

**APPENDIX 4D**  
**Half-Year Report**  
**For the Period Ended 30 June 2011**

<b>Name of entity</b>	<b>PanAust Limited</b>		
ABN	Half yearly	Preliminary	Half year ended ('current period')
17 011 065 160	<input checked="" type="checkbox"/>	<input type="checkbox"/>	30 June 2011

**Results for Announcement to the Market**

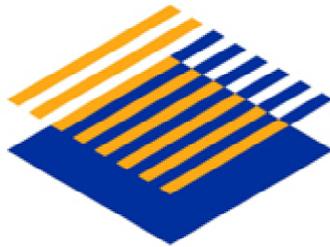
	30 June 2011 US\$'000	30 June 2010 US\$'000		Percentage change
Revenues from ordinary activities	297,095	224,474	up	32%
Operating result - Adjusted EBITDA (Note 2)	143,604	106,042	up	35%
Net profit after tax	76,985	53,152	up	45%
Net profit after tax attributable to members	69,399	47,461	up	46%
<b>Underlying net profit from ordinary activities after tax attributable to members</b>	<b>74,929</b>	<b>47,461</b>	up	58%
Dividend	Nil	Nil		
<b>Commentary on results for the period</b>				
<ul style="list-style-type: none"> <li>• Produced 124,438t of concentrate containing 30,213t of copper, 27,268oz of gold and 257,885oz of silver;</li> <li>• Average cash cost of US\$0.99/lb, net of gold and silver by-product credits (C1, Brook Hunt Convention);</li> <li>• The acquisition of a majority interest in the Inca de Oro Copper-Gold Project in Chile was completed and work commenced on the Feasibility Study;</li> <li>• Underlying net profit from ordinary activities after tax attributable to members excludes the effect of a non-recurring non-cash share based payment expense of US\$5.5m. The expense represents 10% of the total cost of acquiring a majority interest in Inca de Oro S.A., which owns the Inca de Oro Copper-Gold Project in Chile;</li> <li>• Strong operating cash flow continued during the half-year ended with net cash inflow of US\$114m, up 41% (2010: US\$81m);</li> <li>• As at 30 June 2011, the Company had cash balances of US\$171m, drawn debt of US\$45m with undrawn debt on the facility of US\$55m, and mobile equipment lease facilities drawn to a total of US\$51.4m; and</li> <li>• The Phu Kham Ore Reserve tonnes have increased by 37% and contained copper, gold and silver have increased by 20%, 38% and 55% respectively; mine life extended to over 14 years.</li> </ul>				
<b>NTA Backing</b>	<b>30 June 2011</b>	<b>30 June 2010*</b>		
Net tangible asset backing per ordinary security	US\$1.34	US\$0.97		
* NTA backing per share has been restated to take into account the 1 for 5 share consolidation completed during the half-year ended 30 June 2011.				

**Information set out in this Half-year Report should be read in conjunction with the Annual Report for the year ended 31 December 2010.**

# **PanAust Limited**

ABN 17 011 065 160

## **Interim Financial Report for the half-year ended 30 June 2011**



# PanAust Limited ABN 17 011 065 160

## Interim Financial Report

### For the half-year ended 30 June 2011

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2010 and any public announcements made by PanAust Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

Postal address is:

PanAust Limited  
PO Box 3468  
South Brisbane Queensland AUSTRALIA 4101

**Directors' report**

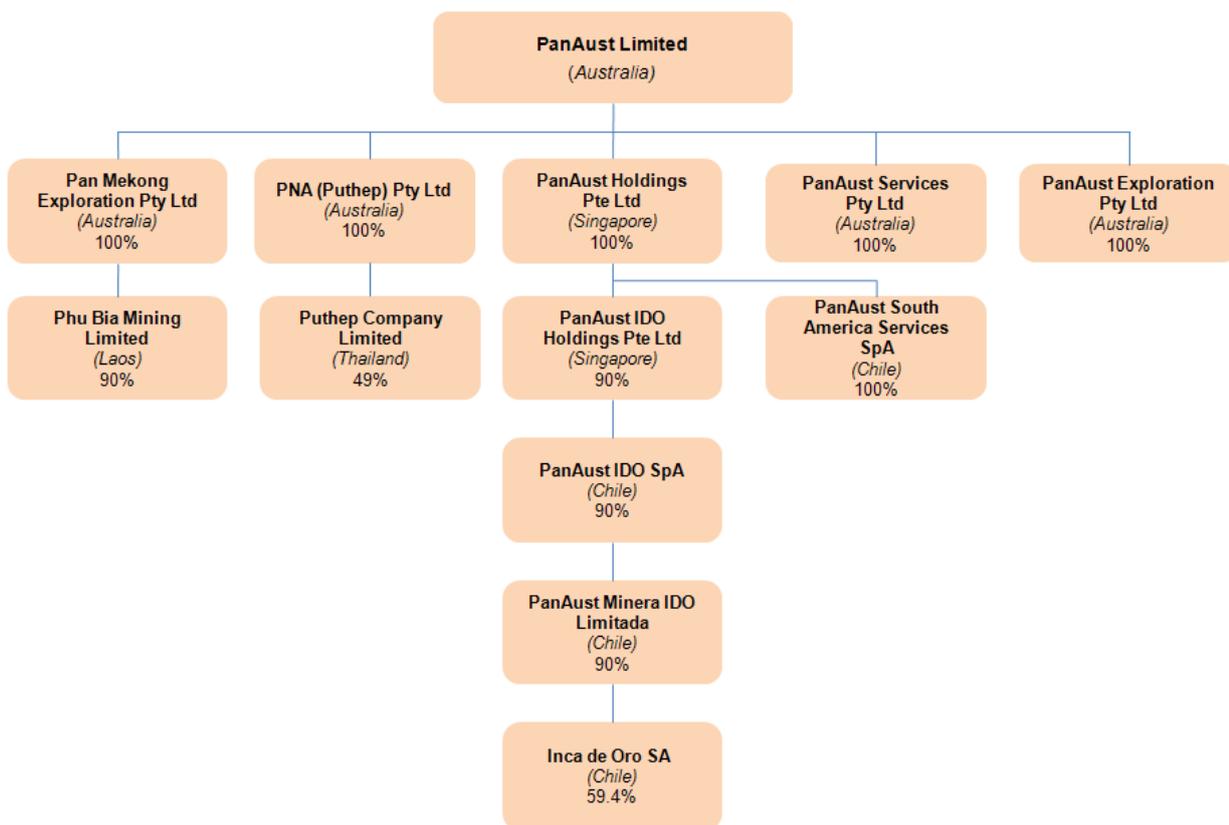
Your directors present their report on the consolidated entity consisting of PanAust Limited (referred to hereafter as the 'Company' or 'PanAust'), and the entities it controlled (collectively referred to as the 'Group') at the end of, or during, the half-year ended 30 June 2011.

