

ASX ANNOUNCEMENT

6 March 2014

Managing Director Succession and Service Agreement

The Chairman, Garry Hounsell, and the Managing Director, Gary Stafford, advise that PanAust has commenced an orderly succession process for the position of Managing Director following entry into a new 18 month service agreement with the Managing Director. Under the new service agreement, Mr Stafford will continue as Managing Director and will play a key role in the succession process. The Company expects to transition to a new Managing Director within the next 18 months.

The Chairman, Garry Hounsell said, "This week is the 18th anniversary of Gary's appointment as founding Managing Director of PanAust. Under his leadership, the Company has grown from a junior explorer with a market capitalisation of A\$20 million to one of Australia's biggest resource companies with a current market capitalisation of more than A\$1 billion."

The non-executive directors and Mr Stafford agree that the next 18 months represents the optimum timing for transitioning to new leadership to implement the next phase of the Company's strategy.

Mr Stafford, said, "The Company's operating and development portfolio is well placed to reap the benefit of recent investments: PanAust's flagship Phu Kham Operation is ramping up to its highest production years; the new Ban Houayxai Operation is making a valuable contribution to earnings; and preparations are well advanced for executing development timetables for the Company's other asset opportunities."

The Company will consider internal and external candidates for the role and Mr Stafford will play an important part in the succession process through his membership of the Board's Nominations Committee.

A schedule detailing the material terms of the Managing Director's new Service Agreement is attached to this announcement.

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2013 WINNER
PROJECT DEVELOPMENT
OF THE YEAR



2013 WINNER
SUSTAINABILITY LEADERSHIP
2010/2011 WINNERS
BEST COMMUNITY DEVELOPMENT



2011
LAO PDR LABOUR ORDER CLASS 1
BEST RURAL DEVELOPMENT



2011 WINNER
SOCIAL/COMMUNITY PRESENTED BY
ETHICAL INVESTOR



Schedule of summary of material terms of Managing Director's new Service Agreement dated 6 March 2014 (the "New Agreement")

1. Term

The term of the New Agreement is up to eighteen months (30 September 2015). Prior to 31 August 2014, neither party may terminate the New Agreement without cause. On and from 31 August 2014, the Company may terminate the New Agreement (for no cause) upon the giving of one month's notice and the Managing Director may terminate the Agreement by giving three months' notice.

2. Duties

The duties of the Managing Director remain largely unchanged. An additional duty has been imposed relating to succession and transition issues (refer to paragraph 7 below).

3. Remuneration

Following the Company's usual annual remuneration review process, the Managing Director's total compensation package was increased to A\$3,416,500 with effect from 1 January 2014. This represents an annual increase of 3%. The next remuneration review would occur with effect on and from 1 January 2015.

Under the New Agreement, the total compensation package has three components:

- a. total fixed remuneration (A\$1,170,100);
- b. short term incentive ("STI") (up to A\$782,800) subject to performance parameters consistent with previous years. The performance parameters relate to the following areas (with the specified weightings): sustainability performance (20%), financial performance (20%), performance of PanAust Laos operations (25%), growth (25%); overall performance and achievement of critical tasks (10%); and
- c. a special short term incentive ("Special STI") (up to A\$1,463,600) subject to performance parameters relating to succession and transition. This component of remuneration replaces the long term incentive component previously provided through the issue of shares under the PanAust Executives' Long Term Share Plan (the "LTSP"). There will be no further grants made to the Managing Director under the LTSP.

In relation to the STI and the Special STI, the amount paid will be calculated on a pro rata basis by reference to time served in the position.

4. Annual Leave and Long Service Leave

Upon expiration or termination of the New Agreement, accrued long service leave and annual leave for the period from commencement as Managing Director (in 1996) will be paid out on the basis of total fixed remuneration.

5. Payment on termination

Upon termination of the New Agreement by either party or through expiration, no additional amounts are payable by the Company.

6. Unvested and Vested Long Term Incentives

Unvested and vested long term incentives previously issued under the LTSP will continue in accordance with their terms which were previously approved by the shareholders at prior annual general meetings. No acceleration of vesting will be triggered by termination. Performance conditions in relation to unvested grants must still be met for any vesting to occur.

7. Additional obligations in relation to succession and transition

The New Agreement contains a number of provisions specifically inserted to reflect the transition to a new Managing Director. These include the following:

- at the direction of the Board, the Managing Director is responsible for assisting in the management of succession and transition issues;
- after the term the Managing Director has agreed to certain restraints to protect the interests of the Company with respect to offers being made to the employees of the PanAust Group; and
- the Company may enter into discussions with the Managing Director in relation to entry into a consultancy agreement to take effect after termination.

8. Cancellation of rights under previous agreement

Under his previous service agreement, the Managing Director had a number of rights which have now been cancelled. These included the right to:

- payment of 12 months' total compensation package upon termination by the Company without cause or upon retirement (six months plus one month for each completed year of service up to a maximum of 12 months);
- payment of accrued annual leave and long service leave on the basis of total compensation package; and
- three months' notice of termination at the election of the Company without cause (on and from 31 August, this has been decreased to one month under the New Agreement, with the Company having the right to make payment in lieu of notice).

9. Payment for cancellation of previous rights and imposition of new obligations

In consideration of the Managing Director agreeing to the imposition of obligations in addition to those under the previous service agreement (refer to paragraph 7) and the cancellation of the rights under the previous service agreement (refer to paragraph 8), the Company has agreed to make a payment to the Managing Director of A\$4,681,880. In this regard, it is noted that the previous service agreement had been entered into in 1996.