



OUR PEOPLE,
COMMUNITY
AND LANDSCAPE



SUSTAINABILITY
REPORT
2012

OUR PEOPLE, COMMUNITY AND LANDSCAPE:

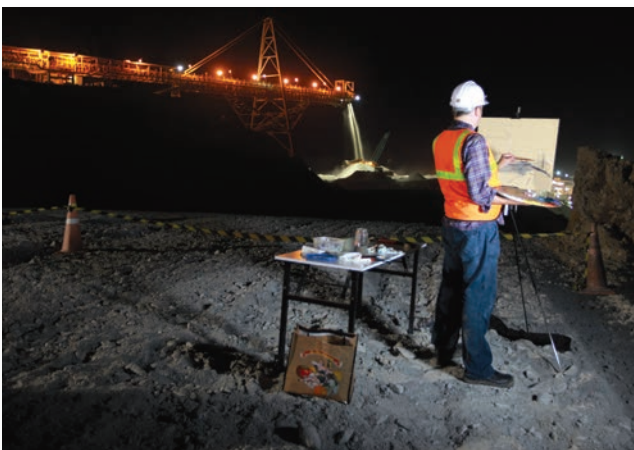


A COLLECTION OF PAINTINGS OF PANAUST'S OPERATIONS IN LAOS BY PETER CHURCHER

Peter Churcher is recognised as one of Australia's leading figurative artists. In October 2012, PanAust commissioned Peter to paint the Company's people and places of work, and the communities and natural environment close to their Operations in Laos.

During Peter's three-week artist-in-residency, he travelled between the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation, and spent several days visiting local villages.

Peter produced a total of 24 paintings comprising the collection: *Our People, Community and Landscape*. Thirteen of Peter's paintings are showcased here in PanAust's 2012 Sustainability Report.



Front cover: *Morning market, Ban Nam Mo* (detail)

“This scene impressed me and seemed to beautifully illustrate the working relationship between the mine and the local community. Hundreds of mine workers need to be fed every day and PanAust have wisely drawn on local produce rather than bringing supplies in. This, of course, provides a new market for the local producers. Here in this image, the local villagers have brought in their produce for sale to the mine catering department. This exchange occurs early in the morning twice a week.”

Peter Churcher, 2012

COMPANY PROFILE

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

PanAust's producing assets are the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation, both located in the Company's highly prospective 2,600 square-kilometre Phu Bia Contract Area in Laos (the 'Contract Area').

In Chile, PanAust owns the Carmen deposit and holds a majority interest in the nearby Inca de Oro Copper-Gold Project through an incorporated joint venture with Codelco. These assets provide the Company with geographic diversity and a base for establishing a copper business in South America; the world's most prolific copper producing region.

PanAust's key growth activities in Laos include the Phonsavan Copper-Gold Project, operational improvement projects at Phu Kham, and exploration and resource development within the Phu Kham district.

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

COMPANY STRUCTURE

To ensure the optimal structure for a growth-oriented and geographically diverse business, PanAust is structured into three business units: Asia, South America, and Project Development.

PanAust's corporate office provides leadership and support across the Company in relation to growth, financial management, commercial and technical services, risk management, investor relations, corporate communications, human resources, and governance and public reporting.

ASIA BUSINESS UNIT

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

Laos

PanAust owns a 90 per cent interest in the Lao-registered company, Phu Bia Mining Limited ('Phu Bia Mining'). In August 2012, the Company signed an agreement which completed the transfer of 10 per cent ownership of Phu Bia Mining to the Government of Laos.

Phu Bia Mining has a Mineral Exploration and Production Agreement with the Government of Laos which regulates exploration, development and mining activities within the Contract Area, and sets out the tax and royalty obligations.

Thailand

In Thailand, PanAust holds 49 per cent of the Thai-registered company, Puthep Company Limited ('Puthep'). The remaining 51 per cent interest is owned by Padaeng Industry Public Company Limited, a publicly listed Thai entity. Puthep has a concession agreement with the Government of Thailand that covers two deposits (PUT1 and PUT2) comprising the Puthep Copper Project.

SOUTH AMERICA BUSINESS UNIT

The South America business unit supports the studies, field programs and community affairs for the Carmen deposit and the Inca de Oro Copper-Gold Project in Chile.

Chile

PanAust owns a 100 per cent interest in the Carmen deposit and a 60.45 per cent beneficial interest in the Inca de Oro deposit through a Chilean incorporated joint venture company, Inca de Oro S.A. Codelco has a 34 per cent interest in Inca de Oro S.A., while an independent private company holds a 5.55 per cent beneficial interest.

PROJECT DEVELOPMENT BUSINESS UNIT

The Project Development business unit is responsible for the Company's development and operational improvement projects. It comprises teams responsible for technical studies and project implementation to deliver capital-efficient project development and strategic improvement initiatives to support and enable the Company's growth.

MATERIALITY AND SCOPE OF THIS REPORT

PanAust uses the reporting requirements of the Global Reporting Initiative (GRI) G3, and reports to an A+ Application Level. To achieve this rating, the data provided from operational sites and the associated detail provided in the written report, have undergone external verification prior to publication. The 2012 Assurance Statement provided by the external agency (ERM-Siam, Co Ltd) can be found on page 70.

ABOUT MATERIALITY

PanAust uses a materiality determination process to identify issues to be included in the Sustainability Report. Following an internal review and in response to stakeholder feedback, the process for determining materiality was revised in 2012. The process provides a consistent approach to assessing issues of importance to the Company and its stakeholders.

The process is summarised in the following five steps.

1. Identify PanAust's key stakeholders based on their potential to impact or be impacted by the Company's presence. Identify and understand issues of importance to stakeholders through review of independent external reports, peer and competitor reports, and outcomes from community and government engagements and meetings.
2. Identify and understand issues of significance to PanAust through review of incident reports, risk registers, external audit reports, PanAust strategies and policies, and external Company commitments.

3. Rank each issue on its level of 'importance to stakeholders' and its 'importance to PanAust'. The criteria for ranking is largely based on how PanAust defines issues of significance (Level 4 or 5 incidents/potential incidents) using the Company's Consequence Table (refer pages 68 and 69). In addition, issues are considered by commonality among stakeholders, frequency, duration and level of impact, media attention, stakeholder interest, relevance to Company strategies, and impact on business decisions.

4. Complete an internal review/check of rankings. In addition to the internal review process, PanAust's 2012 Sustainability Report has also undergone external assurance prior to publication. A key step in the assurance process is verification of the Company's materiality process and whether the report accurately reflects and discloses on material issues.

5. Issues that are identified as material are included within the scope of this Report. GRI describe the scope of materiality as: *The information in a report should cover topics and indicators that reflect the organisation's significant economic, environmental and social impacts that would substantively influence the underlying value of the company, and the assessments and decisions of stakeholders.*

The following figure shows the outcomes of the materiality process for 2012. Within the broader topic areas of Governance, Social Responsibility, Environmental Performance, Health and Safety, and Our People, each 'material' issue is addressed in this 2012 Sustainability Report.



The 2012 Sustainability Report focuses on those issues that matter most to PanAust and its stakeholders. As the organisation develops and grows, focus areas can and do change over time. Therefore, some issues that were presented in the 2011 Sustainability Report will not be reported in this publication. PanAust maintains its commitment to the management of other sustainability issues and a detailed index of the GRI indicators and where they are reported (fully, partially, or not reported) for 2012 can be found on PanAust's website, www.panaust.com.au/reports.

PanAust has communication mechanisms in place to respond directly to stakeholders with specific interests and concerns to ensure relevant information is provided to stakeholders and their particular issues are addressed.

Stakeholders seeking more information about PanAust and/or wanting to provide feedback on this Report can contact the Company via email: info@panaust.com.au or telephone: +61 7 3117 2000.

REPORT SCOPE

Most of PanAust's reporting relates to the material aspects of the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation; both in Laos. While exploration activities and growth projects (the Inca de Oro Copper-Gold Project in Chile and the Phonsavan Copper-Gold Project in Laos) are not 'operational', work occurs in relation to environmental and social impact assessments, and community development programs. PanAust is establishing systems and structures to enable reporting once commissioning of operations commences. Tables in this document advise where reporting includes data from sites other than the Phu Kham and Ban Houayxai Operations.

This Report is for the 2012 calendar year and is PanAust's seventh Sustainability Report. It follows that produced in 2012 for the 2011 calendar year.

DATA COLLECTION

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

CHANGES AND/OR RESTATEMENTS DURING 2012

With the exception of new reporting items, this Report will present data for a three-year period. During the actual reporting period (2012), the following significant changes in the state of PanAust's affairs occurred.

- The Ban Houayxai Gold-Silver Operation in Laos achieved practical completion in mid-April 2012; commercial production was declared from 1 June 2012.
- A pre-feasibility study commenced at the Phonsavan Copper-Gold Project in the June quarter 2012 with completion scheduled for the June quarter 2013.
- On 2 August 2012, the Share Transfer Agreement was signed for the Government of Laos to acquire its 10 per cent shareholding interest in Phu Bia Mining. The interest has been recognised by the Company in its accounts since the Government of Laos exercised its option.
- In August, the Company completed the acquisition of the balance of the tenements, which it did not already own, over the Carmen copper-gold deposit in Chile.
- In October, the commissioning of the Phu Kham Upgrade Project was completed.
- The Phu Kham Increased Recovery Project (Laos) received PanAust Board approval and construction commenced in the December quarter 2012.
- In January 2013, Phu Bia Mining entered into amended and restated facilities agreements for debt facilities totalling US\$275 million. The facilities comprise a US\$250 million revolving debt facility and a US\$25 million working capital facility.

CURRENCY

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



View of the pit, Phu Kham (detail)

“This painting was done from a high point on the side of a mountain range aside Phu Kham which afforded this panoramic view of the whole pit. Given the enormous size of the pit, I was really up quite high and far away to be able to get this full view. The challenge of this work was to get a sense of the scale of this big, panoramic view I was painting, not easy when confined to the relatively small canvases I had to work with. I had to make a few visits over separate days to this site to get this painting done given the complexity of forms and colours and tones that the pit presented.”

Peter Churcher, 2012

CONTENTS

COMPANY PROFILE	1
MATERIALITY AND SCOPE OF THIS REPORT	2
CHAIRMAN AND MANAGING DIRECTOR'S REVIEW	6
VISION AND VALUES	9
GOVERNANCE	11
▶ SUSTAINABILITY STRUCTURE	11
▶ CONDUCT (INCLUDING BRIBERY AND CORRUPTION)	16
▶ PRODUCT STEWARDSHIP	19
▶ RISK MANAGEMENT POLICIES, SYSTEMS AND PROCESSES	19
SOCIAL RESPONSIBILITY	27
▶ STAKEHOLDER ENGAGEMENT	27
▶ ECONOMIC CONTRIBUTION TO SOCIETY	31
▶ COMMUNITY DEVELOPMENT	33
▶ LONG-TERM CAPACITY-BUILDING IN COMMUNITIES	38
ENVIRONMENTAL PERFORMANCE	41
▶ TAILINGS AND WASTE ROCK MANAGEMENT	41
▶ WATER MANAGEMENT	42
▶ SEDIMENT AND EROSION CONTROL	43
▶ LAND REHABILITATION AND CLOSURE	45
▶ ENERGY AND CARBON MANAGEMENT	45
▶ DUST MANAGEMENT	46
▶ CYANIDE MANAGEMENT	47
HEALTH AND SAFETY	49
▶ WORKFORCE SAFETY CULTURE	51
▶ FATIGUE MANAGEMENT	53
▶ EMERGENCY RESPONSE PREPAREDNESS	54
▶ HEALTH AND HYGIENE MANAGEMENT	55
▶ UNEXPLODED ORDNANCE	55
▶ SECURITY MANAGEMENT	56
OUR PEOPLE	59
▶ RECRUITMENT	60
▶ WORKPLACE DIVERSITY	63
▶ DEVELOPMENT AND TRAINING	65
CONSEQUENCE TABLE	68
ASSURANCE STATEMENT	70
GLOSSARY	71

CHAIRMAN AND MANAGING DIRECTOR'S REVIEW

PanAust's success is not only measured by financial outcomes, but also by the wellbeing of our workforce, the quality of our social and environmental outcomes, integrity in our business dealings, and our ability to align our workforce to business objectives through leadership and systems that drive the right behaviour.

PanAust is also part of a global industry that has a role to play in improving the standard of living for current and future generations through meeting the global demand for copper and precious metals in a responsible manner. As a high-profile foreign investor in Laos, that responsibility extends to being a 'sustainability leader' within that country but we will also strive to be an industry leader. We recognise that sustainable business practices equate to good business practices and are essential for our ongoing success. As we prepare for further growth in Laos and Chile, it is essential that we responsibly manage and continually improve our sustainability performance to maintain our licence to operate.

BUSINESS PERFORMANCE*

2012 was a year of continued growth for PanAust. In April 2012, our second operation, the Ban Houayxai Gold-Silver Operation, was opened by the Government of Laos Deputy Prime Minister, His Excellency Mr Somsavath Lengsavath. In June 2012, the Operation commenced commercial production of gold-silver doré and by year-end was achieving outstanding production results. PanAust self-managed the construction of Ban Houayxai and, in March 2013, the Company's achievement was recognised through the Project Development of the Year Award at the Mines and Money Conference in Hong Kong.

Also in March 2013, the Ban Houayxai Operation received operational certification to the International Cyanide Management Code and a five-star rating from Caterpillar Inc. for its Mobile Maintenance and Mobile Warehouse facilities. The Caterpillar rating is one of only six worldwide and the first in a developing country and resulted from a 97 per cent score against criteria relating to quality, order and cleanliness, and contamination control.

The commissioning of the Phu Kham Upgrade Project was completed and delivered under budget in early September 2012. The Upgrade increased process plant design capacity from 12 million tonnes per annum (Mtpa) to 16Mtpa, resulting in strong production performances during the December quarter 2012 when several quarterly and monthly operational performance records were achieved, including ore processing rates well in excess of design.

In August 2012, the PanAust Board declared the Company's maiden interim dividend of three cents per share and in February 2013, the Board declared a final dividend of four cents per share. We are delighted that the Company is in a position to reward the support of our shareholders in this way.

Consolidated Group production for 2012 was in line with guidance: 63,285 tonnes (t) of copper, 135,965 ounces (oz) of gold and 616,687oz of silver.

The profit after income tax for the 12 months to 31 December 2012 was US\$158.7 million. At year-end the Company had cash of US\$125 million and, with a significant reduction in capital commitments, pending the completion of the Phu Kham Increased Recovery Project in early 2013, is expected to be strongly cash flow positive through the second half of 2013.



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

SUSTAINING THE BUSINESS^

PanAust has a corporate strategy focused on growth by discovery, acquisition and development. Key components of this strategy are: a commitment to progressing capital-efficient organic growth opportunities; the acquisition of producing or pre-development copper assets; and, pursuit of an active exploration and resource development program in Laos and Chile.

Construction of the Phu Kham Increased Recovery Project commenced in late 2012, and commissioning and ramp-up occurred during the June quarter 2013. Once completed, the Project is expected to deliver a six percentage point increase in metallurgical recovery for both copper and gold, and reduce the cash cost of copper production by more than five per cent.

The Phu Kham district remains a high-priority target for our exploration activities. At the Long Chieng Track (LCT) deposit we have identified significant copper-gold and gold-silver mineralisation and in January 2013 announced an initial Mineral Resource. Drilling is continuing at LCT and the nearby Nam Ve prospect with the aim of identifying additional resources. At Ban Houayxai, resource drilling increased the Ore Reserve by 22 per cent.

Work on the Phonsavan Copper-Gold Project pre-feasibility study commenced in 2012. The scope of the study is for the development of a project with an average annual output of circa 25,000t of copper and 20,000oz of gold.

In Chile, we are two years into a joint venture with Codelco. The results of the Inca de Oro Copper-Gold Project sulphide feasibility study identified the need to secure cost-effective power for the Project, and to expand the resource base of the Project to ensure its economic viability. The joint venture has extended the study to incorporate the oxide resource at Inca de Oro and has commenced drilling at the nearby Artemisa deposit. In August 2012, PanAust completed the acquisition of the balance of tenements (which the Company did not already own) over the Carmen deposit and commenced drilling. The Carmen deposit is located 14 kilometres southwest of Inca de Oro. We are confident that through further work we will be successful in developing Inca de Oro and/or Carmen and ultimately expanding our activities in this important copper region.

* A comprehensive review of PanAust's 2012 business performance can be found in the 2012 Annual Review, available on the Company's website.

^ For PanAust's most up-to-date forward-looking statements, refer to the Company's ASX announcements and quarterly reports, available on the Company's website.

MANAGING RISK

In 2012, PanAust's operational risk registers were reviewed in line with changes to organisational structure, new projects, and the transition of Ban Houayxai from project to operational status. Our risk registers identify the most material non-financial risks to PanAust as: contractor safety management, mobile equipment and personnel transport, surface water management (including cyanide, sediment and acid rock drainage management), and security of personnel carrying out remote work activities.

In 2012, the Company returned positive results as assessed against key sustainability indicators (see '2012 performance and 2013 targets' table on page 24) and there are no material incidents to report (that is, no Level 4 or 5 incidents as outlined in our Consequence Table on pages 68 and 69).

PanAust's 2012 Total Recordable Injury Frequency Rate (TRIFR) of 2.15 was more than a 20 per cent improvement on 2011's TRIFR of 2.80. The Lost Time Injury Frequency Rate (LTIFR) for the year was 0.13; reporting slightly higher than 2011's 0.06. However, the already low frequency rate compares favourably with peers and was a solid performance in the context of the Company self-managing construction activities at Ban Houayxai, the Phu Kham Upgrade, and the Increased Recovery Project; and the commissioning and ramp-up of Ban Houayxai with a relatively inexperienced workforce.

Notwithstanding this good overall safety performance, we continue to be concerned about the number of 'near misses' recorded. PanAust will continue to focus on lead indicators, and identify and learn from safety incidents that have the potential for a higher impact. We analysed our 2012 high-potential incidents to prioritise focus areas for improvement in the short-to-medium term. From 2013, the sustainability-related element of PanAust's executives' key performance indicators has been expanded to include identification of safety 'hotspots' and proactively addressing them to reduce high-potential incidents (for controlled and influenced activities).

To further improve our safety performance, we have continued to focus on training in hazard awareness and introduced Safety Leadership Training. The latter is designed to ensure people in leadership roles make safety their highest priority and continue to create a strong safety culture within their teams. The health and wellbeing of our workforce is of paramount importance and we continue to embed a risk aware culture.

CONTRIBUTING TO OUR COMMUNITIES

Making positive, long-lasting contributions to our host communities is central to PanAust's commitment to sustainability. To date, PanAust has contributed up to US\$1.16 billion to the Lao economy, and in 2012 accounted for more than 7 per cent of the nation's gross domestic product and over 30 per cent of total Lao goods exports.

In August 2012, the Company signed an agreement which completed the transfer of 10 per cent ownership to the Government of Laos of PanAust's Lao-registered entity, Phu Bia Mining. The transfer was in accordance with the Mineral Exploration and Production Agreement (MEPA) and a Shareholders Agreement between the Company and the Government. The shareholding provides Government representation on the Phu Bia Mining Board, which will contribute to further enhancing our relationship with this key stakeholder.

In March 2013, we were very pleased to be recognised once again among our industry peers by receiving the Sustainability Leadership Award at the Asia Mining Congress. The award acknowledged our program in Laos which creates and supports business opportunities within the villages closest to our operations and has been particularly beneficial to ethnic minorities and women in the region. This is the third time that PanAust's sustainability performance has been recognised by the Asia Mining Congress. In 2010, our Livelihood Improvement Program received the Award for Best Community Development Initiative and, in 2011 our Technical Trades Training Program received an award in the same category.

We continue to be very impressed by the progress we observe in our Lao workforce. It is very rewarding to observe their skills and abilities expand and improve over time through employment opportunities and the enthusiastic take up of our training and development programs. We are determined that our legacy will include communities that are enabled to sustain positive economic development and a skilled workforce for mining and other heavy industries within Laos.

In Chile, the Environmental Impact Assessment for the Inca de Oro Copper-Gold Project has been completed and reviewed by independent experts and our joint venture partner, Codelco. The assessment confirms that all of the potential project impacts can be managed within the proposed project design and production plan, and specific requirements have been incorporated into the design of the project facilities. The timing of the submission is being reviewed in consideration of other project development opportunities close to the Inca de Oro Project. Consultation with various government authorities has commenced as well as early engagement with local communities; the Project is being received positively.

Following an internal review and in response to stakeholder feedback, our *2012 Sustainability Report* is presented slightly differently to previous years'. Our intention is to more clearly articulate sustainability issues that are material to our business and stakeholders, and to outline the Company's 2012 performance on those issues.

We take this opportunity to sincerely thank our employees and everyone concerned with PanAust for their dedication to the sustainable development of our business.



Chairman, Garry Hounsell



Managing Director, Gary Stafford



View of the pit and plant, Ban Houayxai from the ETL tower (detail)

“The gold mining operation at Ban Houayxai is set in the most extraordinary landscape, spanning the top of a section of mountain range which is surrounded by water below and set among dramatic mountainous country all around. It is not what one associates with a mining situation at all! This view from the top of a hill which overlooks the whole of the Ban Houayxai Operation provides a marvellous view of this setting and makes one realise how insignificant the mine’s impact on the landscape actually is when seen in its surrounding context.”

Peter Churcher, 2012

VISION AND VALUES

VISION

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

PanAust will outperform its competitors through:

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

VALUES

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



The plant at night, Phu Kham (detail)

“I was drawn to the spot where the ore drops from the conveyor and at night, lit-up, it had a particularly beautiful, almost ‘sci-fi’, quality. I painted this image from the top of the plant looking at the ore drop down to the main process plant below. Of course, in a situation such as this, a working mine plant, the artist is not free to just wander freely and set up easels wherever they see fit. So in fact, in this instance, I was carefully cordoned off, illuminated by a portable spot-light and accompanied by my entourage (film crew, assistants and safety personnel) who sat around on camp chairs while I painted. It all felt like a jolly little night gathering, but of course I was quite oblivious to all of them when I was painting. I did appreciate their company, however, working in this rather strange environment.”

Peter Churcher, 2012

GOVERNANCE

► SUSTAINABILITY STRUCTURE

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, continual improvement, and understanding and implementing international best practice, rather than a 'tick-a-box' approach.

The PanAust Board of Directors

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

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

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

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

The Board has adopted a skills matrix to identify the desirable mix of skills and competencies to be held by members of the Board as a whole. The relevant skills identified are: financial qualifications (experience as a chief financial officer, in accounting, audit or economics); operational mining industry experience; finance or banking experience; engineering or geology expertise; in-depth recent international/global experience; former chief executive officer or equivalent experience; managing large capital projects experience; mergers and acquisitions experience; mid/large company non-executive director experience; and corporate governance expertise. The skills matrix was applied by the Board in the course of selecting and appointing Annabelle Chaplain as an additional Non-Executive Director on 1 July 2012.

The Board has also considered the issue of diversity at Board level and in 2011, adopted a measurable objective of increasing the number of women serving as non-executive directors from one to two by 31 December 2014. With the appointment of Annabelle Chaplain in 2012, that objective has been achieved.