**Directors**

The following persons were directors of PanAust Limited during the whole of the half-year and up to the date of this report:

- G. A. Hounsell, B.Bus. (Accounting) CPA FCA FAICD (Chairman, Non-Executive Director)
- G. Stafford, B.Sc. (Hons., Mining Engineering) MAusIMM (Managing Director)
- N. P. Withnall, B.A., LL.B. FAICD (Non-Executive Director)
- A. E. Daley, B.Sc. (Hons., Mining Engineering) FAusIMM (Non-Executive Director)
- G. A. Handley, B.Sc. (Hons., Geology and Chemistry) MAusIMM (Non-Executive Director)
- G. Billard, B.Econ., B.Com. (Hons., Economics) FCPA FAICD (Non-Executive Director)
- Z. Li, M.Laws, M. Public Administration in International Development (Non-Executive Director)
- J. P. Crofts B.Bus (Transport, Economics & Accounting) (Non-Executive Director)

**Group Operating Structure**



**PanAust Limited**  
**Directors' report**  
**For the half-year ended 30 June 2011**  
(continued)

**Review of operations**

PanAust's results for the first half of 2011 are shown below, along with comparative results for the first half of 2010:

	<b>Half-year ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Sales revenue	<b>295,961</b>	223,903
Net profit before income tax	<b>104,971</b>	67,105
Net operating cash flow	<b>114,414</b>	80,754
<hr/>		
Copper in concentrate sales (payable tonnes)	<b>28,361</b>	28,579
Gold in concentrate sales (payable ounces)	<b>25,967</b>	23,489
Silver in concentrate sales (payable ounces)	<b>220,765</b>	192,240
Gold sales from heap leach operation (ounces)	-	4,953

The significant operational achievements of the Group during the half-year ended 30 June 2011 were as follows:

- Produced 124,438t of concentrate containing 30,213t of copper, 27,268oz of gold and 257,885oz of silver;
- Average cash cost of US\$0.99/lb, net of gold and silver by-product credits (C1, Brook Hunt Convention);
- The Phu Kham Ore Reserve tonnes have increased by 37% and contained copper, gold and silver have increased by 20%, 38% and 55% respectively; mine life extended to over 14 years;
- Total Ban Houayxai Ore Reserve tonnes have increased by 29% and contained gold and silver ounces have increased by 21% and 39% respectively;
- The debt facilities were increased with the inclusion of another bank to lift the commitments to a total of US\$120 million;
- For the second consecutive year, PanAust has received the award for the 'Best Community Development Initiative' at the Asia Mining Congress in Singapore; and
- Reflecting PanAust's growth, the Company has recently become a constituent of the S&P/ASX 100 index.

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

- Acquisition of a majority interest in the Inca de Oro Copper-Gold Project in Chile was completed and work commenced on the Feasibility Study;
- Construction and development of the Ban Houayxai Gold-Silver Project in Laos remains on track for the commencement of commissioning in late 2011, with steady state production anticipated to be achieved during the March quarter of 2012;
- The Phu Kham Copper-Gold Upgrade Project remains on track for commissioning during the June quarter of 2012; and
- Continued exploration and evaluation activities in Laos, Thailand and Chile with ongoing drilling at high priority targets within the Company's contract area in Laos. Of particular note are the results from the Phonsavan Copper-Gold Project; the Tharkhek Gold Prospect; and, the Long Chieng Track (LCT) Prospect.

## **Review of operations (continued)**

### **Significant changes in the state of affairs**

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

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

### **Operating Review for the half-year**

#### **Laos**

##### ***Phu Kham Copper-Gold Operation***

The Phu Kham Copper-Gold Operation ('Phu Kham') throughput for the half-year ended 30 June 2011 was 6.5 million tonnes (Mt) of ore to produce 124,438t of concentrate containing 30,213t of copper, 27,268oz of gold and 257,885oz of silver (30 June 2010: 128,361t of concentrate containing 32,016t of copper, 25,915oz of gold and 229,034oz of silver, with a further 2,423oz of gold produced in gold doré at the now depleted Phu Kham Gold Heap Leach Operation). The average cash cost, net of by product credits (C1, Brook Hunt Convention) for the half-year ended 30 June 2011 was US\$0.99/lb of copper (30 June 2010: US\$0.88/lb of copper).

On 4 May 2011, the Company reported to the ASX a 37% increase in the total estimated Phu Kham Ore Reserve tonnes. The 2011 Ore Reserve supports a mine life of over 14 years, assuming the current ore processing rate of 12 million tonnes per annum (Mtpa), which will increase to 16Mtpa from mid 2012 following the implementation of the Phu Kham Upgrade Project. The increase in Ore Reserve tonnes is largely due to additional mineralisation being identified by infill and resource extension drilling together with the new resource model which incorporates improved gold and silver grade estimation, and revised metallurgical recovery assumptions.

The Phu Kham Copper-Gold Operation recorded two 1-in-50 year rainfall events within a seven-day period in late June and early July 2011. Production was interrupted during these severe rainfall events and resulted in the loss of approximately two days of concentrate production in June 2011, and a further three days in July 2011, subsequent to the half-year ended.

Site facilities were not significantly damaged by the rainfall events and all water management systems operated effectively. Regional road infrastructure was significantly impacted with the main access road to the Phu Kham Copper-Gold Operation remaining closed for several days which necessitated contingency procedures for helicopter support in order for work place rosters to be maintained and routine supplies to be transported. The access road was re-opened and normal levels of concentrate movement promptly resumed.

##### ***Phu Kham Upgrade Project***

The implementation of the Phu Kham Upgrade Project will increase ore processing rates (from 12Mtpa to 16Mtpa) and improve metal recoveries (through an increase in grinding and flotation capacity) and is timed to coincide with a scheduled decline in ore head grade. The current estimated capital cost for the project is US\$95 million, which is below the original US\$110 million budget. Commissioning is expected to commence in the June quarter 2012.

## **Operating Review for the half-year (continued)**

### ***Phu Kham district***

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

In May 2011, PanAust announced a potential new discovery at the Long Chieng Track (LCT) Prospect, approximately six kilometres northwest of Phu Kham, where drilling intersected gold and copper-gold mineralisation beneath the previously identified oxide and primary gold mineralisation. In early July 2011, PanAust also reported that a discrete zone of high-grade copper-gold mineralisation had been intersected approximately 200 metres north of the Phu Kham deposit and is interpreted as a fault-displaced extension of the Phu Kham deposit.

Both the discovery of primary mineralisation at LCT and the discovery of the fault displaced extension of the Phu Kham deposit will influence the exploration and development strategy for the Phu Kham district. Should sufficient inferred resources be identified during 2012, then PanAust will commence a scoping study to investigate opportunities for increasing copper and gold production from the Phu Kham district.

### ***Ban Houayxai Gold-Silver Project***

In May 2011, the Company announced an increase to the Ban Houayxai Ore Reserve tonnes by 29% and an increase to the contained gold and silver ounces by 21% and 39% respectively. At the current design ore processing rate of 4Mtpa, the Ore Reserve supports a mine life of nine years.

The Ban Houayxai Project will comprise an open pit mine feeding ore to a conventional 4Mtpa Carbon In Leach (CIL) process plant capable of producing over 100,000oz of gold and 700,000oz of silver per annum.

