PanAust Limited
For the year ended 31 December 2010
(Previous corresponding period: Year ended 31 December 2009)
Results for Announcement to the Market

APPENDIX 4E
Preliminary Final Report
31 December 2010

PanAust Limited
ABN 17 011 065 160

				US$'000
Revenue from ordinary activities *(Appendix 4E item 2.1)*	up	65%	to	**573,868**
Profit from ordinary activities after tax attributable to members *(Appendix 4E item 2.2)*	up	655%	to	**143,353**
Net Profit for the period attributable to members *(Appendix 4E item 2.3)*	up	655%	to	**143,353**

Dividends / distributions *(Appendix 4E item 2.4)*	**Amount per security**	**Franked amount per security**
Dividend	**-**	**-**

Key Ratios	**2010**	2009
	December	December
Basic earnings per share (cents)	**4.87**	0.86
Net tangible assets backing per ordinary share ($)^	**0.23**	0.18

^ The comparative NTA backing per share has been restated based on the number of shares on issue as at 31 December 2010

The accompanying financial report which has been audited, comprises the balance sheet as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and cash flow statement for the period ended on that date, a summary of accounting policies, other notes and directors' report.

Commentary on results for the period:

Operating results:

The consolidated operating profit for the financial year before tax was US$216 million (2009: US$39 million).

Phu Kham Copper-Gold Operation cash costs, net of precious metal credits (Brook Hunt Convention C1 cash costs) averaged US$0.87/lb (2009: US$0.97/lb), with an average realised copper price for the year of US$3.44/lb (2009: US$2.37/lb) after realised hedging.

Significant growth projects and developments:

Ban Houayxai Gold-Silver Project: Project construction 21% complete of the total US$150 million capital budget. Commissioning is expected to commence in late 2011, with steady production to be reached during March quarter 2012.
Phu Kham Copper-Gold Operation Upgrade: the Board of Directors approved US$110 million to upgrade the Operation which includes increasing ore throughput capacity from 12Mtpa to 16Mtpa by mid-2012.
Inca de Oro Copper-Gold Project: On 1 March 2010, the Company 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.

PanAust Limited

ABN 17 011 065 160

Financial statements

for the year ended 31 December 2010

PanAust Limited ABN 17 011 065 160
Annual Report - 31 December 2010

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 year ended 31 December 2010 (the reporting period).

Directors

The following persons were directors of PanAust during the financial year and at the date of this report:

G. A. Hounsell, Chairman
G. Stafford, Managing Director
N. P. Withnall
A. E. Daley
G. A. Handley
G. Billard
Z. Li
J. P. Crofts (appointed 17 September 2010)

Information on directors

Garry Arthur Hounsell B.Bus. (Accounting) FCA CPA FAICD. *(Chairman, Non-Executive Director).* Age 56.
Mr Hounsell is an accountant with significant experience as a director of large listed public companies. He is a Fellow of The Institute of Chartered Accountants in Australia and a Fellow of The Australian Institute of Company Directors. Prior to accepting positions as a public company director, Mr Hounsell was a senior partner of Ernst & Young and Country Managing Partner and Chief Executive Officer of Arthur Andersen. He was the 'signing partner' for the audit of BHP Billiton Limited from 2000 to 2002. From 2005 to 2007, he was an executive of Investec Bank (Australia) Limited.

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

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

** denotes current directorship*

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

Interests in shares and options
Mr Hounsell has a direct interest in 602,675 ordinary shares in PanAust. Mr Hounsell has an indirect interest in 230,000 ordinary shares in PanAust held by The Hounsell Superannuation Fund of which Mr Garry Hounsell is a beneficiary.

Gary Stafford B.Sc. (Hons, Mining Engineering) MAusIMM. *(Managing Director).* Age 50.
Mr Stafford is a mining engineer with 29 years experience in the mining industry, initially in engineering and management positions at coal and gold mines with CRA, BHP and Barrack Mine Management before moving into company management with Saracen Minerals Limited (a subsidiary of Crusader Limited) and then PanAust. Mr Stafford is also a Director of Puthep Company Limited (Thailand).

Appointed Managing Director on 7 March 1996, Mr Stafford is also a member of the Nominations Committee.

Interests in shares and options
Mr Stafford's interest in PanAust securities comprises: a direct interest in 11,457,528 ordinary shares; 7,442,400 vested executive options; 17,200,000 unvested executive options; and, 7,152,500 shares issued under the PanAust Long Term Share Plan, which are held in trust until vesting. Mr Stafford also has an indirect interest in PanAust of 3,303,615 ordinary shares held by The Spellbrook Superannuation Fund of which Mr Stafford is a beneficiary.

Nerolie Phyllis Withnall BA, LLB. FAICD. *(Non-Executive Director).* Age 66.
Mrs Withnall is a former commercial lawyer with specialist skills in the areas of corporate advice, capital raisings, securities and corporate trusts. Mrs Withnall is a former partner of the national law firm Minter Ellison. Mrs Withnall has previously served as a member of the Takeovers Panel and the Corporations and Markets Advisory Committee. Mrs Withnall is also a former member of the Senate of the University of Queensland.

Information on directors (continued)
During the past three years, Mrs Withnall has also served as a director of the following listed companies:

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

** denotes current directorship*

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

Interests in shares and options
Mrs Withnall has a direct interest in 380,000 ordinary shares in PanAust.

Andrew Edward Daley BSc (Hons, Mining Engineering) FAusIMM. *(Non-Executive Director).* Age 62.
Mr Daley is a Chartered Engineer (UK) and a Member of IOM3. Mr Daley commenced his career on the Zambian Copperbelt with Anglo American and subsequently worked with Rio Tinto and Conoco Minerals in Africa, before relocating to Australia with Fluor Australia in early 1981. Since late 1983, Mr Daley has primarily worked in the resource finance sector, initially with National Australia Bank, then Chase Manhattan and as a director of Barclays Capital mining team in London and Sydney. Returning to Australia in early 2003, Mr Daley became a director of Investor Resources Finance Pty Ltd, a company based in Melbourne that, until mid 2008, provided financial and corporate advisory services to the global resource industry.

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

- Kentor Gold Limited*
- Dragon Mining Ltd
- Minerva Resources plc
- Uranex NL

** denotes current directorship*

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

Interests in shares and options
Mr Daley has an indirect interest in 608,402 ordinary shares in PanAust held by The Motherlode Superannuation Fund of which Mr Daley is a beneficiary.

Geoffrey Arthur Handley BSc (Hons, Geology and Chemistry) MAusIMM. *(Non-Executive Director).* Age 61.
Mr Handley is a geologist with over 30 years experience in the mining industry. Mr Handley worked as a geologist for BHP Exploration Ltd., as a chemist and geologist for Placer Exploration Ltd. and as an analyst for the AMP Society. In 1981, he joined Placer Pacific Ltd. as a senior geologist and was responsible for the exploration and feasibility work at the Porgera, Granny Smith, Osborne and Big Bell mines. Most recently, Mr Handley was Executive Vice President, Strategic Development with Placer Dome where he was responsible for global exploration, acquisitions, research and development and strategic planning.

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

- Eldorado Gold Corp.*
- Endeavour Silver Corp. *
- Mirabela Nickel Limited*
- Boart Longyear Limited

** denotes current directorship*

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

Information on directors (continued)
Interests in shares and options
Mr Handley's spouse, a related party of the Company for the purposes of the Corporations Act 2001, holds 271,009 ordinary shares in PanAust.

Geoffrey Billard B.Econ, B.Com. (Hons, Economics) FCPA FAICD . *(Non-Executive director).* Age 66.
Mr Billard is an economist who has achieved wide career experience in the mining industry. This included some 20 years with CRA (now Rio Tinto) at Bougainville Copper, Argyle Diamonds and as Managing Director (Group Financial Services) before taking up senior executive positions with Pasminco and M.I.M. Holdings Limited in operational, marketing, finance, new project development and technology roles. From 1998 until 2008, Mr Billard operated his own consulting business providing specialist advisory services on strategic projects for both corporate and government clients. In this capacity, he has previously assisted PanAust in forming and implemeting corporate strategy and organisational change.

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

- Bougainville Copper Limited
- Metal Manufacturers Limited

** denotes current directorship*

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

Interests in shares and options
At the date of this report, Mr Billard has an indirect interest in 125,134 ordinary shares through Macquarie Investment Management Limited.

Zezhong Li M.Laws, M.Public Administration in International Development *(Non-Executive director).* Age 40.
Mr Zezhong Li is the Vice President of Guangdong Rising Assets Management (GRAM), a position which he has held since November 2008. Mr Zezhong Li is GRAM's nominee director on the Board of PanAust. GRAM is a cornerstone investor in PanAust. Mr Zezhong Li joined the Board following the completion of the share placement to GRAM in September 2009.

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

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

- Shenzhen Zhongjin Lingnan Nonferrous Metal Co.*

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

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

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

John Philip Crofts B.Bus (Transport, Economics & Accounting)*(Non-Executive Director).* Age 46.
Mr Crofts brings to the Board over 20 years experience in the resources industry and valuable knowledge of the global copper sector.

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

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

Information on directors (continued)
Appointed Director on 17 September 2010, Mr Crofts is also a member of the Sustainability Committee.

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

Company secretary
Paul Martin Scarr B.Com, LLB (Hons), Grad. Dip. App. Corp. Gov., ACIS.

Mr Scarr is a Chartered Secretary and associate member of the Chartered Secretaries Institute of Australia. He has over 19 years experience as a lawyer. Prior to joining PanAust, he worked in private practice with both Allens Arthur Robinson and Mallesons Stephen Jacques. During that period, he advised publicly listed companies in relation to their obligations under the Corporations Act and the ASX Listing Rules. He has particular expertise in advising clients in the mining industry in Australia, Papua New Guinea and Southeast Asia. Mr Scarr is responsible for the company secretarial function, corporate governance issues and the legal function of the Company.

Appointed Company Secretary on 23 February 2007.

Meetings of directors
The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 31 December 2010, and the numbers of meetings attended by each director were:

	Full meetings of directors		**Meetings of committees**							
			Nominations		**Remuneration**		**Sustainability**		**Audit**	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
G. A. Hounsell	8	8	1	1	8	8	*	*	5	5
G. Stafford	8	8	1	1	*	*	*	*	*	*
N. P. Withnall	8	8	*	*	8	8	*	*	5	5
A. E. Daley	8	8	*	*	*	*	*	*	5	5
G. A. Handley	8	8	*	*	*	*	4	4	*	*
G. Billard	8	8	*	*	8	8	4	4	*	*
Z. Li	8	8	*	*	*	*	**	**	5	5
J. Crofts (appointed 17 September 2010)	2	2	*	*	*	*	**	**	*	*

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a member of the relevant committee
** = Appointed member of the Committee on 3 December 2010. There were no committee meetings held during the period leading up to 31 December 2010

Earnings per share

	31 December 2010 Cents	31 December 2009 Cents
(a) Basic profit/(loss) per share		
Basic profit/(loss) per share	**4.87**	0.86
(b) Diluted profit/(loss) per share		
Diluted profit/(loss) per share	**4.83**	0.85

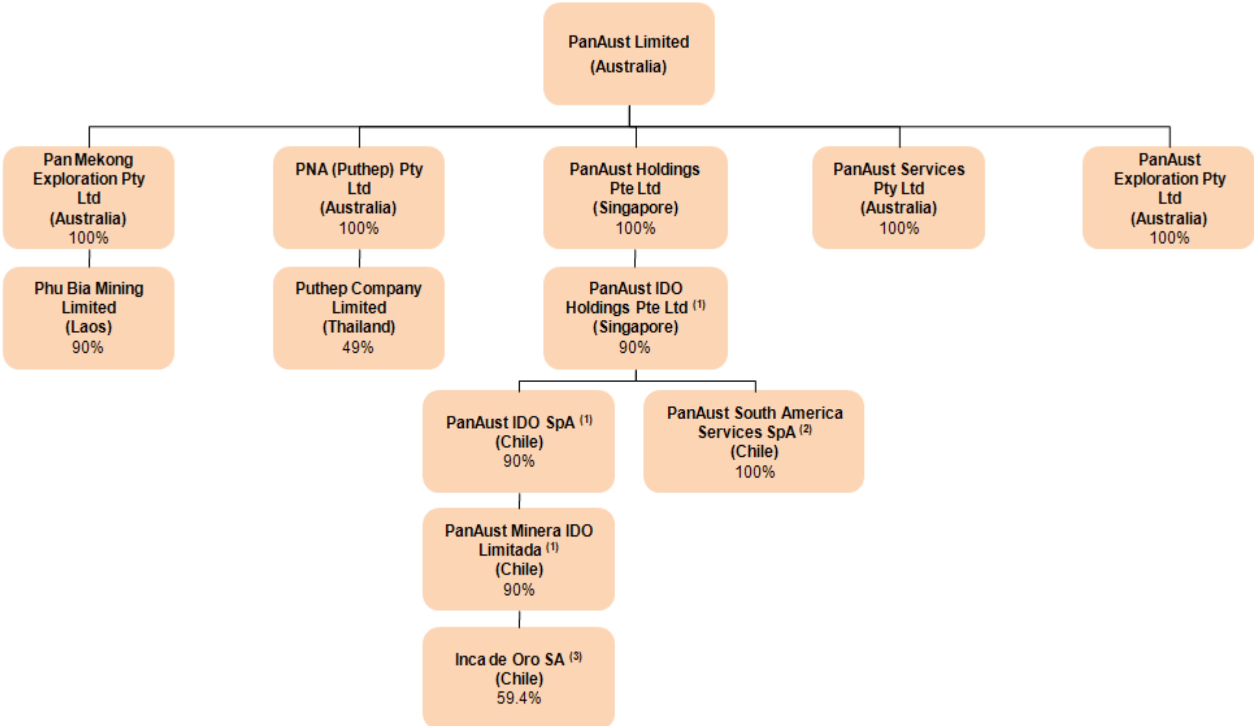
Dividends
Since the end of the previous year, no amounts were paid or declared by way of dividend by the Company. The Directors have resolved not to declare a dividend for the year ended 31 December 2010.

Principal activities
During the year, the principal continuing activities of the Group consisted of:
(a) Production and sale of copper-gold concentrate from the Phu Kham Copper-Gold Operation;
(b) Gold doré production from the Phu Kham Heap Leach Operation; and
(c) Exploration and evaluation of sites in Laos and Thailand.

The following significant changes in the nature of the activities of the Group occurred during the year:
(a) Made a binding offer to Corporación Nacional del Cobre de Chile ("Codelco") to acquire a majority interest in the Inca de Oro Copper-Gold Project in Chile;
(b) Ceased operations at the Phu Kham Heap Leach Operation in April, due to the depletion of oxide gold ore (as expected);
(c) Commenced development of Ban Houayxai Gold-Silver Project; and
(d) Commenced early works to upgrade the Phu Kham Copper-Gold Operation, including by increasing ore throughput capacity from 12 million tonnes per annum (Mtpa) to 16Mtpa (the Phu Kham Copper-Gold Upgrade).

Review of operations

Group Operating Structure



Note: Ownership percentages represent PanAust's interest in each of the relevant entities.
(1) *Subject to completion of transaction. PanAust's interest as at 31 December 2010 is 100%.*
(2) *Currently in the process of being restructured as a subsidiary of PanAust Holdings Pte Ltd (Singapore).*
(3) *Subject to completion of transaction. PanAust's interest as at 31 December 2010 is 0%.*

Review of operations (continued)
Corporate Structure in Laos

PanAust owns a 90% interest (2009: 90%) in the Lao registered company, Phu Bia Mining Limited (Phu Bia Mining), through the Company's wholly owned subsidiary, Pan Mekong Exploration Pty Limited. Phu Bia Mining has a Mineral Exploration and Production Agreement (MEPA) with the Government of Laos. This agreement regulates exploration and mining within a contract area of 2,636 square kilometres (the 'Phu Bia Contract Area') in Laos.

In 2007, the Government of Laos exercised its option to acquire a 10% interest in Phu Bia Mining Limited. The price may be paid from future dividend flows. The issue of shares to the Government of Laos is yet to be completed. A Shareholders Agreement has been prepared which includes the purchase price which has been calculated in accordance with the MEPA. The Government of Laos will not become a shareholder until the Shareholders Agreement is signed and the shares are issued. Given the exercise of the option, it is considered appropriate to recognise the interest of the Government of Laos.

Corporate Structure in Thailand

PanAust holds a shareholding interest of 49% (2009: 49%) in the Thai registered company, Puthep Company Limited (Puthep), through the Company's wholly owned subsidiary, PNA (Puthep) Pty Limited. Padaeng Industry Public Company Limited (Padaeng) owns the other 51% (2009: 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%.

Corporate Structure in Chile

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.

PanAust's interest in Inca de Oro S.A. will be held through a 90% interest in PanAust Minera IDO Limitada. The remaining 10% in PanAust Minera IDO Limitada will be held by an independent Australian private company, The Minera Group. PanAust Minera IDO Limitada will hold a 66% interest in Inca de Oro S.A. (giving PanAust a 59.4% beneficial interest) and Codelco will retain a 34% interest.

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

PanAust through PanAust Minera will initially invest US$45.3 million of equity into Inca de Oro S.A. PanAust will invest a further US$10 million by 30 June 2011 to fund a feasibility study thereby carrying both Codelco and the Minara Group through feasibility study stage. PanAust Minera has agreed that Inca de Oro S.A. will pay a net-smelter return royalty to Codelco from revenues generated by the Inca de Oro Project, capped at US$30 million in 2011 dollar terms.

Employees

The Group had 2,332 permanent employees, including staff on fixed term contracts, as at 31 December 2010 (2009: 1,664 employees).

Operating Review for the Year

Laos

Phu Kham Copper-Gold Operation

The strong production and cash cost performance outcomes realised in late 2009 continued throughout 2010. The Phu Kham Copper-Gold Operation throughput was 12.9Mtpa of ore to produce 274,907t concentrate containing 67,806t of copper; 58,152oz of gold; 507,590oz of silver; and 2,490oz of gold in dore (2009: 11Mtpa of ore to produce 227,063t of concentrate containing 54,019t of copper; 43,099oz of gold; 440,306oz of silver; plus13,660oz of gold in dore).

Phu Kham cash cost (Brook Hunt convention C1 cash costs) after precious metal credits averaged a competitive US$0.87/lb (2009: US$0.97/lb), with an average realised copper price for the year of US$3.44/lb (2009: US$2.37/lb) after realised hedging.

