the Phu Kham Operation. In the longer term, in the interest of post-mine sustainability, the focus will shift to enable participants' access to alternative markets and so reduce reliance on sales to PanAust operations.

Phu Bia Mining CDF spending by sector

CATEGORY	2009 US\$	2010 US\$	2011 US\$*
Agriculture	19,909	27,311	53,681
Development planning	0	20,000	-
Education and training	3,320	23,197	22,392
Health	13,986	6,915	67,826
Infrastructure	117,322	20,905	76,159
Microfinance	9,716	16,092	39,344
Outreach	80,000	81,055	3,458
Small business development	0	5,042	-
Village Development Committee	29,776	14,350	-
TOTAL	274,029	214,867	262,860

* 2011 CDF expenditure includes Ban Houayxai and Phonsavan (previous years for Phu Kham only).

In Thailand, PanAust has significantly downsized its activities as part of a strategic review of the Puthep Copper Project. The Company's community development expenditure for the Project totalled approximately US\$30,000 and included improvements to an early childhood centre and a temple, road safety activities, fish and frog farming projects, provision of scholarships to technical and vocational colleges, and assistance towards a community receiving a government funded water supply upgrade.

PanAust expenditure on Lao public roads (capital and maintenance)

YEAR	US\$
Up to and including 2009	16,296,000
2010	12,325,000
2011	9,391,000

Emergency relief and recovery

Following the extreme rainfall event in late June and early July 2011, PanAust provided emergency relief and ongoing recovery support to affected communities (see Economic CASE STUDY on page 29).

Community development awards

In 2011, PanAust received three awards recognising its community development achievements.

- In April 2011, PanAust received the best Community Development Initiative at the Asia Mining Congress Global Mining Sustainability Awards, Southeast Asia Category, for the Technical Trades Training Program at the Phu Kham Copper-Gold Operation. The award recognised the positive, long-term social and economic contribution that PanAust Asia's Technical Trades Training Program makes to local communities and the greater Lao economy.
- In December 2011, PanAust received the Australian-based Ethical Investor Sustainability Award within the Social and Community Category for the Livelihood Improvement Program in which PanAust community officers work with village and government representatives to build economic capacity through establishing sustainable small businesses within communities around Phu Kham.
- In December 2011, the Government of Laos awarded PanAust the Labour Order Medal Class 1 for the 'Best Development in a Rural Area'. The award is presented once every five years and recognised the Company's outstanding contribution to rural socio-economic development and poverty eradication in Laos between 2006 and 2010. The award was presented by Vice-President, His Excellency Bounnhang Vorachit (see Community Development CASE STUDY on page 59).

Image: Mrs Laomeevang, Nam Gnong Village market gardener, selling vegetables at a special market day held every Thursday morning in Nam Gnong Village.

PanAust's immediate goal is to boost local food production to meet demand from the Phu Kham Operation. In the longer term, in the interest of post-mine sustainability, the focus will shift to enable market-garden farmers' access to alternative markets.



COMMUNITY continued...

Artisanal and small-scale mining

In Laos, artisanal and small-scale mining (ASM) activities are present in several places within the Contract Area. Activities up to this point in time are generally low-density and are monitored by the government. ASM activities have occurred in the region for several decades.

Adjacent to operations at Phu Kham Operation there remains some presence of activity along the Nam Mo River near the village of Nam Mo and the Phu Kham Operation, although the extent of activities significantly reduced in 2011 compared to 2010.

PanAust closely monitors ASM activities that are in close proximity to the Operation and reports issues brought about by their presence to local, district, and provincial authorities. The Company recognises that a growing ASM industry can influence social order and community health. As such, PanAust personnel work with communities to provide awareness around these issues.

A number of subcontractors extract sand to support the Phu Kham Operation from the same area at the Nam Mo River where ASM activities are occurring. PanAust closely monitors the environmental performance of these contractors and they are subject to the same conditions and operating standards as other contractors and employees. The Operation purchased and commissioned a sand and gravel crushing/screening plant that allowed feed material to be sourced from a quarry in the existing pit from mid-2011 thereby reducing the presence of Company contractors sourcing material from the Nam Mo River.

Resettlement

PanAust's policy is to minimise involuntary resettlement, and to compensate fairly for adverse affects on communities where they cannot be avoided. To date, there have been no material instances where involuntary resettlement has been required by PanAust to develop projects or to operate at Phu Kham or Ban Houayxai.

Incidents

No material (Level 4 or 5) community and/or stakeholder engagement incidents were reported in 2011.

Image (left): Mrs Khammeng, Director of Dong Mee Kham Drinking Water Factory, in Nam Mo Village, expanded her business in 2011 through Phu Kham's Community Development Program.

Image (right): Members of the Phonsavan Copper-Gold Project team are based in the town of Phonsavan. The Project lies in the north of PanAust's Contract Area in Laos. Preferential recruitment strategies ensure a very high percentage of Phu Bia Mining's workforce are Lao nationals.

COMMUNITY CASE STUDY

PanAust received the Government of Laos Labour Order Class 1 Medal

Lao People's Democratic Republic is classified as a Least Developed Country (LDC); it has an annual per capita GDP of around US\$1,200 per annum. Around 80 per cent of the population is reliant on subsistence agriculture and therefore highly vulnerable to weather fluctuations, crop failure, illness, and other unpredictable hardships. As such, poverty alleviation is a central priority for the Government.

PanAust has made an important contribution to the lives and aspirations of the communities around its Operations and Projects. The Company's socio-economic health surveys report a five-fold increase in average local incomes since the commencement of activity at Phu Kham.

Of the recognition that PanAust has received for its community development initiatives, perhaps the most rewarding for the Company was the Labour Order Class 1 medal awarded by the Government of Laos and presented by Vice-President, His Excellency Bounnhang Vorachit in December 2011. The medal was in direct recognition of the Company's contribution to rural socio-economic development in Laos from 2006-2010. The award is presented only once every five years and is at the complete discretion of the government. As such, receiving the award was an unexpected achievement for the Company.

PanAust's key outcomes in rural socio-economic development are helping ensure the benefits of the Company's activities in Laos go well beyond providing employment, developing skills, and compensating affected populations to building sustainable capability among communities to enable ongoing, independent economic development.

With preferential recruitment strategies in place, at year end 2011, 82 per cent of Phu Bia Mining's workforce was made up of Lao nationals, of which around 30 per cent came from communities nearby to the Phu Kham Operation. Further, the Company's Technical Trades Training Program provides local people with a great opportunity to gain highly sought after Lao-recognised trade qualifications in a range of disciplines.

The Company's community programs which focus on education, health, agriculture, infrastructure, and micro-finance and small business development, are providing villagers with greater economic security and a broadening of the primarily subsistence agricultural economic base.

The Livelihood Improvement Program has seen numerous villagers establish and/or expand small businesses to help meet the growing demand for fresh produce and other goods from the Phu Kham Operation. To date, 98 per cent of Program participants are women.

PanAust is committed to providing long-term support to the Government of Laos' efforts to achieve long-term sustainable economic growth for its people and graduate from LDC status by 2020.



HEALTH AND SAFETY

Zero Harm is a philosophy where workplace incidents and injuries are considered unacceptable, regardless of their severity or frequency. PanAust continues to uphold its Zero Harm safety objective and reported a year-on-year improvement in safety performance for 2011.

PanAust's Vision and Values outlines the Company's commitment to health and safety. It is also explicitly addressed as the first requirement within the organisation's Code of Conduct and the organisation's leaders are required to promote a culture of Zero Harm. Health and safety objectives for lead and lag indicators are included in each manager's performance measures, and all managers contribute to the Company's annual Risk and Sustainability alignment meetings. Health and safety issues are managed by departmental managers with coordination and technical support by risk departments at each site.

PanAust's management systems are being developed to align with OHSAS 18001. Although no sites have been certified at the time of publishing, in January 2012, the Company undertook a gap analysis to assess progress on management systems implementation and priorities for continuous improvement. The Company recognises that behavioural safety programs are a fundamental element of creating a risk-aware culture, and these programs underpin the effectiveness of the management systems that are established. A proactive safety culture continues to be embedded across the growing PanAust workforce with a focus on Lao employees and contractors.

Formalised health and hygiene assessments were completed across PanAust's Laos sites in 2011. This was a recommendation identified through the 2010 IFC audits. While some work was already in progress at Phu Kham, the formalised assessment provided a systematic basis for prioritising and developing co-ordinated programs across the PanAust Asia business unit.

Risk management processes continue to recognise contractor management, mobile equipment and transport of personnel as safety challenges for operations in Laos. Transport and travel risks are also addressed at the Group level. Special focus continues in the area of contractor health and safety performance; the Company is expending considerable time and resources on improving the capacity of local contractors to achieve the same high health and safety standards that have been achieved within its own workforce. Progress for each area is discussed under this section.

PanAust has focused on growing the organisation safely, and as part of this strategy takes direct control of project implementation and construction management activities within Laos. A dedicated team of construction employees safely built the Ban Houayxai Gold-Silver Operation and are scheduled to complete the Phu Kham Upgrade Project by mid-2012. This approach ensures that the standards being implemented and the supervision provided for high-risk construction activities are aligned with PanAust's Management Systems.

Health and safety performance reporting

PanAust complies with the MCA guidelines for tracking and reporting health and safety statistics, plus Days Away – Restricted or Transferred (DART). Incidents are categorised according to the level of control the Company can exert. PanAust's procedures for incident classification are summarised in the table below. Controlled activities are used as the basis for reportable statistics. Influenced and monitored activities receive additional attention through contractor management programs.

The Company's Total Recordable Injury Frequency Rate (TRIFR) was 2.80, and demonstrated a year-on-year improvement to reducing serious injuries in the workplace. A report completed by Citigroup in January 2012, which analysed the safety performance of ASX100 Companies (based on 2011 data), ranked PanAust third out of the 81 participating companies for Lost Time Injury Frequency Rate (LTIFR).

Categories

PanAust's 2011 reportable statistics include controlled sites as described below.

CONTROLLED

These are work-related activities where PanAust can set safety, health, environment and community standards and directly supervise and enforce their application. Controlled sites include operational areas, private access roads, exploration base camps, and associated private access roads and drill sites.

Categories that are managed but do not form part of externally reported statistics are summarised below. These categories are subject to normal duty of care considerations as the level of PanAust involvement permits.