The capital cost of the Project, including a 15% contingency on remaining capital to be spent, is expected to range from US\$183 million to US\$195 million. The increase when compared with the 2009 investment case estimate of US\$150 million is primarily due to: the impact of the weaker US dollar on Australian dollar denominated costs (approximately 40% of the variance); cost inflation since the 2009 Feasibility Study (approximately 20% of the variance); and, scope changes (approximately 20% of the variance). An estimated US\$5 million of deferred capital will be required to fund the second lift to the tailings storage facility to be completed after operations commence in 2012.

### ***Phonsavan Copper-Gold Project and Tharkhek Gold Project***

Scoping studies have commenced on the development concept for the Phonsavan Copper-Gold Project, which contemplates two open pit mines (KTL and Tharkhek) feeding a central processing plant. Studies will be phased with an overall objective of completing a feasibility study by the end of 2012, subject to ongoing resource drilling success. Drilling has now commenced at the high-grade Tharkhek Gold Prospect. A scoping study for the Phonsavan region has confirmed that the latter gold prospect is unlikely to have many processing synergies with any copper-gold development. Positive results from drilling at the Tharkhek Gold Prospect would likely elevate the priority of a Carbon In Leach (CIL) gold development focused on a resource at that location, with possible synergies for a future development based on the nearby Phu He Gold Deposit.

### ***Regional Exploration, Laos***

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

## **Thailand**

### ***Puthep Copper Project***

The development concept being evaluated for the Puthep Copper Project is an open-pit mine and leaching process to produce 25,000t to 30,000t of cathode copper per annum over an eight-year mine life. Work during the half-year ended has focused on reviewing the relative merits of different leach processing options. During the September quarter 2011, the joint venture between PanAust and Padaeng Industry Public Company Limited will formally consider the review.

**Operating Review for the half-year (continued)**

**Chile**

***Inca de Oro Copper-Gold Project***

During the March quarter of 2011, the Company completed the acquisition of a majority interest in Inca de Oro S.A., the owner of the Inca de Oro Project in Chile. PanAust's interest in Inca de Oro S.A. is held through a 90% interest in PanAust Minera IDO Limitada ('PanAust Minera'), the remaining 10% interest in PanAust Minera is held by an independent private company. PanAust Minera holds a 66% interest in Inca de Oro S.A. (giving PanAust a 59.4% beneficial interest), with Corporación Nacional del Cobre de Chile ('Codelco') retaining a 34% interest.

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

- Inca de Oro S.A. will be run as a commercial business entity that will pursue mine development opportunities, manage operations and conduct new business activities in Chile;
- At Codelco's request, PanAust Minera will make available to Inca de Oro S.A. a shareholder loan of up to US\$100 million to facilitate project financing;
- In the event of a change in control of PanAust, Codelco will have the option to acquire PanAust Minera's interest in Inca de Oro S.A. at fair market value; and
- Assuming that the Inca de Oro deposit is developed into a mining operation and following financial completion (satisfaction of project finance caveats for operating performance) Codelco has the right to cause Inca de Oro S.A. to list on the Santiago Stock Exchange.

The Inca de Oro Copper-Gold Project pre-feasibility study completed by Codelco, has confirmed the potential for a conventional open-pit mining and flotation operation to support annual production of approximately 50,000t of copper and 40,000oz of gold in concentrate at a competitive cash cost (C1, Brook Hunt Convention) over a plus ten-year mine life.

The engineering scope for the Inca de Oro Copper-Gold Project's feasibility study has been developed and the Company is moving rapidly to complete the feasibility study with the objective of placing orders for long lead items in early 2012. A program of drilling commenced during April 2011 to provide additional data for incorporation into the feasibility study.

**Sustainability**

**Safety**

The Company's safety record remains excellent. The Lost Time Injury (LTI) frequency rate (LTI's per million man hours) as at 30 June 2011 on an annual rolling average basis was 0.30 (30 June 2010: 0.37), compared with the latest available data from the Minerals Council of Australia which reports an average LTI frequency rate of 3.0 (30 June 2010: 1.8) for the Australian Opencut Metalliferous mining industry.

As at 30 June 2011, the Phu Kham Copper-Gold Operation had recorded 364 LTI-free days (almost 7.6 million man hours) and the Ban Houayxai Gold-Silver Project had achieved 606 LTI-free days, with no LTI since the development of the Project commenced.

It is with regret that the Company reports the off-site fatality of Mr Somebath Bounyavong, an excavator operator employed by a contractor engaged by the Company for road maintenance activities. On 1 July 2011, Mr Bounyavong was working on clearing a slip from the main access road to the Phu Kham Copper-Gold Operation, which was caused by the heavy rainfall sustained in late June and early July 2011, when a landslide swept his excavator away.

In May 2011, PanAust reported that a security incident had occurred within close proximity to the Company's former Phu Kham Gold 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 processing at the Phu Kham Copper-Gold Operation was not impacted.

PanAust also advised that there had been a number of sporadic security incidents within the Company's Contract Area in Laos over the course of the previous 12 months. While these incidents have generally not impacted activities, the Company has implemented enhanced security protocols.

**Operating Review for the half-year (continued)**

***Environment***

There were no reportable environmental incidents during the half-year ended 30 June 2011 (2010: nil).

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

***Local Community Projects, Laos***

In the vicinity of the Phu Kham Copper-Gold Operation, PanAust continues to advance a number of community development projects mainly in the neighbouring villages of Ban Nam Mo and Ban Nam Gnone. Education, health, infrastructure and business development are the main focus, with projects progressed in full consultation with local community and government.

The severe rainfall events in late June and early July 2011 caused significant but localised damage to roads and other infrastructure and impacted communities within close proximity to the Phu Kham Copper-Gold Operation. The Company provided assistance to help the local communities recover from this natural disaster including the repair of bridges and roads.

In addition to ongoing infrastructure repair and assistance to local communities, the Company has provided financial support to victims of the storms and associated flooding via a donation package totalling US\$160,000 across national, provincial and district levels.

Initiatives and achievements for the half-year ended 30 June 2011 include:

- Community health: opened a new health centre in Nam Gnone; health education presentations were undertaken at Ban Nam Gnone, Ban Nam Mo and Ban Nam Cha villages; 272 local families are receiving assistance to construct household latrines;
- Community development: training in veterinary skills and animal husbandry; agricultural training to five local villages to introduce farmers to methods for growing tomatoes and water melons, new crops suited to local conditions; alternative methods for rice seed propagation; using natural insecticides made from local herbs. Local businesses, financed through the Village Savings and Credit Fund, and the supply of approximately 10 tonnes of fresh produce to the Phu Kham camp each month;
- Community Education: adult literacy and numeracy courses in Nam Gnone to improve livelihood opportunities for local people. This is part of a regular program organised in cooperation with the District Education Authority;
- Road safety awareness: an education program for school children was attended by over 800 students in three primary schools and was conducted in coordination with the Hom District Police and Department of public works;
- Livestock vaccination program: was completed at five local villages in response to reports of a high incidence of disease; and
- Community development: training courses aimed at increasing agriculture productivity including vegetable planting during the rainy season.

