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PANAUST

ASX ANNOUNCEMENT
21 August 2014

Financial results for the six months to 30 June 2014

Highlights (reported on a consolidated basis unless otherwise stated)

- Profit after income tax for the June half (H1 2014) of US$32.4 million.
- Profit after income tax attributable to PanAust Limited of US$28.1 million.
- EBITDA[1] of US$124.4 million. Full-year EBITDA may exceed the guidance range.
- Sales revenue increased to US$338.5 million: higher copper and silver pay-metal sales more than offset lower gold sales and weaker commodity prices.
- Strong cash flow from operating activities of US$105.1 million despite weaker commodity prices.
- Operating performance is expected to improve in the second half of 2014 (H2 2014) and strengthen further in 2015 on scheduled improved grades and recoveries, in particular at Phu Kham.
- Interim dividend of A$0.03 per share payable in October 2014.
- The Company's 2013 Sustainability Report was released on 27 May 2014. This report met the requirements of Application Level A+ of the GRI reporting framework.
- Safety: LTI (Lost Time Injury) frequency rate (per million man hours on a 12-month rolling average basis) at 30 June 2014 was 0.29 (30 June 2013: 0.16). On the same basis, the TRI (Total Recordable Injury) frequency rate at 30 June 2014 was 1.24 (30 June 2013: 1.62).

Summary of results[2]

(US$ million)	6 months to 30 Jun 2014	6 months to 30 Jun 2013
Sales revenue	**338.5**	326.1
Sales revenue, derivative gains/losses and other income	**345.3**	339.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**124.4**	130.5
Profit after income tax	**32.4**	43.4
Profit after income tax, attributable to PanAust Limited	**28.1**	38.9
Basic earnings per share (US cents)	**4.7**	6.5
Dividend per share (Aust. cents)	**3**	3

This announcement is unaudited. Refer to page 8 for endnotes, including explanations of the non-IFRS measures used in the announcement and for reconciliation of non-IFRS data to IFRS data.

PanAust Managing Director, Gary Stafford, said that the financial performance reflected strong production and cost performances in the face of weaker commodity prices.

"The Company's operations delivered strong cash flow despite the lower average prices for all metals and the outlook is for improved operating performance in the second half of 2014.

Operations are on-schedule to meet the upper end of the stated consolidated 2014 production guidance range for copper and gold of 65,000t to 70,000t copper in concentrate; and 160,000oz to 165,000oz gold, and approximately 1.2Moz of silver in concentrate and doré.

"PanAust has invested significant capital at the Phu Kham operations over the past two years and is starting to reap the benefits through higher processing rates and improving metallurgical recovery rates which, together with lower sustaining capital, are resulting in improving cash flow.

"Scheduled increases in the average copper head grade at Phu Kham over the next several years and reduced waste stripping are expected to result in further improvements in cash flow as copper production increases to approximately 90,000t and gold production to approximately 80,000oz in 2018 and 2019. The inclusion of ore sourced from the KTL satellite deposit would further enhance production and cash flow."

The Board of Directors declared an interim dividend of A$0.03 per share.

Half-year production and financial results discussion

Income

PanAust consolidated profit after income tax for H1 2014 was US$32.4 million (H1 2013: US$43.4 million).

Compared to H1 2013, sales revenue from ordinary activities increased 4% to US$338.5 million largely due to a 23% increase in sales of copper in concentrate. This together with higher sales of silver (up 37%) more than offset the lower gold sales and weaker pay-metal prices for all products.

EBITDA of US$124.4 million for H1 2014 is tracking ahead of guidance despite lower realised copper prices (H1 2014: US$3.16/lb) compared to guidance price assumptions for 2014. Current EBITDA guidance for the full-year is US$200 million to US$225 million at copper prices ranging between US$3.20 and US$3.40/lb (and gold price of US$1,300/oz).

As a consequence of the strong H1 2014 performance, full-year EBITDA may exceed guidance if H2 2014 average copper prices are higher than US$3.20/lb.

EBITDA in H1 2014 was broadly consistent with the H1 2013 result of US$130.5 million. This reflects established operating regimes and a relatively stable cost environment. Benchmark treatment and refining charges for copper concentrate were higher in H1 2014 and a non-cash negative adjustment of US$17.7 million in the value of ore and finished goods stockpiles was brought to account on a mark-to-market basis at the 30 June.