The Chairman annually reviews the performance of all Directors. The Board has a program of performance evaluation which includes both externally facilitated evaluation and internal self-evaluation. The last externally facilitated evaluation was for the 2010 year. The facilitator was a firm with particular expertise in the area of Board and senior executive leadership, recruitment and performance assessment. For the 2011 and 2012 years, the Board undertook a process of self-evaluation managed by the Chairman and the Company Secretary. This involved the circulation and completion of a detailed questionnaire which considered, amongst other things, progress in addressing any issues identified in the previous externally facilitated evaluation. The results are discussed at a Board meeting. The next evaluation process is expected to be externally facilitated.

PanAust has an induction kit to assist new directors to familiarise themselves with the Company. The Induction kit is updated on a regular basis and feedback is obtained from each new director as to whether or not the kit met its purpose and/or if it can be improved.

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.

During 2012, the PanAust Board of Directors met in January, February, April, May, August, and December. The April meeting was held in Laos during the Board's site visit for the official opening of the Ban Houayxai Gold-Silver Operation.

Profiles of each Director are available in the Company's *2012 Annual Report* and on the website: www.panaust.com.au/directors.

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

GOVERNANCE continued...

PanAust Board of Directors as at 31 December 2012*

BOARD MEMBER	POSITION	DATE APPOINTED	COMMITTEE FUNCTION/S	STATUS
Mr Garry Hounsell	Chairman and Non-Executive Director	1 July 2008	Chairman Remuneration and Nominations Committees; member Audit Committee	Independent
Mr Gary Stafford	Managing Director	7 March 1996	Member Nominations Committee	Executive Director
Mrs Nerolie Withnall	Non-Executive Director	21 May 1996	Chairman Audit Committee; member Remuneration and Nominations Committees	Independent
Mr Geoff Handley	Non-Executive Director	29 September 2006	Chairman Remuneration Committee; member Nominations Committee	Independent
Mr Geoff Billard	Non-Executive Director	1 July 2008	Member Sustainability and Audit Committees	Independent
Mr Zezhong Li	Non-Executive Director	18 September 2009	Member Sustainability Committee	Nominee of GRAM [^]
Mr John Crofts	Non-Executive Director	17 September 2010	Chairman Sustainability Committee	Independent
Mr Ken Pickering	Non-Executive Director	28 October 2011	Member Sustainability and Remuneration Committees	Independent
Ms Annabelle Chaplain	Non-Executive Director	1 July 2012	Member Audit Committee	Independent

* Mr Andrew Daley, Non-Executive Director since 3 August 2004, retired from the PanAust Board on 18 May 2012.

[^] Under the Placement Agreement between PanAust and Guangdong Rising Assets Management (GRAM) dated 26 May 2009, the majority of the Directors and the Chairman will continue to be independent.

Sustainability Committee

The Sustainability Committee is a committee of the PanAust Board, established in 2008. The Sustainability Committee is responsible for satisfying itself that effective measures, systems and controls are in place in relation to managing:

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

The Sustainability Committee reports to the Board of Directors on a regular basis in relation to the discharge of its responsibilities. During 2012, the Committee met in May, August and November.

Sustainability Committee members are highly experienced and have worked internationally for major mining companies. Furthermore, Committee members receive regular briefings on PanAust's enterprise risk management systems to ensure a consistent approach to sustainability review and oversight. During 2012, the Committee participated in site inspections of the Company's environmental, social and governance performance during visits to operations and/or projects.

Representatives from an external stakeholder group present current environmental, social and governance issues and/or trends to the Sustainability Committee once each year at a Committee meeting. Relevant operational managers are required to present their risk issues and mitigations to the Committee.

During 2012, the position of Chairman of the Sustainability Committee moved from Geoff Handley to John Crofts when Geoff Handley was appointed to Chairman of the Remuneration Committee. Following are profiles of the Sustainability Committee members.

John Crofts

B.Bus (Transport, Economics & Accounting)

Non-Executive Director, Chairman Sustainability Committee

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 served as an invited Director to the London Metal Exchange from 2007 to 2011. 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.

Geoff Billard

B.Econ, B.Com. (Hons, Economics) FCPA FAICD

Non-Executive Director, Sustainability Committee member

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 implementing corporate strategy and organisational change.

Mr Billard has previously served as a Director of Bougainville Copper Limited and Metal Manufacturers Limited.

Ken Pickering

B.A. Science (Mineral Engineering)

Non-Executive Director, Sustainability Committee member

Mr Pickering has 40 years' experience in the resources industry in Canada, Chile, Australia, Peru and the United States of America with particular skills in major project development and mine management.

Mr Pickering has held senior executive positions with BHP Billiton Base Metals. From 2004 to 2010, Mr Pickering was Vice-President Major Projects, Closed Mines and North American Assets, BHP Billiton Base Metals. In this position, he was responsible for the planning and execution of various major projects in Chile costing over US\$3 billion. During this time, Mr Pickering also served as a Director of the Resolution Copper Joint Venture with Rio Tinto, was responsible for the Pinto Valley Copper Operations and oversaw the reclamation management of thirty closed mine sites in Canada, the USA and South Africa.

Mr Pickering was intimately involved in the development, operation and expansion of the Escondida Copper Mine from inception of the project. At various times between 1986 and 2002, Mr Pickering served as the Mine Development Manager, the Mine General Manager, the President of the Escondida Joint Venture, and the Executive Chairman of the Escondida Owner's Council. From 2002 to 2004, in his capacity as President Major Projects, Business Development and Corporate Affairs (Chile), Mr Pickering was responsible for the completion of the US\$1 billion Escondida Phase Four Project which resulted in an increase in annual copper production of 400,000 tonnes.

Ze Zhong Li

M.Laws, M.Public Administration International Development

Non-Executive Director, Sustainability Committee member

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.

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

Mechanisms for shareholders and employees to provide recommendations to the Board

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

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

The Audit Committee receives reports of any complaints made via the Whistleblower Service.

The Board has encouraged a culture that welcomes shareholder and employee feedback. Stakeholder/shareholder engagement channels are outlined in the 'Stakeholder table' on page 28.

Remuneration strategy

PanAust's remuneration for directors and senior executive personnel in 2012 reflected the scale and complexity of the business, the Company's market capitalisation, and the competition for talent within the global mining industry. Within this context, the Company seeks to attract, retain and motivate a highly skilled, high-quality, experienced team of directors and senior executives.

In PanAust's 2012 *Annual Report*, details are provided on the overall remuneration strategy (pages 17-33), the framework and practices adopted that determine the nature and amount of remuneration of key personnel, and that such remuneration is linked to sustainability performance at all levels of the organisation to reinforce sustainability as a core Value of the Company.

External standards, principles and guidelines

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

PanAust applies the following external standards, systems and principles.

- The International Finance Corporation (IFC) Performance Standards on Social and Environmental Sustainability for operating projects: www.ifc.org.
- The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*: www.asx.com.au.
- The Minerals Council of Australia's (MCA) Enduring Value* incorporating global industrial sustainability initiatives and providing guidance on the International Council on Mining and Metals' (ICMM) Sustainable Development Framework Principles: www.minerals.org.au, www.icmm.com.
- Alignment with the ICMM's policy on climate change: www.icmm.com/climatechange/policy.

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

GOVERNANCE continued...

- The International Cyanide Management Code (the Code) is a voluntary industry program administered by the International Cyanide Management Institute (ICMI) for the gold-mining industry that promotes the responsible use of cyanide; PanAust is a signatory to the Code for its Ban Houayxai Gold-Silver Operation in Laos: www.cyanidecode.org.
- The GRI sustainability reporting framework and guidelines; PanAust reports the GRI indicators that are material to its business as determined through its risk management approach, materiality determination process and feedback from stakeholders: www.globalreporting.org.

PanAust is working to adopt the standards inherent in the Voluntary Principles of Security and Human Rights, an internationally recognised industry initiative. The Company has commenced the application process to join the Voluntary Principles and will be working to become a full signatory in 2013.

Building a sustainability culture

PanAust's approach to sustainability has its foundations in the Company's Vision and Values and Code of Conduct, and is implemented through leadership and people management, strict observance of high-quality corporate governance standards, excellence in financial management, outstanding technical expertise, and supportive processes and systems. The Sustainability Committee reviews the Company's sustainability approach and performance.

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

Sustainability forms part of the Executive Management Team's Five-Year Strategic Plan and critical tasks. The General Manager Human Resources and Risk Management facilitates periodic Risk and Sustainability Workshops each year with key management, and operational and sustainability support staff from across the Group to drive Company-wide alignment with PanAust's approach to the management of material risks, sustainability, and continual improvement. The workshops provide the opportunity for sustainability-related activities and progress to be reviewed, challenges to be tabled and discussed, annual targets and objectives to be evaluated and formally set, and the development of an annual risk and sustainability plan. During 2012, two Risk and Sustainability Workshops were held; one in February and another in September.

In addition, annual Human Resource Workshops, also facilitated by the General Manager Human Resources and Risk Management, serve as a key process to strategically embed PanAust's Vision and Values and sustainability into the Company's operating culture.

Transparent reporting

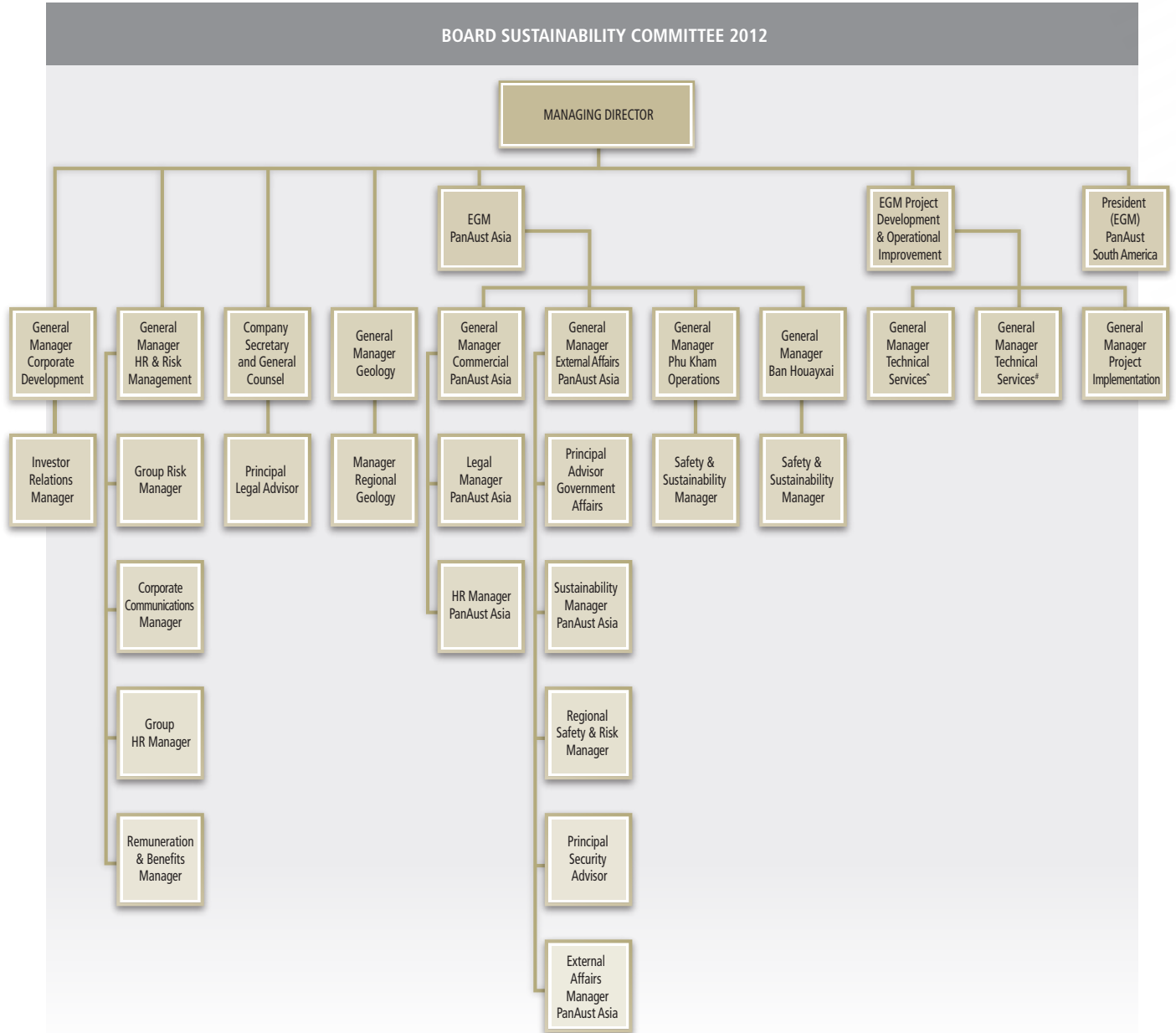
In PanAust's *2012 Annual Report*, the Company provides a comprehensive corporate governance statement detailing its compliance with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*. Should the Company depart from the recommendations, the reasons for the departure are explained. The *2012 Annual Report* (including the financial report and corporate governance statement) was independently audited by PricewaterhouseCoopers in accordance with Australian Auditing Standards.

Through PanAust's MCA membership, the Company supports the Extractive Industries Transparency Initiative (EITI); a global initiative to improve governance in resource-rich countries through the verification and full publication of Company payments and government revenues from oil, gas and mining. PanAust reports payments to governments in its Annual Report (available on the PanAust website). At the time of writing this Report, Laos is not a signatory to the EITI.

PanAust uses the reporting requirements of the GRI G3 and reports to an A+ Application Level. This *2012 Sustainability Report* has been externally assured against the ISAE3000 and AA1000 Assurance Standard. The assurance process assessed the accuracy, materiality, completeness and responsiveness of selected information and data contained in this Report. The external Assurance Statement can be found on page 70.

PanAust fosters a sustainability culture that strives for continual improvement by rewarding sustainability achievements and communicating those achievements across the Group. The 'Sustainability Organisational Chart' shows the key resources associated with supporting sustainability outcomes. Delivery of outcomes is the responsibility of line management including operational management who are held accountable for sustainability outcomes as part of their strategic and individual achievement plans.

SUSTAINABILITY ORGANISATIONAL CHART 2012*



* Roles are depicted down to departmental manager and principal advisor level (which is equivalent to a manager level role). There are structures under departmental managers that support sustainability activities, including a group focused on contractor management that reports to the Regional Safety and Risk Manager, PanAust Asia. In 2012, a Senior Advisor Risk Management (Projects) was employed to support the Project Development business unit, who is in turn, supported by relevant site-based Project Development safety personnel during project implementation.

The site-based Safety and Sustainability Managers provide functional leadership for the disciplines of environment, community, safety and security.

^ General Manager Technical Services and Processing Improvement

General Manager Technical Services and Mining Improvement

GOVERNANCE continued...

► CONDUCT

PanAust is a company with a clear Vision and a strong commitment to growth and high-performance outcomes. To ensure activities that are carried out in the pursuit of the Vision are done so legally, ethically, and with integrity and respect, the Company has a set of clearly stated and widely communicated Values and support mechanisms.

The Company's Code of Conduct provides more detailed practices and procedures to guide decision-making and behaviour at work and applies to all PanAust directors and employees. Suppliers and contractors are required by their contracts with the Company to abide by PanAust's Code of Conduct and encouraged to report on breaches of the Code.

The Vision and Values statement and Code of Conduct are available on the PanAust website, www.panaust.com.au/corporate-governance, and included in new employee induction sessions and information packs.

Bribery and corruption

PanAust's Code of Conduct directs the Company's position in relation to issues of bribery and corruption, anti-competitive behaviour and compliance with the law, and endorses commitments outlined in PanAust's Sustainability Policy. In relation to bribery and corruption, the Code of Conduct states:

It is a core Value of the PanAust Group to respect the people of the countries in which it does business. The PanAust Group recognises that acts of corruption undermine the effectiveness and legitimacy of government institutions to the detriment of the general public.

The PanAust Group will not pay any bribes or corrupt payments to government officials to obtain any improper or illegitimate benefit or advantage, including the securing of any development approval or licence. All Directors and employees are strictly prohibited from offering or making any such payments.

The PanAust Group and its directors and employees must comply in all respects with Australian law (the Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999) which makes it an offence for Australian companies and Australian residents and citizens to bribe foreign public officials.

Further, in relation to gifts, benefits and offers of entertainment, the PanAust Code of Conduct states:

Care must be taken prior to accepting or offering any gifts, benefits or offers of entertainment from any stakeholders. Any gifts, benefits or offers of entertainment which are disproportionate or inappropriate must be declined and must not be offered. The acceptance of gifts and offers of entertainment during tender processes should be strictly avoided.

If there is any doubt as to how to react to the offer of or request for a gift, benefit or entertainment, then the employee should seek further advice from their manager who (if necessary) will obtain guidance from the relevant Executive General Manager. This is especially the case where employees are unsure as to what is the applicable local custom or tradition. The same principle applies with respect to making offers of gifts or other benefits.

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

In 2012, 904 employees were introduced to the Code of Conduct through the Company's induction training programs (in 2011, to support the introduction of the Code of Conduct into the business, existing employees received Code of Conduct training).

For 2012, PanAust reports that there were no instances of Company-related bribery and/or corruption reported to the Board or management. There were no fines or legal actions for anti-competitive behaviour, anti-trust or monopoly practices, nor did the Company attract any significant fines or non-monetary sanctions for non-compliance with law and regulation.

Deloitte completed a risk assessment and forensic review of the Company's implementation of the Code of Conduct in 2011. The review did not identify any material instances of fraud or corruption.

PanAust has internal controls and procedures in place to monitor for misappropriation of funds, bribery and corruption, and other Code of Conduct related issues. A small number of non-material incidents were investigated and confirmed during 2012 and, as per Company policy, resulted in the termination of employment and discontinuance with suppliers where relevant.

PanAust Asia has security resources in place to create awareness within the workforce on reporting on Code of Conduct issues, and to actively monitor and investigate any potential breaches. Criminal history checks are undertaken for all security personnel and other key roles to ensure recruited employees have not been involved in human rights violations, corruption offences, misappropriation of funds, or any other personal history concern that may compromise PanAust and their employment.

PanAust executives annually present to the Audit Committee on the Company's performance in relation to the Code of Conduct, and have within their charter oversight of PanAust's performance in this area. The Code of Conduct is reviewed annually to ensure its relevance to the Company and its operating environments. In 2012, 14 personnel completed a Master Class on Procurement Fraud through the Certified Institute of Purchasing and Supply.

In 2012, PanAust developed and implemented a Whistleblower Service; a confidential service available to all PanAust employees and stakeholders to report or raise concerns about misconduct at work via an independent externally operated agency without fear of victimisation. The Service can be contacted by telephone, web form, email or mail. Whistleblower Service information sessions were provided to employees and information, including links to the service, is provided on the Company's intranet and website, www.panaust.com.au/corporate-governance. To help facilitate access to the service by Lao-nationals, special arrangements were put in place to ensure that issues could be raised in the Lao language.



The Carmen copper-gold deposit in Chile. In August 2012, PanAust acquired the balance of the Carmen tenements which it did not already own and commenced a drilling program during the December quarter. The Carmen deposit is located 14 kilometres southwest of Inca de Oro.

In late 2012, PanAust commenced a corporate project to develop a handbook – to be entitled *The PanAust Way* – for PanAust employees, directors, and business partners (that is, contractors, consultants, suppliers, service providers etc) to clearly outline minimum standards of behaviour while working with or for the Company. *The PanAust Way* expands on the Company's Vision and Values, Code of Conduct, key policies, and standards and procedures. It will be explicitly underpinned by the expectation that during service with or for PanAust, people will work with integrity, in accordance with the law, and exercise good judgement at all times. *The PanAust Way* will be finalised and made available to all relevant stakeholders in 2013.

Sponsorships and donations

PanAust provides sponsorships and donations to particular programs, organisations or causes that build goodwill in operational areas and/or enhance relationships with key stakeholders. As outlined in the Company's sponsorships and donations procedures, the following principles are applied in determining and prioritising sponsorships and donations.

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

In Laos, sponsorship and donation priority areas are:

- Activities of national importance and symbolism.
- Projects benefiting the people of the Provinces and Districts in which the Company is operating or present.
- Projects promoting Lao culture, history, society and ethnic minorities representative of the areas in which the Company operates.
- Projects that support relevant sector government agencies' capacity building.

PanAust did not make any financial or in-kind contributions to any political parties, politicians, and/or related institutions in the reporting year.



In the village, Ban Nasaysavang (detail)

“Entering this village, about 20 kilometres out of Ban Houayxai, was quite an experience. I had never visited such an authentic and remote village as this before. All the houses were hand constructed from bamboo thatch and the village animals (pigs, goats and chickens) wandered freely about. I felt quite conspicuously ‘foreign’ as I ventured into this village with my palette in hand. The villagers were just sitting and staring at me with open mouths. I was being followed by my assistants, Phomvihane and Lei, who were carrying the rest of my gear. In this painting, I wanted to capture the sense of how the local community lived, not as underprivileged or lacking in any way, but as self-sufficient and adhering to a mode of life unchanged and perfectly adapted to their environment.”

Peter Churcher, 2012

GOVERNANCE continued...

► PRODUCT STEWARDSHIP

PanAust produces copper-gold concentrate and gold doré which is sold to smelters or refineries. As a medium-sized producer in the global market, PanAust maintains a formalised marketing partnership (for copper-gold concentrate) via an agency agreement with Cliveden Trading. PanAust does not have any influence on the end purchaser or end product (copper cathode or refined precious metals).

PanAust's product stewardship approach focuses on the storage and transport of concentrate from mine gate to port through to the delivery of product that meets customer specifications and in-country requirements. PanAust's management systems and associated auditing processes are integral to the product stewardship approach. For example, strict concentrate haulage procedures require that the haulage fleet travel in convoy with escort vehicles through sections of the route that pose a higher security and/or safety risk. From 2012, these sections of the route are under the full control of the Company using designated company vehicles and drivers.

PanAust's copper-gold concentrate is considered relatively clean and product metal specifications are put in place as part of contract terms and conditions with international customers. Penalties are enforced for products that do not meet these agreed specifications and may result in re-negotiation or refusal to receipt a shipment of product. Arsenic is the only potential trace element of concern in the Company's copper-gold concentrate and is therefore carefully monitored. There were no penalties outside of agreed contact specifications applied to any of PanAust's product shipments during 2012. Additionally, PanAust did not receive any customer complaints in 2012.

No conventional product labelling applies to the shipment of copper-gold concentrate or gold doré. The International Maritime Bulk Solid Cargoes (IMBSC) Code requires that a Materials Safety Data Sheet (MSDS) is maintained for copper-gold concentrate. The MSDS is made available on the PanAust website, and directly to customers and shipping authorities as requested. It includes requirements in relation to safe handling, storage, correct disposal, and emergency response. An IMBSC declaration is completed with each shipment of concentrate.

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

Copper has a long history of recycling and it is estimated that approximately 80 per cent of all copper ever produced is still in use today¹. Copper is likely to contribute to future sustainable growth and development particularly as its excellent conductivity properties enable energy efficiency.

Due to its inherent value, gold continues to be recycled at high rates. An estimated 85 per cent of all the gold ever mined can be accounted for with the missing 15 per cent either lost or used in industrial processes where it cannot be readily retrieved.