***Local Community Projects, Thailand***

PanAust has been building a community relations program at the Puthap Project in Loei Province of Thailand, in association with the ongoing ESIA work being conducted by Kasetsart University. Community presentations which commenced during the half-year ended have been well received and are being progressed village by village in the communities local to the proposed project.

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

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

**Rounding of amounts**

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

**Auditor**

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

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



G. Hounsell



G. Stafford  
Managing Director

Sydney  
25 August 2011



## Auditors' Independence Declaration

As lead auditor for the review of PanAust Limited for the half year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'D. G. Smith', with a long horizontal flourish extending to the right.

Debbie Smith  
Partner  
PricewaterhouseCoopers

Sydney  
25 August 2011

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Liability limited by a scheme approved under Professional Standards Legislation.

**PanAust Limited**  
**Consolidated statement of comprehensive income**  
**For the half-year ended 30 June 2011**

		Half-year	
		30 June 2011 US\$'000	30 June 2010 US\$'000
	Notes		
<b>Revenue from continuing operations</b>	3	<b>297,095</b>	224,474
Other income		138	-
Changes in inventories of finished goods and work in progress		1,795	1,365
Mining costs		(73,656)	(61,177)
Depreciation and amortisation expense		(25,916)	(27,735)
Employee benefits expense		(23,566)	(18,025)
Concentrate haulage		(15,246)	(12,712)
Treatment and refining charges		(7,571)	(6,393)
Royalties		(19,087)	(13,027)
Marketing and realisation costs		(6,378)	(5,615)
Other expenses		(7,072)	(6,736)
<b>Operating profit before financing and income tax</b>		<b>120,536</b>	74,419
Derivative (losses)/gains	4	(2,037)	4,343
Finance and other costs	4	(7,998)	(11,657)
Share based payments expense	4	(5,530)	-
<b>Profit before income tax</b>		<b>104,971</b>	67,105
Income tax expense	5	(27,986)	(13,953)
<b>Profit for the half-year</b>		<b>76,985</b>	53,152
<b>Other comprehensive income</b>			
Changes in the fair value of cash flow hedges, net of tax		11,057	1,954
<b>Total comprehensive income for the half-year</b>		<b>88,042</b>	55,106
Profit is attributable to:			
Owners of PanAust Limited		69,399	47,461
Non-controlling interests		7,586	5,691
		<b>76,985</b>	53,152
Total comprehensive income for the half-year is attributable to:			
Owners of PanAust Limited		79,350	49,220
Non-controlling interests		8,692	5,886
		<b>88,042</b>	55,106
		Cents	Cents
<b>Profit per share from operations attributable to the ordinary equity holders of the company:</b>			
Basic profit per share	22	11.71	8.09
Diluted profit per share	22	11.64	7.99

The comparative earnings per share have been restated to take into account the 1 for 5 share consolidation completed during the half-year ended 30 June 2011.

The comparative financial information has been reclassified to improve the comparability of finance and other costs.

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

**PanAust Limited**  
**Consolidated Balance sheet**  
**As at 30 June 2011**

	Notes	30 June 2011 US\$'000	31 December 2010 US\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		171,396	184,759
Receivables and other assets	6	32,744	32,822
Inventories		56,817	45,903
Derivative financial instruments	7	93	1,442
Total current assets		<u>261,050</u>	<u>264,926</u>
<b>Non-current assets</b>			
Receivables and other assets	8	50,053	34,927
Investments accounted for using the equity method	9	6,021	6,021
Other financial assets	10	13,969	13,572
Property, plant and equipment	11	360,422	332,564
Exploration and evaluation, development and mine properties	12	345,565	221,693
Intangible assets	13	13,965	5,380
Derivative financial instruments	7	541	1,234
Total non-current assets		<u>790,536</u>	<u>615,391</u>
<b>Total assets</b>		<u>1,051,586</u>	<u>880,317</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		66,234	53,187
Current tax liabilities		23,301	18,268
Lease liabilities	14	11,887	7,721
Provisions		6,905	5,004
Derivative financial instruments	7	4,180	10,019
Total current liabilities		<u>112,507</u>	<u>94,199</u>
<b>Non-current liabilities</b>			
Payables		4,845	5,953
Borrowings and lease liabilities	15	81,898	65,682
Provisions		19,856	21,029
Deferred tax liabilities		19,801	15,633
Total non-current liabilities		<u>126,400</u>	<u>108,297</u>
<b>Total liabilities</b>		<u>238,907</u>	<u>202,496</u>
<b>Net assets</b>		<u>812,679</u>	<u>677,821</u>
<b>EQUITY</b>			
Contributed equity	16	542,002	541,232
Reserves	17(a)	17,013	5,134
Accumulated gains	17(b)	150,397	80,998
Capital and reserves attributable to owners of PanAust Limited		<u>709,412</u>	<u>627,364</u>
Non-controlling interests	18	<u>103,267</u>	<u>50,457</u>
<b>Total equity</b>		<u>812,679</u>	<u>677,821</u>

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

**PanAust Limited**  
**Consolidated Statement of changes in equity**  
**For the half-year ended 30 June 2011**

Half-year 2010	<u>Attributable to members of PanAust Limited</u>				Non-controlling interests US\$'000	Total equity US\$'000
	Contributed equity US\$'000	Reserves US\$'000	Accumulated gains/(losses) US\$'000	Total US\$'000		
<b>Balance at 1 January 2010</b>	<b>540,948</b>	<b>8,761</b>	<b>(62,355)</b>	<b>487,354</b>	<b>34,816</b>	<b>522,170</b>
Profit for the half-year	-	-	47,461	47,461	5,691	53,152
Changes in the fair value of cash flow hedges, net of tax	-	1,759	-	1,759	195	1,954
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>1,759</b>	<b>47,461</b>	<b>49,220</b>	<b>5,886</b>	<b>55,106</b>
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs	(17)	-	-	(17)	-	(17)
Total changes in non-controlling interest	-	-	-	-	1,014	1,014
Employee share based payments	-	1,545	-	1,545	-	1,545
<b>Balance at 30 June 2010</b>	<b>540,931</b>	<b>12,065</b>	<b>(14,894)</b>	<b>538,102</b>	<b>41,716</b>	<b>579,818</b>