Review of operations (continued)

On 30 June 2010, the Company reported to the Australian Securities Exchange (ASX) a 17% increase in the total estimated Phu Kham Ore Reserve. The 2010 Ore Reserve estimate incorporates data from the successful 2009 south pit area infill and resource extension drill program and supports a mine life of 14 years at current 12Mtpa design ore processing rates.

During the year, the Company conducted a feasibility study to identify and evaluate the options and investment required to ensure current levels of copper-gold production are maintained or increased as mining operations are scheduled to move into predominantly primary and lower grade ore in 2012. The study concluded ore processing rates on primary ore would need to increase to a nominal 16 Mtpa from the current rate of 12Mtpa. In addition, the study report recommended an increase in flotation capacity. Based on the results of the feasibility study, the Board of Directors approved a US$110 million investment to complete the upgrade.

The investment is expected to deliver an increase of copper in concentrate production to between 65,000tpa and 70,000tpa in mid 2012 from current design levels of between 60,000tpa and 65,000tpa. The upgraded project will have a mine life of over ten years.

The duplication of the existing 13MW ball mill circuit (compared to the 2008 proposal to install a smaller 6.5MW ball mill) and the installation of a stand-alone flotation circuit should introduce more operating flexibility and should result in less operating downtime and an absolute increase of 2% in copper recovery.

Additional mining equipment will be required to augment the existing fleet in order to meet the higher annual material movements required by the upgrade. Studies are ongoing to determine the optimal mining fleet configuration and leasing arrangements.

Phu Kham Heap Leach Operation

Operations at the Phu Kham Heap Leach Operation ceased in April 2010. Between November 2005 and April 2010, the Phu Kham Heap Leach Operation produced nearly three tonnes of gold and played an important role in the initial development of PanAust's operating presence in Laos. After closure activities are complete, the workforce will be redeployed to duties at the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Project.

Ban Houayxai Gold-Silver Project

The Ban Houayxai Gold-Silver Project is located approximately 25km west of the Phu Kham Copper-Gold Operation. In March 2010, the Board of Directors approved the development of the Ban Houayxai Gold-Silver Project. The approval followed the successful conclusion of the project feasibility study which was based on an open pit mining operation feeding ore to a conventional 4Mtpa "Carbon In Leach" ("CIL") process plant to produce over 100,000oz of gold and 700,000oz of silver per annum.

At the end of the December quarter, the project construction was 21% complete, and expenditure and commitments totalled approximately US$78 million out of a total projected capital cost for the project of US$150 million. In early 2010, the Government of Laos issued the Company a permit authorising the Company to commence bulk earthworks and construct a new access road and low-impact facilities including camp accommodation and offices. The northern access road was completed at the end of the September quarter. On-site foundation work for the permanent buildings and ball mill are well advanced and installation of the CIL tank ring beams is complete. In addition, low impact site stability and foundation works have commenced.

The project remains on schedule for initial commissioning to commence in late 2011 with steady state production anticipated to be reached during the March quarter 2012.

The Ban Houayxai deposit remains open at depth and to the west. Further resource development drilling is aimed at delineating additional near surface oxide mineralisation and upgrading the resource categorisation of deeper primary mineralisation. The target is to extend the mine life beyond ten years.

Phonsavan Copper-Gold Project

The Phonsavan Copper-Gold Project comprises two copper deposits: KTL and Tharkhek located 5km apart and close to existing road and power infrastructure. A two-year resource drilling program is underway to define sufficient resources to support the development of a copper-gold operation.

Resource drilling at KTL has confirmed the continuity of the copper-gold deposit over a strike length of 2km. The deposit remains open along strike to the east and down dip. Data from the resource drilling program will be incorporated into the inaugural resource estimate which is scheduled to be completed during the June half 2011.

Review of operations (continued)

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 Puthep Copper Project is a joint venture project being pursued in conjunction with Padaeng. The project comprises two deposits: PUT 1 and PUT 2. PanAust is undertaking a feasibility study on the PUT 1 deposit.

An independent expert review of the feasibility study concurs with the conclusion that leaching is the preferred processing option for near-surface chalcocite mineralisation. The review also recommended further copper leach test work. The Puthep Copper Project is targeting an annual production rate of 25,000t to 30,000t of cathode copper over an eight-year mine life.

During 2011, Puthep plans to complete further leach test work, submit a mine plan as part of an application for mining leases and complete community consultation and an Environmental and Social Impact Assessment.

Chile

Inca de Oro Copper-Gold Project

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 and over a plus ten-year mine life.

The Inca de Oro Copper-Gold Project's feasibility study is scheduled to be completed in 2012.

Safety and sustainability

The Company's safety record remains excellent by international comparison. The Lost Time Injury (LTI) frequency rate (LTIs per million man hours) at 31 December 2010 on annual rolling average basis was 0.45 (2009: 0.25), compared with the latest available data from the Minerals Council of Australia that reports an average LTI frequency rate of 1.8 for the Australian Opencut Metalliferous mining industry.

During the course of the year, the Company was awarded the Community Development Initiative Award at the Asia Mining Congress in Singapore. The award recognised PanAust's Livelihood Improvement Program designed to assist the sustainable development of the communities around the Phu Kham Copper-Gold Operation.

There were no reportable environmental incidents during the year ended (2009: nil).

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

The Company owns a non controlling interest in the Darlot South Gold Exploration Project in Western Australia. The Project is subject to the environmental laws of Western Australia and the Commonwealth of Australia. Barrick (Darlot) N.L., part of the Barrick Gold Corporation, is the operator of the Project. Under the farm in arrangements, the operator is required to comply with all relevant environmental laws and regulations. The Company is not aware of any breach of any environmental laws by the operator and has fully complied with its obligations as a non-controlling holder of tenements.

The Company's policies with respect to compliance with environmental laws in all countries in which it operates will be fully outlined in the Sustainability Report. The Sustainability Report for 2010 is due to be released in the second quarter of 2011.

Bank Debt Facilities

On 30 July 2010 PanAust entered into an amended and restated loan agreement for a total US$102 million of debt facilities with a syndicate of four banks and the Company has agreed terms for a US$24.8 million equipment lease facility with the ANZ Bank.

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 a US$100 million revolving facility (Revolving Facility), US$20 million guarantee facility plus extensive hedging lines for commodity, currency and interest rates.

Review of operations (continued)

The debt facilities are secured by the Group's assets in Laos and funds are used for general corporate purposes including funding of working capital and operating expenses for the Phu Kham Copper-Gold Operation, and the close out of gold hedging entered into under the original project finance facility.

Operating results for the year

The consolidated operating profit for the financial year of the consolidated entity after providing for income tax was US$160,096,743 (2009: US$23,171,479).

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

A summary of consolidated revenues and results (adjusted EBITDA) by segment is set out below:

	Segment revenues		**Segment results**	
	31 December 2010 US$'000	31 December 2009 US$'000	**31 December 2010 US$'000**	31 December 2009 US$'000
Phu Bia Mining	**572,950**	345,724	**308,198**	121,221
Other	**918**	2,388	**(8,084)**	3,491
Total segment revenue / consolidated result	**573,868**	**348,112**	**300,114**	**124,712**

Significant gains and expenses

	31 December 2010 US$'000	31 December 2009 US$'000
Gains:		
Unrealised hedge gains	**1,487**	-
Expenses		
Unrealised hedge losses	**-**	(8,449)
Put option premium expense	**(16,947)**	(624)

Significant changes in the state of affairs

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

- Increase in the cash position of the Company to US$185 million (2009: US$88 million);
- Amendment and restatement of the debt facilities with a syndicate of four banks;
- Closing out of the gold forwards entered into under the debt facilities in 2007; and
- Utilisation of Phu Bia Mining Limited's carry forward tax losses and moving into tax payable position.

Likely developments and expected results of operations

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

- Initial commissioning of the Ban Houayxai Gold-Silver Project is scheduled to commence in late 2011 with steady state production anticipated to be reached during the March quarter 2012;
- Upgrade to increase ore processing rates and improve metal recoveries at Phu Kham Copper-Gold Operation. This is expected to deliver an increase in copper concentrate production to between 65,000tpa and 70,000tpa in mid - 2012;

Likely developments and expected results of operations (continued)

- Completion in 2012 of the necessary permitting and studies on the Puthep Copper Project in Thailand for production of circa 25,000t to 30,000t of copper cathode;
- Completion of a feasibility study in 2012 at the Inca de Oro Copper-Gold Project, followed by an anticipated two-year construction program;
- Ongoing assessment on the Phonsavan Copper-Gold Project in Laos.

PanAust remains committed to progressing capital efficient organic growth opportunities. With the Company's strengthened balance sheet and cash flow, PanAust has a strategy to achieve growth through discovery, acquisition and development.

Indemnity and insurance of officers

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

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

During the financial year, the Company paid an annual premium of US$230,382 (2009: US$109,145) to insure the directors, secretary, and other officers of the Company and its subsidiaries (Insured Party). The liabilities insured are the loss suffered by the Insured Party and any amount payable by the Company in accordance with the indemnity together with defence costs in respect of a claim. The insurance policy does not cover liability arising out of conduct by an Insured Party referred to in section 199B Corporations Act and other customary exclusions including personal injury, fines and penalties and property damage. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Loans to the Managing Director and other executives

As at 31 December 2010, the Company had advanced loans to the Managing Director and other executives in the amount of US$7,692,260 (2009: nil). The loans were for the purchase price of shares issued to the Managing Director and other executives under the Long Term Share Plan (LTSP). The shares are held on trust and will be released to the Managing Director and other executives once the shares have vested, and the loans to the Company have been paid or appropriate arrangements entered into for repayment of the loans. Further details with regards to the LTSP are included in the Remuneration Report.

Proceedings on behalf of the Company

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

Non-audit services

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

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

- all non-audit services have been reviewed by the Audit Committee to ensure they did not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

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

	Consolidated	
	31 December 2010 US$	31 December 2009 US$
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work	**264,471**	247,385
Related practices of PricewaterhouseCoopers Australian firm:		
PricewaterhouseCoopers Laos firm:		
Audit and review of financial reports and other audit work	**138,328**	155,865
Total remuneration for audit services	**402,799**	403,250
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Debt facility / debt instrument review	**160,586**	168,982
Other services	**45,001**	19,028
Capital raising review	**-**	38,688
Related practices of PricewaterhouseCoopers Australian firm		
PricewaterhouseCoopers Thailand firm:		
Controls assurance services	**-**	15,000
Total remuneration for other assurance services	**205,587**	241,698
3. Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax advice	**22,242**	14,959

Remuneration report

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

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

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

A Principles used to determine the nature and amount of remuneration

This report outlines the remuneration agreements in place for directors and executives of PanAust.

Background

PanAust's remuneration for senior executives and non-executive Directors in 2010 reflected the scale and complexity of the business and the Company's market capitalisation (A$2.6 billion at the end of 2010). At year end, the Company was a candidate for inclusion in the S&P ASX100 Index. PanAust competes with the global mining industry for senior executives and it is in this context that the Company seeks to attract, retain and motivate a quality and highly skilled and experienced team of non-executive Directors and senior executives.

Remuneration philosophy

In addressing these matters over the last four years, the Company has adapted its remuneration strategy. There has been an increase in the percentage of total discretionary remuneration for senior executives. However, remuneration reviews and both short and long term incentives continue to be based on genuine and demanding performance measures. The guiding philosophy is to ensure maximum stakeholder benefit from the attraction and retention of a high quality Board and senior executive team.

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

The remuneration arrangements for non-executive Directors are separated from those applying to senior executives. Non-executive Directors are not paid short term or long term incentives.

Remuneration Committee

The Remuneration Committee of the Board is responsible for reviewing and making recommendations to the Board in relation to:

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

The charter for the Remuneration Committee is available on PanAust's website. In accordance with best practice, the Remuneration Committee is comprised solely of independent non-executive Directors; namely, Mr G. A. Hounsell (Chairman), Mr G. Billard and Mrs N. P. Withnall.

In making its annual assessment of the nature and amount of remuneration for non-executive Directors and senior executives, the Remuneration Committee considers relevant employment market conditions.

This process includes referring to relevant comparative market data. In this regard, the Company participates in and subscribes to the McDonald Gold & General Mining Industry Remuneration Survey and supplementary CEO Report. This is the largest and most comprehensive remuneration benchmarking survey for the resources industry in Australia, with some 151 resources industry companies managing 177 operations contributing data for almost 8,000 matched incumbents. This provides relevant benchmark data for both senior executives and non-executive Directors in the mining industry.

Remuneration report (continued)

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

In discharging its duties, the Remuneration Committee also obtains expert advice from external consultants. In relation to matters dealt with in this report, the Remuneration Committee obtained advice from the following:

- KPMG in relation to a review of non-executive Directors' fees;
- Pricewaterhouse Coopers in relation to the introduction of the new Long Term Share Plan (LTSP) for senior executives; and
- Deloitte in relation to the specific terms and conditions of the LTSP and tax consequences for executives and the Company.

Non-executive Director remuneration
Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain non-executive Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution of the Company and the ASX Listing Rules specify that the maximum aggregate remuneration of non-executive Directors is determined by the shareholders in a general meeting. At the most recent Annual General Meeting held on 21 May 2010 the shareholders approved an increase in the maximum aggregate fee pool to A$1,200,000. The previous maximum aggregate fee cap was A$800,000 per year determined at the Annual General Meeting held in 2008.

The amount of aggregate remuneration sought to be approved by shareholders is reviewed annually. The Board considers the fees paid to non-executive Directors of comparable companies when undertaking the annual review process. In 2010, a comprehensive review of non-executive Directors' fees was undertaken by KPMG. The review researched professional director remuneration publications, publicly available data on non-executive Directors' fees, data specific to the mining industry and various other survey data. In performing benchmarking, the Remuneration Committee also considered the increase in the market capitalisation of the Company.

In conducting its review in 2010, the Remuneration Committee also had regard to the fact that there had been no increase in fees for two years and that the responsibilities of the Company's non-executive Directors have increased as the Company has moved from explorer to a producer with operations and activities in several countries. As stated above, regard was had to peers with similar revenues, operations (located in a range of jurisdictions), business, and employee numbers.

The remuneration of non-executive Directors for the year ending 31 December 2010 is detailed on pages 19-20 of this report.

Executive Director and senior executive remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their positions and responsibilities within the Company.

Structure

In determining the level and make-up of executive remuneration, management and the Remuneration Committee research market levels of remuneration for comparable executive roles from which the Remuneration Committee makes its recommendations to the Board.

Remuneration consists of the following key elements:

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

The proportion of Fixed Remuneration, STI and LTI is established for each senior executive following a recommendation by the Remuneration Committee to the Board. Remuneration for the most highly remunerated senior executives is detailed in the table on pages 19-20 of this report.

Remuneration report (continued)

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

Objective

The level of Fixed Remuneration is set so as to provide a base level of remuneration which is both appropriate and competitive to the position in the market.

Fixed Remuneration is reviewed on an annual basis by the Remuneration Committee. The Remuneration Committee utilises a range of relevant information sources during the review process, including comparative market data, internal sources and, where appropriate, external advice.

Structure

Fixed Remuneration is inclusive of superannuation, at a rate of 9% in accordance with legislative requirements. Senior executives (including all key management personnel) are given the opportunity to receive their Fixed Remuneration as either base salary (if based overseas) or base salary and superannuation.

Short Term Incentives (STI)

Objective

The objective of awarding STI is to link the achievement of the Company's strategic targets with the remuneration received by the executives charged with meeting those targets. The total potential remuneration available is set at a level so as to provide sufficient incentive to the senior executive to achieve the strategic targets, and such that the cost to the Company is reasonable in the circumstances.

Structure

STI payments to senior executives are dependent upon the extent to which specific strategic targets set at the beginning of the financial year are met. The strategic targets consist of a number of critical tasks covering both financial and non-financial measures of performance. Typically included are: operational measures (such as production and cost control); sustainability measures (including safety and environment); and other specific individual achievement plan targets relating to the performance of the business unit, department or operation for which the individual is responsible.

STI grants for 2010 comprised both discretionary and non-discretionary components. The non-discretionary component was the target STI which was dependent upon the accomplishment of the individual's achievement plan. The discretionary component (limited to an additional 50% of the target STI) was a bonus element to reflect an executive out-performing the requirements of their annual achievement plan. The discretionary component was also dependent upon the overall financial position of the Company.

During 2010, payment of the STI to an executive with an operational role was linked to the following: 50% (2009: 50%) for production achieved, 25% (2009: 25%) for cost control and 25% (2009: 25%) for sustainability outcomes (split between safety performance and environmental impacts). In relation to non-operational roles, payment of the STI was linked to the following (depending upon the role): 75% or 85% for performance against the annual achievement plan (2009: 75%) and 25% or 15% (2009: 25%) for performance against sustainability outcomes for the Group (split between safety performance and environmental impacts).

Sustainability performance was measured by reference to statistics for lost time injuries (lost time injury frequency rate – LTIFR), total recordable injuries (total recordable injury frequency rate – LTIFR) and the number and consequence of reportable environmental incidents.

Performance against production, cost and overall targets in an executive's achievement plan was measured over the whole year. Sustainability performance targets were measured and accrued on a calendar quarterly basis so there was always an incentive for continual improvement and/or sustained out-performance for the following quarter(s). If PanAust had a high severity environmental incident or a fatality, then STI benefits did not accrue for that calendar quarter. There were no fatalities or high severity environmental incidents during 2010.

The performance targets are compatible with the Company's strategic plan and/or budget. The targets chosen are applicable to the individual's authority and responsibility for planning and directly controlling activities which have performance outcomes for the Company.

Given the importance of the Group's sustainability performance, it is considered appropriate that there is a link between eligibility for the STI and meeting sustainability targets. Sustainability and sustainability reporting are part of the Company's long term commitment to incorporate the consideration of social, safety, economic and environmental risks and benefits into management approach and business decision making.

Remuneration report (continued)

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

On an annual basis, after consideration of the individual performance against critical tasks, an overall assessment of each senior executive's performance, as a participant in the management team for the Company, is approved by the Remuneration Committee.