1. Source: International Copper Association Australia.

► RISK MANAGEMENT POLICIES, SYSTEMS AND PROCESSES

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

Risk management

PanAust's Enterprise Risk Management (ERM) Policy outlines the requirement for an effective ERM system to identify and manage all material risks across the Company.

The policy is publicly available through the Company website. In 2012, the Company continued to focus its efforts on integrating risk management into all business processes and projects in development.

The Company's Risk Management Procedures align with:

- the International Organisation for Standardisation's (ISO) ISO 31000 Standard on Risk Management
- the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*' Principle 7: Recognise and manage risk
- the Company's Sustainability Standard 4, Risk and Change Management
- Principle 15 of the Rio Declaration (the Precautionary Principle).

Procedures include clear parameters for materiality and guidance on treatment and reporting measures. The risk management methodology is applied uniformly across all of PanAust's activities.

The Board of Directors is responsible for reviewing, ratifying and monitoring PanAust's systems of risk management and internal control. While overall responsibility in this regard rests with the Board, the Audit Committee and the Sustainability Committee have each been delegated particular responsibilities under their respective Charters. The Board, the Audit Committee and the Sustainability Committee receive reports from management with respect to the effectiveness of the Company's management of material business risks with presentations being regularly made by senior management on each of the seven key Group risks identified as part of Senior Management Risk Review Workshops and agreed to by the Board. Once a year, the Board has a meeting with a particular focus on the issue of risk management.

The PanAust Group Executive Management Team guides corporate risk strategy and provides senior management oversight of strategic issues. It has responsibility for a high-level risk register that identifies key material business risks relevant to PanAust at the Group level. Each of the Company's business units (Asia, South America, and Project Development) has responsibility for a high-level risk register relevant to the business unit. In addition, each general manager has responsibility for department or project risk registers and is required to have in place a plan for significant risk issues.

In 2012, the organisation continued its ERM program implementation and application of risk management strategies. An internal reporting process has been established to track compliance against the Company's risk management procedures.

GOVERNANCE continued...

The approach strives for:

- Simplicity: avoidance of unnecessarily complicated processes.
- Uniformity: a Group-wide process based on a single uniform set of tools.
- Clear ownership: risk registers for each operating department and for each special project that take account of all supporting risk processes falling within their operational area (for example, audits, studies, technical reviews, plans and inspections).
- Short interval reviews: strictly applied monthly reviews for high-level risks and quarterly reviews of registers.
- Clearly identifying materiality; the level of significance that is reflected in Levels 4 and 5 of the Consequence Table on pages 68 and 69.

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

In 2012, operational risk registers were reviewed in line with changes to organisational structure, and the transition of Ban Houayxai from project to operational status. In addition, focus was directed to further embedding risk management into the corporate development and project development phases. To date, the areas of non-financial risk that have been identified as material or potentially material are contractor safety management, mobile equipment and personnel transport, surface water management (including cyanide, sediment and acid rock drainage management), and security of personnel carrying out remote work activities. Each issue is receiving special attention and is addressed in this Report.

Precautionary Principle

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

Environment and social impact assessments are completed prior to operations and are guided by statutory frameworks and international consultants. To date, impact assessments have been completed for the Phu Kham and Ban Houayxai Operations. An Environmental Impact Assessment for the Inca de Oro Copper-Gold Project has been completed for submission, and an impact assessment for the Phonsavan Copper-Gold Project is in progress. Issues identified through the impact assessments are incorporated in the Company's risk registers.

PanAust's Sustainability Standards

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

PanAust's 14 Sustainability Standards apply across the Group and have been designed to provide a risk-based management system and auditable criteria against which operations' performance can be measured and continual improvement implemented.

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

PanAust's operational performance is regularly assessed against the Sustainability Standards and external commitments. Annual internal benchmarking assessments against the Sustainability Standards are completed for each worksite. The results inform the annual Risk and Sustainability Management Workshop and help identify gaps to be addressed through the development of the Group Risk and Sustainability Annual Plan. In 2012, improvements continued to be seen in the areas of leadership and accountability, risk management, health and hygiene, and incident reporting and management. Areas prioritised for further improvement in 2013 fall within with the following standards: Suppliers and Contractors, Risk and Change Management for Development Projects, and Health and Hygiene.

Follow-up assessments will be completed in 2013 to assess progress of implementation.

Auditing and benchmarking

The Company has established a corporate review and audit program to support its ERM programs. Some reviews are carried out internally while others require external or independent auditors. The main external audits and benchmarking studies that took place in 2012 are each outlined in the following section.

Audit against International Finance Corporation Performance Standards

In May 2012, KASA Consulting completed an external audit against the Equator Principles and the IFC Performance Standards on Social and Environmental Sustainability for the Ban Houayxai Gold-Silver Operation and the Phu Kham Copper-Gold Operation (including concentrate logistics and port facility, and the decommissioned Heap Leach Gold Operation). The audit also included verification of progress against the 2011 non-conformances.

The audit was in accordance with the ISO 19011: 2002 Guidelines for Quality and/or Environmental Systems Auditing and the IFC Performance Standards (where each performance standard is given equal weighting and the findings are not weighted according to risk in terms of materiality from a likelihood and consequence perspective). PanAust's approach is to address 'critical findings', 'areas of concern' and 'opportunities for improvement' in order to comply with IFC requirements. However the issues raised are also prioritised from a materiality perspective in accordance with the Company's risk matrix (likelihood/Consequence Table, see pages 68 and 69).

Both sites demonstrated year-on-year progress against the Standards (which were updated in 2012 with additional requirements), including progress to enable closing out non-conformances in the areas of health and hygiene monitoring and the implementation of centralised training systems and services for PanAust Asia (see 'Sustainability audit plan progress 2012' on page 23).

The audit identified three areas for improvement at Phu Kham and five for Ban Houayxai covering the themes of contractor management, general hazardous materials and pesticide management, food hygiene, and domestic wastewater management.

Actions have been undertaken to address these findings and the 2013 audit program will assess progress in these areas.

e3 Plus Principles for Responsible Exploration

In 2012, PanAust's exploration group commissioned its third external audit against the e3 Plus Principles for Responsible Exploration developed by the Prospectors and Developers Association of Canada. The e3 Plus Principles align closely to the IFC standards, but are more specific to all phases of exploration. The audits are a voluntary internal initiative to drive consistency in the development and implementation of management systems across the Group. The audit identified three critical findings to support the consistent implementation of health, safety, and environmental management systems. The Company will measure progress against implementation in mid-2013.

Insurance audit

The principal audit for operational risk was undertaken by the International Mining Industry Underwriters (IMIU). Both the Phu Kham and Ban Houayxai Operations received excellent results. In 2012, the Company's exposure continued to be rated in the low-to-moderate range and is now considered better than world average for the mining industry globally.

IMIU has recognised that PanAust's maintenance systems are at a world-class level and that the Ban Houayxai Operation's risk strategies have enabled it to achieve a low-risk rating at the commencement of the operations.

Tailings storage facilities and acid rock drainage

Quarterly design and construction reviews were undertaken by consulting engineers, Knight Piésold, designers of the Phu Kham and Ban Houayxai tailings storage facilities (TSF).

In 2012, PanAust implemented an Independent Tailings and Geotechnical Review Panel to provide oversight and to advise PanAust in relation to best practice tailings management. The panel comprises, from PanAust, the Managing Director, the Executive General Manager PanAust Asia, and the General Manager Project Implementation; and two highly regarded international experts in tailings facility management from Golders and Associates, and Robertson Geo Consultants Inc. The panel provides an independent review of the design, construction and operation of each of the PanAust tailings facilities, and reports on their performance and associated risk profile over the life of the facilities to the PanAust Managing Director and senior operational managers. The 2012 assessments did not identify any critical findings. The next planned review will be completed in mid-2013.

In 2012, Environmental Geo-chemical International (EGi) undertook an external review of acid rock drainage (ARD) management at the Phu Kham Copper-Gold Operation. No material issues were identified; recommendations have been included in a continual improvement plan. EGi has also completed a review of the operational plan for managing ARD at Ban Houayxai as well as being engaged to provide guidance on baseline monitoring requirements for the Phonsavan Project.

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

Socio-economic and health survey

Every two years, the Company conducts socio-economic and health surveys for its operations in Laos to continually improve its understanding of local issues and guide its community development programs. In 2012, surveys were undertaken (by Earth Systems Lao) and covered 50 villages in proximity to Phu Kham (17 villages), Ban Houayxai (7 villages), and Phonsavan (26 villages). The Company finds the surveys extremely beneficial to inform community engagement processes and in the identification and prioritisation of community development programs.

GOVERNANCE continued...



Sustainability Superintendent, Mr Doungchay (centre, with his hands in the air), leading a sports and recreation afternoon which was sponsored by PanAust at the Nasaysavang Primary School (a village near Ban Houayxai). Also in the photo (left to right): Senior Community Officer, Mr Vilaysack Sayyasith; Environmental Supervisor, Mr Toulor Vangdy; and Nasaysavang Primary School Deputy Headmaster, Mr Chamontee; as well as students from the school.

18001/14001 audits

The Company has committed to aligning its safety and environmental management systems with the ISO18001/14001 models. The Phu Kham and Ban Houayxai Operations completed a gap analysis against the relevant aspects of the standards in January 2012. The Company has formalised an action plan to close the non-conformances identified during the next three years.

International Cyanide Management Code

PanAust is a signatory to the ICMI's International Cyanide Management Code. In January 2012, Ban Houayxai achieved pre-operational certification to the Code ahead of production commencing in April 2012. An operational certification audit was completed in November 2012 and the detailed reports submitted to the ICMI. Subsequently, in March 2013, the ICMI announced that Ban Houayxai was certified in full operational compliance with the Code. Looking ahead, three-yearly independent audits as per ICMI requirements will be undertaken complemented with periodic internal compliance audits. Additional information on the Code and cyanide management is provided in the environmental section of this report.

Security audits

At Ban Houayxai a third-party gold product security audit was completed by Secure Mining Solutions to assess compliance to the security design criteria for the Operation. This was in addition to an independent review by the Company's insurers. Both audits confirmed that the Ban Houayxai Gold-Silver Operation has proactively developed and is implementing satisfactory security systems in keeping with the controls that should be expected within a working gold mine.

The biennial regional security review of the Phu Kham Copper-Gold Operation was completed to plan by The Banks Group; a company with an extensive security background in supporting the international mining industry. The audit addressed several aspects of management that fall within the Company's commitments on the Voluntary Principles on Security and Human Rights. The audit included an up-to-date security risk and vulnerability assessment, in addition to an assessment of the appropriateness of security presence for the security environment, review of remote work procedures, security escort requirements and operational security risks. The audits confirmed that the security environment has not significantly changed since the previous audit by Controlled Risk Group in 2010 and that systems, procedures and security presence continue to be appropriate.

Sustainability audit plan progress 2012

EXTERNAL AUDITS	2012 PERFORMANCE	NEXT AUDIT
Socio-economic surveys	✓ In progress: Ban Houayxai 2012; Phonsavan 2012; Phu Kham (field work component completed in 2012)	2014
Phu Kham ARD – half-yearly external audit by EGi	✓ Completed to plan; at Phu Kham the reviews confirmed that the program for managing ARD risk is highly developed and the systems adopted for the prevention and control of ARD are 'best practice' and consistent with methods described in the Global Acid Rock Drainage Guide; no critical recommendations were noted; the process was also extended to Ban Houayxai and Phonsavan	2013
TSF design and construction review by Knight Piésold – quarterly audits	✓ Completed to plan; the Independent Tailings and Geotechnical Review Panel (established in 2012) recommended that the Knight Piésold audit process be amended to a full dam safety audit once per year and three interim inspections for tailings management (embankment, construction, documentation, monitoring data) and ARD management	2013
TSF external geo-technical audit by Golder Associates	✓ Completed to plan; included within the Independent Tailings and Geotechnical Review Panel scope, and in future years assessed under this scope	n/a
Independent Tailings and Geotechnical Review Panel	✓ Completed to plan; no critical findings made by external panel members, with recommendation that an annual site visit (rather than six-monthly site inspections) is appropriate for 2013	2013
IMIU external insurance audit	✓ Completed to plan; Phu Kham and Ban Houayxai risk exposure and reduction score remains better than world average insurance risk, with a profile similar to 2011	2013
ICMC Operational Certification Audit	✓ In March 2013, ICMI announced Ban Houayxai had been certified in full compliance with the International Cyanide Management Code	2016
Independent Closure review	✓ Completed to plan; included development of a Phu Bia Mining Standard for closure	2015
Gold Security Standard – Ban Houayxai audit against design	✓ Completed to plan; an external review completed by Secure Mining Solutions confirming that the development and use of a security design criteria for the construction phase of the Ban Houayxai Operation fulfilled its original intention to proactively introduce security systems in keeping with controls that should be expected within a working gold mine; an independent review was also undertaken by the insurers with similar findings confirmed	2015
Independent Security Review	✓ Completed to plan; The Banks Group completed this audit confirming the risk profile of the regional security environment has not changed, and that appropriate security measures including improvements to remote security procedures following 2011 security incidents are appropriate	2014

INTERNAL REVIEWS	2012 PERFORMANCE	NEXT AUDIT
Sustainability Standards internal benchmarking – Phu Kham and Ban Houayxai Operations, Ban Phonxai and Phonsavan Projects	✓ Completed to plan; no audit at Ban Phonxai as exploration activity limited at that location in 2011; all sites demonstrated progress against implementation of the standards; systems have been developed for all aspects of the Standards and the focus now moves to consistent implementation; LCT to be included in 2013	2013
Contractor Safety Management compliance review	✗ Partially completed; review team established in PanAust Asia as a shared service to undertake regional contractor safety reviews; physical compliance inspections completed to plan; systems reviews not completed to plan in Q4 due to turnover of Contractor Safety Superintendent position	2013
Phu Bia Mining Safety Management Plan	✓ In 2012, the following aspects of the plan were prioritised as a response to identified gaps: incident investigation, fatigue management, basic risk assessment, and drugs and alcohol	2013

Audit performance 2012 and 2013 targets

	TARGET 2012	2012 PERFORMANCE	2013 TARGET
IFC audit Phu Kham	81% average audit result	✗ 80%	>80%
IFC audit Ban Houayxai	65% average audit result	✓ 71%	75%
e3 audit Exploration	60% average audit result	✓ 63%	69%
Ban Houayxai Project Safety Management Plan	Gap analysis of the Project's implementation safety management system	✗ Project sites were audited within the IFC audits for Phu Kham and Ban Houayxai	Develop a standard Project Safety Management Plan and standardise systems use with PanAust Systems
H&S OHSAS 18001/14001 PanAust Asia	Progress against close-out of critical findings	✓ Gap analysis completed in January 2012. Action plan to close out findings developed	Maintain target

GOVERNANCE continued...

2012 performance and 2013 targets

PANAUST 2012 TARGETS (INCLUDES OVERARCHING PANAUST TARGETS, AND REGIONAL AND OPERATIONAL TARGETS)	RESULT	YEAR -ON-YEAR TREND	COMMENTARY, REVISED TARGET 2013	TARGET DATE
PANAUST				
Zero Levels 4 (high) and 5 (extreme) incidents	Achieved	Improvement	Target continued	30/12/2013

REDUCTION OR IMPROVEMENT TARGETS	RESULT	TREND	COMMENTARY, REVISED TARGET	TARGET DATE
PANAUST				
0.25 LTIFR *	Achieved	Decline	Target: < 0.06 Actual: 0.15	30/12/2013
Reduce TRIFR® by 15%	Achieved	Improvement	Achieved: 2.15 TRIFR Target: <1.91 TRIFR	30/12/2013
Target <3 (medium) environmental incidents	Achieved	Improvement	Achieved: one Level 3 incident Target: maintain	30/12/2013

PANAUST ASIA BUSINESS UNIT				
Improve annual IFC-based audit scores >81% Phu Kham, >70% Ban Houayxai	Partially achieved	Improvement	Achieved: Phu Kham 80%, Ban Houayxai 71% Target: > Phu Kham 2012 continued, 75% Ban Houayxai	30/06/2013
Achieve 80% for all close-out of INX^ registered incidents	65%	No change	Target continued	30/12/2013
Achieve 90% implementation of Lao Contractor Management Plan	80%	No change	Target continued	30/12/2013

STRATEGIC PRIORITIES AND CONTINUAL IMPROVEMENT OBJECTIVES	RESULT	TREND	COMMENTARY, REVISED TARGET	TARGET YEAR
PANAUST				
Implement cardinal rules across contractors and Project Development business unit	Achieved	Improvement	Cardinal rules rolled out across controlled contractors and Project Development personnel, however implementation not yet fully effective; Target: continue with a focus on achieving an overall reduction in cardinal rules breaches	2013
ICAMs+ conducted in accordance with the Group standard for Incident Investigation	Achieved	Improvement	Achieved for actual Level 3 with progress towards potential Level 4; Group standard updated requiring ICAM on potential Level 4 incidents in 2013	2013
Complete site-level scenario training and a Group co-ordinated simulation	Achieved	Improvement	Achieved; maintain target for 2013	2013
Mature the risk management system and training to support the internal audit program	Not achieved	Improvement	Additional resources embedded in PanAust Asia to support risk management and mentor operational level risk management personnel; embed risk management framework into all phases of major capital projects	2013
Identify and implement carbon improvement programs	Not achieved	Improvement	A number of potential programs identified; progress made in the area of product haulage (fuel management); first report to CDP+ for Phu Kham completed; Target: understanding energy and greenhouse gas emissions across the Group, with a formalised energy improvement plan	2013
Address high-potential safety and environmental hotspots across the PanAust Group (vehicles, drugs and alcohol baseline, sediment management)			New	2013

STRATEGIC PRIORITIES AND CONTINUAL IMPROVEMENT OBJECTIVES	RESULT	TREND	COMMENTARY, REVISED TARGET	TARGET YEAR
ASIA BUSINESS UNIT				
Complete road sealing in all villages on the Phu Kham to Ban Thouay access road by end of 2013	Not due	Improvement	Significant progress made including agreement with GoL [§] to seal all of road (rather than just villages) between Phu Kham and Thabok; currently on track to achieve full sealing between Phu Kham and Longxan by end of 2013, and then Longxan to Thabok in 2014	2014
Year-on-year improvement in closing gaps against critical non-conformance items to 18001/14001 baseline	Not due	Improvement	Baseline completed and approximately 5% improvement, however progress to plan has been slower than planned; Target continued	2015
Receive GoL agreement (annually) for CDF [#] expenditure plan 80% of funds committed and spent by year end	Not achieved	Improvement	Achieved 48% of funds committed and spent by year end for 2012; notably significant progress occurred on closing out of commitments from earlier years; Target continued	2013
Improve Lao-nationals' development to enable promotion into roles previously filled by expatriates	Not due	Improvement	Exceeded target of 14 high-potential employees to participate in Leadership Development Program; 19 high-potential employees invited to participate in the Mentoring Program; continue target including a focus on the 2013 Graduate Development and Safety Leadership Program	2014
Improve technical training programs for future growth projects in the region	Not due	Improvement	Cooperative partnership developed with the Lao-German Technical College for a five-year apprenticeship program; Target: maintain with a focus on ensuring quality in the new curriculum to PanAust standard	2014
Achieve operational certification to the ICMI Code for Ban Houayxai	Achieved	Improvement	Achieved: Code compliance certification received by ICMI March 2013; Target: complete annual compliance audits to the Cyanide Code; Recertification Audit 2016	2013 2016
ESIA~ for Ban Houayxai complete and submit ESMMP ^x for operations	Achieved	Improvement	Completed	Closed
ESIA for Phonsavan completed and ready for submission to GoL			New	2013
Updated ESSMP for Phu Kham submitted to GoL			New	2013
SOUTH AMERICA BUSINESS UNIT				
Environmental Impact Assessment for Inca de Oro submitted for approval	Achieved	Improvement	Completed and ready for submission	2013

* Lost Time Injury Frequency Rate (LTIFR), @ Total Recordable Injury Frequency Rate (TRIFR),

^ PanAust's electronic reporting and corrective action event management system, InControl Software (INX), + Incident Causal Analysis Method, † Carbon Disclosure Project,

§ Government of Laos, # Community Development Fund, ~ Environmental and Social Impact Assessment, x Environmental and Social Monitoring and Management Plan



Family washing, Ban Nam Gnone (detail)

“ Ban Nam Gnone is one of the two villages situated very near the Phu Kham mine site. In this scene, one sees the communal water supply which was installed in the village by PanAust. Prior to this, the villagers walked up a hill to fetch water from a spring. In this painting, one sees people showering, washing clothes and collecting water for their homes. This particular family impressed me. The girl assisting her mother getting through the family laundry must have been no more than nine years old, yet she looked like she had been doing this all her life. The little boys, her young brothers I guess, played in the flowing water and were enjoying the whole experience. It was a lovely depiction of generational family support; much lacking in our modern society.”

Peter Churcher, 2012

SOCIAL RESPONSIBILITY

PanAust is committed to improving the standard of living of current and future generations of the people in the communities where it operates. The Company does this by meeting the global demand for resources in a socially responsible way; supportive of traditional rights and values and respectful of cultural heritage.

The Company recognises that its mining operations can create both positive and negative impacts on communities. On balance, PanAust aims to ensure that the overall effect of its presence on communities is positive.

PanAust actively engages and maintains open and transparent dialogue with the governments and communities close to its operations and projects. Meaningful engagement is one way the Company can know and understand the issues faced by those directly and indirectly affected by its operations. PanAust conducts periodic socio-economic and health household surveys in local communities to better understand local issues and community living standards².

PanAust's management of community issues is supported by the Company's recruitment strategy to employ locally. For example, in Laos, having Lao-national employees, particularly those in front-line community liaison roles who understand cultural and linguistic nuance within the local area, strengthens community engagement outcomes for PanAust. Furthermore, 'cross-cultural awareness' training is provided through induction to employees and contractors to ensure a common understanding of and respect for the context of the Company's local host communities.

PanAust's community development aim is to build long-term capacity in communities and empower people to determine their own development priorities. The Company's community development priorities and focus areas are identified and plans developed in consultation with all levels of government authorities and community representatives, as well as from the socio-economic and health surveys. This approach ensures benefits (including community development programs and employment opportunities) are distributed appropriately and community development programs are aligned with those governments and/or any aid agencies also working in the region.

PanAust has mechanisms built into its business practices to monitor and evaluate its engagement and development activities to provide for continual improvement. Community concerns, whether they be individual or group, can be discussed directly with community relations staff, or lodged through a 'grievance and request' mechanism. Grievances and community requests are recorded and processed through the incident management database (INX), thus enabling trends to be identified and addressed. Where activities unavoidably impact livelihoods, compensation and mitigation schemes are put in place. Community members also have access to the Company's Whistleblower Service.

At PanAust's operations, a process of regular formal and informal community engagement is managed by teams responsible for community activities, including formal monthly meetings with community leaders to report on issues and receive feedback. In addition, formal meetings are regularly held with district, provincial and central government authorities.

In Laos, the Company also provides monthly reports to the Government of Laos. Annually, the Company reports on its performance via the Annual Report, Annual Review and Sustainability Report. Furthermore, all stakeholders can communicate with the Company at any time via email, telephone or direct mail.