Half-year 2011	Notes	<u>Attributable to members of PanAust Limited</u>				Non-controlling interests US\$'000	Total equity US\$'000
		Contributed equity US\$'000	Reserves US\$'000	Accumulated gains US\$'000	Total US\$'000		
<b>Balance at 1 January 2011</b>		<b>541,232</b>	<b>5,134</b>	<b>80,998</b>	<b>627,364</b>	<b>50,457</b>	<b>677,821</b>
Profit for the half-year		-	-	69,399	69,399	7,586	76,985
Changes in the fair value of cash flow hedges, net of tax		-	9,951	-	9,951	1,106	11,057
<b>Total comprehensive income for the half-year</b>		<b>-</b>	<b>9,951</b>	<b>69,399</b>	<b>79,350</b>	<b>8,692</b>	<b>88,042</b>
<b>Transactions with owners in their capacity as owners:</b>							
Contributions of equity, net of transaction costs	16	770	-	-	770	-	770
Total changes in non-controlling interests		-	-	-	-	14,503	14,503
Non-controlling interest from acquisition		-	-	-	-	24,085	24,085
Non-controlling interest share based payment reserve from acquisition	4,18	-	-	-	-	5,530	5,530
Employee share based payments	17	-	1,928	-	1,928	-	1,928
<b>Balance at 30 June 2011</b>		<b>542,002</b>	<b>17,013</b>	<b>150,397</b>	<b>709,412</b>	<b>103,267</b>	<b>812,679</b>

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

**PanAust Limited**  
**Consolidated Cash flow statement**  
**For the half-year ended 30 June 2011**

	Half-year	
	30 June 2011 US\$'000	30 June 2010 US\$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	301,190	228,463
Payments to suppliers and employees (inclusive of goods and services tax)	(161,246)	(138,464)
Income tax payments	<u>(20,432)</u>	<u>-</u>
	119,512	89,999
Interest received	510	170
Interest and fees paid (inclusive of hedge premium payments)	<u>(5,608)</u>	<u>(9,415)</u>
<b>Net cash inflow from operating activities</b>	<u>114,414</u>	<u>80,754</u>
<b>Cash flows from investing activities</b>		
Payment of development costs	(77,963)	(34,054)
Payments for property, plant and equipment	(27,888)	(8,736)
Payment of exploration and evaluation costs	(15,079)	(14,241)
Payments for investment in subsidiary, net	(27,461)	(5,000)
Payments for investment in associate	<u>(399)</u>	<u>(384)</u>
<b>Net cash outflow from investing activities</b>	<u>(148,790)</u>	<u>(62,415)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	24,820	-
Proceeds from issues of shares	770	-
Repayment of borrowings	<u>(4,577)</u>	<u>(34,318)</u>
<b>Net cash inflow (outflow) from financing activities</b>	<u>21,013</u>	<u>(34,318)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(13,363)</b>	<b>(15,979)</b>
Cash and cash equivalents at the beginning of the half-year	<u>184,759</u>	<u>88,203</u>
<b>Cash and cash equivalents at end of the half-year</b>	<u>171,396</u>	<u>72,224</u>

*The above consolidated cash flow statement should be read in conjunction with the accompanying notes.*

## **1 Summary of significant accounting policies**

This interim financial report for the half-year reporting period ended 30 June 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2010 and any public announcements made by PanAust Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

### **(a) Basis of preparation**

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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

### **(b) Comparatives**

Comparative information has been reclassified where appropriate to enhance comparability.

## 2 Segment information

### (a) Description of segments

#### Business segments

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

#### Operating segments

Operating segments have been determined based on the analysis provided in the reports reviewed by the Chief Operating Decision Maker (CODM), being the Managing Director, in assessing performance and determining strategy. The CODM considers the business from a geographic basis representing mining and mineral exploration activity in Laos, referred to below as the Phu Bia Mining segment.

The "Other" segment refers to corporate activities, expenditure on undeveloped properties and any other items that are not appropriate to allocate to the Phu Bia Mining segment and are not separately included in the reports provided to the CODM.

The performance of each segment is based on an adjusted measure of earnings before interest, taxes, depreciation and amortisation (EBITDA).

### (b) Segment information

Half-year 2011	Phu Bia Mining US\$'000	Other US\$'000	Eliminations US\$'000	Consolidated US\$'000
Sales to external customers	295,961	-	-	295,961
Interest revenue	100	710	-	810
Other revenue	322	2	-	324
<b>Total segment revenue</b>	<b>296,383</b>	<b>712</b>	<b>-</b>	<b>297,095</b>
<b>Segment result - adjusted EBITDA</b>	<b>143,269</b>	<b>335</b>	<b>-</b>	<b>143,604</b>
<b>Segment assets</b>	<b>827,852</b>	<b>493,546</b>	<b>(269,812)</b>	<b>1,051,586</b>
<b>Segment liabilities</b>	<b>506,671</b>	<b>2,048</b>	<b>(269,812)</b>	<b>238,907</b>

Half-year 2010	Phu Bia Mining US\$'000	Other US\$'000	Eliminations US\$'000	Consolidated US\$'000
Sales to external customers	223,903	-	-	223,903
Interest Revenue	76	379	-	455
Other revenue	92	24	-	116
<b>Total segment revenue</b>	<b>224,071</b>	<b>403</b>	<b>-</b>	<b>224,474</b>
<b>Segment result - adjusted EBITDA</b>	<b>110,136</b>	<b>(4,094)</b>	<b>-</b>	<b>106,042</b>
<b>Segment assets</b>	<b>653,466</b>	<b>537,420</b>	<b>(450,986)</b>	<b>739,900</b>
<b>Segment liabilities</b>	<b>605,688</b>	<b>5,380</b>	<b>(450,986)</b>	<b>160,082</b>

**PanAust Limited**  
**Notes to the consolidated financial statements**  
**For the half-year ended 30 June 2011**  
(continued)

**2 Segment information (continued)**

A reconciliation of the segment results (adjusted EBITDA), excluding the effects of eliminations, to profit/(loss) before income tax is provided as follows:

	<b>Phu Bia Mining</b> <b>US\$'000</b>	<b>Other</b> <b>US\$'000</b>	<b>Consolidated</b> <b>US\$'000</b>
<b>Adjusted EBITDA - 30 June 2011</b>	<b>143,269</b>	<b>335</b>	<b>143,604</b>
Interest revenue	100	710	810
Interest expense and finance charges	(7,994)	(4)	(7,998)
Share based payments expense (Note 4 (c))	-	(5,530)	(5,530)
Depreciation and amortisation	(25,706)	(210)	(25,916)
<b>Profit/(loss) before income tax</b>	<b>109,669</b>	<b>(4,699)</b>	<b>104,971</b>
<b>Adjusted EBITDA - 30 June 2010</b>	<b>110,136</b>	<b>(4,094)</b>	<b>106,042</b>
Interest revenue	76	379	455
Interest expense and finance charges	(11,657)	-	(11,657)
Depreciation and amortisation	(27,688)	(47)	(27,735)
<b>Profit/(loss) before income tax</b>	<b>70,867</b>	<b>(3,762)</b>	<b>67,105</b>

### 3 Revenue

	<b>Half-year</b>	
	<b>30 June 2011 US\$'000</b>	<b>30 June 2010 US\$'000</b>
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Copper in concentrate	265,834	201,242
Copper in concentrate price adjustment	(10,996)	(5,219)
Copper sales realised hedge losses	(1,703)	(5,498)
Gold in concentrate	38,148	28,097
Gold sales realised hedge losses	(3,573)	(3,742)
Silver in concentrate	8,251	3,346
Gold doré	-	5,677
	<u>295,961</u>	<u>223,903</u>
<i>Other revenue</i>		
Interest	810	455
Sundry income	322	93
Associate administrative charges	2	23
	<u>1,134</u>	<u>571</u>
	<u>297,095</u>	<u>224,474</u>

#### (a) Copper in concentrate

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

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

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

As at 30 June 2011, provisional invoices issued with an open QP have been revalued at rates which provide an estimate of the average settlement price. This has resulted in 18,345t of copper (2010: 12,420t) being revalued using the three month forward copper price as at 30 June 2011 of US\$9,315/t (US\$4.23/lb) (2010: US\$6,542/t (US\$2.97lb)).