Depreciation and amortisation charges increased by US$7.0 million to US$61.5 million, largely reflecting the commencement of depreciation during H2 2013 of the Phu Kham Increased Recovery Project and the net impact of units-of-production based charges following higher copper production at Phu Kham and lower gold output at Ban Houayxai.

Cash flows and production

Copper in concentrate sales increased by over 23% to 33,315t and silver sales in concentrate and doré increased by 37% to 566,827oz driven by higher production at Phu Kham and higher silver grades at Ban Houayxai. Gold sales in concentrate and doré decreased by 8% to 76,384oz and resulted from lower average ore head grades at both Phu Kham and Ban Houayxai.

Production summary (100% equity basis)	Units	**6 months to 30 Jun 2014**	6 months to 30 Jun 2013
Copper in concentrate	t	**34,671**	29,236
Gold in concentrate and doré	oz	**77,702**	83,289
Silver in concentrate and doré	oz	**550,001**	425,216

The average prices received, after realised hedging, for sales during H1 2014 were US$3.16/lb for copper, US$1,311/oz for gold and US$20.1/oz for silver (H1 2013: US$3.41/lb, US$1,499/oz and US$25.8/oz respectively).

Phu Kham and Ban Houayxai remain competitive on both a C1[i] cash cost and all-in sustaining cost[ii] basis despite the impact of lower prices for precious metal credits.

The Phu Kham C1 cash cost was US$1.28/lb copper after deducting precious metal credits (H1 2013: US$1.37/lb copper), and the all-in sustaining cost was US$2.26/lb copper (H1 2013: US$2.52/lb). The lower C1 cash cost when compared with H1 2013 was largely the result of higher copper production and higher waste stripping capitalised which more than offset higher treatment and refining charges and lower precious metal credits which resulted from the impact of scheduled lower gold and silver production combining with lower average gold and silver prices.

The life-of-mine plan indicates that the twelve months to 30 June 2014 was the lowest grade period in Phu Kham's history and that 2014 and 2015 will be peak material movement years. Copper grades are scheduled to increase year-on-year over the next several years and material movements are scheduled to reduce leading to increased operating cash flow.

The Ban Houayxai C1 cash cost was US$705/oz gold after deducting silver credits (H1 2013: US$637/oz gold), and the all-in sustaining cost was US$990/oz (H1 2013: US$1,034/oz). The increase in C1 cash cost compared with the previous corresponding period was largely the result of lower gold production on lower scheduled grades and lower gold recovery rates as less oxide ore is mined and processed, and increased waste mining. These were partly offset by higher silver credits as grades and hence production increased despite a lower average realised price for silver credits.

Cash flow from operating activities was US$105.1 million, 173% higher than for H1 2013 (US$38.6 million), largely as a result of an increased component of waste stripping being capitalised; a reduction in working capital; and, a lower cash payment for income tax.

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[i] C1 cash cost is a Brook Hunt convention for the reporting of direct cash costs comprising: mine site, product transportation and freight, treatment and refining charges and marketing costs; based on payable metal content after by-product credits.

[ii] All-in sustaining cost is C1 cash cost plus indirect costs (an allocation of Brisbane corporate support and shared services costs); royalties; sustaining capital; lease principal and interest charges; and deferred mining and inventory adjustments capitalised.

There was no capital expenditure on development projects during the half (H1 2013: US$25.9 million) following conclusion of the major development phase at the Company's operations in Laos in 2013. Sustaining capital expenditure, excluding deferred stripping costs, reduced to US$25.9 million (June half 2013: US$54.4 million) of which US$5.0 million was for the latest stages of construction of the tailings storage facility at Phu Kham. Sustaining capital is scheduled to reduce further during the December half.

Exploration and evaluation expenditures were lower at US$16.2 million (H1 2013: US$32.9 million). The sharp reduction coincided with the conclusion of resource drilling programs during 2013 in Laos and Chile.

Net debt (including lease facilities) reduced by US$15.5 million during H1 2104 and gearing[iii] at 30 June 2014 was a conservative 7%.

During H1 2014, PanAust's 90% owned subsidiary, Phu Bia Mining, remitted to the Government of Laos US$15.8 million in royalty payments and a profits tax payment (paid in arrears for the 2013 year) of US$3.2 million. In addition, US$11.7 million in value added tax and customs and excise duties was paid during the half, which is able to be offset against 2014 profits tax payable in 2015.

Payments to shareholders for the 2013 final dividend totalled US$15.3 million, which excludes dividends taken as PanAust shares under the Company's Dividend Reinvestment Plan.

