

15 July 2014

## Quarterly Report for the three months to 30 June 2014

### Production and costs

- **Phu Kham:** production of 16,547t of copper in concentrate at a C1<sup>1</sup> cash cost of US\$1.36/lb copper after precious metal credits from 13,463oz gold and 75,758oz silver; all-in sustaining costs<sup>2</sup> of US\$2.46/lb.

Gold production at Phu Kham to rise to over 85,000oz in 2015 on higher grades.

- **KTL satellite pit:** a revised life-of-mine schedule has KTL feeding ore to the Phu Kham concentrator from late 2015, allowing annual copper production to rise to over 90,000t in 2016.
- **Ban Houayxai:** produced 24,734oz of gold at a C1 cash cost of US\$699/oz after credit from 190,600oz silver. All-in sustaining costs were US\$998/oz.
- **Group consolidated copper and gold production for 2014 is expected to be at the upper end of guidance ranges.**

### Corporate

- Frieda River Copper-Gold Project, PNG: During the quarter the joint venture continued to advance PanAust's feasibility study work program. The acquisition of an 80% interest in the Project is subject to a condition precedent<sup>3</sup>.
- PanAust in an announcement to ASX on 13 May 2014 confirmed that it had received a confidential, non-binding, indicative and incomplete proposal from the Company's largest shareholder, Guangdong Rising Assets Management (GRAM), to acquire all of the shares in the Company by way of an off-market takeover.

The PanAust Board advised GRAM that its offer of A\$2.30 (initially A\$2.20 but subsequently increased) cash per share was materially below the level at which the Board would be prepared to recommend to PanAust's shareholders. The Company has established a data room to allow GRAM and other interested parties to undertake due diligence. PanAust has indicated that if a party wishes to submit a proposal it will be considered on its merits.

- In relation to the succession process initiated for the position of Managing Director (which was announced on 6 March 2014) the PanAust Board advised on 30 May 2014 that there will be no change to the position of Managing Director during the period it is in discussions with GRAM or any other party and any subsequent process that may arise from those discussions. Mr Gary Stafford will continue to hold the position of Managing Director and provide executive leadership for the Company during this period.
- At 30 June 2014, the Company had cash of US\$129.3 million, debt of US\$150.0 million (excluding equipment lease facilities) and undrawn debt facilities of US\$125.0 million.

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



## Phu Kham Operation, Laos (PanAust 90%)

### Introduction

Copper in concentrate production for the June quarter was 16,547t at a C1 cash cost of US\$1.36/lb copper (Tables 1 and 7). As foreshadowed in the March 2014 quarterly report, ore tonnes milled were lower than that achieved in the previous quarter as a result of a scheduled mill shutdown which occurred in April. The effect on production was partly offset by a higher copper head-grade and improved metallurgical recovery. The lower copper production together with expensed mill maintenance costs and lower precious metal credits resulted in a higher quarter-on-quarter C1 cash cost. The all-in sustaining cost was US\$2.46/lb copper.

**Table 1: Production and cost summary**

<b>Phu Kham Operation Production summary (100% equity basis)</b>	<b>Units</b>	<b>3 months to 30 Jun 2014</b>	<b>6 months to 30 Jun 2014</b>
Copper in concentrate	t	<b>16,547</b>	34,671
Gold in concentrate	oz	<b>13,463</b>	29,612
Silver in concentrate	oz	<b>75,758</b>	162,085
C1 cash cost after precious metal credits <sup>i</sup>	US\$/lb Cu	<b>1.36</b>	1.28
All-in sustaining costs <sup>i</sup>	US\$/lb Cu	<b>2.46</b>	2.26

Further details of the production and cost performances are contained in Table 6 and Table 7 of this report.

### Production Performance

Mill operating time for the June quarter was 89% (down from 97% in the prior period) as a result of scheduled mill maintenance and subsequent unscheduled replacement of a ball mill motor that led to reduced throughput for a period of ten days. Excluding the scheduled and unscheduled maintenance periods, the processing plant operated at a rate equivalent to more than 19.5Mtpa.

A quarterly record copper recovery rate and a high gold recovery rate were achieved as ore quality improved. The average copper recovery was 76.3% and gold recovery was 49.3%. Further improvement in ore quality is forecast (based on grade control data) during the December half of the year.