SOCIAL RESPONSIBILITY: MATERIAL ISSUES 2012

The PanAust materiality process identified the main focus areas of social responsibility in 2012 as:

- **Stakeholder engagement**
- **Economic contribution to society**
- **Community development**
- **Long-term capacity-building in communities.**

► **STAKEHOLDER ENGAGEMENT**

PanAust recognises that its long-term success depends on its ability to build mutually beneficial relationships and to work collaboratively and transparently with its key stakeholders. In this way, the Company can take the views and concerns of stakeholders into account in its decision-making.

Using risk management processes, PanAust has identified its stakeholders based on their potential to impact or be impacted by the Company's presence. Stakeholders are classified as 'primary or secondary'. Primary stakeholders are classified as those most relevant or directly impacted, in terms of member numbers and/or level of involvement. As the Government of Laos is PanAust's principal stakeholder in Laos, the Company places a high priority on its engagement.

² Baseline socio-economic surveys were conducted at Phu Kham (2005), Ban Houayxai (2010) and Phonsavan (2012). Follow-up household surveys were conducted at Phu Kham (2007, 2008, 2010, 2012) and at Ban Houayxai (2012).

SOCIAL RESPONSIBILITY continued...

Stakeholder table

STAKEHOLDER GROUP	INTERESTS AND/OR CONCERNS	COMMUNICATION/ENGAGEMENT CHANNEL
PRIMARY STAKEHOLDERS		
Australian and international investment community including investors, brokers, banks and financiers	Financial returns, governance, growth, risk management	Investor Relations Manager and Corporate Communications Manager, the AGM, PanAust website; industry and broker-hosted investor conferences, papers and presentations; Investor site visits to our operations; quarterly reports, yearly and half-yearly financial results and events, annual publications and surveys; ASX Announcements; personal, tailored responses from relevant executives are provided to specific queries (including those from industry groups and research analysts for sustainable investment); PanAust corporate events and functions
Government in areas of operations across various levels (central, provincial and district) and among country officials (legislators, embassy/ government officials and agencies)	Regulatory compliance, standards, socio-economic benefits, permitting and impact assessments, environmental performance, community engagement and use of external consultants	Formal and informal meetings including structured regular meetings with various levels of Government, meetings of the Phu Bia Mining Board of Directors, regular reporting, workshops, site visits, and other ad-hoc engagement; regular performance benchmarking carried out against the Phu Bia Mining Mineral Exploration and Production Agreement; direct engagement with international financial institutions and other agencies; PanAust website and annual publications; Phu Bia Mining corporate events and functions
Local communities near PanAust's operations and projects	Access to employment, business development, land access, sponsorships, environmental performance, partnerships, training and education	Dedicated community relations staff in place at each location where the Company has a significant presence; besides daily, often informal interaction and engagement, all operational sites conduct formal monthly meetings with village authorities and regular formal meetings with district and provincial government; written reports to local authorities, community site tours, Company participation in community events
The Board of Directors and Executive Management Team	Growth, governance, risk management, sustainability performance, financial returns, stakeholder feedback	Quarterly Board papers and meetings (including presentations from a cross-section of management), extraordinary Board meetings, site visits, Board committees; PanAust website; PanAust corporate events and functions
Employees	A wide range of internal and external issues and/or topics (external issues may be addressed under local communities)	Depending on the operating environment, team meetings are held daily, weekly and/or monthly; Company intranet, monthly reports, PanAust website and Employee Award Program; Employee Briefings combining Company performance (including quarterly, half-year and annual financial results) and safety; Performance review processes
Groups that share a business relationship with the Company including contractors, sub-contractors, suppliers and customers	Supply and contract agreements and conditions, safety and sustainability-related expectations, reliable payments, business opportunities, and product and pricing information	Contracts, regular meetings and briefings including performance feedback processes if stated in contracts, social functions, the Brisbane-based AGM; PanAust-hosted formal site visits; PanAust website; PanAust corporate events and functions
Resource, finance and business journalists and other media commentators	Financial performance, socio-economic, environmental and operational queries	Media (proactive and responsive) is managed by geographical location: the Investor Relations Manager and Communications Manager in Australia; PanAust Asia External Affairs Department in Asia; and PanAust South America President and Executive General Manager in South America; ASX Announcements; site visits, PanAust website, and annual publications; PanAust corporate events and functions
SECONDARY STAKEHOLDERS		
Non-government organisations, community advocates, and lobby, activist, and environment groups	Socio-economic contributions, environmental performance, governance, risk management	PanAust website; where and when required, direct communication and/or personal, tailored responses from relevant executives; site visits
Industry organisations	Best practice, industry alignment	PanAust website, industry and broker-hosted conferences and market surveys; site visits
Any person, group or organisation that may be interested in or affected by the Company's activities	Wide range of specific interest issues	PanAust website; personal, tailored responses from the relevant executives are provided to specific queries; site visits
Competitors and/or peers	Benchmarking (technology, employee and safety/sustainability practices)	PanAust website; arrange visits from peers to our operations and benchmarking visits to peer operations; personal, tailored responses from relevant executives are provided to specific queries; attendance at industry or other relevant conferences



During 2012, socio-economic surveys were commissioned at Phu Kham and Ban Houayxai, and a baseline socio-economic survey was carried out at Phonsavan. In Chile, a baseline socio-economic survey was carried out as part of the Environmental Impact Assessment for the Inca de Oro Project.

PanAust undertook a number of stakeholder engagement activities in Laos during 2012, including the following.

- Dedicated community relations staff held formal monthly meetings and regular informal communication with local communities.
- Maintained an engagement plan throughout 2012 that included regular formal meetings with all levels of government at the community, district, provincial and central levels. This was also supplemented by regular formal reporting, workshops, site visits and ad-hoc contact.
- All new staff were trained in cross-cultural awareness during induction.
- Actively engaged stakeholders in 2012 through formal programs of work, including sponsorships and cash and in-kind donations.
- Participation at the MCA's Sustainable Development Conference held in Bangkok in November 2012. Following the conference, PanAust hosted a two-day site visit to Phu Kham for a small group of Australian delegates representing industry peers, and researchers and investment analysts with a particular interest in sustainability. The delegates had the opportunity to visit local communities and/or technical components of the mine such as the tailings storage facility, and were able to delve deeper through inspections and asking specific questions of site management. Following the site visit, PanAust sought feedback from participants. Feedback was very positive.

PanAust is pleased to report that the Company experienced no significant community-related grievances during 2012. The frequency and severity of community incidents across the Group were comparable with those reported in previous years, with an increase in the number of requests/consultations, commensurate with the significant increase in growth activities during 2012. During 2012, 243 community requests, proposals and grievances were processed by PanAust in Laos. A total of US\$700,616 was paid in compensation for livelihood impacts associated with the Company's activities. A majority of the compensation paid in 2012 was in relation to agricultural impacts experienced by villages adjacent to the Company's exploration activities at Phonsavan.

There were no material instances where involuntary resettlement requiring physical displacement (relocation or loss of shelter) was needed by PanAust to develop projects or to operate at Phu Kham or Ban Houayxai.

Grievances and/or requests via INX

	2010	2011	2012*
Outstanding events	51	21	33
Closed out	73%	87%	86%
Requests and invitations	66	70	121
Concerns, complaints, negotiations	120	86	122

* Increase in incidents reported for 2012 correlated with increased activity at Ban Houayxai and Phonsavan.

As per its engagement strategies and plans, PanAust will continue to ensure engagement with stakeholders is open and transparent and will follow up on recent socio-economic and baseline data collected in 2012 to ensure alignment with programs and initiatives in 2013.

SOCIAL RESPONSIBILITY continued...



In August 2012, the Company signed an agreement which completed the transfer of 10 per cent ownership of Phu Bia Mining to the Government of Laos. Government of Laos Deputy Minister of Finance, Mr Santiphab Phommihane (centre right), with PanAust Managing Director, Mr Gary Stafford (centre left), at the signing ceremony held in Vientiane.

Government of Laos engagement

PanAust maintains a schedule for engagement with key stakeholders, in particular the Government of Laos.

In August 2012, PanAust signed an agreement which completed the transfer of 10 per cent ownership of the Company's Lao-registered subsidiary, Phu Bia Mining, to the Government of Laos. The transfer was in accordance with the MEPA that the Company has with the Government of Laos and a Shareholders' Agreement which was ratified in May 2011. The Government of Laos shareholding includes two directorships on the Phu Bia Mining Board of Directors; providing a valuable forum for high-level interaction.

A framework of regular scheduled and ad-hoc meetings with officials at the central, provincial and district government level provides important opportunities for dialogue. The Company also provides monthly, quarterly and annual reporting on all aspects of the Company's activities. Officials from a range of government agencies are represented at both Phu Kham and Ban Houayxai to ensure mutual understanding and a close and productive relationship at the operational level.

Additionally, PanAust regularly engages senior Government of Laos representatives through meetings in Vientiane and visits to operations.

Ahead of the official opening of the Ban Houayxai Gold-Silver Operation in April 2012, PanAust Managing Director Gary Stafford provided the Prime Minister of the Lao People's Democratic Republic, His Excellency Mr Thongsing Thammavong, with an update on the Company's operations in Laos during a face-to-face meeting. The Prime Minister congratulated PanAust on its successes and reiterated the Government's support for the Company's growth and future activities in Laos. The meeting was the second between the pair since Mr Thammavong became Prime Minister in December 2010.

Throughout the course of the 2012 year, other meetings were held with ministers from a range of portfolios including PanAust's key stakeholder partners in government: the Minister for Energy and Mines, the Minister for Natural Resources and Environment, and the Minister for Planning and Investment.

The official opening ceremony for the Ban Houayxai Gold-Silver Operation was attended by Deputy Prime Minister His Excellency Mr Somsavath Lengsavath; the Minister for Energy and Mines, His Excellency Mr Soulivong Daravong; and the Minister for Planning and Investment, His Excellency Mr Somdy Douangdy.

Throughout the year, official delegations representing the Ministries of Energy and Mines, and Natural Resources and Environment inspected the Company's operations on several occasions. In October, a multi-agency team led by the Deputy Minister for Planning and Investment, attended a Company-hosted briefing and site visit to the Phonsavan Copper-Gold Project in the north of the Contract Area.

In December, the Company hosted a site visit for a senior delegation from the Lao National Assembly to the Ban Houayxai Gold-Silver Operation to showcase the newly operating mine and gold-silver process plant.

In March 2013, Laos received the Emerging Mining Destination of the Year Award at the Asia Mining Congress in Singapore. This recognition is an encouraging reflection of the positive investment environment developed by the Government of Laos and PanAust's contribution to building this capacity within the country. The Company's positive relationship with the Government of Laos has been the platform for developing successful operations and award-winning sustainability programs, which demonstrates to potential investors that Laos is a desirable and viable business destination with supportive government policies and development objectives. The Director General of the Pollution Control Department, Ministry of Natural Resources and Environment, Madame Keobang-A Keola, attended the Congress as a guest of PanAust to increase the government's understanding of mining trends within the region and to encourage interaction with other leading practice mining companies. On accepting the award, Madame Keobang-A Keola noted that it highlighted the efforts the government is making to foster a sustainable mining industry for the benefit of the people of Laos at all levels.

► ECONOMIC CONTRIBUTION TO SOCIETY

PanAust recognises its ability to make a positive social and economic contribution to the communities, regions and countries where it operates. The Company's philosophy is that wherever it operates, it partners with local authorities and communities to improve the socio-economic wellbeing of the region. Through engagement with stakeholders, the Company seeks to understand its socio-economic impact on local communities and host regions.

The Government of Laos aims to graduate from 'Least Developed Country' status by 2020. To achieve this, they have an annual growth target of eight per cent. Recent milestones such as the establishment of the Lao Securities Exchange in 2011, and in 2012, the country's membership in the World Trade Organization and their hosting of the ninth Asia-Europe Meeting in Vientiane, are clear indications that the country is undergoing economic transformation and receiving international attention as a desirable investment destination.

PanAust contributes to the Lao economy in a number of ways, including the following.

- Capital expenditure in exploration, project development and project operating costs, particularly through payments to Lao suppliers of goods and services.
- Revenues from copper, gold and silver sales and payments of royalties on such sales.
- Profit tax and other payments such as tenement rental fees to the Government of Laos.
- Salaries paid to employees and salary taxes to provinces.
- Investments in community development programs.
- Payment of dividends to the Government of Laos as a ten per cent shareholder in Phu Bia Mining.
- Investment in regional infrastructure including roads.

PanAust engages local companies (Lao and international companies based in Laos) to the extent feasible. The Company recognises that international contractors may be more capable of providing all the necessary contract requirements; however the Company has a strong commitment to working with local contractors. Local companies are selected on contractor capacity, commercial competitiveness, and risk profile. PanAust extends additional resources to build capacity of often underdeveloped contractors as this will provide a more sustainable outcome for both the Company and contractor. Furthermore, this approach ensures that a significant amount of expenditure flows back into the local and regional economy.

With PanAust's established operations and growth plans, and the Government of Laos' 10 per cent shareholding in Phu Bia Mining, the Company continues to make a significant contribution to host communities and the developing economy of Laos. To date, the Company has invested approximately US\$1.16 billion into Laos (this represents the expenditure on physical assets and exploration areas located in Laos).

This does not take into account the indirect impacts of the Company's presence, for which there is a widely accepted and typical multiplier effect of around 2.5 from mining projects in developing countries³ such as Laos.

During 2012, PanAust's economic contribution included the following.

- Paid Lao suppliers of goods and services US\$256 million.
- Contributed approximately US\$99.8 million to the Government of Laos (see 'Direct economic benefit to Government of Laos' table overleaf).
- Contributed to capacity-building programs and activities at district, provincial and central government levels (for more information, see 'Community Development Fund' information on pages 33-36).
- Employed 3,239 people in Laos, 85 per cent of whom are Lao-nationals (2,756 people).
- Administered a sponsorships and donations program in Laos, where US\$215,000 was donated to a wide range of recipients through cash and in-kind donations, including supporting the Government of Laos in its hosting of the ninth Asia-Europe Meeting in Vientiane in November 2012. PanAust's sponsorships and donations are in addition to/separate from the Company's Community Development Fund (see pages 33-36).

Phu Bia Mining revenues of US\$713 million for the sale (and export) of copper, gold and silver in 2012 represent 30.4 per cent of total Lao goods exports (US\$2,280 million).

Total Phu Bia Mining activity, taking into account investments and in-country operating expenditure, accounted for over 7.1 per cent of real gross domestic product (US\$9.4 billion) in 2012.

³ Source: ICMM publication, "The role of mining in national economies", 2012.
Source: World Bank and IFC Publication, "Large mines and communities: forging partnerships, building sustainability", 2002.

SOCIAL RESPONSIBILITY continued...

Direct economic benefit to Government of Laos \$US

DESCRIPTION	2010	2011	2012
Payroll tax *	3,268,509	5,189,755	6,091,773
Customs excise (import service fee)	1,030,632	1,544,859	2,562,880
Income tax ^	32,314,622	48,235,515	46,774,746
Royalties	29,769,152	33,904,463	40,205,989
Concession fees	58,916	58,916	58,916
Value added tax and business turnover tax paid upfront	6,498,346	16,303,763	21,973,779
Value added tax and/or business turnover tax deducted from income tax	(11,882,545)	(16,303,763)	(21,973,779)
Dividend #	n/a	n/a	4,148,152
TOTAL CONTRIBUTION	61,057,632	88,933,508	99,842,456

* Description updated from 'Income Tax' in 2011 Sustainability Report to align with accounting terminology.

^ Description updated from 'Profit Tax' in 2011 Sustainability Report to align with accounting terminology.

Inaugural dividend payment occurred in 2012 (a further dividend payment of US\$4.15 million was made in February 2013).

Distribution of PanAust Group revenue 12 months to December 2012 US\$

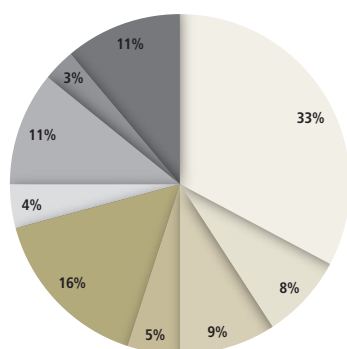
REGION	GROUP REVENUE*	OPERATING COSTS BY REGION	EMPLOYEE WAGES AND BENEFITS BY REGION ^	PAYMENTS TO PROVIDERS OF CAPITAL BY REGION	PAYMENTS TO GOVERNMENT BY REGION	GROUP ECONOMIC VALUE RETAINED
Laos		304,920,065	58,398,548	14,733,838	99,842,457	
Thailand ~		32,966	8,814	0	0	
Chile		630,715	1,521,309	0	2,536,748	
Australia		9,381,471	20,637,407	9,586	1,292,320	
TOTAL	706,319,839	314,965,217	80,566,078	14,743,424	103,671,525	249,270,374*

* Sales revenue, derivative gains/losses and other income.

^ Operating costs only; does not include capital projects.

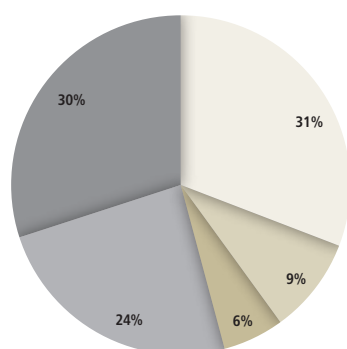
Group economic value retained calculated by Group Revenue less Group operating costs, employee wages, payments to providers of capital; and income tax (only paid in Laos – refer to 'Direct economic benefit to Government of Laos' table above) as other payments to government are included in Group operating costs and employee wages.

~ Data for Thailand is for a new Thai-registered subsidiary company and includes one month of data only, as the company was established in late 2012.



2012 total expenditure by Asia business unit (US\$780,520,927)

Direct production costs \$257,612,659 (33%)	Royalties \$40,205,989 (5%)	Equipment and other assets \$86,404,000 (11%)
Transport and selling costs \$60,357,197 (8%)	Development costs \$125,303,112 (16%)	Interest and other finance costs \$23,981,659 (3%)
Salaries and wages (including taxes) \$66,575,361 (9%)	Exploration costs \$34,721,826 (4%)	Debt repayments \$85,359,123 (11%)



2012 total on goods and services by Asia business unit (US\$553,915,446)

Lao companies \$169,484,416 (31%)	Lao Government and semi-government \$34,949,908 (6%)	International companies \$163,857,358 (30%)
Lao-based international companies \$52,273,856 (9%)	Thai companies \$133,349,909 (24%)	



Villagers in Namon-neua Village rank development priorities during a community development workshop.



Natee Village community members doing a 'show of hands' during a workshop to choose community development projects.

PanAust has established a Regional Infrastructure Fund to assist strategic and prioritised Lao infrastructure development focusing mainly on water, roads and power. In 2012, the Company developed a list of potential infrastructure projects to be supported by the Fund. The projects were identified after referencing central, provincial and district level Government of Laos five-year plans, and the work plans of the Asian Development Bank and the World Bank. Work on the projects will commence in 2013.

► COMMUNITY DEVELOPMENT

PanAust supports community development initiatives at its operational and major exploration sites. The overall goal of community development programs is to help local communities develop sustainable socio-economic livelihoods that will continue beyond the life of mine.

Community development projects are managed in partnership with local communities and closely coordinated with local government authorities. Community Development Funds (CDFs) are in place at Phu Kham, Ban Houayxai and Phonsavan, and Memoranda of Understanding between PanAust and the Government of Laos define coordination and management arrangements for the CDFs. Planning follows a bottom-up process that begins with community-led needs assessments and a review of the socio-economic situation in each community. Consultations are then held with local government to ensure alignment with national development strategies and goals and to avoid duplication with existing or planned government initiatives. Once finalised, annual community development plans are jointly approved by the Company and local government. CDFs contribute to projects in education, agriculture, health, infrastructure, and microfinance and small business development.



The school, Ban Nam Gnone (detail)

“This was a fabulous, but very challenging subject. It was wonderful to be greeted by these very eager students. When I first entered the classroom, I immediately saw what I was going to paint. Once I set up my easel and gear at the front of the classroom, I think the whole novelty and weirdness of what I was doing was just too much for the children and the excitement and distraction got the better of them. It was rather like trying to paint inside a hornet’s nest! However, I plugged on and got the bare bones of the painting down and finished the work off back in my studio where it was quiet and no kids were running around! I did want to convey in this painting, how with very basic facilities (no iPads here), learning can still happen with great earnestness and pride.”

Peter Churcher, 2012

SOCIAL RESPONSIBILITY continued...

Total CDF expenditure for the year was US\$515,018 and comprised 67 small-scale projects in 30 rural communities directly and indirectly affected by PanAust's activities. This spend included projects carried over from previous years; honouring the Company's commitment to the Government of Laos that 'work that was planned and not implemented in any given budget year will be implemented the following year'. CDF budget allocations remained unchanged in 2012 (US\$300,000 for Phu Kham; US\$80,000 for Ban Houayxai, and US\$70,000 for Phonsavan). In 2012, focus areas included education, infrastructure provision, and community health care; with an approximate spend of US\$99,000; US\$153,000; and US\$86,000 respectively.

Community Development Fund total expenditure US\$

	2010	2011	2012
Expenditure	214,867	*668,371	515,018

* The 2011 CDF spend was incorrectly reported in the 2011 Sustainability Report. It has been corrected (to include project spend from previous years) in the 2012 Sustainability Report.

In addition to CDF programs, PanAust also undertakes community educational, risk-reduction and other community-focused initiatives using additional budgets. In 2012, the focus of these initiatives was on HIV/AIDS awareness, road safety and environmental awareness. In 2012, PanAust partnered with not-for-profit organisation 'Interplast' to provide free surgical treatment for communities close to its Phonsavan Copper-Gold Project (see 'Case study: PanAust supports Interplast surgical program' on page 37).

In 2012, PanAust partnered with the Government of Laos' Poverty Reduction Fund⁴ to organise participatory village development planning workshops in 25 local communities near to the Company's operations, exploration sites and haulage routes. The aim of the partnership was to help communities take greater ownership of their own development, and encourage maximum participation from poor households, women and ethnic groups. The resulting village development plans are designed first and foremost as a guide to the village and district administration, but also constitute important input into the Company's community development programs, which helped focus and apportion CDF spending throughout 2012.

It is likely that the CDF focus areas in 2013 will remain similar to those of 2012. PanAust will continue to partner with the Government of Laos' Poverty Reduction Fund to facilitate village development planning workshops in a number of target villages. The Company will continue to engage with government and stakeholders to understand the Company's socio-economic impact on local communities and host regions to ensure a positive contribution.

Contributions to education

Educational opportunities are limited in many of the rural communities near to PanAust's operations in Laos. Although most villages have a primary school, generally facilities are basic, classrooms overcrowded and teachers overstretched. A significant number of children do not finish primary school and even fewer complete secondary education.

During 2012, the Company supported community development initiatives designed to increase access to education and quality of learning. Assistance included construction of new classrooms and provision of learning materials such as text books, storybooks, art supplies, and sports equipment. To up-skill the capacity of local teachers, PanAust collaborated with the Vientiane Province Department of Education to coordinate training for 127 teachers and school administrators from 86 schools in the local area.

PanAust supported a children's summer school program that was conducted in Nam Mo and Nam Gnong villages (both adjacent to the Phu Kham Copper-Gold Operation) during July and August 2012. A total of 274 children participated in the program.

