

29 January 2015

Quarterly Report for the three months to 31 December 2014

Highlights:

- **Strong quarterly production performances:**
 - **Phu Kham:** produced a quarterly record 19,922t of copper in concentrate at a C1¹ cost of US\$1.39/lb copper after precious metal credits and a quarterly record 24,298oz gold and 131,283oz silver; the all-in sustaining cost² reduced quarter-on-quarter to US\$1.93/lb.
 - **Ban Houayxai:** produced 30,307oz of gold at a C1 cost of US\$838/oz after credit from a quarterly record 308,155oz silver. All-in sustaining costs reduced quarter-on-quarter to US\$959/oz.
- **Group consolidated 2014 production exceeded guidance.** Full-year copper in concentrate production rose 10% year-on-year to 71,155t (guidance 65,000t to 70,000t). Production of gold in concentrate and doré totalled 168,755oz gold (guidance 160,000oz to 165,000oz) and silver totalled 1.3Moz (guidance 1.2Moz).
- 2015 guidance is for production of copper in concentrate of between 73,000t and 76,000t, and gold in concentrate and doré of between 175,000oz and 183,000oz. Silver in concentrate and doré is expected to be between 1.3Moz and 1.4Moz.
- Dr Fred Hess was appointed as Managing Director of PanAust on 11 November 2014.
- At 31 December 2014, the Company had: cash of US\$74.9 million, following payment of an interim dividend to shareholders on 3 October 2014 totalling A\$16.3 million and a US\$20 million repayment of corporate debt facilities; debt of US\$130.0 million (excluding equipment lease facilities); and undrawn debt facilities of US\$145.0 million.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) for the 2014 year were US\$194.1 million (unaudited); the average realised copper price was US\$3.05/lb.
- On 14 January 2015, PanAust announced organisational changes as part of a broader business efficiency review which is aimed at ensuring the business remains competitive throughout the commodity price cycle.

2013 WINNER
PROJECT DEVELOPMENT
OF THE YEAR



2013 WINNER
SUSTAINABILITY LEADERSHIP
2010/2011 WINNERS
BEST COMMUNITY DEVELOPMENT



2011
LAO PDR LABOUR ORDER CLASS 1
BEST RURAL DEVELOPMENT



2011 WINNER
SOCIAL/COMMUNITY PRESENTED BY
ETHICAL INVESTOR



Phu Kham Operation, Laos (PanAust 90%)

Introduction

Copper in concentrate production for the December quarter was a quarterly record 19,922t at a C1 cost of US\$1.39/lb copper (Table 1). The all-in sustaining cost reduced 20% quarter-on-quarter (q-o-q) to US\$1.93/lb copper.

Quarterly records were achieved for production of copper and gold in concentrate and total material mined.

Table 1: Production and cost summary

Phu Kham Operation Production summary (100% equity basis)	Units	3 months to 31 Dec 2014	12 months to 31 Dec 2014
Copper in concentrate	t	19,922	71,155
Gold in concentrate	oz	24,298	67,817
Silver in concentrate	oz	131,283	372,851
C1 cost after precious metal credits ⁱ	US\$/lb Cu	1.39	1.39
All-in sustaining cost ⁱ	US\$/lb Cu	1.93	2.21

Further details of the production and cost performances are contained in Table 5 and Table 6 of this report.

Production Performance

Average copper and gold head grades for ore processed increased by approximately 15% and 55% respectively q-o-q and together with an increase in processing rate led to record metal in concentrate production. Copper recovery of 77.6% was below the 79.3% rate achieved in the previous quarter due to a greater quantity of more metallurgically complex ores being processed. Gold recovery was a quarterly record at 53.6%.

Strong cost performances per pound of copper reflected the higher metal in concentrate production, which together with lower transport costs more than offset lower prices for precious metal credits. Transport costs benefitted from lower fuel prices and a focus on export of concentrate via the shorter transport route option through Vietnam.

Quarterly pay-metal in concentrate sales totalled 21,174t of copper, 24,226oz of gold and 128,754oz of silver. The average copper, gold and silver prices realised (after hedging) were US\$2.89/lb, US\$1,207/oz and US\$16.43/oz respectively.