Long Term Incentives (LTI)

Objective

The objective of the LTI is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. The issue of LTI also forms part of the Company's retention strategy. The Company currently has three forms of executive LTI in effect:

- Long Term Share Plan (LTSP)
- Executive Option Plan (EOP)
- Share Rights Plan (SRP)

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

Long Term Share Plan (LTSP)

The LTSP is a loan backed share plan which was introduced in 2010. Under the LTSP, the Company issues shares or a trustee transfers shares to the executive at market value. The purchase price of each share is funded by a loan from the Company. The issue of shares and the advance of a loan to the Managing Director under the LTSP was approved by shareholders at the 2010 Annual General Meeting. During 2010, LTI offers were only made to the senior executives under the LTSP.

Under the terms of the LTSP:

- The Board may invite a person who is an executive with the Company or an associated Company to participate. Participation is voluntary. Participation is not open to non-executive Directors. Participation in the LTSP does not confer any right upon the participant to future issues of shares. A participant may nominate an associate (such as a personal superannuation fund) to hold the securities.
- The Board has the discretion to determine: (a) the number of shares to be issued under the LTSP (provided that the total number of shares under the LTSP does not exceed 5% of the total shares on issue at the time an offer to participate is made; (b) the price of the shares (being the amount of the cash or loan required to acquire the shares); (c) the amount of any loan to be extended to the participant to acquire the shares and the terms and conditions of such loan; and (d) any conditions attaching to the shares, including performance hurdles which must be satisfied before the shares vest.
- The amount of the loan advanced by the Company to the participant may not exceed the aggregate of the price of the shares acquired and any transaction costs. The loan is non-recourse. Accordingly, the participant is not required to pay any amount in excess of the value of the shares acquired through provision of the loan. The loan must be repaid prior to the sale of any shares or arrangements must be entered into with the Company such that the proceeds of any sale are applied in repayment of the loan. The after tax benefit of any dividends (based on the top Australian marginal tax rate) must be applied in repayment of the loan.
- Where the employment of the participant is terminated other than for retirement, retrenchment or death, any shares subject to conditions which have not been satisfied (including performance conditions) are forfeited. In the case of retirement, retrenchment, or death, shares which have not vested and are still subject to conditions will be immediately forfeited unless the Board exercises its discretion to the contrary. A participant is not taken to have retired until they reach the age of 60 or such other age as the Board may approve in a particular case.
- Subject to the conditions and restrictions attaching to the shares, the holder of the shares has the same rights as any other holder of shares. This includes voting rights, a right to dividends, bonus shares and capital disbursements. However, if the shares are subject to a loan, the after tax benefit of any monetary proceeds must first be applied in repayment of the loan.

Remuneration report (continued)

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

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

Executive LTI issues are only made to the Managing Director and senior executives because they are able to influence (and have the prime responsibility for) the generation of shareholder wealth, and thus have a direct impact on the Company’s performance against the relevant long term performance hurdle.

In relation to issues under LTI plans to the Managing Director and other senior executives, vesting of shares is subject to PanAust’s total return to shareholders (TSR), including share price growth, dividends and capital returns, compared to an appropriate comparator group. For the 2010 issue, the comparator group was the S&P/ASX 300 Metals and Mining Index over a three-year period.

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

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

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (continued)
Executive Option Plan (EOP) and Share Rights Plan (SRP)

Structure

Prior to 2010 and the implementation of the LTSP, the Managing Director and the senior executives were offered a choice of options issued under the EOP or shares issued under the SRP. Options were first granted under the EOP in 1996 and share rights were first granted under the SRP in 2007.

There were no issues to the Managing Director or other senior executives under the EOP or the SRP during 2010. However, there were issues to the Managing Director and the other senior executives in previous years which are relevant to this report. Accordingly, a summary of the structure of the EOP and the SRP is provided below.

Under the terms of the previous EOP and SRP:

- The Board may invite a person who is an executive in permanent full time or permanent part time employment with the Company or on a fixed term contract with the Company to participate in the EOP. A participant may nominate an associate (such as a personal superannuation fund) to hold the options. Directors of the company are ineligible to participate in the EOP, unless they are executive directors.
- The Board may invite a person who is an employee of the Company to participate in the SRP. A participant may nominate an associate (such as a personal superannuation fund) to hold the share rights. Directors of the company are ineligible to participate in the SRP, unless they are executive directors.
- Participation in both the EOP and SRP is voluntary. The Board has the discretion to determine (a) the number of options and share rights to be issued under the EOP and SRP; (b) the exercise price (if any); and (c) other terms of issue of the options and share rights. The Board has the discretion to impose performance hurdles which must be satisfied before the options and share rights can be exercised.
- Where the employment of a participant in the EOP is terminated for any reason other than retirement, retrenchment or death, any unexercised options which have outstanding performance or other conditions will immediately lapse. Any unexercised options which have satisfied all conditions are not affected.
- Where the employment of a participant in the SRP is terminated for any reason other than retirement, retrenchment or death, any unvested share rights will immediately lapse. Any vested share rights are not affected.
- Where the employment of a participant in the EOP is terminated by reason of retirement, retrenchment or death, any unexercised options which have outstanding conditions will immediately lapse unless the Board exercises its discretion to the contrary. Any unexercised options which do not have any outstanding conditions are not affected.
- Where the employment of a participant in the SRP is terminated by reason of retirement, retrenchment or death, any unvested share rights will immediately lapse unless the Board exercises its discretion to the contrary. Any vested share rights are not affected.
- In the case of options or share rights, a participant will not be taken to have retired until they reach the age of 60 or such other age as the Board may approve in a particular case.
- Upon exercise of an option and payment of the exercise price, each option will convert into one ordinary fully paid share in the Company. Options must be exercised within the exercise period determined by the Board. The exercise period for an option must not exceed 5 years.
- Upon exercise of a share right, each share right will convert into one ordinary fully paid share in the Company. There is no exercise price payable. Share rights must be exercised within the exercise period determined by the Board. The exercise period for a share right must not exceed 10 years.

Remuneration report (continued)

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

- Holders of options and share rights are not thereby entitled to participate in new pro rata or bonus issues of securities made by the Company. Upon a new pro rata or bonus issue of securities, adjustments are made to the number of shares over which the options and share rights exist and/or the exercise price (if any). The relevant formula to reflect changes to the capital structure that occur by way of pro rata and bonus issues is set out in the EOP and SRP. The formula is consistent with the ASX Listing Rules. In any reconstruction, options and share rights will be similarly reconstructed in accordance with the ASX Listing Rules.
- Options and share rights may not be transferred. In addition, the Board may impose disposal restrictions upon shares acquired through the exercise of share rights. The disposal restrictions on such shares may restrict disposal of the shares until the earlier of the nominated period (up to 10 years) after the acceptance of an offer by the participant to take share rights, the cessation of the participant's employment with the Group, the occurrence of a change in control in the Company, or the receipt of the consent of the Board. There are no disposal restrictions on options issued under the EOP.
- Upon a change in the control of the Company (for example, a takeover) or a demerger, all unvested options and share rights will immediately vest and become exercisable. Immediately prior to the change in control or demerger, the Board must make appropriate arrangements to ensure that the holders of options and share rights are able to exercise the option or share right on or prior to the relevant event.
- Participation in both the EOP and SRP does not confer any right upon the participant to future issues of options or share rights.

Once options issued under the EOP have vested the options remain exercisable for a total period of up to five years from the grant date. Options are granted with cash consideration due on exercise of the options at the relevant exercise price. Share rights are granted under the SRP with no cash consideration due on exercise of the share rights.

It should be noted that share rights issued under the SRP are issued to employees other than senior executives, but often without performance conditions. Share rights remain exerciseable for a total period of up to ten years from the grant date. The vesting of share rights is only subject to the employee being employed as at the relevant vesting date. This reflects the retention objective of such issues.

The tables on pages 20-24 provide details of LTI grants to key management personnel, the value, vesting periods and lapses under the LTSP, EOP and SRP.

Company performance

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

Year	**31-Dec-06**	**31-Dec-07**	**31-Dec-08**	**31-Dec-09**	**31-Dec-10**
A$ Cents per Share	31.5	99	8.5	56.5	89.0
A$ market capitalisation	443,459,891	1,419,037,120	122,405,770	1,656,873,935	2,630,107,369
US$ profit/(loss)	(4,522,338)	(13,054,830)	(39,959,278)	23,171,479	160,096,743

Remuneration report (continued)

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

Directors' fees

The aggregate remuneration cap for 2010 of A$1,200,000 (2009: A$800,000) was approved by shareholders at the Annual General Meeting held on 21 May 2010.

The following annual fees have applied:

	From 1 July 2010	From 1 January 2009 to 30 June 2010
Director fee structure		
Chairman	$260,000	$220,725
Other non-executive Directors	$110,000	$75,000
Additional fees		
Committee chairman	$20,000	$15,000
Committee member	$10,000	$7,500

The Chairman does not receive additional fees for being a member of a committee of the Board. Prior to 1 July 2010, superannuation, where applicable, was paid on top of the fees receivable for other directors. From 1 July 2010 fees for all directors are inclusive of superannuation. Fees may be paid to directors for the provision of additional services to the Group (for example, serving on the board of PanAust related entities). Any such fees are based on the committee fee structure detailed above (in particular, whether the nature of the services is comparable to being a Committee chairman or a Committee member).

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel of PanAust are set out in the following tables. The top five key management personnel (in terms of remuneration) that are not directors are:

- F. Hess - Executive General Manager Project Development & Operational Improvement
- J. Walsh - General Manager Corporate Development
- D. Hairsine - Chief Financial Officer
- R. Usher - Executive General Manager Southeast Asia (promoted during 2010 from General Manager - Phu Kham Operations)
- P. Scarr - Company Secretary and General Counsel

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

Name	Employment commencement date	Base salary (including superannuation) $A	Base salary (including superannuation) $A
Managing Director		**2010**	**2009**
G. Stafford	07-Mar-96	900,000	832,000
Other executives			
F. Hess	17-Oct-05	454,272	436,800
J. Walsh	01-Jul-04	378,560	364,000
D. Hairsine	27-Sep-04	378,560	364,000
R. Usher	05-Sep-06	440,000	340,000
P. Scarr	05-Feb-07	319,696	301,600

Remuneration report (continued)

B Details of remuneration (continued)
Amounts of remuneration (continued)

Key management personnel of the company and other executives of the company and the company

Whilst payments to Key Management Personnel are paid in Australian dollars, the Company's functional currency is United States dollars. The table below details the reportable remuneration in United States dollars using the rate as at the date of payment or the rate as at the date the expense has been recognised. The AUD/USD average rate for 2010 was USD$0.9166. The rate as at 31 December 2010 was USD$1.062.

The value for Long Term Incentives presented in the table below is calculated in accordance with AASB 2 Share Based Payments and represents securities issued under the LTI plans that have been expensed during the current year. Refer to the tables on pages 21-24 for full details of the fair A$ value at the grant date for long term incentive securities issued by the Company to the Managing Director and other senior executives in this, previous or future reporting periods and the number of securities issued to those executives during the reporting period.

Long service leave and termination benefits represent amounts provided for long service leave and termination entitlements during the year ended 31 December 2010. Termination benefits are those referred to under Part C Service Agreements (audited) of this Remuneration Report. Termination benefits payable when the Managing Director leaves the employment of the Company (other than for gross misconduct) are included in the table.

Termination benefits for other executives are payable upon termination of employment by the Company (other than for gross misconduct).

		Short-term employee benefits			Sub-total	Non-cash benefits accrued	
Name		Directors' Fees / Base Salary US$	Short Term Incentive US$	Retirement benefits/ Super-annuation US$	Cash benefits received US$	Long service leave / Termination benefits US$	Long Term Incentives US$
Non-executive directors							
G. Hounsell	**2010**	**202,533**	**-**	**18,228**	**220,761**	**-**	**-**
	2009	163,152	-	14,684	177,836	-	-
N. P. Withnall	**2010**	**104,246**	-	**9,382**	**113,628**	-	-
	2009	78,555	-	7,070	85,625	-	-
A. E. Daley	**2010**	**82,186**	-	-	**82,186**	-	-
	2009	71,957	-	-	71,957	-	-
G. A. Handley	**2010**	**58,357**	-	**46,911**	**105,268**	-	-
	2009	21,294	-	57,744	79,038	-	-
G. Billard	**2010**	**74,434**	-	**31,142**	**105,576**	-	-
	2009	31,883	-	42,278	74,161	-	-
Z. Li	**2010**	**76,323**	-	-	**76,323**	-	-
	2009	17,045	-	-	17,045	-	-
J. Crofts	**2010**	**24,828**	-	-	**24,828**	-	-
(appointed 17 September 2010)	2009	-	-	-	-	-	-
Sub-total	**2010**	**622,907**	-	**105,663**	**728,570**	-	-
	2009	383,886	-	121,776	505,662	-	-
Managing director							
G. Stafford	**2010**	**835,264**	**514,437**	**45,992**	**1,395,693**	**214,029**	**1,222,274**
	2009	798,129	388,642	39,842	1,226,613	272,287	843,467
Other executives							
F. Hess	**2010**	**534,137**	**233,385**	**12,472**	**779,994**	**12,717**	**272,890**
	2009	348,505	164,028	-	512,533	9,351	198,313
J. Walsh	**2010**	**327,005**	**143,507**	**21,129**	**491,641**	**18,240**	**218,909**
	2009	301,006	117,086	23,980	442,072	17,931	156,746
D. Hairsine	**2010**	**306,192**	**143,507**	**47,558**	**497,257**	**17,872**	**218,771**
	2009	309,065	89,662	36,008	434,735	17,416	156,199
R. Usher	**2010**	**381,329**	**172,469**	-	**553,798**	-	**168,380**
	2009	281,489	121,345	-	402,834	-	109,115
P. Scarr	**2010**	**290,630**	**121,192**	**23,061**	**434,883**	**12,439**	**171,407**
	2009	257,225	88,599	20,523	366,347	10,933	134,339
Total	**2010**	**3,297,464**	**1,328,497**	**255,875**	**4,881,836**	**275,297**	**2,272,631**
	2009	2,679,305	969,362	242,129	3,890,796	327,918	1,598,179

Remuneration report (continued)

B Details of remuneration (continued)
Amounts of remuneration (continued)

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

Name	Total fixed remuneration		At risk - STI		At risk - LTI	
	2010	2009	**2010**	2009	**2010**	2009
Executive directors of PanAust Limited						
G. Stafford	**31%**	36%	**18%**	16%	**51%**	48%
Other executives						
F. Hess	**51%**	49%	**22%**	23%	**27%**	28%
J. Walsh	**48%**	53%	**20%**	19%	**32%**	28%
D. Hairsine	**48%**	56%	**20%**	15%	**32%**	29%
R. Usher	**53%**	55%	**24%**	24%	**23%**	21%
P. Scarr	**50%**	55%	**20%**	17%	**30%**	28%

C Service agreements

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

The Managing Director and the other executives are employed under service agreements with no fixed term. Each of these agreements provides for the provision of performance related cash bonuses and participation, when eligible, in the LTSP (2009: EOP and SRP). The current service agreements may be terminated by either party with three months notice. The service agreement provides for a payment of a termination benefit, other than for gross misconduct, equal to one month's salary for each year of service to a maximum of twelve months for the Managing Director and to a maximum of six months for other executives.

D Share-based compensation

Long Term Share Plan (LTSP)

The terms of grants to senior executives under the LTSP provide for performance conditions relating to the performance of PanAust as measured by total shareholder return against an appropriate comparator group. For the 2010 issue, the comparator group was the S&P/ASX 300 Metals and Mining Index. Details of the LTSP granted during the period are as follow:

Grant date	Date vested and exercisable	Loan expiry date	Fair value per share at grant date A$ cents	Share price at grant date A$ cents	Number of shares granted	% Vested
21-May-10	31-Dec-12	31-May-15	12	43.5	13,411,000	nil

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

- Dividend yield : Nil
- Expected volatility: 40%
- Risk-free interest rate: 5.03%
- Staff turnover: 0.00%

Remuneration report (continued)

D Share-based compensation (continued)

Long Term Share Plan granted

In 2010, the Board, through the Remuneration Committee, determined the nominal value of the LTSP grant (loan amount) to each executive and the number of shares issued by reference to the three month volume weighted average price (VWAP) of the Company's shares prior to the date of issue (A$0.5093 per share). As noted above, the Company issues new shares rather than acquiring shares on market. Details of the LTSP grants to the Managing Director and other executives of the Company are set out below.

	2010		2009	
Name	Number of shares granted during the year	Loan amount A$	Number of shares granted during the year	Loan amount A$
Managing Director				
G. Stafford	7,152,500	3,642,768	-	-
Other executives				
F. Hess	1,490,100	758,908	-	-
J. Walsh	1,311,300	667,845	-	-
D. Hairsine	1,311,300	667,845	-	-
R. Usher	1,132,500	576,782	-	-
P. Scarr	1,013,300	516,074	-	-

Options

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

Grant date	Date vested and exercisable	Expiry date	Exercise price A$ cents	Fair value per option at grant date A$ cents	Unissued shares under option	% Vested
23-Mar-07	1-Apr-10	29-Feb-12	38.00	8.10	3,100,000	100%
29-May-07	1-Apr-10	29-Feb-12	38.00	8.10	3,500,000	100%
22-Feb-08	31-Dec-10	31-Dec-12	88.00	25.90	660,000	89.6% *
23-May-08	31-Dec-10	31-Dec-12	88.00	29.80	4,400,000	89.6% *
27-Apr-09	31-Dec-11	31-Dec-13	30.50	8.50	2,900,000	n/a
22-May-09	31-Dec-11	31-Dec-13	42.12	9.40	17,200,000	n/a

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

The exercise price is determined by the Remuneration Committee at the date of offer. Following the completion of the non-renounceable entitlements offer (announced on 26 May 2009), the exercise price of options issued before that date under the EOP was recalculated in accordance with ASX Listing Rule 3.11.2. This calculation resulted in the exercise price for those options being reduced by A$0.02.

Options granted under the EOP carry no dividend or voting rights. Options held under the EOP do not have a right to participate in any share issue of the Company.

When exercisable, each option is convertible into one fully paid ordinary share of PanAust.

Remuneration report (continued)

D Share-based compensation (continued)

Fair value of options

The fair value attributed to options at grant date was calculated using a Black and Scholes pricing model that took into account the following:

	Dec 2009	Dec 2008	Dec 2007
Dividend yield	Nil	Nil	Nil
Expected volatility	40%	40%	40%
Risk-free interest rate	3.80% - 4.40%	6.15% - 6.70%	6.50%
Staff turnover	0.00%	16.70%	16.70%

Options granted

Details of options over ordinary shares in the Company provided as remuneration to the Managing Director and other executives of the Company are set out below.