Quarterly pay-metal in concentrate sales totalled 17,422t of copper, 14,028oz of gold and 97,585oz of silver. The average copper, gold and silver prices realised (after hedging) were US\$3.18/lb, US\$1,299/oz and US\$19.8/oz respectively.

## Ban Houayxai Gold-Silver Operation, Laos (PanAust 90%)

### Introduction

Quarterly gold production at Ban Houayxai was 24,734oz in doré at an average C1 cash cost of US\$699/oz after silver credits (Tables 2 and 8). The all-in sustaining cost was US\$998/oz gold.

<sup>i</sup> Based on invoiced pricing for gold and silver.

Gold production increased quarter-on-quarter with scheduled higher average gold grades more than offsetting lower total tonnes processed. Quarterly gold production is scheduled to rise during the December half and costs reduce to meet production and cost guidance for 2014.

**Table 2: Production summary**

<b>Ban Houayxai Operation Production summary (100% equity basis)</b>	<b>Units</b>	<b>3 months to 30 Jun 2014</b>	<b>6 months to 30 Jun 2014</b>
Gold poured	oz	<b>24,734</b>	48,090
Silver poured	oz	<b>190,600</b>	387,916
C1 cash cost after precious metal credits <sup>ii</sup>	US\$/oz	<b>699</b>	705
All-in sustaining costs <sup>ii</sup>	US\$/oz	<b>998</b>	990

Further details of the production and June cost performances are contained in Table 6 and Table 8 of this report.

### Production Performance

A monthly record for total material mined of nearly 1.1Mt was achieved in May. The ore processing rate for the quarter was equivalent to 4.3Mtpa annualised (design capacity 4Mtpa) despite low mill utilisation caused by a temporary shortage of grid power and crusher downtime following a vibrating feeder breakdown. Mill utilisation for the quarter was 87% (compared with the record 97% for the March quarter). The grid power shortage in Laos was caused by low hydro-dam water levels due to the late onset of the wet season, which impacted all large industrial users. The use of rolling blackouts constrained the Ban Houayxai plant operating time over a 10-day period in early June. Normal levels of power supply resumed in mid-June.

Ore variability in the mill feed resulted in average recovery rates falling for both gold and silver to 82.6% and 46.1% respectively. Silver recoveries were further impacted by higher than anticipated ore grades that led to the circuit becoming overloaded. Alternatives for enhancing metallurgical recoveries are being evaluated with the objective of remedying the issue in the December half of 2014.

Sales during the quarter totalled 22,304oz of gold and 171,463oz of silver. Average realised gold and silver prices (after hedging) were US\$1,326/oz and US\$19.8/oz respectively.

### Outlook

#### 2014 Group consolidated production likely to be at the upper end of the guidance range

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

Guidance at Phu Kham is for copper in concentrate production in the range of 65,000t to 70,000t at an average C1 cash cost<sup>iii</sup> of between US\$1.50/lb and US\$1.60/lb copper.

<sup>ii</sup> Based on invoiced pricing for silver.

<sup>iii</sup> Cash cost assumptions assume precious metals prices of US\$1,300/oz gold and US\$22/oz silver.

Guidance at Ban Houayxai is for gold production of approximately 100,000oz at an average C1 cash cost between US\$650/oz and US\$700/oz gold.

### **New life-of-mine plan projects further improvements in the production profile for Phu Kham**

A revised life-of-mine plan has been established for Phu Kham that incorporates the KTL satellite deposit and supersedes the mine plan announced in October 2013. It is assumed that the Phu Kham concentrator operates sustainably at a 19.5Mtpa rate, as achieved over the 12 months to 30 June 2014, on a blend of Phu Kham and KTL ore. Subject to a development decision by the PanAust Board, the KTL satellite pit is scheduled to provide ore feed to the Phu Kham mill from late 2015, ramping up through 2016 towards an annualised rate of 1.5Mt.

Mining at Phu Kham is scheduled to start accessing ore with elevated gold grades during the December quarter of 2014. The revised mine schedule forecasts copper and gold in concentrate production in 2015 to rise to between 70,000t and 75,000t copper and between 85,000oz and 90,000oz gold. Thereafter, higher Phu Kham head grade and the planned contribution from KTL is scheduled to lift annual copper in concentrate production to between 90,000t and 100,000t and gold production to between 90,000oz and 95,000oz until the end of the decade.