On 14 January 2015 an organisational restructure occurred which saw the Phu Kham and Ban Houayxai operations come under common management across a number of disciplines. This initiative is expected to deliver additional operational synergies and efficiencies between the two operations. The change has also afforded the opportunity to replace a number of expatriate positions with Lao nationals many of whom have been trained over the seven years that Phu Kham has been in operation.

ⁱ Based on invoiced pricing for gold and silver.

Ban Houayxai Gold-Silver Operation, Laos (PanAust 90%)

Introduction

Quarterly gold production at Ban Houayxai was 30,307oz in doré at an average C1 cost of US\$838/oz after silver credits (Table 2). The C1 cost includes a write-down in the December quarter of low-grade stockpiles which had previously been capitalised, equating to US\$106/oz. The all-in sustaining cost for the quarter was US\$959/oz gold.

Quarterly records were achieved for production of silver in doré and total material mined (records for both ore and waste mined).

Table 2: Production summary

Ban Houayxai Operation Production summary (100% equity basis)	Units	3 months to 31 Dec 2014	12 months to 31 Dec 2014
Gold poured	oz	30,307	100,938
Silver poured	oz	308,155	906,774
C1 cost after precious metal credits ⁱⁱ	US\$/oz	838	737
All-in sustaining cost ⁱⁱ	US\$/oz	959	987

Further details of the production and cost performances are contained in Table 5 and Table 7 of this report.

Production Performance

Scheduled higher head grades for both gold and silver versus the previous quarter together with a higher processing rate led to increased metal production. Total ore processed for the quarter was at a rate equivalent to 4.9Mtpa (design capacity 4Mtpa) with a quarterly record average mill throughput rate of 620t/hr. The higher throughput rate reflects the success of the mine to mill fragmentation improvement initiative conducted over the course of 2014.

Sales during the quarter totalled 31,834oz of gold and 317,394oz of silver. Average realised gold and silver prices (after hedging) were US\$1,280/oz and US\$16.22/oz respectively.

Outlook

2015 Group production and costⁱⁱⁱ guidance

PanAust expects consolidated 2015 production of 73,000t to 76,000t copper in concentrate, and precious metal production in concentrate and doré of 175,000oz to 183,000oz of gold and 1.3Moz to 1.4Moz of silver.

At Phu Kham, copper production is expected to rise to between 73,000t and 76,000t at an average C1 cost of between US\$1.45/lb and US\$1.50/lb copper after precious metal credits from 80,000oz to 83,000oz of gold and 500,000oz to 550,000oz of silver. The all-in sustaining cost is expected to fall to between US\$1.95/lb and US\$2.00/lb copper. Peak life-of-mine material movements in the open pit are scheduled to continue in 2015 with nearly 56 million tonnes budgeted to be mined (waste to ore ratio 1.9 to 1, similar to 2014). No deferred waste adjustment is scheduled for the

ⁱⁱ Based on invoiced pricing for silver.

ⁱⁱⁱ C1 cost and cost guidance assumes average by-product prices of US\$1,250/oz for gold and US\$16/oz for silver.

year. The mill processing throughput is expected to rise to 19.5Mt of ore due to higher operating time and processing rates. The strip ratio is expected to decline from 2016 onwards and, together with increasing copper production from higher grades, will benefit cash flow.

At Ban Houayxai, gold production is expected to remain steady at between 95,000oz and 100,000oz at an average C1 cost between US\$650/oz and US\$700/oz gold after credits from between 800,000oz and 850,000oz silver. The all-in sustaining cost is expected to fall to between US\$850/oz and US\$900/oz. In 2015 the strip ratio is expected to be approximately 1 to 1 and mill throughput is scheduled to be 4.7Mt, nearly 20% above design capacity. As with Phu Kham, no deferred waste adjustment is scheduled for the year.

The reduced unit cost estimates reflect the benefits of the workforce rationalisation and the broader business efficiency review announced on 14 January 2015. Cost estimates for both mines assume a diesel price of US\$0.70 per litre delivered to site based on an oil price of approximately US\$70/barrel. This compares with an average of US\$0.89 per litre achieved across both mines in 2014.

Longer term production set to rise at Phu Kham

Annual copper in concentrate production is expected to continue to rise steadily over the next several years as the average copper head grade increases and improving ore quality lead to further gains in metallurgical recovery rates. The annual production of copper in concentrate is expected to peak in 2018 and 2019 at approximately 90,000t before subsequently declining with ore grade. Gold in concentrate is expected to generally range between 70,000oz and 75,000oz per annum from 2016 onwards.