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	**2010**	2009
Managing Director				
G. Stafford	**-**	17,200,000	**7,442,400**	-
Other executives				
F. Hess	**-**	-	**800,000**	-
J. Walsh	**-**	-	**1,300,000**	-
R. Usher	**-**	2,900,000	**500,000**	-
P. Scarr	**-**	-	**1,891,360**	-

Shares issued on exercise of options

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

Name	Date of exercise of options	Exercise price A$ cents per share	Number of ordinary shares issued on exercise of options during the year	
			2010	2009
Other executives				
F. Hess	01-Nov-10	38.00	800,000	-
R.Usher	28-May-09	32.00	-	1,000,000

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

Share Rights Plan

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

Grant date	Expiry date	Number granted	A$ exercise price cents	Performance hurdle	A$ fair value per share right at grant date
27-Apr-09	31-Dec-18	6,400,000	Nil	TSR	20.4 cents
25-Feb-08	31-Dec-17	1,720,000	Nil	TSR	44.1 cents
02-Apr-07	31-Mar-17	1,050,000	Nil	TSR	15.9 cents

No share rights were issued during 2010.

Remuneration report (continued)

D Share-based compensation (continued)
Fair value of share rights

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

	Dec-2009	Dec-2008	Dec-2007
Dividend yield	Nil	Nil	Nil
Expected volatility	40%	40%	40%
Risk-free interest rate	2.75% - 5.10%	6.15% - 6.70%	6.50%
staff turnover	0.00%	16.70%	16.70%

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

Name	Number of share rights granted during the year		Number of share rights vested during the year	
	2010	2009	2010	2009
Other executives				
F. Hess	-	2,000,000	**892,800**	-
J. Walsh	-	1,600,000	**376,320**	-
D. Hairsine	-	1,600,000	**1,026,320**	-
R. Usher	-	-	**295,680**	-
P.Scarr	-	1,200,000	-	-

No share rights were issued to the Managing Director.

Executive Long Term Share Plan issue after 31 December 2010

Since balance date, the Company has issued shares to executives under the LTSP as an element of 2011 remuneration. Vesting occurs after a period of approximately three years and is subject to performance conditions being satisfied. The nominal value of the LTSP grant to each executive and the number of shares issued have been determined by reference to the five day volume weighted average share price (VWAP) of the Company's shares prior to the date of the issue (A$0.8569 per share). An offer of 2,506,559 shares under the LTSP has been made to the Managing Director. The Managing Director has accepted the offer. The issue of shares and the advance of the loan to the Managing Director are subject to shareholder approval. A resolution will be put to the Annual General Meeting of the Company to be held in May 2011.

Name	Number of shares granted since balance date	Loan amount A$
Other executives		
F. Hess	546,527	468,319
J. Walsh	455,439	390,265
D. Hairsine	472,789	405,133
R. Usher	529,356	453,605
P. Scarr	384,621	329,581

Remuneration report (continued)

E Additional information

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

Details of remuneration of the Managing Director and other executives

For each cash bonus and grant of securities included in the tables on pages 20-24, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. Bonuses for services performed during 2010 are paid in 2011, no portion is payable in future years. The percentage which was not paid was forfeited. The securities vest after three years, provided the vesting conditions are met. No securities rights will vest if the conditions are not satisfied, hence the minimum value of the security yet to vest is nil. The maximum value of the securities yet to vest is calculated by taking the fair value of the securities as at the grant date and deducting that component of the fair value of the securities which has already been expensed.

Name		Cash bonus	Securities		
Name	Year granted	Paid %	Financial years in which securities may vest	Minimum total value of grant yet to vest US$	Maximum total value of grant yet to vest US$
G. Stafford	**2010**	**94%**	**2012**	Nill	**612,970**
	2009	87%	2011	Nill	577,753
F. Hess	**2010**	**96%**	**2012**	Nill	**127,702**
	2009	80%	2011	Nil	142,069
J. Walsh	**2010**	**99%**	**2012**	Nill	**112,379**
	2009	96%	2011	Nill	113,655
D. Hairsine	**2010**	**99%**	**2012**	Nill	**112,379**
	2009	74%	2011	Nill	113,655
R. Usher	**2010**	**90%**	**2012**	Nill	**97,055**
	2009	89%	2011	Nill	85,834
P. Scarr	**2010**	**99%**	**2012**	Nill	**86,840**
	2009	88%	2011	Nill	85,242

Share-based compensation: Long Term Incentives

Further details relating to long term incentives are set out below.

Name	A Remuneration consisting of LTI %	B Value at grant date US$	C Value at exercise date US$	D Value at lapse date US$
G. Stafford	55.0%	1,137,620	-	(269,766)
F. Hess	34.0%	244,713	592,052	(25,575)
J. Walsh	40.0%	196,147	168,261	(19,530)
D. Hairsine	39.0%	196,010	377,266	(19,530)
R. Usher	33.0%	150,407	132,205	(15,345)
P. Scarr	37.0%	159,018	-	(43,131)

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

Risk management products

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

Corporate governance statement

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 27.

Rounding of amounts

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

Auditor

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

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

G. A. Hounsell
Chairman

G. Stafford
Managing Director

Brisbane
24 February 2011

Auditor's Independence Declaration

As lead auditor for the audit of PanAust Limited for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Brett Delaney
Partner
PricewaterhouseCoopers

Brisbane
24 February 2011

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Corporate governance statement

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

In accordance with Listing Rule 4.10, this statement discloses the extent to which the Company has followed the recommendations (the "Recommendations") made by the ASX Corporate Governance Council (the "Council"). The relevant Recommendations are considered under each of the corporate governance principles identified by the Council.

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

It should be noted that the Council recognises that not all of the Recommendations will be suitable for all companies at all times in their corporate development. PanAust is a growing company and its corporate governance procedures and policies have continued to evolve over the past year.

Principle 1 – Lay solid foundations for management and oversight

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

The Company also has in place a Delegated Authorities Manual which clearly sets out the authorities delegated to each level of management and staff. This Delegated Authorities Manual is approved by the Board and promulgated throughout the PanAust Group and makes clear to every employee what is or is not within the scope of their authority. In addition, the Company has implemented a specific manual to deal with delegated authorities in the context of major projects.

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

The Recommendations provide that the Company should disclose the process of evaluating the performance of senior executives. Senior executives prepare annual achievement plans which reflect their role and the strategic plan of the Company. Senior executives are also expected to meet a number of "key behavioural indicators". Performance against these annual achievement plans and key behavioural indicators is assessed by the Managing Director with oversight provided by the Remuneration Committee. The process has been completed for the 2010 year.

The Chairman and the Remuneration Committee consider the performance of the Managing Director. Again, the performance of the Managing Director is assessed against an annual plan prepared in the context of the strategic plan of the Company. This review has also been completed for the 2010 year.

The outcomes of the performance reviews of the Managing Director and the other senior executives are considered in the annual remuneration review process. Further information is contained in the Remuneration Report on pages 12-25.

Principle 2 – Structure the Board to add value

The Board of the Company has been structured in a manner consistent with the Recommendations. A majority of the Board are independent non-executive Directors. The Chairman is an independent non-executive Director. The roles of the Chairman and Managing Director are not exercised by the same person.

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

On the basis of these measures, the following Directors of PanAust are considered to be independent:

Name	Position
G. Hounsell	Chairman, non-executive Director
N.P. Withnall	Non-executive Director
A.E. Daley	Non-executive Director
G.A. Handley	Non-executive Director
G. Billard	Non-executive Director
J.P. Crofts	Non-executive Director (appointed 17 September 2010)

The only two Directors who are not considered independent are Gary Stafford, the Managing Director of the Company, and Zezhong Li who is the non-executive Director nominated by Guangdong Rising Assets Management (GRAM) (a cornerstone investor in the Company with a 20% shareholding). The placement agreement entered into with GRAM provides that the Board of the Company must have a majority of independent non-executive Directors and an independent Chairman.

The skills and experience of each of the Directors is detailed in the Directors' Report. During the course of the year, Mr John Crofts was appointed as an additional non-executive Director bringing 20 years experience in the resources industry and valuable knowledge of the copper sector. The Company has an induction kit to assist new Directors to familiarise themselves with the Company.

The Company has established a Nominations Committee. A charter for the Nominations Committee is available on the Company's website. The membership of the Nominations Committee comprises the Chairman and the Managing Director. Given the expansion of the Board over the last three years (three new non-executive Directors, and a new Chairman in the last three years) that membership has thus far been considered appropriate.

With respect to assessing the performance of Directors, the Chairman annually reviews the performance of all Directors. Directors whose performance has been unsatisfactory would be asked to retire. In 2008, the Board undertook a process of self-evaluation managed by the then newly appointed Chairman and the Company Secretary & General Counsel. This included an assessment of the performance of the Board as a whole and the performance of the Director through the circulation and completion of a detailed questionnaire. A two year appraisal period was considered appropriate.

Following the end of that two year appraisal period and during the course of 2010, the Company undertook its first Board review facilitated by an external expert. The facilitator was Spencer Stuart, a firm with particular expertise in the area of Board and senior executive leadership, recruitment and performance assessment. The review involved the issue of questionnaires and the conduct of interviews between the independent reviewer and each Director. The results of the review have been discussed at Board level and the outcomes will form the basis for the next two year appraisal cycle.

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

Principle 3 – Promote ethical and responsible decision making

PanAust has adopted a "Vision and Values" statement which provides that PanAust's business affairs are to be conducted legally and ethically with strict observance of the highest standards of integrity and propriety. The statement is available on the Company's website. Within this framework, the Board and management have a responsibility to carry out their functions in order to maximise the financial performance of the PanAust Group. In addition, the Company is a signatory to the "Enduring Values" framework developed by the International Council on Mining and Metals in 2003.

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

During the course of the year, the Company was awarded the Community Development Initiative Award at the Asia Mining Congress in Singapore. The award recognised PanAust's Livelihood Improvement Program designed to assist the sustainable development of the communities around the Phu Kham Copper-Gold Operation in Laos.

The Company has in place a number of policies and procedures in relation to occupational health and safety, equal employment opportunity, other human resources matters and ethical business practices. These policies and procedures are supplemented and reinforced through regular training.

During the course of the year, the Company adopted a Code of Conduct. The Code of Conduct meets the requirements of the Recommendations. It provides a lynchpin between the Vision and Values Statement of the Company and the more detailed practices and procedures already in place in the Company. The Code of Conduct is available on the Company's website.

In accordance with the Recommendations, the Company has a policy relating to the trading of securities by Directors, senior executives, employees and contractors. The policy was updated during the course of the year to ensure compliance with changes made to the ASX Listing Rules which came into effect on 1 January 2011. The policy was released to the ASX prior to 31 December 2010 in accordance with the new ASX Listing Rules. A copy of the policy is available on the Company's website.

Principle 4 – Safeguard integrity in financial reporting

In accordance with the Recommendations and Listing Rule 12.7, the Company has an Audit Committee.

During the course of the year, the membership of the Audit Committee comprised four non-executive Directors (N.P. Withnall (Chairman), A.E. Daley, G. Hounsell and Z. Li (until 3 December 2010)). The majority of the non-executive Directors who serve on the Audit Committee are independent. The qualifications of the members of the Audit Committee are contained in the Directors' Report. There is a different chairman for the Audit Committee and the Company. Accordingly, the Audit Committee is constituted in accordance with the ASX Listing Rules and the Recommendations. The Audit Committee has a formal charter which is available on the Company's website. The number of meetings of the Audit Committee is detailed on page 4.

Through the Annual General Meeting process, the Company became aware that the preference of some stakeholders is for an Audit Committee to be comprised solely of independent non-executive Directors, notwithstanding that this is not a requirement under the Recommendations. At the end of 2010, and in preparation for 2011, the Board reconstituted the Audit Committee so that it comprises only independent non-executive Directors.

Principle 5 – Make timely and balanced disclosure

PanAust complies with its continuous disclosure obligations in accordance with the requirements of the ASX Listing Rules and the Corporations Act. The Managing Director has primary responsibility for ensuring the market is properly informed. The Company has developed a culture of complying with its continuous disclosure obligations under the leadership of the Board and the Managing Director.

During the course of the year, the Company adopted a continuous disclosure policy which complies with the Recommendations. The policy provides details of the information required to be disclosed, the policy of the Company with respect to disclosure and the procedures in place to ensure compliance. A copy of the policy is on the Company's website.

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

Principle 6 – Respect the rights of shareholders

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

During the course of the year, the Company adopted a Shareholders' Communication Policy. This policy complies with the Recommendations. The policy provides that the Company will be fair, honest and transparent in its dealing with shareholders. The policy details the arrangements to maximise the participation of shareholders at the Annual General Meeting. It also specifies the information to be made available on the Company's website. This policy was adopted in conjunction with the launch of a new website which provides greater opportunity for shareholder engagement. A copy of the policy is available on the Company's website.

Principle 7 – Recognise and manage risk

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

The policy of PanAust is to maintain effective management systems for identifying and managing risks associated with its activities. This policy statement is part of the Sustainability Policy which is available on the Company's website.

Under its charter, the Board has responsibility to review, ratify and monitor systems of risk management and internal control, systems to prevent fraud, codes of conduct and legal compliance. This role is primarily conducted by two committees of the Board; namely, the Sustainability Committee and the Audit Committee which report to the Board.

The Sustainability Committee has responsibility for ensuring the Company has in place effective measures, systems and controls in relation to managing environmental, community, occupational health, safety and human resources and other sustainability issues and incidents that may have material strategic, business and reputational implications for the Group and its stakeholders.

The Audit Committee has responsibility for satisfying itself that effective measures, systems and controls are in place in relation to management of material business risks, including operational, financial reporting, compliance, reputational and market related risks.

In accordance with the Recommendations, management regularly reports to both the Sustainability Committee and the Audit Committee in relation to risk management matters, including with respect to the effectiveness of the Company's management of risk.

In accordance with the Company's policy, PanAust has adopted a risk management system based on ISO – AS/NZS 31000. This system provides a common framework for the systematic and structured management of risks and opportunities. It includes clear parameters for materiality and guidance on treatment and reporting measures. Comprehensive risk registers are developed by all operating departments. The registers link to operational controls already in place (such as audits and reviews) and test the robustness of these processes. Ownership of risk registers at a departmental level is promoted. Further detail is provided on an annual basis by the Company in its Sustainability Report. This report is available on the Company's website.

In relation to financial matters, the Company has in place a financial risk management plan overseen by the Audit Committee. The Chief Financial Officer is responsible for financial risk management. Given the systems and controls currently in place and the stage in the Company's evolution, it has thus far not been considered necessary to formally establish an internal audit function. A three year rolling program of testing and interrogating financial controls is used to cover the areas of moderate to high risk. External and internal resources are involved with the program.

During 2010 and as part of the evolution of the Company's risk management processes, a senior executive committee was formed which has responsibility for reviewing strategic risk and providing oversight of key operational risks. This committee will have responsibility for maintaining a higher level risk register than those currently in place at an operational level. The committee will report to the Board. The goal is to establish a more fully integrated risk management system.

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

Principle 8 - Remunerate fairly and responsibly

In accordance with the Recommendations, PanAust has a Remuneration Committee which comprises three independent non-executive Directors; namely, G. Hounsell as Chairman, N.P. Withnall and G. Billard. Accordingly, the structure of the Remuneration Committee complies with the Recommendations. A charter of the Remuneration Committee is available on the Company's website. The Remuneration Report contained on pages 12 - 25 provides details with respect to the Company's remuneration policies and practices.

There is a clear distinction made between remuneration paid to non-executive Directors (who are not entitled to short-term or long term incentives) and the Managing Director and other senior executives.

At the last annual general meeting of the Company, the Company's Remuneration Report for 2009 was overwhelmingly supported by the Company's shareholders (approximately 95.14% of all lodged proxies were in favour of adopting the report). This is the third consecutive year in which the Company has received a vote of approximately 95% in favour of adoption of the Remuneration report (2008: 94.56%, 2007: 96.03%).

PanAust Limited ABN 17 011 065 160
Annual Report - 31 December 2010

This financial report covers both PanAust Limited as an individual entity and the consolidated entity consisting of PanAust and its subsidiaries, collectively referred to as the 'Group'. The financial report is presented in United States dollars.