INFLUENCED

Activities external to controlled worksites where PanAust can influence standards but does not provide direct supervision. These activities are generally in public locations where contractors' activity may create some reputational exposure to PanAust, requiring closer attention to ensure standards for conduct and operations are closely aligned with PanAust requirements.

MONITORED

Activities such as service provision (freight of general goods and services to the mine site) where PanAust has little or no control over the selection or operations of that provider.

UNCONTROLLED

Activities where PanAust has no influence (regular public transport services) beyond the ability to select the provider based on its performance. Incidents resulting from these activities are not recorded.

Image: Mr Andreas Pena, Production Metallurgist at the Phu Kham Copper-Gold Operation, carrying out an inspection inside the SAG mill to assess liner wear and grate pegging.

PanAust recognises that behavioural safety programs are a fundamental element of creating a risk-aware culture. A proactive safety culture continues to be embedded across the growing PanAust workforce with a focus on Lao employees and contractors.



HEALTH AND SAFETY continued...

INX continues to be implemented across the Company and each year its functionality and use has improved. The system provides timely, consistent incident tracking, and reporting and analysis of implementation of the Company's proactive safety programs. 2011 focused on providing additional training to end users and further developing the analysis and reporting capability within the system. A good culture of reporting exists across the workforce, however it is recognised that further work is necessary to ensure that low-level actual incidents with a higher potential outcome are investigated fully and relevant learnings shared.

Incident log (injuries and reported safety incidents)

TOTAL INCIDENT	LOGGED	CLOSED OUT (12/11)
2009	870	673 (77%)
2010	764	362 (47%)
2011	780	460 (59%)

2009-11 PanAust Group reportable incidents (controlled work sites)*#

YEAR	HOURS	FATAL INJURIES	FATAL INJURY FREQUENCY RATE	LOST TIME INJURY FREQUENCY RATE	DAYS AWAY RESTRICTED TIME* (SEVERITY RATE)	TOTAL RECORDABLE INJURY FREQUENCY RATE
2009	^8,259,650	1	0.36	0.24	0.24 (3.63)	4.24
2010	12,896,451	0	0.00	0.47	0.62 (10.31)	3.57
2011	16,072,278	0	0.00	0.06	0.31 (4.35)	2.80

* Reportable Statistics prior to 2011 included both controlled and influenced activities. From 2011, PanAust has realigned its external reporting methodology with industry reporting to enable the organisation's performance to be transparently compared with its peers.

In July 2011, PanAust reported publicly that a fatal injury was sustained by an influenced contractor who was working on the public road approximately four kilometres from the Phu Kham Operation. The contractor employee was clearing a slip of land, to access other equipment, when a second much larger landslide occurred. The slip swept the machinery with its driver into the valley below. The incident occurred during the severe regional rainfall events that also affected other parts of Northern Laos. PanAust assisted the contractor with emergency response, investigation and recovery of the driver following the event.

^ Previously Phu Bia Mining man-hours only (since 2010 expanded to PanAust Group).

+ DART does not include fatal injuries.



Image: Mr Amnuay Paichoo, Ban Houayxai Crane Rigging Supervisor, during the final stages of construction of the Ban Houayxai Gold-Silver Operation.

Lost Time Injury incident summary

During 2011, one Lost Time Injury (LTI) – totalling 15 days lost – was recorded on controlled worksites across the PanAust Group to end the year with an LTIFR of 0.06. This was a reduction from six LTI events reported for 2010. The 2011 injury related to a contractor employee working for Vororath Construction (VRC) at Ban Houayxai under the supervision of the Projects Implementation Team. The assistant fitter received severe lacerations to the left side of his face, when the grinder he was using kicked back through his face shield while cutting high-density polyethylene pipe. The ensuing investigation determined that the level of supervision and the tool selected for the task were not appropriate for the job in progress. The equipment was removed from the workplace and replaced with appropriate tooling. Additional supervision and hazard awareness training has been implemented for personnel completing this type of task.

Leadership in health and safety

Since 2009, PanAust has held annual workshops with senior managers from both the corporate and operational areas to progress safety leadership programs and to develop a Group action plan for the coming year in the areas of safety and sustainability. The workshops are highly successful with respect to ensuring that each level of the organisation and workgroup is aligned on the material safety risks, strategies and programs across the organisation. The workshops also provide an opportunity to discuss and address common issues or challenges, and report on progress against the previous year's plan. Through the workshops, programs are prioritised and the organisation's key elements of safety leadership – commitment, visibility, accountability, and consistency – are discussed.

Focus areas from the 2011 workshop included the following.

- Increase management visibility in safety.
- Implement Cardinal Rules.
- Development of a standard tool for incident investigation and reporting.
- Health and safety risks addressed in operational risk registers.
- Improve contractor management.

Progress against each area is referenced either in this section or elsewhere in this Report.

Visibility of management in safety

Visible safety leadership is a driver for both setting the Company's safety standards and for developing the desired safety culture. Positive performance indicators are established, and include the engagement of managers in proactive safety and risk management processes. Annual targets are established and tracked within operational business units. In addition, the Company's short-term incentive scheme includes a significant safety performance component for all organisational levels.

The Company has in place a Leadership Development Program, and from 2012 a new module specific to safety leadership will be included as a mandatory requirement. The module targets supervisory, superintendent and management levels and aims to equip leaders with the necessary skills to create a risk-aware culture, while providing practical steps to foster a positive safety workplace where working in an intrinsically safe manner is a priority for all.

PanAust Cardinal Rules

Cardinal Rules are a set of simple rules which are communicated as the organisation's zero tolerance standard on those safety breaches that historically, within a mining environment, have resulted in serious injury or a fatality. The rules cover requirements for operating mobile equipment (including zero tolerance for drugs and alcohol), working at heights, tagging and isolation, confined space entry, and handling UXO in Laos.

Given the serious consequences for breaching the rules, the rules must be unambiguous and implemented only after all employees are fully educated in their importance and have the necessary training and competencies to be able to fully comply.

PanAust Cardinal Rules

1. Never operate any mobile equipment whilst under the influence of alcohol or drugs.
2. Never operate any mobile equipment unless specifically licensed, trained or properly authorised to do so.
3. Never maintain any equipment before first rendering it safe by isolation, unless specifically licensed, trained or properly authorised to do otherwise.
4. Never remove, modify or bypass a personal danger tag or lock unless properly authorised to do so.
5. Never work at heights greater than two metres unless either the work area is fully guarded to prevent falls or appropriate personal fall protection is worn.
6. Never enter a designated confined space unless properly authorised to do so.
7. Never instruct another person to breach a Cardinal Rule.

Phu Bia Mining Supplementary Cardinal Rule (applies only in Laos due to the presence of UXO)

8. Never handle UXO unless specifically licensed, trained or properly authorised to do so.

HEALTH AND SAFETY continued...

In 2011, the Cardinal Rules training package was developed and introduced to all PanAust employees based in Laos. The program was completed by 1,610 existing employees. Since March 2011, Cardinal Rules have been part of the general site induction program and delivered to all new employees and contractors working on controlled sites. The implementation phase has identified that working at heights is an area where additional focus is required to enable full compliance with the rules. Risk assessments are being implemented to identify and develop appropriate management strategies for mobile maintenance activities where the rules cannot yet be fully met. In 2012, training in Cardinal Rules will be rolled out across all contractors' activities on Phu Bia Mining controlled sites.

Incident investigation

The Incident Cause Analysis Methodology (ICAM) is established as the Company's root cause analysis tool for investigating significant incidents. PanAust's goal for 2011 was to develop a complement of capable Lead ICAM Investigators to support the analysis process. By year end, 36 senior employees were trained by an external Australian registered training organisation (Safety Wise), and investigations using root cause analysis have commenced to meet Company requirements for rigorous incident investigation.

Contractor management

Operational risk registers have consistently identified supply and logistics, earthworks and road maintenance contractor issues as PanAust's foremost exposure to material risk. At the same time, the Company recognises that if it is serious about partnerships and spreading the economic benefits within the broader community in developing countries, it must be inclusive in both engaging a wider range of local contractors and acknowledging that those partnerships bring short- to medium-term capacity issues requiring special attention. Lao contractors make a significant contribution to the ongoing construction of Phu Kham's TSF, road maintenance on its access roads, transportation of concentrate haulage, and – particularly throughout 2011 – earthworks and construction activities for the development of Ban Houayxai.

In previous years, Lao contractors have not met the Company's high performance safety standards and it is pleasing that each year progress is made towards improving the capacity of contractors to operate safely and bridge the gaps in performance. Contractor management continues to be high risk but is an area that demonstrates improvement. Dedicated resources and targeted programs continue to be used to monitor and influence contractors' safety performance.

The 2011 Contractor Management Plan consisted of 21 elements and focused on 41 local partners supplying contract services to the Company and using approximately 500 pieces of heavy equipment and some 3,000 contractor employees. A dedicated contractor safety management team has been embedded within the PanAust Asia business unit to support Phu Bia Mining Contractor Managers with capacity building, management systems development, and compliance auditing for their local contractor groups. Periodic systems audits and physical inspections are undertaken to ensure standards are being implemented and adhered to. It is well recognised that hazard awareness and other Company proactive safety programs are an essential part of growing the contractor's own risk-aware culture. The Contractor Management Plan continues to focus on engaging senior personnel from contractor companies in the PanAust proactive safety programs, in addition to workers on the ground. Contractors working on operational worksites are also subject to the requirements of Phu Bia Mining's fitness for work program.

In 2011, the Company put additional steps in place to improve the safety performance of concentrate haulage contractors within the steep mountainous sections of road between Phu Kham and Ban Thouy. A driver simulator was purchased to assist in the training of contractor (DSG) driver skills. Escorted convoys and GPS tracking systems were also implemented to modify driver behaviour and support the zero tolerance to breaches of set speed limits. Maintenance programs were also improved with a dedicated workshop for maintenance including a brake testing facility being established and a fatigue management plan developed to support the 24/7 haulage operations. By year end, the Company decided to take full control of concentrate haulage activities in the mountainous section of Laos, including direct control of a new fleet of trucks, maintenance activities, and employment of drivers. Throughout 2011, roads in the mountainous section continued to be upgraded through sealing and by reducing gradients. Additional unplanned and restorative upgrades were also completed following the extreme rainfall events during June and July which left many sections impassable or in unsafe condition for general public use and mine-related logistics.

The 21 elements of the Contractor Management Plan were provided on page 66 of PanAust's *2010 Sustainability Report*.

Image: Emergency response training (a fire-fighting drill) at the Phu Kham Copper-Gold Operation.