The organisational restructure announced in January 2015 has delivered changes that facilitate an increased focus on productivity and business efficiency. The objective is to deliver the full potential of the Company's assets to support the development of the Frieda River Copper-Gold Project which will sustain the business and provide a platform for growth.

Pre-development and exploration projects

The strategic direction of the Company is to maximise returns from its producing assets while advancing the Frieda River Project which is planned to sustain and grow the business in the long-term. The Frieda River feasibility study is expected to be completed in late 2015. Engagement with members of the Government of Papua New Guinea during the quarter showed continued strong support for development of the Frieda River Project.

In light of the accelerated deterioration in copper price in the latter part of 2014 and early 2015 and with a focus on development of the Frieda River Project, the carrying value of a number of exploration and advanced stage projects is under review as part of the 2014 year financial reporting audit process.

Frieda River Copper-Gold Project, Papua New Guinea (PanAust 80%)

During the quarter work continued on PanAust's feasibility study concept for the Project. By the end of January 2015, three drill rigs were in operation to provide additional geotechnical and hydrogeological data at the proposed locations for the integrated storage facility and local areas of the open-pit. The quantity and quality of the existing geological data set for Frieda River Project deposit means that no further resource drilling is required under the current study.

Background

The Frieda River Project feasibility study concept is currently based on an open-pit feeding ore to a conventional flotation processing plant at an average processing rate of 30Mtpa over a 20-year mine life to produce average annual copper and gold in concentrate of 125,000t and 200,000oz respectively. Relatively soft and highly fragmented ores are expected to be processed in the first five years of operation allowing mill throughput rates of more than 20% above the life-of-mine average and as a consequence above average metal production. Thereafter, the ore is expected to become progressively harder, leading ultimately to throughput rates of approximately 20% below the life-of-mine average in the final years of operation.

Further details of the project concept, including an outline of trade-off studies for a lower-capital staged development approach, and the potential use of hydro-power were included in a 2 September 2014 announcement to the Australian Securities Exchange.

KTL Copper-Gold Project, Laos (PanAust 90%)

No material expenditures are currently budgeted for the KTL Project in 2015.

Phu Kham district exploration, Laos (PanAust 90%)

Exploration activities in the Phu Kham district transitioned in the December 2014 to early stage generative and target identification work. It is planned that this work will continue throughout 2015 seeking new geological targets for evaluation.

Inca de Oro Copper-Gold Project, Chile (PanAust 61.06%)

No site activities are planned for 2015.

Sustainability

Safety

A single lost time injury (LTI) occurred during the quarter at the Phu Kham Operation when an employee sustained a torn ligament in his knee while climbing down from a work platform.

PanAust's safety performance remains favourable when compared with the industry.

The LTI frequency rate on a 12-month rolling average basis at 31 December 2014 was 0.15 per million man-hours which compares favourably to the 2014 target of 0.20 per million man-hours.

The TRI (Total Recordable Injury) frequency rate on a 12-month rolling average basis at 31 December 2014 was 0.88 per million man-hours which compares favourably to the 2014 target of 1.67 per million man-hours.

Environment

There were no reportable environmental incidents during the December quarter.

The Papua New Guinea government approved the Environmental Inception Report (EIR) for the Frieda River Copper-Gold Project in December 2014, with relevant studies being progressed toward the Project's Environmental Impact Statement.

Local Community Projects

In the vicinity of Phu Kham, Ban Houayxai and Phonsavan, PanAust continues to advance a number of community development projects with a focus on agriculture, education, health, infrastructure and small business development.

PanAust also continued a program of community engagement in the Frieda River Project area and logistics corridor in Papua New Guinea.

During the quarter the Frieda River Project achieved an important milestone by assisting landowners within the principal exploration permit (which incorporates and the planned Special Mining Lease application area) to participate in a Local Land Court Mediation to legally recognise and agree customary landownership over the project resource. The resulting agreement legally recognises six villages from two cultural groups as the 'collective owners', and agrees a split of future project benefits to be derived from the land. The agreement is supported with 'landowner membership criteria' developed by each group and is a positive result for all the landowners and paves the way for the negotiation of a compensation agreement between them and PanAust in the lead up to an application for a Special Mining Lease.