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
Telephone: +61 (0) 7 3117 2000

Postal address is:

PO Box 3468
South Brisbane Queensland AUSTRALIA 4101

PanAust Limited
Consolidated statement of comprehensive income
For the year ended 31 December 2010

	Notes	Consolidated 31 December 2010 US$'000	31 December 2009 US$'000
Revenue from operations	5	**573,868**	348,112
Changes in inventories of finished goods and work in progress		**722**	(3,377)
Mine operating costs		**(130,372)**	(100,399)
Depreciation and amortisation expense	6	**(54,285)**	(42,773)
Employee benefits expense		**(41,272)**	(30,454)
Concentrate haulage		**(30,752)**	(23,517)
Treatment and refining charges		**(13,922)**	(19,201)
Royalties		**(30,112)**	(18,040)
Marketing and realisation costs		**(12,371)**	(9,357)
Other expenses	6	**(16,089)**	(9,661)
Profit before financing and income tax		**245,415**	91,333
Unrealised hedge gains/(losses)		**1,487**	(8,449)
Interest and finance charges	6	**(13,968)**	(17,544)
Put option premium expense	6	**(16,947)**	(624)
Share option expense	6	**-**	(14,086)
Option deed settlement	6	**-**	(6,500)
Redemption fee	6	**-**	(5,000)
Profit before income tax		**215,987**	39,130
Income tax expense	7	**(55,890)**	(15,959)
Profit for the year		**160,097**	23,171
Other comprehensive income			
Cash flow hedges, net of tax		**(8,250)**	(9,300)
Total comprehensive income for the year		**151,847**	13,871
Profit is attributable to:			
Owners of PanAust Limited		**143,353**	18,991
Non-controlling interest		**16,744**	4,180
		160,097	23,171
Total comprehensive income for the year is attributable to:			
Owners of PanAust Limited		**137,201**	10,621
Non-controlling interest		**14,646**	3,250
		151,847	13,871
		Cents	Cents
Earnings per share for profit from operations attributable to the ordinary equity holders of the parent entity			
Basic earnings per share	38	**4.87**	0.86
Diluted earnings per share	38	**4.83**	0.85

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

PanAust Limited
Consolidated balance sheet
As at 31 December 2010

	Notes	Consolidated 31 December 2010 US$'000	31 December 2009 US$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**184,759**	88,203
Receivables and other assets	9	**32,822**	33,713
Inventories	10	**45,903**	37,145
Derivative financial instruments	11	**1,442**	131
Total current assets		**264,926**	159,192
Non-current assets			
Receivables	12	**34,927**	45,582
Investments accounted for using the equity method	13	**6,021**	6,021
Other financial assets	14	**13,572**	12,771
Property, plant and equipment	15	**332,564**	309,715
Exploration and evaluation, development and mine properties	16	**221,693**	161,500
Intangible assets	18	**5,380**	5,380
Derivative financial instruments	11	**1,234**	1,143
Deferred tax assets	17	**-**	12,466
Total non-current assets		**615,391**	554,578
Total assets		**880,317**	713,770
LIABILITIES			
Current liabilities			
Trade and other payables	19	**53,187**	44,030
Borrowings and lease liability	20	**7,721**	25,596
Provisions	21	**5,004**	2,755
Derivative financial instruments	11	**10,019**	8,268
Current tax liabilities	22	**18,268**	-
Total current liabilities		**94,199**	80,649
Non-current liabilities			
Payables	23	**5,953**	3,558
Borrowings	24	**65,682**	76,252
Provisions	26	**21,029**	19,946
Deferred tax liabilities	25	**15,633**	-
Derivative financial instruments	11	**-**	11,195
Total non-current liabilities		**108,297**	110,951
Total liabilities		**202,496**	191,600
Net assets		**677,821**	522,170
EQUITY			
Contributed equity	27	**541,232**	540,948
Reserves	28(a)	**5,134**	8,761
Accumulated gains/(losses)	28(b)	**80,998**	(62,355)
Capital and reserves attributable to owners of PanAust Limited		**627,364**	487,354
Non-controlling interests	29	**50,457**	34,816
Total equity		**677,821**	522,170

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

PanAust Limited
Consolidated statement of changes in equity
For the year ended 31 December 2010

2009 - Consolidated	Notes	Contributed equity US$'000	Reserves US$'000	Accumulated losses US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
		Attributable to members of PanAust Limited					
Balance at 1 January 2009		**216,936**	**393**	**(81,346)**	**135,983**	**21,941**	**157,924**
Profit for the year		-	-	18,991	18,991	4,180	23,171
Changes in fair value of cash flow hedges, net of tax		-	(8,370)	-	(8,370)	(930)	(9,300)
Total comprehensive income for the year		**-**	**(8,370)**	**18,991**	**10,621**	**3,250**	**13,871**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	27	324,012	-	-	324,012	-	324,012
Total changes in non-controlling interest		-	-	-	-	9,625	9,625
Employee share based payments	28	-	2,652	-	2,652	-	2,652
Unlisted options	28	-	14,086	-	14,086	-	14,086
Equity movement for the year		**324,012**	**16,738**	**-**	**340,750**	**9,625**	**350,375**
Balance at 31 December 2009		**540,948**	**8,761**	**(62,355)**	**487,354**	**34,816**	**522,170**

2010 - Consolidated	Notes	Contributed equity US$'000	Reserves US$'000	Accumulated profit/(losses) US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
		Attributable to members of PanAust Limited					
Balance at 1 January 2010		**540,948**	**8,761**	**(62,355)**	**487,354**	**34,816**	**522,170**
Profit for the year		-	-	143,353	143,353	16,744	160,097
Changes in fair value of cash flow hedges, net of tax		-	(7,425)	-	(7,425)	(825)	(8,250)
Total comprehensive income for the year		**-**	**(7,425)**	**143,353**	**135,928**	**15,919**	**151,847**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	27	284	-	-	284	-	284
Total changes in non-controlling interest		-	-	-	-	(278)	(278)
Employee share based payments	28	-	3,798	-	3,798	-	3,798
Equity movement for the year		**284**	**3,798**	**-**	**4,082**	**(278)**	**3,804**
Balance at 31 December 2010		**541,232**	**5,134**	**80,998**	**627,364**	**50,457**	**677,821**

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

PanAust Limited
Consolidated statement of cash flows
For the year ended 31 December 2010

	Notes	Consolidated 31 December 2010 US$'000	31 December 2009 US$'000
Cash flows from operating activities			
Receipts from customers		**605,961**	293,644
Payments to suppliers (inclusive of goods and services tax) and employees		**(303,109)**	(231,556)
		302,852	62,088
Interest received		**457**	146
Interest and fees paid (inclusive of hedge premium payments)		**(14,446)**	(26,004)
Gold forward contract close out		**(23,615)**	-
Net cash inflow from operating activities	37	**265,248**	36,230
Cash flows from investing activities			
Payments for property, plant and equipment		**(34,550)**	(17,681)
Payments for investment in associate		**(800)**	(3,695)
Payments of exploration and evaluation costs		**(26,255)**	(18,235)
Payment of development costs		**(76,650)**	(19,335)
Funds held in escrow for acquisition		**(5,000)**	-
Net cash outflow from investing activities		**(143,255)**	(58,946)
Cash flows from financing activities			
Proceeds from issues of shares		**284**	323,563
Proceeds from borrowings		**45,000**	-
Repayment of borrowings		**(63,000)**	(211,168)
Finance lease payments		**(7,721)**	(7,721)
Net cash (outflow) inflow from financing activities		**(25,437)**	104,674
Net increase in cash and cash equivalents		**96,556**	81,958
Cash and cash equivalents at the beginning of the financial year		**88,203**	6,245
Cash and cash equivalents at end of year	8	**184,759**	88,203

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

Contents of the notes to the consolidated financial statements

1 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

The carrying amount of assets and liabilities approximates their fair value.

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

Comparative information has been reclassified where appropriate to enhance comparability.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2010 and the results of all subsidiaries for the reporting period then ended.

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

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

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

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

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

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

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

1 Summary of significant accounting policies (continued)

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

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

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

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

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

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

(c) Segment reporting

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

(d) Foreign currency translation

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

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

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

(e) Revenue recognition

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

1 Summary of significant accounting policies (continued)

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

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

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

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

(f) Income tax

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

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

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Leases

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

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

1 Summary of significant accounting policies (continued)

(h) Business combinations

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

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

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

(i) Impairment of assets

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

(j) Cash and cash equivalents

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

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement within 30 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of future cash flows. The amount of the provision is recognised in profit or loss.

(l) Inventories

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

1 Summary of significant accounting policies (continued)

(m) Investments and other financial assets

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

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

(n) Derivatives and hedging activities

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

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

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

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

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

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

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

1 Summary of significant accounting policies (continued)

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

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

(o) Property, plant and equipment

All property, plant and equipment is shown at historical cost, less subsequent depreciation except for land which is not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

- Mining plant and equipment	3-10 years *
- Motor vehicles	3-5 years
- Office equipment	3-5 years

* Except for life of mine assets which are depreciated on the units-of-production method. This is in accordance with AASB 116 *Property, Plant & Equipment* that requires a depreciation method that closely reflects the assets' expected use or output. Depreciation is based on assessments of proven and probable reserves to be mined by the current production equipment.

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

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

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

(p) Exploration and evaluation expenditure

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

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

(q) Development properties and amortisation

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

1 Summary of significant accounting policies (continued)

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

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

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

No amortisation is provided in respect of development properties until they are reclassified as mining plant and equipment, from which date they are amortised on the units-of-production method with separate calculations being made for each mineral resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves.

(r) Trade and other payables

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

(s) Borrowings

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

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

(t) Borrowing costs

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

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

(u) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

1 Summary of significant accounting policies (continued)

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

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

(v) Employee benefits

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

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

(iii) Share-based payments
Share based compensation benefits are provided to the Managing Director and other senior executives through the Company's Executive Long Term Share Plan (LTSP) (2009: Executive Option Plan (EOP) and Share Rights Plan (SRP)). SRP issues are made to a wider cross section of employees, including Brisbane staff and expatriate employees based in Laos and Thailand. Information relating to these plans is set out in Note 39.

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

The terms of grants to senior executives under the LTSP, EOP, and SRP provide for performance conditions relating to the performance of PanAust as measured by total shareholder return (TSR) against the S&P/ASX 300 Metals and Mining Index.

Under the LTSP the purchase price of the shares issued to the executives (and held on trust until vesting) is advanced to the executives via a loan from the Company. The term of the loan is usually five years from the date of grant. Once the shares vest, the shares are released from the trust.

1 Summary of significant accounting policies (continued)

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

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

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

Vesting of securities issued to the Managing Director or other executives issues are subject to PanAust's total return to shareholders (TSR), including share price growth, dividends and capital returns, compared to the TSR of the S&P/ASX 300 Metals and Mining Index over a three-year period. The TSR performance hurdle was chosen on the basis of its link to the creation of shareholder value.

(w) Employee share trust

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

(x) Contributed equity

Ordinary shares are classified as equity (Note 27).

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

(y) Dividends

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

(z) Earnings per share

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

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

(aa) Financial guarantee contracts

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

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

1 Summary of significant accounting policies (continued)

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

(ab) Intangible assets

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

(ac) Comparatives

Comparative information has been reclassified where appropriate to enhance comparability.

(ad) Rounding of amounts

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

(ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods and have not yet been applied in the financial report. The Company's assessment of the impact of these new standards and interpretations is set out below where relevant.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. (See note 1(b)(i)). The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. This is consistent with the Group’s current accounting policy if significant influence is not retained.

There will be no impact on the Group’s financial statements as at the date of this report as the Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 January 2010.

(i) *AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132]* (effective for annual reporting periods beginning on or after 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting policies. The Group will apply the amended standard from 1 January 2011. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's or the parent entity's financial statements.

(ii) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess the full impact nor decide when to adopt AASB9. However, initial indications are that there is unlikely to be any material impact.

1 Summary of significant accounting policies (continued)

(iii) AASB 1053 *Application of Tiers of Australian Accounting Standards and AASB 2010 2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective for annual periods beginning on or after 1 January 2011)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. PanAust Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

The revised AASB124 clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 January 2011. It is not expected to have any effect on the Group's or the parent entity's related party disclosures. *Financial Instruments: Presentation* and AASB 101 *Presentation of Financial Statements* retrospectively from 1 January 2009.

(iv) *AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual periods beginning on or after 1 July 2010 / 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 January 2011. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(v) *AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB made amendments to AASB 7 Financial Instruments: Disclosures which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures.

(vi) *AASB 2010-9 Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective from 1 July 2011) and *AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters* (effective from 1 July 2013)

AASB 1 First-time Adoption of Australian Accounting Standards was amended in December 2010 by eliminating references to fixed dates for one exemption and one exception dealing with financial assets and liabilities. The AASB also introduced a new exemption for entities that resume presenting their financial statements in accordance with Australian Accounting Standards after having been subject to severe hyperinflation. Neither of these amendments will affect the financial statements of the Group. The Group will apply the amendments from 1 January 2012.

(vii) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (the year ended 31 December 2010) and the Group has not entered into any debt for equity swaps since 1 January 2010.

(viii) *Improvements to IFRSs* (effective from 1 January 2011)

In May 2010, the IASB made a number of amendments to the International Financial Reporting Standards as part of its ongoing improvements project. The AASB is expected to make equivalent amendments to the Australian Accounting Standards shortly. The company applied the amendments from 1 January 2010. There were no significant adjustments necessary as the result of applying the revised rules.

1 Summary of significant accounting policies (continued)

(ix) AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective from 1 July 2010/1 January 2011)

In May 2010, the IASB made a number of amendments to the International Financial Reporting Standards as part of its ongoing improvements project. The AASB is expected to make equivalent amendments to the Australian Accounting Standards shortly. The company applied the amendments from 1 January 2011. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

Other new standards published but not mandatory for annual reporting periods ended 31 December 2010 are not expected to have an impact on the financial statements of the Group.

2 Financial risk management

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

Mandatory Hedging Program

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

- Commodity price risk, relating to the future sales of gold from the Phu Kham Copper-Gold Operation (all gold forwards, originally extending until 2013, have been closed out during 2010);
- Interest rate risk associated with borrowing and investment activities but particularly with regard to the project finance debt facilities for the Phu Kham Copper-Gold Operation (all interest rate swaps had matured by 31 December 2009); and
- Foreign exchange risk relating primarily to the currency of purchases of the Group for the construction of the Phu Kham Copper-Gold Operation (all foreign exchange hedges had matured by 31 December 2008).

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

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

2 Financial risk management (continued)

Company Hedging Policy

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

PanAust's hedging policy, subject to the availability of credit lines, is to hedge the following copper price exposures:

- Strategic – Future production: Up to 50% of the estimated copper production of the Phu Kham Copper-Gold Operation for a maximum maturity period of 24 months; and
- Provisional Price - Past production: Not less than 50%, nor more than 90% of its provisional copper pricing exposure once an invoice has been issued for the relevant shipment of copper concentrate.

Under the Company Hedging Policy a number of basic "hedging guidelines" are recognised and taken into consideration when developing a suitable hedging strategy for the Company. The hedging guidelines are as follows:

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

In applying these hedging guidelines, the Company must also consider the mandatory hedging requirements which may be imposed by financiers as a precondition to the provision of finance.

(a) Market risk

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

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

Sensitivity of pre-tax profit and equity to movements in US$ exchange rates by -/+15%, with all other variables held constant, are shown in the table below. The sensitivity is demonstrated for both the 2010 and 2009 years. The exposure is mainly as a result of foreign exchange gains/losses on translation of Australian dollar denominated cash and cash equivalents and payables.

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

2 Financial risk management (continued)

	Profit before tax		Equity	
	15% weaker	15% stronger	15% weaker	15% stronger
2009	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Cash and cash equivalents	474	(350)	-	-
Trade and other payables	(729)	539	-	-
	(255)	189	-	-

PanAust has a functional currency of United States dollars, however, due to the nature of its business and the location of its operations, the company deals in a number of currencies. The principal currencies dealt with are United States dollars, Australian dollars, Thai Baht and Lao Kip. The above analysis has used a common sensitivity of -/+15% (2009: -/+15%).

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

Sensitivity of pre-tax profit and equity to changes in interest rates by -0.5%/+1% from the 31 December 2010 (2009: -0.5%/+2%) rates of 0.75% for cash and 4.77% for borrowings with all other variables held constant, are shown in the table below. The sensitivity is demonstrated for both the 2010 and 2009 years. The exposure is mainly as a result of borrowings and cash at bank at floating rates.

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

	Profit before tax		Equity	
	0.5% decrease	2% increase	0.5% decrease	2% increase
2009	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Cash and cash equivalents	(441)	1,764	-	-
Receivables from Government of Laos	-	-	(158)	(631)
Option premium payable	28	(113)	-	-
Borrowings	509	(2,037)	-	-
	96	**(386)**	**(158)**	**(631)**

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

2 Financial risk management (continued)

(a) Copper price sensitivity
At 31 December 2010, had the copper price changed by -/+20% from the 31 December 2010 three month forward price of US$9,665/t (US$4.38/lb) (2009: -/+20% from the 31 December 2009 three month forward price of US$7,377/t (US$3.35/lb)), pre-tax profit and equity for the year would have been impacted as per the table below.

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

	Profit before tax		**Equity**	
	20% decrease	**20% increase**	**20% decrease**	**20% increase**
2009	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Financial assets				
Accounts receivable	(4,701)	4,701	-	-
Derivatives - put options	1,681	(92)	-	-
Financial liabilities				
Derivatives - cash flow hedges	-	-	5,854	(5,862)
	(3,020)	4,609	5,854	(5,862)

2 Financial risk management (continued)

(b) Cash flow hedge gold price sensitivity

At 31 December 2010, had the gold price changed by -/+15% from the year end price of US$1,408/oz (2009: US$1,098/oz), pre-tax profit and equity for the year would have been impacted as per the table below. The sensitivity is demonstrated for both the 2010 and 2009 years. This impact is as a result of the gold put options in place (2009: gold put options and gold forward contracts).

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

	Profit before tax		**Equity**	
	20% decrease	**20% increase**	**20% decrease**	**20% increase**
2009	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Financial assets				
Derivatives - put options	1,625	(639)	-	-
Financial liabilities				
Derivatives - cash flow hedges	-	-	11,725	(12,043)
	1,625	(639)	11,725	(12,043)

(b) Credit risk

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

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

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

(c) Liquidity risk

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

2 Financial risk management (continued)

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

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

As at 31 December 2009	**Less than 1 year US$'000**	**Between 1 and 2 years US$'000**	**Between 2 and 5 years US$'000**
Bank loans	17,875	17,875	27,250
Trade and other payables	42,052	-	-
Options premium payable	1,706	1,601	2,344
Finance lease payable	7,721	7,721	23,406
Total	69,354	27,197	53,000

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

The parent entity has provided a guarantee with respect to the equipment leases of Phu Bia Mining Limited amounting to US$31.1 million (2009: US$101.8 million), secured by registered mortgages over the assets of Phu Bia Mining Limited (refer to note 32).

The table below analyses the Group’s gold derivative instruments as at 31 December 2009 that settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. During 2010 the Company's gold forward contracts that were executable out to 2013 were closed out.

At 31 December 2009	**Less than 1 year US$'000**	**Between 1 and 2 years US$'000**	**Between 2 and 5 years US$'000**
Forward gold sales contracts - cash flow hedges			
- inlow	14,267	12,391	16,878
- outflow	(20,157)	(17,046)	(22,228)

2 Financial risk management (continued)

The table below analyses the Group's copper derivative instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2010	**Less than 1 year US$'000**	**Between 1 and 2 years US$'000**	**Between 2 and 5 years US$'000**
Copper swap contracts - cash flow hedges			
- inflow	100,798	-	-
- outflow	(111,308)	-	-

At 31 December 2009	**Less than 1 year US$'000**	**Between 1 and 2 years US$'000**	**Between 2 and 5 years US$'000**
Copper swap contracts - cash flow hedges			
- inflow	26,957	-	-
- outflow	(29,183)	-	-

The above derivatives apply to Phu Bia Mining Limited.