In 2011, implementation of the Company's safety programs transferred to an established regional training function within PanAust Asia to ensure consistent deployment of health, safety and environment training and an audit function to ensure the mandatory training requirements are being met across all work sites.



HEALTH AND SAFETY continued...

Mobile equipment and vehicles

Both employees and contractors operate mobile equipment at the mine sites and driving is the main form of transport for staff travelling between Vientiane, Phu Kham and Ban Houayxai.

Improvements to road surfaces, road width, and reduced gradients to high-risk sections of road have significantly improved access to both Phu Kham and Ban Houayxai. In addition, random breath-testing, monitoring of travel times, periodic speed checks, and driver safety training have helped to ensure that drivers develop risk awareness and good behaviours. In addition, new transport vehicles were procured for Phu Kham and escorted passenger convoys were introduced in 2011 to improve traffic management through the mountainous sections of road.

Programs to develop and enhance driver skills continued to be a focus, and in 2011 this was enhanced with the purchase of a light vehicle simulator in addition to the heavy vehicle simulator used to train the mining operation's dump truck operators. Driving simulators provide a safe work environment for employees to train and practise skills using equipment designed to reproduce the features of the equipment they are driving under a range of environmental conditions. Some 35,000 hours of mobile operator training was completed during 2011 with a focus on ensuring an operationally ready workforce for Ban Houayxai.

Also in 2011, 4,400 hours of high risk machinery training was completed including forklift, skidsteer loader, elevated work platforms, and gantry crane, and slinging and lifting, through an Australian Registered Training Organisation (RTO). The training requires employees to be assessed as competent and provided with a verification certificate to the Australian Competency Standard.

Aviation

The Company has developed a Group Standard for Aviation and Travel outlining the minimum requirements for managing aviation, vehicle and security travel risks during travel to and from business locations. Aviation consultants are engaged to conduct periodic audits of all long-term aviation charter companies engaged by PanAust. Desktop

audits are completed for ad-hoc charters. In 2011, the Company completed audits of charter operators providing services in Laos and Chile. PanAust also subscribes to Controlled Risks Security, an on-line service, and to an Airline Risk Evaluator to guide the selection of commercial airlines and other one-off charter requirements, and for the provision of background information and alerts for employees travelling on Company business.

Health and safety training

PanAust requires all employees, contractors and visitors to be inducted prior to entering PanAust-controlled work sites. Standardised General Safety and workplace specific inductions form part of the induction programs.

The Company's mandatory core safety training programs include: hazard identification, Take 5 safety awareness, introductory and advanced job safety observation, job safety analysis, workplace inspections, and risk assessment and control. The Occupational Health and Safety Training Plan incorporates a staged rollout of these programs to the workforce. Other specialised training includes permit to work systems, confined space, dangerous goods, first aid, personal protective equipment usage, safe work procedures, and management systems training.

In 2011, implementation of these programs transferred to an established regional training function within PanAust Asia to ensure consistent deployment of health, safety and environment training and an audit function to ensure the mandatory training requirements are being met across all work sites. In 2011, almost 22,000 hours of induction and health, safety and environment training were completed, in contrast to 10,900 hours in 2010. The increase represents the focused efforts to train staff in preparation for the Ban Houayxai Gold-Silver Operation, and the Phu Kham Upgrade Project, as well as the realised benefits of an established centralised training function delivering training, recording and reporting on health, safety and environment training.

Community health and wellbeing

The Risk Department coordinates a community health and wellbeing program which covers topics overlapping both work, and more general community health issues. A monthly health and wellbeing newsletter is used to raise awareness on relevant health-themed issues in the workplace.

In addition, the Operations coordinate health and wellbeing awareness programs in conjunction with village health centres, and district and provincial health authorities. The sessions are well attended by community members and enable broad distribution of relevant information and education for the community (see page 55 for further information).

Unexploded Ordnance

Between 1964 and 1973, approximately two million tonnes of ordnance (explosive weapons) were dropped on Laos of which an estimated 30 per cent failed to detonate. This has resulted in approximately 78 million potential unexploded ordnance (UXO) remaining. UXO continually hinder daily life and pose restrictions on socio-economic development and the safety of local residents, employees and contractors.

UXO are not prevalent at the Phu Kham Operation, and have a reasonably low-level presence at Ban Houayxai. At Phonsavan where the Company is undertaking exploration activities the presence of UXO is much higher and requires stringent clearance procedures to be adopted prior to working in the field. People undertaking work in these areas undertake a comprehensive UXO specific induction.

Milsearch, an accredited UXO detection and removal contractor, are engaged by the Company to undertake all clearance work in advance of any activity on previously un-cleared ground. Teams using hand-held metal detectors carry out shallow searches up to 25 centimetres. In some cases deeper searches are required using specialised equipment and procedures to a maximum depth of 12 metres.

Teams locate, identify and, where required, destroy any UXO. More than 90 trained Lao-national UXO clearance employees are supported by Level 4 UXO Disposal Technicians – the highest accreditation awarded for these activities. During 2011, more than 181 hectares of land was decontaminated, safely disarming 1,115 pieces of UXO.

Between 2001, when the clearance program began, until the end of 2011, more than 446 hectares of land has been decontaminated. No material incidents or injury have been recorded over that period. Three non-material incidents and three breaches of general working procedures were investigated and recorded in INX during 2011.

In December 2011, PanAust engaged CSG Demining Consultants to provide a UXO risk assessment as part of the Phonsavan Scoping Study and an independent review of the UXO contractor's performance. The assessment aimed at identifying all requirements for UXO clearance at Phonsavan and the most effective and efficient methods to meet future requirements.

Security

The Phu Kham and Ban Houayxai Operations are located in an area of Laos that was historically the location of insurgent activities, largely as a result of the Indo-China conflicts of the 1960s and early 1970s. While now stable, the Xaysomboun District remains one of the least developed in Laos and the legacies of conflict remain in evidence, and at times, security-related incidents have occurred within close proximity to these locations.

The Xaysomboun District was formerly a special zone under military administration and as a requirement of foreign investment presence, PanAust is required to have an LPA presence to ensure security and stability. The Company works closely with the LPA, under strict standards observed through Memoranda of Understanding, to ensure an appropriate security presence.

HEALTH AND SAFETY continued...

PanAust is committed to carrying out regular third-party security audits. The next audit is scheduled for 2012. 2011 activity focused on progressing the agreed audit recommendations from the 2010 Controlled Risk Security Audit. First response security protocols were formalised at each site, which provide the organisation with a proactive and precautionary approach for responding to security incidents that arise within the concessional lease. The protocols include addressing requirements around remote work and exploration activities.

In the first half of 2011, the Company experienced a number of security incidents within the Contract Area where the protocols were implemented. In May, PanAust reported that a security incident had occurred close to the Company's former Heap Leach Operation, and approximately six kilometres from the Phu Kham Copper-Gold Operation. The incident involved a Company security vehicle which was fired upon by unknown assailants. No personnel were injured and the Phu Kham processing operations were not impacted. The first response protocols were tested, and measures adopted provided an appropriate precautionary response in order to minimise any unnecessary safety risks to personnel. PanAust also reported a number of sporadic security incidents within the Contract Area in Laos over the course of the 12 months prior to the May incident. There was no evidence to suggest that PanAust was specifically targeted in any of the incidents, however the Company took a proactive and precautionary approach by implementing enhanced security protocols to protect its employees and contractors at these times.

PanAust has designed and implemented security systems for the Ban Houayxai Gold-Silver Operation which are aligned with industry best practice and appropriate to the security profile for the Operation's location. In April 2012, an audit against the design criteria for construction and operation will be undertaken by an external consultant to assess compliance as operational activities commence.

Crisis management and emergency response

The Company is committed to annual reviews of its Crisis Management and Emergency Response Plans. Crisis Management Plans are developed at the Group, business unit and operational level. The plans are interlinked and the triggers have strong linkages to existing risk registers, incident and emergency management plans. Each year, training is conducted with senior management and scenarios tested to ensure the plans are updated, remain relevant and that the management team are aware of the appropriate triggers and communication processes to be used. Some 60 staff participated in the 2011 training, which included three inter-level desktop scenarios and a live field response drill. PanAust's *2010 Sustainability Report* (page 66) provides information around the Company's Crisis Management Framework. The Company has an Employee Assistance Program to support employees who may require short-term support for personal or work-related reasons.

All sites have emergency preparedness and response plans in place. In 2011, dedicated professional Emergency Response Team (ERT) and ERT equipment was established at Ban Houayxai to complement the team that is in place at Phu Kham. Sites are equipped with doctors and paramedics, and trauma management clinics. ERT equipment includes fire-fighting, road accident rescue, hazmat, water rescue, and roping and trauma management equipment. Teams complete training modules equivalent to an Australian Certificate 3 in Mines Rescue. Certificate 3 from Australian Training Frameworks is an agreed minimum standard for training (Certificate 3 in Mines Rescue is a module in a Diploma/Degree course in mine management). In addition, teams complete regularly scheduled drills and participate in daily skills exercises. Seventy-eight ERT training simulations were carried out by Lao teams during 2011. The Phu Kham Operation also provides emergency trauma support and emergency response on request from its local communities.

Image (left): The Ban Houayxai Emergency Response Team carrying out a fire-fighting drill following the completion of an advanced training course.

Image (right): An uncontrolled cyanide pellet spill emergency response drill at Ban Houayxai. The drill requires the use of full self-contained breathing apparatus and chemical splash suits as demonstrated by Emergency Response Team personnel, Mr Thongthao Thao and Mr Phonexay Xayhour.

HEALTH AND SAFETY CASE STUDY

Building safety capacity prior to production

Throughout the second half of 2011, Ban Houayxai's Safety and Emergency Response Team fast-tracked a range of essential health and safety initiatives to ready the Operation for commissioning and first production to occur in May 2012.

Ban Houayxai is located among rugged mountainous terrain and is accessed via a steep winding road or, due to it being largely surrounded by the Nam Ngum 2 Reservoir (a recently completed hydro-electric dam), by boat; normally a speed-boat. The Operation has a mostly new workforce (including those who transitioned from Phu Kham) and also relies heavily on contractors.

Throughout the Operation's planning and development, risk management processes pointed to the use of cyanide and road transport (of personnel and goods) as being the two major risks for Ban Houayxai. As cyanide is transported to the Operation via road transport, there is also a significant overlap between the two key risks.