Adult education classes were supported by the Company in five villages, helping 92 adult learners achieve basic literacy and numeracy.

⁴ The Poverty Reduction Fund is the Government of Laos' key initiative to reduce poverty and eradicate mass poverty in Laos. For more information, visit <http://www.prflaos.org/>.

SOCIAL RESPONSIBILITY continued...



A three-room preschool was constructed in Ban Namon-neua, a village near Ban Houayxai, via a collaborative contribution project between PanAust and the local community.

Infrastructure provision

Recognising that access to basic services including education and healthcare is hampered by underdeveloped infrastructure combined with the widely dispersed and often isolated rural communities in Laos, PanAust has made significant contributions to various infrastructure.

During 2012, a five-room primary school building was constructed in Ban Nam Kouey, a village on the main haulage route approximately 70 kilometres from the Phu Kham Copper-Gold Operation. Prior to the project, Ban Nam Kouey had no primary school and the children were enrolled in a neighbouring village's school which, although relatively close (around one kilometre), was unable to expand due to space limitations and was experiencing overcrowding issues.

A three-room preschool building was constructed in Ban Namon-neua, a village located on the access road to Ban Houayxai. This project was delivered using a collaborative contribution model with PanAust providing materials and the local community supplying labour and additional construction materials. The Company and Vang Vieng District authorities worked together to provide technical oversight and monitoring throughout the project. The preschool was formally handed over to Vang Vieng District Education Office and the Ban Namon-neua Village Authority in May 2012.

PanAust provided materials for construction of a total of 165 household latrines during 2012. This project was again a collaborative one, whereby participating families contributed labour as well as some additional construction materials. In addition, health and hygiene education campaigns to raise awareness of the importance of latrine usage were provided by the Company in six villages located on the Ban Houayxai access road.

The projects described above were part of PanAust's 2012 plan to extend CDF activities beyond the villages immediately adjacent to operations to villages along haulage routes and/or access roads.

In 2012, PanAust contributed US\$5.5 million to support regional road improvement programs. Throughout the year, road repair, widening and sealing was carried out along sections of the Phu Kham haulage route, which is also a public road and is used by local communities. This work is completed primarily to facilitate safe haulage and to reduce community exposure to dust, but is a welcome improvement for all road users within the region and contributes to community development through improved access to services and markets (see the environmental benefits of road improvements on page 46).

Healthcare assistance

Poor health indicators are a significant social development challenge facing many rural communities near PanAust's operations in Laos, and are known to impact quality of life and livelihood options, and worsen debt and poverty.

In 2012, PanAust undertook a number of health care initiatives including assistance to upgrade services at village health centres and delivering several health awareness sessions on topics such as mother and child health, immunisation, and HIV and communicable disease prevention. PanAust also continued to sponsor two local students to study nursing (including tuition fees, education supplies, food allowance and travel costs). After three years of study the graduate nurses will work at the village health centres in Nam Mo and Nam Gnone under an agreement between the Company and the Xaysomboun District Administration.

The Company recognises that increased population mobility associated with its activities can lead to elevated HIV transmission risk for employees, contractors and local villagers living in nearby communities. The Company recognises that it can assist in controlling the spread of HIV and sexually transmitted infection by providing employees and local communities with access to appropriate preventative knowledge and information. In 2012, a number of awareness raising sessions were conducted at villages near to the Company's activities at Phu Kham, Ban Houayxai and Phonsavan. The awareness sessions were conducted by an external service provider (Lao Positive Health Association) and also provided information leaflets, condoms and t-shirts to attendees.

CASE STUDY:

PANAUST SUPPORTS INTERPLAST SURGICAL PROGRAM



During a two-week program based in Phonsavan, the Interplast team carried out 73 consultations and 50 surgical procedures for men, women and children who would otherwise have been unlikely to access treatment.

"The team helped my daughter... who used to have a burn scar contracture on her hand and two fingers. Now she is happy and has a normal life playing with other children.

I would like to say thank you to everyone in the team that supported not only the medical operation but also the financial assistance to my family." LETTER TO INTERPLAST FROM A XIENG KHOUANG PROVINCE PATIENT'S FATHER

Interplast Australia and New Zealand (Interplast⁵) commenced a surgical and medical program in Xieng Khouang Province in Laos thanks to a three-year A\$50,000 per annum funding agreement with Phu Bia Mining, PanAust's Lao-registered subsidiary company.

In August 2012, an Interplast volunteer team comprising two surgeons, two anaesthetists, and two nurses based themselves at the Lao-Mongolian Friendship Hospital in Phonsavan, the provincial capital. They were supported by a surgeon, an anaesthetist and a nurse from the Mahosot Hospital in Vientiane. It was Interplast's first visit to the Province since 2006.

During the two-week program, the team carried out 73 consultations and 50 surgical procedures for men, women and children who would otherwise have been unlikely to have access to adequate treatment. Most of the consultations were in relation to hand and arm burn contractures; four were for cleft palates. Of the total number of people seen, the majority of them were under 18, with the youngest being nine months and the oldest aged 62 years. Three patients were referred to the Mahosot Hospital in Vientiane. Patients were mostly from Xieng Khouang Province, with a few travelling from neighbouring provinces. Several patients were referred to the Cooperative Orthotic and Prosthetic Enterprise (or COPE as it is better known).

Throughout the program, Phu Bia Mining also provided financial, logistical, and in-kind assistance including to the Women's International Group (WIG). WIG, in turn, provided various services such as transportation, assistance with meals, administrative support, second-hand clothing (and toys for the children), and ongoing post-operative support for the patients involved in the program.

Mr Chris Bennett, a plastic surgeon with the volunteer team, said the program was very well received.

"The team was extremely busy during the program in Phonsavan, with some of the operations lasting up to four hours. The demand for the team's services shows that there remains much work to be done", said Mr Bennett.

Given the need for plastic and reconstructive surgery in Xieng Khouang Province, which is heavily afflicted by unexploded ordnance, PanAust, through Phu Bia Mining, has committed to fund the program through to 2014.

⁵ Interplast is a not-for-profit organisation which facilitates surgical, and other medical and allied health volunteers to developing countries. They provide free-of-charge reconstructive surgery for patients who would otherwise not be able to afford access to such services and empower local medical personnel by building their capacity to act independently. For more information, visit www.interplast.org.au.

SOCIAL RESPONSIBILITY continued...

► LONG-TERM CAPACITY-BUILDING IN COMMUNITIES

PanAust understands that its operations and activities in Laos create a strong demand for products and services, particularly in areas close to its operations. PanAust supports the development of local small businesses to meet this demand as part of the Company's ongoing commitment to provide benefits to host communities. The Company aims to build long-term capacity in communities through economic development, rather than economic dependency.

PanAust's approach is to source products and/or services that meet the Company's requirements locally or regionally. If appropriate-quality products and services are not available, the Company then develops community programs to help build capacity and establish local businesses. PanAust empowers local villagers to develop their own small businesses to meet the demand for products and services for the Company's operations. The Company recognises the need for local businesses to find other markets to reduce reliance on the Company and enable the longer term viability of the small businesses.

PanAust continues to support local agriculture businesses mainly through the demand for fresh produce to mining camps. To support this process, in 2012, approximately US\$86,000 was spent on initiatives to help enhance local farming capacity, including agricultural training for local villagers; technical and material assistance to several government-run agricultural outreach centres; and free livestock vaccinations provided in 11 villages.

Small business development

Throughout 2012, small community business initiatives collectively generated US\$771,262 of revenue for families local to Phu Kham who are producing consumables such as vegetables, drinking water, eggs, cloth bags, fruit and fish.

Income generated from small business initiatives (Phu Kham) US\$

	2010	2011	2012
TOTAL	183,706	358,206	*771,262

* The significant year-on-year increase can largely be attributed to the Company purchasing drinking water from a local supplier; previously purchased from a supplier in Vientiane.

The Company's immediate goal is to boost local food production to meet demand from operations. To this end, PanAust continued to provide advice and coaching to vegetable farmers and fish breeders in Nam Gnone and Nam Mo who sell produce to the Company on a weekly basis. In the longer term, in the interest of post-mine sustainability, the focus will shift to facilitating participants' access to alternative markets so as to reduce reliance on sales to PanAust.

The Company-established microfinance scheme, the Village Savings and Credit Fund (VSCF) has been set up in five local communities to support small business activities. VSCF membership grew from 615 at the start of 2012 to 743 at year-end. Local women comprise 96 per cent of VSCF membership (see 'Case study: Creating business opportunities for women' on page 39). The District Supervisory Committee provides an institutional framework to support VSCF operations in local villages through monthly monitoring visits to review bookkeeping practices and advise on fund management issues that may arise.

During 2012, the Company ran several training sessions for VSCF management committees in villages near the Phu Kham Operation to strengthen capacity in bookkeeping and financial management. Training was also conducted for the District Supervisory Committee on a number of topics including good governance, basic accounting, internal controls, facilitation and presentation skills, and monitoring and reporting.

Looking beyond 2012, PanAust will continue to strengthen the capacity of local businesses and agricultural producers near to the Phu Kham Operation by identifying market opportunities, providing training and advice, and promoting access to financial services. During 2013, the VSCF program will target the establishment of the scheme in a further six villages and proven small business activities will be replicated at other operational and exploration sites as appropriate.

CASE STUDY: CREATING BUSINESS OPPORTUNITIES FOR WOMEN



Mrs Tou from Nam Mo village is one of a group of women earning steady income sewing cloth bags for PanAust's exploration-geology department. Microfinance provided the initial investment for her business.



Mrs Bounleua from Nam Mo village, with a harvest of long beans from her market garden that supplies the Phu Kham Operation, pictured with Senior Community Officer (with a responsibility for agriculture), Mr Khampheng Tholavanh.

For several years, PanAust has fostered entrepreneurship – particularly among women – within the villages closest to the Company's mining operations through programs that help identify business opportunities, and by providing skills development that includes training in areas such as numeracy, literacy, and business planning and decision-making. Training is followed up with access to microfinance and financial coaching. A variety of small businesses within the region in areas such as market gardening, fish-farming and sewing services have flourished and are important sources of income for those not directly engaged in mining employment.

PanAust monitoring indicates that during 2012, small business initiative participants numbered 220 people (from a total regional population of 7,100) from rural communities near to their operations. 205 of those were women (representing 93 per cent of participants).

In 2012, small businesses collectively comprising vegetable farming (100 per cent women), supply of drinking water (100 per cent women), egg farming (100 per cent women), cloth bag production (100 per cent women), and fruit and fish-farming (mixed gender), generated in excess of US\$768,000 of revenue for local families.

On average, small businesses delivered annual earnings of US\$1,170 per capita for participants during 2012, which is double the average per capita annual income within these rural communities.

In addition to small business initiatives, during 2012 the Village Savings and Credit Fund microfinance scheme supported by PanAust had 743 participants. Of these 712 (96 per cent) were women. The scheme provided US\$210,363 in loans, and US\$137,913 in savings deposits.

Beyond the immediate economic benefits, PanAust's small business development and microfinance programs are adding value to local communities through the empowerment of women, many of whom represent ethnic minorities within the region. In turn, small business participants are contributing to the development of their own communities through their discretionary investment in socially progressive elements such as more nutritious food, and education and healthcare for their families. Furthermore, within a national context, PanAust's small business initiatives and associated positive social outcomes are assisting the Government of Laos meet its poverty reduction targets and United Nations' Millennium Development Goals.

In March 2013, in recognition of PanAust's programs to create and support business opportunities within the villages closest to their operations, the Company received the Sustainability Leadership Award at the Asia Mining Congress in Singapore. To view a full list of community development awards PanAust has received in recent years, visit www.panaust.com.au/community.



A peaceful morning near Ban Houayxai (detail)

“This was one of those idyllic moments in the whole three weeks. It was early in the morning; I had re-found this spot – an extraordinary island rising out of the water – which I had briefly seen the afternoon before from the car. The mist was rising off the mountains behind and it was very quiet, except for the occasional small fishing boat passing by, cutting a beautiful slip-stream behind it in the very still water.”

Peter Churcher, 2012

ENVIRONMENTAL PERFORMANCE

PanAust is committed to respecting the environments in which we operate by preventing or minimising pollution and promoting the efficient use of natural resources; reusing and recycling waste; minimising release of contaminated emissions to air, land and water; and progressively rehabilitating land.

PanAust's environmental management approach is guided by its commitment to the MCA's Enduring Value, Principle 6: *Seek continual improvement of our environmental performance* and Principle 8: *Facilitate and encourage responsible product design, use, re-use, recycling and disposal of our products*.

Baseline studies and Environmental and Social Impact Assessments (ESIAs) are used in conjunction with internal risk management processes to identify and prioritise issues. In 2012, significant work was completed on the ESIAs for two development projects; the Phonsavan Copper-Gold Project in Laos, and the Inca de Oro Copper-Gold Project in Chile. The baseline characterisation work for the Phonsavan Project continued with the ESIA work to commence in 2013. The Environmental Impact Assessment for the Inca de Oro Project was finalised in 2012.

PanAust assesses and manages environmental impacts across all stages of the business from exploration to development, and operation and closure. The Company uses its Environmental Management Systems to develop appropriate management and monitoring plans for each site. The management systems align to ISO14001 and progress against the plans and monitoring results are assessed at regular intervals and for key material issues, external audits and/or a review of performance is undertaken (for example, tailings and waste rock management).

The Company recognises that an environmentally aware workforce is integral to achieving continual environmental improvement. Each year, PanAust delivers numerous environmental awareness programs through inductions to employees and contractors working at operations in Laos.

PanAust encourages the reporting of all environmental incidents as it reinforces a risk-aware culture and ensures minor issues are investigated and appropriately addressed. Incidents are recorded and processed (followed up and closed out) through PanAust's incident management database, INX. This process enables corrective actions to be managed and trends identified to assist in avoiding repeat occurrences where possible.

In 2012, PanAust had no significant environmental incidents, complaints, spills, penalties, fines or non-monetary sanctions for any legal non-compliance.

ENVIRONMENTAL PERFORMANCE: MATERIAL ISSUES 2012

PanAust's materiality process identified the main environmental challenges for PanAust in 2012 as:

- ▶ **Tailings and waste rock management**
- ▶ **Water management**
- ▶ **Sediment and erosion control**
- ▶ **Land rehabilitation and closure**
- ▶ **Energy and carbon management**
- ▶ **Dust management**
- ▶ **Cyanide management.**

▶ **TAILINGS AND WASTE ROCK MANAGEMENT**

Tailings and waste rock management continues to be the most significant short- and long-term environmental risk for the Company. Due to the high potential to form acid rock drainage (ARD) at the Phu Kham Copper-Gold Operation, the management of ARD is a key issue on this site. The management of tailings is significant due to the volumes requiring management, its ARD potential, metalliferous nature, and sedimentation impact that may occur. PanAust recognises that tailings storage facilities (TSF) can represent a risk and therefore require comprehensive management and governance processes to reduce the risk to as low as is reasonably practicable.

Purpose-built TSFs are used to dispose of both waste rock and tailings generated from the Phu Kham and Ban Houayxai mines. The facilities are designed and constructed using a risk-based approach that accounts for the best life-of-mine and closure-management strategy. An independent tailings review panel (consisting of two industry-leading tailings and geotechnical specialists) periodically evaluates each TSF's risk profile and performance, and reports directly to the Company's Managing Director in relation to tailings management. The period of review is determined based on performance of the facility, and planned construction activities. The 2012 review for the Phu Kham and Ban Houayxai TSFs was undertaken in July with the next review to be completed in May 2013. In addition, as well as other specialist audits that occur regularly, geochemical audits for ARD occur twice each year.

ARD Management Plans have been developed for each site. The management plans take into account the results of waste rock characterisation and provide strategies for the identification, control and monitoring of ARD. On a day-to-day operational basis, well-established controls and strict placement procedures manage mine waste movement. An extended 'traffic light' management plan (red, amber, green, and blue) is used to classify each waste type and ensure it is managed and disposed of in the correct location.

PanAust has a steering committee comprising internal management and external specialist ARD and tailings consultants to closely monitor implementation of the ARD management plan including the waste characterisation results and associated ARD controls. The committee ensures that management strategies are effective in minimising ARD during construction and placement of waste and will continue to be effective long after mine closure.

ENVIRONMENTAL PERFORMANCE continued...

During 2012, independent reviews of the TSF design and construction were completed for each site along with the first review carried out by the Independent Tailings and Geotechnical Review Panel (ITGRP). The scope of activity for the ITGRP included a physical site inspection for both the Phu Kham and Ban Houayxai TSFs, including a review of the design, construction and operation of each facility.

Tailings/waste rock quantities for Phu Kham and Ban Houayxai

	UNIT	2010	2011	2012
Waste rock (total)	Tonne	24,933,321	19,355,933	21,297,275
Red waste rock*^	Tonne	4,954,026	3,849,964	3,729,113
TOTAL AMOUNTS OF SOLID TAILINGS*	Tonne	12,571,281	12,869,228	17,578,234

* The red waste rock and total amounts of solid tailings were incorrectly labelled in the 2011 Sustainability Report.

^ Red waste rock is defined as high-risk, potential acid-forming waste.

Reviews of ARD management at Phu Kham and Ban Houayxai conducted by three independent consultants confirmed that the program for managing ARD risk at Phu Kham is highly developed and the systems adopted for the prevention and control of ARD are 'best practice' and consistent with methods described in the Global Acid Rock Drainage Guide. The management of waste rock was extensively reported in PanAust's *2008 Sustainability Report* (page 21), which can be found on the Company's website.

At Ban Houayxai, the review concluded that there are three major ARD waste rock types for segregation and selective placement. These are addressed in the ARD management plan for the Ban Houayxai Operation. One critical recommendation was made to redesign the toe of the waste rock dump to handle higher water flows which is currently being addressed on site.

► WATER MANAGEMENT

PanAust recognises that water resources need to be managed responsibly to meet competing requirements (including ore processing) for water, while limiting impacts on receiving communities and environments. In Laos, there is an inherent challenge in managing mine-water run-off in a tropical climate with surrounding steep topography within a distinct wet/dry season setting. Overall, there is a positive water balance, but water management requires close attention to ensure that water is used efficiently, and that appropriate holdings of water are maintained and discharged as necessary in a controlled manner throughout the wet and dry seasons.

PanAust's operational sites have detailed water balance models and associated water management and monitoring programs. At Ban Houayxai, the site is approved to permanently discharge excess water from its tailings storage facility as part of the ESIA approvals for operations. At Phu Kham, following two high-intensity tropical storms that occurred within two weeks of each other in 2011, the Company recognised that the 'zero discharge' water balance model did not adequately forecast the difficulties associated with extreme rainfall events due to the lack of historical records in Laos. External consultants, Golder Associates, were engaged to review hydrology data and to model the facility's performance over a range of weather conditions as a component of the life-of-mine water management strategy and based on a positive discharge. In 2012, Phu Kham continued to discharge under its temporary agreement with the Government of Laos and continues to undertake extensive consultation and co-operative monitoring with the Ministry of Natural Resources and Environment.

Water management measures at both Phu Kham and Ban Houayxai performed well during the 2012 wet season (May to October). Both sites undertook controlled discharge from their TSFs that were monitored by Company environment personnel as well as Government of Laos officials. Water discharges are monitored with results assessed against IFC, Lao ambient water-quality guidelines, and background water-quality conditions.

In 2012, there were occasional exceedences of total suspended solids, iron, and manganese. Investigations have been undertaken into these non-conformances and corrective actions are being progressed.

During 2012, a permanent engineered discharge channel was constructed downstream of the Ban Houayxai Operation discharge point and two new interconnected retention ponds were constructed in the Phu Kham TSF discharge system. Discharge water is now directed through the ponds before final discharge into the Nam Mo River.

Water usage and discharge for Phu Kham, the Heap Leach Gold Operation*, Ban Houayxai^

WATER USAGE	UNIT	2010	2011	2012
Fresh water domestic use	Mm³/yr	0.2	0.2	0.2
Fresh water to process	Mm³/yr	1.6	1.5	4.9
Total water use in process	Mm³/yr	30.6	30.5	38.7
Recycled water to process	Mm³/yr	29.0	28.9	33.8
Recycled water	Per cent	95	95	87
Operational waste waters discharged#	Mm³/yr	0.5	5.8	38.9

* Production at the Heap Leach Gold Operation ceased in April 2010.

^ Ban Houayxai data included for 2012 only.

Detoxified water from Heap Leach, Phu Kham and Ban Houayxai TSF.



Environmental Superintendent, Mr Bounmy Phommakone, and Environmental Assistant, Ms Nengchue, in the Phu Kham nursery, holding a tree seedling that will be used for site rehabilitation.

While water use is significant, the vast majority (approximately 95 per cent) at the Phu Kham Operation is recycled. The balance of water not recycled is drawn from the Nam Mo River for specialised cooling systems in the processing plant. Water recycling is limited at the Ban Houayxai Operation due to distance and location of the TSF with respect to the processing site. Some internal water recovery and reuse occurs within the process plant; this is not measured at this point in time.

► SEDIMENT AND EROSION CONTROL

Sediment and erosion control are significant challenges for PanAust's mining operations and exploration activity given the mountainous, high-rainfall setting of Laos. Landslides are a common occurrence particularly in areas where agriculture or development activities have taken or are taking place.

The Company recognises that appropriate sediment and erosion controls are required to be considered through the entire project lifecycle from land clearing through to closure.

In 2012, PanAust developed exploration-phase sustainability management plans to address potential sedimentation risks, as it was recognised that the Company's approach to sediment and erosion control required attention.

An incident at the Company's KTL exploration site (part of the Phonsavan Copper-Gold Project) involved the movement of sediment by rainfall, which resulted in some damage to nearby irrigation

channels and agricultural fields, and affected the Phonsavan water utility's outdated filtration system. PanAust subsequently remediated areas impacted by the sedimentation and installed a rapid filtration system that more adequately meets the demands of a growing town. To limit the potential for a similar incident occurring, the Company established an ARD and Sedimentation Management Committee comprising industry consultants and internal participants. The Committee provides oversight of ARD and sedimentation issues during site selection, design, construction and operation of exploration, project and operational mine sites.

The Company's land clearance process was also updated in 2012. The revised system operates within the INX reporting system, and includes the requirement for risk assessment and proposed mitigation measures to be outlined as part of land clearance submissions. The new process includes a robust reporting and follow-up system, including escalations.

During 2012, significant work was undertaken in planning for sediment and erosion control improvements across the Group. Sediment control designs were developed for Ban Houayxai and Phu Kham and residence ponds at the end of the Phu Kham TSF discharge channel were constructed. In addition, Knight Piésold, an external specialist consultant was engaged for both the LCT exploration area and Phonsavan to provide guidance on sizing and design of sediment control structures for implementation in 2013.



View from the road out of Ban Houayxai (detail)

“The landscape is something that immediately impresses on one when seeing Laos for the first time, particularly in this region where the mines are situated. I wanted to paint this picture simply to convey the scale and grandeur of the landscape and to contextualise where these mining operations are happening.”

Peter Churcher, 2012

ENVIRONMENTAL PERFORMANCE continued...

► LAND REHABILITATION AND CLOSURE

The progressive rehabilitation of land and appropriate closure planning are essential to ensuring that end land uses meet stakeholder expectations and environmental requirements.