The aforementioned have resulted in a favourable US\$2.8 million (2010: unfavourable US\$4 million) mark-to-market adjustment to profit or loss for the outstanding provisional pricing of sales with an open QP as at balance date.

The Company hedges between 50% to 90% of the copper price exposure based on the provisional invoice pricing to minimise any potential for a liability (refund of proceeds to the customer) resulting from a lower price being realised during the QP (compared to the prevailing price applied to determine the provisional payment). Accordingly, a lower copper price at the end of the QP compared to the provisional invoice will result in a hedging gain, which will be offset by any decrease in the revenue recognised on final invoice. A higher copper price at the end of the QP compared to the provisional invoice will result in a hedging loss, which will be offset by any increase in the revenue recognised on final invoice. As at 30 June 2011, a total of 10,175t of copper, which had been sold, was hedged at an average price of US\$9,017/t (US\$4.09/lb).

The realised losses from the settlement of copper hedges for the half-year ended 30 June 2011 was US\$1,703,101 (2010: US\$5,498,223), whilst the unrealised losses of copper derivatives related to sales with an open QP was US\$4,179,822 (2010: nil) (refer to note 7(ii) for further detail). This has been included in the sales revenue amount of the copper in concentrate price adjustment as mentioned above.

**4 Finance and other costs**

	<b>Half-year</b>	
	<b>30 June 2011 US\$'000</b>	<b>30 June 2010 US\$'000</b>
<i>Finance costs</i>		
Interest charges paid/payable	2,636	1,544
Put option premium expense (a)	1,360	6,493
Finance charges paid/payable	3,364	3,005
Unwinding discount on provisions	<u>638</u>	<u>615</u>
	<b>7,998</b>	<b>11,657</b>
Derivative losses/(gains) (b)	<b>2,037</b>	<b>(4,343)</b>
Share based payments expense (c)	<b>5,530</b>	<b>-</b>

**(a) Put option premium expense**

Relates to upfront and deferred put option premium expense for copper put options.

**(b) Derivative losses/(gains)**

The derivative activities during the half-year ended 30 June 2011 have resulted in a negative impact to profit or loss of US\$2,037,037 due to the volatility in gold and copper prices as at balance date, and mark-to-market movements for put options entered into in prior years (2010: favourable impact of US\$4,342,697).

**(c) Share based payments expense**

On 17 March 2011, a shareholders agreement was signed between the Company and Victory Mining Finance Ltd ('Victory') for a 10% of shares in PanAust IDO Holdings Pte Ltd to be issued to Victory. The Company, via PanAust IDO Holdings Pte Ltd, contributed US\$55.3 million to a 100% owned Chilean subsidiary of PanAust IDO Holdings Pte Ltd to acquire 66% of the shares in Inca de Oro S.A., the owner of the Inca de Oro Copper-Gold Project in Chile ('IDO'). Through PanAust IDO Holdings Pte Ltd, the Company has a majority 59.4% interest in IDO, with Victory Mining Finance Ltd having a 6.6% interest, and Corporación Nacional del Cobre de Chile ('Codelco') retaining a 34% interest. A non-cash accounting expense of US\$5.53 million (10% of the purchase price for a majority interest in Inca de Oro S.A.) has been recognised to represent the fair value of the minority interest shares granted to Victory Mining Finance Ltd.

**PanAust Limited**  
**Notes to the consolidated financial statements**  
**For the half-year ended 30 June 2011**  
(continued)

**5 Income tax expense**

	Half-year	
	30 June 2011 US\$'000	30 June 2010 US\$'000
<b>(a) Income tax expense</b>		
Current tax	25,216	-
Deferred tax	<u>2,770</u>	<u>13,953</u>
	<u><b>27,986</b></u>	<u><b>13,953</b></u>

As at 30 June 2011, the income tax expense and deferred tax balances are attributable to Phu Bia Mining Limited and Inca de Oro S.A..

**6 Current assets - Receivables and other assets**

	30 June 2011 US\$'000	31 December 2010 US\$'000
<b>Trade and other receivables</b>		
Trade receivables	18,125	16,123
Other receivables	<u>3,828</u>	<u>1,839</u>
	<u><b>21,953</b></u>	<u><b>17,962</b></u>
<b>Prepayments</b>		
Prepayments - general	10,348	9,541
Prepayments - lease facility fees	<u>443</u>	<u>319</u>
	<u><b>10,791</b></u>	<u><b>9,860</b></u>
<b>Cash restricted or pledged</b>		
Funds held in escrow for acquisition (a)	-	5,000
	-	<u>5,000</u>
	<u><b>32,744</b></u>	<u><b>32,822</b></u>

As at 30 June 2011, no trade receivables or other receivables were past due or impaired (31 December 2010: nil). It is expected that these amounts will be received when due. The Company does not hold any collateral in relation to these receivables.

**(a) Funds held in escrow for acquisition**

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

## 7 Derivative financial instruments

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
<b>Current assets</b>		
Copper put options	93	1,441
Gold put options	-	1
Total current derivative financial instrument assets	<u>93</u>	<u>1,442</u>
<b>Non-current assets</b>		
Copper put options	523	1,086
Gold put options	18	148
Total non-current derivative financial instrument assets	<u>541</u>	<u>1,234</u>
Total derivative financial instrument assets	<u>634</u>	<u>2,676</u>
<b>Current liabilities</b>		
Copper forward contracts	4,180	10,019
Total current derivative financial instrument liabilities	<u>4,180</u>	<u>10,019</u>
Net derivative financial instrument liabilities	<u>(3,546)</u>	<u>(7,343)</u>

### (a) Instruments used by the Group as required by the Mandatory Hedging Program

The Company is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in the copper and gold price in accordance with the mandatory hedging program for the project financing for the Phu Kham Copper-Gold Operation.

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

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

#### (i) Gold forward contracts and put options

The Company had entered into forward contracts for the sale of gold produced at the Phu Kham Copper-Gold Operation as part of the 2007 project finance, with forward contracts through to December 2013. As a result of the terms of the amended and restated loan facilities, these contracts were closed out in August 2010. The unrealised losses recognised in the hedging reserve at the time of the close out of these gold forwards will remain in the hedging reserve and be recognised as realised hedge losses in line with the original gold forward maturity profile. During the half-year ended 30 June 2011, a loss of US\$3,572,626 (2010: US\$3,741,632) was recognised as realised on gold forward contracts.