Corporate

Financial

At 31 December 2014, the Company had cash of US\$74.9 million after payment of an interim dividend to shareholders which was declared on 21 August 2014 totalling A\$16.3 million and paid on 3 October 2014, and US\$20.0 million repayment of corporate debt facilities. The Company also had debt of US\$130.0 million, undrawn debt facilities of US\$145.0 million, and mobile equipment lease facilities drawn to a total of US\$57.2 million.

Group exploration expenditure (unaudited) for the December quarter was US\$2.4 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the 2014 year was US\$194.1 million (unaudited). As outlined on page 4 of this report: in light of the accelerated deterioration in copper price in the latter part of 2014 and early 2015 and with a focus on development of the Frieda River Project, the carrying value of a number of exploration and advanced stage study assets together with the carrying value of stockpiles is under review as part of the 2014 year financial reporting audit process.

Managing Director succession

On 12 November 2014, the PanAust Board announced that the Managing Director succession process, which had been announced on 6 March 2014, had been concluded and that Dr Fred Hess had been appointed Managing Director of the Company, effective 11 November 2014. Dr Hess has held several Executive Management positions in his nine years with PanAust; most recently the position of EGM Project Development and Operational Improvement.

Business efficiency review

In late 2014 PanAust implemented a business efficiency review aimed at ensuring the business remains competitive throughout the commodity price cycle. On 14 January 2015, PanAust announced organisational changes as part of the review that resulted in a reduction in the workforce across the Group of 182 people (approximately 5% of the workforce). The changes are expected to result in an annual operating cost reduction of approximately US\$15.5 million. One-off charges relating to redundancy payments totalling approximately US\$5 million will be paid to employees during the March quarter 2015.

Commodity price exposure

Copper

PanAust's copper hedging positions and fixed price agreements as at 31 December 2014 are summarised in Table 3.

PanAust's hedging policy seeks to protect the Company against near-term sharp falls in the copper price, and revenue loss over the quotation period on provisionally priced shipments, while maintaining a significant exposure to the prevailing copper price.

The Company manages short-term and provisional price risk (over the quotational period) on copper sales through swaps and fixed price agreements with customers.

As at 31 December 2014, a total of 9,760t (42%) of PanAust's copper sales from shipments for the period from September 2014 to December 2014, that are currently subject to provisional pricing, are covered by hedging and fixed price agreements at an average copper price of US\$3.01/lb.

A further 2,070t of copper was hedged in early January 2015 at an average price of US\$2.82/lb for sales recorded at the end of December.

Table 3: Hedging and fixed price agreements on provisional invoicing

Settlement period	Tonnes	Average Price US\$/lb
Mar Qtr 2015	8,760	3.01
Jun Qtr 2015	1,000	3.01

Gold/Silver price hedging

During the June and September quarters strategic hedge positions were undertaken on the Company's gold production. As at 31 December 2014, a total of 14,000oz of gold from January 2015 to March 2015 was hedged at an average gold price of US\$1,348/oz (Table 4).

PanAust currently has no silver hedging in place.

Table 4: Strategic hedging

Settlement period	Ounces	Average Price US\$/oz
Gold forwards:		
Mar Qtr 2015	14,000	1,348

Issued Capital

The issued capital of the Company at 31 December 2014 comprised:

635,580,654	Ordinary fully paid shares
1,822,985	Unlisted share rights

Proposed 2014 reporting calendar:

- 19 February 2015 FY2014 financial results
- 22 April 2015 March quarter 2015 report
- 22 July 2015 June quarter 2015 report
- 20 August 2015 June half 2015 financial results
- 28 October 2015 September quarter 2015 report

Dates are provisional and remain subject to confirmation.

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Securities Exchange Listing

Australian Securities Exchange Code: PNA
PanAust is a constituent of the S&P/ASX 200 Index.