(d) Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

3 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(b) Critical judgements in applying the entity's accounting policies

(i) Determination of Ore Reserves and Mineral Resources

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

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

(ii) Units of Production Method of Depreciation and Amortisation

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

(iii) Mine restoration provisions estimates

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

Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate costs required to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, price increases and changes in interest rates.

(iv) Income taxes

The Group is subject to income taxes of Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

(v) Fair values of derivative financial instruments

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

3 Critical accounting estimates and judgements (continued)

(vi) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, units operating costs, future capital requirements and future operating performance. The impairment test for 2010 has been based on proved and probable reserves, real long term copper prices of US$4/lb and gold prices of US$1,100/oz, based on independent market analysts' price forecasts and operating costs commensurate with these price assumptions.

(vii) Quotational period price adjustments

For amounts at balance date still subject to price adjustments due to the quotational period remaining open, a final settlement price is estimated based on the relevant forward price curve. The actual settlement price may vary from this estimate. The extent of variations due to quotational period price adjustments are disclosed in the accounts.

(viii) Share based payments

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

4 Segment information

(a) Description of segments

(i) Business segments

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

(ii) Operating segments

Operating segments have been determined based on the analysis provided in the reports reviewed by the Chief Operating Decision Maker (CODM), being the Managing Director, in assessing performance and determining strategy. The CODM considers the business from a geographic basis 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). This measurement basis excludes the effects of profit or loss items such as depreciation and amortisation, interest revenue and expense, equity-settled share-based payments and the effects of jurisdictional taxes.

4 Segment information (continued)

(b) Segment information

2010	**Other US$'000**	**Phu Bia Mining US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Sales to external customers	-	572,474	-	572,474
Interest revenue	915	158	-	1,073
Other revenue	2	319	-	321
Total segment revenue	**917**	**572,951**	**-**	**573,868**
Segment result	**(8,084)**	**308,198**	**-**	**300,114**
Segment assets	**534,609**	**757,623**	**(411,915)**	**880,317**
Segment liabilities	**4,443**	**609,968**	**(411,915)**	**202,496**
Other segment information				
Investments in associates and joint venture partnership	-	6,021	-	6,021
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	317	56,138	-	56,455
Increase in deferred exploration, evaluation and development costs	6,000	74,872	-	80,872

2009	**Other US$'000**	**Phu Bia Mining US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Sales to external customers	-	345,698	-	345,698
Interest revenue	943	2	-	945
Other revenue	1,445	24	-	1,469
Total segment revenue	**2,388**	**345,724**	**-**	**348,112**
Unrealised hedge loses	**-**	**8,449**	**-**	**8,449**
Segment result	**3,491**	**121,221**	**-**	**124,712**
				-
Segment assets	**528,891**	**608,239**	**(423,360)**	**713,770**
Segment liabilities	**3,376**	**611,584**	**(423,360)**	**191,600**
Other segment information				
Investments in associates	-	6,021	-	6,021
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	81	35,607	-	35,688
Increase in deferred exploration, evaluation and development costs	-	28,435	-	28,435

4 Segment information (continued)

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

	Other US$'000	Phu Bia Mining US$'000	Consolidated US$'000
Adjusted EBITDA - 31 December 2009	3,495	121,217	124,712
Interest revenue	943	2	945
Interest expense and finance charges	(3,881)	(14,287)	(18,168)
Share option expense	(14,086)	-	(14,086)
Option deed setlement	-	(6,500)	(6,500)
Redemption fee	(5,000)	-	(5,000)
Depreciation and amortisation	(100)	(42,673)	(42,773)
Profit/(loss) before income tax	**(18,629)**	**57,759**	**39,130**

(i) Segment revenue

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

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

Revenues from external customers are derived from the sale of copper-gold concentrate and gold doré, and as such, all of the revenue generated is attributable to the Phu Bia Mining segment. The revenue from external customers attributable to the Phu Bia Mining segment are from customers in various countries. Most of the product is sent to China for processing (68%) with 25% sent to India and 7% sent to Korea.

During 2010, two major customers accounted for 35% of sales revenue each, one other major customer accounted for 16% and the remaining 14% is attributable to other customers who are not individually material.

(ii) Segment assets and liabilities

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

5 Revenue

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
From continuing operations		
Sales revenue		
Copper in concentrate (a)	**484,832**	270,818
Copper in concentrate price adjustment (a)	**26,584**	36,713
Copper sales realised hedge losses	**(18,692)**	(19,005)
Gold in concentrate	**71,849**	43,055
Gold sales realised hedge losses	**(7,416)**	(4,037)
Silver in concentrate	**9,552**	6,245
Gold doré	**5,765**	11,909
	572,474	345,698
Other revenue		
Interest	**1,073**	945
Sundry income	**319**	24
Associate administrative charges	**2**	1,445
	1,394	2,414
	573,868	348,112

(a) Copper in concentrate

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

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

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

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

At balance date, provisional invoices issued with an open QP have been revalued at rates which provide an estimate of the average settlement price. This has resulted in 14,179t of copper (2009: 6,837t) being revalued using the three month forward copper price as at 31 December 2010 of US$9,665/t (US$4.38/lb) (2009: US$7,377/t (US$3.35lb)).

The aforementioned have resulted in a favourable US$10.3 million (2009: US$ 3.3 million) mark-to-market adjustment to profit or loss for outstanding provisional pricing of sales at balance date.

6 Expenses

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
(a) Profit before income tax includes the following specific expenses:		
Depreciation		
Mining plant and equipment	**34,660**	24,646
Mine properties	**13,135**	4,676
Motor vehicles	**995**	730
Office equipment	**580**	484
Total depreciation	**49,370**	30,536
Amortisation		
Mine property development	**4,915**	12,237
Total amortisation	**4,915**	12,237
Total depreciation and amortisation	**54,285**	42,773
(b) Finance costs		
Interest and finance charges paid/payable	**12,739**	16,368
Unwinding of present value discount	**1,229**	1,177
Put option premium expense (i)	**16,947**	624
Share option expense	**-**	14,086
Redemption fee	**-**	5,000
Option deed settlement	**-**	6,500
Finance costs expensed	**30,915**	43,755
Rental expense relating to operating leases		
Minimum lease payments	**660**	707
Total rental expense relating to operating leases	**660**	707
Defined contribution superannuation expense	**592**	490
Other expenses		
Professional and consultancy fees	**3,462**	2,213
Community relations	**2,880**	725
Travel expenses	**1,582**	857
Investor relations	**1,375**	1,368
Foreign exchange losses (net)	**1,517**	1,717
Other	**5,273**	2,781
	16,089	9,661

(i) Put option premium expense

Relates to upfront and deferred put option premium expense for copper put options entered into during the year. The put options covered 68,470 tonnes of copper between April 2010 and December 2012.

7 Income tax expense

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000

(a) Income tax expense

Current tax	**30,152**	-
Deferred tax	**25,738**	15,959
	55,890	15,959
Income tax expense is attributable to:		
Profit from continuing operations	**30,152**	-
Decrease in deferred tax assets (note 17)	**19,836**	15,959
Increase in deferred tax liabilities (note 25)	**5,902**	-
	55,890	15,959

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

Profit from continuing operations before income tax expense	**215,987**	39,130
Tax at the Australian tax rate of 30% (2009: 30%)	**64,796**	11,739
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	**16,933**	16,577
Other assessable income	**-**	83
Foreign exchange translation	**1,935**	710
Other deductible expenses	**(14,811)**	(11,768)
Non-assessable income	**(254)**	(253)
International tax rate differential	**(11,166)**	(2,888)
Tax losses (not recognised) / recognised	**(1,543)**	1,759
Income tax expense	**55,890**	15,959

(c) Tax losses

Unused tax losses for which no tax asset has been recognised	**20,768**	14,237
Potential tax benefit @ 30% (Australian tax rate)	**6,231**	4,271

The income tax expense and deferred tax balances reported for both 2010 and 2009 are attributable to Phu Bia Mining Limited. All unused tax losses relate to the Australian tax consolidated group.

(d) Tax consolidation legislation

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

8 Current assets - Cash and cash equivalents

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Cash at bank and in hand	**156,842**	48,203
Deposits at call	**27,917**	40,000
	184,759	88,203

(a) Cash at bank and on hand

These are interest bearing with floating interest rates between nil% to 3.5% (2009: nil% to 3.55%).

9 Current assets - Receivables and other assets

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Trade and other receivables		
Trade receivables	**16,123**	23,502
Other receivables	**1,839**	1,264
	17,962	24,766
Prepayments		
Prepayments - general	**9,541**	7,116
Prepayments - lease facility fees	**319**	319
Prepayments - loan facility fees	**-**	1,512
	9,860	8,947
Cash restricted or pledged		
Funds held in escrow for acquisition (a)	**5,000**	-
	5,000	-
	32,822	33,713

As at 31 December 2010, no trade receivables or other receivables were past due or impaired (31 December 2009: 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. The US$5 million represents a deposit paid by the Company which will be offset against the purchase price. This approval was confirmed to PanAust on 22 February 2011, refer to note 36.

10 Current assets - Inventories

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Raw materials		
Raw materials and stores - at cost	**34,917**	26,519
Provision for obsolete stores	**(636)**	(274)
	34,281	26,245
Work in progress		
Work in progress - at cost	**3,813**	2,652
Gold in heaps - at cost	**-**	1,992
	3,813	4,644
Finished goods		
Copper-gold concentrate - lower of cost and net realisable value	**7,809**	4,390
Gold bullion - lower of cost and net realisable value	**-**	1,866
	7,809	6,256
	45,903	37,145

11 Derivative financial instruments

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Current assets		
Gold put options	**1**	35
Copper put options	**1,441**	96
Total current derivative financial instrument assets	**1,442**	131
Non-current assets		
Gold put options	**148**	1,143
Copper put options	**1,086**	-
Total non-current derivative financial instrument assets	**1,234**	1,143
Total derivative financial instrument assets	**2,676**	1,274
Current liabilities		
Cash flow hedge - gold forward contracts	**-**	5,927
Cash flow hedge - copper forward contracts	**10,019**	2,341
Total current derivative financial instrument liabilities	**10,019**	8,268
Non-current liabilities		
Cash flow hedge - gold forward contracts	**-**	11,195
Total non-current derivative financial instrument liabilities	**-**	11,195
Total derivative financial instrument liabilities	**10,019**	19,463
Net derivative financial instrument liabilities	**(7,343)**	(18,189)

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

(a) Gold forward contracts and put options

The Company had entered into forward contracts for the sale of gold produced by the Phu Kham Copper-Gold Operation from 2010 to 2013. As a result of the terms of the amended and restated loan facilities, these contracts were closed out in August 2010, with 44,148oz of gold at escalating forward prices between US$776/oz and US$858/oz, closed out at an average price of US$1,244/oz, resulting in an amount paid of US$18.9 million.

The gain or loss from remeasuring the gold forward contracts at fair value is deferred in the hedge reserve, to the extent that the hedge is effective, and reclassified into profit or loss when the hedged sale is recognised. The unrealised losses recognised in the hedging reserve at the time of closing out these gold forwards will remain in the hedging reserve and be recognised as realised hedge losses in line with the orginal gold forward maturity profile. In the year ended 31 December 2010, a loss of US$7,416,457 (2009: loss US$4,037,499) was recognised as realised on gold forwards.

The gold put options entered into by the Company cover approximately 60,000oz 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$1,028,799 recorded during the year ended 31 December 2010 (2009: loss US$8,093,924).

(b) 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 quotational period on provisionally priced copper concentrate sales.

11 Derivative financial instruments (continued)

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

As at balance date, 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 quotational period price adjustments. The purpose of this hedging activity is to cover potential exposure to adverse copper price fluctuations over the quotational period. As at 31 December 2010, a total of 11,535t of copper, which has been sold, is hedged at a price of US$8,738/t (US$3.96/lb).

The gain or loss from remeasuring the copper swap contracts at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit or loss when the hedged sale is recognised. Any ineffective portion is recognised in profit or loss immediately. In the year ended 31 December 2010, a gain of US$114,955 (2009: loss US$114,955) was recognised to reflect the reversal relating to minor timing adjustments on copper hedges. Realised losses from the settlement of copper hedges for the year ended 31 December 2010 was US$18,692,011 (2009: US$19,004,311).

To protect the Company against the downside copper price risk on future production, as at 31 December 2010, put options have been established to cover 45,970t of copper, deliverable through to December 2012, at an average strike price of US$5,566/t (US$2.52/lb).

The copper put options do not qualify for hedge accounting and the mark-to-market movement of these put options is recognised in profit or loss immediately, with a gain of US$2,431,273 recorded during 2010 (2009: US$95,836).

12 Non-current assets - Receivables and other assets

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Prepayments		
Prepayments - Lease facility fees	**798**	1,118
Prepaid tax (a)	**-**	5,384
Prepayments - Loan facility fees	**-**	5,290
	798	11,792
Other		
Other receivables from associates	**2,861**	2,244
Government of Laos receivable (b)	**31,268**	31,546
	34,129	33,790
	34,927	45,582

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

(a) Tax prepaid by Phu Bia Mining Limited is able to be offset against future income tax payments. Given that Phu Bia Mining Limited is now in an income tax payable position, these prepaid taxes have been offset against the current tax liability (refer to note 22).

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

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

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Shares in associate	**6,021**	6,021

Interest in associate

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

	Ownership interest held by consolidated entity	
	31 December 2010 %	31 December 2009 %
Name		
Puthep Company Limited - ordinary	**49.00**	49.00

(i) Principal activity

Puthep Company Limited is a copper exploration company incorporated in Thailand. Puthep Company's sole asset is the Puthep Copper Project in northern Thailand.

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
(ii) Carrying amount of investment in associate		
Balance at the beginning of the financial year	**6,021**	2,021
Share acquired during the financial year	**-**	4,000
Carrying amount of investment at year end	**6,021**	6,021

PanAust holds a shareholding interest of 49% (2009: 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% (2009: 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%.

14 Non-current assets - Other financial assets

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Other unlisted securities		
Equity securities	**7**	7
Provision for impairment of unlisted shares	**(7)**	(7)
Other investments		
Loan to equity accounted investment *	**13,572**	12,771
	13,572	12,771

* 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.

15 Non-current assets - Property, plant and equipment

Consolidated	**Office equipment US$'000**	**Mine properties US$'000**	**Mining plant and equipment US$'000**	**Motor vehicles US$'000**	**Total US$'000**
At 1 January 2009					
Cost	2,566	39,272	309,244	3,123	354,205
Accumulated depreciation	(1,065)	(17,643)	(19,687)	(431)	(38,826)
Net book amount	1,501	21,629	289,557	2,692	315,379
Year ended 31 December 2009					
Opening net book amount	1,501	21,629	289,557	2,692	315,379
Additions	438	487	34,024	739	35,688
Disposals	-	(43)	-	-	(43)
Depreciation charge	(484)	(5,575)	(29,322)	(730)	(36,111)
Transfers out (note 16)	-	-	(5,198)	-	(5,198)
Closing net book amount	1,455	16,498	289,061	2,701	309,715
At 31 December 2009					
Cost	3,005	39,717	338,069	3,862	384,653
Accumulated depreciation	(1,550)	(23,219)	(49,008)	(1,161)	(74,938)
Net book amount	1,455	16,498	289,061	2,701	309,715

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

Consolidated	Office equipment US$'000	Mine properties US$'000	Mining plant and equipment US$'000	Motor vehicles US$'000	Total US$'000
Year ended 31 December 2010					
Opening net book amount	1,455	16,498	289,061	2,701	309,715
Additions	721	34,800	19,998	936	56,455
Depreciation charge	(580)	(13,135)	(34,660)	(995)	(49,370)
Transfers in (note 16)	-	15,764	-	-	15,764
Closing net book amount	1,596	53,927	274,399	2,642	332,564
At 31 December 2010					
Cost	3,725	90,281	358,067	5,221	457,294
Accumulated depreciation	(2,129)	(36,354)	(83,668)	(2,579)	(124,730)
Net book amount	1,596	53,927	274,399	2,642	332,564

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

(a) Leased assets

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

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Opening net book amount	**31,637**	49,774
Accumulated depreciation	**(8,964)**	(18,137)
Net book amount	**22,673**	31,637

(b) Security

Phu Bia Mining Limited's property, plant and equipment has been pledged as security under equipment leases held by Phu Bia Mining for the Phu Kham Copper-Gold Operation, refer to notes 20 and 24.

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

Consolidated	Preproduction exploration & evaluation US$'000	Mine pre-production US$'000	Mine development US$'000	Total US$'000
Year ended 31 December 2009				
Carrying amount at start of year	47,705	86,823	-	134,528
Additions	28,435	-	-	28,435
Amortisation charge	-	(6,661)	-	(6,661)
Disposals	-	-	-	-
Transfers in (note 15)	-	5,198	-	5,198
Carrying amount at end of year	76,140	85,360	-	161,500

Consolidated	Preproduction exploration & evaluation US$'000	Mine pre-production US$'000	Mine development US$'000	Total US$'000
Year ended 31 December 2010				
Carrying amount at start of year	76,140	85,360	-	161,500
Additions	20,378	-	60,494	80,872
Amortisation charge	-	(4,915)	-	(4,915)
Transfers out (note 15)	-	(15,764)	-	(15,764)
Carrying amount at end of year	96,518	64,681	60,494	221,693

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.

17 Non-current assets - Deferred tax assets

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
The balance comprises temporary differences attributable to:		
Property, plant & equipment	**4,903**	3,079
Payables	**2,638**	1,316
Cash flow hedges	**2,504**	4,865
Provisions	**2,093**	1,066
Tax losses	**-**	24,009
Total deferred tax assets	**12,138**	34,335
Set-off of deferred tax liabilities pursuant to set-off provisions (note 25)	**(12,138)**	(21,869)
Net deferred tax assets	**-**	12,466

17 Non-current assets - Deferred tax assets (continued)

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Movements:		
Opening balance at start of year	**12,466**	25,269
Transfer of deferred tax balance	**(12,466)**	-
Charged to profit or loss	**-**	(15,959)
Credited to equity	**-**	3,156
Closing balance at end of year	**-**	12,466
Deferred tax assets to be recovered within 12 months	**-**	12,466

18 Non-current assets - Goodwill

	Goodwill US$'000
Year ended 31 December 2009	
Opening and closing net book amount	5,380
At 31 December 2009	
Cost	5,380
Accumulated amortisation and impairment	-
Net book amount	5,380
Year ended 31 December 2010	
Opening and closing net book amount	5,380
At 31 December 2010	
Cost	5,380
Accumulated amortisation and impairment	-
Net book amount	5,380

The goodwill balance relates to Phu Bia Mining in Laos. In order to test the goodwill for impairment it has been necessary to assess the recoverable amount of all of the Phu Bia Mining assets. The recoverable amount of the Phu Bia Mining assets has been assessed by reference to value in use. AASB 136 requires certain cash flows to be excluded from a value in use calculation, including the benefits of conversion of resources to reserves and future expansions.