By the end of September 2011, the Ban Houayxai ERTs were recruited; comprising three sub-teams of doctors, paramedics, emergency response technicians, safety officers and support administrative staff. As most of the team members were recruited locally and had no mining experience, intense training followed including a 10-day course (equivalent to Australian Certificate III in mines rescue) covering core topics such as cyanide emergency response, road and water accident rescue, roping, fire-fighting, trauma management and senior first aid. The Ban Houayxai ERTs are equipped with a trauma management clinic, and fire-fighting truck and associated equipment. Since being recruited, the teams carry out daily training exercises and scheduled drills, and receive ongoing coaching and mentoring to ensure career

paths and skills are maintained and updated. This program of training also enables specialist skills succession planning for the Company. During 2011, 78 emergency response training simulations occurred.

Also throughout the second half of 2011, in accordance with ICMI and international operational best practice, a program of cyanide and cyanide transportation awareness took place among communities along the Ban Houayxai access road. Topics focused on cyanide facts and transportation, and the systems and structures that ensure it moves securely. Initially, public noticeboards were used to distribute information, followed by sessions held within villages where local people were encouraged to discuss the topics and ask questions. The sessions are ongoing and no grievances or questions relating to cyanide have been raised by the community outside of them.

Health and safety systems and communications were also boosted in the lead up to production commencing at Ban Houayxai, and included development of proactive lead indicator targets, a weekly safety newsletter, INX training to improve data collection and analysis, and Take 5, hazard identification and Job Safety Observation training.



RESPECTING OUR PEOPLE

PanAust has an integrated suite of human resource policies and support systems to ensure high-calibre people are attracted, rewarded, developed and retained. This strategy, together with a strong focus on training, health, safety, individual achievement plans, and leadership development, also helps the Company align employees with the Vision and Values and behavioural expectations.

Workforce composition

At year end 2011, PanAust's total workforce numbered 3,373 full-time employees.

PanAust's subsidiary company in Laos, Phu Bia Mining, increased its workforce from 2,219 in 2010, to 3,312 full-time (permanent and fixed-term) employees in 2011 (49 per cent growth).

In 2011, a significant amount of recruitment occurred as part of the construction and development of the Ban Houayxai Gold-Silver Operation and the Phu Kham Upgrade Project. The Company has an operational readiness strategy that ensures the early employment of a permanent workforce to allow for training and development of systems well in advance of commissioning and operations. Other employment growth throughout the year can be attributed to further development of the shared service function within the PanAust Asia business unit to support a multi-operational environment, expanded exploration activities, and the Company undertaking its own construction management for Ban Houayxai, the Phu Kham Upgrade and other ancillary construction activities.

PanAust's recruitment and selection strategy provided the framework for new roles at Ban Houayxai being filled by skilled employees from Phu Kham wherever possible, and via targeted recruitment within local communities. This strategy provides career development opportunities for existing employees and increased employment options for local Lao nationals.

International/regional diversity within full-time workforce in Laos 2011

REGION	
Lao national	2,732
Expatriate from countries mainly within Southeast Asia including developing countries	433
Australia and other Western economies	147
TOTAL	3,312

The establishment of PanAust's presence in South America, and an increasing business demand for technical support within scoping, feasibility, operational improvement, and project development activities across the Group saw employee numbers in Chile and the Brisbane office also increase in 2011. By year end, PanAust had 13 full-time employees located in Chile, and 39 in Brisbane. Nine full-time employees were also based in Thailand.

PanAust promotes and encourages diversity and encourages people from different backgrounds to work with the Company thereby bringing a variety of perspectives and a broad combination of skills and experiences into the business. In 2011, a Diversity Standard was developed in accordance with the Employee Policy, which was also introduced in 2011. The Diversity Standard and Employee Policy are available on the Company website, www.panaust.com.au/corporate-governance.

At year end 2011, 15 per cent of PanAust's total workforce was female with 25 in management roles; representing 9.9 per cent of management. Within the Lao-based workforce, 15 per cent were female; of these 14 were in management roles, 50 in supervisory/professional roles, and 61 in roles that are typically filled by males such as heavy equipment operators.

A combination of PanAust's commitments, objectives, and existing programs will continue to enable further Lao-national and female involvement within all levels of the business.

Image: 2011 Female Employee of the Year winner, Ms Manilath Arounlangsy (right), Senior Communications Officer PanAust Asia, being presented her award by Ms Vanessa Phipps (left), Human Resources Superintendent PanAust Asia.

PanAust has an integrated suite of human resource policies and support systems to ensure high-calibre people are attracted, rewarded, developed and retained.



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2011 PBM Employee Awards Presentation Ceremony



RESPECTING OUR PEOPLE continued...

WORKFORCE STATISTICS YEAR ENDING 31 DECEMBER	2009	2010	2011
PanAust Group total full-time employees (permanent and fixed-term contract arrangements)	1,677	2,266	3,373
Phu Bia Mining total full-time employees (permanent and fixed-term)	1,644	2,219	3,312
PanAust Group female employees	19%	18%	15%
Lao employees as a percentage of all Phu Bia Mining employee in Laos (permanent, fixed-term and local casual)	85%	84%	84%
Phu Bia Mining expatriate employees working in Laos (permanent and fixed-term)	15%	16%	18%
Casual Lao employees	86	568	421

The number of employees working under casual contract arrangements per month can significantly vary depending on Company projects, exploration activities and seasonal factors. The number of casual employees at year end 2011 was 421 and related predominantly to project-related construction activities.

From 2008 to 2011, Phu Bia Mining experienced a minor increase in the number of expatriate employees as a result of an increase in skilled and experienced fixed-term and permanent expatriates required for the construction, commissioning and initial operational phases of the Ban Houayxai Operation and the Phu Kham Upgrade. Excluding the Projects group, 11 per cent of the permanent workforce are expatriates, 89 per cent are Lao nationals (reflecting a net increase in the percentage of Lao employee numbers during the 2011 period), and 16 per cent are females. The year-on-year percentage decrease of females may be attributed to the lack of skilled female candidates available for hire into construction and trades roles.



Image: Mr Bouangern Buddaoum (foreground), Process Operator, and Mr Maity Vongsomphun (background), Senior Process Operator, monitoring the process plant at Phu Kham.

Breakdown of Phu Bia Mining employees by role category 2011

ROLE/PROFESSION	EXPATRIATE		TOTAL LAO		TOTAL LAO FROM ADJACENT VILLAGES		TOTAL	
	NO.	%	NO.	%	NO. ^	%#	NO.	%
Management	176	79	47	21	0	0	223	7
Supervisory/professional	195	40	295	60	12	2	490	15
Admin/skilled	0	0	313	100	21	7	313	9
Operator/trade	209	16	1,106	84	231	18	1,315	40
Junior/unskilled	0	0	846	100	349	41	846	26
Trainee labourer	0	0	89	100	35	39	89	3
Graduates*	0	0	36	100	0	0	36	1
TOTAL	580	18	2,732	82	648	20	3,312	100

* The graduate grouping is new to the table this year. ^ These numbers are a proportion already comprised in the total Lao numbers. # As a percentage of total roles.

In 2011, 21 per cent of management roles were held by Lao nationals along with 60 per cent of supervisor/professional roles. Compared to the 2010 reporting year, Lao representation in management roles increased by three per cent, and in supervisory/professional roles by five per cent in 2011. This is attributable to PanAust's localisation strategy and programs to develop leadership skills and capability in the Lao-national workforce. A corresponding year-on-year decrease of expatriates in management and supervisory roles (82 per cent down to 79 per cent, and 45 per cent down to 40 per cent respectively) also demonstrates the Company's strategy of up-skilling Lao-national employees and promoting competent staff into leadership roles.

Eighty-four per cent of operator/trades roles were occupied by Lao nationals; a minor decrease on last year (88 per cent). The increase was due to the recruitment of a large number of skilled expatriates to fill trades roles in the mobile maintenance team to service an expansion of the truck and shovel fleet. All remaining role categories (admin/skilled, junior/unskilled, trainee labourer and graduate) contained a representation of Lao nationals consistent with the previous year.

Minority groups

The Company has a diverse Lao workforce reflective of the different ethnic groups represented including Lao Loum, Hmong, and Khmu. These groups comprised a total of 82 per cent of the Company workforce in 2011 and is in a similar range to previous years (85 per cent in 2009, and 84 per cent in 2010). A slight downwards trend will taper off as expatriate employees working on construction and project activities at Ban Houayxai and Phu Kham complete fixed-term contracts.

Lao nationals as a percentage of total Phu Bia Mining workforce (permanent and fixed-term)

YEAR	PERCENTAGE
2009	85%
2010	84%
2011	82%

Nam Mo and Nam Gnone are the two villages in the immediate vicinity of the Phu Kham Operation. Company representatives from human resources, security and the community relations group meet with community leaders of each village as well as elected district representatives regarding employment matters at least once per month.

PanAust's recruitment policy aims to limit the impact of in-migration to these villages and the surrounding areas where the Company operates. The Company's community relations group monitors migration trends against historical migration information. Long-term residents of local communities (defined as people living in the villages prior to 2005) are identified in applicant lists and prioritised for suitable positions. The human resources team monitors employment statistics of local residents from these villages as new employees are engaged.

RESPECTING OUR PEOPLE continued...

2011 Phu Bia Mining Lao workforce by ethnic group and location

	HMONG		KHMU		LAO LOUM		TOTAL	
	NO.	%	NO.	%	NO.	%	NO.	%
Ban Nam Mo	3	1	105	80	174	64	282	41
Ban Nam Gnone	189	67	4	3	18	7	211	31
Longxan community	7	2	2	2	4	1	13	2
Road to mine	1	0	0	0	1	0	2	0
Xaysomboun	80	28	19	14	42	15	141	20
Ban Nasaisavang	3	1	2	2	34	12	39	6
TOTAL	283	41	132	19	273	40	688	100

2011 total local residents employed by Phu Bia Mining (breakdown of proportion within each ethnic group)*

	HMONG		KHMU		LAO LOUM	
	NO.	%	NO.	%	NO.	%
Ban Nam Mo	3	1	105	37	174	62
Ban Nam Gnone	189	90	4	2	18	9
Longxan community	7	54	2	15	4	31
Xaysomboun	80	57	19	13	42	30
Ban Nasaysavang	3	8	2	5	34	87

* Nam Mo is ethnically Khmu and Lao Loum, and Nam Gnone and Xaysomboun District are ethnically Hmong.