Balance sheet

At 30 June 2014, PanAust had cash of US$129.3 million; debt of US$150.0 million; undrawn debt facilities of US$125.0 million; and mobile equipment lease facilities drawn to a total of US$63.2 million.

Dividend

The Board of Directors resolved today to pay an interim dividend for H1 2104 of A$0.03 per share (unfranked). The interim dividend is to be paid on 3 October 2014 to shareholders on the register as at 7:00pm (AEST) on 4 September 2014 (the record date). The full amount of the interim dividend will be paid from conduit foreign income and accordingly, PanAust will not retain Australian withholding tax on distribution of dividend payments to non-resident shareholders. The financial impact of this interim dividend has not been recognised in the financial statements for the half-year ended 30 June 2014 and will be recognised in subsequent financial statements.

The Dividend Reinvestment Plan (DRP) will apply in relation to the interim dividend. The DRP provides eligible shareholders with the option of reinvesting all or part of their dividends in additional PanAust shares without paying any brokerage or other entry costs. Participation in the DRP is voluntary.

Eligible shareholders can elect to take up shares in the Company at a price determined by the arithmetic average of the daily volume weighted average price of shares traded on the Australian Securities Exchange over each of the five trading days commencing on 8 September 2014. No discount will apply to shares issued under the DRP for this interim dividend. Shares issued under the DRP will rank equally with existing ordinary fully paid shares.

[iii] Gearing = net debt / (net debt +equity)

Safety

PanAust safety performance continues to be a strong focus of the Company. The Company's LTI and TRI frequency rates continue to be significantly better than industry averages and are comparable to the lowest rates reported by companies listed on the Australian Securities Exchange. On a 12-month rolling average basis at 30 June 2014, the LTI and TRI frequency rates (per million man-hours) were 0.29 and 1.24 respectively.

Operating outlook

Operations are on-schedule to meet the upper end of the stated consolidated 2014 production guidance range for copper and gold of 65,000t to 70,000t copper in concentrate; and 160,000oz to 165,000oz gold, and approximately 1.2Moz of silver in concentrate and doré.

Longer term production set to rise at Phu Kham

Mining at Phu Kham is scheduled to start accessing ore with elevated gold grades during the December quarter of 2014. The revised mine plan forecasts copper and gold in concentrate production in 2015 to rise to between 70,000t and 75,000t copper and between 85,000oz and 90,000oz gold. Thereafter, scheduled increases in the average copper head grade at Phu Kham over the next several years are expected to lift copper in concentrate production to approximately 90,000t and gold production to approximately 80,000oz.

The inclusion of high-grade copper-gold ore from the KTL satellite deposit at a rate of 1.5Mtpa would lift annual copper in concentrate production during the peak production years at Phu Kham to between 90,000t and 100,000t and gold production to between 90,000oz and 95,000oz. The KTL deposit is located 120km north of Phu Kham and is connected by a new public road development that will require upgrading and, in some stretches, re-alignment for the purposes of hauling the ore quantities envisaged for the Project.

The feasibility study for the KTL Project estimates an initial capital cost of US$52 million including US$38 million of initial road construction costs. The Environment and Social Impact Assessment for the Project was submitted to the Government of Laos in early July with first capital commitment scheduled for October 2015 and targeting first ore in 2016. Board approval will be sought on the basis of satisfactory progress by October 2015 with the finalising of arrangements to co-fund road construction and road upgrades between KTL and Phu Kham and the identification of suitable partners to undertake ore haulage and open pit mining.

Pre-development and exploration projects

Consistent with its corporate strategy of growth by discovery, acquisition and development, the Company will complete the acquisition (from Glencore plc) of an 80% interest in the Frieda River Copper-Gold Project in Papua New Guinea on 25 August 2014. The Frieda River Project has the potential to provide production growth over the next five to ten years and to sustain the business in the longer term.

PanAust will pay an initial consideration of US$25 million on transaction completion and reimburse Glencore for its expenditures on the Project from 1 November 2013. A further payment of US$50 million[iv] is scheduled to be paid to Glencore on 31 December 2015. In addition, on successful completion of a mining operation at Frieda River, Glencore will receive a 2% net smelter return royalty (on PanAust's interest in the Project) to a total aggregate amount of US$50 million[iv].

PanAust expects to complete the feasibility study by the end of 2015 at a total cost of approximately US$25 million.

The Government of Papua New Guinea has an option to acquire up to a 30% interest in the project which, if fully exercised, would reduce PanAust ownership to 55% and the ownership of the joint venture partner, Highlands Pacific Limited ("Highlands"), to 15%.