Feasibility study work for the KTL Project as a satellite pit to Phu Kham was well advanced at the end of the June quarter and it is envisaged that a development decision will be sought from the PanAust Board in August 2014. The Environment and Social Impact Assessment was submitted to the Government of Laos in early July. The KTL deposit is located near the town of Phonsavan approximately 100km north of Phu Kham and early capital works will be focused on upgrading an existing road between Phonsavan and Phu Kham.

### **Pre-development and exploration projects**

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.

#### **Phu Kham district, Laos (PanAust 90%)**

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

#### **Inca de Oro Copper-Gold Project, Chile (61.06% PanAust, joint venture with CODELCO)**

The work plan for 2014 comprises two phases. The first phase, to complete the engineering studies to sufficient detail to support the submission of an Environmental Impact Assessment report (EIA), has been completed. The second phase is to finalise the study to a feasibility standard and to complete the EIA report once acceptable agreements have been reached on a number of commercial matters that will have a material impact on the viability of the Project and any investment decision. The EIA approval process is expected to take approximately 18 months from the date of submission.

## **Sustainability**

### **Safety**

The Company advises that two employees of a contract civil works company regrettably suffered fatal injuries when a slope failed during remediation work to prevent access to adits excavated by illegal miners at a remote site near the LCT deposit, eight kilometres northwest of Phu Kham. The remediation work has been suspended while the investigation is being finalised and the task has been re-assessed. The Company has provided support to the victims' families and counselling support for employees impacted by the incident.

A single lost time injury (LTI) was recorded at the Ban Houayxai Operation where a process plant employee injured his finger requiring surgery.

The LTI frequency rate on a 12-month rolling average basis at 30 June 2014 was 0.29 per million man-hours which compares unfavourably to the 2014 target of 0.20 per million man-hours.

The TRI (Total Recordable Injury) frequency rate on a 12-month rolling average basis at 30 June 2014 was 1.24 per million man-hours which compares favourably to the 2014 target of 1.67 per million man-hours.

### **Environment**

There were no reportable environmental incidents during the June quarter.

### **Local Community Projects, Laos**

In the vicinity of Phu Kham, Ban Houayxai and Phonsavan, PanAust continues to advance a number of community development projects with a focus on agriculture, education, health, infrastructure and small business development.

## **Corporate**

### **Agreement to acquire a majority interest in the Frieda River Copper-Gold Deposit, PNG**

On 1 November 2013, PanAust announced that it had entered into a share sale and purchase agreement with a subsidiary of Glencore Xstrata plc ("Glencore") for PanAust to acquire an 80% interest in the Frieda River Copper-Gold Project in Papua New Guinea (the "PanAust Glencore Agreement").

The Government of PNG has a right to acquire, at cost, up to a 30% interest in the Frieda River Project which, if exercised in full, would reduce PanAust's holding to 55%.

The PanAust Glencore Agreement is subject to a condition precedent relating to Glencore satisfaction of the conditional approval given by the Ministry of Commerce, People's Republic of China to the merger between Glencore International plc and Xstrata plc. PanAust understands that the sale of Glencore's Las Bambas copper mine project in Peru ("Las Bambas") will satisfy that conditional approval and clear the way for the completion of the sale of Glencore's interest in Frieda River to PanAust.

The sunset date for satisfaction of the condition precedent is 30 September 2014. PanAust and Glencore can agree to extend the sunset date.

PanAust notes the announcement made by Glencore on 13 April that it has entered in to an agreement for the sale of its entire interest in Las Bambas to a consortium led by MMG Limited. The announcement stated that the transaction is expected to close prior to the end of September 2014. MMG has subsequently announced that it will seek shareholder approval of the transaction at a meeting to be held on 21 July 2014, and that it expects necessary funding agreements for the transaction to be in place by 31 July 2014.

Until satisfaction of the condition precedent, the PanAust Glencore Agreement provides for work to proceed with a feasibility study consistent with PanAust's development concept for the Project. Expenses incurred by Glencore from the date of entry into the PanAust Glencore Agreement until completion will be paid to Glencore upon completion.

PanAust has continued to advance the feasibility study for the Project and plans to provide a market update once the transaction is concluded.