Both the Phu Kham and Ban Houayxai Operations have plans in place to reclaim and progressively rehabilitate land to a standard which aims to minimise environmental impact and maximise use during and after mining and ore processing. Both Operations also have nurseries to propagate native seedlings for use in rehabilitation. While annual campaigns to rehabilitate land are incorporated into each site's operating plans, the Company recognises that in most cases, achieving full rehabilitation will take several years to establish.

Closure planning is considered at all stages of a project lifecycle and, particularly where significant risks are posed by ARD, operations are designed to minimise long-term closure risks. In 2012, a Group Level Standard for Closure was prepared and plans were put in place for each site to ensure compliance. The intent of the Standard is to develop and then maintain all PanAust mining operation activities that have closure outcomes to a 'good' international standard⁶.

Land disturbance and rehabilitation Phu Kham and Ban Houayxai*

	UNIT	2010	2011	2012
Land disturbed and not yet rehabilitated (opening balance)	Hectare	656	1,058	1,318
Land disturbed in reporting year	Hectare	409	309	70
Land rehabilitated in reporting year	Hectare	6	50	10
Total land disturbed and not yet rehabilitated (closing balance)	Hectare	1,059	1,317	1,378

* Excludes remote drilling activities.

Considerable rehabilitation work has been completed across operations in Laos where recontouring has been undertaken as well as fundamental sediment controls. In addition, during 2012, rehabilitation at Ban Houayxai and Phu Kham was reviewed with members of the National University of Laos and district and provincial stakeholders.

Decommissioning of the Heap Leach Gold Operation continued in 2012. The targeted program to improve decontaminating the lower levels of the pad continue to show good results. The process is expected to take several years to complete and until passive discharge criteria is achieved, the active storage, treatment, discharge and monitoring facilities will remain in place. Extensive monitoring of the downstream river system is undertaken to confirm that excess water discharged in the wet season is within ambient limits. A detailed review of the Heap Leach Gold Operation Closure Plan has been undertaken.

The closure plan for the Phu Kham Operation was updated by external consultants, Golder Associates, following a review against the ICMM and IFC closure requirements. This will be used to engage with the community, government and other stakeholders to understand and address their requirements regarding closure. A key component of the closure process is the establishment of a 'Rehabilitation and Closure Committee' comprising representatives from the Government of Laos and Phu Bia Mining. Terms of Reference for the Committee have been prepared and submitted to the Government for review.

The closure planning process continues at Ban Houayxai using external consultants, Golder Associates, and incorporates International Cyanide Management Code requirements.

As a result of the updates to the closure plans and consultation, the closure provisioning calculations were updated for Phu Kham, Ban Houayxai, Exploration, and Heap Leach Gold Operation. Information on the Company's closure provisions is provided on page 55 within the notes to the consolidated financial statement in the PanAust 2012 Annual Report.

► ENERGY AND CARBON MANAGEMENT

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

PanAust addresses risks and opportunities by considering the physical impacts of climate change within the Company's risk management processes and by establishing appropriate contingency plans to adapt to potential impacts. Extreme weather events have the potential to impact personnel, production, business continuity and local communities. PanAust will continue to address climate change challenges by minimising business risks, capturing improvement opportunities, and taking action to address the physical aspect of climate change with full consideration of the social, environmental and economic value. Managing the physical aspect of climate change provides PanAust with opportunities to demonstrate its position as a company operating and providing a leadership role in a developing country.

PanAust requires its operating sites to develop an energy and carbon emissions inventory, and to measure progress including regular reporting of results in a transparent manner.

The Phu Kham and Ban Houayxai Operations each use a combination of direct and indirect energy sources to carry out their activities. Diesel provides the major source of direct energy used for mining and concentrate haulage activities. Hydroelectricity is the major source of electricity for the processing plants.

⁶ A 'good' standard is defined as meeting expectations of international industry codes of practice such as the IFC and ICMM, as well as industry self-guidance closure documents from major international mining companies. Further definition of 'good practice' comes from The Post-Mining Alliance (www.postmining.org/) which considers 'good practice' to be an integrated approach which embraces all stakeholders, including the local community, in decision-making from the earliest stages of mine development, keeps them engaged throughout and plans for closure at the earliest opportunity.

ENVIRONMENTAL PERFORMANCE continued...

Energy consumption

MATERIAL	UNIT	2010	2011	2012 [#]
Diesel	GJ	*1,753,930	*2,092,883	2,763,512
Electricity	GJ	882,614	927,090	1,323,776
Petrol	GJ	*4,412	*2,476	2,711
LPG	GJ	*3,090	*4,989	6,276

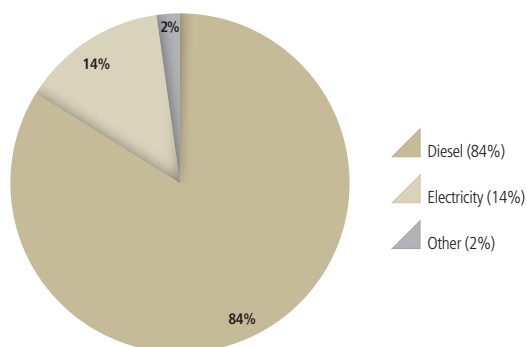
* The conversion factor from litres to GJ was incorrect in the 2011 Sustainability Report; the correct conversion factor has now been applied and 2010 and 2011 data in this table has been amended.

2012 consumption includes Ban Houayxai and Phu Kham. 2010 and 2011, Phu Kham only.

In 2012, for the first time, PanAust reported to the Carbon Disclosure Project (CDP) in relation to its carbon programs and climate change risks (including water) for the Phu Kham Operation. PanAust received a CDP score of 70 (out of 100) for disclosure compared with the ASX200 average carbon disclosure score of 65. The carbon disclosure score is an assessment of the quality and completeness of a company's climate change disclosure.

Since 2011, PanAust has been developing a carbon inventory for Phu Kham. With Ban Houayxai becoming operational in 2012, PanAust commissioned GHD Consultants to prepare a baseline carbon inventory and develop a carbon management plan for the Ban Houayxai Operation, exploration activities, and corporate offices. PanAust is using these results and the 2012 Phu Kham inventory to assess and identify opportunities for improvement. The focus will be on the highest emission sources, which are fuel use and consumables.

Scope 1 and 2 greenhouse gas emissions by energy source



Diesel is the major source of energy for PanAust's mining and haulage activities. The Company continues to monitor diesel consumption to identify opportunities for efficiencies including for concentrate haulage activities.

During 2012, road upgrades were undertaken (see detail on pages 36 and 46 of this Report) which allowed for greater tonnages to be carried per load thereby reducing truck numbers, fuel use and tyre consumption along the haulage route. Additionally, in mid-2012, the Company evaluated and trialled hauling a portion of copper-gold concentrate to a port in Vietnam (instead of to Sriracha in Thailand), which cuts more than 500 kilometres from each haul. Combined, these improvements resulted in an estimated saving of approximately 3,560 tonnes of carbon dioxide equivalent (tCO₂-e) or 37,600 gigajoules of fuel. The use of the port in Vietnam also results in other indirect energy savings due to the reduction in required shipping distances. A full risk evaluation of concentrate haulage options will be undertaken in 2013.

Greenhouse gas emissions[#]

GREENHOUSE GAS EMISSION SCOPE	2010 (tCO ₂ -e)	2011 (tCO ₂ -e)	2012* (tCO ₂ -e)
Scope 1 (direct greenhouse gas emissions)	140,571	147,986	217,629
Scope 2 (indirect greenhouse gas emissions from the generation of purchased electricity)	23,722	25,043	35,931
Scope 3 (greenhouse gas emissions from the broader project lifecycle including materials used, travel and transport)	109,611	109,479	206,898

* 2012 emissions include Ban Houayxai, exploration and offices. 2010 and 2011, Phu Kham only.

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

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

DUST MANAGEMENT

Mining, processing and the transportation of concentrate generates air emissions, including dust. PanAust recognises that dust has the potential to cause nuisance to the neighbours of operating facilities as well as communities along the site transport routes.

Air-quality monitoring, in the form of particulate and dust deposition rates, is carried out within the mine operating area and villages adjacent to PanAust's Operations and haulage routes.

The Company works to limit dust by minimising land disturbance, road watering, using filters and dust suppression equipment on drills and conveyor systems, and transporting product in covered vehicles under escort through local villages. In addition, a significant control includes the progressive sealing of the concentrate haulage routes.

Road improvements benefit the community in terms of road safety, and reduced nuisance from dust while leading to positive environmental outcomes for PanAust including fuel efficiency. During 2012, road upgrades were undertaken along the 112-kilometre Thabok to Phu Kham concentrate haulage route. The upgrades involved sealing the road within village boundaries and reducing road gradients to less than 12 per cent. These improvements have allowed for greater tonnages to be carried per load thereby reducing truck numbers, fuel use and tyre consumption along the route. In addition, there is a direct safety improvement from fewer vehicles on the road, and the local communities have benefited from improved infrastructure (see page 36 for benefits from road improvements for communities).

CASE STUDY: LEADING PRACTICE CYANIDE MANAGEMENT AT BAN HOUAYXAI



At Ban Houayxai, prior to leaving the plant and entering the tailings storage facility, cyanide levels in the slurry are already well below the internationally agreed⁷ safe level of cyanide for solutions discharged to the environment. Pictured above: (left) the carbon leach tanks and (right) the tailings storage facility at Ban Houayxai.

The Ban Houayxai Gold-Silver Operation uses cyanide in the processing circuit for gold and silver production. PanAust recognises that the use of cyanide for precious metal extraction is an important and sensitive issue for stakeholders and that stringent operating and environmental controls are necessary to ensure the safe transportation, use and disposal of cyanide and cyanide-related products.

The International Cyanide Management Code (the Code), administered by the International Cyanide Management Institute (ICMI), is a voluntary program for the manufacture, transport, and use of cyanide in the production of gold. To become Code-compliant, companies must satisfy a total of 31 standards of practice within the functional areas of: production, transportation, handling and storage, operations, decommissioning, worker safety, emergency response, training, and dialogue with stakeholders. Code compliance includes rigorous audits carried out by independent third-party auditors and public posting of audit reports by the ICMI.

From its inception, PanAust assessed the cyanide risks of the Ban Houayxai project from feasibility, construction, operations and closure and addressed them in project feasibility studies and forward planning. This enabled all Code-required risk mitigation elements to be built into the design and construction of Ban Houayxai.

In a testament to the success of this approach, Ban Houayxai achieved pre-operational Code-compliance certification in January 2012; three months prior to the start of production and well ahead of the ICMI requirement for certification to be achieved within three years of operations commencing.

Of the many elements of Ban Houayxai that were designed and constructed to exceed and improve upon Code requirements, perhaps the most notable is the plant's detoxification circuit. The circuit produces tailings slurry that contains less than the internationally agreed⁷ safe level of cyanide for solutions discharged to the environment. As such, prior to leaving the plant and entering the tailings storage facility, cyanide levels are already well below international water quality standards to enable discharge of excess water to the environment.

PanAust also recognises that beyond engineering and management systems, ongoing Code compliance and overall business success would depend upon a trained, competent, cyanide-aware workforce. As such, recruitment for the operational workforce commenced 18 months ahead of commissioning and dedicated full-time Code-compliance specialists were embedded within the team to support the project and ensure all Code requirements were addressed. Also prior to start-up, the Company readied a permanent site-based Emergency Response Team, carried out trial cyanide transportation activities with the appointed Code-certified transporter, and hosted cyanide awareness sessions with communities along the Ban Houayxai transport corridor. The Company's crisis management capability was also tested with a corporate cyanide-incident simulation exercise carried out in October 2012.

An operational Code-compliance audit was carried out in November 2012, and full operational certification was achieved in March 2013. PanAust's audit reports can be viewed on the ICMI website, www.cyanidecode.org/signatory-company/panaust-limited.

⁷ The ICMI and the IFC state that 0.5 milligrams per litre Weak Acid Dissociable cyanide is the safe level for solutions discharged from tailings storage facilities into the environment.



Apprentice working in the maintenance compound, Phu Kham (detail)

“It is not until you get close to one of the ore-hauling trucks, the 777Ds, that you realise the scale of them. When I was painting the full view of the pit from afar they just looked like little bugs beetling about. So this painting was about putting one of these vehicles in context with the human figure to get a sense of its scale.”

Peter Churcher, 2012

HEALTH AND SAFETY

PanAust's commitment to health and safety is underpinned by the Zero Harm philosophy where all workplace incidents and injuries are considered preventable.

The health and safety of the workforce and that of the neighbouring communities is critical to every aspect of PanAust's business. The Vision and Values outline the Company's commitment to health and safety. Health and safety is also explicitly addressed as the first requirement within the organisation's Code of Conduct and PanAust's leaders are required to promote a culture of Zero Harm.

The Company recognises that a risk-aware workforce is integral to achieving continual safety improvement. Behavioural safety programs are a fundamental element of creating a risk-aware culture, and these programs underpin the effectiveness of management systems. A proactive safety culture based on lead indicators such as safety training, safety leadership and hazard identification continues to be a focus across the PanAust workforce.

PanAust requires employees, contractors and visitors to be inducted prior to entering PanAust controlled work sites. Standardised general safety and workplace specific inductions form part of the induction programs. In addition to induction, the Company's mandatory core safety training programs include:

- hazard identification
- Take 5 safety awareness
- introductory and advanced job safety observation
- job safety analysis
- workplace inspections
- risk assessment and control.

Other specialised training includes:

- permit to work systems
- confined space
- dangerous goods
- first aid
- personal protective equipment usage
- safe work procedures
- management systems training
- Cardinal Rules*.

PanAust's leaders, from executives to front-line supervisors, participate in Safety Leadership Training.

Health and safety objectives for lead and lag indicators are included in each manager's performance measures. Both indicators are tracked and measured through an incident management database (INX) where incidents and injuries are recorded. The Company also maintains risk registers for each of its activities; these are regularly reviewed and reported on by relevant managers.

Since 2009, PanAust has held annual Risk and Sustainability Workshops with senior managers from both the corporate and operational areas to progress safety leadership programs and to develop a Group action plan for the coming year in the areas of risk (including safety) and sustainability. The workshops provide an opportunity to discuss and address common issues or challenges. Through the workshops, programs are prioritised against the key elements of safety leadership – commitment, visibility, accountability, and consistency. In addition, the Company also uses findings from investigations of significant and near-miss incidents and audit results to target 'hot spot' areas and undertake corrective actions to prevent repeat occurrences. PanAust views high-potential near-miss incidents as a 'free lesson'; thus information regarding these types of incidents is captured and analysed to proactively improve performance. For 'hot spot' areas identified from analysis, the Company establishes Key Performance Indicators in an effort to improve performance in the area.

PanAust complies with the MCA's guidelines for tracking and reporting health and safety statistics, and also calculates Days Away – Restricted or Transferred (DART) in line with guidelines from the United States Occupational Safety and Health Administration. Incidents are categorised according to the level of control the Company can exert.

* Cardinal Rules are a set of simple rules which are communicated as PanAust's zero tolerance standard on those safety breaches that historically, within a mining environment, have resulted in serious injury or a fatality. The eight Rules cover requirements for operating mobile equipment (including zero tolerance for drugs and alcohol), working at heights, tagging and isolation, confined space entry, and handling unexploded ordnance in Laos. PanAust's Cardinal Rules are listed on page 63 of the 2011 Sustainability Report, which is available on the Company's website.

HEALTH AND SAFETY continued...

PanAust's reportable statistics include 'controlled' sites and are work-related activities where PanAust can set safety, health, environment and community standards and directly supervise and enforce their application.

Categories that are managed but do not form part of externally reported statistics include influenced, monitored, and uncontrolled sites. These categories are subject to normal duty of care considerations, and influenced activities receive additional attention through contractor management programs. PanAust's definitions for incident categories of control are summarised in the table below.

Categories of control

CONTROLLED

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

INFLUENCED

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

MONITORED

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

UNCONTROLLED

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

PanAust's safety performance throughout 2012 was solid. The Company's 2012 TRIFR of 2.15 was more than a 20 per cent year-on-year improvement from 2011's TRIFR of 2.80. PanAust's 2012 LTIFR was 0.13 (2011: 0.06), and continues to be lower than industry averages.

PanAust's year-end safety results remain consistent with the *Citigroup ASX100 Companies and More* report published in May 2013 which ranked PanAust fifth best out of 77 companies that report on LTIFR, and second best out of 40 companies that report TRIFR.

2010-2012 PanAust Group reportable incidents (controlled work sites)*

	2010	2011	2012
Man hours	12,896,451	16,072,278	19,983,937
Fatal injuries	0	0	0
LTIFR	0.47	0.06	0.15
Days Away Restricted or Transferred Frequency	0.62	0.31	0.55
TRIFR	3.57	2.80	2.15

* Reportable statistics prior to 2011 included both controlled and influenced activities. From 2011, PanAust realigned its external reporting methodology with industry reporting to enable the Company's performance to be transparently compared with peers. Controlled work sites include data for both employee and contractor injuries and man-hours.

The Company has a strong reporting culture; INX continues to be implemented and its functionality improved across the Group. To enhance the Company's ability to internally report and analyse trends from data collected, during 2012 there was a focus on improving the reporting of low-level injuries and safety incidents including the recruitment of an INX resource to oversee and drive consistency in the system.

The following table summarises the total number of safety and injury related incidents logged and closed out during the last three years.

Incident log (injuries and reported safety related incidents)

TOTAL INCIDENTS	2010	2011	2012
Logged	764	780	1,094
Closed out	362 (47%)	460 (59%)	807 (74%)

HEALTH AND SAFETY: MATERIAL ISSUES 2012

The PanAust materiality process in conjunction with the 2011 annual Risk and Sustainability Workshop, identified the main safety challenges for the Company's operations in 2012 as:

- ▶ Workforce safety culture
- ▶ Fatigue management
- ▶ Emergency response preparedness
- ▶ Health and hygiene management
- ▶ Unexploded ordnance
- ▶ Security management.



(Left to right) Training and Safety Officer, Mining, Mr Sommai Inthanaphone; with Risk Manager, Lee Bouckaert; and Administration Assistant, Risk, Ms Syvanh Thongxaiphet; reviewing safety incident reports to identify and improve effective corrective actions and incident close out.

► WORKFORCE SAFETY CULTURE (INCLUDING EMPLOYEES AND CONTRACTORS)

PanAust's corporate strategy is focused on growth. The ability to grow, while keeping the predominantly inexperienced workforce (in a mining context) in a least developed country such as Laos, safe, is essential to business success and alignment with the Company's Values.

The Company applies the same governance process to different stages of the business whether it is exploration, acquisition, development or operations. Identifying risks and embedding appropriate controls and providing sufficient training for the workforce is key to managing safety. The line management function in PanAust is accountable for the safety performance of the team and contractors reporting to them and safety professionals throughout the business provide support in the development and consistent implementation of systems. The safety culture is nurtured through visible leadership and embedded at the highest levels in the Company. In 2012, PanAust's Safety Leadership Training program was developed to support this (see 'Case study: Safety Leadership Training' on page 57).

PanAust recognises that lag indicators alone are not a good indicator of the 'health' of the business, particularly when the Company's LTIFR and TRIFR are at low levels compared with the industry and are relatively stable year-on-year. In 2012, a positive performance indicator reporting framework was developed for the business. The framework details the types and number of positive safety interactions required from supervisors through to site general managers, the frequency of risk register reviews, continual improvement outcomes required against Group audits, and progress against the Group Risk and Sustainability Annual Plan. Performance against the measures is tracked on a monthly basis and linked to all operational employees' and senior management remuneration and recognition programs.

In 2012, it was recognised that a greater level of safety resourcing would be essential to support business growth, particularly with Ban Houayxai commencing operations and the Company managing its own construction activities (rather than the conventional outsourcing of this project phase), including for the development of Ban Houayxai and the Phu Kham Upgrade Project. These projects bring with them additional requirements to ensure safe work practices are in place for both employees and a range of short-term international and local contractors. As such, additional safety personnel were recruited during the year at the operational and corporate levels as well as regional resources in Laos. These resources act as a shared service for the business to support project implementation safety and the increased presence of contractors during project construction.



Gold pour at Ban Houayxai (detail)

“This was clearly an important subject to try and get down: the moment when the gold ore is smelted and poured into ingots at the plant of Ban Houayxai. I knew the scene would provide a marvellous subject, with the space of the workshop illuminated by the furnaces and molten liquid gold, and the workers in their protective gear.”

Peter Churcher, 2012

HEALTH AND SAFETY continued...

PanAust updated and released a new incident management procedure in late 2012. A key change in the procedure was the requirement for an Incident Causal Analysis Method (ICAM[^]) investigation for actual medium level incidents as well as incidents that are ranked high-potential. This is a key change that recognises that the Company takes near misses seriously and treats them as an opportunity for learning and making behavioural and systems improvements to prevent repeat occurrences.

In 2012, approximately 56,000 hours of induction and health, safety and environment training was completed, in contrast to 22,000 hours in 2011. The increase represents the focused efforts to train staff for the Ban Houayxai Gold-Silver Operation, and the Phu Kham Upgrade Project. Safety Leadership Training and the realised benefits of an established centralised training function (which delivers training as well as an administrative function to record and report employees' completion of health, safety and environment training) has also contributed to the increase in training hours.

In 2012, training in Cardinal Rules was rolled out across contractors' activities on Phu Bia Mining controlled sites. In 2013, a Cardinal Rules awareness campaign will continue with the development of posters and themes to drive discussion topics at regular meetings. PanAust Cardinal Rules are stated on page 63 of PanAust's *2011 Sustainability Report*.

PanAust views the development of local contractors as critical to Laos' development goals and its sustainable future. This approach is not without challenges and continues to be a high-risk area for the business. In previous years, Lao contractors have not met the Company's high-performance safety standards and the Company continues to work towards improving the capacity of contractors to operate safely and bridge the gaps in performance. During 2012, PanAust recruited a team of specialist resources in Laos to focus on contractor safety including the delivery of the contractor management plan and completion of audits of contractor facilities. The Company acknowledges that work remains to be undertaken in this area to continually improve performance, particularly with contractor management systems and processes. This is being targeted within the Company's identified 'hot spots for 2013', which includes a review of existing preferred local contractors to partner with.

► FATIGUE MANAGEMENT

The potential for workers to be exposed to situations resulting in fatigue exists in PanAust due to the type of work activities and shift patterns. A review of 2011 safety incidents at Phu Kham found that fatigue was a factor in approximately seven per cent of incidents. At the start of 2012, four potentially significant incidents occurred where fatigue was a common factor.

PanAust's approach to fatigue management is guided by the Fitness for Work Policy and standards. Fatigue management plans have been developed for each site to provide a consistent and structured approach to manage the impacts of fatigue for workers. For activities with high fatigue risk (such as pit operations), a variety of different fatigue management strategies are applied depending on the work activity. These may include planned breaks, operator rotations, fatigue management training, retainment of nightshift workers on site (to ensure adequate sleep), and – in the case of concentrate haulage – driver reviver stops at regular intervals. In addition, intervention strategies are used, such as a device worn by drivers that alerts them when their head nods forward.