PanAust has a 7.5% interest in the issued share capital of Highlands. PanAust also has a call option for the period of 90 days from the date of conclusion of the Frieda River transaction to subscribe for a further 64,432,990 fully paid ordinary shares at a subscription price of $0.0776/share. Highlands has a reciprocal put option on the same terms.

In Chile, PanAust is finalising the Inca de Oro Copper-Gold Project (61.06% PanAust, joint venture with CODELCO) study to a feasibility standard and plans to complete the Environmental Impact Assessment (EIA) report once acceptable agreements have been reached on a number of commercial matters that will have a material impact on the viability of the Project and any investment decision. The EIA approval process is expected to take approximately 18 months from the date of submission.

In Laos, the Phu Kham district is a high priority target for exploration and resource development. Several exploration targets have been identified in a corridor, which includes the LCT deposit and stretches northwest of Phu Kham for at least 13 kilometres to the Nam Ve prospect.

Receipt of non-binding indicative proposal

On 13 May 2014, PanAust announced that it was approached on 10 April 2014 by its largest shareholder Guangdong Rising Assets Management (GRAM, relevant interest approximately 23%) with a confidential, non-binding, indicative and incomplete proposal to acquire all of the shares in the Company for a cash consideration of A$2.20 per share. The indicative offer price was subsequently increased to A$2.30 per share. The PanAust Board advised GRAM that this price was materially below the level at which it would be prepared to recommend a takeover offer to its shareholders. The Company agreed to permit GRAM access to due diligence information (which commenced in early June) to assist it to materially improve its indicative offer price. The discussions with GRAM are progressing in a friendly and constructive manner.

In addition, the Company has held discussions with a number of parties and has established a data room to allow GRAM and other interested parties to undertake due diligence. PanAust has indicated that if a party wishes to submit a proposal it will be considered on its merits. In order for the PanAust Board to recommend a change of control proposal, both price and conditionality will be important, including the status of any regulatory approvals.

[iv] subject to consumer price index ("CPI") escalation between the date of signing (1 Nov 2013) and on a quarterly basis each year prior to payment

At this stage the Company has not received a formal takeover offer from GRAM, or from any other potential bidder, that is capable of acceptance by the Company's shareholders and there is no certainty that one will eventuate.

In relation to Managing Director succession, which was announced on 6 March 2014, the Board unanimously recognises the importance of stability, unity and focus (at both a Board and senior management level) during the period it is in discussions with GRAM (or with any other party) and any subsequent processes that may arise from those discussions. Accordingly, the Board advises that it is their intention that there be no change to the position of Managing Director during this period. Mr Gary Stafford will continue to hold the position of Managing Director and provide executive leadership for the Company during this period.

The Company will continue to keep the market informed.

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Forward-Looking Statements and Financial Data

This announcement includes certain "Forward-Looking Statements". All statements, other than statements of historical fact, included herein, including without limitation, statements regarding potential mineralisation, resources and reserves, 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.

Financial data for the six-month period to 30 June 2014 presented in this announcement are sourced from the Financial Statements for the half-year ended 30 June 2014 lodged by PanAust with the Australian Securities Exchange and it is recommended that this document be referenced to provide the appropriate form and context for such data.

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[1] The measure earnings before interest, taxes, depreciation and amortisation (EBITDA) excludes from profit before income tax the effects of profit or loss items such as depreciation, amortisation and impairment, interest revenue and expense, and equity-settled share-based payments. Reconciliation of EBITDA to IFRS data is presented below.

Group Consolidated	6 months to 30 Jun 2014	6 months to 30 Jun 2013
	US$'000	**US$'000**
EBITDA	124,387	130,476
Interest expense (net of interest revenue) and finance charges	(10,506)	(10,720)
Depreciation and amortisation	(61,517)	(54,565)
Generative exploration costs expensed	(950)	(965)
Provision for rehabilitation expensed	(120)	(118)
Share-based payments	(3,225)	(2,399)
Change in fair value of available-for-sale financial asset	(2,368)	-
Profit/(loss) before income tax	**45,701**	**61,709**

[2] PanAust's assets in Laos are held by Phu Bia Mining Limited (PBM). The Government of Laos (GoL) owns a 10% interest in PBM. Results referred to in this announcement reflect 100% ownership of PBM other than the "Net profit after tax attributable to PanAust Limited" which recognises the GoL minority interest.