Employment with PanAust has generated opportunities for local people to broaden their work experience outside of their local area. PanAust's strategy to provide opportunities and promote internally has focused attention on training and development to enable employees to be appropriately skilled and readily transferred and/or promoted within the organisation. At year-end 2011, 25 per cent of the total Phu Bia Mining Lao workforce were originally employed from villages adjacent to Phu Kham and Ban Houayxai, and from the local Xaysomboun District. There are now employees working outside their local area and/or home district within the shared service function, the Ban Houayxai Operation, the exploration group, and project implementation teams.

Employment and diversity

The Company's employment approach is to provide positive employment preference to people from immediate local communities who have the appropriate aptitude and potential capability and/or the skills and experience for a particular role. Vacancies are internally assessed to determine whether suitable candidates may be sourced within the local community prior to advertising in Laos, then regionally in Asia, or internationally. A statement on recruitment advertisements in Laos promotes the Company's practice of Equal Employment Opportunities (EEO) and encourages women to apply for roles. Preferential procedures are in place for local hiring ensuring a strong presence in local markets.

Recruitment processes secure a strong shortlist of suitable Lao national candidates through the use of Q-Test: a culturally neutral, language-free assessment tool that establishes a candidate pool with strong cognitive capacity and 'trainability'. In this way, candidates are not excluded due to a lack of formal/higher level education or language barriers.

For positions that require a certain level of education to meet the demands of the role and to perform effectively, a tool other than Q-Test is used. For these roles, short-listed candidates undergo a non-discriminatory behavioural-based interview, which asks the same question of each candidate for the same role and looks for behavioural examples of past performance to judge future performance. At least one human resources representative is present at each interview usually with a line representative who is trained in behavioural interviewing to ascertain alignment of skills and experience to the role requirements, and to ensure a non-discriminatory process is followed. Once reference checks are completed (at least two are required), employment contracts are presented directly to candidates by a human resources representative or the recruiting manager. Candidates who accept employment do so by their own free will.

PanAust's Recruitment and Selection Standard covers EEO, and contains processes to ensure minors are not employed as well as strategies to encourage diversity. These topics are also covered during employee inductions. The minimum age for employment is 18 years old and it is a Company requirement for employees to provide proof of age prior to commencing employment. A copy of a birth certificate or a nationally recognised equivalent (for example, in Laos the 'Family Book') is presented prior to commencement of employment. Through this process, the Company aims to minimise the risk of inadvertently employing children, thereby reducing the risk of child labour.

Employee relations and engagement

Employment terms and conditions for Phu Bia Mining employees are regulated by the MEPA and Lao Labour Law. The MEPA was developed in conjunction with the Lao Government and is registered with appropriate authorities and union bodies. Australian and Chilean based employees are covered by labour and workplace health and safety legislation as a minimum.

Harmonious workplace relations in Australia, Laos, Thailand and Chile resulted in no time lost due to labour disputes, strikes or lock-outs during 2011. All employees are engaged on individual contracts and are entitled to freely associate with whomever they wish. No employees are covered by a collective bargaining agreement. The Company promotes open communication between employees and managers as well as providing timely information to employees about human resources, operational, safety and environmental matters.

PanAust enhanced workplace communication within the Lao operations during 2011 with the implementation of a Workplace Representative Committee. Fifteen employees were elected to the committee (five representatives and two alternates for each). The committee was ratified by the Union Federation of Laos. It convenes on a quarterly basis and provides a forum in which matters affecting employees can be raised and discussed including safety and/or environment matters. Other forums for work and employment matters to be raised include regular meetings between the Company and local authorities, and direct two-way communication between managers and employees, and regular management-led departmental safety meetings. Regular, open communication ensures continued harmonious relationships and maintains the balance between Company and employee needs while ensuring high morale and productivity outcomes.

To create positive employment relationships, a representative from Phu Bia Mining's human resources, security, and community relations teams, meets with local authorities each month enabling two-way communication between the local community and the Company to raise awareness of human resource practices, and/or address any questions or specific topics local authorities may wish to cover. Emerging issues are also raised during these sessions.

Throughout 2011, there was regular communication to employees on Company performance and future plans. Various communication methods are used including Employee Briefings following quarterly, half-yearly and annual results, team meetings, tool-box talks, topical presentations, print media (notice-board postings, newsletters and memos), email, the Company's intranets and website, formal training sessions, and one-on-one communication during individual

performance reviews. These communication methods provide both formal and less formal settings for employees and managers to engage in discussion about various Company and employment matters.

To ensure the Company is positioned and prepared for further growth, the human resources group commenced a review of all policies and standards in 2011 to identify areas for improvement. An Employee Policy was developed to capture PanAust's high-level commitment to employees, and act as the leading framework from which all other human resource standards are derived. The Employee Policy will be formally rolled out in 2012 along with other new or revised employee standards. The Employee Policy is derived from PanAust's Vision and Values and links to other Company policies such as the Code of Conduct and the Sustainability Policy.

An annual review of human resource standards also ensures a quality, consistent, and robust approach to managing the life-cycle of employees and reinforces expected conduct, entitlements and benefits of working with the PanAust Group to employees and other stakeholders. Areas covered by Company human resource standards include succession planning, remuneration and benefits, operational and camp conditions, training and development, recruitment, health and safety, performance reviews and annual achievement plans (individual), disciplinary and fair treatment systems (for appeals), leave entitlements and anti-harassment. All Company standards are available on the intranet. A change management process is applied to any new policies or standards to assess the impact on employees and the business prior to implementation and communication.

Specific employment-related entitlements and benefits are outlined in each employee's contract of employment. Entitlements and benefits throughout the PanAust Group may vary depending on country-specific legislation (for example annual leave entitlements, parental leave entitlements, taxation, and pension/superannuation), contract type (temporary/hourly-rate, fixed-term or permanent) and conditions depending on work arrangements (for example, expatriate or local conditions). Variable salary components such as short-term incentive, bonus payments and long-term incentives (linked to the Company's share price) that are offered to all permanent employees as part of the Company's retention strategy are subject to employees meeting eligibility requirements based on tenure and contract type.

RESPECTING OUR PEOPLE continued...

Attraction and retention

Attracting and retaining skilled, experienced employees is viewed as key to managing the material risk associated with technical skills shortages in Laos and within the mining industry globally. Strategies ensuring the development of a sustainable pipeline of future talent include external training co-operatives, the Lao graduate development program, use of internal promotions and transfers, salary benchmarking to ensure local and international competitiveness, the Leadership Development Program, succession planning, targeted recruitment activities, and rewarding high performance against agreed goals and behaviours.

During 2011 in Laos, there were 281 promotions, plus 55 progressions within the same discipline. One-hundred and forty transfers at the same job level also occurred mostly due to Phu Kham personnel moving into roles at Ban Houayxai, as well as an effective internal promotion strategy to fill vacancies at the Phu Kham Copper-Gold Operation.

The strategy to fill new positions at Ban Houayxai with skilled employees from Phu Kham has enhanced career development opportunities internally and provided additional employment opportunities locally. The process outlined in the PanAust Recruitment and Selection Standard is followed in all cases of new position recruitment or internal transfers.

A relatively low voluntary turnover rate of 7.5 per cent across the PanAust Group – within a highly competitive labour market caused by a sustained mining boom – is indicative of an engaged workforce and relates to recruitment processes matching employees to jobs and internal career development opportunities.

Voluntary turnover in Laos, which was already low by industry commute roster standards, reduced in 2011 to 6.9 per cent for Lao employees; and to 13.5 per cent for expatriate employees. This is in contrast to similar commute operations in the Australian metalliferous mining industry where the average voluntary turnover for fly-in-fly-out operations was 22.6 per cent, and for drive-in/drive-out operations was 17 per cent for the period August 2010-July 2011 (as reported in Mackie Employer Solutions, *Resource Industry Turnover Analysis Survey Results*, April 2012).

By gender, the Group voluntary turnover rate as a proportion of the total workforce for male employees was 6.1 per cent and for females was 1.4 per cent. The total turnover rate within the female population at year end 2011 was 8.5 per cent, and within the male population, 7.3 per cent.

Exit interviews are conducted with willing departing employees to better understand the factors influencing decisions to leave as well as those seeking a change.

Group voluntary turnover average rate (per cent of total workforce)

YEAR	AVERAGE RATE
2009	10%
2010	9.8%
2011	7.5%

Group voluntary turnover rate by gender

YEAR	AS A PROPORTION OF TOTAL WORKFORCE		AS A PROPORTION OF GENDER	
	MALE	FEMALE	MALE	FEMALE
2011	6.1%	1.4%	7.3%	8.5%

Age demographic of employees across PanAust Group 2011

REGION	<20 YEARS	20-29 YEARS	30-49 YEARS	>50 YEARS	TOTAL NUMBER OF PEOPLE
Australia	0%	14%	65%	21%	39
Asia	3%	52%	40%	5%	3,321
South America	0%	8%	61%	31%	13

PanAust Group turnover rate by age demographic 2011*

	<20 YEARS	20-29 YEARS	30-49 YEARS	>50 YEARS
Rate	8.8%	6.2%	4.4%	12.0%

* No data for Thailand (nine employees/0.3% of the Group).

Twelve month average voluntary turnover rate by region 2011

REGION	RATE
Australia	13.2%
Asia	7.5%
South America	10.3%

Image: Mr Sanga Lasee, Mechanic, working with Mr Keoka Souriyachan, Trainee Mechanic, carrying out planned maintenance (replacement of load rollers) and on-the-job training on a CAT D10T dozer in the mobile maintenance workshop at the Phu Kham Copper-Gold Operation.

PanAust has programs and initiatives in place to ensure availability of skilled Lao employees for current and future operations and include: the scholarship programs, work experience, skills development, leadership development, and language training.



RESPECTING OUR PEOPLE continued...

Succession planning

Succession planning is co-ordinated by Human Resources twice per year to ensure organisational sustainability to manage risks around retention. The process involves a review of critical roles and role incumbents from supervisor level up to senior manager roles. The aim is to identify and develop future talent and high-potential employees as well as provide a strategy for continuity in all key positions.

Development plans are agreed between high-potential employees in terms of what is required from a development perspective in order to progress to another role or a higher role. This process is supported by the Leadership Development Program, EEO, internal formal training programs, the external education assistance scheme, and the temporary assignment policy. In 2011, PanAust Asia and PanAust Group Succession Planning meetings were held in March/April and again in November.

Travel risks relating to succession and business continuity at the Executive and Board level were addressed in 2011 through an update to the Company's aviation, vehicle, and travel security standards. Standards now include restrictions on Executives and Board members travelling together to mitigate operational risks associated with an unforeseen event.