The gold put options entered into by the Company cover approximately 37,500oz of gold at a strike rate of US\$700/oz. The put options do not qualify for hedge accounting and the mark-to-market movement of these put options is recognised in profit or loss immediately, with a loss of US\$130,922 recorded during the half-year ended 30 June 2011 (2010: US\$684,110).

#### (ii) Copper swap contracts and put options

PanAust's current hedging program, which is in accordance with the hedging protocol under the amended and restated facilities loan, seeks to maximise the Company's exposure to the prevailing copper price, but protect the Company against near term sharp falls in the copper price and revenue loss over the QP on provisionally priced copper concentrate sales.

## 7 Derivative financial instruments (continued)

As at 30 June 2011, the Company had entered into several copper swap contracts as part of its short term hedging program for copper concentrate sales which are subject to QP price adjustments. During the half-year ended 30 June 2011, the Company elected to no longer hedge account for QP hedging which meant that the related 'mark-to-market' revaluation would be recognised immediately in profit and loss. This treatment has eliminated the potential for timing differences at reporting date. Under hedge accounting the revaluation of provisional invoices would impact profit and loss in one period whilst the related hedging could potentially impact profit and loss in a subsequent period (refer to note 3 for further detail).

To protect the Company against the downside copper price risk on future production, as at 30 June 2011, put options have been established to cover 35,511t of copper, deliverable through to June 2013, at an average strike price of US\$5,453/t (US\$2.47/lb).

Copper put options do not qualify for hedge accounting and the mark-to-market movement of these put options is recognised in profit or loss immediately, with a loss of US\$1,910,436 (2010: gain of US\$4,909,239) recorded during the half-year ended.

## 8 Non-current assets - Receivables and other assets

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
<b>Prepayments</b>		
Prepayment - lease facility fees	1,120	798
Other receivables from associates	3,162	2,861
Government of Laos receivable (a)	<u>45,771</u>	<u>31,268</u>
	<u><b>50,053</b></u>	<u><b>34,927</b></u>

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

(a) The receivable amount from the Government of Laos to acquire 10% interest in Phu Bia Mining Limited represents the fair value of estimated future cash flows (discounted) required to obtain the interest based on 10% of current equity invested by PanAust as at 30 June 2011. The amount receivable has been calculated in accordance with the terms of the Mineral Exploration and Production Agreement (MEPA).

## 9 Non-current assets - Investments accounted for using the equity method

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
Shares in associates	<u><b>6,021</b></u>	<u><b>6,021</b></u>

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

PanAust will earn a 51% interest in Puthep by completing a feasibility study on the Puthep Copper Project in accordance with the Participation Agreement between the parties dated 21 August 2000 (as amended). Under the Participation Agreement, the Company has options to acquire a total 60% or 70% interest in Puthep. The Government of Thailand has a right to acquire a 10% interest. If the Government of Thailand exercises its right to acquire a 10% interest, Padaeng and the Company must each transfer half of the shares required to be transferred to the Government of Thailand provided that Padaeng's interest does not fall below 26%.

## 10 Non-current assets - Other financial assets

	30 June 2011 US\$'000	31 December 2010 US\$'000
Loan to Equity Accounted Investment (a)	<u>13,969</u>	<u>13,572</u>

(a) Represents advances for exploration expenditure to Puthep Company Limited. The amounts are not past due or impaired.

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

## 11 Property, plant and equipment

	Office equipment US\$'000	Mine properties US\$'000	Mining plant and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
<b>Half-year ended, 30 June 2011</b>					
Opening net book amount	1,596	53,927	274,399	2,642	332,564
Additions	1,559	15,238	32,785	1,673	51,255
Disposals	-	-	(480)	-	(480)
Depreciation charge	<u>(407)</u>	<u>(6,645)</u>	<u>(15,352)</u>	<u>(513)</u>	<u>(22,917)</u>
Closing net book amount	<u>2,748</u>	<u>62,520</u>	<u>291,352</u>	<u>3,802</u>	<u>360,422</u>
<b>At 30 June 2011</b>					
Cost or fair value	5,285	105,519	390,372	6,471	507,647
Accumulated depreciation	<u>(2,537)</u>	<u>(42,999)</u>	<u>(99,020)</u>	<u>(2,669)</u>	<u>(147,225)</u>
Net book amount	<u>2,748</u>	<u>62,520</u>	<u>291,352</u>	<u>3,802</u>	<u>360,422</u>

## 12 Non-current assets - Development, exploration, and evaluation

Consolidated	Preproduction exploration & evaluation US\$'000	Mine pre- production US\$'000	Mine development US\$'000	Total US\$'000
<b>Half-year ended 30 June 2011</b>				
Open net book amount	96,518	64,681	60,494	221,693
Additions	69,322	-	57,069	126,391
Amortisation charge	<u>-</u>	<u>(2,519)</u>	<u>-</u>	<u>(2,519)</u>
Closing net book amount	<u>165,840</u>	<u>62,162</u>	<u>117,563</u>	<u>345,565</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

**PanAust Limited**  
**Notes to the consolidated financial statements**  
**For the half-year ended 30 June 2011**  
(continued)

**13 Non-current assets - Intangible assets**

	<b>Goodwill US\$'000</b>
<b>Half-year ended 30 June 2011</b>	
Opening net book amount	5,380
Acquisition of Inca de Oro S.A.	<u>8,585</u>
Closing net book amount	<u>13,965</u>
<b>At 30 June 2011</b>	
Cost	13,965
Accumulated amortisation and impairment	<u>-</u>
Net book amount	<u>13,965</u>

**14 Current liabilities - Lease liabilities**

	<b>30 June 2011 US\$'000</b>	<b>31 December 2010 US\$'000</b>
<b>Secured</b>		
Lease liabilities	<u>11,887</u>	<u>7,721</u>

For further information, refer to note 15.

## 15 Non-current liabilities - Borrowings and lease liabilities

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
<b>Secured</b>		
Bank loans	42,415	42,276
Lease liabilities	<u>39,483</u>	<u>23,406</u>
Total secured non-current borrowings	<u>81,898</u>	<u>65,682</u>

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

### (a) Bank loans

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

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

The key terms for the debt facilities are as follows:

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

Under the hedging protocol for the loan agreement:

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

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

### (b) Lease liabilities

The Company entered into a lease agreement on 26 June 2007 with a syndicate of banks led by ANZ Investment Bank. During May 2008, approval was granted by the syndicate of banks to increase the facility limit from US\$35 million to US\$48.5 million. In addition to this, during July 2010 the Company agreed to terms for another equipment lease facility for US\$24.8 million with the ANZ Bank for a five year term. The lenders under the lease facilities have the benefit of security over the leased assets. As at balance date, the lease facilities have been fully utilised to fund the Phu Kham operating fleet.