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Directors at 31 December 2014

Garry Hounsell	Chairman
Dr Fred Hess	Managing Director
Nerolie Withnall	Non-executive Director
Geoff Handley	Non-executive Director
Geoff Billard	Non-executive Director
Zezhong Li	Non-executive Director
John Crofts	Non-executive Director
Ken Pickering	Non-executive Director
Annabelle Chaplain	Non-executive Director

Attachments

Table 5: Production and sales statistics

Phu Kham Copper-Gold Operation	Units	3 months to 31 Dec 2014	12 months to 31 Dec 2014
Total material mined	t	14,151,980	52,263,138
Copper-gold ore mined	t	4,936,963	18,079,056
Ore milled	t	4,669,437	18,639,887
Copper head grade	%	0.55	0.50
Gold head grade	g/t	0.30	0.22
Silver head grade	g/t	1.84	1.49
Concentrate produced	dmt	88,000	311,173
Copper in concentrate	t	19,922	71,155
Gold in concentrate	oz	24,298	67,817
Silver in concentrate	oz	131,283	372,851
Copper recovery	%	77.9	76.9
Concentrate sales	dmt	98,359	312,587
Payable copper in concentrate sold	t	21,174	68,122
Payable gold in concentrate sold	oz	24,226	64,088
Payable silver in concentrate sold	oz	128,754	366,149
Average copper price realised (copper revenue recognised / sales) after realised hedging	US\$/lb	2.89	3.05
Average gold price realised (gold revenue recognised / sales) after realised hedging	US\$/oz	1,207	1,259
Average silver price realised (silver revenue recognised / sales) after realised hedging	US\$/oz	16.43	18.55
Ban Houayxai Gold-Silver Operation			
Total material mined	t	3,286,596	10,424,851
Gold-silver ore mined	t	1,738,604	5,687,236
Ore milled	t	1,214,476	4,528,344
Gold head grade	g/t	0.97	0.85
Silver head grade	g/t	14.02	11.78
Gold in doré	oz	30,307	100,938
Silver in doré	oz	308,155	906,774
Gold recovery	%	81.2	81.9
Payable gold in doré sold	oz	31,834	100,961
Payable silver in doré sold	oz	317,394	898,517
Average gold price realised (gold revenue recognised / sales) after realised hedging	US\$/oz	1,280	1,297
Average silver price realised (silver revenue recognised / sales) after realised hedging	US\$/oz	16.22	18.51

Cumulative data may incorporate post reporting period adjustments to prior periods.

Table 6: Phu Kham Copper-Gold Operation production costs (US\$/lb copper)

	3 months to 31 Dec 2014	12 months to 31 Dec 2014
Mining cost	0.71	0.75
Deferred mining and inventory adjustments	(0.04)	(0.28)
Processing cost	0.66	0.74
General and administration	0.17	0.19
Total on-site operating costs	1.50	1.40
Transport handling and marketing	0.27	0.28
Concentrate treatment and refining	0.29	0.28
Total off-site operating costs	0.56	0.57
Deduct precious metal credits	(0.67)	(0.58)
Total direct operating costs (C1 cash cost)	1.39	1.39
Royalty	0.18	0.18
Sustaining capital (includes TSF)	0.13	0.11
Indirect costs	0.10	0.13
Lease principal and interest charges	0.08	0.11
Deferred mining and inventory adjustment capitalised	0.04	0.28
All-in sustaining costs	1.93	2.21

Notes: Costs are based on payable copper in concentrate produced. May include minor computational discrepancies due to rounding.

Table 7: Ban Houayxai Gold-Silver Operation production costs (US\$/oz gold)

	3 months to 31 Dec 2014	12 months to 31 Dec 2014
Mining cost	315	313
Deferred mining and inventory adjustments	106 ⁴	(1)
Processing cost	386	426
General and administration	173	147
Total on-site operating costs	979	885
Total off-site operating costs (freight, refining)	21	17
Deduct silver credit	(161)	(165)
Total direct operating costs (C1 cash cost)	838	737
Royalty	81	85
Sustaining capital (includes TSF)	22	36
Indirect costs	68	80
Lease principal and interest charges	56	47
Deferred mining and inventory adjustment capitalised	(106)	1
All-in sustaining costs	959	987

Notes: Costs are based on payable gold produced. May include minor computational discrepancies due to rounding.

⁴ The stock movement reflects a write-down in the December quarter 2014 of low-grade stockpiles previously capitalised.

Forward-Looking Statements

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

End notes:

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- ¹ Brook Hunt convention for the reporting of direct costs comprising: mine site, product transportation and freight, treatment and refining charges and marketing costs. Based on payable metal content after by-product credits.
- ² All-in sustaining costs reported are: the C1 cost plus royalties; corporate support and shared services costs; sustaining capital; lease principal and interest charges; and deferred mining and inventory adjustments capitalised.