Annual performance review and pay rates

PanAust has established market competitive remuneration by determining rates of pay for different roles through such things as the job requirements, industry benchmarking (internally, nationally and internationally), the level of the position within the organisation structure, the job market, qualifications and experience, and personal behaviours of the employee.

The Company undertakes salary benchmarking for Australian, Chilean, expatriate and Lao roles to ensure internal salaries remain fair and competitive with the external market. Salary intelligence gained from the analyses is used to benchmark appropriate salaries for roles as well as to help establish a recommendation for annual salary increases. In Laos, PanAust's entry level wage is 87 per cent higher than the legislated national minimum wage.

In conjunction with benchmarking data and years of experience, remuneration may vary subject to the outcome of an employee's annual performance review. Individual performance is assessed against agreed targets which are documented in annual achievement plans. Targets encompass individual, business and sustainability factors, with safety performance affecting the outcome for all employees. Depending on

the nature of a role, sustainability performance may have a greater emphasis and include environment and community factors. Training and development opportunities are also agreed to and discussed as part of the performance review. All permanent employees in the business participated in this process in 2011 (100 per cent).

Training and development

Training and development is vital to meeting commitments outlined in PanAust's Employee Policy and Values statement (which includes the development of employees to achieve high-performance outcomes). Training, organisational development, and retention strategies are constantly being monitored in consideration of changing internal and external conditions and adjustments are made when necessary.

Programs and initiatives are in place to ensure availability of skilled Lao employees for current and future operations and include: the graduate development program, scholarship programs, work experience, skills development, leadership development, and language training. The Company has also attended career expos to gain labour market exposure in Laos.

PanAust takes a competency-based approach to training and compares existing training matrices against individuals' role requirements. Each matrix contains the core competencies required for an incumbent to be fully capable to perform a job. The matrix is key to determining core criteria for recruitment and selection as well as for determining individual performance requirements and training activities. Matrices are used by leaders to identify development opportunities, and assess and track performance; as well as by the training department to take a strategic view of areas in which the business may need to focus efforts. PanAust's formal training programs together with on-the-job training increase Lao skill development and enable the progressive localisation of the workforce.

This formal training strategy is supported on a day-to-day basis by expatriate employees who commit to develop the skill base and leadership confidence of Lao national employees through their contract of employment and achievement plan. This is further reinforced by the fixed-term nature of the contracts issued for selected expatriate roles. Fixed-term contracts are a clear statement of the Company's intent to build the skills of the Lao workforce in the areas in which expatriate employees operate, and require the expatriate employees to agree to the same intent within a defined timeframe set out in the contract terms and conditions. Further links are drawn to the individual's performance review so agreed targets include actions to develop team members (particularly Lao nationals).

Phu Bia Mining employee training hours 2009-2011

CATEGORY	COURSES	APPLICABLE WORKFORCE	2009 HOURS	2010 HOURS	2011 HOURS
Safety training	Inductions and health, safety and environment	All	8,629	12,379	21,973
	Mine, processing and mobile operator skills	Operator/trade, trainee labourer	14,212	27,302	35,086
Trades training	Trades and engineering skills	Operator/trade	66,014	64,063	34,289
Professional and leadership development	Professional and technical skills	Professional, admin/skilled	n/a	2,014	12,00
	Clerical and general work skills	Admin/skilled	9,141	11,407	17,546
	Leadership development	Management, supervisory, professional	4,047	2,556	2,350
TOTAL HOURS			102,043	119,721	112,444
Number of Phu Bia Mining employees (permanent and fixed-term contract)			1,644	2,219	3,312
Average training hours per employee per year (permanent and fixed-term contract)			62	54	34*

* Training hours were negatively affected during two months in mid-2011 due to the severe rainfall events.

Of the proportion of work hours spent training the Phu Bia Mining workforce in 2011, 50 per cent were dedicated to safety training, 31 per cent to trades and operations training, and 19 per cent to professional and leadership development.

Phu Bia Mining training costs 2011

TRAINING	2009 US\$	2010 US\$	2011 US\$
OPERATING EXPENDITURE			
Trainers (direct salary)	757,790	389,371	* 945,536
General training costs	309,770	283,819	^ 785,642
Training contractors (external training programs)	33,701	179,100	No cost breakdown, contained in general training costs
Pronto systems training	22,000	83,466	-
Pathumthani Technical College	50,505	128,000	No cost breakdown, contained in general training costs
TOTAL	1,173,766	1,063,756	1,731,178
CAPITAL EXPENDITURE			
Training equipment			470,000

* Salaries for Phu Bia Mining trainers only.

^ Includes Pathumthani Technical College teacher fees, training contractor fees (previously detailed separately), and course materials.

RESPECTING OUR PEOPLE continued...



Image: 2011 Employee of the Year winner, Mr Malaythong Thongthip (centre) holding the first gold-silver doré bar from the Ban Houayxai Gold-Silver Operation with other 2011 award-winning employees (from left to right), Mr Phaivanh Douangpaseuth, Mr Kongher Herjalearn, Mr Thipmaluck Maiboulapha, Ms Phonemala Inthavong, Mr Stuart Hargreaves, and Mr Louangthip Vilay, at the 2011 PanAust Annual General Meeting in Brisbane, Australia.

Workforce skills development

The Company's in-house Technical Trades Training Centre established in 2007 at the Phu Kham Copper-Gold Operation, is a Company initiative to address a shortage of skilled trades-qualified people to employ in Laos. The Company-instigated partnership with the Lao-German Technical College in Vientiane, and the Education Ministry in Laos, ensures quality training and a nationally recognised qualification at the end of the program. In 2011, a larger dedicated technical training facility was established at the Phu Kham Operation to support a greater stream of candidates.

The program was awarded the Best Community Development Initiative in the Southeast Asia category at the Asia Mining Congress in 2011. In 2012, a new course structure will be implemented; trainees will carry out a one-year pre-vocational program, followed by a four-year apprenticeship in a specific trade.

The program ensures technical competency of participants through completion of theoretical and practical course components in conjunction with supervision by experienced trades trainers plus field-work with experienced trades-qualified employees. English literacy development is also part of the curriculum. The Company's third and fourth groups of trainees graduated in 2011 and early 2012; seeing 40 new graduates with a trade in welding and fabrication, automotive mechanical, automotive electrical, electrical fitting (industrial and domestic), heavy mechanical engineering, or mechanical fitting. Graduates are offered permanent employment as junior-level technicians with the Company in Laos. A total of 76 trainees have graduated through the program since its inception.

A centralised, externally audited (for technical components) training and development program ensures a consistent, robust approach to training, process improvement, employee development activities, as well as maximising shared learning between sites. The primary

outcome of the audit for the training and development team was to focus on standardisation of processes, especially for inductions. This was addressed throughout 2011 with the introduction of a generic induction. Each site continues to have site-specific induction elements as well as the core components that are consistent across all sites (including the safety component).

Leadership development

The Company's leadership development is essential to continue growing the capability of PanAust's supervisors, superintendents, managers, and high-potential employees. An internally administered Leadership Development Program for supervisors and high-potential employees, as well as externally facilitated workshops (via an Australian based training provider) for superintendents and managers, develop business, team, and interpersonal skills equipping employees with a foundational skill set for leadership success. The program further embeds the Company's positive performance culture, reinforces and aligns leaders to the Vision and Values, and provides tools and techniques for leaders to positively support and influence the workforce.

The externally facilitated Superintendent Development Workshops were attended by nine employees, along with six high-potential employees attending a formal leadership development course in Australia (The Melbourne Business School run by the University of Melbourne).

A group of 24 employees completed the Leadership Development Program in 2011, building on the previous year's 26. A further 73 employees are at various stages of the course and due for graduation in 2012. Over a two-year program period, each participant completes more than 200 hours of structured training and post-course assignments. This program has greatly contributed to the Company's ability to appoint Lao employees to senior roles and reduce reliance on expatriate employees for supervision.

Lao employees in leadership roles and female employees are targeted to attend the leadership programs. Since mid-2010, suitably trained employees deliver the internal Leadership Development Program in both English and Lao.

During 2011, the first leadership development workshops for manager-level employees, intermixed with high-potential superintendents were held. A further two workshops were delivered in early 2012. The workshops' content is integrated with leadership development training delivered throughout the business to ensure leaders across the Group are aligned in the Company's leadership approach.

Cultural and language training

Due to the Company's international focus and to ensure a common language and cultural understanding across the Group, employees are provided the opportunity to develop English language skills and participate in cross-cultural training. Cross-cultural training is a standard component of inductions throughout the Group. Employees whose first language is other than English may undertake internal language training voluntarily. English-language courses cover basic, intermediate and advanced content, and are run frequently throughout the year. English-language training courses comprised 14 per cent (15,282 hours) of the total training conducted for the Phu Bia Mining workforce in 2011 (the same as 2010).

The development of basic Lao language skills within the expatriate employee population is similarly encouraged. Sharing a common language and overlapping language skills strengthens employee relationships and the ability to communicate effectively throughout the business.

Throughout 2011, there was a strong focus on translation of training and development material and human resources standards from English to Lao and Spanish languages.

Graduate development

The Graduate Development Program continued in 2011 with an intake of 18 graduates. Consistent with the Company's drive to increase the presence of graduates in technical roles, graduates were engaged in technical disciplines such as engineering, surveying, chemistry, metallurgy, environmental science, and forestry. As at first quarter 2012, Phu Bia Mining has 18 graduates progressing through their second year of a two-year program.

Employee award program

The Employee Award Program was introduced in 2009 to recognise outstanding contributions in key areas of safety, sustainability and production. Nominations for the 2011 year were open to all PanAust Asia employees and awarded to outstanding people and teams in early 2012.

The 2011 Employee Award winners were:

- Mr Malaythong Thongthip, Employee of the Year
- Ms Manilath Arounlangsy, Female Employee of the Year
- Mr Stuart Hargreaves, Training Individual Award
- Mr Kongher Herjalearn, Environment Individual Award
- Mr Louangthip Vilay, Community Individual Award
- Long Chieng Track Exploration, Production of the Year
- Ban Houayxai Gold-Silver Operation Process Team, Safety Team Award

RESPECTING OUR PEOPLE continued...