In 2012, a review of fatigue management processes at Phu Kham and Ban Houayxai was undertaken. The review included benchmarking current rosters against the South Australian Code of Practice for Working Hours, reviewing implementation of findings from the 2010 Phu Kham Fatigue Report (by external consultant/fatigue expert, Angela Baker), reviewing INX records where fatigue was a factor, and reviewing department risk registers in relation to fatigue.

As a result of the review, considerable effort has been placed on improving the fatigue management framework for the business with a focus on training. Fatigue training is included in the site induction and site leaders and heavy equipment operators complete additional training in fatigue. At year-end, 180 leaders had been trained in the Phu Bia Mining Fatigue Management Procedure. Further work is required to embed these procedures and coaching of supervisors has commenced.

In 2013, the focus on fatigue management will continue. A review of the standards for camp accommodation to support the Phu Kham Operation (and the Ban Thouay Transit Facility*) will be undertaken to ensure dedicated nightshift driver accommodation. In addition, a review of shift design will be undertaken to assess and manage fatigue risks. Technology to help manage and monitor driver fatigue is also being investigated to ensure the Company is utilising the most effective tools and systems available.

[^] The scope of an ICAM is to investigate causal factors of significant incidents to enable identification of systemic deficiencies to what really went wrong, and ensures recommendations are focused on what needs to be done to prevent recurrence. It is directed towards building 'error-tolerant' defences against future incidents.

* The Ban Thouay Transit Facility is located 122 kilometres from Phu Kham and is the central hub for logistics including dispatch of copper-gold concentrate from Phu Kham to ports in Thailand and Vietnam. The facility includes driver accommodation.

HEALTH AND SAFETY continued...



Twenty-one Phu Bia Mining emergency response team members underwent training at the Thailand Fire Training Academy during 2012, which included specialised fire-fighting techniques, and search and rescue.

► EMERGENCY RESPONSE PREPAREDNESS

With the transition of Ban Houayxai from project phase to operational phase, the management of potential emergencies and business continuity is vital.

Each operational site has Emergency Response Plans which are reviewed on an annual basis. Each year, training is conducted with senior management and scenarios are tested to ensure the plans remain relevant and that the management team are aware of the appropriate triggers and communication processes to be used.

Each site has dedicated professional Emergency Response Teams (ERT) and equipment. Sites are equipped with doctors and paramedics, and trauma management clinics. ERT equipment includes fire-fighting, road accident rescue, hazardous material, water rescue, and roping and trauma management equipment. Teams complete training modules equivalent to an Australian Certificate III in Mines Emergency Response and Rescue, which is a module in a diploma/degree course in mine management. In addition, teams complete regularly scheduled drills and participate in daily skills exercises. In 2012, 119 ERT training simulations were carried out by teams in Laos.



A member of the Ban Houayxai emergency response team crouching below the flames while conducting room entry drills at the Thailand Fire Training Academy.

Throughout 2012, the following work was undertaken at Ban Houayxai for operational emergency response readiness.

- A medical clinic was commissioned with doctors and paramedics recruited. The facility is fully equipped to provide emergency trauma support in response to foreseeable incidents and emergencies.
- A number of emergency scenarios were held throughout the year to test the capability and response of the Emergency Response Team. These have included scenarios in relation to: fire, cyanide emergency, road incident, chemical emergency response, and emergency boat rescue.
- Ban Houayxai developed a volunteer emergency response program to educate and train interested employees in emergency response. Team members receive training in a range of basic ERT skills. Training the volunteers in assistance techniques will ensure a sufficient quantity of trained and capable personnel who will be able to assist during incidents if required. Interest in the ERT volunteer training program has been high, and as at the first quarter 2013, 39 employees had participated in the ongoing training.
- A high-level cyanide emergency response drill was undertaken at Ban Houayxai as a requirement toward the International Cyanide Management Code certification audit. This scenario was the first 'large-scale' incident response at Ban Houayxai which involved multi-departmental cooperation and liaison.

Learnings from the field response team training were then fed into a corporate crisis management drill for an offsite cyanide incident on the public road to Ban Houayxai. The scenario involved response to a truck incident which had safety and environmental implications. Crisis Management Teams (CMT) were activated at each level of the organisation (site, regional and in the corporate office) and an interactive response was played out led by a crisis management consultant. The exercise demonstrated a clear understanding of structure and process by CMT members, who are becoming more familiar with the plan with each annual scenario. The PanAust Chairman participated as an observer in the corporate crisis management room.

► HEALTH AND HYGIENE MANAGEMENT

Health risks faced by PanAust employees include fatigue as well as occupational exposure to dust, heat and noise.

PanAust continues to understand and manage occupational health exposures to the workforce. A baseline assessment of Occupational Health and Hygiene (OHH) exposures was completed in 2011 by JTA International and as a result in 2012 the Laos pre-employment medical program was revised to include hygiene exposures. Additionally, in 2012 the pre-employment medical program was developed for all expatriates.

In 2012, JTA International was commissioned to work on the management of OHH issues including the development of routine OHH monitoring programs and supporting documentation for Phu Kham and Ban Houayxai.

To support the requirements of the programs, OHH personnel have been recruited into the business, OHH monitoring equipment has been procured and a dedicated OHH laboratory has been established at Phu Kham. The first round of monitoring of dust, heat and noise commenced under the guidance of JTA at Phu Kham (including technician training). The team will be developed to service all PanAust Asia worksites. A mid-year review of the programs will be undertaken to review the quality of data, emerging trends and monitoring frequencies.

► UNEXPLODED ORDNANCE

Between 1964 and 1973, approximately two million tonnes of ordnance (explosive weapons) were dropped on Laos of which an estimated 30 per cent failed to detonate. This has resulted in approximately 78 million potential unexploded ordnance (UXO) remaining. UXO continually hinder daily life and pose restrictions on the socio-economic development and safety of local residents, employees and contractors. In high-risk areas for which there are plans in place for exploration and future mining activities, significant additional planning and lead-times are being incorporated into Company programs to ensure the thorough identification and safe disposal of UXO.

UXO is not prevalent at the Phu Kham Operation, and there is a reasonably low-level presence at Ban Houayxai. At Phonsavan where the Company is undertaking exploration activities, the presence of UXO is much higher and requires stringent clearance procedures to be adopted prior to working in the field. People required to work in these areas undertake a comprehensive UXO-specific induction. The Company engages an accredited UXO detection and removal contractor, Milsearch, to undertake clearance work in advance of any activity on previously un-cleared ground. Teams locate, identify and, where required, destroy any UXOs.

	2010	2011	2012
Number of UXO incidents	5	14	*18

* The incremental increase of the number of incidents correlates with increased exploration activity at Phonsavan where the presence of UXO is higher than in other parts of the Contract Area. The increase can also be attributed to a rise in awareness around UXO and, over time, more stringent reporting procedures being put in place. Note also, that incidents are a record of an item or fragment of UXO being found, breaches of procedure etc; not an actual incident with physical consequences.

At the end of 2011 through to the start of 2012, PanAust commissioned CSG Demining Consultants to perform an external review of the UXO operations of Milsearch (including the compliance of Milsearch with Lao National Standards) and Phu Bia Mining's monitoring of these operations. The review determined that the Milsearch structure and equipment were largely suitable for Phu Bia Mining's operations; however, additional field supervision is required by Milsearch to ensure compliance with the Lao National Standards. The audit also recommended that empirical tests be undertaken to confirm real detection depth capability of magnetometers used at Phonsavan. These recommendations have been implemented.

Several areas of improvement in relation to Phu Bia Mining's document control of critical procedures, UXO safety procedures and clearance standards were also identified. These improvements are being implemented.

HEALTH AND SAFETY continued...

► SECURITY MANAGEMENT

The Phu Kham and Ban Houayxai Operations are located in the Xaysomboun District in Laos, which was historically the location of insurgent activities, largely as a legacy of the Indo-China conflicts of the 1960s and early 1970s. While now stable, the Xaysomboun District remains one of the least developed in Laos and the legacies of conflict remain evident, and at times, security-related incidents have occurred within close proximity to PanAust's operations and exploration activities.

Laos is, at this point in time, the only country in which PanAust has security personnel assigned to its operations. Due to PanAust's operations being located in the Xaysomboun District, the Company is required by the Government of Laos to have a Lao People's Army (LPA) presence to ensure regional security and stability. The Company works closely with the LPA, under strict standards observed through a Memorandum of Understanding and Company-provided induction to ensure an appropriate security presence external to the perimeter of its active working areas. A signed Memorandum of Understanding has also been established between the Company and the LPA which outlines the Company's intent to align with the Voluntary Principles on Security and Human Rights.

Strong engagement programs are in place with each level of Government and with local communities in the districts where PanAust has an operating presence. Meetings are held on a monthly and quarterly basis. Monthly meetings are held between site security personnel and local village leaders to discuss local security issues or grievances that may exist and quarterly meetings are structured with Provincial Commanders from the LPA. The process is supported by the Company's grievance management procedure (which is outlined on page 27).

Risk registers are maintained and periodically reviewed by operating sites and security functions. Incorporated into the risk management process is a module that assesses human rights impacts against the 1948 Declaration of Human Rights across operating sites. The risk assessments consider, among other factors, the potential for human rights violations, Rules of Law, conflict analysis and the provision of equipment to public and private security providers servicing PanAust operating sites. Risk assessments provide the foundation for developing appropriate Company security standards, as well as training requirements and contractual arrangements with private and public security providers.

Loss Prevention staff, including Lao Security Services, receive training in the following areas: use of force, Voluntary Principles on Security and Human Rights, site security procedures, foot patrol, methods of restraint, person and vehicle search, and crowd control.

No significant security incidents affecting PanAust personnel or operations were recorded for 2012. However, regional security incidents affecting persons not associated with Company activities were reported some distance to the north of Phu Kham.

PanAust has designed and implemented security systems for the Ban Houayxai Gold-Silver Operation which are aligned with industry best practice and appropriate to the security profile for the Operation's location. An external review of Ban Houayxai gold product security was completed in May 2012 by Secure Mining Solutions. The audit determined that development and use of a security design criteria for the construction phase of the Ban Houayxai Project has fulfilled its original intention to proactively introduce security systems in keeping with controls that should be expected within a working gold mine.

In 2012, the risk registers indicated a very low potential for any human rights violations and there were no human rights incidents or violations including for those associated with discrimination, child labour, forced labour, freedom of association, or for indigenous people within the Company or among its activities.

Use of force

PanAust supports and respects human rights consistent with the Universal Declaration of Human Rights. Human rights apply to every person across the globe regardless of their birthplace, age, personal beliefs and/or any other individual attribute. The Company has clear procedures to manage the human rights aspects of security at its operations and projects. PanAust employees and business partners are expected to uphold and demonstrate a commitment to human rights and report any credible allegations of human rights abuses through line management or, if this is not appropriate, through the Whistleblower Service. Contracts for engaging public and private security providers outline PanAust's requirements in relation to International Law Enforcement Principles and the Use of Force on Company sites. This includes the ability to screen and remove from operating sites any person found in breach of the Company's requirements.

The Company is required to have LPA present for certain activities as well as the Lao Police for any police investigations. By the nature of their roles and the laws of Laos, both of these agencies carry firearms. PanAust also employs private security guards, Lao Security Services, to perform an unarmed access control and static security function across the Phu Kham and Ban Houayxai Operations. All security personnel are trained in the use of force requirements, and ensuring that the use is relevant to the level of threat posed.

A signed Memorandum of Understanding has been established between the Company and the LPA which outlines the Company's intent to align with the Voluntary Principles on Security and Human Rights and further outlines the Company's 'use of force' expectations while the LPA are supporting selected operational activities. Prior to being utilised in a supporting function, members of the LPA undergo an induction program which covers the areas of safety, use of force as it relates to the laws of Laos, and key components of the Voluntary Principles on Security and Human Rights. Policies and procedures are in place to regulate the carriage of firearms on site, and the functions in which the LPA are used.

CASE STUDY: SAFETY LEADERSHIP TRAINING



Supervisory and superintendent level personnel completing a discussion exercise during Safety Leadership Training.

PanAust recognises that the safety culture of an organisation is shaped by the actions of leaders. In 2012, acknowledging the significant influence that leaders and professionals have on safety, PanAust developed and rolled out an in-house Safety Leadership Training program. The training is equipping PanAust's leaders and influencers – from executives and professionals to front-line supervisors – with practical information to create a risk-aware safety culture within the Company.

Much of the Safety Leadership Training focuses on the basic facets of human behaviour; motivation and the importance of providing frequent positive reinforcement to individuals, teams and businesses as a whole. The course itself reinforces among the leaders of PanAust that a Zero Harm culture requires continual, active and visible safety leadership from the highest levels of management down 'to the shop floor'.



Supervisors and superintendents from various PanAust operations in Laos at the close of a two-day Safety Leadership Training course.

The training also acknowledges that implementing safety systems is, in itself, not safety leadership. The course makes clear that safety systems are important tools, but they require a culture to support their use in a way that meets business objectives. Building that culture is a safety leadership responsibility.

By year-end 2012, just over 250 personnel were trained in the Safety Leadership Program; that is, approximately 30 per cent of the leaders and professionals within the business. The course was run 28 times in various locations across the Group in both English and Lao. Following completion of this initial intensive phase of training to build safety leadership capacity among existing management and supervisory personnel, the Company plans to run the course every four months to ensure new staff (including those who have been promoted to a leadership role) are trained.



Xay, the local artist, Phu Kham (detail)

“I first became aware of Xay when I saw his artworks painted on the partition wall in the communal bar and recreation area at the Phu Kham camp. They were caricature portraits of fellow workers (mostly expatriates) deftly painted in colour and juxtaposed in an interesting way on the wall... I was overwhelmed to meet a fellow, a Lao, speaking beautiful English, dressed in his mine working gear and speaking eloquently on the subject of art. At this moment, I was resolved to do a portrait of this impressive fellow with his own artworks as the background. Xay was only too happy to oblige. We both enjoyed the interaction of making this painting and getting to know one another better.”

Peter Churcher, 2012

OUR PEOPLE

Attracting, employing and developing talented and motivated people, who share PanAust's Vision and Values, is vital to building sustainable organisational capability. PanAust takes a holistic and strategic approach to managing human resources (HR). The Company therefore ensures all facets of workforce management are covered by strategies, objectives and an HR framework specifically relating to six core components of employee health and wellbeing, remuneration and benefits, recruitment, training and development, organisational development and HR systems.

PanAust has an integrated suite of HR policies and support systems to ensure high-calibre people are attracted, rewarded, developed and retained. This high-level approach is outlined in the Company's Employee Policy, and, together with a strong strategic focus on training, health and safety, rewards, team and individual achievement, and leadership development, helps align employees with the Vision, Values and behavioural expectations of PanAust.

Workforce numbers: full-time employees by work location

FULL-TIME EMPLOYEES BY LOCATION	2010	2011	2012
Laos	2,219	3,312	3,239
Chile	1	13	19
Thailand	14	9	3
Australia	32	39	56
TOTAL	2,266	3,373	3,317

As at 31 December 2012, the PanAust Group had 3,317 employees. During 2012, PanAust's workforce in Laos stabilised down two per cent (see above table), reflecting the close-out of fixed-term roles following the construction and commissioning of Ban Houayxai and the Phu Kham Upgrade.

In 2012, PanAust employee numbers in Chile and Brisbane grew primarily within technical areas to support current and future projects and operational improvement activities across the Group. These types of roles allow a structure that supports the management of construction activities as well as planned future growth. At year-end, the Company had 19 full-time employees located in Chile and 56 in the Brisbane office (including roles where work/life balance requirement can be met by the Company: three part-time roles and one two-person job-share).

PanAust consistently seeks to provide support systems for employees to achieve a safe and harmonious work environment. Training, support and monitoring of workforce health is provided by the Company through standards, systems and facilities such as:

- employee inductions
- anti-harassment
- the Code of Conduct
- employee assistance program
- a whistleblower mechanism
- Company-provided suitable accommodation on work sites
- pre-employment medical assessments
- leave entitlements
- in-house medical clinic
- recreation facilities
- provision of travel and medical insurance
- the Fair Treatment System

These systems support workforce wellbeing through programs provided from both internal and external services. The programs also help raise awareness of expected workplace behaviour and contribute to a more harmonious work environment.

Performance and behavioural expectations are communicated to employees via inductions and on-the-job training, and information is accessible to employees on the Company's intranet. Concerns regarding breaches of rules or behaviour inconsistent with that promoted by the Company can be raised confidentially via the Whistleblower Service or, for those who believe they have been treated unfairly, formally via the internal Fair Treatment System. Information about Company systems is communicated in the local language.

Voluntary turnover in 2012

PanAust's voluntary turnover statistics showed a slight increase from 2011 to 2012 and is attributable to an increase in turnover of regional expatriates whose home country is within Southeast Asia. Research captured from exit interviews and informal discussions indicates the reason for this is the maturation of the mining industry in the Southeast Asia region, and the subsequent increase in opportunities for people to work closer to home and receive terms and conditions that are competitive with PanAust's. Exit interviews carried out with departing employees helps the Company understand factors that influence decisions to leave and allow HR analysis and trend identification.

OUR PEOPLE continued...

PanAust voluntary turnover* average rate (per cent of total workforce)

	2010	2011	2012
PanAust Group	13.9	10.7	12.5
Australia	16.4	13.2	8.1
Asia	13.9	10.7	12.6
South America	n/a	10.3	6.0

* In 2012 PanAust reviewed its procedure on reporting voluntary turnover to include employees who abandon employment. Abandonment accounts for 2.9 per cent of the increase in Group voluntary turnover between 2011 and 2012. Previous reporting years have been updated in this table.

HUMAN RESOURCES: MATERIAL ISSUES 2012

The PanAust materiality process identified the main workforce challenges and opportunities for HR operations and activities in 2012 as:

- **Recruitment**
- **Workplace diversity**
- **Workforce development and training.**

► RECRUITMENT

PanAust recognises a key to the Company's success is the recruitment of high-calibre people from diverse backgrounds who are rewarded on the basis of performance and encouraged to contribute to a positive work environment characterised by mutual respect, ethical practices and responsible behaviour. The Company acknowledges the importance of attracting and retaining skilled people to meet the current and future internal demand required to meet growth plans. In particular, attracting and retaining skilled, experienced employees in mining technical disciplines is vital to managing the material risk associated with skills shortages in Laos and within the mining industry globally.

The Company's recruitment approach in Laos, where the majority of the workforce is employed, is to provide positive employment preference to people from immediate local communities who have the skills and experience and/or the appropriate potential capability to fulfil a particular role. Vacancies are assessed to determine whether suitable candidates may be sourced within the local community prior to advertising more broadly in Laos or elsewhere. If there is a lack of industry experience and/or lack of suitably qualified candidates in Laos, then the role will be designated to be filled from the regional labour market in Asia, or internationally.

A statement within recruitment advertisements demonstrates the Company's practice of Equal Employment Opportunity and commitment to diversity by encouraging women to apply for roles and seeking female candidates internally for development and promotional opportunities (see 'Diversity Committee' on page 64 for more information).

In accordance with the Company's commitment to the underlying principles of Equal Employment Opportunity and non-discrimination, market competitive remuneration is established based on job requirements, industry benchmarking, the level of the position within the organisational structure, the job market, qualifications and experience and the employee's individual performance. Additionally, specific employment-related benefits are outlined in each employee's contract of employment. Entitlements and benefits throughout the PanAust Group may vary depending on country-specific legislation (for example annual leave entitlements, parental leave entitlements, taxation and pension/superannuation). Entitlements and benefits may also vary based on contract type (temporary/hourly-rate, fixed-term or permanent) and conditions depending on work arrangements (for example, expatriate or local conditions). Variable salary components such as short-term incentives, bonus payments and long term incentives (linked to the Company's share price) are offered to all permanent employees as part of the Company's retention strategy and are subject to employees meeting eligibility requirements based on tenure and contract type.

Aptitude testing forms part of PanAust's recruitment process for non-professional roles in Laos. The Company uses a culturally neutral, language-free assessment tool that establishes a candidate pool with strong cognitive capacity and 'trainability'. In using this test the Company ensures candidates from local communities with limited education or language barriers due to different dialects are not excluded from employment opportunities.

PanAust minimises the risk of inadvertently hiring underage workers (child labour) by adhering to rigorous recruitment processes. For example, the Recruitment and Selection Standard contains a specific review process to ensure minors are not employed. The minimum age for employment is 18 years old and it is a Company requirement for recruits to provide proof of age prior to commencing employment. Topics such as child labour, equal employment opportunity, appropriate workplace behaviour and complying with the laws of the countries in which the Company operates are also covered during employee inductions and when communicating the Code of Conduct (internally and externally). Supplier contracts also stipulate the required standards of behaviour when working on PanAust sites or on behalf of the Company including ensuring that forced labour is not used.



A cross-functional team meeting in the Vientiane office, Laos.

Across the PanAust Group in 2012, role vacancies increased for a number of reasons including new roles due to growth and expansion activities, internal transfers and employee turnover. At Phu Bia Mining, there were 1,387 roles successfully filled, including recruitment activity (90 roles or seven per cent) for role vacancies generated by promotions, internal transfers and turnover. The offices in Brisbane and Chile also successfully filled 24 roles, with 75 per cent of these being new roles.

Within Phu Bia Mining, the recruitment and selection strategy for the Ban Houayxai Gold-Silver Operation was to select experienced and skilled employees from the existing Phu Kham operation wherever possible as well as via targeted recruitment within local communities. This strategy provided career development opportunities for existing employees and increased employment options for local Lao-nationals. Following a recruitment campaign in 2011, in 2012 internal Phu Bia Mining transfers accounted for 30 per cent (88 of 291) of roles recruited at Ban Houayxai, with a further 32 per cent of total roles being filled with candidates from villages local to the mine. Consistent with PanAust's recruitment strategy for any new role vacancies, consideration is given to succession, localisation, workforce planning and operational readiness strategies.

Local employment opportunities in Laos

PanAust has generated employment opportunities for people local to the mine sites and opportunities to work outside of the location from which they were originally hired into other locations where the business is operating. At year-end 2012, 23 per cent of the total Phu Bia Mining Lao-national workforce were originally employed from villages adjacent to Phu Kham and Ban Houayxai, and from the local Xaysomboun and Hom District. Due to the opportunity for transfer, temporary assignments and promotions, there are now employees working outside their local area and/or home district within the Vientiane shared service function, at Ban Houayxai, and with exploration and/or the project implementation teams.

In 2012, 16 per cent of management roles and 67 per cent of supervisory/professional roles were held by Lao-nationals within Phu Bia Mining. Compared with the 2011 reporting year, Lao representation in supervisory/professional roles increased seven per cent. The increase in supervisory/professional roles is due to continued implementation of PanAust's localisation strategy and programs to develop mining-industry related competency, experience, leadership skills and sustainable capability within the Lao-national workforce.



Geo-technician logging core, Phu Kham (detail)

“This young lady is a geo-technician and she is logging information on the core samples that have been drilled at the exploration sites. It was interesting to see how many women were working alongside the men across all aspects of the mine’s operations. In this case, this young lady clearly had geology training and in other cases one would see a tiny little lady at the wheel of one of the huge 777D ore-hauling trucks. Then, later that evening, one would be served dinner at the mess by a young man behind the serving counter. So no gender stereo-typing here.”

Peter Churcher, 2012

OUR PEOPLE continued...