### **Receipt of non-binding indicative proposal**

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

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

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

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

The Company will continue to keep the market informed.

## Financial

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

Dividend payments to shareholders totalling A\$16.5 million for the final dividend, which was declared on 20 February 2014, were made on 4 April 2014.

Group exploration expenditure (unaudited) for the June quarter was US\$5.7 million.

## Commodity price exposure

### Copper

PanAust's copper hedging positions and fixed price agreements as at 30 June 2014 are summarised in Tables 3 and 4.

PanAust's hedging policy seeks to protect the Company against near-term sharp falls in the copper price, and revenue loss over the quotation period on provisionally priced shipments, while maintaining a significant exposure to the prevailing copper price.

The Company manages short-term and provisional price risk (over the quotational period) on copper sales through swaps and fixed price agreements with customers.

As at 30 June 2014, a total of 10,575t (62%) of PanAust's copper sales from shipments for the period from March 2014 to June 2014, that are currently subject to provisional pricing, are covered by hedging and fixed price agreements at an average copper price of US\$3.09/lb.

**Table 3: Hedging and fixed price agreements on provisional invoicing**

Settlement period	Tonnes	Average Price US\$/lb
Sep Qtr 2014	6,225	3.07
Dec Qtr 2014	4,350	3.13

**Table 4: Remnant mandatory hedging**

Settlement period	Tonnes	Average Strike Price US\$/lb	Premium payable US\$
<b>Copper Put Options:</b>			
Sep Qtr 2014	2,346	2.25	587,080

### Gold/Silver price hedging

During the June quarter strategic hedge positions were undertaken on the Company's gold production. As at 30 June 2014, a total of 37,000oz (23% of the mid-point for 2014 production

guidance) of gold from July to December was hedged at an average gold price of US\$1,336/oz (Table 5).

PanAust currently has no silver hedging in place.

**Table 5: Strategic hedging**

Settlement period	Ounces	Average Price US\$/oz
<b>Gold forwards:</b>		
Sep Qtr 2014	25,000	1,347
Dec Qtr 2014	12,000	1,315

### Issued Capital

The issued capital of the Company at 30 June 2014 comprised:

635,580,654	Ordinary fully paid shares
1,821,676	Unlisted share rights

### Proposed 2014 reporting calendar:

- 21 August 2014 June half 2014 Financial results
- 28 October 2014 September quarter 2014 report

*Dates are provisional and remain subject to confirmation.*

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### **Registered and principal office**

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### **Securities Exchange Listing**

Australian Securities Exchange Code: PNA  
PanAust is a constituent of the S&P/ASX 200 Index.

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### **Directors**

Garry Hounsell

Chairman

Gary Stafford

Managing Director

Nerolie Withnall

Non-executive Director

Geoff Handley

Non-executive Director

Geoff Billard

Non-executive Director

Zezhong Li

Non-executive Director

John Crofts

Non-executive Director

Ken Pickering

Non-executive Director

Annabelle Chaplain

Non-executive Director



## Attachments

**Table 6: Production and sales statistics**

<b>Phu Kham Copper-Gold Operation</b>	Units	<b>3 months to 30 Jun 2014</b>	<b>6 months to 30 Jun 2014</b>
Total material mined	t	<b>13,060,387</b>	26,898,746
Copper-gold ore mined	t	<b>4,234,118</b>	9,205,505
Ore milled	t	<b>4,403,919</b>	9,646,468
Copper head grade	%	<b>0.49</b>	0.48
Gold head grade	g/t	<b>0.20</b>	0.20
Silver head grade	g/t	<b>1.33</b>	1.36
Concentrate produced	dmt	<b>72,198</b>	151,279
Copper in concentrate	t	<b>16,547</b>	34,671
Gold in concentrate	oz	<b>13,463</b>	29,612
Silver in concentrate	oz	<b>75,758</b>	162,085
Copper recovery	%	<b>76.3</b>	75.3
Concentrate sales	dmt	<b>80,145</b>	152,482
Payable copper in concentrate sold	t	<b>17,442</b>	33,315
Payable gold in concentrate sold	oz	<b>14,028</b>	28,156
Payable silver in concentrate sold	oz	<b>97,585</b>	173,506
Average copper price realised (copper revenue recognised / sales) after realised hedging	US\$/lb	<b>3.18</b>	3.16
Average gold price realised (gold revenue recognised / sales) after realised hedging	US\$/oz	<b>1,299</b>	1,315
Average silver price realised (silver revenue recognised / sales) after realised hedging	US\$/oz	<b>19.8</b>	20.0
<b>Ban Houayxai Gold-Silver Operation</b>			
Total material mined	t	<b>2,346,415</b>	4,594,138
Gold-silver ore mined	t	<b>1,289,995</b>	2,655,266
Ore milled	t	<b>1,069,285</b>	2,244,715
Gold head grade	g/t	<b>0.87</b>	0.80
Silver head grade	g/t	<b>12.51</b>	11.36
Gold in doré	oz	<b>24,734</b>	48,090
Silver in doré	oz	<b>190,600</b>	387,916
Gold recovery	%	<b>82.6</b>	82.8
Payable gold in doré sold	oz	<b>22,303</b>	48,228
Payable silver in doré sold	oz	<b>171,462</b>	393,321
Average gold price realised (gold revenue recognised / sales) after realised hedging	US\$/oz	<b>1,326</b>	1,309
Average silver price realised (silver revenue recognised / sales) after realised hedging	US\$/oz	<b>19.8</b>	20.1