In addition to receiving recognition at a ceremony held at Phu Kham, the award winners participated in a study tour to leading practice mining operations. The study tour provides the employees with an opportunity to further develop their professional skills, learn new ways of performing work activities, benchmark leading practices and, on their return to Laos, share professional and cultural learnings with colleagues, family and friends. The annual award program is embedded within the Company's employee development and performance system, fosters a culture of continual improvement, and promotes key areas within the business.

Health and safety support systems

The Company consistently seeks to achieve a safe and healthy work environment and provides training, support and monitoring through standards and systems such as safety inductions, anti-harassment, leave entitlements, provision of travel and medical insurance, drug and alcohol monitoring, the appropriate use of electronic resources, counselling and disciplinary processes, Fair Treatment system, licensing to operate equipment, the Code of Conduct, and Cardinal Safety Rules. These systems aim to reinforce Company culture and ensure employees' behaviour is in line with the Values, contributes to a harmonious work environment, and does not impact the health and safety of themselves or others. Employees are required to act in accordance with the abovementioned health and safety support systems, while visitors and contractors are required to behave as a minimum in accordance with workplace health and safety standards and the Code of Conduct.

PanAust's Code of Conduct is covered during all inductions and a copy of the Code is provided to new employees. The Code of Conduct provides an overarching standard for behaviour and includes a component that relates specifically to 'bribery and corruption'. It also outlines a process through which employees and contractors can raise concerns regarding breaches. Employees who believe that they have been treated unfairly can access the Fair Treatment System which provides a formal process to resolve grievances.

All employees, contractors and visitors are provided a generic safety induction prior to engaging in work or visiting a work site. An achievement throughout the year was the implementation of a generic induction program applicable across all sites in Laos. Content focuses on PanAust's Vision and Values, Code of Conduct, human resources standards, and approach to diversity, safety, and environment. The induction is delivered to new employees prior to commencement of work in either English or Lao.

Various pre-employment checks are planned for introduction in 2012 to further enhance employee health and safety. Pre-employment medical evaluations will be conducted for all employees to ensure fitness for the role for which they are being considered. Criminal history checks will be conducted prior to the employment of security personnel and other key roles to ensure potential employees have not been involved in human rights violations, corruption offences, misappropriation of funds, and that any other reasons for concern in relation to their employment are made known.

The Company is committed to providing a work environment free from discrimination or harassment; all related complaints are taken seriously and are acted upon immediately. To reinforce the Company policy on anti-discrimination, anti-harassment, and acceptable behaviour (Code of Conduct), general information was provided to employees throughout 2011 via team meetings, emails, and notice-board postings. No cases of discrimination and one incident of harassment were reported in 2011. The appropriate counselling and disciplinary process were followed, resulting in one dismissal. A process of investigation is detailed in the Counselling and Disciplinary Standard and is adhered to for all cases. This is available on the Company intranet.

Counselling and support is available for employees from the Company-provided employee assistance program or from the site-clinic doctor following any incident or trauma event. Expatriate employees and English-speaking employees can access the independent provider to discuss work-related or personal matters and Lao employees can access the First Response Team. This team consists of a group of Lao Human Resources representatives trained in basic counselling who will also encourage affected Lao employees to access traditional support options through family and/or religious connections.

Retirement benefits

PanAust does not provide a retirement plan for its workforce. The Company complies with the relevant regulatory requirements for retirement benefits of each country in which it operates. PanAust deducts and remits the statutory amounts on behalf of employees to a government-complying fund of employees' choice on a regular basis.

COUNTRY	PERCENTAGE OF BASE SALARY
Australia	9% (to a fixed limit); administered by a third party
Chile	11% (to a fixed limit); administered by a third party
Laos	No current requirement in Laos

Image (left): Ms Lilon, Senior Development Officer, in her role of delivering the Leadership Development Program.

Image (right): Leadership Development Program graduates at a ceremony held in Vientiane in February 2012. Ms Lilon is standing in the front row, far right.

RESPECTING OUR PEOPLE CASE STUDY

Bringing the Values to life

Ms Phoulilavone Sayarath, otherwise known as Lilon, started working for Phu Bia Mining at the Phu Kham Copper-Gold Operation prior to it commencing production in February 2008.

Lilon grew up in Vientiane and completed her Bachelor of Arts, English Language, graduating in 2004.

After completing her degree, Lilon worked as a ticketing officer at the Lao Sky Air Booking Company until she successfully gained employment with the Company in 2008.

Lilon was first employed as a Development Officer within the Phu Kham Training Department which, at the time comprised just Lilon and her supervisor. A key focus of the two-person team was the development and inaugural delivery of what is now the Company's very well-established Leadership Development Program.

Lilon's initial responsibility was to translate course presentations and training manuals from English into Lao. No easy feat considering the 'management' nature of the topics and the high-level of English vocabulary and style. Lilon also assisted with the delivery of the leadership courses as they became available.

Since that time, Lilon's skills and responsibilities have gone from strength-to-strength and grown with the Company. In 2010, Lilon (and nine other Lao-national training personnel), completed a Certificate IV in Training and Assessment. She achieved a vocational education qualification that is recognised within Australia; fully endorsing her capabilities as a competent and professional trainer.

The Training Department now comprises around 20 people and supports activities across PanAust Asia. In 2011, Lilon was promoted to Senior Development Officer and charged with the full responsibility of delivering the Leadership Development Program in English to expatriates, and Lao to Lao nationals. She is also mentoring two Development Officers; a duty that has given her an appreciation of the efforts of her supervisor and colleagues towards her own professional development during the past four years.

Lilon said that the most rewarding part of her career has been her growth with the Leadership Development Program and training others to encourage, motivate and work with their subordinates. She also said, "Phu Bia Mining gives valuable opportunities to Lao employees... to improve their skills to meet international standards".

Lilon's supervisor, Development Superintendent, Stuart Hargreaves, speaks very highly of her, and said, "Lilon's reputation is one of being a professional, competent and enthusiastic employee who is always willing to assist her peers and others. She is a great example of PanAust's commitment to developing the skills base and confidence of Lao nationals to enable the progressive localisation of the workforce".



2011 CONSEQUENCE TABLE

LEVEL		HEALTH & SAFETY	ENVIRONMENTAL	SOCIAL	
1	SLIGHT	First Aid Injury. Minor health impacts.	Slight/temporary impact on environment. Corrected <1 day. Any amount contained within design requirements without additional impact. Or minor <50 litre non-acutely hazardous spill or emission on or off site.	Slight impact on community wellbeing. Written/verbal complaint from community. Immediately rectifiable.	
2	LOW	Small number of injuries, Medical Aid Injury. Transfer Duties. Modified Duties. No risk of permanent impacts.	Minor non-compliance resolved within one week. Low impacts on biophysical environment. Easily compensated loss of some non-endangered flora/fauna (including aquatic life). Any amount contained within secondary containment, no additional impacts. Or <500 litres of non-acutely hazardous spill or equivalent emission on site.	Low but ongoing impact on community health/wellbeing. Takes some time to resolve.	
3	MEDIUM	Injury resulting in absence from all work duties. (Lost Time Injury) Long-term medical treatment required for an individual. Some hospitalisation.	Non-compliance(s). Requires <2 weeks remediation. Impacts on biophysical environment, managed locally. Loss (>1 hectare or fauna replaceable or compensatable, but at a cost) of non-endangered flora/fauna (including aquatic life). Any amount >500 litres contained within area already impacted by mining. Quickly contained and corrected hazardous spills or emission on or off site.	Impacts that go beyond the local concerns but are recovered quickly and without significant lasting reputational or relationship impacts.	
4	HIGH	Single fatality. Multiple extensive injuries/industrial diseases requiring significant hospitalisation. Permanent severe life-altering impact on one person.	Significant non-compliance (against local or recognised international standards). High local impacts on biophysical environment resolvable but up to \$5m. Loss of endangered/highly regarded flora/fauna (including aquatic life). Significant contaminant outside containment but on mine site. Non-acutely hazardous spill (5,000-15,000 litres) or equivalent emission off site.	National and international concerns. Sustained NGO/ stakeholder activism resulting in reputational damage. Difficult to resolve quickly.	
5	EXTREME	Multiple fatalities. Permanent severe life altering disabilities for multiple people. Large number of people requiring long-term hospitalisation.	Severe impacts on biophysical environment. Very difficult to resolve and remediation >\$5m. Significant loss of endangered/highly regarded flora/fauna (including aquatic life). Acutely hazardous spill or equivalent emission on or off site.	Complete breakdown of relationship with key stakeholders. Sustained negative media coverage on a national and/or international level. Cessation or severe restriction of operations. Public outrage.	

	SECURITY	REGULATORY	PRODUCTION	FINANCIAL
	Single minor breakdown of property security controls. Recoverable without further escalation.	Minor technical breaches that are tolerated or ignored by regulatory authorities resulting in no action.	Work stoppage <6 hours from 1 mine department or losses as per →	\$1 to \$20,000
	Repeated/multiple minor breakdown of property security controls. Recoverable without further escalation.	Infrequent exceedance of regulatory obligations and/or expectations resulting in a decrease in regulatory authority tolerance and/or an increase in reporting requirements.	From 6 hours to 1 day's production loss from 1 mine department or costs/loss as per →	\$20,000 to \$200,000
	Significant breakdown of property security controls. Recoverable at cost without further escalation.	Occasional (once per year or less) or moderate failure to meet significant regulatory obligations and/or expectations resulting in a fine or censure.	From 6 hours to 1 day's total production loss or costs/loss as per →	\$200,000 to \$1,000,000
	Breakdown of property security that is resolvable but only after significant reputational/property damage. Sustained allegations of human rights abuses, difficult to manage.	Repeat or severe failure to meet significant regulatory obligations resulting in large and/or increasing fines and/or a loss of regulatory community trust.	From 1 to 7 days' total production loss from one or all departments or costs/loss as per →	\$1,000,000 to \$5,000,000
	Complete breakdown of property security beyond the capacity of operating controls to manage. Severe human rights breaches.	Sustained inability to meet significant regulatory obligations resulting in cessation or severe restriction on operations.	Over 7 days' total production loss, or costs/loss as per →	Over \$5,000,000

GLOSSARY

Acid Rock Drainage (ARD) occurs when large-scale earth disturbances cause rock surfaces to be exposed to air and rain – a reaction may occur with the elements in the rock that result in a change in the characteristics of the water that drains off.

Acutely Hazardous Substance is a hazardous substance which causes or is capable of causing death, serious illness or serious physical injury to any person or persons as a consequence of its release into the environment.

Artisanal and small-scale mining (ASM) is mining that is carried out at a subsistence level through to small commercial mining activities. The activities can be legal, informal or illegal.