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

In arriving at a value in use, a pre-tax discount rate of 12% has been applied to cash flows expressed in nominal terms. A key assumption to which the calculation of value in use of the Phu Kham Copper-Gold Operation is sensitive is a change to operating margins as a result of movements in the long term copper price. The long term copper price has been assessed at $4/lb, based on independent market analysts' forecasts. Management determined this long term copper price based on a range of commodity price forecasts prepared by recognised financial institutions.

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

The Phu Kham cash generating unit's recoverable amount exceeds its carrying value, thereby demonstrating no impairment.

19 Current liabilities - Payables

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Trade payables	**34,606**	31,420
Accrued expenses	**13,982**	10,904
Put option premium payable	**4,599**	1,706
	53,187	44,030

20 Current liabilities - Borrowings

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Secured		
Lease liabilities (note 33)	**7,721**	7,721
Bank loans	**-**	17,875
Total secured current borrowings	**7,721**	25,596

Refer to Note 24 Non-current liabilities - Borrowings for further detail.

21 Current liabilities - Provisions

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Employee benefits	**3,710**	2,529
Restoration (i)	**881**	-
Environmental protection fund	**354**	226
Other	**59**	-
	5,004	2,755

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

	Environmental protection fund US$'000
2010	
Carrying amount at start of year	226
Additional provisions charged to profit or loss	128
Carrying amount at end of year	354

22 Current liabilities - Current tax liabilities

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Income tax before utilisation of tax losses	**52,223**	-
Prepaid tax	**(11,883)**	-
Carried forward tax losses	**(22,072)**	-
	18,268	-

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

23 Non-current liabilities - Payables

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Put option premium payable	**5,953**	3,558
	5,953	3,558

24 Non-current liabilities - Borrowings

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Secured		
Bank loans	**42,276**	45,125
Lease liabilities (note 33)	**23,406**	31,127
Total secured non-current borrowings	**65,682**	76,252

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 approved 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.

24 Non-current liabilities - Borrowings (continued)

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 contracted right, 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 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. Establishment and arranging fees of US$2.7 million were paid in relation to the amended and restated facility.

(b) Lease liabilities

The lease facility agreement was entered into 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$48.5 million. The lenders under this facility have the benefit of security over the leased assets. At balance date, the parent entity has provided a guarantee amounting to US$ 31.1 million (2009: US$101.8 million).

The equipment lease facility has a variable interest rate and is repayable in quarterly instalments to 31 December 2013. The average interest rate at reporting date on funds drawn from the facility is 2.98% (2009: 2.68%).

In addition to the amended and restated debt facilities, the Company has also agreed to terms for a further US$24.8 million equipment lease facility with the ANZ Bank. The lease facility will have a five year term and will be utilised to fund the upgrade of the Phu Kham operating fleet. Subsequent to 31 December 2010, US$18.1 million has been drawn down on this lease facility.

25 Non-current liabilities - Deferred tax liabilities

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
The balance comprises temporary differences attributable to:		
Exploration and evaluation	**24,951**	21,551
Cash flow hedges	**669**	318
Property, plant and equipment	**2,151**	-
	27,771	21,869
Set-off of deferred tax assets pursuant to set-off provisions (note 17)	**(12,138)**	(21,869)
Net deferred tax liabilities	**15,633**	-

25 Non-current liabilities - Deferred tax liabilities (continued)

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Movements:		
Opening balance at start of year	**-**	-
Tax losses utilised	**22,072**	-
Charged/(credited) to the income statement	**3,666**	-
Credited to equity	**2,361**	-
Set-off of deferred tax assets pursuant to set-off provisions	**(12,466)**	-
Closing balance at 31 December 2010	**15,633**	-

26 Non-current liabilities - Provisions

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Restoration (i)	**14,145**	16,518
Employee benefits	**6,884**	3,399
Other provisions	**-**	29
	21,029	19,946

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

(a) Movements in provisions

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

	Restoration US$'000
Non-current	
Carrying amount at start of year	16,518
- unwinding of discount	1,228
- amount used during the year	(2,132)
- amounts classified as current (note 21)	(881)
- additional provision during the year	(588)
Carrying amount at end of year	14,145

27 Contributed equity

	Consolidated and Parent entity		Consolidated and Parent entity	
	31 December 2010 Shares	31 December 2009 Shares	**31 December 2010 US$'000**	31 December 2009 US$'000
(a) Share capital				
Ordinary shares				
Fully paid	**2,955,176,819**	2,932,520,239	**549,301**	540,948
(b) Other equity securities				
Executive Long-Term Share Plan			**(8,069)**	-
Total consolidated contributed equity			**541,232**	540,948

(c) Movements in ordinary share capital:

Date	Details	Number of shares	US$'000
1 January 2009	Opening balance	1,440,067,882	216,936
	Share placement	147,065,717	14,708
	Share purchase plan	176,019,477	16,844
	Share placement	279,778,563	57,288
	Entitlements offer	229,031,303	55,471
	GRAM Placement (e)	583,517,352	187,026
	Options exercised	75,000,000	5,842
	Executive options exercised (g)	1,000,000	250
	Employee share rights exercised (f)	1,039,945	-
	Less: Transaction costs arising on share issue		(13,417)
31 December 2009	Balance	2,932,520,239	540,948
1 January 2010	Opening balance	2,932,520,239	540,948
	Executive Long Term Share Plan (h)	19,133,200	8,069
	Employee share rights exercised (f)	2,723,380	-
	Executive options exercised (g)	800,000	300
			549,317
	Less: Transaction costs		(16)
	Less: Other equity securities		(8,069)
31 December 2010	Balance	2,955,176,819	541,232

(d) Ordinary shares

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

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

27 Contributed equity (continued)

(e) Capital raising - ordinary shares issued

Cornerstone investment agreement

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

(f) Share Rights Plan

Information relating to the PanAust Share Rights Plan, including details of shares issued under the plan is set out in note 39.

(g) Share Options

Executives' Options Plan

Information relating to the PanAust Executives’ Options Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 39.

(h) Long Term Share Plan (LTSP)

Information relating to the PanAust LTSP, including details of shares issued under the plan is set out in note 39.

(i) 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.

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

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

The gearing ratios at 31 December 2010 and 31 December 2009 were as follows:

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Total borrowings	**73,403**	101,848
Total equity	**677,821**	522,170
Total capital	**751,224**	624,018
Gearing ratio	**10 %**	16 %

28 Reserves and accumulated losses

	Consolidated 31 December 2010 US$'000	31 December 2009 US$'000
(a) Reserves		
Hedging reserve - cash flow hedges	**(20,976)**	(13,551)
Share-based payments reserve	**26,110**	22,312
	5,134	8,761
Movements:		
Hedging reserve - cash flow hedges		
Balance at beginning of year	**(13,551)**	(5,181)
Revaluation - gross	**(28,798)**	(31,296)
Transfer to net profit - gross	**23,498**	20,086
Deferred tax	**(2,125)**	2,840
Balance at end of year	**(20,976)**	(13,551)
Share-based payments reserve		
Balance at beginning of year	**22,312**	5,574
Valuation of employee long term incentives	**3,798**	2,652
Valuation of share options	**-**	14,086
Balance at end of year	**26,110**	22,312

(b) Accumulated losses

	Consolidated 31 December 2010 US$'000	31 December 2009 US$'000
Balance at the beginning of the financial year	**(62,355)**	(81,346)
Net profit attributable to members of PanAust	**143,353**	18,991
Balance at end of year	**80,998**	(62,355)

(c) Nature and purpose of reserves

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

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

29 Non-controlling interest

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Interest in:		
Share capital	**31,288**	31,566
Cash flow hedge reserves	**(1,755)**	(930)
Accumulated gains	**20,924**	4,180
	50,457	34,816

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. A Shareholders Agreement has been prepared which includes the purchase price which has been calculated in accordance with the MEPA. The Government of Laos will not become a shareholder until the Shareholders Agreement is signed and the shares are issued. Given the exercise of the option, it is considered appropriate to recognise the interest of the Government of Laos.

30 Key management personnel disclosures

(a) Directors

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

Non-executive directors:
G. A. Hounsell
N. P. Withnall
A. E. Daley
G. A. Handley
G. Billard
Z. Li
J. P. Crofts (appointed 17 September 2010)

Executive Director:
G. Stafford

(b) Other key management personnel

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

Name	*Position*
F. Hess	Executive General Manager Project Development & Operational Improvement
J. Walsh	General Manager Corporate Development
D. Hairsine	Chief Financial Officer
R. Usher	Executive General Manager Southeast Asia

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

30 Key management personnel disclosures (continued)

(c) Compensation

	Consolidated	
	31 December 2010 US$	31 December 2009 US$
Short-term employee benefits	**4,205,977**	3,302,844
Share based payments	**2,101,223**	1,463,840
Long-term benefits	**262,858**	316,985
Post-employment benefits	**232,814**	221,606
	6,802,872	5,305,275

(d) Equity instrument disclosures

(i) Securities provided as remuneration and shares issued on the exercise of such securities

Details of long term incentives (LTIs) securities granted as remuneration and shares issued on the exercise of these securities, together with terms and conditions of the options and share rights detailed in the Remuneration Report and note 39.

(ii) Long term incentives

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

Name		Balance at start of the year	Granted as compens-ation	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable	Unvested
Managing Director								
G. Stafford	**2010**	**25,100,000**	**7,152,500**	-	-	**32,252,500**	**3,942,400**	**28,310,100**
	2009	9,900,000	17,200,000	-	(2,000,000)	25,100,000	-	25,100,000
Other executives								
F. Hess	**2010**	**3,750,000**	**1,490,100**	**(1,200,000)**	-	**4,040,100**	**492,800**	**3,547,300**
	2009	1,750,000	2,000,000	-	-	3,750,000	-	3,750,000
J. Walsh	**2010**	**3,320,000**	**1,311,300**	-	-	**4,631,300**	**1,676,320**	**2,954,980**
	2009	1,720,000	1,600,000	-	-	3,320,000	-	3,320,000
D. Hairsine	**2010**	**2,670,000**	**1,311,300**	**(650,000)**	-	**3,331,300**	**376,320**	**2,954,980**
	2009	1,070,000	1,600,000	-	-	2,670,000	-	2,670,000
R. Usher	**2010**	**3,730,000**	**1,132,500**	-	-	**4,862,500**	**795,680**	**4,066,820**
	2009	1,830,000	2,900,000	(1,000,000)	-	3,730,000	-	3,730,000

30 Key management personnel disclosures (continued)

(iii) Share holdings

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

Name		Balance at the start of the year	Received during the year on the exercise of options and share rights	Other changes during the year	Balance at the end of the year
Directors of PanAust Limited					
G. A. Hounsell	**2010**	**602,675**	-	-	**602,675**
	2009	500,000	-	102,675	602,675
G. A. Hounsell (indirect) (i)	**2010**	**213,616**	-	**16,384**	**230,000**
	2009	70,000	-	143,616	213,616
G. Stafford	**2010**	**12,157,528**	-	**(700,000)**	**11,457,528**
	2009	12,580,334	-	(422,806)	12,157,528
G. Stafford (indirect) (ii)	**2010**	**3,303,615**	-	-	**3,303,615**
	2009	3,495,314	-	(191,699)	3,303,615
N.P. Withnall	**2010**	**565,241**	-	**(185,241)**	**380,000**
	2009	448,507	-	116,734	565,241
A.E. Daley (indirect) (iii)	**2010**	**508,402**	-	**100,000**	**608,402**
	2009	311,861	-	196,541	508,402
G.A. Handley (indirect) (iv)	**2010**	**271,009**	-	-	**271,009**
	2009	155,000	-	116,009	271,009
G. Billard (indirect) (v)	**2010**	**125,134**	-	-	**125,134**
	2009	35,648	-	89,486	125,134
Other executives					
F. Hess	**2010**	**2,479,364**	**1,200,000**	**(1,500,000)**	**2,179,364**
	2009	2,028,570	-	450,794	2,479,364
J. Walsh	**2010**	**1,874,534**	-	-	**1,874,534**
	2009	1,807,800	-	66,734	1,874,534
D. Hairsine	**2010**	**2,222,806**	**650,000**	**(750,000)**	**2,122,806**
	2009	2,227,750	-	(4,944)	2,222,806
R. Usher	**2010**	**1,236,884**	-	-	**1,236,884**
	2009	14,663	1,000,000	222,221	1,236,884

(i) Mr Hounsell has an indirect interest in 230,000 ordinary shares in PanAust held by The Hounsell Superannuation Fund, of which Mr Hounsell is a beneficiary.

(ii) Mr Stafford has an indirect interest in 3,303,615 ordinary shares options in PanAust held by The Spellbrook Superannuation Fund of which Mr Stafford is a beneficiary.

(iii) Mr Daley has an indirect interest in 608,402 ordinary shares in PanAust held by The Motherlode Superannuation Fund of which Mr Daley is a beneficiary.

(iv) Mr Handley has an indirect interest in 271,009 ordinary shares in PanAust held by his spouse.

(v) Mr Billard has an indirect interest in 125,134 ordinary shares in PanAust through a Macquarie Investment Management Limited, of which Mr Billard is a beneficiary.

(vi) During the periods reported, Mr J. Crofts and Mr Z. Li did not have a direct or an indirect interest in PanAust.

30 Key management personnel disclosures (continued)

(e) Other transactions with key management personnel

(i) Assaying fees of US$1,408,410 (2009: US$1,248,008) paid to Australian Laboratory Services Pty Ltd and subsidiaries on normal commercial terms, a wholly owned subsidiary of Campbell Brothers Limited of which Mrs N. Withnall is a director.

(ii) PanAust's long-term share service provider is Computershare Limited, of which Mrs N. Withnall is a director. Service fees of US$332,371(2009: US$957,432), have been paid to Computershare during the year on normal commercial terms.

31 Remuneration of auditors

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

	Consolidated	
	31 December 2010 US$	31 December 2009 US$
(a) Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work	**264,471**	247,385
Related practices of PricewaterhouseCoopers Australian firm:		
PricewaterhouseCoopers Laos firm:		
Audit and review of financial reports and other audit work	**138,328**	155,865
Total remuneration for audit services	**402,799**	403,250
(b) Other assurance services		
PricewaterhouseCoopers Australian firm:		
Other assurance services		
Debt facility / debt instrument review	**160,586**	168,982
Other services	**45,001**	19,028
Capital raising review	**-**	38,688
Related practices of PricewaterhouseCoopers Australian firm:		
PricewaterhouseCoopers Thailand firm:		
Controls assurance services	**-**	15,000
Total remuneration for audit-related services	**205,587**	241,698
(c) Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax advice	**22,242**	14,959

32 Contingent liabilities

The parent entity had contingent liabilities at 31 December 2010 in respect of:

Guarantees given in respect of loans of subsidiaries amounting to US$31.1 million (2009: US$101.8 million), secured by registered mortgages over the assets of the subsidiaries, comprising:

(a) lease facility of Phu Bia Mining Limited amounting to US$31.1 million (2009: US$38.8 million); and
(b) loan facility of Phu Bia Mining Limited no longer subject to any parent guarantee (2009: US$63 million).

These guarantees may give rise to liabilities in the parent entity if the subsidiaries do not meet their obligations under the terms of the facilities subject to the guarantees.

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

33 Commitments

(a) Capital commitments

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

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
(i) Mine Property, plant and equipment		
Within one year	**4,396**	7,913
	4,396	7,913

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
(ii) Mine development		
Payable:		
Within one year	**18,128**	-
	18,128	-

(ii) The development of the Ban Houayxai Gold-Silver Project was approved by the PanAust Board of Directors on 29 March 2010. The approval followed the successful completion of the feasibility study based on an open pit mining operation feeding ore to a conventional 4 Mtpa Carbon In Leach (CIL) process plant to produce over 100,000oz of gold and 700,000oz of silver per annum, with a minimum eight year mine life.

At the end of the December quarter the Project construction of the Ban Houayxai Gold-Silver Project was 21% complete, and expenditure and commitments totalled approximately US$78 million out of a total projected capital cost for the project of US$150 million.

The Board of Directors also approved a US$110 million investment upgrade the Phu Kham Copper-Gold Operation.

33 Commitments (continued)

(b) Lease commitments: Group as lessee

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**474**	1,336
Later than one year but not later than five years	**79**	280
	553	1,616
Representing:		
Non-cancellable operating leases	**553**	1,616
	553	1,616

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

(ii) Finance leases
The Group leases various plant and equipment with a written down value of US$22.7 million (2009: US$31.6 million) under finance leases expiring 31 December 2013 (refer to note 15).

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**8,501**	8,705
Later than one year but not later than five years	**24,358**	32,859
Minimum lease payments	**32,859**	41,564
Future finance charges	**(1,732)**	(2,716)
Total lease liabilities	**31,127**	38,848
Representing lease liabilities:		
Current (note 20)	**7,721**	7,721
Non-current (note 24)	**23,406**	31,127
	31,127	38,848

The weighted average interest rate implicit in the leases is 2.89% (2009: 2.68%).

34 Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is PanAust Limited.

(b) Directors and specified executives

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

(c) Subsidiaries

Interests in subsidiaries are set out in note 35.

(d) Transactions with other related parties

The following transactions occurred with related parties:

	Consolidated	
	31 December 2010 US$	31 December 2009 US$
Advances made to Puthep Company Limited	**800,125**	3,695,895
Interest and administrative charges to associate, Puthep Company Limited	**617,443**	2,244,000
	1,417,568	5,939,895
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	**592,822**	490,058

Loans to the Managing Director and other executives

As at 31 December 2010, the Company had advanced loans to the Managing Director and other executives for the purchase price of shares issued to the Managing Director and other executives under the Long Term Share Plan (LTSP). The shares are held on trust and will be released to the Managing director and other executives once the shares have vested, and the loans to the Company have been paid or appropriate arrangements entered into for repayment of the loans. Further details with regards to the LTSP are included in the Remuneration Report and note 39.