**PanAust Limited**  
**Notes to the consolidated financial statements**  
**For the half-year ended 30 June 2011**  
(continued)

**16 Contributed equity**

	<b>30 June 2011 Shares</b>	31 December 2010 Shares	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
<b>(a) Share capital</b>				
Fully paid ordinary shares	<u>593,651,483</u>	<u>591,038,049</u>	<u>542,002</u>	<u>541,232</u>

**(b) Movements in ordinary share capital:**

Date	Details	Number of shares	US\$'000
1 January 2011	Opening balance	591,038,049	541,232
	Executive Long Term Share Plan	1,470,147	6,531
	Executive options exercised	390,000	770
	Employees share rights exercised	753,287	<u>-</u>
			548,533
	Less: Other equity securities		<u>(6,531)</u>
30 June 2011	Balance	<u>593,651,483</u>	<u>542,002</u>

**(c) Ordinary shares**

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

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

At the Annual General Meeting held on 20 May 2011, PanAust Shareholders approved the consolidation of shares on a 1 for 5 basis, in accordance with section 254H(1) of the Corporations Act 2001 (Cth). The comparative number of shares has been restated for the share consolidation. The share consolidation was effective from 31 May 2011.

**(d) Capital risk management**

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

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

The Company has complied with the covenant requirements on the loan facilities agreements throughout the periods reported. The gearing ratios at 30 June 2011 and 31 December 2010 were as follows:

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
Total borrowings	<b>93,785</b>	73,403
Total equity	<u>812,679</u>	<u>677,821</u>
Total capital	<u>906,464</u>	<u>751,224</u>
<b>Gearing ratio</b>	<b>10 %</b>	10 %

**PanAust Limited**  
**Notes to the consolidated financial statements**  
**For the half-year ended 30 June 2011**  
(continued)

**17 Reserves and retained earnings**

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
<b>(a) Reserves</b>		
Hedging reserve - cash flow hedges	(11,025)	(20,976)
Share based payments reserve	<u>28,038</u>	<u>26,110</u>
	<u>17,013</u>	<u>5,134</u>

**Movements:**

<i>Hedging reserve - cash flow hedges</i>		
Opening balance	(20,976)	(13,551)
Revaluation - gross	861	(28,798)
Transfer to net profit - gross	11,344	23,498
Deferred tax	<u>(2,254)</u>	<u>(2,125)</u>
Closing balance	<u>(11,025)</u>	<u>(20,976)</u>

**Movements:**

<i>Share based payments reserve</i>		
Opening balance	26,110	22,312
Employee long term incentives expense	<u>1,928</u>	<u>3,798</u>
Closing balance	<u>28,038</u>	<u>26,110</u>

**(b) Accumulated gains/(losses)**

*Movements in retained earnings were as follows:*

Opening balance	80,998	(62,355)
Net profit attributable to members of PanAust Limited	<u>69,399</u>	<u>143,353</u>
Closing balance	<u>150,397</u>	<u>80,998</u>

**18 Non-controlling interests**

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
Interest in:		
Share capital	71,206	31,288
Reserves	(649)	(1,755)
Accumulated gains	27,180	20,924
Minority interest share based payment reserve (Note 4(c))	<u>5,530</u>	<u>-</u>
	<u>103,267</u>	<u>50,457</u>

In 2007, the Government of Laos exercised its option to acquire a 10% interest in Phu Bia Mining Limited. The price may be paid from future dividend flows. The issue of shares to the Government of Laos is yet to be completed. The Shareholders Agreement was signed on 6 May 2011 and includes the purchase price which has been calculated in accordance with the MEPA.

The issue of shares in Inca de Oro S.A. was completed during the half-year ended 30 June 2011 (refer to note 20 for further detail).

## 19 Commitments

### Capital commitments

Capital expenditure contracted for at the end of each reporting period but not recognised as liabilities is as follows:

	<b>30 June 2011 US\$'000</b>	31 December 2010 US\$'000
<i>(i) Mine property, plant and equipment</i>		
Payable:		
Within one year	<u>14,820</u>	<u>4,396</u>
<i>(ii) Mine development</i>		
Payable:		
Within one year	<u>31,386</u>	<u>18,128</u>

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

(ii) The development of the Ban Houayxai Gold-Silver Project was approved by the PanAust Board of Directors on 29 March 2010. As at 30 June 2011, the Project expenditure and commitments totalled approximately US\$118 million out of a total estimated capital cost of between US\$183 million and US\$195 million, which includes a 15% contingency.

## 20 Business combination

### Current period

#### (a) Summary of acquisition

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

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

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

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

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

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

#### (b) Assets and liabilities acquired

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

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

The initial accounting for this acquisition has only been provisionally determined as PanAust is still in the process of determining the allocation of the fair value of the intangible assets and deferred tax balances.

Included in the net assets acquired is a contingent liability related to future royalties payable to Codelco as part of the sales agreement. With consideration to the Project only being in the preliminary stages of the feasibility study, the future production and cash flows of the operation cannot yet be reliably estimated and therefore no amount has been recognised for this contingent liability, at the time of the acquisition or as at balance date.

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

## 20 Business combination (continued)

### (i) *Minority interests*

In accordance with the accounting policy set out in note 1, the Group elected to recognise the minority interests at the proportionate share of the acquired net identifiable assets.

### (ii) *Revenue and profit contribution*

The acquired business incurred net expenses of US\$78,685 for the period from 22 February 2011 to 30 June 2011.

## 21 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and trusts which have been changed or been acquired during the half-year ended 30 June 2011, in addition to those reported at 31 December 2010:

Name of entity	Country of incorporation	Class of shares	Beneficial equity holding	
			2011 %	2010 %
PanAust IDO Holdings Pte Ltd	Singapore	Ordinary	90.0	100.0
Inca de Oro S.A.	Chile	Ordinary	59.4	-

## 22 Earnings per share

### (a) Reconciliations of earnings used in calculating earnings per share

Half-year	
30 June 2011 '000	30 June 2010 '000

*The following reflects the income used in the calculations of basic and diluted earnings per share:*

Profit attributable to ordinary equity holders of the company	<u>69,399</u>	<u>47,461</u>
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### (b) Weighted average number of shares used as the denominator

Half-year	
30 June 2011 Number	30 June 2010 Number

Weighted average number of ordinary shares used as the denominator in calculating basic profit per share	592,720,704	586,759,766
<i>Adjustments for calculation of diluted earnings per share:</i>		
Unlisted securities	<u>3,240,585</u>	<u>7,316,000</u>
Adjusted weighted average number of ordinary shares used in calculating diluted profit per share	<u>595,961,289</u>	<u>594,075,766</u>

The comparative numbers of shares have been restated to take into account the 1 for 5 share consolidation completed during the half-year ended 30 June 2011.

**PanAust Limited**  
**Directors' declaration**  
**for the half-year ended 30 June 2011**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 28 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that PanAust Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



G. Hounsell  
Chairman



G. Stafford  
Managing Director

Sydney  
25 August 2011



## Independent auditor's review report to the members of PanAust Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of PanAust Limited, which comprises the balance sheet as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the PanAust Limited (the consolidated entity). The consolidated entity comprises both PanAust Limited (the company) and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of PanAust Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of PanAust Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'D. G. Smith'.

Debbie Smith  
Partner

Sydney  
25 August 2011