Cumulative data may incorporate post reporting period adjustments to prior periods.

**Table 7: Phu Kham Copper-Gold Operation production costs (US\$/lb copper)**

	3 months to 30 Jun 2014	6 months to 30 Jun 2014
Mining cost	0.77	0.71
Deferred mining and inventory adjustments	(0.50)	(0.43)
Processing cost	0.83	0.78
General and administration	0.20	0.19
<b>Total on-site operating costs</b>	<b>1.30</b>	<b>1.26</b>
Transport handling and marketing	0.30	0.29
Concentrate treatment and refining	0.28	0.28
<b>Total off-site operating costs</b>	<b>0.58</b>	<b>0.57</b>
Deduct precious metal credits	(0.52)	(0.55)
<b>Total direct operating costs (C1 cash cost)</b>	<b>1.36</b>	<b>1.28</b>
Royalty	0.17	0.18
Sustaining capital (includes TSF)	0.16	0.13
Indirect costs	0.14	0.13
Lease principal and interest charges	0.12	0.11
Deferred mining and inventory adjustment capitalised	0.50	0.43
<b>All-in sustaining costs</b>	<b>2.46</b>	<b>2.26</b>

Notes: Costs are based on payable copper in concentrate produced. May include minor computational discrepancies due to rounding.

**Table 8: Ban Houayxai Gold-Silver Operation production costs (US\$/oz gold)**

	3 months to 30 Jun 2014	6 months to 30 Jun 2014
Mining cost	287	300
Deferred mining and inventory adjustments	(26)	(28)
Processing cost	435	426
General and administration	141	155
<b>Total on-site operating costs</b>	<b>837</b>	<b>853</b>
Total off-site operating costs (freight, refining)	16	16
Deduct silver credit	(154)	(164)
<b>Total direct operating costs (C1 cash cost)</b>	<b>699</b>	<b>705</b>
Royalty	87	88
Sustaining capital (includes TSF)	58	46
Indirect costs	88	81
Lease principal and interest charges	42	43
Deferred mining and inventory adjustment capitalised	26	28
<b>All-in sustaining costs</b>	<b>998</b>	<b>990</b>

Notes: Costs are based on payable gold produced. May include minor computational discrepancies due to rounding.

### Forward-Looking Statements

*This announcement includes certain “Forward-Looking Statements”. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding financial, production and cost performances, potential mineralisation, exploration results 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.*

### End notes:

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- <sup>1</sup> Brook Hunt convention for the reporting of direct cash costs comprising: mine site, product transportation and freight, treatment and refining charges and marketing costs. Based on payable metal content after by-product credits.
- <sup>2</sup> All-in sustaining costs reported are: the C1 cash cost plus royalties; corporate support and shared services costs; sustaining capital; lease principal and interest charges; and deferred mining and inventory adjustments capitalised.
- <sup>3</sup> Glencore satisfying the conditional approval given by the Ministry of Commerce, People’s Republic of China to the merger between Glencore International plc and Xstrata plc. The sunset date for satisfaction of the condition precedent is 30 September 2014. However, PanAust and Glencore may agree to extend this date.