Australian Securities Exchange (ASX) is where the buying and selling of Australian company shares takes place. The S&P/ASX 100 is a market-capitalisation weighted and float-adjusted stock market index of 100 Australian companies (stocks).

Biodiversity (or biological diversity) is the variability among living organisms from all sources, including land-based and aquatic ecosystems of which they are a part.

Corporations Act 2001 (Corporations Act) is a Commonwealth of Australia legislative act that sets out the legal requirements for regulating companies in Australia and includes matters such as company formation and operation.

Corporate Social Responsibility (CSR) is an organisation's intentional inclusion of public sphere interest (belonging to communities, consumers, employees, stakeholders etc) into corporate decision-making, the encouragement of community growth and the eradication of any activities that may harm people or the environment in the short and/or long term.

Crisis refers to a condition of instability or danger, as in safety, environmental, business, social, economic or political that, if left unattended, can significantly affect the Company's reputation and ability to conduct normal business.

Crisis Management Plan (CMP) is designed to enable organisations to react positively and effectively identify, contain and protect against situations that challenge normal business activities. Within that context, a CMP must include preparation, recognition and implementation of a plan of action during a time of crisis.

C1 cash costs are the Brook Hunt convention for reporting direct cash costs comprising: mine site, concentrate transportation and freight, treatment and refining charges and marketing costs. Based on payable copper in concentrate produced.

Emergency is a serious, unexpected and potentially dangerous situation requiring immediate action.

Enduring Value is the Australian Minerals Industry Framework for sustainable development. MCA members commit to upholding fundamental human rights, and respecting cultures, customs and values in their dealings with employees and others affected by their activities.

Environmental Management System (EMS) is a tool that provides a structured approach to monitoring and managing an organisation's impacts on the environment.

The Extractive Industries Transparency Initiative (EITI) aims to strengthen governance by improving transparency and accountability in the extractives sector through the verification and full publication of company payments and government revenues from oil, gas and mining in resource-rich countries.

Global Reporting Initiative (GRI) is a network-based organisation that pioneered the world's most widely used sustainability reporting framework that sets out the principles and indicators which organisations (including PanAust) use to measure and report their performance in sustainability.

Hydrocarbons refer to an organic compound consisting of hydrogen and carbon. The majority of hydrocarbons found naturally occur in crude oil.

Incident is defined as any occurrence or hazardous situation that has actually resulted in, or had the potential to result in, adverse consequences to people, the environment, the community, PanAust's reputation, or a combination of these. Incident types include safety and near misses, injuries and illnesses, occupational hygiene exceedances, events resulting in environment or community impacts, and/or security breaches.

Incident Cause Analysis Method (ICAM) is a holistic safety investigation analysis method that aims to identify both local and broader factors that may have contributed to a safety incident.

Independent directors are considered to be 'independent' when they are independent of management and free from any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the exercise of their independent judgment.

International Council on Mining and Metals (ICMM) was established in 2001 to serve as a change agent for performance improvement in the mining and metals industry. It brings together mining and metal companies and associations to address core sustainable development challenges faced by the industry.

International Cyanide Management Code (ICMC) is a voluntary industry program for the gold mining sector to promote the responsible management of cyanide used in gold mining, enhance the protection of human health and reduce the potential for environmental impacts.

International Cyanide Management Institute (ICMI) administers the ICMC for the manufacture, transport, and use of cyanide in the production of gold, and develops and provides information on responsible cyanide management practices and other factors related to cyanide use in the gold mining industry.

International Finance Corporation (IFC) Performance Standards consist of eight auditable standards with wide international acceptance that provides guidance for managing and improving organisations' social and environmental performance through an outcomes-based approach.

International Mining Industry Underwriters (IMIUI) is recognised as one of the world's leading mining industry underwriters and is a Lloyd's of London syndicate.

INX is PanAust's electronic reporting and corrective action event management system and is an abbreviated form of InControl Software.

ISO 31000 is an international standard that provides principles and general guidance on risk management.

ISO 19011 is an international standard that provides guidelines for quality and/or environmental management systems auditing.

ISO 17025 is an international standard that provides general requirements for the competence of testing and calibration of laboratories.

ISO 18001 is the internationally recognised assessment specification for occupational health and safety management systems.

Materiality is information disclosed in this report that reflects the organisation's significant economic, environmental and social impacts that could substantively influence the assessment and decisions of stakeholders. PanAust defines materiality as any event that results in a Level 4 or 5 incident from the Corporate Consequence Table.

Material Safety Data Sheet (MSDS) is a document that contains information on the potential health effects of exposure to chemicals, or other potentially dangerous substances, and on safe working procedures when handling chemical products.

Mineral Exploration and Production Agreement (MEPA) is an agreement between PanAust and the Government of Laos that regulates exploration and mining within a Contract Area of 2,636km² in Laos and is in accordance with the Government of Laos.

Minerals Council of Australia (MCA) represents Australia's mining industry nationally and internationally. Its strategic objective is to advocate public policy and operation practice for a world-class international industry that is safe, profitable, innovative, environmentally and socially responsible, attuned to community needs and expectations.

Non-government organisation (NGO) describes a recognised (legal or natural) organisation that operates independently from any government and is not a conventional for-profit businesses. Typically, NGOs operate with the aim of influencing and improving social, environmental, public health and/or political outcomes.

Organization for Standardization (ISO) is a non-governmental organisation that develops and publishes international standards. ISO is a network of the national standards institutes of 162 countries (one member per country) with a central coordination secretariat in Switzerland.

Non Acid-Forming (NAF) waste material from the Phu Kham Operation that has a sulphide content that is not expected to generate acid. NAF <1 per cent sulphur.

Potential Acid-Forming (PAF) waste material from the Phu Kham Operation that has a sulphide content that is expected to generate acid. High PAF material >4 per cent sulphur. Low PAF material 1-4 per cent sulphur.

Precautionary principle (or precautionary approach) states that if an action or a policy has a suspected risk of causing harm to the public or to the environment, in the absence of scientific consensus that the action of policy is harmful, the burden of proof that it is **not** harmful falls on those taking the action. The principle implies that there is a responsibility to protect the public from exposure to harm when scientific investigation has found a plausible risk. These protections can be relaxed only if further scientific findings emerge that provide sound evidence that no harm will result. In some legal systems, the precautionary principle is also a general and compulsory principle of law.

Recycled water is water that has been used at least once and is treated to a level suitable for further safe use.

Rio Declaration, Principle 15 advises that where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation.

Stakeholder is a person or group that has an investment, share or interest in something. Stakeholders in a company may include shareholders, directors, management, suppliers, governments, employees and the community.

GLOSSARY continued...

Tailings storage facility (TSF) an engineered impound for the storage of waste rock (tailings) remaining after the mining and on-site processing of minerals.

Unexploded Ordnance (UXO) are explosive weapons that did not explode during the time of combat when they were used, and so, to this day, pose a risk of detonation and therefore are a major hazard.

Voluntary Principles on Security and Human Rights are a set of principles developed by the governments of the United States, the United Kingdom, the Netherlands, Norway, Canada, Colombia, and Switzerland; companies in the extractive and energy sectors; and NGOs. Participants recognise the importance of promoting and protecting human rights and the construction role business can play in advancing human rights goals (visit www.voluntaryprinciples.org).

Waste water discharge is the total volume of effluent discharge to surface water irrigation, treatment by third parties, or to rivers or oceans.

Zero Harm is a philosophy where incidents and injuries are not tolerated regardless of their severity or frequency.

MEASUREMENTS

Cubic metres (m³) is the volume of a cube with edges one metre in length.

Hectare (ha) 10,000 square metres.

Megalitre (ML) 1,000,000 litres.

MegaWatt (MW) 1,000,000 (106) Watts.

Million cubic metres (Mm³) is a measure of volume.

Joule (J) is a unit of energy that is equal to that expended (or required) to move one newton through a distance of one metre or the work required to produce one Watt of power for one second.

Kilogram (kg) 1,000 grams.

Kilolitre (kL) 1,000 litres.

Kilometre (km) 1,000 metres.

KiloWatt (kW) 1,000 Watts and is typically used to express the output power of machines, engines and large tools.

Ounce (oz) refers to the international troy ounce used to express the mass of precious metals such as gold and silver and is equal to exactly 31.1034768 grams.

Tonne (t) 1,000 kilograms.

INJURY DEFINITIONS

Fatal Injury (F) an injury that results in death.

Lost Time Injury (LTI) an injury that results in a minimum of one full shift's absence (AS1885.1 – 1990).

Days Away, Restricted or Transferred (DART) is an Occupational Health and Safety Administration (OHSA) definition that refers to injuries that prevent an employee from returning to their normal duties.

Medical Treatment Injury (MTI) an injury requiring medical treatment, however permits the worker to return to a full range of duties before the start of their next shift.

RATE DEFINITIONS (AS PER MCA)

The performance of the minerals industry is measured as a rate, allowing for the comparison of different sectors or years on a comparable basis.

Incidence Rate (IR) the number of fatalities or injuries per 1,000 employees – calculated by [(number of occupational fatalities or injuries) x (1,000)] / (number of employees).

Frequency Rate (FR) the number of occupational fatalities or injuries expressed as a rate per million hours worked – calculated by [(number of occupational fatalities or injuries) x (1,000,000)] / (number of hours worked).

Total Recordable Injury Frequency Rate (TRIFR) the number of lost time injuries, disabling injuries, restricted work injuries and medical treatment injuries per one million hours worked. This indicator does not include first aid treatment of a routine nature.

Fatal Injury Frequency Rate (FIFR) the number of fatal injuries per one million hours worked.

Lost Time Injury Frequency Rate (LTIFR) the number of lost time injuries per one million hours worked.

Days Away, Restricted or Transferred (DART) Rate includes cases involving days away from work, restricted work activity and transfers to another job. Also includes days off on scheduled leave where the injured person would have been unable to fulfill their full range of duties.

Duration Rate (DR) the average time lost for every lost time injury – this is a measure of the severity of the injuries occurring and is calculated by (total number of days lost) / (number of lost time injuries). Calendar days provide the basis for reporting.

Severity Rate (SR) the average number of days lost per one million hours worked – calculated by [(number of days lost) x (1,000,000)] / (number of hours worked).

Number of hours worked the total number of hours worked by employees in the recording unit during the recording period.



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Stock Exchange Listing

Shares of the Company are listed on
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To find out more about PanAust, view
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