Breakdown of Phu Bia Mining employees by role category 2012

	EXPATRIATE		TOTAL LAO		TOTAL LAO FROM ADJACENT VILLAGES		TOTAL
ROLE/PROFESSION	NO.	%	NO.	%	NO. ^	% #	NO.
Management	165	84	31	16	0	0	196
Supervisory/professional	211	33	428	67	21	3	639
Admin/skilled	0	0	818	100	85	10	818
Operator/trade	107	16	567	84	146	22	674
Junior/unskilled	0	0	868	100	373	43	868
Trainee labourer	0	0	19	100	9	47	19
Graduates	0	0	25	100	1	4	25
TOTAL	483	15	2,756	85	635	20	3,239

^ These numbers are a proportion already comprised in the total Lao numbers.

As a percentage of total roles.

Eighty-four per cent of operator/trades roles were occupied by Lao-nationals in 2012; the same as the previous year. All remaining role categories (admin/skilled, junior/unskilled, trainee labourer and graduate) contained a representation of Lao-nationals consistent with the previous year.

A year-on-year decrease of expatriates in management and supervisory roles and corresponding increase in Lao-national employees in these roles, demonstrates the success of the Company's localisation strategy of up-skilling Lao-national employees and promoting those displaying the desired competencies into leadership roles.

► WORKPLACE DIVERSITY

PanAust promotes and encourages diversity, recognising a talented and diverse workforce brings a wide range of perspectives and unique skills and experiences promoting business innovation and Company success.

All aspects of workforce diversity are important. In 2012, PanAust focused particular attention on gender and ethnic diversity in order to meet strategic objectives, community and workforce expectations, commitments to relevant legislation, and diversity reporting recommended by the ASX Corporate Governance Council.

PanAust promotes and supports workplace diversity through policies and standards such as the Employee Policy and the Diversity Standard. Both are available on the Company website, www.panaust.com.au/corporate-governance and are introduced to new employees during induction.

In 2012, specific diversity objectives, existing employee programs and commitments to external agencies continued momentum from the previous year to support, promote and engage more Lao-nationals and females at all levels of the organisation.

Workforce Statistics year ending 31 December

	2010	2011	2012
PanAust Group total full-time employees (permanent and fixed-term contract arrangements)	2,266	3,373	3,317
Phu Bia Mining total full-time employees (permanent and fixed-term)	2,219	3,312	3,239
Female employees as a percentage of all PanAust Group employees	18%	15%	16%
Lao employees as a percentage of all Phu Bia Mining employees in Laos (permanent, fixed-term and local casual)	84%	84%	87%
Expatriate employees as a percentage of all Phu Bia Mining employees in Laos (permanent and fixed-term)	16%	18%	13%
Number of casual Lao employees	568	421	463

Of the total PanAust workforce at year-end 2012, 16 per cent were women with 29 of those being in management roles (12 per cent of all management roles). Within the Lao-based workforce, 15 per cent were women; of these, 14 were in management roles, 99 in supervisory/professional roles, and 62 in operator-type roles typically filled by males.

From 2011 to 2012, Phu Bia Mining experienced a five per cent decrease in the number of expatriate employees (18 per cent to 13 per cent) and a three per cent increase in the number of Lao employees (84 per cent to 87 per cent, including casuals); this is the result of an overarching strategy working toward the localisation of Phu Bia Mining's workforce to the maximum extent possible while maintaining efficient operations and sustainability objectives. The proportion of females in the Phu Bia Mining workforce in 2012 held steady at 15 per cent.

OUR PEOPLE continued...

EMPLOYEE AWARD WINNERS



Each year, PanAust runs an Employee Awards Program to reward and promote outstanding contributions to safety, environment, community, leadership, training, and production. In 2012, the program was expanded to invite nominations for all employees from across the PanAust Group and award winners represented Thailand, Chile and Laos (previously the awards were for employees based in Asia only). Award winners are recognised in a ceremony, participate in a study tour to best-practice mines in Southeast Asia and Australia, attend the PanAust Annual General Meeting (AGM)

in Brisbane, and receive a cash prize. The program fosters a culture of continual business, professional and individual improvement, and promotes activities that are critical to the Company's success.

The photo above shows the 2012 Employee Award winners at the AGM in Brisbane in May 2013 (left to right): Nataliya Kulchytska, Bounpone Xaymounty, Sudamani Bisalputra, Sukthita Pongpeomperk, Babphavandy Boulavong, Xaykham Chongleusy, and Jason Barnes.

PanAust's Lao workforce reflects the ethnic diversity of communities in Laos including Lao Loum, Hmong, and Khmu. In 2012, these groups comprised a total of 85 per cent (excluding casual labour) of PanAust's workforce in Laos, which is in the range of previous years (82 per cent in 2011, 84 per cent in 2010, and 85 per cent in 2009).

Of the total full-time staff in Laos at year-end in 2012, 2,756 were Lao-nationals; 336 were expatriates from Southeast Asian countries such as Thailand, The Philippines, Malaysia, Papua New Guinea and Indonesia; and 147 were expatriates from 'western' countries such as Australia, New Zealand, United States of America and those in Europe.

Diversity Committee

Building on the Diversity Strategy adopted by the Company in 2011, a Group-wide Diversity Committee was established in February 2012 reporting to the Managing Director.

The Diversity Committee monitors the performance of the PanAust Group with respect to diversity and in 2012 discharged its responsibility to implement the objectives adopted by the Board and to generate new initiatives for consideration. Throughout the year, the Diversity Committee itself had a diverse membership with reference to gender and ethnicity, and several measurable diversity objectives across the PanAust Group were achieved including:

- An internal diversity survey was carried out, which informed the Committee that 85 per cent of those surveyed believed that the PanAust Group has a culture which supports diversity.
- Diversity education programs were developed and cultural awareness programs were reviewed and updated.
- Inclusion of diversity statements in recruitment advertisements and a new practice whereby at least one female applicant with the requisite skills and experience must be interviewed for a vacancy.
- All Lao women employees in senior and supervisory roles completed or commenced the PanAust Asia Leadership Development Program by 31 December 2012 (the target for 2012 was 20 per cent).

The Diversity Standard sets out the processes to ensure equal opportunity and non-discrimination according to gender, age, religion and ethnicity, and is available on the Company's website www.panaust.com.au/corporate-governance.

► DEVELOPMENT AND TRAINING

PanAust promotes a culture of continual learning by promoting the ongoing skills development of all employees. Training and career development opportunities are provided to enable employee progression through the organisation. PanAust has established strategies and programs to ensure the development of a sustainable pipeline of future talent which includes specific training, targeted development programs and support initiatives.

Training is delivered both internally or via external co-operatives to meet the specific requirements of roles or to target professional development. Programs such as the newly established technical trades training (apprentice) programs have been designed to address a shortage in mine related tradespeople. Short courses covering areas such as English language, mine or processing techniques build upon existing professional competencies. PanAust also delivers compliance and competency training which is undertaken by employees in relevant roles to ensure each is skilled to perform their role safely and competently. This training also ensures employees are aware of their personal and Company obligations to appropriate workplace, safety and environment standards, as well as industry and international standards.

Development programs such as the graduate development program, leadership development program, scholarships and administration bursaries target particular sectors of our workforce ensuring these groups have the required skills and capability to enable business performance and growth.

In parallel with PanAust's training and development programs, the company has also established support initiatives to guide and encourage employees in attaining development goals. The Company's mentoring program provides employees with access to experienced and knowledgeable existing senior employees within PanAust who can help them achieve individual and business-desired development outcomes.

Training delivery

Training delivered by Phu Bia Mining in-house specialists and training on-site in 2012 totalled 253,882 hours with an average of 78 hours per employee. This average number of training hours per employee is an increase on previous years: 2011, 34 hours; 2010, 54 hours; and 2009, 62 hours; and is consistent with PanAust's focus for workforce training and development in Laos. The three major areas of training investment were safety training (164,871 hours, 65 per cent of total training hours), trades training (20,658 hours, eight per cent of total training hours), and professional and leadership development (68,352 hours, 27 per cent of total training hours). The trades training hours for 2012 are lower than the previous year (34,289; 30 per cent) due to the Company postponing an intake of trades trainees while a new Technical Trades Training Program structure was being developed (see 'Technical Trades Training Program' on page 66).

Leadership development

PanAust's Leadership Development Program demonstrates the Company's commitment to build the capability of potential leaders within the organisation with a focus on those that are Lao-national. The Company-designed course content focuses on professional development of leadership competencies; equipping employees with a skill set for leadership success.

The program is attended by supervisors and high-potential employees, with superintendents and managers attending externally facilitated workshops (via an Australian-based training provider). The course content targets professional development of communication and negotiation skills, planning and strategy, managing performance and problem-solving techniques. The program forms the building blocks of the Company's positive performance culture, reinforces and aligns leaders to the Vision and Values, and provides tools and techniques for leaders to positively support and influence the workforce. Company employees, who are specialist trainers, deliver the internal training in both English and Lao.

In 2012, a group of 20 employees completed the Leadership Development Program, building on the previous year's 24. A further 40 employees are at various stages of the course and due for graduation in 2013. During a one-year period, each program participant completes more than 200 hours of structured training and post-course assignments, including Safety Leadership Training (a new course component in 2012).

The externally facilitated development workshops for managers and high-potential superintendents were attended by two groups of managers (24 people) and three groups of superintendents (30 people). Of the total participants of the superintendent course, 10 out of the 30 were Lao. The workshop content focuses on developing skills to be effective at a manager level including strategic thinking and long-term decision making.

The Leadership Development Program has contributed to the Company's ability to appoint Lao employees to senior roles and reduce reliance on expatriate employees as well as develop expatriates and corporate staff for when positions become vacant or new positions arise due to the Company's growth.

OUR PEOPLE continued...



The first intake of 40 apprentices in the (revised) Technical Trades Training Program that is being delivered in partnership with the Lao-German Technical College in Vientiane.

Graduate development

PanAust's Graduate Program demonstrates the Company's commitment to developing the professional skills of and providing career pathways for Lao graduates. In 2012, PanAust continued to source Lao-national graduates from Lao-based institutions and provide a two-year in-house professional development program. If, at the completion of the program, a suitable vacancy exists within the Company, the graduate may be offered a permanent role.

The first group of 16 graduates commenced in 2010, thus completing the program in 2012. Of these, 15 accepted permanent professional positions with the Company. The second intake of 16 who started in 2011 is due to complete the program in 2013; in 2012, a group of 10 graduates commenced the program. All participants receive a Company-awarded certificate on completion of the program.

Technical Trades Training Program

Since 2007, PanAust has been delivering Technical Trades (Apprenticeship) Training in Laos through a partnership with a technical college in Thailand. The award-winning in-house program is part of PanAust's strategy to address a general shortage of qualified tradespeople within Laos as well as to generate a pool of appropriately qualified candidates for the Company. By year-end 2012, 76 trainees had graduated from the program and were offered permanent employment as technicians with the Company. Trades graduates have been provided further on-the-job training and refresher courses in trade skills, safety and environment.

Following a trades training review in 2012, from 2013 the Company will deliver a four-year apprenticeship program in four trade disciplines (mobile electrical, mobile mechanical, fixed-plant electrical, and fixed-plant mechanical) in partnership with the Lao-German Technical College in Vientiane, Laos. PanAust's own training specialists will deliver the trades modules with the long-term aim of also training College staff to deliver the programs independently. This approach will greatly enhance capacity-building within the Lao vocational training institution to meet the future needs of the mining industry within the region. The Lao-German Technical College in conjunction with the Education Ministry of Laos, agreed college facilities can be used by the Company for the practical skills development and theoretical aspects of the course. PanAust has helped to improve college facilities including the provision of relevant technical equipment and is also providing the technical training expertise required to deliver the program. The program comprises one year of pre-apprentice vocational training and a four-year apprenticeship in a specific trade. Thirty-two apprentices who are participating in the earlier program will transfer into the new program. Trade trainee graduates are offered permanent employment as junior-level technicians with the Company and are awarded a nationally recognised trades qualification. The new Trades Training Apprenticeship Program was launched in April 2013 with an intake of 40 apprentices, including seven women.

CASE STUDY: MENTORING PROGRAM



Mentors and mentees at the Mentoring Workshop held in Vientiane in October 2012.



Mentor, Jon Gaunt, General Manager Ban Houayxai Gold-Silver Operation, with mentee, Phonesavanh Sisana, Construction Superintendent, Projects, during an on-the-job coaching session.

In 2012, PanAust launched a Mentoring Program with the specific aim of supporting the professional development of high-potential Lao-national employees to enhance the Company's talent retention activities. Mentoring provides employees with opportunities to learn through the experience of senior people within the organisation in addition to on-the-job and formal training and development provided by the Company.

Suitable mentees were identified through the Succession Planning Process, and 19 Lao-national employees were invited to participate. Mentees self-selected their mentor. A Mentoring Program Workshop was held in October 2012 to prepare participants for their roles as mentor/mentee and to set clear expectations for the program at a personal, professional, and Company level.

Mentee: Phonesavanh Sisana,
Construction Superintendent, Projects

Mentor: Jon Gaunt,
General Manager Ban Houayxai Gold-Silver Operation

Since commencing employment with Phu Bia Mining in February 2005, Mr Phonesavanh Sisana has been promoted through various technical roles to 'superintendent level'. In 2012, he accepted the invitation to participate as a mentee within the pilot Mentoring Program.

The opportunity to receive coaching from an experienced mentor was the main benefit Phonesavanh could see from the program. He said, "It will help with my professional development and to develop my career". He also talked about the value of discussing his career and professional goals with his mentor, which will then be discussed as part of a career planning exercise with his manager-once-removed.

Phonesavanh's mentor, Jon Gaunt, agreed that the coaching aspect of the mentor/mentee relationship was particularly valuable in helping the mentee understand how to work within the business to achieve desired outcomes, as well as to help the mentee with creating a structured approach to working toward their own career and professional goals.

WHAT IS THE MENTORING PROGRAM?

Mentoring is a professional development tool the Company can use to maximise the effectiveness of other learning and development opportunities by:

- Providing an avenue for valuable professional experience to be transferred between experienced mentors and less experienced mentees.
- Supporting the development of effective management skills.
- Guiding behaviours aligned with Company Values and leadership requirements.
- Providing the mentee with additional skills that should enhance their leadership approach and provide intrinsic rewards beyond what normal day-to-day management can deliver.

The Mentoring Program supports PanAust's existing employee retention and development strategies. The Company expects the program to benefit both employees and the business by assisting people to meet their personal and professional goals, and contributing to PanAust's Values of high performance, growth, employee localisation and diversity objectives.

CONSEQUENCE TABLE

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

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

ASSURANCE STATEMENT

Independent Assurance Report to PanAust Limited

Our brief

PanAust Limited (PanAust) appointed ERM-Siam, Co Ltd (ERM) to provide independent assurance on selected information presented in its Sustainability Report 2012 ('the report') as follows:

A. Selected 2012 Key Performance Indicators (KPIs) and selected management assertions on specific practices and performance as follows:

Environmental Dimension:

- Materials used (Ton), EN1
- Direct energy consumption (GJ), EN3, Page 46
- Electricity consumption (Kwh), EN4, Page 46
- Total water withdrawal (Mm³), EN8, Page 42
- Greenhouse gases emission - scope 1 & 2 (tCO₂-e), EN16, Page 46
- Total water discharge (Mm³), EN21, Page 42
- Tailings/waste rock quantities (Tonne), MM3, Page 42
- Amount of land disturbed and rehabilitation (Hectare), MM 1, Page 45

Social Dimension:

- Loss time injury frequency rate, days away restricted time, total recordable injury frequency rate and fatalities, LA7, Page 50
- Average training hours, LA10, Page 65
- Number of grievance, SO 1, Page 29
- Community development fund, EC 1, Page 35
- Infrastructure provision, EC 8, Page 36

B. PanAust's Global Reporting Initiative GRI (G3) A+ declared application level

Our approach

Standards and criteria used

ERM delivered the work in accordance with ERM's assurance methodology which is based on the international assurance and audit standards: ISAE 3000 and AA1000 Assurance Standard (AS) 2008 Type 2 assurance. ERM used the following assessment criteria when undertaking our work: Global Reporting Initiative (GRI) G3, and PanAust's KPI definitions.

Level of assurance and engagement limitations

ERM planned and performed our work to obtain all the relevant information and explanations that we believe were necessary to gather sufficient evidence to provide a basis for our assurance conclusions as to whether the reported information and data set out in 'Our Brief' was appropriately reported, i.e. that nothing has come to our attention through the course of our work that causes us to believe that the subject matter of the report within our scope of work is materially mis-reported (limited assurance).

If ERM had been asked to conclude on whether the reported subject matters were robust ('reasonable assurance'), we would have needed to conduct more work at corporate and operational levels and to gather further evidence to support our assurance opinion.

The reliability of the reported information and data is subject to inherent uncertainties, given the available methods for determining, calculating or estimating the underlying information. It is important to understand our assurance conclusions in this context.

Our work

A multi-disciplinary team of mining and assurance specialists performed work at corporate level and at selected operating locations.

As part of the review, ERM conducted face to face and telephone interviews at corporate and regional levels. A site visit was also undertaken to PanAust's principal operating asset for the reporting year 2012, the Phu Kham Copper - Gold Operation, as well as the Ban Houayxai Gold Silver Operation.

During these assurance activities, ERM sought to:

- Understand and test the processes in place for managing and reporting on its sustainability performance, including the selected KPIs and their underlying data management systems;
- Conduct testing on a sample basis the data measurement, collection, aggregation and reporting processes in place for the selected KPIs;

- Review the presentation of information related to 'Our Brief' in the Report to ensure consistency with our findings;
- Review the validity of PanAust's declaration of the GRI (G3) Application Level in the Report; and
- Report our assurance findings to management as they arose to provide them with the opportunity to correct them prior to finalisation of our work.

Respective responsibilities and ERM's independence

PanAust is responsible for preparing the report and for the collection and presentation of information within it. ERM's responsibility is to express our assurance conclusions on the agreed brief.

ERM maintains strict policies related to conflict of interest and we have confirmed our independence to PanAust in delivering our assurance engagement.

Our assurance conclusions

In our opinion, and based on the work undertaken for limited assurance as indicated in the scope of work above, the KPIs have been prepared in accordance with the defined reporting criteria in all material respects.

- In our opinion, and based on the work undertaken for limited assurance as indicated in the 'Our Brief', nothing has come to our attention causing us to believe that the KPIs have not been prepared in accordance with the defined reporting criteria in all material respects.
- In our opinion, based on the work undertaken for limited assurance, nothing has come to our attention causing us to believe that PanAust's declared A+ level of GRI (G3) application in materiality and scope of this report, has not been prepared in all material respects in accordance with the defined reporting criteria.

Our key observations and recommendations

Based on our work set out above, and without affecting our conclusions, we have issued PanAust with a management report detailing our key observations and recommendations for improvement



ERM

ERM-Siam, Co Ltd (ERM)

Bangkok, Thailand

20 May 2013

ERM is an independent global provider of environmental, social and corporate responsibility consulting and assurance services. Over the past 5 years we have worked with over half of the world's 500 largest companies, in addition to numerous governments, international organisations and NGOs.

GLOSSARY

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

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

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

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

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

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

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

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

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

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

Hazard a physical condition or situation that creates or increases the chance of an incident occurring.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mineral Exploration and Production Agreement (MEPA) is an agreement between PanAust and the Government of Laos that regulates exploration and mining within the 2,600 square-kilometre Phu Bia Contract Area in Laos.

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

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

GLOSSARY continued...

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

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

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

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

Significant incident is an actual reportable significant/material incident from the 'controlled' category of Level 4 and 5 impact from the PanAust Consequence Table. A potential reportable significant/material incident is an incident or near-miss from the 'controlled' category that could have, under slightly different circumstances, resulted in an impact of Level 4 or 5 from the PanAust Consequence Table.

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

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

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

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

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

MEASUREMENTS

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

Hectare (ha) 10,000 square metres.

Megalitre (ML) 1,000,000 litres.

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

Million cubic metres (Mm³) measures the volume for a million cubic metres.

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

Kilogram (kg) 1,000 grams.

Kilolitre (kL) 1,000 litres.

Kilometre (km) 1,000 metres.

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

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

Tonne (t) 1,000 kilograms.

INJURY DEFINITIONS

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

First Aid Injury (FAI) a minor work-related injury, which, after first-aid treatment, the worker returns to normal duties before the start of the next scheduled shift.

Lost Time Injury (LTI) a work-related injury that results in a minimum of one full shift's absence.

Medical Treatment Injury (MTI) an injury requiring medical treatment but allows the person to return to normal duties on or before the start of the next scheduled shift.

Non-Work Related Injury (MWRRI) an injury or illness that present symptoms at work, but are solely a result of non-work related events or exposure.

Restricted Work Injury (RWI) an injury requiring the worker to abstain from all of his/her normal work duties, or to work a shorter than normal shift.

RATE DEFINITIONS FOR THE CALENDAR YEAR

Days Away, Restricted or Transferred (DART) is the sum of RWIs and LTIs for the twelve months, divided by the number of man hours, multiplied by a million, divided by the number of man hours worked over the last twelve months.

$$[(RWIs + LTIs) \text{ for past 12 months} \times 1,000,000] / \text{man hours worked in past 12 months}$$

Fatal Injury Frequency Rate (FIFR) is calculated as the number of FIs for the past 12 months, divided by the number of man hours worked in the past 12 months, multiplied by one million to two decimal places.

$$(FIs \text{ for past 12 months} \times 1,000,000) / \text{hours worked for the past 12 months}$$

Lost Time Injury Frequency Rate (LTIFR) is calculated as the number of LTIs for the past twelve months divided by the number of man hours worked, multiplied by one million to two decimal places.

$$(LTIs \text{ for past twelve months} \times 1,000,000) / \text{man hours worked in past 12 months}$$

Severity Rate (SR) the average number of days lost per one million hours worked.

$$(\text{number of days lost} \times 1,000,000) / \text{number of man hours worked}$$

Total Recordable Injury Frequency Rate (TRIFR) is calculated as the number of LTIs, RWIs and MTIs for the past 12 months multiplied by one million, divided by the number of man hours worked over the past 12 months. This indicator does not include first aid treatment of a routine nature.

$$[(LTIs + RWIs + MTIs) \text{ for the past 12 months} \times 1,000,000] / \text{man hours worked for past 12 months}$$

FORWARD-LOOKING STATEMENT

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



PANAUSTR

PanAust Limited

Level 1, 15 James Street
Fortitude Valley QLD 4006
Brisbane, Australia
Telephone: +61 7 3117 2000
Facsimile: +61 7 3846 4899
PO Box 2297
Fortitude Valley Business Centre QLD 4006

Phu Bia Mining Limited

7th Floor Capital Tower
23 Singha Road, Saysetha District
Vientiane
Telephone: +856 21 268 000
Facsimile: +856 21 268 029
PO Box 5559
Vientiane, Lao PDR

Inca de Oro S.A.

Apoquindo 4501, Edificio Cruz del Sur
Oficina 1603
Las Condes, Santiago
Chile
Telephone: +56 2 2820 8228
Facsimile: +56 2 2820 8208

Stock Exchange Listing

PanAust Limited shares are listed on the
Australian Securities Exchange (ASX)
ASX Code: PNA

www.panaust.com.au
info@panaust.com.au