(e) Outstanding balances arising from transactions with related parties

	Consolidated	
	31 December 2010 US$	31 December 2009 US$
Loans and advances to associates and subsidiaries		
Advances to Puthep Company Limited (i)	**13,571,543**	12,771,418
Other receivables from associates (ii)	**2,863,361**	2,244,000
	16,434,904	15,015,418

(i) Represents loans and advances to subsidiary or associate for no fixed repayment term.

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

35 Subsidiaries

Name of entity	Place of incorporation	Class of shares	Equity holding **2010** **%**	2009 %
PanAust Services Pty Ltd	QLD	Ordinary	**100**	100
PanAust Exploration Pty Ltd	QLD	Ordinary	**100**	100
Pan Mekong Exploration Pty Ltd	QLD	Ordinary	**100**	100
Phu Bia Mining Limited (Subsidiary of Pan Mekong Exploration Pty Ltd) (refer to note 29)	Laos	Ordinary	**90**	90
PNA (Puthep) Pty Ltd	QLD	Ordinary	**100**	100
Puthep Company Limited (Subsidiary of PNA (Puthep) Pty Ltd)	Thailand	Ordinary	**49**	49
PanAust Canada Ltd (incorporated)	Canada	Ordinary	**100**	100
Masons Hill Gold Limited (incorporated)	WA	Ordinary	**90**	90
Terra Firma Resources NL (incorporated)	QLD	Ordinary	**100**	100
PanAust Holdings Pte Ltd	Singapore	Ordinary	**100**	-
PanAust IDO Holdings Pte Ltd (Subsidiary of PanAust Holdings Pte Ltd)	Singapore	Ordinary	**100**	-
PanAust IDO SpA	Chile	Ordinary	**100**	-
PanAust Minera IDO Limitada	Chile	Ordinary	**100**	-
PanAust South America Services SpA	Chile	Ordinary	**100**	-
PanAust Executive Long Term Share Plan Trust	QLD	n/a	**n/a**	-

36 Events occurring after balance sheet date

(a) *Inca de Oro S.A. acquisition - Presidential Decree notified*

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.

(b) Non-current liabilities- Borrowings (note 24)

In February 2011, the participants in the amended and restated debt facilities of Phu Bia Mining Limited executed amended agreements for an additional participant to join the facility, bringing the total number of participants to five and increasing the facility limits to US$100 million Revolving Facility (from US$85 million), and US$20 million guarantee facility (from US$17 million).

(c) *Lease liability (notes 20, 24)*

During January 2011, the Company drew down US$18.1 million on a US$24.8 million equipment lease facility with the ANZ Bank. This facility has a term of 5 years and the first principal repayment is due on 25 April 2011.

37 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Profit for the year	**160,097**	23,171
Depreciation and amortisation	**54,285**	42,773
Executive LTSP and options issued	**3,733**	1,430
Unwinding of present value discount	**1,229**	1,177
Net exchange differences	**602**	(49)
Deferred hedge losses	**(15,247)**	-
Fair value (gains)/losses on other financial assets at fair value through profit or loss	**(1,487)**	8,449
Unlisted options granted	**-**	14,086
Capitalised interest expense	**-**	3,882
Employee shares issued	**-**	1,221
Decrease in deferred tax assets	**28,097**	12,803
Increase in income tax payable	**18,269**	-
Increase (decrease) in trade creditors	**11,552**	(47,762)
Increase in provisions	**3,333**	3,543
Decrease (increase) in receivables	**6,819**	(17,602)
Decrease in prepayments	**2,723**	1,423
Increase in inventories and deferred waste	**(8,757)**	(12,315)
Net cash inflow from operating activities	**265,248**	36,230

38 Earnings per share

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

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
The following reflects the income used in the calculations of basic and diluted earnings per share:		
Profit attributable to ordinary equity holders of the company	**143,353**	18,991

38 Earnings per share (continued)

(b) Weighted average number of shares used as the denominator

	Consolidated	
	31 December 2010 Number of shares	31 December 2009 Number of shares
Weighted average number of ordinary shares used as the denominator in calculating basic profit per share	**2,946,311,316**	2,216,291,272
Unlisted securities	**19,007,280**	20,355,718
Adjusted weighted average number of ordinary shares used in calculating diluted profit per share	**2,965,318,596**	2,236,646,990

Potential shares yet to be issued under the EOP, SRP and shares yet to be released from trust under the LTSP are treated as dilutive for the purpose of calculating diluted earnings per share, as there is potential for the shares to decrease the profit attributable to existing ordinary equity holders.

(c) Conversions, calls, subscription or issues after 31 December 2010

Since balance date, a total of 3,435,683 share rights have vested under the SRP and a total of 4,844,174 shares have been issued under the LTSP.

39 Share-based payments

(a) Executive Long Term Share Plan

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

Set out below is a summary of securities granted under the plan:

Grant Date	Loan expiry date	Fair value at grant A$ cents	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2010								
21-May-10	21-May-15	12.0	-	19,133,200	-	894,100	18,239,100	-

39 Share-based payments (continued)

(b) Executives' Option Plan

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

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
As at 31 December 2010								
23-Mar-07	29-Feb-12	38.00	4,550,000	-	(800,000)	-	3,750,000	3,750,000
29-May-07	29-Feb-12	38.00	3,500,000	-	-	-	3,500,000	3,500,000
05-Oct-07	07-Oct-12	81.00	750,000	-	-	(37,500)	712,500	712,500
22-Feb-08	31-Dec-12	88.00	1,980,000	-	-	-	1,980,000	1,774,080
23-May-08	31-Dec-12	88.00	4,400,000	-	-	-	4,400,000	3,942,400
27-Apr-09	31-Dec-13	30.50	4,200,000	-	-	-	4,200,000	-
22-May-09	31-Dec-13	42.12	17,200,000	-	-	-	17,200,000	-
Total			36,580,000	-	(800,000)	(37,500)	35,742,500	13,678,980
Weighted average price (cents)			49.81	-	38.00	-	48.88	61.13

Grant Date	Expiry date	Exercise price A$ Cents	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
As at 31 December 2009								
24-May-06	13-Apr-09	32.00	2,000,000	-	-	(2,000,000)	-	-
04-Sept-06	13-Sept-09	32.00	1,000,000	-	(1,000,000)	-	-	-
23-Mar-07	29-Feb-12	38.00	4,550,000	-	-	-	4,550,000	-
29-May-07	29-Feb-12	38.00	3,500,000	-	-	-	3,500,000	-
05-Oct-07	07-Oct-12	81.00	750,000	-	-	-	750,000	-
22-Feb-08	31-Dec-12	88.00	2,310,000	-	-	(330,000)	1,980,000	-
23-May-08	31-Dec-12	88.00	4,400,000	-	-	-	4,400,000	-
05-Aug-08	30-Jun-13	88.00	364,000	-	-	(364,000)	-	-
27-Apr-09	31-Dec-13	30.50	-	4,200,000	-	-	4,200,000	-
22-May-09	31-Dec-13	42.12	-	17,200,000	-	-	17,200,000	-
Total			18,874,000	21,400,000	(1,000,000)	(2,694,000)	36,580,000	-
Weighted average price (cents)			58.98	39.84	32.00	40.21	49.81	-

(i) Exercise price

Following the completion of the entitlements offer, which was launched on 26 May 2009 (refer to note 26), the exercise price of options issued to executives under the PanAust Executives' Options Plan was reduced by A$0.02 in accordance with ASX Listing Rule 3.11.2.

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2010 was A$0.38 (2009: A$0.32).

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.4 years (2009: 3.40 years).

39 Share-based payments (continued)

(ii) Fair value of options granted

The assessed fair value at grant date is independently determined using a pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The non-variable model inputs for options granted during 2009 are as follow:

(a) options are granted for no consideration, have a three year life and each tranche vests and is exercisable upon obtaining any performance hurdles;

(b) expected price volatility of the Company's shares: 40% (2009: 40%); and

(c) expected dividend yield: nil% (2009: nil%).

Set out below are the variable model inputs for options granted during 2009. There were no options granted during 2010.

Grant date	Expiry date	Exercise price A$ cents	Number	Risk free interest rate	Staff turnover rate	Price hurdle A$	Fair value at grant date A$ cents	Share price at grant date A$ cents
27-Apr-09	31-Dec-13	30.50	4,200,000	3.80%	0.00%	TSR	8.5	29.5
22-May-09	31-Dec-13	42.12	17,200,000	4.40%	0.00%	TSR	9.4	36.0

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

39 Share-based payments (continued)

(c) Share Rights Plan

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

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

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

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
		A$ cents	Number	Number	Number	Number	Number	Number
2-Apr-07	31-Mar-17	Nil	1,375,000	-	(1,375,000)		-	-
1-May-07	31-Mar-17	Nil	500,000	-	(250,000)	(250,000)	-	-
14-May-07	14-May-17	Nil	167,060	-	(152,692)	(14,368)	-	-
1-Jun-07	14-May-17	Nil	46,898	-	(46,898)	-	-	-
1-Oct-07	1-Oct-17	Nil	120,375	-	(99,500)	(20,875)	-	-
26-Feb-08	31-Dec-17	Nil	1,970,000	-	-	(125,000)	1,845,000	1,653,120
26-Feb-08	31-Jan-18	Nil	551,070	-	(255,940)	(45,150)	249,980	249,980
5-Mar-08	31-Jan-18	Nil	8,820	-	(4,370)	(4,450)	-	-
30-Apr-08	31-Mar-18	Nil	166,880	-	(68,840)	(42,110)	55,930	-
14-May-08	31-Mar-18	Nil	920	-	(920)	-	-	-
31-Jul-08	30-Jun-18	Nil	88,230	-	(39,390)	(14,240)	34,600	-
31-Jul-08	30-Jun-18	Nil	29,000	-	-	-	29,000	-
17-Nov-08	31-Oct-18	Nil	416,180	-	(158,280)	(116,210)	141,690	-
25-Mar-09	30-Sep-18	Nil	202,703	-	-	(202,703)	-	
25-Mar-09	28-Feb-19	Nil	966,830	-	(271,550)	(154,100)	541,180	-
27-Apr-09	31-Dec-18	Nil	10,900,000	-	-	(840,000)	10,060,000	-
18-Jun-09	30-Apr-19	Nil	1,851,574	-	-	(318,991)	1,532,583	1,532,583
27-Oct-09	1-Sep-19	Nil	218,447	-	-	-	218,447	-
29-Mar-10	31-Dec-11	Nil	-	1,814,895	-	(215,765)	1,599,130	-
03-Sep-10	31-Dec-11	Nil	-	21,079	-	-	21,079	-
4-Oct-10	31-Dec-11	Nil	-	9,559	-	-	9,559	-
21-Dec-10	31-Dec-11	Nil	-	9,559	-	-	9,559	-
			19,579,987	**1,855,092**	**(2,723,380)**	**(2,363,962)**	**16,347,737**	**3,435,683**

39 Share-based payments (continued)

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

Grant date	Expiry date	Exercise price A$ cents	Number	Risk free interest rate	Staff turnover rate	Price hurdle A$	Fair value at grant date A$ cents	Share price at grant date A$ cents
25-Mar-09	30-Sep-18	Nil	202,703	2.75%	16.70%	TSR*	6.6	23.0
25-Mar-09	28-Feb-19	Nil	1,090,010	-	16.70%	Nil	36.8	23.0
27-Apr-09	31-Dec-18	Nil	11,600,000	3.70%	0.00%	TSR*	20.4	29.5
18-Jun-09	30-Apr-19	Nil	2,029,837	-	0.00%	Nil	39.5	34.0
27-Oct-09	1-Sep-19	Nil	218,447	5.10%	0.00%	TSR*	35.5	47.0
29-Mar-10	31-Nov-11	Nil	1,814,895	-	0.00%	Nil	50.0	52.0
3-Sep-10	31-Dec-11	Nil	21,079	-	0.00%	Nil	50.0	64.0
4-Oct-10	31-Dec-11	Nil	9,559	-	0.00%	Nil	50.0	68.0
21-Dec-10	31-Dec-11	Nil	9,559	-	0.00%	Nil	50.0	83.0

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

(d) Expenses arising from share-based payment transactions

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

	Consolidated	
	31 December 2010 US$'000	31 December 2009 US$'000
Share rights issued under the SRP	**1,905**	1,430
Options issued under the EOP	**1,383**	1,221
Shares issued under the LTSP	**510**	-
	3,798	2,651

40 Schedule of tenements and joint venture arrangements

Project and activities	**Tenement description**
Laos	
Phu Bia Contract Area - copper and gold evaluation and development	The consolidated entity has 90% interest in Phu Bia Mining Limited that holds the Phu Bia Mining Contract Area under a Mineral Exploration and Production Agreement with the Government of Laos.
Thailand	
Puthep - copper evaluation and development	The consolidated entity is party to an agreement to earn a 51% interest (with further options to acquire a total of 60% to 70% interest, refer to Note 13) in Puthep Company Limited, a subsidiary of Padaeng Industry Public Company Limited.
Chile	During the year, the consolidated entity acquired the Exploitation Mining Concession known as "CARMEN 1 to 20 and 23 to 98 ", located in Sierra El Membrillo, Municipal District and Province of Copiapó, Region Third of Atacama. The title is held by PanAust Minera IDO Limitada which is currently 100% owned by PanAust. It is proposed that these tenements will be offered to Inca de Oro S.A. following the transfer of a controlling interest in that company to PanAust.

Western Australia	**Tenement description**	**Interest held**	**Joint venture Operator**	**Joint venture partners**
Darlot South- gold exploration	M 37/246, M 37/265, M 37/320, M 37/343, M 37/345, M 37/393 and M 37/776	16%	Barrick (Darlot) NL (1)	Barrick (Darlot) N.L. (1) Mr R.A.L. Baker

(1) Ultimate holding company of Barrick (Darlot) NL is Barrick Gold Corporation.

Exploration, evaluation and development costs capitalised (note 16) includes nil amount (2009: $nil) pertaining to interests in Darlot South joint venture.

41 Parent entity financial information

	Parent entity	
	31 December 2010 US$'000	31 December 2009 US$'000
Balance sheet		
Current assets	**69,276**	70,215
Non-current assets	**425,491**	420,695
Total assets	**494,767**	490,910
Non-current liabilities	**205**	205
Total liabilities	**205**	205
Net Assets	**494,562**	490,705
Shareholders' equity		
Contributed equity	**541,232**	540,948
Reserves	**26,110**	22,312
Retained earnings	**(72,780)**	(72,555)
Capital and reserves attributable to owners of PanAust Limited	**494,562**	490,705
	494,562	490,705
Profit or loss for the year	**(225)**	(19,670)
Total comprehensive income	**(225)**	(19,670)

In the directors' opinion:

(a) the financial statements and notes set out on pages 32 to 94 are in accordance with the *Corporations Act 2001,* including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the financial year ended on that date; and

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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

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

G. A. Hounsell
Chairman

G. Stafford
Managing Director

Brisbane
24 February 2011

pwc

Independent auditor's report to the members of PanAust Limited

Report on the financial report

We have audited the accompanying financial report of PanAust Limited (the company), which comprises the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the PanAust Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Independent auditor's report to the members of PanAust Limited (continued)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of PanAust Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 12 to 25 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of PanAust Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Delaney

Brett Delaney
Partner

Brisbane
24 February 2011

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows, and is current as at 22 February 2011.

A. Distribution of shares

Analysis of numbers of shareholders by size of holding:

	Class of equity security			
	Ordinary shares		Redeemable preference shares	% Issued Capital
Holding	Total Holders	Units		
1 - 1000	1,347	719,199	-	0.02 %
1,001 - 5,000	4,162	12,827,947	-	0.43 %
5,001 - 10,000	3,374	27,093,522	-	0.92 %
10,001 - 100,000	9,168	318,790,533	-	10.78 %
100,001 and over	1,629	2,604,025,475	-	87.85 %
	19,680	2,963,456,676	-	100.00 %

There were 696 holders of less than a marketable parcel of 618 ordinary shares totalling 125,061 shares.

B. Shareholders

Twenty largest quoted shareholders

Name	Ordinary shares	
	Number held	Percentage of issued shares
Guangdong Rising H.K. (Holding) Limited	595,175,983	19.99
JP Morgan Nominees Australia Limited	360,881,056	12.12
HSBC Custody Nominees (Australia) Limited	356,066,749	11.96
National Nominees Limited	321,666,267	10.81
Citicorp Nominees Pty Limited	131,024,573	4.40
Mr Robert Bryan	66,190,941	2.22
JP Morgan Nominees Australia Limited <Cash Income A/C>	65,451,975	2.20
Cogent Nominees Pty Ltd	44,988,572	1.51
UBS Nominees Pty Ltd	34,848,744	1.17
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/C>	30,451,365	1.02
Mr Gary Stafford	21,913,643	0.74
UBS Wealth Management Australia Nominees Pty Ltd	17,606,075	0.59
Debortoli Wines Pty Limited	15,615,044	0.52
Queensland Investment Corporation	11,667,348	0.39
Equity Trustees Limited <SGH20>	10,600,000	0.36
AMP Life Limited	9,256,377	0.31
Share Direct Nominees Pty Ltd <10026 Account>	6,278,558	0.21
K E Bryan No 2 Pty Ltd <K E Bryan No 2 A/C>	5,107,382	0.17
Mr Roger Horwich & Mr Michael Field	5,005,719	0.17
Australian Reward Investment Alliance	4,903,650	0.16
	2,114,700,021	71.03

A number of these shareholders are nominee companies which hold the legal interest in shares where others hold the relevant interest. For the purposes of the Corporations Act, Guangdong Rising Assets Management Co Ltd, being the ultimate holding company of Guangdong Rising H.K. (Holding) Limited, is a substantial holder of equity in the Company.

C. Voting rights

All ordinary shares issued by PanAust carry one vote per share without restriction.

D. Holders of other equity securities

There are the following holders of unlisted equity securities issued by the Company:

Equity securities	Total holders	Number of securities
Options under the Executives' Option Plan	7	35,078,980
Share rights under the Share Rights Plan, subject to performance conditions	10	10,307,447
Share rights under the Share Rights Plan, not subject to performance conditions	96	2,400,338

None of these equity securities have voting rights

E. On-market buy back

There is no current on-market buy back.